



Mega Holdings

Stock Code: 5842

Website:

Market Observation Post System

<http://newmops.tse.com.tw/>

Mega Bills Web Site:

<http://www.megabills.com.tw>



**MEGA BILLS FINANCE  
CO., LTD.**

# Annual Report

## 2020

## **Spokesman and Deputy Spokesman for the Corporation**

Spokesman: Yi-Sheng Wang  
Job title: Senior Executive Vice President  
Tel. No.: (02)2389-3399  
Email: wang0421@megabills.com.tw  
Deputy spokesman: Chih-Hsiung Chiu  
Job title: Executive Vice President , Treasury Dept.  
Tel. No.: (02)2382-6660  
Email: chiou516@megabills.com.tw

## **Addresses and Telephone Numbers of the Head Office and Branches**

Head Office	Address:	2-5F, No. 91 Hengyang Road, Taipei City
	Tel. No.:	(02) 2383-1616 (Representative)
	Fax No.:	(02) 2382-2878 (Administration Department)
Kaohsiung Branch	Address:	3F, No. 420, Cheng Kung 1st Road, Kaohsiung City
	Tel. No.:	(07) 282-5171(5 Lines)
	Fax No.:	(07) 215-1887
Tainan Branch	Address:	14F-1, No. 307, Sec. 2, Minsheng Road, Tainan City
	Tel. No.:	(07) 228-3131(5 Lines)
	Fax No.:	(06) 229-3654
Taichung Branch	Address:	4F-1, No.268, Sec. 1, Taiwan Blvd., Taichung City
	Tel. No.:	(04) 2220-2176(5 Lines)
	Fax No.:	(04) 2222-5424
Hsinchu Branch	Address:	3F, No. 307 Peida Road, Hsinchu City
	Tel. No.:	(05) 526-6022(5 Lines)
	Fax No.:	(03) 524-5544
Taoyuan Branch	Address:	3F, No. 32, Sec. 1, Cheng Kung Road, Taoyuan City
	Tel. No.:	(05) 335-8877(5 Lines)
	Fax No.:	(03) 333-6137
Panchiao Branch	Address:	3F, No. 69, Zhongzhen Road, Panchiao District, New Taipei City
	Tel. No.:	(05) 2965-2836(5 Lines)
	Fax No.:	(02) 2965-2819
Sanchong Branch	Address:	4F, No. 192, Sec. 3, Chongyang Road, Sanchong District, New Taipei City
	Tel. No.:	(05) 2981-1931(5 Lines)
	Fax No.:	(02) 2980-0374
Taipei Branch	Address:	6F, No.123, Sec 2, Zhongxiao East Road, Taipei
	Tel. No.:	(02) 2356-9696(5Lines)
	Fax No.:	(02) 2391-1717

## **Organization Handling Stock Transfer Affairs**

Name: Yuanta Securities Co., Ltd.  
Address: B3F., No.210, Sec. 3, Chengde Rd., Taipei  
Website: [http : //www.yuanta.com.tw/](http://www.yuanta.com.tw/)  
Tel. No.: (02)2586-3117

## **Credit Rating Organization**

Name: Taiwan Ratings Co., Ltd.  
Address: 2F., No. 167, Dunhua N. Rd., Songshan Dist., Taipei City  
Website: <http://www.taiwanratings.com/tw/>  
Tel. No.: (02)2175-6800

## **CPA Certifying Financial Statements of Most Recent Year**

Name: Po-Ju Kuo, CPA Zong-Xi Lai, CPA,  
Firm Name: PricewaterhouseCoopers, Certified Public Accountants  
Address: 27F, No. 333, Sec. 1, Keelung Road, Taipei City  
Website: <http://www.pwc.com/tw/>  
Tel. No.: (02)2729-6666

Web Site: <http://www.megabills.com.tw/>

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## **Message to Shareholders**

## Message to Shareholders

The worldwide spread of COVID-19 has had a severe impact on the global economy in 2020; the loss of overall demand combined with supply chain and trade disruptions slowed down growth and even put some economies into recession. According to the World Economic Outlook published in January 2021, the International Monetary Fund (IMF) estimated economic growth for 2020 at -3.5% worldwide, -4.9% for advanced economies, and -2.4% for emerging economies. Eventually, economic activities recovered in the second half as the world adjusted to the pandemic and countries re-opened with large-scale incentives. For 2021, IMF has forecast economic growth at 5.5% worldwide, 4.3% for advanced economies, and 6.3% for emerging economies.

Global commodity trade already showed signs of recovery in the second half of 2020. Still, given the current control measures imposed to prevent escalation of disease and virus mutation, cross-border traveling is unlikely to recover over the short term and may hinder trade recovery in 2021.

According to the latest economic forecast released by world-renowned information provider - IHS Markit in March 2021, the Democratic Party's victory in the U.S. election will enable a series of fiscal incentives that are helpful towards restoring confidence, and the U.S. economy is estimated to increase by 5.69% (compared to -3.5% in 2020). Meanwhile, the European Union continues to suffer from the severe spread of disease. It is estimated to achieve growth of 3.92% in 2021 (compared to -6.73% in 2020) as industries and countries remain divided in terms of recovery progress. Japan, on the other hand, experiences suppression in domestic spending due to the pandemic, but as vaccination becomes popular, the country is likely to see a recovery of economic activities at 2.63% in 2021 (compared to -4.9% in 2020), given the low base of comparison. As for Mainland China, strong domestic and foreign demands will continue to drive recovery, and economic growth in 2021 is likely to hit 7.84% (compared to 2.34% in 2020). Outlook of global economy and trade still depends largely on the success of disease control; meanwhile, the deviation of financial market performance from economic performance and rising debt levels are also issues that require close attention.

Contrary to most countries in the world, Taiwan achieved positive economic growth in 2020 (Q1: 2.51%, Q2: 0.35%, Q3: 4.26%, and Q4: 5.09%) thanks to the

success of its disease control efforts, and as the labor market recovers, research institutions have also revised Taiwan's growth forecast upward. In February, DGBAS estimated Taiwan's 2020 economic growth rate at 3.11%, up 0.13 percentage points from the previous estimate of 2.98%, and expects the growth rate to increase further to 4.64% in 2021. As a result of the Fed's expansionary measures and loss of investors' confidence in USD, there has been a significant shift in capital to non-USD assets that weakens the USD currency. Furthermore, Taiwan's GDP growth and narrowing difference in government bond yields attracted an inflow of foreign capital that caused the NTD to strengthen against the USD.

Despite drastic fluctuations in the global economy, falling bill/bond yields, and intensifying competition, the Company still turned in strong profit performance in 2020, reporting net income totaling NT\$2,930,997,000 that represented a 111.74% budget attainment rate and a NT\$305,645,000 or 11.64% increase over the NT\$2,625,352,000 concluded in 2019. The following is a report of the Company's business performance in the previous year (2020):

## One.2020 Business Report

### I. Global and Local Financial Environment, 2020

Governments around the world introduced large-scale economic incentives to combat the impact of COVID-19 in 2020. Not only has the Fed reduced interest rate to 0%, it also introduced a policy called "average inflation targeting" and continued debt purchasing and USD liquidity measures as means to inject capital into the market. The European Central Bank, too, increased the size of its debt purchase. Although economic activities recovered in the second half, they were nowhere near the pre-pandemic level. Given the presence of uncertainties, central banks of major countries worldwide have grown conservative towards the economic outlook and maintained expansionary monetary measures to support banks' lending activities.

With respect to the domestic economy, the stay-at-home movement gave rise to new business opportunities and technology applications. In contrast, increasing demand for goods of conventional industries fueled the growth of export sales. In light of strong domestic spending and successful control of COVID-19, the DGBAS, Executive Yuan, has revised upward its estimate for Taiwan's 2020 economic growth from 2.54% to 2.98%, surpassing Singapore, Hong Kong, and South Korea.

In terms of domestic price levels, DGBAS of Executive Yuan has estimated CPI increase at -0.23% and core CPI (excluding food and energy) increase at 0.36% for 2020 in a report dated February this year. Overall, the pandemic has resulted in a general fall in the price of oil and commodities worldwide. At the same time, entertainment and service providers reduced prices to stay in business, causing CPI to fall further. However, the CPI took a turn and increased after November when oil prices recovered and news of vaccines surfaced. Meanwhile, core CPI has been increasing moderately during this time, which suggests a stable inflation outlook and indicates no deflation concern at this point.

With regards to the domestic monetary policy, the central bank passed a resolution during its 2020 first-quarter board meeting held on March 19, 2020, to reduce the rediscount rate, the rate on accommodations with collaterals, and rate on accommodations without collateral by 0.25 percentage point each from 1.375%, 1.75%, and 3.625% to 1.125%, 1.5%, and 3.375%, respectively, in an attempt to support business functions and economic activities, given how the pandemic had caused extreme volatility to global financial markets and put SMEs at the brink of

bankruptcy at the beginning of the year. While interest rates were reduced to an all-time low, the central bank had kept its expansionary policy unchanged throughout the year. As the impact of the pandemic lessened in the second half, the combination of strong fundamentals and abundant liquidity drove Taiwan's equity market to new heights. It caused the NTD currency to strengthen in value. The central bank then made a significant upward adjustment of its 2020 full-year GDP growth forecast from 1.6% to 2.58%.

II. Organizational Changes: None.

III. Business plans and results

Unit: NT\$ million

Item	Final Accounting Figure, 2020	Final Accounting Figure, 2019	Increase/Decrease (%)
Underwriting and Purchasing Bills	2,912,991	2,705,942	7.65
Commercial Papers Underwritten	2,701,061	2,472,063	9.26
Trading volume of bills	9,104,451	8,634,497	5.44
Trading Volume of Bonds	4,324,507	4,779,451	-9.52
Average Balance of Guaranteed Commercial Paper	167,654	165,614	1.23
Overdue Credit Amounts	0	0	-
Overdue Loan Ratio (%)	0	0	-

#### IV. Budget Implementation

Unit: NT\$ million

Item	Final Accounting Figure, 2020	2020 Budget Figures	Achievement Rate (%)
Underwriting and purchasing bills	2,912,991	2,718,365	107.16
Commercial Papers Underwritten	2,701,061	2,477,948	109.00
Trading volume of bills	9,104,451	8,469,151	107.50
Trading volume of bonds	4,324,507	4,656,000	92.88
RP outstanding balance of bills and bonds	241,165	207,477	116.24
Average Balance of Guaranteed Commercial Paper	167,654	168,000	99.79
Overdue Credit Amounts	0	0	-
Overdue loan ratio (%)	0	0	-
Net Profit After Tax	2,931	2,623	111.74

#### V. Financial Income and Expenditures, and Analysis of Profitability

Unit: NT\$ million

Item	Final Accounting Figure, 2020	Item	Final Accounting Figure, 2020
Net income	4,685	EPS (NT\$)	2.23
Income Before Tax	3,605	ROA (%)	1.04
Net profit after tax	2,931	ROE (%)	7.36

#### VI. Research and Development

##### (I) Management

1. The department performance evaluation system was amended to accommodate business development strategies.
2. Enhancements such as report management platform and standardized accounting processes were made to the management information system.

3. Continue implementation of a paperless conference system and a paperless report management system.

## (II) Product and Business

1. Coordinated with Taiwan Depository & Clearing Corporation on the launch of new features including "Short-term Bill Tendering" and "Electronic Delivery for Secondary Market Trade Documents (for Non-specialized Bill Financing Companies)" for improved transaction efficiency, and developed relevant information systems to support phase 2 (market-wide) implementation of electronic delivery for secondary market trade documents.
2. Coordinated with bond passbook digitalization task force of Taiwan Securities Association on the digital transformation of bond passbooks and trade confirmations, thereby providing customers with efficient and low-cost settlement service.
3. Coordinated with Financial Information Service Co. Ltd. on the implementation of a new financial blockchain-based audit confirmation service to shorten the time taken on correspondence exchange for improved efficiency.
4. Developed a visual decision support system offering user-friendly and useful features to present spread information in charts, thereby adding value to decision-making and analysis.
5. Purchased money laundering blacklist and acquired a customer risk assessment system; outcomes of blacklist comparison and customer risk assessment were uploaded to the Company's database for transaction monitoring and for robust money laundering control.

## (III) Risk Management

1. Enhanced execution and risk monitoring of the Company's anti-money laundering and combating the financing of terrorism efforts.
2. Continuously enhanced the self-assessment system of operational risks and strengthen risk management regarding various business risk categories.

## Two. Summary of Business Plan 2021

### I. Operational Policy

- (I) Improve organization performance and maintain industry leadership.

- (II) Enhance risk management practices and secure asset quality.
- (III) Enforce compliance culture and achieve balanced business growth.
- (IV) Strengthen internal control system and implement sound corporate governance.

## II. Projection of Business Goals

Unit: NT\$ million

Item	2021 Budget Figures
Underwriting and purchasing bills	2,759,628
Commercial Papers Underwritten	2,559,506
Trading volume of bills	8,514,555
Trading volume of bonds	4,161,098
RP outstanding balance of bills and bonds	203,313
Average Balance of Guaranteed Commercial Paper	168,000

Grounds: Projection is based upon current market competition and market environment, as well as in accordance with the goals set up by the parent financial holding company.

## III. Major Business Policies

- (I) Monitor credit customers' business performance and financial positions; gain insight into customers' industry outlook and funding capability for more robust credit decisions.
- (II) Actively Explore Opportunities In: Syndicated lending as a lead arranger, joint underwriting of guarantee-waiver commercial paper, NCD, acquisition of guaranteed or guarantee-waiver bills and securities underwriting for portfolio growth and higher gain potentials from holding positions.
- (III) Monitor the Central Bank's monetary policy and movements of the financial market to enable flexible adjustment of primary and secondary deal rates; manage and expand bills portfolio at increased margin to secure a leading position in the market.
- (IV) Support the Group's ESG initiatives and explore green credit and green investment opportunities; enhance corporate governance practices and direct

attention towards environmental protection, charity, and sustainability issues as part of the Group's corporate social responsibilities.

- (V) Build position in foreign currency bonds; diversify country risk and maintain yielding spread of holding position.
- (VI) Explore foreign currency bond (including repurchase agreement) trading opportunities and maintain foreign currency interbank borrowing limits with domestic banks; reduce the cost of capital and increase yielding income through flexible uses of interbank borrowing, currency swap, and repurchase agreement without compromising liquidity risks.
- (VII) Manage duration of NTD and foreign currency bonds for risk avoidance and gains; allocate capital for greater efficiency and enhance risk management practices and systems.
- (VIII) Introduce new services and expand service reach.
- (IX) Enhance information security management practices and strengthen employees' risk awareness to minimize security threats.
- (X) Promote the use of paperless conference system and take steps toward developing a paperless report management system. Conserve the Earth's resources and thereby contribute to the Company's corporate social responsibilities.

#### IV. Future Development Strategies

- (I) Strengthen the position as a market leader of the bills and bonds business.
- (II) Adjust borrower structure and maintain appropriate size and margin on bill guarantee service.
- (III) Prioritize the selection of businesses with a strong ESG images and appropriately increase the weight of green credit and green bond investments.
- (IV) Continue building a bond position in response to interest rate changes, and maintain the appropriate size of repurchase agreements to secure profitability.
- (V) Continue exploring customers in the secondary market; strive to lower funding costs for improvements in terms of trading spread and operating performance.
- (VI) Plan and seek the authority's approval for new service categories and

additional counterparties, thereby expanding the scope of service and source of capital.

- (VII) To integrate the group resources and explore the synergy of cross-selling.
- (VIII) Improve system efficiency and enhance information security practices.
- (IX) Continue efforts in talent development and nurturing.
- (X) Make efficient allocation of capital; strengthen existing risk management and systems.

V. Effect of external competitive environment, regulatory environment, and overall operating environment.

- (I) The COVID-19 pandemic brings a high level of uncertainty to global markets; credit risk remains relatively high. The central bank of Taiwan, too, cut interest rates to mitigate the impact of the pandemic on industry performance. While the reduction in funding cost may have temporarily widened the spread, the spread will eventually narrow over the long term as the lending rate falls and present challenges to the bill financing service.
- (II) There is an increasing variety of funding channels in the financial market today, meanwhile, banks continue to explore local lending opportunities by offering low-interest rate loans and competing in the underwriting of guarantee-waiver CPs in the primary market. All of these have the potential to undermine the business expansion efforts of bills financing companies.
- (III) The Fed has announced its intention to maintain a zero-interest policy until 2023, which deters institutional and natural-person investors from engaging in the repurchase of foreign currency bonds. Meanwhile, banks may also grow reluctant towards overnight lending of foreign currency due to lack of yields, and ultimately affect USD's liquidity in the domestic money market.
- (IV) Due to limitations by capital adequacy and liquidity coverage ratios, the banking system has been conservative about long-term interbank funding and transactions in the secondary market, which affect the market's capital supply and cause higher interest rate volatility in short-term instruments completed at month-end and quarter-end.
- (V) Asset allocation by banks, repatriation of capital by foreign investors and tax payment all reduce capital supply in the market, raising bill selling costs and borrowing costs that ultimately impact spread income.

### Three. Most Recent Credit Rating and Date of Rating

Credit Rating Organization	Long-Term Credit Rating	Short-Term Credit Rating	Rating Outlook	Date of Announcement
Taiwan Ratings Corp.	twAA+	twA-1+	Stable	2020.9.29

### Four. Appreciation and Prospect

The spread of COVID-19 has had a significant impact on the global economy in the past year. The central bank of Taiwan responded with interest rate cuts in March 2020 that resulted in additional liquidity being injected into the market. The Company currently operates in a challenging environment characterized by a falling bill issuance rate, intensified competition from banking peers, and record-low NTD bond yields. As high-yield bonds mature, the Company is presented with higher reinvestment risks and potentials of lower-yielding income. Furthermore, the strengthening of the NTD currency puts foreign currency bond holding positions at risk of exchange loss. Despite being presented with unprecedented challenges, the Company was able to hit its annual profit targets. At the same time lead peers in all performance aspects as a bill financing company with the support of its employees and under the guidance and assistance of its directors, supervisors, and the parent company.

While Taiwan is able to keep inflationary pressure at a moderate level and deliver strong export performance, the outlook of the global economy is still prone to uncertainties surrounding disease control in major economies and growing tension between the USA and China, which the Company and its employees will continue to respond with “integrity, stability, innovation, growth, service efficiency, and sustainability” in mind. In addition to enhancing compliance, internal control, and risk management practices, the Company will also strive to make improvements to information systems and direct greater attention towards corporate governance, environmental protection, charity, and sustainability issues as part of its corporate social responsibilities, thereby reward shareholders of the financial group with more promising results.

