



兆豐金融集團  
Mega Financial Group

Stock Code: 5842  
Web site:  
MOPS:  
<http://newmops.tse.com.tw/>



**Mega Bills Finance Co., Ltd.**

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# Annual Report 2011

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



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# Message to Shareholder

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## One. Business Report

### I. Financial Environment in Taiwan and Overseas, 2011

In 2011, the global economy had been challenging. Numerous factors have contributed to this environment. These include the high unemployment rate in well developed countries such as European Union and the U.S.A., the aftermath of 311 Earthquake in Japan, the European Sovereign Debt Crisis, the potential risk in the U.S. Government national debt, sovereign credit ratings downgraded by credit rating agency (CRA), and finally the impact of Mainland China as it weathers a downturn of real estate prices and reforms to their financial system, both of which affected the global development and precipitated in a slowdown in economic growth. According to the forecast by Global Insight, the global economic growth rate declined from 4.2% in 2010 to 3.0% in 2011.



Chairman of the Board: Gerry Y. G. Lee

As to the domestic economy in Taiwan, economic growth in 2011 declined slightly but still maintained at what is considered “moderate” economic growth. The downturn of global economy has decreased demand both domestically and abroad. In addition, the negative growth rates of private sector investment in Taiwan have all affected domestic economic growth. According to the Directorate-General of Budget, Accounting and Statistics (DGBAS), Taiwan’s economic growth rate was 4.03% in 2011, below the projected forecast of 4.19% by 0.16%. The CPI was increased from 0.96% in 2010 to 1.42% in 2011. The Council for Economic Planning and Development reported that the tail end of 2011 (November and December) demonstrated the most significant depressed economic growth - the “blue light” indicator. It may be the sign that the economy has reached the bottom, and is anticipated to recover in 2012 quarter by quarter.

As to the monetary policy in the U.S.A., following the meeting of FOMC held in December 2011, the Fed announced that the U.S. economy was recovering moderately. Despite the slow path of private sector investment on capital expenditure and weak demand of housing market, the unemployment rate has been declining and consumers spending increasing as well as a mild inflation rate. The outlook for US economy is considered stable. However, in view of the rigid global financial market, the Fed has decided to maintain and extend the low interest rate at 0~0.25% to the end of 2014 from the middle of 2013, in order to prevent any pull on the US economic again to on the verge of recession and to ensure continued the U.S. economic recovery strength. The Fed has also indicated that should the economic growth stall or decline, it would not eliminate to launch QE3.

With respect to the monetary policy in Taiwan, in the first half of 2011, with signs of global economy recovery from financial tsunami, the Central Bank of China in Taiwan increased the key interest rate by 0.125% in March and June respectively, and adjusted the discount rate, secured and unsecured lending rate to 1.875%, 2.25% and 4.125% respectively in order to stabilize consumer goods prices. In the second half of 2011, the Central Bank observed that the European Debt Crisis had substantially risen and severely impacted the global economic growth and stabilization of finance markets. Consequently, the Central Bank, in view of

the moderate growth rate of M2 and inflation rate, decided to hold the further increase of interest rates in September in order to cope with global economic uncertainties down the road.

## II. Organizational Changes: N/A

## III. Performance results of Business Plan and Strategy

Unit: NT\$ million

Item	Final Accounting Figure, as of 12/31/2011	Final Accounting Figure, as of 12/31/ 2010	Increase/Decrease (%)
Underwriting and purchasing of bills	1,803,100	1,727,995	4.35
Commercial Paper issued	1,606,140	1,486,351	8.06
Trading volume of bills	9,740,259	8,983,444	8.42
Trading volume of bonds	5,981,968	7,254,244	-17.54
Average outstanding balance of Commercial Paper issued	124,587	114,724	8.60
Non-performing loans (NPL)	0	101	-100.00
NPL ratio (%)	0	0.09	-100.00

## IV. Budget Implementation

Unit: NT\$ million

Item	Final Accounting Figure, As of 12/31/2011	Budget Figure for 2011	Achievement Rate (%)
Underwriting and purchasing of bills	1,803,100	1,674,209	107.70
Commercial Paper issued	1,606,140	1,417,223	113.33
Trading volume of bills	9,740,259	8,754,311	111.26
Trading volume of bonds	5,981,968	6,297,774	94.99
RP outstanding balance of bills and bonds	184,993	138,976	133.11
Average outstanding balance of Commercial Paper issued	124,587	117,300	106.21
Non-performing loans	0	200	-
NPL ratio (%)	0	0.25	-
Net profit after tax	2,682	2,344	114.42

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

Unit: NT\$ million

Item	Final Accounting Figure, 2011	Item	Final Accounting Figure, 2011
Net revenue	4,007	EPS (NT\$)	2.05
Net profit before tax	3,138	ROA (%)	1.23
Net profit after tax	2,682	ROE (%)	8.24

## VI. R&D

- (1) Management
  1. To evaluate the re-organization of the company chart.
  2. To review and modify KPI.
  3. To ensure the completion of 2<sup>nd</sup>-stage milestone for adoption of IFRS.
- (2) Products and Business
  1. To promote bonds and treasury bills business.
  2. To propose the deregulation of restriction on signing the long-term guarantee agreement with the customers for issuing Commercial Paper.



President & CEO.: C. B. Wang

- (3) Risk Management
  1. To set up the operational risk self-assessment system to enhance the control over operational risk.
  2. To develop the system programs for capital expenditure by unit and business, and establish the performance appraisal and risk-based mechanism.

## Two. Summary of Business Plan 2012

### I. Operating policy

- (1) To enhance the management of organization chart so enable to improve performance efficiency, and maintain the company as the market leader.
- (2) To perform the evaluation of performance for business units and enhance the production efficiency of human resource.
- (3) To further implement the internal control system and strengthen corporate governance
- (4) To enhance the risk management and maintain the sound financial strength and asset quality.

## II. Projection of Business Goals and Ground thereof:

Unit: NT\$ million

Item	Budget Figure, 2012
Underwriting and purchasing of bills	1,783,287
Commercial Paper issued	1,582,307
Trading volume of bills	9,763,117
Trading volume of bonds	4,793,020
RP outstanding balance of bills and bonds	140,138
Average outstanding balance of Commercial Paper issued	122,812

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

## III. Major Business Policies

- (1) Aggressively promote the short-term bills business.
- (2) To increase the investment of bonds in a timely manner in order to generate more revenue.
- (3) To widen and induce all sources of funds in order to lower interest expenditure.
- (4) To review the fundamental performance and dividend policy for the selective industry in order to provide the investment decision of stocks.
- (5) To continuously enhance the credit risk management system in order to mitigate the credit risks.
- (6) To review and evaluate assets classification, and to reserve the appropriate loan loss provision to enhance the capacity to deal with the potential credit risks.
- (7) To take the advantage of branch office network and the company's credit rating to maintain as the market leader.
- (8) To integrate the group resources and explore the synergy of cross-selling.

## IV. Future Development Strategies

- (1) More frequently to visit the customers; push up the utilization of credit facility; adjust the structure of customers base; increase niche-type customers; adopt flexible pricing strategies; increase the outstanding balance of Commercial Paper; increase revenue from underwriting of Commercial Paper.
- (2) To observe the change of domestic and overseas financial market; predict the trend of interest rates; improve the skills for trading of bills; and strictly control the funding gap; to reduce the liquidity risk; adjust the positions and strategies as needed; and generate more income.
- (3) To reinforce the existing customer relationships, and aggressively widen the lower cost of funding source from individual and corporate customers, in order to eliminate the dependent on those customers who are bidding the higher interest rate;
- (4) To increase the bond position on the condition that the bonds have good credit rating, acceptable yield and shorter duration;
- (5) To develop the new RP customers in order to lower the funding cost and to diversify the source of funding, as well as to mitigate the liquidity risks.
- (6) To closely watch the environment of fundamentals, technologies, trading volume and information for stock market, and pick up the blue-chip stocks for investment in accordance with the prudential principle within the preset ceiling of the portfolios.

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

- (1) Given the fact of increasingly diversified fund-raising channels in the market and continuous penetration to the market by the banks, those are the potential barriers for the company for further business promotion as we predict that it may be hard to ease the existing fierce competition in the near future.
- (2) Given the fact of unprecedented low interest rate and high possibility of bottom up, the potential interest risk is increasing and thereby narrowing the interest spread for transactions.
- (3) Given the fact of insufficient tax revenue, the Government relied on the issuance of bonds to raise fund, and the increase in the issue of bonds was disadvantageous to stabilization of chips and increasing the difficulty for trading of bonds accordingly.

**Three. Most Recent Credit Rating and Rating Date**

Credit Rating Organization	Long-Term Credit Rating	Rating Outlook	Short-Term Credit Rating	Date of Announcement
Taiwan Ratings Corporation	twAA	Stable	twA-1 +	Oct. 3, 2011

**Four. Appreciation and Prospective**

Thank to the hard-working for all of our staffs and appreciate to the continued support from board of directors, supervisors as well as parent holding company, our company well maintained as the market leader and outperformed among peers group in terms of net profit. The Company also achieved its goal of earnings for the year of 2011.

Looking to the future, controlling of operating risks and coping with the volatility of the financial market will be the great challenge ahead for the company. All of our colleagues have to persistently follow the guidelines of “Sincerity, Honesty, Services, Efficiency, Innovation, and Development”, and continue to achieve the better business performance results for our shareholder-Mega Financial Holding Company.