Best wishes for all of you

Health and Happiness,

Chairperson Mei-Chu Liao

President Yao-Kuang Tsai

## **Profile of the Corporation**

## Profile of the Corporation

One.Founded: May 3, 1976

Two.Company History

- I. May 20, 1976, started business, with a paid-in capital of NT\$200 million.
- II. January 5, 1981, relocated the head office to an acquired property at Section 2 Nanjing East Road, Taipei City.
- III. June 26, 1990, completed an initial public offering that increased paid-in capital to NT\$2.8795 billion.
- IV. February 28, 2000, relocated the head office to “Chung Hsing Bills Tower” at Section 2, Zhongxiao East Road, Taipei City; share capital was increased to NT\$28.11441 billion later in May.
- V. June 12, 2002, a resolution was passed during the Regular Meeting of Shareholders to have the Company merged with Bank of communications' Financial Holding Company through a shares exchange arrangement. The exchange of shares took place on August 22 later in that year.
- VI. December 31, 2002, Bank of communications' Financial Holding Company, the parent company, was renamed Mega Financial Holding Co. Ltd.
- VII. September 1, 2004, share capital was reduced by \$3 billion to NT\$25.11441 billion.
- VIII. May 3, 2005, share capital was reduced by \$5 billion to NT\$20.11441 billion.
- IX. May 2, 2006, relocated the head office to 2F~5F, 9F and 10F, No. 91 Hengyang Road, Taipei City.
- X. June 26, 2006, the Company was renamed Mega Bills Finance Co., Ltd. in an alignment with other subsidiaries of Mega Financial Holding Company.
- XI. July 2, 2007, share capital was reduced by \$5 billion to NT\$15.11441 billion.
- XII. August 3, 2009, share capital was reduced by \$2 billion to NT\$13.11441 billion.
- XIII. November 1, 2012, received the “Best Bills Finance Company Award” at the “6th Annual Taiwan Excellent Financial Elite Award”.
- XIV. October 31, 2014, received the “Best Bills Finance Company Award” at

the “7th Annual Taiwan Excellent Financial Elite Award”.

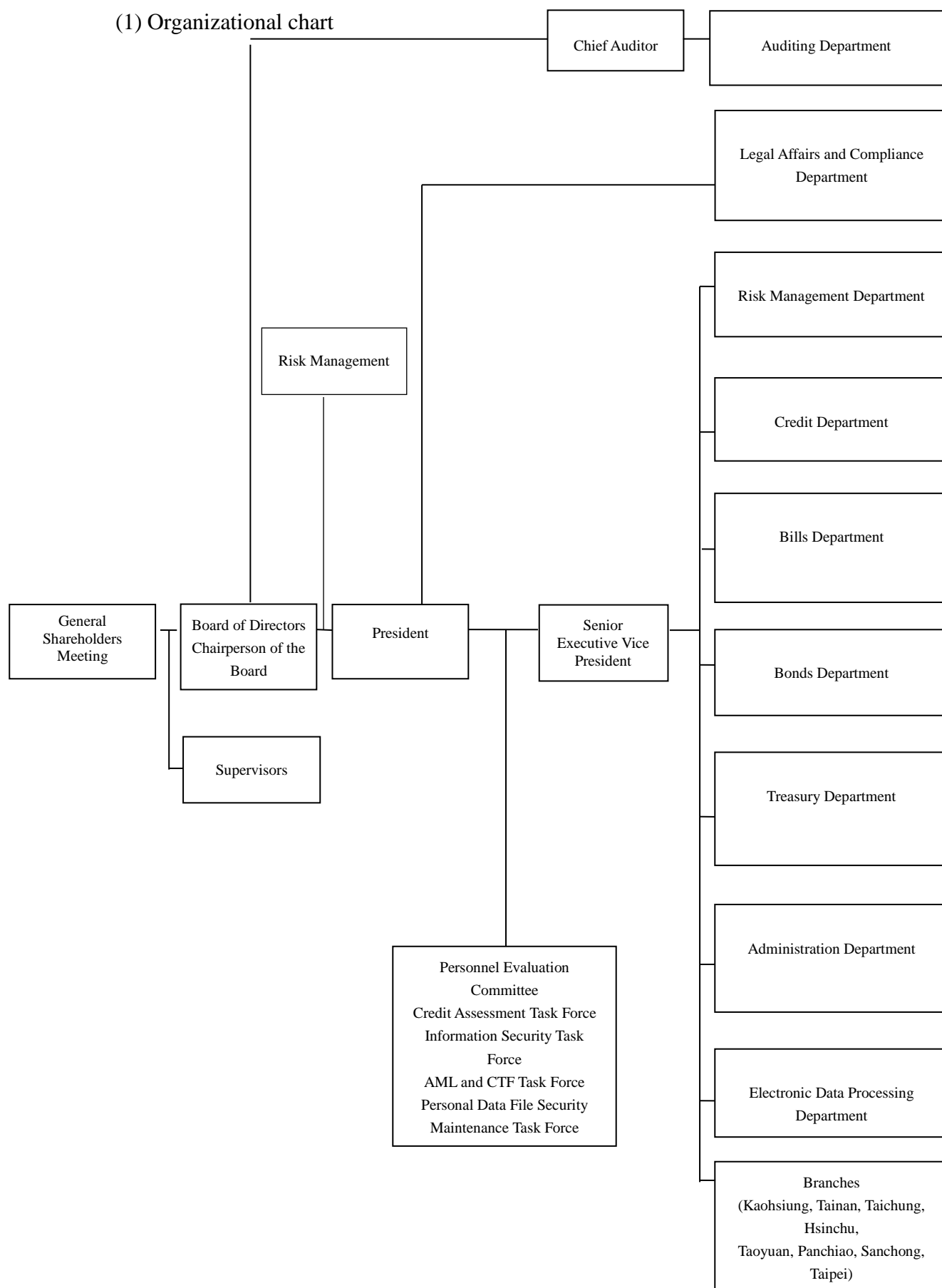
- XV. December 22, 2014, the Company was awarded the 2014 “Credit Information Security Control Award” by the Joint Credit Information Center.
- XVI. December 25, 2015, the Company was awarded the 2015 “Credit Information Security Control Award” by the Joint Credit Information Center.
- XVII. November 1, 2016, received “Best Bills Finance Company Award - Outstanding Achievement” in the “8th Annual Taiwan Excellent Financial Elite Award”.
- XVIII. December 26, 2018, the Company was awarded the 2018 “Credit Information Security Control Award” by the Joint Credit Information Center.
- XIX. December 18, 2020, received “Best Bills Finance Company Award - Outstanding Achievement” in the “10th Annual Taiwan Excellent Financial Elite Award”.

## **Corporate Governance Report**

# Corporate Governance Report

## I. Organization and department responsibilities

### (1) Organizational chart



(2) Department responsibilities:

- Auditing Department: Planning and execution of audit tasks; auditing of financial and business operations, AML/CTF practices, internal control and compliance for each department; supervision and review of self audits performed by departments.
- Legal Affairs and Compliance Department: Planning and management of internal control and compliance systems; planning, supervision and monitoring of AML/CTF policies and procedures; handling of legal affairs and overdue credit cases.
- Risk Management Department: Planning and management of credit service, establishment and amendment of related policies, and review of credit cases; establishment and amendment of risk management-related policies, consolidation of risk management targets and review of execution progress; planning and monitoring of the capital adequacy ratio.
- Credit Department: Credit assessment-related tasks at the Head Office; planning and implementation of credit assessment practices; establishment of business strategies and review of execution result; consolidation of department annual performance assessment outcomes; management of business investments; coordination for credit rating-related matters.
- Bills Department: Certification, underwriting, brokerage, and proprietary trading of bills of various categories; establishment and amendment of policies relating to bills service, and proposal of related business management strategies; implementation of limits on credit exposure, guarantee-waiver commercial paper, beneficiary securities, asset-backed securities and interbank lending, as well as related practices, for the Head Office; oversees funding and liquidity gap control.
- Bonds Department: Proprietary trading and investment of bonds, investment of equity instruments, and establishment, planning and execution of operational and management strategies and policies for derivative services; supervision and coordination of bond transactions by branches, and handling of requests.
- Treasury Department: Establishment and amendment of financial accounting systems and policies; proposal and preparation of annual budgets and year-end accounts; tax planning and filing; funding and capital transfer, and application and renewal of overdraft/interbank limits; account payment and collection; use and control of the electronic payment system; settlement and delivery of various transactions; custody of securities and important documents and contracts.
- Administration Department: Managing the drafting and revision of business-related

regulations; planning and implementing personnel business and human resource development; general affairs, procurement operations, occupational safety operations, and property management matters; handling of Company registration and stock affairs; matters related to corporate governance.

- Electronic Data Processing Department: Planning and execution of IT policy; investigation, analysis and design of application systems; implementation, management and maintenance of information systems; planning, monitoring, and execution of information security management.
- Branches: Carry out business activities and matters outlined in the business license; execute instructions from the Head Office.

## II. Background Information of Directors, Supervisors, the President, Senior Executive Vice President, Executive Vice President, Heads of Departments and Branches and Consultants

### (1) Directors and Supervisors

#### 1.Information about directors and supervisors (1)

December 31, 2020

Job Title	Country or place of registration	Name	Gender	Date of Election (Appointment)	Term of Office	Date of First Election	Shares held at the time of appointment		Number of shares currently held		Number of shares currently held by spouse and minor children		Shares held by proxy		Main Educational and Professional Background		Current Posts Held at Other Companies Concurrent to MBF Post	Other Executive Officers, Directors or Supervisors Within Two Degrees of Kinship of Self or Spouse			Remarks
							Quantity	Shareholdings	Quantity	Shareholdings	Quantity	Shareholdings	Quantity	Shareholdings	Education	Experience		Job Title	Name	Relationship	
Chairperson	Republic of China	Mei-Chu Liao	Female	2018.03.01	2021.02.28	2018.03.01	(Note 1)							NCCU Department of Banking	Vice President, First Financial Holding; Chief Secretary of the Board of Directors, First Financial Holding and First Bank; Chairperson, First Securities; Director, FCB Leasing; Director, First Commercial Bank (USA); Supervisor, First Life Insurance; Supervisor, Financial Information Service Co., Ltd.; Director, First Financial Management Consulting and First Venture Capital; Director, FSITC	Chairperson, Mega Bills Finance Co., Ltd.; Director General, R.O.C. Bills Finance Association; Director, Bankers Association of Taipei; Director, The Bankers Association of the R.O.C.; Director, Taiwan Depository & Clearing Corporation; Director, Taiwan Academy of Banking and Finance; Director, Taiwan Financial Services Roundtable.; Director, Mega Charity Foundation	None				
Director and President	Republic of China	Yao-Kuang Tsai (Note 6)	Male	2020.07.02	2021.02.28	2020.07.02								Dept. of Banking, Tamkang University	Chef Auditor, Mega Bills Finance Co., Ltd.; Executive Vice President, Risk Management Department; Executive Vice President, Kaohsiung Branch; Executive Vice President, Credit Department.	Director and President, Mega Bills Finance Co., Ltd.; Director, R.O.C. Bills Finance Association					
Independent Director	Republic of China	Yih-Ray Hwang	Male	2018.03.01	2021.02.28	2016.10.26								Master of Business Administration, University of Massachusetts Master of Law, NCCU	Solomon & Co., CPAs - Licensed CPA; Kaohsiung City CPA Association - Chairman; Taiwan CPA Association - Standing Director; Neoflex Technology Co., Ltd. - Director; Huaku Development Co., Ltd. - Supervisor; i-Kiddo Co., Ltd. - Supervisor	Director General, Solomon & Co., CPAs; Chairperson, Taiwan CPA Association; Director, Huaku Development Co., Ltd.; Director, Ma Kuang Healthcare Holding Limited; Chairperson, Weidu Investment Co., Ltd.; Supervisor, Ma Kuang International Development Co., Ltd.; Director, E - Family Corp.; Supervisor, PChome Online Inc.; Director, Qifang Co., Ltd.; Independent Director; Mega Securities Co., Ltd.; Director, Weicheng Industrial Co., Ltd.					
Independent Director	Republic of China	Jean-Yue Chen	Male	2018.03.01	2021.02.28	2018.03.01								National Taiwan University Master of National Development	Soochow University - Lecturer of Law; Shuang Bang Law Office – Partner; Lexcel Partners Attorneys at Law - Lawyer;O <sub>2</sub> +LIFE CO., LTD. - Director	Person-in-Charge, Chen Chien-Yu Law Offices; Supervisor, Fortune Space Digital Convergence Co., Ltd.; Independent Director, Bryton Inc.; Supervisor, O <sub>2</sub> +Life Co., Ltd.					
Director	Republic of China	Jui-Yun Lin	Female	2018.03.01	2021.02.28	2006.04.06								NCCU Master of Public Finance	Mega Financial Holding Co., Ltd. - Executive Vice President of Financial Management Department; Chung Kuo Insurance - Chairperson; Nuclear Energy Insurance Pool of the Republic of China - Chairperson; Mega Charity Foundation - Director; Mega Financial Holding Co., Ltd. - Lead Member of the Employee Welfare Committee; Taipei Financial Center Corporation - Director; Non-Life Insurance Association of the Republic of China - Managing Director	Vice President and Corporate Governance Officer, Mega Holdings; Chairperson and President, Mega Growth Venture Capital Co., Ltd.; Chairperson, Labor Retirement Reserve Supervision Committee, Mega Financial Holding Company Limited; Supervisor, Chung Kuo Insurance Company, Limited; Director, Next Commercial Bank Co., Ltd.; Director, Mega Charity Foundation					

Director	Republic of China	Ruey-Yuan Fu	Female	2018.03.01	2021.02.28	2017.03.29		NCCU EMBA	Manager, Yonghe Branch, Mega International Commercial Bank; Manager, Nanjing East Road Branch; Manager, Financial Holding Company Headquarters; Chairperson, Bank of China Financial Management Consulting Co., Ltd.; Director, Smart Performer Co., Ltd.; Director, Taiwan Asset Management Co., Ltd.; Director, The International Commercial Bank of China Cultural and Educational Foundation	Exective Vice President, Mega International Commercial Bank; Director, Excel Chemical Corporation; Director, Mitagri Co., Ltd.		
Director	Republic of China	Ya-Ting Chang	Female	2018.03.01	2021.02.28	2018.03.01		University of Illinois Master of Accounting, Urbana-Champaign	Deloitte Taiwan - Deputy Manager of Audit Department; Taiwan Academy of Banking and Finance - Lecturer; Taiwan Junior Chamber - Deputy head and CFO of Grand Songshan Branch; member of Phi Tau Phi Scholastic Honor Society	Elite & Co., CPAs - Partner Accountant; Elite Management Consultant Co., Ltd. - Director (person-in-charge).		
Director	Republic of China	Yu-Mei Hsiao (Note 2)	Female	2018.03.28	2021.02.28	2018.03.28		University of Illinois Master of Finance, Urbana-Champaign	Mega Financial Holding Co. Ltd. and Mega Bank - Secretariat; First Commercial Bank - Brisbane Branch Manager; First Commercial Bank - Gongguan Branch Manager; Hotung International Co., Ltd. – Director; Hotung Investment Holdings Limited; Taiwan Financial Asset Services Co., Ltd. - Director	Mega Financial Holding Co., Ltd. and Mega Bank -Executive Vice President; Mega Asset Management Corp. - Director; Mega International Commercial Bank Public Company Limited - Chairperson		
Supervisor	Republic of China	Yung-Chen Huang (Note 4)	Female	2018.12.19	2021.02.28	2018.12.19		New York University Master of Economics	Mega Bank - Head Office Branch Deputy Manager; Mega Bank - Yilan Branch Manager, Daan Branch Manager Sanchong Branch Manager and Executive Vice President of the Foreign Businesses Department.	Mega Bank - Chief Auditor.		
Supervisor	Republic of China	Chi- Ho Chen	Male	2018.03.01	2021.02.28	2018.03.01		Chinese Culture University Department of Banking	Mega Bank - Deputy Head of Credit Management Division; Mega Bank - Deputy Head of Debt Management Division; China Real Estate Management – Director.	Mega Bank - Head of Overdue Loans & Control Department		
Supervisor	Republic of China	Shao-Pin Lin (Note 4)	Male	2018.12.19	2021.02.28	2018.12.19		Chung Hua University PhD in Management, Institute of Technology Management	Taiwan Business Bank - Officer and Team Leader of the Foreign Businesses Department; Land Bank of Taiwan - Deputy Section Chief, Section Chief, and Senior Officer of the Foreign Businesses Department; Bank of Taiwan - Secretary and Senior Office of the President's Office; Ching Yun University - Associate Professor of Finance; Joint Credit Information Center - Manager of the Member Services Department and Manager of the Administration Department; Financial Ombudsman Institution - Head of the Administration Division and Vice President.	Shih Chien University - Part-time Associate Professor of Finance; National Open College of Continuing Education Affiliated to Taichung University of Science and Technology - Part-time Associate Professor; Mega Bank - Director; VITAPHILE Co., Ltd. - Supervisor; Chung Hua University Department of Industrial Management - Part-time Associate Professor		

Note:

1. The Company has 1,311,441,084 outstanding shares and is a 100%-owned subsidiary of Mega Financial Holding Co., Ltd. Mega Financial Holding Co., Ltd. reappointed the Company's 15th Board of Directors and supervisors on 3.1.2018 to serve a term from 3.1.2018 until 2.28.2021. The names of the 15th Board of Directors (including independent directors) and supervisors are as follows: Chairman Mei-Chu Liao, Director and President Chi-Fu Lin, Independent Director Yi-Rui Huang, Independent Director Jian-Yu Chen, Director Jui-Yun Lin, Director Chun-Hsiang Li, Director Rui-Yuan Fu, Director Ya-Ting Chang, Supervisor Jin-Tsun Chen, Supervisor Fu-Rong Chen, and Supervisor Qi-He Chen.
2. Mega Holdings reappointed Madam Yu-Mei Hsiao to replace Director Chun-Hsiang Li on 2018.3.28.
3. Mr. Jin-Tsun Chen, former supervisor of the Company appointed by Mega Financial Holding Co. Ltd., resigned on 7.26.2018.
4. On 12.19.2018, Mega Financial Holding Co. Ltd. reappointed Madam Yung-Chen Huang to succeed Fu-Rong Chen as supervisor and assigned Mr. Shao-Pin Lin as an additional supervisor.
5. Mr. Chi-Fu Lin, former representative for Mega Financial Holding Co. Ltd. who served as Director and President of the Company, retired on 1.16.2020 and resigned from directorship.
6. Mega Financial Holding Company Limited appointed Mr. Yao-Kuang Tsai as a director of the Company; 2020.7.2 approved by the FSC to serve as President; director's position was also effective from the same date
7. As of the publication date of the annual report, Mega Financial Holdings Co., Ltd. had not appointed directors and supervisors of the Company of the 16th term.

## 2. Major shareholders of Corporate shareholders

Book Closure Date: December 31, 2020

Name of Corporate shareholder	Major shareholders of Corporate shareholders (with shareholding among the top 10)	Shareholding
Mega Financial Holding Co., Ltd.	Ministry of Finance	8.40%
	National Development Fund, Executive Yuan	6.11%
	Chunghwa Post Co., Ltd.	3.60%
	Fubon Life Insurance Co., Ltd.	3.12%
	Bank of Taiwan Co., Ltd.	2.46%
	Taiwan Life Insurance Co., Ltd.	2.08%
	China Life Insurance Company Limited	2.07%
	Cathay Life Insurance Co., Ltd.	2.03%
	New Labor Pension Fund	1.55%
	Taiwan Tobacco & Liquor Corporation	1.50%

### 3. Major Shareholders of Major Corporate Shareholders

Book Closure Date: December 31, 2020

Name of corporate entity	Major shareholders of Corporate entity (Note)	Shareholding
Ministry of Finance	Government	
National Development Fund, Executive Yuan	Government	
Chunghwa Post Co., Ltd.	Ministry of Transportation and Communications R.O.C	100.00%
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd.	100.00%
Bank of Taiwan Co., Ltd.	Taiwan Financial Holding Co., Ltd.	100.00%
Taiwan Life Insurance Co., Ltd.	Chinatrust Financial Holding Co., Ltd.	100.00%
China Life Insurance Company Limited	China Development Financial Holding Corp	26.16%
	KGI Securities Co., Ltd.	8.66%
	Videoland Inc.	2.42%
	New Labor Pension Fund	1.72%
	Cathay Life Insurance Co., Ltd.	1.63%
	Fubon Life Insurance Co., Ltd.	1.27%
	Ling-Lang Chan	1.24%
	Citibank Taiwan in its Capacity as Master Custodian for Investment account of the Central Bank of Norway	1.08%
	Labor Insurance Fund	
	JP Morgan Chase Bank Taipei Branch in its Capacity as Master Custodian for Investment Account of PGIA Progress International ETF	1.06%
Cathay Life Insurance Co., Ltd.	Cathay Financial Holding Co., Ltd.	100.00%
Taiwan Tobacco & Liquor Corporation	Ministry of Finance	100.00%

Note: Top 10 shareholders

#### 4. Information about directors and supervisors (2)

December 31, 2020

Qualifications	Five-Year or More Work Experience and Following Professional Qualifications			Status of Compliance With Independence (Note)												Number of other public companies in which the director/supervisor serves as independent directors concurrently
	Lecturer or higher senior post at public or private junior college in fields related to business, law, finance, accounting or other fields that the company's businesses might require	Judges, prosecutors, lawyers, accountants or other specialist professional and technical staff possessing pass certificates for national examinations in other fields required by the company's businesses	Work experience required for business, law, finance, accounting or corporation business	1	2	3	4	5	6	7	8	9	10	11	12	
Name																
Mei-Chu Liao			V	V		V	V	V		V	V	V	V	V		0
Yao-Kuang Tsai			V			V	V	V	V	V	V	V	V	V		0
Yih-Ray Hwang	V	V	V	V	V	V	V	V	V	V		V	V	V		1
Jean-Yue Chen		V	V	V	V	V	V	V	V	V	V	V	V	V		1
Jui-Yun Lin	V		V			V	V			V		V	V	V		0
Ruey-Yuan Fu			V			V	V	V		V		V	V	V		0
Ya-Ting Chang		V	V	V		V	V	V	V	V	V	V	V	V		0
Yu-Mei Hsiao			V			V	V			V		V	V	V		0
Yung-Chen Huang			V			V	V	V		V		V	V	V		0
Chi- Ho Chen			V			V	V	V		V		V	V	V		0
Shao-Pin Lin	V		V	V		V	V	V		V		V	V	V		0

Note: Requirements to be met by each director and supervisor two years before their selection and appointment and for the duration of their tenure of the post.

1. Not employed by the Company or any of its affiliated companies.
2. Not a director or supervisor of the company or any of its affiliated companies (this restriction does not apply to concurrent independent director positions in the company, its parent company, subsidiary, or another subsidiary of the parent that is compliant with Securities and Exchange Act or local laws).

3. Does not hold more than 1% of the company's outstanding shares in their own names or under the name of spouse, underage children or proxy shareholder; nor is a top-10 natural-person shareholder of the company.
4. Not a manager listed in 1, or a spouse, 2nd-degree relative or closer or 3rd-degree direct relative or closer to any personnel listed in 2 or 3.
5. Not a director, supervisor, or employee of any corporate shareholder that: 1. holds 5% or more of the company's outstanding shares; 2. is a top-5 shareholder; or 3. appoints director/supervisor representative in the company according to Paragraph 1 or 2, Article 27 of The Company Act. (This excludes concurrent independent director positions held within the company and its parent/subsidiary, or in other subsidiary of the parent company that are compliant with the Securities and Exchange Act or local laws).
6. Not a director, supervisor, or employee of any other company that controls directorship in the company or where more than half of total voting rights are controlled by a single party (this excludes concurrent independent director positions held within the company and its parent/subsidiary, or in other subsidiary of the parent company that are compliant with the Securities and Exchange Act or local laws).
7. Does not assume concurrent duty as Chairperson, President, or equivalent role, and is not a director, supervisor, or employee of another company or institution owned by spouse. (This excludes concurrent independent director positions held within the company and its parent/subsidiary, or in other subsidiary of the parent company that are compliant with Securities and Exchange Act or local laws).
8. Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the Company (however, this excludes concurrent independent director positions held within companies or institutions that hold more than 20% but less than 50% outstanding shares of the company, or in the company's parent or subsidiary, or in another subsidiary of the parent that is compliant with the Securities and Exchange Act or local laws).
9. Not a professional who provides audit service, or commercial, legal, financial, accounting or related services for an accumulated sum of less than NT\$500,000 in the last 2 years, to the company or its affiliate, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliated companies. This excludes roles as Remuneration Committee, Public Acquisition Review Committee, or M&A Special Committee member appointed in accordance with the Securities and Exchange Act or Business Mergers and Acquisitions Act.
10. Not a spouse of, or related within the second degree of consanguinity to, any other director.
11. Free from any circumstances referred to in Article 30 of the Company Act.
12. Not have been elected by government, a juridical person or representatives thereof as stipulated by Article 27 of the Company Act.

## (2) Information about President, Senior Executive Vice President, Executive Vice President, and Executives of each Department and Branch Office

December 31, 2020

Job Title	Nationality	Name	Gender	Date of Election (Appointment)	Shareholdings		Shareholdings of spouse and underage children		Shares held by proxy		Main Educational and Professional Background		Current post held concurrently in other companies	Other General Managers within two degrees of kinship of self or spouse			Remarks
					Quantity	Shareholdings	Quantity	Shareholdings	Quantity	Shareholdings	Education	Experience		Job Title	Name	Relationship	
President and CEO	Republic of China	Yao-Kuang Tsai	Male	2020.07.02	—	—	—	—	—	—	Dept. of Banking, Tamkang University	Chief Auditor, MBF	—	—	—	—	
Senior Executive Vice President	Republic of China	Yi-Sheng Wang	Male	2017.07.16	—	—	—	—	—	—	Dept. of Banking, Tamkang University	Chief Auditor, MBF	—	—	—	—	
Senior Executive Vice President and General Manager, Bonds Department	Republic of China	Chin-Sheng Huang	Male	2020.06.24	—	—	—	—	—	—	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	Senior Executive Vice President, MBF	—	—	—	—	
Senior Executive Vice President	Republic of China	Jung-Chieh Cheng	Male	2020.04.01	—	—	—	—	—	—	Master of Commercial Automation and Administration, National Taipei University of Technology	Senior Executive Vice President and General Manager, Risk Management Department, MBF	—	—	—	—	
Chief Auditor	Republic of China	Shih-Yi Chen	Male	2020.06.24	—	—	—	—	—	—	MBA, Katholieke Universiteit Leuven	Executive Vice President and General Manager, Bills Dept., MBF	—	—	—	—	
Executive Vice Presidents and General Manager, Risk Management Department	Republic of China	Shuo-Cheng Lee	Male	2020.06.24	—	—	—	—	—	—	Master, Graduate Institute of Economics, National Taiwan University	Executive Vice President and General Manager, Bonds Department, MBF	—	—	—	—	
General Manager, Credit Department	Republic of China	Chih-Wu Lin	Male	2020.04.01	—	—	—	—	—	—	MBA, National Cheng Kung University	General Manager, Legal Affairs and Compliance Department, MBF	Director, Core Pacific City Co., Ltd.	—	—	—	
General Manager, Bills Department	Republic of China	Li-Chun Hsiao	Male	2020.06.24	—	—	—	—	—	—	MBA, Soochow University	General Manager, Risk Management Department, MBF	—	—	—	—	
Executive Vice President and General Manager, Treasury Department	Republic of China	Chih-Hsiung Chiu	Male	2018.08.01	—	—	—	—	—	—	Master, Graduate Institute of Accounting, Tamkang University	General Manager, Treasury Department, MBF	—	—	—	—	
Executive Vice President and General Manager, Administration Department	Republic of China	Shih-Ming Wang	Male	2020.07.01	—	—	—	—	—	—	Master of Finance, Tamkang University	General Manager, Administration Department, MBF	—	—	—	—	
Executive Vice President and General Manager, Electronic Data Processing Department	Republic of China	Hsi-Bin Yo	Male	2014.05.16	—	—	—	—	—	—	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	General Manager, Electronic Data Processing Department, MBF	—	—	—	—	
General Manager, Legal Affairs and Compliance Department	Republic of China	Chi-Ming Hsu	Male	2020.04.01	—	—	—	—	—	—	Master's degree, Institute of Management, National Sun Yat-sen University	General Manager, Taipei Branch, MBF	—	—	—	—	
General Manager, Kaohsiung Branch	Republic of China	Ching-Fa Chang	Male	2020.01.16	—	—	—	—	—	—	MBA, China University of Technology	General Manager, Hsinchu Branch, MBF	—	—	—	—	
General Manager, Tainan Branch	Republic of China	Hui-Lung Chung	Male	2017.07.16	—	—	—	—	—	—	Master of Finance, National Cheng Kung University	Vice President, Tainan Branch, MBF	—	—	—	—	
Executive Vice President and General Manager, Taichung Branch	Republic of China	Ming-Pao Wang	Male	2019.07.01	—	—	—	—	—	—	Master of Accounting and Taxation, Fengchia University	General Manager, Taichung Branch, MBF	—	—	—	—	
General Manager, Hsinchu Branch	Republic of China	Kuei-Yuan Chen	Male	2020.01.16	—	—	—	—	—	—	Master's degree, Institute of Finance Management, National Kaohsiung University of Science and Technology	Deputy General Manager, Kaohsiung Branch, MBF	—	—	—	—	
General Manager, Taoyuan Branch	Republic of China	Fu-Yuan Cheng	Male	2020.04.01	—	—	—	—	—	—	Master of Business Administration, Yuan Ze University	Deputy General Manager, Banqiao Branch, MBF	—	—	—	—	
General Manager, Banqiao Branch	Republic of China	Yung-Fu Fang	Male	2019.07.16	—	—	—	—	—	—	Department of Economics, National Taiwan University	Deputy General Manager, Sanchong Branch, MBF	—	—	—	—	
General Manager, Sanchong Branch	Republic of China	Shao-Shih Lu	Male	2019.07.16	—	—	—	—	—	—	Master of Management Science, Ming Chuan University	Deputy General Manager, Risk Management Dept. MBF	—	—	—	—	
General Manager, Taipei Branch	Republic of China	Chun-Hao Chen	Male	2020.04.01	—	—	—	—	—	—	Department of Cooperative Economy, National Chung Hsing University	General Manager, Credit Dept., MBF	—	—	—	—	

## (3) Information of Retired Chairpersons and Presidents Re-hired as Consultants: None.

### III. Corporate governance

#### (1) Functionality of the Board of Directors:

The Board of Directors met 16 times (A) in 2020 and attendance was as follows:

Job Title	Name	Attendance in Person (B)	Attendance by Proxy	Actual Attendance Rate (%) 【B/A】	Remarks
Chairperson	Mei-Chu Liao	16	0	100	
Director and President	Yao-Kuang Tsai	8	0	100	Took office 2020.7.2
Independent Director	Yih-Ray Hwang	15	1	94	
Independent Director	Jean-Yue Chen	15	1	94	
Director	Jui-Yun Lin	16	0	2011	
Director	Ruey-Yuan Fu	16	0	2011	
Director	Ya-Ting Chang	16	0	2011	
Director	Yu-Mei Hsiao	16	0	100	
Former Director and President	Chi-Fu Lin	1	0	100	2020.1.16 Retired and resigned as director

Other notes to be specified:

- I. Any board meeting that exhibits the conditions listed in Article 14-3 of the Securities and Exchange Act, or any documented objections or qualified opinions raised by the independent director against board resolutions in relation to matters other than those described above: None.
- II. Avoidance of conflicting-interest agendas by directors:
  - (I) On January 13, 2020, the 1st interim meeting of the 15th Board of Directors reported that President Chi-Fu Lin would retire due to age from January 16, 2020. It was proposed that Chairperson Mei-Chu Liao would serve temporarily as President. Chairperson Mei-Chu Liao and Director and President Chi-Fu Lin recused themselves during the discussion and voting took place.
  - (II) On February 25, 2020, the 32nd meeting of the 15th Board of Directors submitted the underwriting of non-guaranteed commercial promissory notes of Mega Financial Holding Co., Ltd. Director Jui-Yun Lin and Director Yu-Mei Hsiao recused themselves during the discussion and voting took place.
  - (III) On June 23, 2020, the 36th meeting of the 15th Board of Directors submitted the reimbursement for the underwriting of non-guaranteed commercial promissory notes of Mega Asset Management Co., Ltd. Director Yu-Mei Hsiao recused themselves during the discussion and voting took place.
  - (IV) On July 28, 2020, the 37th meeting of the 15th Board of Directors submitted a proposal for President Yao-Kuang Tsai's monthly salary. Director and President Yao-Kuang Tsai recused themselves during the discussion and voting took place.
  - (V) On September 22, 2020, the 40th meeting of the 15th Board of Directors submitted the underwriting of non-guaranteed commercial promissory notes of Mega Securities Co., Ltd. Independent Director Yih-Ray Hwang recused themselves during the discussion and voting took place.

(VI) On December 22, 2020, the 44th meeting of the 15th Board of Directors submitted the Company's audit plan, and Director and President Yao-Kuang Tsai recused themselves during the discussion and voting took place. It reported the reimbursement for the underwriting of non-guaranteed commercial promissory notes of Mega Asset Management Co., Ltd., and Director Yu-Mei Hsiao recused themselves during the discussion and voting took place.

III. Enhancements to the functionality of Board of Directors in the current and the most recent year (*e.g.* establishment of an Audit Committee, improvement of information transparency, etc.), and the progress of such enhancements: none.

(2) Supervisors' involvements in Board of Directors meetings

The Board of Directors met 16 times (A) in 2020 and attendance was as follows:

Job Title	Name	Attendance in Person (B)	Actual Attendance Rate (%) 【B/A】	Remarks
Supervisor	Yung-Chen Huang	16	100	
Supervisor	Chi- Ho Chen	15	94	
Supervisor	Shao-Pin Lin	16	2011	

Other notes to be specified:

1. Constitution and obligations of supervisors:

- (I) Supervisors' communication with employees and shareholders (*e.g.* communication channels and methods): supervisors are able to communicate with the Company's employees and shareholders via written correspondence, telephone, fax and other appropriate means.  
TEL: (02)2563-3156/FAX: (02)2356-9801  
Address: 5F, No. 123, Section 2, Zhongxiao East Road, Taipei City 100
  - (II) Supervisors' communication with Chief Auditor and external auditors (*e.g.* the details, means and outcomes of discussion regarding the Company's financial position and business performance): the Company's internal audit reports and financial statements are submitted regularly for review by the supervisors. Supervisors may also initiate communication with the Chief Auditor and external auditors via meetings, audit conference, internal control defect review conference, written correspondence, telephone, fax or other appropriate means. In addition, supervisors may be invited to participate in Board of Directors meeting to gain more insight on the motions discussed as well as the Company's financial position and business performance.
2. Opinions expressed by supervisors in board meetings; state the date and term of the meeting held, the agenda, the board's resolution, and how the company has responded to supervisors' opinions: None.

(3) Corporate governance information: please refer to the “Statutory Disclosure” section on the Company's website (<http://www.megabills.com.tw/>)

(4) Existing corporate governance practices and deviation from Corporate Governance Best-Practice Principles for Bill Financing Companies

Item	Status		Summary description	Non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance
	Yes	No		
<p>I. Shareholding structure and shareholders' interests</p> <p>(I) Are shareholders' suggestions, queries, disputes and litigations handled properly?</p> <p>(II) Is the company constantly informed of the identities of its major shareholders and the ultimate controller?</p> <p>(III) Has the company established and implemented risk management practices and firewalls for companies it is affiliated with?</p>	V		<p>I. The Company is a 100%-owned subsidiary of Mega Holdings. All above matters are handled according to the policies of Mega Holdings.</p> <p>II. Mega Holdings is the Company's sole shareholder; the identity of the Company's ultimate controller can be established via the parent company.</p> <p>III. The Company is entirely independent from affiliated entities in terms of personnel, assets, and financial decisions. The parent company's "Mega Group Risk Management Policy and Guidelines" and "Mega Holdings and Subsidiaries Firewall Policy" govern dealings with affiliated entities.</p> <p>(I) Information security: the Company has established the transaction authority and file access rights as means of control.</p> <p>(II) Confidentiality of customers' information: accesses to customers' information are subject to proper authorization before proceeding. Customers' consents are obtained before their information can be used and shared for joint marketing purposes. The Company has established confidentiality agreements with other subsidiaries of the group to ensure the secrecy of customers' information.</p> <p>(III) Related party transactions: the Company maintains a list of related parties and reports transactions regularly to the parent company - Mega Holdings, through which related party disclosures are made to the authority.</p>	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies".
<p>II. Constitution and obligations of the Board of Directors</p> <p>(I) Does the company have independent directors in place? Has the company assembled other functional committees?</p> <p>(II) Has the TWSE/TPEX listed bills financing company established a set of policies and assessment tools for evaluating board performance, and conducted performance evaluation on a yearly basis? Are performance evaluation results reported to the Board of Directors and used as reference for compensation, remuneration, and nomination decisions?</p> <p>(III) Are external auditors' independence assessed on a regular basis?</p>	V	-	<p>I. The Company is a 100%-owned subsidiary of Mega Holdings; its directors and supervisors are entirely appointed by Mega Holdings. The Company has 8 directors, 2 of whom are independent directors. The Company has added functional committee rules into its "Corporate Governance Code of Conduct" to support decision-making and management.</p> <p>II. The Company is not listed on TWSE or TPEX, therefore it has not established Board of Directors Performance Assessment Policy.</p> <p>III. The Company evaluates independence of its external auditors at the time of appointment each year.</p>	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies".