Best wish for all of you  
Health and Happiness,

President & CEO: C. B. Wang

Chairman of the Board: Gerry Y. G. Lee



## **Profile of the Corporation**

*Profile of the Corporation*

**I. Founded: May 3, 1976**

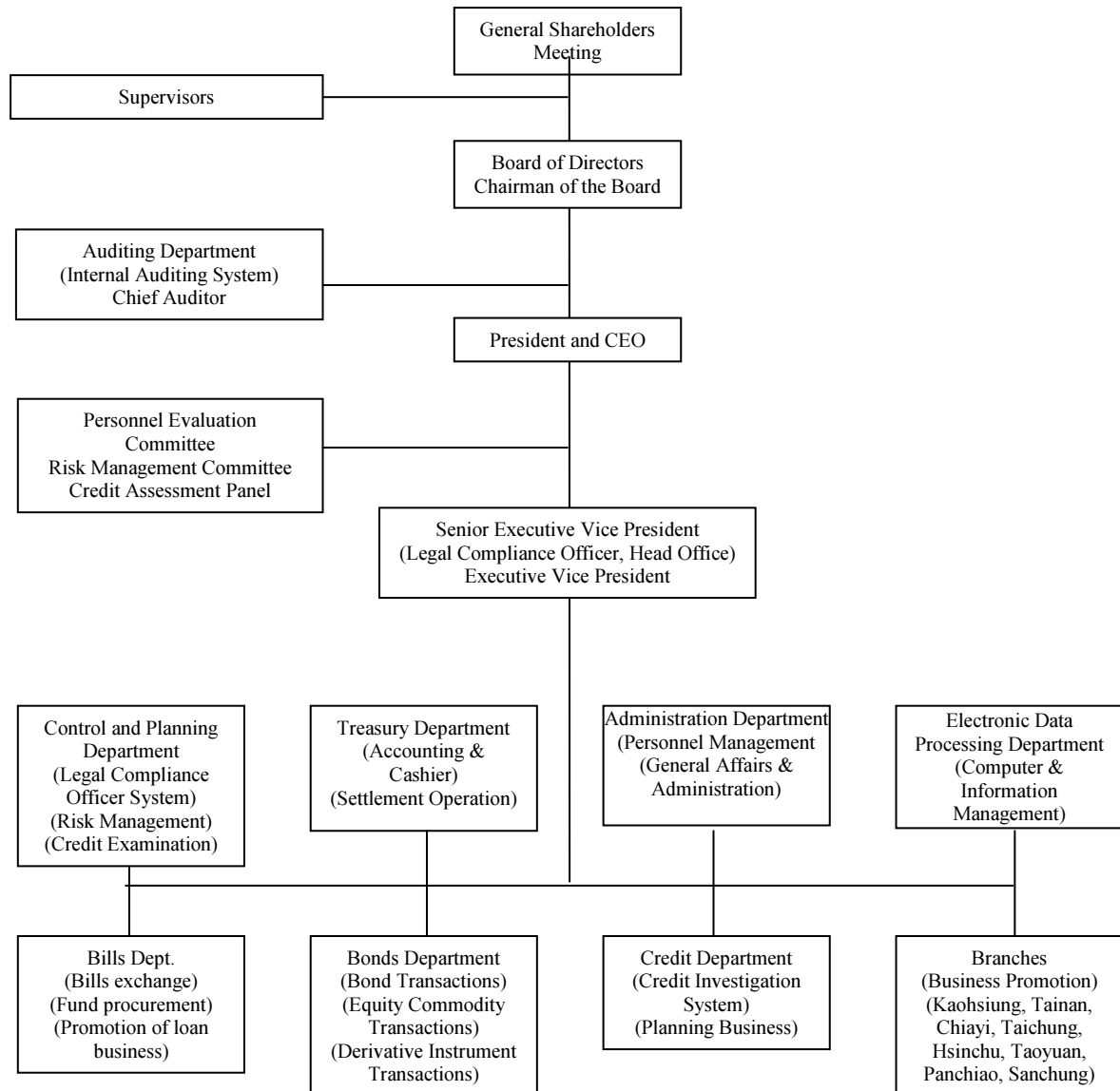
**II. Company history**

- (1) May 20, 1976, started business, with paid-in capital NT\$200,000,000.
- (2) January 5, 1981, the Head Office moved into and began operations at the new, freehold-owned property on Nanking East Road, Section 2, Taipei.
- (3) June 26, 1990, the Company's shares were formally listed, with paid-in capital NT\$2,879,500,000.
- (4) February 28, 2000, the Head Office relocated to the ChungHsing Bills Finance Building at Chunghsiao East Road, Section 2, Taipei, and, in May of the same year, its capital stock was increased to NT\$28,114,410,840.
- (5) June 12, 2002, a regular meeting of shareholders resolved that, by means of an exchange of shares, the Company should become part of Chiao Tung Bank Financial Holding Company, and that the exchange of shares would take place on August 22 of that year.
- (6) December 31, 2002, the parent company, Chiao Tung Bank Financial Holding Company changed its name to Mega Financial Holding Company.
- (7) September 1, 2004, capital stock was reduced to NT\$25,114,410,840 by NT\$3,000,000,000.
- (8) May 3, 2005, capital stock was reduced to NT\$20,114,410,840, by NT\$5,000,000,000.
- (9) May 2, 2006, Head Office moved into and began operations at new premises on the second to fifth, ninth and tenth floors of 91 Heng-yang Road, Taipei.
- (10) June 26, 2006, the Company's name was formally changed to Mega Bills Finance Co., Ltd.
- (11) July 2, 2007, capital stock was reduced to NT\$15,114,410,840, by NT\$5,000,000,000.
- (12) August 3, 2009, capital stock was reduced to NT\$13,114,410,840, by NT\$2,000,000,000.

# **Corporate Governance Report**

## *Corporate Governance Report*

## I. Organizational Structure



## II. Information about the Directors, Supervisors, President and CEO, Senior Executive Vice Presidents, Executive Vice Presidents, and Heads of Departments and Branches