Item	Status		Summary description	Non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance
	Yes	No		
III. Has the company allocated adequate number of competent corporate governance staff and appointed a corporate governance officer to oversee corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, assisting directors/supervisors with compliance issues, convention of board meetings and shareholder meetings, and preparation of board/shareholder meeting minutes)?	V		The Company has appointed a corporate governance officer with board of directors' approval, and created a Corporate Governance Section that specializes in corporate governance-related affairs.	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies".
IV. Has the company provided proper communication channels and created dedicated sections on its website to address corporate social responsibility issues that are of significant concern to stakeholders (including but not limited to shareholders, employees, customers and suppliers)?	V		The Company provides a contact window and a dedicated telephone number on the Company website. It has set up a special area for stakeholders to maintain smooth communication channels, thereby respecting and safeguarding the legitimate rights and interests of stakeholders.	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies"
V. Information disclosure (I) Has the company established a website that discloses financial, business, and corporate governance-related information? (II) Has the company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)? (III) Does the company publish and make official filing of annual financial reports according to The Act Governing Bills Finance Business and Securities and Exchange Act within the required timeframe after the end of an accounting period, and publish/file Q1, Q2, and Q3 financial reports plus monthly business performance before the specified due dates?	V  V  V		I. The Company has made a Statutory Disclosures section on its website to disclose important information such as financial reports, business performance, interest rate quotations, corporate governance, and credit rating. II. Other means of information disclosure (I) The Company has published an English version of the annual report on its website. (II) The Company has assigned dedicated personnel to gather, maintain and update information published in various sections of its website. (III) The Company has "Spokesperson and Acting Spokesperson Policy" in place to prohibit employees from speaking for the Company, thereby making sure that information is disseminated according to proper procedures. (IV) The Company is not listed on TSEC or GTSM; its information is disclosed via the parent company - Mega Holdings. III. The Company publishes and files annual report within the required timeframe, and publishes/files Q1, Q2, and Q3 financial reports along with monthly business performance before the designated due dates.	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies"
VI. Other important information enabling better understanding of the Company's corporate governance (such as employees' welfare, employee care, investor relations, stakeholders' interest, directors' and supervisors' ongoing education, directors' attendance and supervisors' participation in Board Meetings, implementation of risk management policies and risk	V		I. Employee welfare: enforced in accordance with Labor Standards Act and the Company's work rules. II. Employee care: the Company has an Employee Welfare Committee in place to handle matters such as labor insurance, national health insurance, group insurance, workers' health and safety (in compliance with labor safety and health regulation), health checks, wedding and funeral subsidies etc. III. Investor relations: the Company is a 100%-owned subsidiary of Mega Holdings, which is the sole investor. IV. Stakeholder rights: The Company's information is open, the	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies"

Item			Status	Non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance
	Yes	No	Summary description	
measurement standards, implementation of consumer protection or customer policy, insurance against liabilities of directors and supervisors of a bills financing company, and social responsibilities):			<p>website has a special section for stakeholders, and communication channels are smooth. Employees, customers or vendors can respond to and communicate with the Company via telephone, letter, email, or customer complaint line.</p> <p>V. Continuing education of directors and supervisors: A portion of directors and supervisors participated in related coursework including an event organized by the Ministry of Finance titled "Speech Training on Corporate Governance;" events organized by the Taiwan Corporate Governance Association titled "How the Audit Committee Implements Financial Statement Reviews," "M&amp;A Review and Directors' Obligations," "The Role of Independent Directors in Company Operations and Corporate Governance," "Introduction to Corporate Governance and Relevant Legal Compliance," "Discussion on Employee Incentivization Strategy and Application Tools," "Operational Power Struggles and Case Analysis," "Corporate Risk Management and Legal Compliance Issues in Application," "How Companies Do a Good Job of Fraud Detection and Prevention and Establishing a Whistleblowing Mechanism to Strengthen Corporate Governance," "Perspectives on Key Hidden Messages in Financial Statements," "Information Security Challenges and Countermeasures," "Criminal Legal Risks and Responses of Corporate Directors and Supervisors-Beginning with Corporate Fraud and Money Laundering Prevention and Control," "To Give or Not to Give Information? On Directors' Information Rights;" events organized by Mega International Commercial Bank titled "2020 Personal Data Protection Act Education and Training," "Study on Anti-Money Laundering and Countering Terrorism Financing - SCP and Corruption Crime Strategy Analysis Report," "Theory and Practice of the Principles for Treating Clients Fairly in the Banking Industry in 2020," "2020 Ethical Management Education Training," "The Bank's Code of Conduct for Members in 2020, Employee Confidentiality Education and Training in the Second Half of the Year," "Seminar on Anti-Money Laundering and Countering Terrorism Financing;" events organized by the Securities and Futures Institute titled "Practical Discussion on Money Laundering Prevention and Counter-Terrorism," "Employee On-Job Training in Anti-Money Laundering and Countering Terrorism Financing," "Discussion on Intellectual Property Rights - Talking about Business Secrets," "Analysis and Decision-Making Applications of Corporate Financial Information;" events organized by the Taiwan Academy of Banking and Finance titled "The Company Act and Tax Governance Practices," "Enterprise Intellectual Property Management and Risk Control," "Employee On-the-Job Seminar on Anti-Money Laundering and Countering Terrorism Financing," "FinTech Series," "Global Political and Economic Status and Risks to Business Operations," "Seminar on the Financial Consumer Protection Act and Principles for Treating Clients Fairly;" an event organized by the Independent Director Association Taiwan titled "Independent Directors' Liability and Insurance Seminar and Experience Sharing Meeting;" events organized by the Taiwan CPA Association titled "Anti-Money Laundering and Countering Terrorism Financing," "Essentials and Points of Contention for Profit-Seeking Enterprise Income</p>	

Item			Status	Non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance
	Yes	No	Summary description	
			<p>Tax Declarations,” “Lawsuits on Taxation Practices,” “Company Registration Practice Seminar,” “Updates and Reports on Laws and Regulations Concerning Profit-Seeking Enterprise Income Tax,” “Latest Tax Laws and Practices,” “Newly Issued Laws and Production Innovations in Profit-Seeking Enterprise Income Tax,” “Trends in the Post-Money Laundering Prevention Era,” events organized by Mega Bills Finance Co. titled “Mega Social Engineering Education Training,” “Regulations and Anti-Corruption and Anti-Arms Proliferation Training for Anti-Money Laundering and Countering Terrorism Financing,” “Personal Data Protection Act and Case Studies,” an event organized by Raphael AML Consulting &amp; International Law Firm titled “Money Laundering Risks and Control Measures of Virtual Currencies,” an event organized by Taiwan Depository &amp; Clearing Corporation titled “Whistleblowing Systems and Ethical Education Training for Current Directors and Supervisors Concerning Anti-Money Laundering and Countering Terrorism Financing,” and events organized by the Taiwan Insurance Institute titled “Impact of IFRS17 on Insurance Business Strategy,” “Analysis of Principles for Treating Clients Fairly,” and “TCFD Climate-Related Financial Disclosures - Challenges and Opportunities for Corporate Governance.”</p> <p>VI. Meeting attendance by directors and supervisors: all directors and supervisors have attended board meetings as required by policy.</p> <p>VII. Risk management policies and risk assessment standards: the Company has been assessing business risks in accordance with the authority's instructions and rules of the parent company - Mega Holdings. It has set risk limits on the various types of activities it performs and monitors to ensure that necessary measures are taken for the safety and performance of the Company. Credit review meetings, Risk Management Committee meetings and various other meetings are held regularly to ensure the effectiveness of risk management policies and evaluate strengths and weaknesses of existing risk practices. This enables the Company to flexibly adjust its control measures in line with the changing circumstances.</p> <p>VIII. Consumer and customer protection: The Company has established a set of “Financial Consumer Dispute Resolution Guidelines” based on “Financial Consumer Protection Act” developed by the Financial Supervisory Commission that outlines rules that the Company is bound to comply. In addition, the “Bond Repurchase Master Agreement” provides a comprehensive description of the Company's obligations that consumers or customers may enforce to protect their interests. An opinion mailbox has been provided on the Company's website while service hotlines are made available as means of contact for consumers and customers.</p> <p>IX. Directors and supervisors' liability insurance: coverage has been procured according to policies.</p> <p>X. Social responsibilities: refer to the section titled “Fulfillment of Social Responsibilities”.</p>	
<p>VII. Please explain the improvements made, based on the latest Corporate Governance Evaluation results published by TWSE Corporate Governance Center, and propose enhancement measures for any issues that are yet to be rectified. (Not required as the Company is not subject to evaluation)</p> <p>The Company is not listed on TWSE or TPEX; it is not subject to evaluation and hence this does not apply.</p>				

(5) Fulfillment of social responsibilities and deviation and causes of deviation  
from Corporate Social Responsibility Best Practice Principles for  
TWSE/TPEX Listed Companies

Item	Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
I. Has the company conducted risk assessment on environmental, social and corporate governance issues that are relevant to its operations, and implemented risk management policies or strategies based on principles of materiality?	V		The Company is a 100%-owned subsidiary of Mega Holdings, and the latter of which prepares the corporate social responsibility report. All routine activities are carried out according to the “Corporate Social Responsibility Policy” and Corporate Social Responsibility Code of Conduct” of the financial holding parent for proper enforcement of corporate social responsibilities. The Company conducts risk assessment on environmental, social and governance aspects of its operation and sets annual risk management targets and CSR plans accordingly, which are executed with the approval of the financial holding parent.	The Company is not listed on TWSE or TPEX, hence not required.
II. Does the company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and does the unit report its progress to the board of directors?	V		The Administration Department is concurrently involved in the enforcement of corporate social responsibilities within the Company. From corporate governance, personnel system, charity involvement to environmental protection and energy conservation measures, the department reports its CSR progress to the board of directors on a yearly basis.	
III. Environmental issues (I) Has the company developed an appropriate environmental management system, given its distinctive characteristics? (II) Is the company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment? (III) Does the company assess potential risks and opportunities associated with climate change, and undertake measures in response to climate issues? (IV) Does the company maintain statistics on greenhouse gas emission, water usage and total waste volume in the last two years, and implement policies aimed at reducing energy, carbon, greenhouse gas, water, and waste?	V  V  V  V		I. As a financial service provider, paper accounts for the majority of resources used by the Company and presents the largest impact on the environment. To reduce the volume of paper consumed, the Company has been adopting new practices from electronic forms, paper-less conferences, to reusing paper. Gas, water, electricity and petrol are the main sources of energy used by the Company, for which a variety of volume controls has been imposed on elevators, corridor lighting, air conditioning and water supply during off-peak hours, while company vehicles are subjected to regular maintenance to minimize the impacts they have on the environment. II. Guided by the parent company's “Corporate Social Responsibility Principles”, the Company has pledged itself to obeying regulations and international standards for the protection of natural environment. It aims to achieve the most efficient use of resources and is committed to using reusable materials for the sustainability of Earth's resources. The Company's environmental protection policies were set out to achieve the following: (1) Reduce use of water, electricity, and petrol. (2) Replace use of paper with digital process. (3) Make green procurements and use products with environmental certifications. (4) Recycle or dispose of waste properly. III. The financial holding parent has been participating in the CDP Climate Change Questionnaire since 2018, and the Company actively supports group policies by regularly identifying risks and opportunities in climate change,	

Item	Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
			<p>assessing potential impacts and adopting appropriate management measures.</p> <p>IV. The Company surveys greenhouse gas emission, water usage and total waste volume on a yearly basis to assist the financial holding parent in the preparation of corporate social responsibility reports. The short-term goal of energy-saving and carbon reduction is 1% per year. In 2020, the energy-saving ratio of water consumption was 4.83%, and the energy-saving ratio of electricity consumption was 4.81%.</p>	
<p>IV. Social issues</p> <p>(I) Has the company developed its policies and procedures in accordance with laws and International Bill of Human Rights?</p> <p>(II) Has the company developed and implemented reasonable employee welfare measures (including compensation, leave of absence and other benefits), and appropriately reflected business performance or outcome in employees' compensations?</p> <p>(III) Does the company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?</p> <p>(IV) Has the company implemented an effective training program that helps employees develop skills over their career?</p> <p>(V) Has the bill financing company complied with laws and international standards with respect to customers' health, safety and privacy, marketing and labeling in all products and services offered, and implemented consumer protection policies and complaint procedures?</p> <p>(VI) Has the company implemented a supplier management policy that regulates suppliers' conducts with respect to environmental protection, occupational safety and health or work rights/human rights issues, and tracked suppliers'</p>	<p>V</p> <p>V</p> <p>V</p> <p>V</p> <p>V</p> <p>V</p>		<p>I. Compliance with labor laws and internationally-recognized workers' rights; the measures and procedures adopted to protect employees' legal rights and to ensure equality in employment; and how these measures are implemented:</p> <p>(I) Reasonable compensation and bonus/remuneration scheme for employees.</p> <p>(II) Employee training programs.</p> <p>(III) Insurance and leave policy.</p> <p>(IV) Pension contributions.</p> <p>(V) The Company makes no gender distinctions when hiring staff, and is committed to ensuring equal employment opportunities for both genders. The Company hires disabled persons in compliance with the law and has implemented internal policies to facilitate sexual harassment complaints and investigations.</p> <p>II. The Company's personnel policy introduces reasonable employee welfare measures that comply with or are more favorable than what the labor laws require. The Company also has a bonus and compensation system that reflects corporate and individual performance in employees' compensation.</p> <p>III. The following initiatives have been taken to ensure workplace health and safety:</p> <p>(I) Conduct employee health checks every year, and insure employees and their family members with accident and medical insurance.</p> <p>(II) Organize occupational safety education and training every year, and handle environmental monitoring of office premises. The carbon dioxide concentration, illuminance, and electromagnetic wave monitoring all meet the standards.</p> <p>(III) Maintain the work environment's order by formulating "Matters for Prevention and Handling of Sexual Harassment" and "Matters for Employee Suggestions and Complaints" and by providing corresponding complaint channels.</p> <p>(IV) Formulate precautions to implement safety maintenance and precautions for disaster emergency response measures, organize firefighting seminars and drills every year, and regularly hold safety maintenance meetings and occupational safety management team meetings.</p> <p>IV. The Company's "Work Rules" and "Staff Promotion Review Principles" provide detailed job descriptions, skills</p>	

Item	Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
performance on a regular basis?			<p>criteria, education, promotion opportunities and other information relevant to the employees' career development.</p> <p>V. The Company has established a set of "Financial Consumer Dispute Resolution Guidelines" based on "Financial Consumer Protection Act" implemented by the Financial Supervisory Commission to protect financial consumers and ensure fair, reasonable and efficient resolution of financial consumer dispute. Grievance channels have also been clearly stated on the Company's website for this purpose. All marketing, labeling, advertising, solicitation and promotional activities relating to products and services are conducted in accordance with the "Regulations Governing Advertising, Business Solicitation and Promotion" and in conformity with common ethical standards and integrity.</p> <p>VI. The Company has a set of "Supplier CSR Enforcement Guidelines" in place that outlines the environmental protection laws, labor regulations, and workplace safety and health requirements that suppliers are bound to comply. Prior to commencing business dealing, the Company would evaluate its supplier for history of adverse environmental or social conduct, and avoid dealing with suppliers that violate the guidelines. In addition, the Company purchases green and locally produced goods as the first priority, and uses environmentally certified products where possible.</p>	
V. Does the bill financing company prepare corporate social responsibility report or any report of non-financial information based on international reporting standards or guidelines? Are the abovementioned reports supported by assurance or opinion of a third-party certifier?	V		CSR report prepared by the financial holding parent covers non-financial information of the Company. This report has been issued independent assurance from British Standards Institution.	
VI. If the company has established CSR principles in accordance with "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies," please describe its current practices and any deviations from the Best Practice Principles:				
VII. Other information useful to the understanding of corporate social responsibilities: <ul style="list-style-type: none"> <li>(I) The Company has collaborated with several universities to offer internships for students.</li> <li>(II) Made donations to fund charity activities of the Mega Charity Foundation.</li> <li>(III) Sponsored the "2020 Unified Invoice Cup Road Run Activity" held by the Ministry of Finance.</li> <li>(IV) Sponsored the "2020 Financial Services Charity Carnival Garden Party-Pingtung Showcase" hosted by the Taiwan Financial Services Roundtable.</li> <li>(V) Participated in the New Taipei City Government's autumn joint beach cleaning activity in Shimen.</li> <li>(VI) In response to the Mega Charity Foundation's launch of the "Mega Sends Warmth and Love on Christmas" campaign, the company went to St. Anne's Home in Taipei to celebrate Christmas.</li> </ul>				

(6) Enforcement of business integrity, deviation and causes of deviation from  
Ethical Corporate Management Best Practice Principles for TWSE/GTSM  
Listed Companies

Item	Status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Summary description	
<p>I. Formulate integrity policies and solutions</p> <p>(I) Has the company established a set of board-approved business integrity policy, and stated in its Memorandum or external correspondence about the policies and practices it implements to maintain business integrity? Are the board of directors and the senior management committed to fulfilling this commitment?</p> <p>(II) Has the company developed systematic practices for assessing integrity risks? Does the company perform regular analyses and assessments on business activities that are prone to higher risk of dishonesty, and implement preventions against dishonest conducts that include at least the measures mentioned in Paragraph 2, Article 7 of “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”?</p> <p>(III) Has the company defined and enforced operating procedures, behavioral guidelines, penalties and grievance systems as part of its preventive measures against dishonest conducts? Are the above measures reviewed and revised on a regular basis?</p>	V		<p>I. The Company adopts a business philosophy of “integrity, stability, innovation, efficiency and sustainability” when pursuing growth. In order to establish integrity as the dominant corporate culture and the foundation for future growth, a set of “Business Integrity Code of Conduct” and “Procedures for Ethical Management and Guidelines for Conduct” have been implemented within the Company with board of directors' approval. Together, they emphasize integrity as the priority and foundation for the Company's operational policy, corporate governance and risk management, and ensure a sustainable business environment. The Company discloses integrity measures and progress through website and annual reports; both the directors and senior management have issued letters of commitment to comply with business integrity policy.</p> <p>II. The Company's “Procedures for Ethical Management and Guidelines for Conduct” have addressed operating activities that present high integrity risk, as listed in “Paragraph 2 of Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies,” by implementing preventive measures such as regular training, internal control system enhancement, and incentives to insiders and outsiders for reporting dishonesty or misconduct.</p> <p>III. The Company's “Procedures for Ethical Management and Guidelines for Conduct” explicitly prohibit employees from offering or committing to lobbying fees, exercising unfair competition, offering or accepting improper gains and engaging in dishonest conducts in general. Relevant procedures and disciplinary actions have been implemented for enforcement. The “Working Rules” and “Criteria for Handling Reported Cases” clearly punish employees for violations of laws and regulations, fraudulent embezzlement, etc. Separately, the “Matters for Employee Suggestions and Complaints” offers a clear scope and procedures for appeals. Enforcement of business integrity policy is reviewed once every six months, during which preventive measures are examined for possible improvements.</p>	The Company is not listed on TWSE or TPEX, hence not required.
<p>II. Fulfillment of Ethical Corporate Management</p> <p>(I) Does the company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners?</p>	V		<p>I. According to the Company's “Supplier CSR Enforcement Guidelines,” all counterparties must be checked for history of adverse environmental or social conduct before commencing business dealings. The Company should also avoid transacting or contracting with counterparties that exhibit history of dishonesty. The Company requires suppliers to issue declarations and borrowers to sign agreements in relation to the above, under which the</p>	

Item	Status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Summary description	
(II) Does the company have a unit that enforces business integrity directly under the board of directors? Does this unit report its progress (regarding implementation of business integrity policy and prevention against dishonest conducts) to the board of directors on a regular basis (at least once a year)?	V		Company is entitled to terminate contract at any time upon discovery of dishonest conduct.	
(III) Does the company have any policy that prevents conflict of interest, and channels that facilitate the reporting of conflicting interests?	V		II. The Board of Directors of the Company will pass the “Procedures for Ethical Management and Guidelines for Conduct” and designate the Administration Department as a dedicated unit. It shall report to the Board of Directors at least once a year.	
(IV) Has the company implemented effective accounting policy and internal control system to maintain business integrity? Has an internal or external audit unit been assigned to devise audit plans based on the outcome of integrity risk assessment, and to audit employees' compliance with various preventions against dishonest conduct?	V		III. The Company's Procedures for Ethical Management and Guidelines for Conduct stipulate rules for avoiding conflicts of interest. In respect to directors, supervisors, managers, and other stakeholders participating and attending the Board of Directors concerning board meeting matters, if a director or the juristic person represented thereby has a stake in a proposal at the meeting, he or she may not participate in the discussion or vote on that proposal, shall recuse himself or herself from any discussion and voting, and may not exercise voting rights as a proxy on behalf of another director. A director would be considered to hold self interest in a topic raised in the abovementioned meeting if the director's spouse, 2nd-degree direct relative or closer, or any of the director's controlled or controlling entities holds stake in the said topic. In 2020, there were 9 recusals of directors, while there were no cases of recusal for supervisors. For managers, except for personnel and audit plans, there were no cases requiring the recusal of managers. In addition, the Company's “Employee Code of Conduct” clearly sets out the principle of avoidance of conflicts of interests. Employees shall not use the opportunities afforded by their positions to obtain illegitimate benefits for themselves, their spouses or blood relatives within the second degree of kinship, or stakeholders having a major interest.	
(V) Does the company organize internal or external training on a regular basis to maintain business integrity?	V		IV. The Company has developed “accounting system” based on the authority's policies, and prepares quarterly financial reports in accordance with generally accepted accounting principles and Regulations Governing the Preparation of Financial Reports by Public Bill Financing Companies. The Company has implemented its own internal audit and self-audit systems. Self-audit of the internal control system is conducted in December each year; in addition, the Company engages external auditors to perform audit on the internal control system on a yearly basis. The Audit Office reviewed the results of the internal control system self-inspection of each unit in 2020. There were no major deficiencies in the review results, and no dishonest behavior was found in the annual review. In addition, the accountant's review of the internal control system in 2020 did not find any major abnormalities.	
			V. Each internal department organizes separate courses on regulatory compliance, internal control and business integrity on a yearly basis. In October 2020, 251 individuals participated in ethical management education training.	

Item	Status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Summary description	
<p>III. Whistleblowing system</p> <p>(I) Does the company provide incentives and means for employees to report malpractices? Does the company assign dedicated personnel to investigate the reported malpractices?</p> <p>(II) Has the company implemented any standard procedures for handling reported misconducts, and subsequent actions and confidentiality measures to be undertaken upon completion of an investigation?</p> <p>(III) Does the company assure malpractice reporters that they will not be mistreated for making such reports?</p>	V		<p>I. The Company has established “Criteria for Handling Reported Cases” to facilitate its handling of reported cases. The Audit Office is responsible for the acceptance and investigation of reported cases and has set up and published reporting channels, including written correspondence, telephone, and e-mail. Anyone who encounters illegality must report it, and the types of cases to be accepted and the rewards and punishments for relevant personnel shall be stipulated. The Company’s “Rules for Handling Reported Cases” were established on September 25, 2018 and amended by the Board of Directors to “Criteria for Handling Reported Cases” on March 24, 2020. As of the end of 2020, the Company's Audit Office has not yet accepted any whistleblowing cases based on the aforementioned whistleblowing channels.</p> <p>II. The Company has outlined standard operating procedures and review criteria for misconduct reports, and requires all subjects of investigation and witnesses to sign a confidentiality agreement that informs them of the severe legal consequences involved in a violation of confidentiality commitment. Post-investigation processes, such as distribution of investigation report and reward/disciplinary measures for concerned employees, are also duly implemented.</p> <p>III. The Company has outlined rules concerning the informant’s identity, confidentiality of the reported case, and protection of work rights to protect informants against mistreatment. Employees may report to independent directors or supervisors for any mistreatment encountered.</p>	
<p>IV. Enhanced information disclosure</p> <p>Has the company disclosed its integrity principles and progress onto its website and MOPS?</p>	V		The Company's integrity activities are disclosed in annual reports and on the Company's website.	
<p>V. If the company has established business integrity policies in accordance with “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies,” please describe its current practices and any deviations from the Best Practice Principles:</p> <p>The Company has established “Business Integrity Code of Conduct” based on “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and enforced accordingly, hence no deviation was found.</p>				
<p>VI. Other information relevant to understanding business integrity (e.g. review and amendment of existing integrity principles):</p> <p>(I) On January 21, 2020, the Board of Directors approved amendments to the Company’s “Ethical Corporate Management Best Practice Principles” and the Company’s “Procedures for Ethical Management and Guidelines for Conduct”.</p> <p>(II) On March 24, 2020, the Board of Directors approved the amendment of the name of the Company’s “Rules for Handling Reported Cases” to “Criteria for Handling Reported Cases,” as well as revisions to a portion of its provisions.</p> <p>(III) On December 22, 2020, the Board of Directors approved amendments to the Company’s “Procedures for Ethical Management and Guidelines for Conduct”.</p>				

- (7) Disclosures relating to the execution of internal control system  
1. Internal Control Declaration

Internal Control Declaration of Mega Bills Finance Co., Ltd.

Representing the declaration by Mega Bills, the Company, from January 1, 2020 to December 31, 2020 has truly abided by the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries”. The company has established an internal control system, implemented risk management, and undertook inspection by an impartial and independent audit department, periodically reporting to the Board of Directors and supervisors. While conducting bills business, and in accordance with the determinants of effectiveness of internal control systems stipulated in the “Standards for Establishment of Internal Control Systems in Securities and Future Systems”, drafted and decreed by the Securities and Futures Bureau under the Financial Supervisory Commission, determined whether the design and implementation of the internal control system were effective. Careful evaluation has shown that each department’s internal control and legal and regulatory compliance, apart from the items listed in the accompanying chart, can all be accurately and effectively enforced. This Declaration will constitute the main content of the Company’s annual report and prospectus, and will be open to external scrutiny. The illegal inclusion of falsehoods or the illegal concealment of information in the above public data, will incur legal liability in relation to Articles 20, 32, 171 and 174 of the Securities and Exchange Act.

Respectful to  
Financial Supervisory Commission R.O.C(Taiwan),

Declarers

Chairperson of the Board:	Mei-Chu Liao
President and CEO:	Yao-Kuang Tsai
Chef Auditor:	Shih-Yi Chen
Legal Compliance Officer, Head Office:	Chi-Ming Hsu

Date: January 26, 2021

Required Internal Control System Improvement and Corrective Action Plan of Mega  
Bills Finance Co., Ltd.

Reference date: December 31, 2020

Required Improvement	Corrective Action	When Improvement Scheduled to be Completed
None	None	None

2. Disclosure of the audit report where a CPA has been entrusted to audit the Company's internal control system: None
- (8) Penalties imposed against the company in the last 2 years due to violation; describe the weaknesses found, the improvements made, and provide the following disclosures:
1. Prosecution against company representatives or staff for criminal conducts: none.
  2. Fines imposed by Financial Supervisory Commission (FSC) for violations: none.
  3. Provisions for sanctions in accordance with Article 61-1 of the Banking Act of the Republic of China as applied by Article 51 of the Act Governing Bills Finance Business: None.
  4. Any penalty imposed by the bill financing company against its insider for violation of internal control system; where the penalty is likely to have material impact on shareholders' interest or security price, or meets any of the conditions mentioned in Article 2 of FSC's Regulations Governing Announcement of Major Penalties Imposed for Violation of Financial Regulations: None.
  5. Disclosure of losses exceeding NT\$50 million incurred during the year, whether in one event or aggregately over several events, as a result of extraordinary non-recurring incidents (such as fraud, theft, embezzlement, fictitious transactions, forgery of documents and securities, kickbacks, natural disasters, external forces, hackers' attacks, theft and leakage of confidential information, disclosure of customers' details or other material occurrences), or accidents arising due to failure on safety measures: none.
  6. Other disclosures mandated by FSC: none.
- (9) Significant resolutions made in shareholder meetings and Board of

Directors meetings in the last financial year, up to the publication date of this annual report

1. On January 21, 2020, the 31st meeting of the 15th Board of Directors passed resolutions on behalf of the shareholders' meeting:

Amendment of portion provisions of “Mega Bills Finance Co., Ltd. Derivative Commodity Transaction Processing Procedures”.

2. On April 28, 2020, the 34th meeting of the 15th Board of Directors passed resolutions on behalf of the shareholders' meeting:

Recognition of the 2019 financial statements and other forms and the profit distribution proposal for that year.

3. On May 26, 2020, the 35th meeting of the 15th Board of Directors passed resolutions on behalf of the shareholders' meeting:

Amendment of portion provisions of “Mega Bills Finance Co., Ltd. Procedures for the Acquisition or Disposal of Assets”.

4. On June 23, 2020, the 36th meeting of the 15th Board of Directors passed resolutions on behalf of the shareholders' meeting:

Amendment of portion provisions of “Mega Bills Finance Co., Ltd. Articles of Incorporation”.

5. On December 22, 2020, the 44th meeting of the 15th Board of Directors passed resolutions on behalf of the shareholders' meeting:

Amendment of portion provisions of “Mega Bills Finance Co., Ltd. Derivative Commodity Transaction Processing Procedures”.

- (10) Documented opinions or declarations made by directors or supervisors against the board's resolutions in the most recent year up till the publication date of this annual report: none.

- (11) Resignation or dismissal of personnel related to financial statement preparations (including the chairperson, president, head of finance, head of accounting, chief internal auditor and corporate governance officer) in the most recent year up till the publication date of annual report:

March 31, 2021

Job Title	Name	Date of Appointment	Date Discharged	Cause of Resignation or Discharge
President	Chi-Fu Lin	2015.3.2	2020.1.16	Retired

## **Capital Overview**

# Capital Overview

One. Items to be recorded in shares and dividends:

## I. Source of capital stock as the publication date of annual report

Unit: NTD thousands; shares

Year/ month	Sale Price	Authorized capital		Paid-in capital		Remarks	
		Shares	Amount	Shares	Amount	Source of share capital	Others
2021.3	10	1,311,441,084	13,114,410,840	1,311,441,084	13,114,410,840	Public offering	—

Unit: shares

Category of Shares Type	Authorized Capital			Remarks
	Outstanding shares	Unissued shares	Total	
Common stocks	1,311,441,084	0	1,311,441,084	Publicly offered but not listed on TWSE or TPEX

## II. Shareholder structure

March 31, 2021

Shareholder structure Quantity	Government	Financial institutions	Other corporations	Natural persons	Foreign institutions and foreigners	Total
Number of person	0	1	0	0	0	1
Shares held (shares)	0	1,311,441,084	0	0	0	1,311,441,084
Shareholding	0	100%	0	0	0	100%

## III. Diversification of Shareholdings

Par value: NT\$10 per share; March 31, 2021

Shareholding range	Number of shareholders	Quantity of Shares Held	Shareholding
1 to 1,000,000	—	—	—
1,000,001 and above	1	1,311,441,084 shares	100%
Total	1	1,311,441,084 shares	100%

#### IV. Major Shareholders

Shares Name of Major Shareholders	Quantity of Shares Held	Shareholding
Mega Financial Holding Co., Ltd.	1,311,441,084 shares	100%

#### V. Market value, net worth, earnings, dividends and other related information for the last two years

Year		2019	2020	Year-to-date March 31, 2021
Item				
Market price per share	Maximum	-	-	-
	Minimum	-	-	-
	Average	-	-	-
Net value per share	Before allocation	29.19	31.57	31.21
	After allocation	27.79	(Note)	-
EPS	Weighted average outstanding shares	1,311,441,084	1,311,441,084	1,311,441,084
	EPS	2.00	2.23	0.88
Dividends per share	Cash dividends	1.394	1.455 (Note)	-
	Stock dividends	From earnings	-	-
		From capital surplus	-	-
	Cumulative unpaid dividends	-	-	-
Analysis of ROI	P/E ratio	-	-	-
	Price to dividends ratio	-	-	-
	Cash dividends yield	-	-	-

Note: As of the annual report's publication date, the 2020 profit distribution proposal has been approved by the Board of Directors.

However, the Board of Directors has not yet passed the resolutions of the shareholders' meeting on behalf of the shareholders.

#### VI. Dividends policy and implementation

##### (I) Dividends policies stated in the Articles of Incorporation

Dividends should be distributed in cash, but the percentage of which may be adjusted depending on business development, capital plans and other relevant factors.

##### (II) Dividends distribution proposed for the next annual general meeting

Mega Financial Holding Company is the sole shareholder of the company. The current dividend distribution is proposed to distribute a cash dividend of NT\$1.455 per share to shareholders, totaling NT\$1,908,146,777.

#### VII. Impact on the Company's business performance and EPS by the allocation of stock dividends discussed at this shareholders' meeting: None.

## VIII. Employees'/Directors'/Supervisors' remuneration

### (I) Percentage and range of employees'/directors'/supervisors' remuneration stated in the Articles of Incorporation

#### 1. Employees' remuneration

Profits concluded from each financial year shall have employee remuneration provided at 1.75% ~ 3% of the surplus; however, profits shall first be taken to offset accumulated losses if any.

The above employee remuneration shall be approved in a board meeting with at least two-thirds of directors present, and with the consent of more than half of attending directors. Payments can be made upon approval and reported during a shareholders' meeting afterwards.

#### 2. Directors and supervisors' remuneration: none.

### (II) Basis of calculation for employees'/directors'/supervisors' remuneration and share-based compensations; and accounting treatments for any discrepancies between the amounts estimated and the amounts paid

#### 1. Basis of calculation for employees'/directors'/supervisors' remuneration and share-based compensations

The estimated amount of employee remuneration for the Company in 2020 is NT\$69,615,342. It is based on the pre-tax benefits excluding the amount of employee compensation as of the current period and estimated based on the Articles of Incorporation figures. Separately, the 2020 remuneration of directors and supervisors and employee remuneration distributed by stocks for the Company has not been estimated.

#### 2. Accounting treatments for any discrepancies between the amount of employee remuneration estimated and the amount paid

Any differences between the amount resolved by the Board of Directors and the amount actually paid will be treated as a change of accounting estimate.

### (III) Remuneration passed by the Board of Directors

#### 1. Cash or share payment of employees'/directors'/supervisors' remuneration

In accordance with the Company's Articles of Incorporation and with the resolution passed by the 47th meeting of the 15th Board of Directors on March 23, 2021, the cash distribution of employee remuneration for 2020 was NT\$64,394,191. The Company did not propose any share payment for employees'/directors'/supervisors' remuneration. The Board of Directors approved a cash distribution of NT\$64,394,191 for employee compensation for 2020. Compared with employees' compensation expenses recognized in the 2020

financial statements of NT\$69,615,342, the difference amounted to NT\$5,221,151. The profit and loss for 2021 have been adjusted due to changes in the employee remuneration ratio.

2. Percentage of employees' remuneration paid in shares, relative to after-tax profit and total employees' remuneration of the current period: None.

(IV) Employees'/directors'/supervisors' remuneration paid in the previous year

1. Actual payment of employee remuneration

In accordance with the Company's Articles of Incorporation and with the resolution passed by the 33rd meeting of the 15th Board of Directors on March 24, 2020, the cash distribution of employee remuneration for 2019 was NT\$58,150,647. The actual cash distribution for employee compensation for 2019 was NT\$58,150,647. Compared with employees' compensation expenses recognized in the 2019 financial statements of NT\$64,611,830, the difference amounted to NT\$6,461,183. The profit and loss for 2020 were adjusted due to changes in the employee remuneration ratio.

2. Actual payment of directors'/supervisors' remuneration: None.

IX.Re-purchase of the Company's shares: None

## **Overview of Business Operations**

# Overview of Business Operations

## One.Business Scope

### I. Main business

#### (I) Major business activities by segment

##### 1. Bills Business

- (1) Acting as an underwriter, broker or proprietary trader with respect to short-term bills (including USD bills)
- (2) Acting as a guarantor or endorser of CP2.

##### 2. Bonds Business

- (1) Proprietary trading of government bonds
- (2) Acting as a certifier, underwriter, broker or proprietary trader with respect to bank debentures
- (3) Proprietary trading of corporate bonds
- (4) Proprietary trading and investment of fixed income securities
- (5) Proprietary trading and investment of foreign bonds

##### 3. Equity investment business

##### 4. Others

#### (II) Each business assets and income as a proportion of total assets and income, and growth and changes therein.

##### 1. Assets

Unit: NT\$ thousands

Year Item	2020		2019	
	Amount	As a proportion of total assets (%)	Amount	As a proportion of total assets (%)
Bills Business	154,176,964	50.67	122,269,664	46.92
Bonds Business	142,574,490	46.85	129,156,547	49.56
Equity investment business	1,441,362	0.47	1,918,065	0.74
Others	6,112,650	2.01	7,256,963	2.78
Total assets	304,305,466	100.00	260,601,239	100.00

## 2. Revenues

Unit: NT\$ thousands

Item \ Year	2020		2019	
	Amount	Percentage (%)	Amount	Percentage (%)
Bills Business	2,706,405	46.28	2,545,939	43.19
Bonds Business	2,879,922	49.24	3,074,570	52.16
Equity investment business	108,074	1.85	94,650	1.61
Others	153,771	2.63	179,632	3.04
Total Revenues	5,848,172	100.00	5,894,791	100.00

## II. Business plan of the year

### (I) Bills Business

1. Monitor credit customers' business performance and financial positions; gain insight into customers' industry outlook and funding capability for more robust credit decisions.
2. Adjust borrower structure and maintain appropriate size and margin on bill guarantee service.
3. The Company will take the initiative to source NCDs above a certain spread, underwriting guaranteed and guarantee-waiver bills, and lead-arrange or participate in syndicated loan/underwriting projects to expand the source of bills and increase bill revenues, and raise market share.
4. Maintain long-term relationships with financial institutions and explore general corporate customers of the consistent and low cost of capital; strive to improve capital efficiency and reduce funding cost to accommodate the changing financial environment.
5. Monitor the Central Bank's monetary policy and movements of the financial market to enable flexible adjustment of primary and secondary deal rates; manage and expand bills portfolio at increased margin to secure a leading position in the market.

### (II) Bonds Business

1. Improve trade performance by timing outright purchases and sales in line with movements and new offerings in the NTD bond market.
2. Build up the position of foreign currency bonds at appropriate timing, with country and industry risks diversified and yielding income optimized against the risks borne.

3. Engage credit customers in secondary deals of foreign currency bonds; secure source of foreign currency capital from domestic financial institutions by engaging them in interbank funding, currency swaps, and re-purchase agreements; reduce the cost of capital and increase yielding income without compromising liquidity risks.
4. Purchase convertible bonds of good credit standing and fixed income parts of convertible bond asset swaps, and thereby increase income source at manageable credit risk level.
5. Manage duration of NTD and foreign currency bonds for risk avoidance and higher gains.

### (III) Equity investment business

1. Enhance research efforts on industries and individual shares; keep track of changes and analyze both fundamental and technical aspects; monitor market movements and engage in short-term trading at the appropriate time for capital gains.
2. Build position in shares that exhibit sound credibility are relatively underpriced and offer high dividend yields.

## III. Market analysis

- ### (I) Regions of business operations, future supply and demand in market, and the market potential for growth.

#### 1. Regions of business operations

The Company operates a total of 9 offices (including the Head Office and branches) throughout the nation. Each office is responsible for overseeing credit, bill, and bond-related services within the local region.