### (1) Directors and Supervisors

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

December 31, 2011

Job Title (Note 1)	Name	Date of Election (Appointment)	Term of Office (Note 2)	Date of First Election (Appointment)	Current Shareholding	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
						Education	Experience		
Chairman of the Board	Gerry Y. G. Lee	2009.10.01	2012.02.24	2009.10.01	(Note 1)	Graduate, Dept. of Economics, Fu Jen University	Chairman of Taiwan Bills Finance Co., Ltd. Managing Director & CEO of First Bank	Chairman of Mega Bills Finance Co., Ltd. Director of Mega Asset Management Co. Secretary-General of TFSR	N/A
President and CEO	C. B. Wang (Notes 3 & 4)	2011.05.25	2012.02.24	2011.05.25		Graduate, Department of International Trade of Tamkang University	VP of Mega Holdings VP of SinoPac Holdings and also President of Far East National Bank Executive Vice President of Mega International Commercial Bank Administration and also President of ICBCTHBK	Chairman and also President of Mega Bills Finance Co., Ltd.	
Director	Chun- Tien Cheng	2009.02.25	2012.02.24	2009.02.25		National Sun Yat-Sen University EMBA	Director-General, National Tax Administration of Central Taiwan, Ministry of Finance; Director-General, Kaohsiung National Tax Administration, Ministry of Finance	Independent director of Mega Holdings Director of National Chang Kung University Accounting Cultural and Education Foundation	
Director	Tsai-Jyh Chen	2010.02.26	2012.02.24	2010.02.26		University of Pennsylvania Insurance Doctorate, Wharton School	Associate professor of Dept. of Risk Management and Insurance of National Chengchi University (NCCU); Dean of Dept. of Risk Management and Insurance of NCCU; President of Graduate Institute of Risk Management and Insurance of NCCU	Professor of Dept. of Risk Management and Insurance and NCCU	
Director	Ruei-Yun Lin	2009.02.25	2012.02.24	2006.04.06		NCCU Master's degree, Graduate Institute of Finance	Executive Vice President of Financial Control Dept., Meg Holdings	Senior Executive Vice President, Mega Holdings Supervisor of Mega International Commercial Bank Chairman and President of Mega Venture Capital Co., Ltd. Director of TaiwanPay Corporation Secretary-General of Taiwan Finance Business Research and Development Association Director of Taipei Financial Center Corporation Director of Mega Charity Foundation	
Director	Chao- Hsien Lai	2009.02.25	2012.02.24	2009.02.25		Arthur D. Little School of Management, MA, U.S.A. Management Master's degree	Executive Vice President and General Manager of Mega International Commercial Bank Manager, Zhongshan Branch of ICBC	Senior Executive Vice President of Mega International Commercial Bank Director of Mega Asset Management Co. Director of Overseas Investment & Development Corp. Chairman of Zhong Yin Financial Consulting Company	
Director	Ying-Hua Wu	2009.11.24	2012.02.24	2009.11.24		National Taipei University MBA	Director-General of Legal Dept. of Bank of Communications	President of Taiwan Financial Asset Service Corporation	
Director	C. W. Cheng (Note 3)	2011.06.29	2012.02.24	2001.06.29		National Chengchi University, Graduate Institute of Public Finance, Master of Law	VP of Mega International Commercial Bank and also manager of New York Branch, Executive Vice President and manager of New York Branch, Manager of LA Branch	Chairman of Taipei Forex	
Director	D. C. Hu (Note 3)	2011.11.23	2012.02.24	2001.11.23		Bloomsburg University, MBA	VP of Sunny Bank, VP of Kao Hsing Bank and Executive Vice President of Macoto Bank		
Supervisors	Dan-Hun Lu	2009.02.25	2012.02.24	2009.02.25		NCCU Master's degree, Graduate Institute of Finance	Executive Vice President, Planning Department of Mega International Commercial Bank General Manager, Investment Department of Bank of Communications	Senior Executive Vice President, Mega Holdings Senior Executive Vice President of Mega International Commercial Bank Chairman of Yin Kai Company Director of N.T.U Innovation Incubation Company Director of Cathay Investment & Development (Bahamas) Company Director of First Venture Capital Co., Ltd.	
Supervisors	C. R. Weng (Note 3)	2001.03.23	2012.02.24	2001.03.23		Graduate, Dept. of Finance and Tax, National Chengchi University	Executive Vice President and Director of Pacific-Asia Regional Center of Mega International Commercial Bank, Executive Vice President of Planning Division, and Branch Executive Vice President of Mega Holdings	President of Mega Management Consultant Co.	
Supervisors	Chia-Min Hong	2009.02.25	2012.02.24	2009.02.25		Graduate, Dept. of Accounting, National Chung Hsing University	Deputy General Manager, Administrative Dept., Mega Holdings	General Manager of Administrative Dept., Mega Holdings Director of Mega Securities Co., Ltd.	

Note: 1. The Company's total number of shares is 1,311,441,084 shares. The Company is a wholly owned subsidiary of Mega Financial Holdings Co., Ltd. and its directors and supervisors are all appointed by representative of Mega Holdings.

2. Said table indicates the information available at the end of 2011. Notwithstanding, Mega Holdings appointed the Company's directors and supervisors of 13<sup>th</sup> term on February 21, 2012, who shall assume the position from February 25, 2012 until February 24, 2015. The directors (including independent directors) and supervisors of 13<sup>th</sup> term include Chairman and also President C. B. Wang, Independent Director T. D. Cheng, Independent Director T. C. Chen, Director R. Y. Lin, Director C. T. Lai, Director Y. H. Wu, Director D. C. Hu, Supervisor D. H. Lu, Supervisor C. L. Hong, and Supervisor J. M. Hong.

3. Mega Holdings re-appointed the new supervisor C. R. Weng, Chairman C. B. Wang, Director C. W. Cheng, and Director D. C. Hu on March 23, 2011, May 25, 2011, June 29, 2011 and November 23, 2011. Director M. Y. Wei resigned as of May 19, 2011.

4. Director and President Jung-Hsiung Lu resigned as of July 1, 2011, and was succeeded to by Chairman and President C. B. Wang.

## 2. Major Shareholders of Corporate Shareholders

Transfer to be suspended on Dec. 31, 2011

Name of Corporate Shareholder	Major Shareholder of Corporate Shareholder (with shareholding among the top 10)	Shareholding
Mega Financial Holdings Co., Ltd.	Ministry of Finance	9.98%
	The National Development Fund, Executive Yuan of the R.O.C.	6.11%
	Fiduciary Trust Account of Bank of Taiwan	4.91%
	Chunghwa Post Co., Ltd.	2.72%
	Bank of Taiwan Co., Ltd.	2.51%
	Fubon Life Insurance Co., Ltd.	1.54%
	Pou Chen Corporation	1.43%
	Cathay Life Insurance Co., Ltd.	1.16%
	Singapore Government Investment Account of Citibank	1.14%
	China Life Insurance Company Ltd.	1.12%