#### 2. Future market supply, demand and growth

##### (1) Market changes

1) Taiwan Depository & Clearing Corporation introduced a new function called "Electronic Delivery of Deal Documents between Bill Financing Companies for the Secondary Market" on October 26, 2020. All non-specialized bill financing companies have completed the adoption of electronic delivery for secondary market transaction documents to date, which not only improves transaction efficiency but also helps reduce operational risk and cost of labor.

2) On July 16, 2020, the Financial Supervisory Commission amended Article 4 of the "Offshore Banking Act". It released a new interpretation for

Article 22-4, which allows bill financing companies to trade foreign currency bonds and repurchase agreements with OBU and OSU, and engage OBU in interbank borrowing of foreign currency capital. These changes provide bill financing companies with broader sources of foreign currency capital and source funding at greater efficiency.

(2) Market conditions

1) Bills market

Having observed how the outbreak of COVID-19 has negatively affected the global economic and trade outlook, the central bank of Taiwan made a resolution during its first quarter board meeting to cut interest rates by one notch, lower the NCD rate, and inject additional liquidity into the market in an attempt to mitigate the slowdown of economic momentum and prevent widening of excess supply. Overall, bill asking rate in the secondary market fell significantly due to rate cuts from the central bank. Because quotes in the primary market fell by a lesser degree compared to the secondary market, bill spread had widened in 2020 compared to 2019. In 2020, the value of CP2 underwritten by all bill financing companies in the primary market amounted to NT\$10,079.328 billion, up NT\$990.198 billion (or 10.89%) from 2019, in which the Company occupied a market share of 26.80%. The value of transactions completed by all bill financing companies in the secondary market amounted to NT\$30,883.237 billion in 2020, up NT\$2,233.984 billion (or 7.80%) from 2019, in which the Company represented a market share of 29.48%. The Company has secured its position as the top performer in the bill financing industry.

Due to the low base of comparison in 2020, Taiwan should expect another year of economic growth especially when the pandemic situation is subsiding. However, there is the possibility of increasing credit risk, which is why the Company will adopt a more conservative approach with respect to the quality of its loan and investment portfolios. The Company foresees limited room for business growth in 2021 and expects to maintain credit exposure at a level that is comparable to 2020. As for interest rates, the secondary market rate is at a relatively low point and unlikely to fall much further given how economic activities have recovered. Overall, spread of bill financing transactions in 2021 should be slightly lower than 2020.

## 2) Bonds market

As of December 2020, the Company held US\$1.296 billion of foreign currency bonds, most of which accrued fixed interest. The Company generated higher-yielding income overall compared to the previous year, but USD bonds do present a higher level of reinvestment risk. As for NTD bonds, the Company held NT\$94.9 billion and most of which accrued fixed interest. The central bank of Taiwan continues to favor an expansionary policy in light of the ongoing pandemic and slow recovery around the world; meanwhile, the persistent inflow of foreign capital since the second half of 2020 has caused the NTD to strengthen by a significant extent. With such an abundant supply of liquidity but limited opportunities to invest in, NTD bond yields fell across all tenors and yielding income of new NTD bonds is at a historic low, which presents limited opportunities for reinvestment. With high-yield bonds maturing and new bonds offering unprecedented low yields, it is increasingly difficult to find NTD or foreign currency bonds that offer yielding spreads that adequately compensate for the risks undertaken.

Considering how the Fed has decided to maintain low interest for several years to come and raised its tolerance for inflation, the spread of U.S. bonds should remain relatively unchanged. However, the drastic rate cuts increase reinvestment risks significantly for fixed income instruments and present a major variable in future operations.

## 3) Equity investment business

The COVID-19 pandemic caused major losses to TAIEX at one point in 2020; fortunately, Taiwan's successful disease control efforts combined with abundant liquidity supply drove TAIEX to new heights later in the year. Worldwide recovery combined with abundant liquidity supply may still drive the equity market to new heights over the short term in 2021. Still, given that the market index is already at a relatively high level, investors should expect greater volatility in the future.

## (II) Competitive advantages, opportunities, threats, and responsive strategies

### 1. Advantageous Factors

The authority now permits bill financing companies to trade interest rate and exchange rate derivatives as customers, which opens the Company to highly liquid instruments such as U.S. government bond futures and USD interest rate swaps.

## 2. Disadvantageous Factors

- (1) Despite the ongoing recovery of the domestic economy, COVID-19 still presents uncertainty to a market that currently exhibits a high level of credit risk. Price competition remains intense in the money market. While the reduction in funding cost under the low-interest environment may have temporarily widened the spread, there is not much room for the secondary market rate to go lower. The spread will eventually narrow over the long term as the lending rate falls and presents challenges to the bill financing service.
- (2) There is an increasing variety of funding channels in the financial market today, and competitive pricing from banks makes it difficult to raise offering rates for higher spread. Furthermore, competition from banks as non-specialized bill financing companies in the underwriting of guarantee-waiver CPs in the primary market has limited business potentials of specialized bill financing companies.
- (3) USD is not the home country currency and is susceptible to political, economic, and financial changes around the world. Fluctuations in the USD exchange rate would have an immediate impact on the Company's ability to source capital from foreign currency bonds and affect yielding performance.
- (4) The China-USA trade conflict and COVID-19 pandemic will have profound yet immeasurable impacts on the world's political and economic development. The market should expect higher volatility across all financial instruments, making it much more difficult to implement trading strategies.
- (5) Increasing budget deficit and government debts in the U.S. have caused the U.S. Dollar Index to fall consistently. If investors expect a further weakening of the U.S. dollar, the liquidity of the USD may be negatively affected. If the cost of foreign currency rises, foreign currency bonds held in possession may suffer capital loss and loss on exchange and work against a bill financing company's bond strategies.
- (6) The central bank has maintained an abundant supply of NTD capital. Both bond yields and RP rates have fallen, increasing yielding income and gain on valuation for existing bond positions. However, domestic interests are at a historic low while reinvestment risks have risen, not to mention that return on investment is less appealing than other financial instruments. Prolonged low interest would cause bill financing companies to lose natural-person RP customers and have an adverse impact on yielding trades.

### 3. Responsive strategies

- (1)The Company will take the initiative to source NCDs above a certain spread, underwriting guaranteed and guarantee-waiver bills, and lead-arrange or participate in syndicated loan/underwriting projects to expand the source of bills and increase bill revenues, and raise market share.
- (2)Maintain long-term relationships with financial institutions and explore general corporate customers of the consistent and low cost of capital; strive to improve capital efficiency and reduce funding cost to accommodate the changing financial environment.
- (3)Build position in foreign currency bonds and explore diverse foreign currency funding channels. Enhance foreign currency funding capabilities and spread.
- (4)Given the interest rate and exchange rate risks presented by foreign currency bonds, the Company will aim to reduce overall exposure by undertaking USD bond futures, USD interest rate swaps and foreign currency derivatives at the appropriate times.
- (5)Invest in companies characterized by prospective industry, growing revenues and profits. Choose sectors that present future potential and observe to determine the right timing of entry.

## IV. Financial Product Research and Overview of Business Development

- (I) Premium financial products and new banking units, their sizes and status of profit for the most recent two years and until the date of publication of this annual report: None.
- (II) R&D expenditure and results for the most recent two years:

### 1. R&D expenses

Unit: NT\$ thousands

Item	R&D expenses	
	2020	2019
Costs of employee participation in various research and training programs	1,216	1,912

### 2. R&D results

#### (1)2019

- 1) Continued working with the association to promote electronic delivery of all issuance documents and deal confirmations for guarantee-waiver commercial papers over a common platform, and implemented related

information systems.

- 2) Continued enhanced execution and transaction monitoring on the Company's anti-money laundering and combating the financing of terrorism efforts.
- 3) Introduction of visual analysis tools and enhanced information security management
- 4) Continue requesting for permission to engage in a broader range of derivatives.

(2) 2020

- 1) Coordinated with Taiwan Depository & Clearing Corporation on the launch of new features including "Short-term Bill Tendering" and "Electronic Delivery for Secondary Market Trade Documents (for Non-specialized Bill Financing Companies)" for improved transaction efficiency, and developed relevant information systems to support phase 2 (market-wide) implementation of electronic delivery for secondary market trade documents.
- 2) Coordinated with bond passbook digitalization task force of Taiwan Securities Association on the digital transformation of bond passbooks and trade confirmations, thereby providing customers with efficient and low-cost settlement service.
- 3) Coordinated with Financial Information Service Co. Ltd. on the implementation of a new financial blockchain-based audit confirmation service to shorten the time taken on correspondence exchange for improved efficiency.
- 4) Developed a visual decision support system offering user-friendly and useful features to present spread information in charts, thereby adding value to decision-making and analysis.
- 5) Purchased money laundering blacklist and acquired a customer risk assessment system; outcomes of blacklist comparison and customer risk assessment were uploaded to the Company's database for transaction monitoring and for robust money laundering control.

(3) Future R&D plans

- 1) Continue working with Taiwan Depository & Clearing Corporation on phase 2 (market-wide) implementation of electronic delivery for secondary market trade documents, and develop relevant information systems.

- 2) Seek the authority's approval for engaging life insurance companies in USD RP deals.
- 3) Strengthen macroeconomic and industry research capacity; capitalize on profit opportunities and diversify industry risks by building position of NTD/foreign currency bonds, convertible bonds, equity, and fixed income part of convertible bond asset swap.
- 4) Coordinate with Taiwan Depository & Clearing Corporation on the implementation of "Digital Supervision and Reporting for Bill Financing Companies," a big data-driven and integrated reporting channel.
- 5) Continue working with Financial Information Service Co. Ltd. on the implementation of a new financial blockchain-based audit confirmation service.
- 6) Develop an "Automated Financial Statement Preparation" system in response to TWSE's reiteration that the preparation of financial statements is the management's responsibility.
- 7) Continued enhanced execution and transaction monitoring on the Company's anti-money laundering and combating the financing of terrorism efforts.

## V. Long-term and short-term business plans

### (I) Short-term

1. Monitor credit customers' business performance and financial positions; gain insight into customers' industry outlook and funding capability for more robust credit decisions.
2. Actively search for opportunities to lead-arrange syndicated loans and syndicated underwriting of guarantee-waiver commercial papers; hence expand portfolio and increase fee income.
3. Actively explore opportunities in NCD, acquisition of guaranteed or guarantee-waiver bills and securities underwriting to achieve portfolio growth and higher gains.
4. Monitor the Central Bank's monetary policy and movements of the financial market to enable flexible adjustment of primary and secondary deal rates; manage and expand bills portfolio at increased margin to secure a leading position in the market.
5. Closely monitor the COVID-19 situation as well as political, economic, and interest rate changes local and abroad, and make flexible adjustments to TWD

and foreign currency bond holding positions. Strive to explore low-interest and stable capital sources in TWD and foreign currency, thereby maximizing yielding income.

6. Build position of shares that offer good credibility and yield to replace corporate bonds of relatively low interest. Search for quality CB and CBAS while at the same time building up equity trading positions that are suitable given TAIEX's relatively high level.
7. Make ongoing enhancements to the efficiency of the information system and internal processes.
8. Promote the use of paperless conference system and take steps toward developing a paperless report management system. Conserve the Earth's resources and thereby contribute to the Company's corporate social responsibilities.
9. Adopt enhanced information security protection measures and training as means to reduce security threats.
10. Continue enhancements to AML/CFT practices and systems, improve case management efficiency, and organize AML compliance testing and risk-based training.

(II) Long-term

1. Strengthen the position as market leader of the bills and bonds business.
2. Adjust borrower structure and maintain appropriate size and margin on bill guarantee service.
3. Prioritize the selection of businesses with a strong ESG image, and appropriately increase the weight of green credit and green bond investments.
4. Continue building a bond position in response to interest rate changes, and maintain the appropriate size of repurchase agreements to secure profitability.
5. Continue exploring customers in the secondary market; strive to lower funding costs for improvements in terms of trading spread and operating performance.
6. Plan and seek the authority's approval for new service categories and additional counterparties, thereby expanding the scope of service and source of capital.
7. To integrate the group resources and explore the synergy of cross-selling.
8. Improve system efficiency and enhance information security practices.
9. Continue efforts in talent development and nurturing.
10. Make efficient allocation of capital; strengthen existing risk management and systems.

Two. Employee Data for the Most Recent Two Years and Cut-off Date of Publication for this Annual Report

Year		2019	2020	2021 up until March 31
Employee count	Staff	206	213	210
	Total	206	213	210
Average age		45.89	45.25	45.59
Average length of service		16.30	15.61	15.99
Distribution of academic background	PhD	1	0	0
	Master	99	110	110
	Bachelor	101	100	97
	Senior high school	5	3	3
	Below senior high school	0	0	0
Professional certificates held by employees	Bill Finance Specialist	204	211	208
	Securities Investment Analyst	9	9	9
	Senior Securities Specialist	157	158	156
	Securities Specialist	76	83	83
	Securities Investment Trust and Consulting Professional	87	90	90
	Trust Operations Personnel	116	123	122
	Futures Specialist	72	75	75
	Bank Internal Control Specialist	108	106	105
	Financial Planning Personnel	69	68	68
	Basic Foreign Exchange Personnel	18	19	19
	Basic Bank Lending Personnel	46	49	49
	Advanced Bank Lending Personnel	5	5	5
	Accountant	3	3	3

Three. Corporate Responsibility and Ethical Conduct

Please refer to pages 25 and 26 of the Corporate Governance Report, titled "Fulfillment of Social Responsibilities" and "Fulfillment of Ethical Corporate Management."

## **Financial Statements**

# Financial Statements

## One. Condensed balance sheets and income statements for the last five years

### I. Condensed balance sheets and income statements

#### Condensed balance sheets

Unit: NT\$ Thousand

Year Item		Financial information for the last five years				
		2020	2019	2018	2017	2016
Cash, cash equivalents, deposit at Central Bank and peer banks		310,489	356,298	326,207	793,634	346,391
Financial assets at fair value through profit and loss		159,366,161	127,382,706	126,577,565	136,554,017	125,297,488
Financial Assets at Fair Value Through Other Comprehensive Income		139,211,496	126,416,773	131,955,095	-	-
Debt Instruments Carried at Cost After Amortization		406,437	431,553	440,070	-	-
Available-for-sale financial assets		-	-	-	135,888,342	132,867,186
Bills and bonds purchased under resale agreements		-	-	-	501,259	-
Receivables - net		1,404,106	2,303,800	1,534,617	1,651,477	1,531,891
Held-to-maturity financial assets		-	-	-	100,000	350,000
Other financial assets - net		471,412	585,426	497,703	875,137	820,362
Property, plant and equipment - net		356,187	353,131	363,438	363,606	370,177
Right-of-use assets - net		36,870	73,532	-	-	-
Investment properties - net		2,485,768	2,496,432	2,507,096	2,517,760	2,528,424
Intangible assets - net		6,522	6,195	4,140	4,920	3,310
Deferred income tax assets - net		185,044	135,853	532,673	222,666	152,104
Other assets		64,974	59,540	49,956	49,031	34,868
Total assets		304,305,466	260,601,239	264,788,560	279,521,849	264,302,201
Interbank overdraft and call loans		17,012,187	14,132,031	23,074,279	31,124,272	15,714,592
Financial liabilities at fair value through profit and loss		-	2,475	5,892	632	22,543
Bills and bonds payable under repurchase agreements		241,164,641	204,173,461	202,310,405	208,414,735	210,809,807
Payables		507,353	592,668	560,256	947,769	602,808
Current income tax liabilities		544,324	136,891	69,738	40,412	191,490
Liabilities reserve		2,823,445	2,589,139	2,696,915	2,759,489	2,728,105
Lease liabilities		37,070	73,785	-	-	-
Deferred income tax liabilities		607,047	324,149	86,060	45,675	22,700
Other liabilities		202,476	299,415	356,264	151,008	431,098
Total liabilities	Before allocation	262,898,543	222,324,014	229,159,809	243,483,992	230,523,143
	After allocation	Note	224,152,163	231,284,344	245,385,581	232,555,877

Equity attributable to parent company shareholders		41,406,923	38,277,225	35,628,751	36,037,857	33,779,058
Capital stock	Before allocation	13,114,411	13,114,411	13,114,411	13,114,411	13,114,411
	After allocation	Note	13,114,411	13,114,411	13,114,411	13,114,411
Capital surplus		320,929	320,929	320,929	320,929	320,929
Retained earnings	Before allocation	23,393,231	22,499,419	22,012,449	21,013,426	20,375,867
	After allocation	Note	20,671,270	19,887,914	19,111,837	18,343,133
Other equity		4,578,352	2,342,466	180,962	1,589,091	-32,149
Treasury stock		-	-	-	-	-
Non-controlling interest		-	-	-	-	-
Total equity	Before allocation	41,406,923	38,277,225	35,628,751	36,037,857	33,779,058
	After allocation	Note	36,449,076	33,504,216	34,136,268	31,746,324

Note: As of the publication date of this Annual Report, the 2020 earnings appropriation plan had been passed by the Board of Directors and was pending shareholders' resolution, which the Board of Directors will exercise decision-making authority on shareholders' behalf.