## 3. Major Shareholders of Major Corporate Shareholders

Transfer to be suspended on Dec. 31, 2011

Name of Corporate Shareholder	Major Shareholder of Corporate Shareholder (with shareholding among the top 10)	Shareholding
Ministry of Finance	Government	
The National Development Fund, Executive Yuan of the R.O.C.	Government	
Chunghwa Post Co., Ltd.	MOTC	100.00%
Bank of Taiwan Co., Ltd.	Taiwan Financial Holdings Co., Ltd.	100.00%
Fubon Life Insurance Co., Ltd.	Fubon Holdings	100.00%
Pou Chen Corporation	PC Brothers Corporation (Panama)	7.29%
	Quan Mao Investment Co., Ltd.	5.24%
	Red Magnet Developments (BVI) Ltd.	4.64%
	Ka Tai Investment Co., Ltd.	4.28%
	Chi-Rui Tsai	3.49%
	Trust Account of HSBC Bank (Taiwan) Limited	
	Hong Kong Investment Trust Account of SG SECURITIES (HK) LIMITED, the subsidiary of Societe Generale	2.61%
	Investment Account of Mega Capital (Asia) Co., Ltd. and Mega Securities (Hong Kong) Co., Ltd.	1.90%
	Fubon Life Assurance Co., Ltd.	1.64%
	Shu-Man Huang	1.46%
Cathay Life Insurance Co., Ltd.	Investment Account of Bank of Singapore managed by Standard Chartered Bank, Tunhua N. Road Branch	1.26%
	Cathay Financial Holdings	100.00%
China Life Insurance Company Ltd.	True Prospect Limited	7.37%
	KGI Securities Investment Trust Co., Ltd.	5.62%
	Grand Cathay Securities Corporation	4.32%
	Investment Account of Saudi Arabian Monetary Agency managed by J. P. Morgan, Taipei Branch	3.75%
	Videoland	2.39%
	BlackRock managed by Deutsche Bank AG, Taipei Branch	1.88%
	Investment Account of BlackRock Emerging Markets Fund managed by the investment consultant company	
	Fidelity Funds managed by Standard Chartered Bank	1.83%
	Hai Sheng Investment Co., Ltd.	1.53%
	Investment Account of Abu Dhabi Investment Authority managed by J. P. Morgan, Taipei Branch	1.29%
	Account of Vanguard Emerging Markets Stock Index Fund managed by Standard Chartered Bank	1.14%

Note: Top 10 shareholders

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

December 31, 2011

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 serves as independent directors concurrently
	Lecturer or more 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	
Name														
Gerry Y. G. Lee			V	V		V	V	V		V	V	V		0
C. B. Wang			V			V	V	V	V	V	V	V		0
Chun-Tien Cheng			V	V	V	V	V	V	V	V	V	V	V	1
Tsai-Jyh Chen	V		V	V	V	V	V	V	V	V	V	V	V	0
Ruei-Yun Lin	V		V			V	V			V	V	V		0
Chao-Hsien Lai			V			V	V			V	V	V		0
Ying-Hua Wu			V	V		V	V	V	V	V	V	V		0
C. W. Cheng			V	V		V	V	V	V	V	V	V		0
D. C. Hu			V	V		V	V	V	V	V	V	V		0
Dan-Hun Lu	V		V			V	V			V	V	V		0
C. R. Weng			V			V	V			V	V	V		0
Chia-Min Hong		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 (unless he/she is an independent director of the Company or its parent company, or any subsidiary companies in which the Company directly or indirectly holds more than 50% of the shares with voting rights).
3. Neither oneself, one's spouse, nor any non-adult male or female child of oneself, either in their own or anybody else's name holds more than one percent of the Company's shares, or serves as one of the Company's top-ten natural person shareholders.
4. Not a spouse of any of the persons listed in the above three clauses, or related to such a person within two or five, etc., degrees of direct consanguinity.
5. Not a director, supervisor or employee of corporate shareholders directly holding more than five percent of issued shares of the Company or ranking among the first five corporate shareholders.
6. Not a director, supervisor, or manager of a specific company or organization with financial or business dealings with the Company, or a shareholder of such a specific company or organization holding more than five percent of shares.
7. Not a professional person, or an owner, partner, director, supervisor, manager and their spouse of proprietorship, partnership, company or organization, that provides business, legal, financial, accounting, etc., services or advice to the Company or its affiliated companies.
8. Not a spouse of, or related within the second degree of consanguinity to, any other director.
9. Free from any circumstances referred to in Article 30 of the Company Act.
10. 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 and CEO, Senior Executive Vice Presidents, Executive Five Presidents, and Heads of Departmental and Branch Offices

April 1, 2012

Job Title	Name	Date of Election (Appointment)	Shareholding		Current shareholding of spouse or children under the age of majority		Shares lawfully held in the name of another		Main Educational and Professional Background		Current post held concurrently in other companies	Other General Managers within two degrees of kinship of self or spouse		
			Quantity	Shareholding	Quantity	Shareholding	Quantity	Shareholding	Education	Experience		Job Title	Name	Relationship
President and CEO	C. B. Wang	2011.07.01	-	-	-	-	-	-	Graduate, Department of International Trade of Tamkang University	VP of Mega Holdings VP of SinoPac Holdings and also President of Far East National Bank Executive Vice President of Mega International Commercial Bank, Administration and also President of ICBCTHBK	VP of Mega Holdings Director of Mega Charity Foundation Supervisor of Mega International Commercial Bank	-	-	-
Senior Executive Vice President	Ching-Tsan Wai	2006.09.08	-	-	-	-	-	-	Dept. of Accounting, Fu Jen University	Executive Vice President, Mega Holdings	-	-	-	-
Senior Executive Vice President	Ching-Wen Wu	2009.01.05	-	-	-	-	-	-	Dept. of Business Administration, Feng Chia University	Executive Vice President, MBF, and General Manager, Bills Dept., MBF	-	-	-	-
Chief Auditor	Cheng-Tsung Kan	2002.11.01	-	-	-	-	-	-	Department of Public Finance, NCCU	Executive Vice President, MBF, and General Manager, Sanchong branch, MBF	-	-	-	-
Executive Vice President and also manager of Risk Control Dept.	Yi-sheng Wang	2012.04.01	-	-	-	-	-	-	Dept. of Banking, Tamkang University	General Manager, Administration Dept. MBF	Director, Core Pacific City Co. Ltd.	-	-	-
Executive Vice President and also manager of Credit Investigation Dept.	G. Y. Chien	2012.04.01	-	-	-	-	-	-	Dept. of Banking Insurance, Tamkang University	the Company's Executive Vice President, and also manager of Panchiao Branch	-	-	-	-
Executive Vice President, and General Manager, Guarantee Dept.	Ji-Fu Lin	2009.03.01	-	-	-	-	-	-	Department of Public Finance, National Chung Hsing University	General Manager, Hsinchu branch, MBF	-	-	-	-
Executive Vice President, and General Manager, Bonds Dept.	Ci-Cheng Cai	2005.05.03	-	-	-	-	-	-	Dept. of Economics, Chinese Culture University	General Manager, Panchiao Branch, MBF	-	-	-	-
General Manager, Treasury Dept.	C. H. Chiu	2011.03.01	-	-	-	-	-	-	Department of Accounting, Management School, Tamkang University, Master	Senior Assistant Manager of Finance Dept. of the Company	-	-	-	-
Executive Vice President, and General Manager, Administration Dept.	Chun-Chang Lee	2012.02.01	-	-	-	-	-	-	Master's degree, Graduate Institute of Business, NTU	General Manager, Panchiao Branch, MBF	-	-	-	-
General Manager, Electronic Data Processing Dept.	Si-Bin You	2002.01.29	-	-	-	-	-	-	Master's degree, Graduate Institute of Engineering, National Taiwan University of Science and Technology	Deputy General Manager, Electronic Data Processing Dept. MBF	-	-	-	-
Executive Vice President, and General Manager, Kaohsiung Branch.	Yao-Guang Cai	2008.01.16	-	-	-	-	-	-	Dept. of Banking, Tamkang University	Executive Vice President, MBF, and General Manager, Guarantee Dept., MBF	-	-	-	-
Executive Vice President, and General Manager, Tainan Branch	Cong-Jhong Lin	2012.02.01	-	-	-	-	-	-	Dept. of Business Administration, Chung Yuan Christian University	General Manager, Taichung Branch, MBF	-	-	-	-
General Manager, Chiayi Branch	K. S. Lin	2011.10.03	-	-	-	-	-	-	I-Shou University, Graduate Institute of Management, Master	Senior Assistant Manager of Kaohsiung Branch	-	-	-	-
General Manager, Taichung Branch	Rong-kun Wu	2010.07.01	-	-	-	-	-	-	Department of Banking, NCCU	General Manager, Tainan Branch, MBF	-	-	-	-
General Manager, Hsinchu Branch	Yin-Ping Liu	2009.03.01	-	-	-	-	-	-	Dept. of Accounting, Feng Chia University	Senior Vice President, Hsinchu Branch, MBF	-	-	-	-
General Manager, Taoyuan Branch	Ming-Jeh Cheng	2010.07.01	-	-	-	-	-	-	Master, Graduate Institute of Management and Technology, Ming Chuan University	General Manager, Sanchong Branch, MBF	-	-	-	-
General Manager, Panchiao Branch,	Rong-jie Jheng	2012.04.01	-	-	-	-	-	-	Master, National Taipei Institute of Technology, Graduate Institute of Commerce Automation and Management	General Manager, Taoyuan Branch, MBF	-	-	-	-
Executive Vice President, and General Manager, Sanchung Branch	Jin-Sheng Huang	2012.04.01	-	-	-	-	-	-	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	Company's Executive Vice President and also manager of Facility Dept.	-	-	-	-



(3) Remuneration paid to directors, supervisors, President and CEO, and Senior Executive Vice Presidents in the most recent year

1. Remuneration to directors

Dec. 31, 2011; Unit: NT\$ Thousand

Job Title	Name	Remuneration to Director				Remuneration Drawn by Employees Holding Concurrent Posts										Whether remuneration is also drawn from non-subsidary companies in which the company has invested		
		Remuneration (A)	Pension (B)	Remuneration allocated from earnings (C)	Professional practice expenses (D)	Total of (A), (B), (C) and (D) in Post-Tax Profit Ratio (%)	Salaries, bonuses and special allowances (E)	Pension (F)	Employee bonus allocated from earnings (G)	Quantity of shares entitled under employee stock options (H)	Total of (A), (B), (C), (D), (E), (F) and (G) in Post-Tax Profit Ratio (%)		All companies in consolidated financial statements		All companies in consolidated financial statements		All companies in consolidated financial statements	
		All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements
Chairman of the Board	Gerry Y. G. Lee																	
Director	C. B. Wang (Note 1)																	
Director	Jung-Hsiung Lu (Note 1)																	
Director	Ruei-Yun Lin																	
Director	Chao-Hsien Lai																	
Director	Ying-Hua Wu																	
Director	C. W. Cheng (Note 1)																	
Director	D. C. Hu (Note 1)																	
Director	Mei-Yu Wei (Note 1)																	
Independent Director	Chun-Tien Cheng																	
Independent Director	Tsai-Jyh Chen																	
Remittance by Mega Financial Holdings																		
Total		7,832	7,832			1,873	1,873	0.36	0.36	5,849	5,849					0.58	0.58	N/A

Note:

1. Director M. Y. Wei resigned as of May 19, 2011. Mega Holdings re-appointed the new directors including C. B. Wang, C. W. Cheng and D. C. Hu on May 25, 2011, June 29, 2011 and November 23, 2011. Director and President Jung-Hsiung Lu resigned as of July 1, 2011, and was succeeded to by Chairman and President C. B. Wang
2. Housing and vehicle lease payments were included into the "professional practice expenses (D)" section.
3. Performance bonus and allocation of earnings were based on the annual estimates. The actual amount thereof shall be authorized by the parent company.