## Condensed statements of comprehensive income

Unit: NT\$ Thousand

Item \ Year	Financial information for the last five years				
	2020	2019	2018	2017	2016
Interest Income	3,245,618	3,490,129	3,446,303	3,382,516	3,322,888
Less: Interest Expense	(1,050,854)	(1,940,494)	(1,603,543)	(1,209,251)	-899,280
Interest income, net	2,194,764	1,549,635	1,842,760	2,173,265	2,423,608
Revenues other than interest income, net	2,489,776	2,351,222	1,934,919	1,792,655	1,898,101
Net income	4,684,540	3,900,857	3,777,679	3,965,920	4,321,709
Provisions	-252,093	69,684	54,058	11,068	45,896
Operating expenses	-827,041	-804,561	-769,140	-765,467	-796,560
Income before Income Tax from Operating Unit	3,605,406	3,165,980	3,062,597	3,211,521	3,571,045
Income tax (expense) gain	-674,409	-540,628	-504,516	-506,292	(590,919)
Net Income Tax from Operating Unit	2,930,997	2,625,352	2,558,081	2,705,229	2,980,126
Income (loss) from discontinued operations	-	-	-	-	-
Net Income (loss)	2,930,997	2,625,352	2,558,081	2,705,229	2,980,126
Other comprehensive income for the current period (net of tax expense)	2,026,850	2,147,657	(1,386,976)	1,586,304	(1,576,997)
Comprehensive Income for the current period	4,957,847	4,773,009	1,171,105	4,291,533	1,403,129
Net income attributable to parent company shareholders	2,930,997	2,625,352	2,558,081	2,705,229	2,980,126
Net income attributable to non-controlling shareholders	-	-	-	-	-
Comprehensive income attributable to parent company shareholders	4,957,847	4,773,009	1,171,105	4,291,533	1,403,129
Comprehensive income attributable to non-controlling shareholders	-	-	-	-	-
EPS (NT\$)	2.23	2	1.95	2.06	2.27

## II. Independent Auditor's Names and Opinion

Year	Name of accounting firm	CPA's Name	Audit opinion
2020	PricewaterhouseCoopers, Certified Public Accountants	Po-Ju Kuo, Chung-Hsi Lai	Unqualified opinion
2019	PricewaterhouseCoopers, Certified Public Accountants	Po-Ju Kuo, Chung-Hsi Lai	Unqualified opinion
2018	PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji, Chung-Hsi Lai	Unqualified opinion
2017	PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji, Chung-Hsi Lai	Unqualified opinion
2016	PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji, Chien-Hung Chou	Unqualified opinion

## Two. Financial analysis for the last five years

Unit: NT\$ thousands; %

Item \ Year		Financial information for the recent five years				
		2020	2019	2018	2017	2016
Managerial ability	Average number of days of bill and bond holding	8.49	7.6	6.26	6.64	6.12
	NPL ratio	0	0	0	0	0
	Total assets turnover rate	0.02	0.01	0.01	0.01	0.02
	Average yield per employee	18,443	15,729	15,356	16,876	18,709
	Average profit per employee	11,539	10,586	10,399	11,512	12,901
Profitability	ROA (%)	1.04	1	0.94	0.99	1.22
	ROE (%)	7.36	7.1	7.11	7.75	8.74
	Net profit margin (%)	62.57	67.3	67.72	68.21	68.96
	EPS (NT\$)	2.23	2	1.95	2.06	2.27
Financial structure	Liability to total assets ratio (%)	85.6	84.49	85.71	86.29	86.37
	Property and equipment to stockholder equity ratio (%)	0.86	0.92	1.02	1.01	1.10
Growth rate	Asset growth rate (%)	16.77	-1.58	-5.38	5.76	18.47
	Profit growth rate (%)	13.88	3.38	-4.64	-10.07	1.86
Cash flow	Cash flow ratio (%)	N/A	5.1	4.2	N/A	N/A
	Cash flow adequacy ratio (%)	206.27	265.71	233.62	153.75	156.13
Credit extended to stakeholders		0	97,000	97,000	97,000	97,000
Percentage of credits extended to stakeholders (%)		0	0.06	0.06	0.06	0.07
Scale of operations	Asset market share (%)	27.55	25.98	26.15	27.08	26.83
	Net value market share (%)	29.74	29.8	28.8	29.44	28.83
	Market share for guaranteed CP2(%)	30.16	30.03	30.08	29.74	29.23
	Market share for each type of bill and bond issue and first time purchase (%)	25.57	26.18	26.11	26.21	27.46
	Market share for each type of bill and bond transaction (%)	26.7	27.15	29.78	30.8	31.85
Capital adequacy ratio	Capital adequacy ratio (%)	13.21	13.58	13.57	13.64	13.53
	Eligible capital	38,990,116	36,622,230	34,898,052	35,146,019	33,248,864
	Total value of risk assets	295,070,091	269,696,338	257,108,287	257,742,056	245,674,749
	Tier 1 capital as a % of total risk-weighted assets	12.39	13.16	13.57	13.33	13.53

Significant variations in the last 2 years: (for variations above 20%)

1. The increase in the turnover rate of total assets was mainly due to the increase in net income.
2. The increase in asset growth rate was mainly due to the increase in the holdings of bonds in the current period.
3. Profit growth rate increased mainly due to higher net revenue from bills and bonds, which increased pre-tax profit.
4. Cash flow from operating activities resulted in a net outflow, hence cash flow ratio was not applicable.
5. The decrease in the cash flow adequacy ratio was mainly due to the decrease in net cash flow from operating activities in the last five years.

Note: Equations for analysis items:

1. Managerial ability

- (1) Average number of days of bills and bonds holdings =  $365/\text{bills/bond turnover rate}$  (Bills/bonds turnover rate = Amount of each type of bill or bond transaction/average balance of each installment of bills or bonds).
- (2) NPL ratio =  $\text{NPL (including non-accrual loans)}/\text{total loans (including non-accrual loans)}$ .
- (3) Total assets turnover rate =  $\text{Income}/\text{average total assets}$ .
- (4) Average yield per employee =  $\text{Income}/\text{total number of employees}$ .
- (5) Average profit per employee =  $\text{Income after tax}/\text{total number of employees}$ .

2. Profitability

- (1) ROA =  $\text{Income after tax}/\text{average total assets}$ .
- (2) ROE =  $\text{Income after tax}/\text{average equity, net}$ .
- (3) Net profit margin =  $\text{Income after tax}/\text{income}$ . (Income = interest income + revenues other than interest income).
- (4) Earnings per share =  $(\text{income and loss attributed to owners of parent company} - \text{dividends of the preferred stocks})/\text{weighted average numbers of outstanding shares}$ .

3. Financial structure

- (1) Liability to total assets ratio =  $\text{Total liabilities}/\text{total assets}$ .
- (2) Property and equipment to stockholders' equity ratio =  $\text{Property and equipment net}/\text{total stockholders' equity}$ .
- (3) Total liabilities should exclude allowances for the guarantee liability.

4. Growth rate

- (1) Asset growth rate =  $(\text{Total assets in current period} - \text{total assets for the previous period})/\text{total assets for the previous year}$ .
- (2) Profit growth rate =  $(\text{Income before tax in current period} - \text{income before tax for the previous year})/\text{income before tax for the previous year}$ .

5. Cash flow

- (1) Cash flow ratio =  $\text{Net cash flow from operating activities}/(\text{interbank overdraft and call loans} + \text{commercial promissory note payable} + \text{financial liabilities at fair value through profit and loss} + \text{bills and bonds payable under repurchase agreements} + \text{payables} - \text{current portion})$ .
- (2) Net cash flows adequacy ratio =  $\text{Net cash flow from operating activities for the most recent five years}/(\text{capital expenditure} + \text{cash dividends})$  for the most recent five years.

6. Scale of operations

- (1) Asset market share =  $\text{Total assets}/\text{total assets of all bills financial companies}$ .
- (2) Net value market share =  $\text{Net value}/\text{total net of all bills financial companies}$ .
- (3) Market share for guaranteed CP2 =  $\text{Balance of guaranteed CP2}/\text{total balance of CP2 guaranteed and endorsed by all bills financial companies}$ .
- (4) Market share for each type of bill and bond issue and first time purchase =  $\text{Amount of each type of bill and bond issue and first time purchase}/\text{total amount of each type of bill and bond issue and first purchase by all bills financial companies}$ .
- (5) Market share for each type of bill and bond transaction =  $\text{Amount of each type of bill and bond transaction}/\text{total amount of each type of bill and bond transaction by all bills financial companies}$ .

7. Capital adequacy ratio

- (1) Capital adequacy ratio =  $\text{Eligible capital}/\text{total risk assets}$ .
- (2) Eligible capital = Tier I capital + Tier II eligible capital + Tier III eligible and used capital.
- (3) Total risk assets =  $\text{Credit risk weighted risk assets} + (\text{operational risk capital requirement} + \text{market risk capital requirements}) \times 12.5$ .

Ratio of Tier I capital to risk - weighted assets =  $\text{Tier I capital}/\text{total risk assets}$ .

### Three. Supervisors' Audit Report of Financial Statements in the Most Recent Year

#### Supervisor's Audit Report

The Company's Board of Directors produced the 2020 annual business report, financial statements, property inventory, and profit distribution proposal. Among them, the financial statements have been checked and certified by PricewaterhouseCoopers CPAs Po-Ju Kuo and Chung-Hsi Lai. The supervisors found no misstatements in the business reports, financial statements, property registries or earnings appropriation proposals above, and have issued this review report in accordance with Article 219 of the Company Act and Article 36 of the Securities and Exchange Act.

To

Mega Bills Finance Co., Ltd. 2021 General Shareholders' Meeting

Supervisor: Chi-Ho Chen

Supervisor: Shao-Pin Lin

Supervisor: Yung-Chen Huang

March 23, 2021

Four.Mega Bills Finance Co., Ltd. Financial Statements, including Report of  
Independent Accountants, Balance Sheets, Statement of Comprehensive  
Income, Statements of Changes in Equity, Statements of Cash Flows

INDEPENDENT AUDITORS' REPORT

PWCR20003094

To the Board of Directors and Stockholders  
Mega Bills Finance Co., Ltd.

**Opinion**

We have audited the accompanying balance sheets of Mega Bills Finance Co., Ltd. as at December 31, 2020 and 2019, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and 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 Mega Bills Finance Co., Ltd. as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies, Regulations Governing the Preparation of Financial Reports by Securities Firms and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

**Basis for opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Jin-Guan-Yin-Fa-Zi Letter No.10802731571 and generally accepted auditing standards 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 Mega Bills Finance Co., Ltd. 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 Mega Bills Finance Co., Ltd.'s 2020 financial statements. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for Mega Bills Finance Co., Ltd.'s 2020 financial statements are stated as follows:

## **Reserve for guarantee liabilities of financial guarantee contracts**

### Description

For the accounting policy for reserve for guarantee liabilities of financial guarantee contracts, please refer to Note 4(19) of the financial statements; for critical accounting judgments, estimates, and key sources of assumption uncertainty of reserve for guarantee liabilities, please refer to Note 5(1) of the financial statements; As of December 31, 2020, Mega Bills Finance Co., Ltd. provisioned NT\$2,413,688 thousand for the reserve of guarantee liabilities. Please refer to Note 6(17) for details of the account.

Mega Bills Finance Co., Ltd. provisions the reserve for guarantee liability of financial guarantee contracts are assessed under IFRS 9, 'Financial instruments'. Mega Bills Finance Co., Ltd. also sets out relating policy and adopts provision model to ensure the recognition in a proper manner. Provision model and parameter assumptions are adopted with reference to actual loss rate in the past years and annual macro-economic projections in terms of business cycle released by government agencies. If the credit risk of debtor has not been significantly increased since initial recognition, 12-month ECLs is recognized. If the credit risk of debtor has been significantly increased since initial recognition, lifetime ECLs is recognized after taking into consideration factors such as any adverse change resulted from the debtor's repayment history, industrial information related to payment overdue and the collateral's value. In addition, in accordance with Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt and related regulations, after off balance sheet credit assets are classified according to the status of their loan collaterals and length of time in arrears, the reserves for guarantee liabilities are calculated, based on the classification amounts and respective fixed rates, to determine the appropriate amount of provisions, therein allowing the reserve for guarantee liabilities to be adequately provisioned.

Because the aforementioned assessment of the possibility of guarantee obligation occurrences from financial guarantee contracts and the assessment of the amount of possible losses involve subjective judgment and numerous assumptions and estimates, we believe the method of determining assumptions and estimates will directly affect related recognized amounts. Thus, we have included the reserve for guarantee liabilities of financial guarantee contracts as the key audit matters in our audit.

### How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarized as follows:

1. Understood and assessed Mega Bills Finance Co., Ltd.'s policies, internal control and processing procedures related to the provision of reserve for guarantee liabilities;
2. Assessed the measurement indicators of significant increase in credit risk, and conduct sampling inspection to measure the classification of expected credit loss reduction stages;
3. Sampled and checked the default probability, loss rate, forward-looking economic factors and other guarantee liabilities calculation parameters;
4. Tested a sample selection of appraisal reports on the debtor's collateral to assess estimated future cash flows and assumptions are reasonable and whether the calculation is accurate;

5. Sampled and tested whether the amount of guarantee liabilities provision is in accordance with the Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt.

### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies, Regulations Governing the Preparation of Financial Reports by Securities Firms and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 Mega Bills Finance Co., Ltd.'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 Mega Bills Finance Co., Ltd. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including supervisors, are responsible for overseeing Mega Bills Finance Co., Ltd.'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 the generally accepted auditing standards 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 the generally accepted auditing standards 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 Mega Bills Finance Co., Ltd.'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 liquidate Mega Bills Finance Co., Ltd.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause liquidate Mega Bills Finance Co., Ltd. to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Kuo, Puo-Ju

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

February 23, 2021

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The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and independent auditors' report are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

**MEGA BILLS FINANCE CO., LTD.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2020 AND 2019**  
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2020	December 31, 2019
11000	Cash and cash equivalents	6(1) and 7	\$ 310,489	\$ 356,298
12000	Financial assets at fair value through profit or loss	6(2)(7), 7 and 8	159,366,161	127,382,706
12100	Financial assets at fair value through other comprehensive income	6(3)(7), 7 and 8	139,211,496	126,416,773
12200	Investments in debt instruments at amortised cost	6(4)(7)	406,437	431,553
13000	Receivables – net	6(6)	1,404,106	2,303,800
15500	Other financial assets – net	6(9) and 8	471,412	585,426
18500	Property and equipment – net	6(10)	356,187	353,131
18600	Right of use asset – net	6(11)	36,870	73,532
18700	Investment property – net	6(12)	2,485,768	2,496,432
19000	Intangible assets – net		6,522	6,195
19300	Deferred income tax assets – net	6(30)	185,044	135,853
19500	Other assets – net	6(13) and 7	64,974	59,540
	<b>TOTAL ASSETS</b>		<b>\$ 304,305,466</b>	<b>\$ 260,601,239</b>
	Liabilities and equity			
21000	Interbank overdraft and call loans	6(14), 7 and 8	\$ 17,012,187	\$ 14,132,031
22000	Financial liabilities at fair value through profit or loss	6(15)	-	2,475
22500	Bills and bonds payable under repurchase agreements	6(2)(3)(4)(5)(7) and 7	241,164,641	204,173,461
23000	Payables	6(16)	507,353	592,668
23200	Current income tax liabilities	6(30)	544,324	136,891
25600	Provisions for liabilities	6(17)(18)	2,823,445	2,589,139
26000	Lease liabilities	6(11) and 7	37,070	73,785
29300	Deferred income tax liabilities	6(30)	607,047	324,149
29500	Other liabilities		202,476	299,415
	<b>TOTAL LIABILITIES</b>		<b>262,898,543</b>	<b>222,324,014</b>
31100	<b>Equity</b>			
31101	Common stocks	6(19)	13,114,411	13,114,411
31500	<b>Capital surplus</b>	6(20)	320,929	320,929
32000	<b>Retained earnings</b>	6(21)		
32001	Legal reserve		20,453,398	19,669,947
32003	Special reserve		203,090	203,090
32005	Unappropriated retained earnings		2,736,743	2,626,382
32500	<b>Other equity interest</b>		4,578,352	2,342,466
	<b>TOTAL EQUITY</b>		<b>41,406,923</b>	<b>38,277,225</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 304,305,466</b>	<b>\$ 260,601,239</b>

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

**MEGA BILLS FINANCE CO., LTD.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**  
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	Year ended December 31	
		2020	2019
41000 Interest income	6(22)	\$ 3,245,618	\$ 3,490,129
51000 Less : interest expense	6(22) and 7	( 1,050,854 )	( 1,940,494 )
<b>Interest income, net</b>		<b>2,194,764</b>	<b>1,549,635</b>
<b>Non-interest income, net</b>			
49100 Service fee and commission income, net	6(23) and 7	968,944	923,508
49200 Gain or loss from financial assets and liabilities at fair value through profit or loss	6(2)(15)(24) and 7	736,931	522,379
49310 Realized gain on financial assets at fair value through other comprehensive income	6(3)(25)	740,708	782,811
49600 Foreign exchange gain or loss, net	(	61,060 )	( 27,206 )
55000 Impairment loss on assets	(	12,407 )	( 639 )
<b>Other non-interest income or loss, net</b>			
49851 Leasehold income	7	114,208	114,389
49899 Others		2,452	35,980
<b>Net revenues</b>		<b>4,684,540</b>	<b>3,900,857</b>
58200 (Provisions) reversals	6(26)	( 252,093 )	( 69,684 )
<b>Operating expenses</b>			
58500 Employee benefit expense	6(18)(27)	( 589,589 )	( 574,655 )
59000 Depreciation and amortization	6(10)(11)(12)(28)	( 67,919 )	( 65,127 )
59500 Other business and administrative expenses	6(29) and 7	( 169,533 )	( 164,779 )
<b>Total operating expenses</b>		<b>( 827,041 )</b>	<b>( 804,561 )</b>
61001 <b>Income before income tax from operating unit</b>		<b>3,605,406</b>	<b>3,165,980</b>
61003 Income tax expense	6(30)	( 674,409 )	( 540,628 )
64000 <b>Net income</b>		<b>2,930,997</b>	<b>2,625,352</b>
<b>Other comprehensive income</b>			
<b>Not reclassifiable to profit or loss:</b>			
65201 Remeasurement of defined benefit plans	6(18)	( 29,379 )	( 17,641 )
65204 Revaluation (losses) gains on investments in equity instruments measured at fair value through other comprehensive income	6(3)	( 121,009 )	( 372,762 )
65220 Income tax relating to items that are not reclassifiable to profit or loss	6(30)	5,876	3,528
<b>Potentially reclassifiable to profit or loss subsequently:</b>			
65308 Gains (losses) on investments in debt instruments measured at fair value through other comprehensive income	6(3)	2,490,527	2,287,000
65320 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(30)	( 319,165 )	( 497,992 )
65000 <b>Total other comprehensive income, net of tax</b>		<b>2,026,850</b>	<b>2,147,657</b>
66000 <b>Total comprehensive income</b>		<b>\$ 4,957,847</b>	<b>\$ 4,773,009</b>
<b>Earnings per share</b>			
<b>Basic and diluted earnings per share</b>	6(31)	<b>\$ 2.23</b>	<b>\$ 2.00</b>

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

MEGA BILLS FINANCE CO., LTD.  
STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2020 AND 2019  
(Expressed in thousands of New Taiwan dollars)

	Common stocks	Capital surplus	Legal reserve	Retained earnings		Other equity interest	Total equity
				Special reserve	Unappropriated retained earnings	Gains or losses on financial assets measured at fair value through other comprehensive income	
<u>For the year ended December 31, 2019</u>							
Balance at January 1, 2019	\$ 13,114,411	\$ 320,929	\$ 18,902,523	\$ 203,090	\$ 2,906,836	\$ 180,962	\$ 35,628,751
Net income for 2019	-	-	-	-	2,625,352	-	2,625,352
Total other comprehensive (loss) income for 2019	-	-	-	-	( 14,113)	2,161,770	2,147,657
Total comprehensive income for 2019	-	-	-	-	2,611,239	2,161,770	4,773,009
Appropriation of 2018 earnings							
Legal reserve	-	-	767,424	-	( 767,424)	-	-
Cash dividends	-	-	-	-	( 2,124,535)	-	( 2,124,535)
Disposal of investment in equity instruments designated at fair value through other comprehensive income	-	-	-	-	266	( 266)	-
Balance at December 31, 2019	\$ 13,114,411	\$ 320,929	\$ 19,669,947	\$ 203,090	\$ 2,626,382	\$ 2,342,466	\$ 38,277,225
<u>For the year ended December 31, 2020</u>							
Balance at January 1, 2020	\$ 13,114,411	\$ 320,929	\$ 19,669,947	\$ 203,090	\$ 2,626,382	\$ 2,342,466	\$ 38,277,225
Net income for 2020	-	-	-	-	2,930,997	-	2,930,997
Total other comprehensive (loss) income for 2020	-	-	-	-	( 23,503)	2,050,353	2,026,850
Total comprehensive income for 2020	-	-	-	-	2,907,494	2,050,353	4,957,847
Appropriation of 2019 earnings							
Legal reserve	-	-	783,451	-	( 783,451)	-	-
Cash dividends	-	-	-	-	( 1,828,149)	-	( 1,828,149)
Disposal of investment in equity instruments designated at fair value through other comprehensive income	-	-	-	-	( 185,533)	185,533	-
Balance at December 31, 2020	\$ 13,114,411	\$ 320,929	\$ 20,453,398	\$ 203,090	\$ 2,736,743	\$ 4,578,352	\$ 41,406,923