### Scales of Remuneration

Scale of Remuneration Paid to Each of the Company's Directors	Director's Name			
	Total of A+B+C+D		Total of A+B+C+D+E+F+G	
	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements
Less than NT\$2,000,000	C. B. Wang, Jung-Hsiung Lu, Ruei-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, C. W. Cheng, D. C. Hu, Mei-Yu Wei, Chun-Tien Cheng, Tsai-Jyh Chen, Remittance by Mega Financial Holdings	C. B. Wang, Jung-Hsiung Lu, Ruei-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, C. W. Cheng, D. C. Hu, Mei-Yu Wei, Chun-Tien Cheng, Tsai-Jyh Chen, Remittance by Mega Financial Holdings	Ruei-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, C. W. Cheng, D. C. Hu, Mei-Yu Wei, Chun-Tien Cheng, Tsai-Jyh Chen, Remittance by Mega Financial Holdings	Ruei-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, Ying-Hua Wu, C. W. Cheng, D. C. Hu, Mei-Yu Wei, Chun-Tien Cheng, Tsai-Jyh Chen, Remittance by Mega Financial Holdings
NT\$2,000,000~NT\$5,000,000			C. B. Wang, Jung-Hsiung Lu	C. B. Wang, Jung-Hsiung Lu
NT\$5,000,000~NT\$10,000,000	Gerry Y. G. Lee	Gerry Y. G. Lee	Gerry Y. G. Lee	Gerry Y. G. Lee
NT\$10,000,000~NT\$15,000,000				
NT\$15,000,000~NT\$30,000,000				
NT\$30,000,000~NT\$50,000,000				
NT\$50,000,000~NT\$100,000,000				
NT\$100,000,000 and above				
Total (NT\$ Thousand)	9,705	9,705	15,554	15,554

## 2. Remuneration to supervisors

Dec. 31, 2011; Unit: NT\$ Thousand

Job Title	Name	Remuneration to Supervisor								Total of (A), (B), (C) and (D) in Post-Tax Profit Ratio (%)		Whether remuneration is also drawn from non-subsidiary companies in which the company has invested
		Remuneration (A)		Pension (B)		Remuneration allocated from earnings (C)		Professional practice expenses (D)				
		The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	
Supervisors	Dan-Hun Lu											
Supervisors	C. R. Weng											
Supervisors	Chia-Min Hong											
Total		-	-	-	-	-	-	726	726	0.03	0.03	N/A

### Scales of Remuneration

Scale of Remuneration Paid to Each of the Company's Supervisors	Supervisor's Name	
	Total of A+B+C+D	
	The Company	All companies in consolidated financial statements
Less than NT\$2,000,000	Dan-Hun Lu, C. R. Weng, Chia-Min Hong	Dan-Hun Lu, C. R. Weng, Chia-Min Hong
NT\$2,000,000~NT\$5,000,000		
NT\$5,000,000~NT\$10,000,000		
NT\$10,000,000~NT\$15,000,000		
NT\$15,000,000~NT\$30,000,000		
NT\$30,000,000~NT\$50,000,000		
NT\$50,000,000~NT\$100,000,000		
NT\$100,000,000 and above		
Total (NT\$ Thousand)	726	726

## 3. Remuneration to President and CEO and Senior Executive Vice Presidents

Dec. 31, 2011; Unit: NT\$ Thousand

Job Title	Name	Salary (A)		Pension (B)		Bonus and Special Allowance, et al. (C)		Employee Bonus Allocated from Earnings (D)				Total of (A), (B), (C) and (D) in Post-Tax Profit Ratio (%)		Quantity of shares acquired under employee stock options		Whether remuneration is also drawn from non-subsidiary companies in which the company has invested
		The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company		All companies in consolidated financial statements		The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	
								Cash dividend	Stock dividend	Cash dividend	Stock dividend					
President and CEO	C. B. Wang															
Ex-president	Jung-Hsiung Lu															
Senior Executive Vice President	Ching-Tsan Wai															
Senior Executive Vice President	Ching-Wen Wu															
Chief Auditor	Cheng-Tsung Kan															
Total		9,836	9,836	-	-	9,392	9,392	2,757	-	2,757	-	0.82	0.82	-	-	N/A

Note: Performance bonuses and allocation of earnings were based on the annual estimates. The actual amount thereof shall be authorized by the parent company.

### Scales of Remuneration

Scale of Remuneration Paid to Each of the Company's Presidents and CEOs and Senior Executive Vice Presidents	Remuneration to President and CEO and Senior Executive Vice President	
	The Company	All companies in consolidated financial statements
Less than NT\$2,000,000		
NT\$20,000,000~NT\$5,000,000	C. B. Wang, Jung-Hsiung Lu	C. B. Wang, Jung-Hsiung Lu
NT\$5,000,000~NT\$10,000,000	Ching-Tsan Wai, Ching-Wen Wu, Cheng-Tsung Kan	Ching-Tsan Wai, Ching-Wen Wu, Cheng-Tsung Kan
NT\$10,000,000~NT\$15,000,000		
NT\$15,000,000~NT\$30,000,000		
NT\$30,000,000~NT\$50,000,000		
NT\$50,000,000~NT\$100,000,000		
NT\$100,000,000 and above		
Total (NT\$ Thousand)	21,985	21,985

#### 4. Names of Managers Receiving Allocated Employee Bonus, and Status of Allocation

Dec. 31, 2011; Unit: NT\$ Thousand

	Job Title	Name	Stock dividend amount	Cash dividend amount	Total	Total in Post-Tax Profit Ratio (%)
Managers	Senior Executive Vice President	Ching-Tsan Wai				
	Senior Executive Vice President	Ching-Wen Wu				
	Chief Auditor	Cheng-Tsung Kan				
	Executive Vice President	Yi-sheng Wang				
	Executive Vice President	Ci-Cheng Cai				
	Executive Vice President	Guei-Yao Jian				
	Executive Vice President	Jin-Sheng Huang				
	Executive Vice President	Ji-Fu Lin				
	Executive Vice President	Yao-Guang Cai				
	General Manager	Si-Bin You				
	General Manager	Rong-kun Wu				
	General Manager	Cong-Jhong Lin				
	General Manager	Yin-Ping Liu				
	General Manager	Rong-jie Jheng				
	General Manager	Chun-Chang Lee				
	General Manager	Ming-Jeh Cheng				
	General Manager	C. H. Chiu				
	General Manager	K. S. Lin				
	Total		-	15,142	15,142	0.56

- (4) Analysis on remuneration paid to the directors, supervisors, President and CEO, and Senior Executive Vice Presidents in the most recent two years

##### 1. Total of the remuneration paid to the directors, supervisors, President and CEO, and Senior Executive Vice Presidents in Post-Tax Profit Ratio

The total of remuneration paid to the directors, supervisors, President and CEO, and Senior Executive Vice Presidents in Post-Tax Profit Ratio was 1.29% and 1.21% in 2010 and 2011, respectively.