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

MEGA BILLS FINANCE CO., LTD.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2020 AND 2019  
(Expressed in thousands of New Taiwan dollars)

		Year ended December 31	
	Notes	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax from operating units		\$ 3,605,406	\$ 3,165,980
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(28)	61,398	60,681
Amortization	6(28)	6,521	4,446
Provision (reversal) for bad debts and various reserves	6(26)	262,480	( 65,949 )
Interest income	6(22)	( 3,245,618 )	( 3,490,129 )
Dividend income	(	93,579 )	( 99,246 )
Interest expense	6(22)	1,050,854	1,940,494
Impairment loss on asset		12,407	639
Losses on disposal of property and equipment		33	-
Changes in operating assets and liabilities			
Changes in operating assets			
Increase in financial assets at fair value through profit or loss	(	31,983,455 )	( 805,141 )
(Increase) decrease in financial assets at fair value through other comprehensive income	(	10,437,590 )	8,197,464
Decrease in investments in debt instruments measured at amortised cost		25,114	8,514
Decrease (increase) in receivables		733,930	( 737,974 )
Decrease (increase) in other financial assets		114,014	( 87,723 )
(Increase) decrease in other assets	(	3,879 )	1,938
Changes in operating liabilities			
Decrease in financial liabilities at fair value through profit or loss	(	2,475 )	( 3,417 )
Increase in bills and bonds payable under repurchase agreements		36,991,180	1,863,056
(Decrease) increase in payables	(	24,239 )	38,819
Decrease in provisions for liabilities	(	57,553 )	( 59,468 )
Decrease in other liabilities	(	96,939 )	( 56,849 )
Interest received		3,411,624	3,458,904
Interest paid	(	1,111,930 )	( 1,946,901 )
Dividend received		93,317	99,246
Income tax paid	(	346,558 )	( 333,030 )
Net cash flows (used in) from operating activities	(	1,035,537 )	11,154,354
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	6(10)	( 15,601 )	( 12,327 )
Proceeds from disposal of property and equipment		6	-
Acquisition of intangible assets	(	1,920 )	( 2,980 )
Acquisition of other assets	(	6,483 )	( 4,306 )
Net cash flows used in investing activities	(	23,998 )	( 19,613 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase (decrease) in interbank overdraft and call loans		2,880,156	( 8,942,248 )
Principal repayments of lease liabilities	(	38,281 )	( 37,867 )
Payments of cash dividends	(	1,828,149 )	( 2,124,535 )
Net cash flows from (used in) financing activities		1,013,726	( 11,104,650 )
Net (decrease) increase in cash and cash equivalents	(	45,809 )	30,091
Cash and cash equivalents at beginning of year	6(1)	356,298	326,207
Cash and cash equivalents at end of year	6(1)	\$ 310,489	\$ 356,298

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

## **Risk Management**

# Risk Management

## I. Risk management organizational framework and policy

### (I) Risk management organizational framework

The Board of Directors is the highest authority for the Company's risk management; therefore, the Board of Directors takes ultimate responsibility for establishing the Company's risk management system and ensuring its effective operation. The Company has a Risk Management Committee in which the Chairman serves as the convener. The committee is responsible for reviewing risk management reports, allocating risk limits and assets, monitoring execution of risk management targets, and managing risk-related affairs across all business categories.

The Risk Control Department is responsible for enacting the risk management-related regulations, enforcing the plans under the risk management mechanism pursuant to the Basel II, organizing the risk management objectives and reviewing the enforcement results, controlling the Company's capital adequacy, summarizing risk controls and reporting the risk controls, and working with the competent authority and holding Company to plan, supervise, or execute the risk management matters required by the competent authority and holding company.

### (II) Risk management policy

The Company relies on the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries", "Mega Financial Holding Company Risk Management Policies and Guidelines," and the Company's "Internal Control System Enforcement Rules" to regulate the Company's "Risk Management Policies" as the guidance for business risk management in order to establish the Company's risk management system, ensure that the operational risk control is within tolerance, and maintain a sound capital adequacy ratio.

## II. Qualitative and quantitative information about various risks:

### (I) Credit risk management system and capital requirement

# 1. Credit risk management system

2020

Aspects	Contents
(1)Strategy, objective, policy and procedure	<p>For the establishment of the credit risk management mechanism and ensuring credit risk control within the tolerance of management objectives, the “Credit Risk Management Guidelines” is stipulated to control default loss risk resulted from the non-performance of borrowers or counterparties due to business deterioration or other factors. The relevant risk control measures include:</p> <p>(1) Define the credit limit ratio by type of business and specific security terms, and define credit risk limit management in accordance with the “Credit Risk Management Guidelines”.</p> <p>(2) Define the risk concentration ratio, set up alert standard, and control mechanism for preventing excessive risk concentration by customers (including one individual, one related party, and one affiliated enterprise), businesses, and nations in accordance with the “Regulations Governing Credit Risk Concentration”.</p>
(2)Organization and framework of credit risk management system	<p>With respect to the credit risk in the Company’s granting of loans and various financial instruments, the Loan Review team and Risk Management Committee are responsible for supervising and reviewing various management regulations, granting of loans and business risk management objectives. Meanwhile, the Bills Department, Bond Department and all branches are the main operational units for credit risk control.</p>
(3)Scope and characteristics of credit risk reporting and the measurement system	<p>The Company has set up the Risk Management Committee to monitor operational risks. All business supervision units in the Head Office are to present the business risk report by the Department to the Risk Management Committee on a quarterly basis. The Risk Management Department is to report the risk management profile to the Board of Directors periodically. The credit risk report covers the total credit risk exposures by customer, industry, and country, and current credit risk exposure. The measurement system and reporting include the summarization of total credit risk exposures by customer, industry, and country, NPL ratio, maximum limit of credit extension by business, maximum limit by security, and maximum limit of credit extension to a same enterprise, same affiliate, and same related party.</p>
(4)Hedging policies, strategy, and process of monitoring	<p>The Company grants loans in accordance with a defined credit investigation procedure, and requests for collateral and guarantor based on each customer’s</p>

Aspects	Contents
the continuing effectiveness of hedging	financial and credit condition. Meanwhile, the Company has a set of “Notes to Loan Review Operation” in place to enhance post-credit extension management. Financial instruments are primarily managed based on issuer credit rating and counterparties’ credit, and reviewed, followed up on, and evaluated periodically, in order to enhance the ability to bear the credit risk.
(5) Approach to require the authorized capital	Standard Method

## 2. Capital requirement of credit risk and risk assets amount (Standard Method)

March 31, 2021

Unit: NT\$ thousands

Exposure type	Capital requirement	Risk-weighted assets
Sovereign state	0	0
Non-central government public sectors	9,876	123,451
Bank (including multilateral development banks)	145,199	1,814,988
Corporate (including securities and insurance company)	14,528,129	181,601,617
Retail creditor’s right	101,066	1,263,322
Investments in equity securities	111,243	1,390,536
Credit extended to parent company or subsidiary and credit secured by marketable securities issued by parent company or subsidiary	0	0
Other assets	249,454	3,118,170
Total	15,144,967	189,312,084

(II) Risk management system, exposure and capital requirement of asset securitization

1. Risk management system of asset securitization

2020

Aspects	Contents
(1) Asset securitization management strategy and procedure	<p>(1) The Company has "TWD Fixed Income Securities Brokerage and Trading Guidelines" and "Investment Principles for TWD Beneficiary Securities, Asset-backed Securities and Funds" in place to regulate trading of securitized instruments, and "Underwriting and Trading Principles for Guarantee-waiver of Short-term Bills" and "Bills on Underwriting and Trading of Beneficiary Securities and Asset-backed Securities" available to regulate underwriting and purchasing of guarantee-waiver short-term bills. All the above mentioned policies require employees to approve and review limits and exercise risk/business management based on the terms of issue, revenue potentials, issuer's (or guarantor's) credit rating, or credit rating pertaining to a specific debt issue.</p> <p>(2) The relevant control measures include daily monitoring of single beneficiary security bought in, evaluation on market value of asset-based securities, limit of tolerable market risk (value of change per basic point or per market transaction); underwriting and buy-in of guarantee-free short-term bills positions; reporting the beneficiary securities invested by the Company, balance of asset-based securities and income thereof to the Board of Director on a quarterly basis.</p>
(2) Organization and framework of asset securitization management	Under the Company's asset securitization product risk management framework, the Company's Board of Directors has defined the limit of various securitization products or limit of position and limit of loss. Bonds Dept. is responsible for the management of beneficiary securities and asset-based securities. Bills Dept. is responsible for the business management of securitization short-term bills, dedicated to reviewing the changes of credit rating related to asset securitization products and researching and defines the relevant countermeasures when the limit of loss is met. The Risk Control Department is responsible for controlling the change in the entire risk of asset securitization products
(3) Scope and characteristics of asset securitization risk reporting and the	The business management units of the Head Office submit the asset securitization product risk report to Risk Management Committee on a quarterly basis by functions in order to explain the changes of credit relating

Aspects	Contents
measurement system	related to various asset securitization products, asset portfolio and analysis about position income. The measurement system and reports include credit ratings and income management statement related to beneficiary securities, asset-based securities related fund and guarantee-free asset securitization short-term bills.
(4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	The Company's asset securitization product hedging strategy is to avoid price risk, implement derivatives as operating tools, periodically assess profit and loss and report the same to the Board of Directors.
(5) Approach to require the authorized capital	Standard Method

## 2. Updates on securitization

Date: March 31, 2021

Tranche	Total sum issued	Outstanding balance	Balance bought back
None			

## (III) Operational risk management system and capital requirement

### 1. Operational risk management system

2020

Aspects	Contents
(1) Strategy and procedure of operational risk management	The "Operational Risk Management Guidelines" have been stipulated for the establishment of a sound operational risk management framework and reduction of operational risk losses. The framework referred to above involves: defined internal control and management measures of operational risk and objective review on effective implementation of operational risk management mechanism in accordance with independent internal auditing procedures; establishment of operational risk identification, assessment, measurement, communication, and monitoring processes and implementing countermeasures; establishment of risk management information framework including loss event notification, follow-up and verification, and systematic

Aspects	Contents
	control of individual loss event frequency, severity, and related information; establishment of emergency response and business continuity plans; assuring prompt resumption of operations during an extraordinary event or disaster; and maintaining normal business operations.
(2) Organization and framework of operational risk management system	The Company's operational risk controls mean the express enactment of various operational manuals, which may be amended from time to time due to changes in the laws and regulations, or if required, in order to help the workers follow the same. Risk Control Department shall design and introduce the operational risk management framework approved by the Board of Directors. The various units shall comply with the internal controls, laws, and the requirements about operating risk self-assessment system, fulfill the self-assessment periodically. The auditing unit shall review the effective implementation of risk management mechanisms independently and objectively to promote the Company's well-founded operation.
(3) Scope and characteristics of operational risk reporting and the measurement system	The business management units of the Head Office report the corrective actions against important operational risk loss events, operating procedures and operating systems to Risk Management Committee on a quarterly basis by functions; Risk Control Department reports the annual operational risk map to Risk Management Committee periodically, analyze the operational risk event loss data and other information, and report to the Board of Directors the development of qualitative risk management objectives (various projects); the audit unit shall report the audit result to the Board of Directors and follow up and control required improvements periodically.
(4) Hedging policies, strategy and process of monitoring the continuing effectiveness of hedging	It is mainly to assess the probability of risk losses and the size of potential losses. The choices of counter-measures include avoidance, control and the transfer of offset. Establish business surveillance reports and daily cross-examine the balance of business operations, risk management objectives, and limits set by external regulations. Check whether the risk exposures exceed the limit and make an alert when it reaches the vigilance level so as not to exceed the limits set by law or the Company.
(5) Approach to require the authorized capital	Basic Indicator Method

2. Capital requirement of operational risk and risk assets amount (Basic Indicator Method)

March 31, 2021

Unit: NT\$ thousands

Year	Gross Profits	Capital requirement	Risk-weighted assets
2020	4,694,495		
2019	3,865,516		
2018	3,750,340		
Total	12,310,351	615,518	7,693,970

(IV)Market risk management system and capital requirement

1. Market risk management system

2020

Aspects	Contents
(1) Strategy and procedure of market risk management	The “Market Risk Management Guidelines” are stipulated for the managing of market risk of financial instrument position. Control adverse movement resulted from market price causing possible losses inside and outside the Balance Sheet as guidelines for business operation. Based on domestic and foreign economic data, measure economic status, predict interest rate, and draft up operating strategies to plan control measures. The measures include: Daily monitoring of risk management objectives including position limit, loss limit, and sensitivity limit of bills, bonds, equities, and derivatives; daily interest rate sensitivity analyses on bill and bond holding positions; and monthly validation of derivatives and transaction valuation.
(2) Organization and framework of market risk management system	The Company’s market risk is mainly the price risk of bills, bonds, equities, and derivatives. The Risk Management Committee reviews the risk management objectives of all financial instruments. The Bills Department, Bond Department, and all branches are the main operational units for market risk control.
(3) Scope and characteristics of market risk reporting and the measurement	The business management units of the Head Office shall submit economic reports, interest rate analyses, trade reports on bills, bonds, equities, and derivatives, capital cost, and allocation, and hedging strategies and

Aspects	Contents
system	implementation to the Risk Management Committee on a quarterly basis by functions. The Risk Control Department reports market risk management objectives and progress to the Board of Directors on a quarterly basis. The Audit Office submits derivative transaction audit reports to the Board of Directors on a monthly basis. The risk measurement system and reports cover bill, bond, equity, and derivative positions, profit and loss, risk duration and stress tests, and sensitivity analysis.
(4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	The Company's trade hedging strategy is to avoid price risk, implement derivatives as operating tools, and periodically assess profit and loss.
(5) Approach to require the authorized capital	Standard Method

## 2. Capital requirement of market risk and risk assets amount (Standard Method)

March 31, 2021		Unit: NT\$ thousands
Type	Capital requirement	Risk-weighted assets
Interest rate risk	6,709,927	83,874,088
Equity security risk	331,076	4,138,450
Foreign exchange risk	130,587	1,632,338
Product risk	0	0
Stock option processed with simplified method	0	0
Total	7,171,590	89,644,876

(V) Liquidity risk and management approach

1. Analysis on Maturity of Assets and Liabilities

March 31, 2021		Unit: NTD millions				
	Total	Amount of the remaining period to maturity date				
		0 – 30 Days	31 – 90 Days	91 – 180 Days	181 Days – 1 Year	Over 1 Year
Assets	270,324	69,928	68,358	7,462	6,729	117,847
Liabilities	232,077	189,621	39,302	2,823	294	37
Deficit	38,247	-119,693	29,056	4,639	6,435	117,810
Accumulated deficit		-119,693	-90,637	-85,998	-79,563	38,247

2. Asset liquidity and maturity gap management methods

- (1) By the characteristics of business lines, the Company's liquidity assets include bonds, Treasury bills, Central Bank Certificate of Deposits, and short-term promissory notes, with low credit risk and liquidity.
- (2) The "Liquidity Risk Management Guidelines" are stipulated for the measuring of liquidity risk position effectively, maintaining adequate liquidity, and ensuring solvency. The relevant control measures include: Monitor daily the Company's cash flow deficit limits of each term and appropriately avoid capital liquidity risk; establish a capital emergency response management mechanism, activate an emergency response mechanism promptly upon the occurrence of a liquidity crunch, soaring interest rates or unexpected financial events causing serious impacts on liquidity risk, and convene the Risk Management Committee to form contingency measures.
- (3) Liquidity risks are controlled by the Risk Control Department while the Bills Department and the Bonds Department are responsible for day-to-day trading. TWD and foreign currency liquidity gaps are managed using a system that constantly keeps track of cash flow shortages in each maturity interval. The Treasury Department is responsible for reporting any irregularities relating to liquidity risks.

III. The impact of domestic and foreign policies and changes in law on the Company's finance and business and the countermeasures:

- (I) Financial impacts in the event of changes in local and foreign regulations
  - 1. The Financial Supervisory Commission has notified bill finance companies in writing to inspect and amend "limits on 0~30 day NTD liquidity gap as a percentage of total NTD assets" regularly to effectively manage liquidity risk .
  - 2. The Financial Supervisory Commission has notified bill finance companies in writing to make adequate liability provisions of at least 1.5% on the balance of real estate guarantees by no later than the end of 2021.
- (II) The Company's counter-measures
  - 1. "limits on 0~30 day NTD liquidity gap as a percentage of total NTD assets" of "Liquidity Risk Management Rules" will be amended accordingly.
  - 2. The Company will make adequate liability provisions for the outstanding balance of real estate guarantees before the end of 2021, and include any additional cost of real estate lending that arises as a result in future quotations.
- IV. The impact of technical changes and industrial changes on the Company's finance and business and the countermeasures
  - (I) The impact of technical changes and industrial changes on the Company's finance and business
    - 1. The transactions and risk control financial engineering and system are increasingly sophisticated to the advantage of bills finance company's financial and business operation.
    - 2. The competent authorities open up new businesses (foreign currency bills and bonds, and treasury bills) that help diverse business operations and increase operating spaces to the advantage of enhancing the scale of operations. However, uncertainties remain with regards to the prospects of the world's major economies, which may complicate trading decisions.
  - (II) The Company's counter-measures
    - 1. Outsource systems and develop systems in-house to support transactions and risk control.
    - 2. Actively explore new services for higher income. In the meantime, the Company will pay attention to changes in the economic and financial environment, and take actions to minimize risks and negative impacts.
- V. The impact of change of the Company's corporate identity, and the countermeasures: None.
- VI. Expected effect of acquisition and the possible risk: None.
- VII. Expected effect and possible risk of expanding business locations and the

countermeasures: None.

VIII. Risk of business concentration and countermeasures

The Company holds relatively high position of interest rate-sensitive assets due to the nature of its business, and hence is prone to interest rate volatility. To address this situation, the Company has implemented risk management targets for note and bond-related activities based on the overall economy and growth requirements. Enhanced measures are being taken to control risk exposure and duration, and hence avoid adverse changes in market risks. In terms of credit/guarantee services, the Company is prone to the concentration risk of guaranteed parties, which it aims to address by following the group's "Notes on Credit Control for Single Group of Borrowers". Borrowers' credit balances are being controlled based on credit conduct, industry prospect, business performance, financial position, debt levels and credit rating on both individual and group levels.

- IX. Impact of changes in operating concessions on bills finance company, the related risk, and the countermeasures: None.
- X. Impact or risk associated with large transfers or changes in shareholdings by directors or major shareholders holding over 1%: None.
- XI. Litigious or non-litigious matters: None.
- XII. Other significant risks and response actions

The Company has business risk management objectives defined annually in accordance with the laws and policies of the competent authorities, the development of the macro economy, features of instruments, and competition in financial services sector; also, convenes Risk Management Committee meeting on a quarterly basis for ensuring all business operations in compliance with the defined risk management objects and reducing operational risk.