**2. Policies, standards, combinations, procedure of decision-making of remuneration and their relation to business performance and future risk:**

The Company's directors and supervisors are all appointed by its sole shareholder, Mega Financial Holdings Co., Ltd. In accordance with the Company's remuneration policy, the Chairman and the CEO and director concurrently serving as president will receive a reasonable remuneration for professional practice. In accordance with Mega Financial Holding's remuneration policy, independent directors will receive a reasonable remuneration. The rest of the directors and supervisors are compensated for meeting attendance and transportation allowances only. The remuneration was paid to the vice presidents subject to the Company's business performance and in accordance with the Company's relevant requirements.

### III. Status of Corporate Governance:

#### (1) Directors' Participation in Board Meetings:

##### 13(A) Board Meetings Called in the Most Recent Year and Attendance thereof:

Job Title	Name	Attendance in Person (B)	Attendance by Proxy	Actual Attendance Rate (%) [B/A]	Remark
Chairman of the Board	Gerry Y. G. Lee	13	0	100	
Director	C. B. Wang	7	0	88	Assumed on 2011.5.25
Director	Jung-Hsiung Lu	6	0	100	Resigning on 2011.7.1
Director	Ruei-Yun Lin	12	1	92	
Director	Chao-Hsien Lai	13	0	100	
Director	Ying-Hua Wu	13	0	100	
Director	C. W. Cheng	7	0	100	Assumed on 2011.6.29
Director	D. C. Hu	1	0	100	Assumed on 2011.11.23
Director	Mei-Yu Wei	4	0	100	Resigning on 2011.5.19
Independent Director	Chun-Tien Cheng	13	0	100	
Independent Director	Tsai-Jyh Chen	11	2	85	

Other notes to be specified:

- I. Matters listed in Article 14-3 of Securities and Exchange Act and other resolutions for which independent directors' dissent or qualified opinion is recorded or stated in writing: N/A
- II. Implementation of directors' avoidance of motions that have conflict of interest with them:
  - (1) At the 25<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on January 25, 2011, the Company's corrective actions against the general business inspection report of the FSC on the Company in 2010 (Report No. 099S025) was discussed. The Chairman Gerry Y. G. Lee and Director and also President, Jung-Hsiung Lu, was recused from the discussion, and Independent Director Chun-Tien Cheng acted as the chairperson as proxy.
  - (2) At the 26<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on February 22, 2011, the FSC's written request demanding that the Company's Board of Directors should supervise the management and performance appraisal of the relevant managers by the holding company with respect to the defects found in the general business inspection from May to June 2010 was reported, the Chairman Gerry Y. G. Lee and Director and also President, Jung-Hsiung Lu, was recused from the discussion, and Independent Director Chun-Tien Cheng acted as the chairperson as proxy.
  - (3) At the 28<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on April 26, 2011, the motion for relieving the Company's directors from non-competition restriction submitted on behalf of shareholders' meeting was discussed. Independent Director Chun-Tien Cheng, Director Ruei-Yun Lin, Director M. Y. Wei and Director Chao-Hsien Lai was recused from the discussion and voting.
  - (4) At the 28<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on April 26, 2011, the motion for (1) Donation to "Mega Charity Foundation" to promote the charity business expenditure was discussed (Chairman and also President, Jung-Hsiung Lu, and Director Ruei-Yun Lin avoided the discussion and voting) and for (2) extending the limit of promissory note to Sunrise Golf & Country Club was discussed (Director Ruei-Yun Lin, Director M. Y. Wei and Director Chao-Hsien Lai was recused from the discussion and voting).
  - (5) At the 29<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on May 24, 2011, the motion for extending the facility of guaranteed promissory note to Brighton-Best International (Taiwan) Inc. was discussed. Director Chao-Hsien Lai was recused from the discussion and voting.
  - (6) At the 30<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on June 21, 2011, the motion for extending the facility of guaranteed promissory note to Boltun Corporation was discussed. Director Ruei-Yun Lin and Director Chao-Hsien Lai avoided the discussion and voting.
  - (7) At the 31<sup>st</sup> Board Meeting of the 12<sup>th</sup> Term on July 1, 2011, the motion for appointment of the Company's President was discussed. Director C. B. Wang was recused from the discussion and voting.
  - (8) At the 32<sup>nd</sup> Board Meeting of the 12<sup>th</sup> Term on July 26, 2011, the motion for (1) raise of the employees' averaged salary was discussed (Chairman Gerry Y. G. Lee avoided the discussion and voting, and Director Chun-Tien Cheng acted as the chairperson on behalf thereof) and for (2) extending the limit of promissory note to Yieh-Hsing Enterprise Co., Ltd. was discussed (Director Ruei-Yun Lin, Director Chao-Hsien Lai and Director C. W. Cheng was recused from the discussion and voting).
  - (9) At the 34<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on September 27, 2011, the motion for (1) the Company's appointment of Bank of Taiwan and Mega International Commercial Bank for custody and liquidation of marketable securities and registered bonds was discussed (Director Ruei-Yun Lin, Director Chao-Hsien Lai and Director C. W. Cheng avoided the discussion and voting) and for (2) the amendments to the Company's "Regulations Governing Functions of Independent Directors" was discussed (Independent Director Chun-Tien Cheng and Independent Director T. C. Chen was recused from the discussion and voting).
  - (10) At the 36<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on November 21, 2011, the motion for (1) mutual lease of office premises with Chung Kuo Insurance Company, Limited was discussed (Director Ruei-Yun Lin avoided the discussion) and for (2) extending the facility of guaranteed promissory note to Mega Asset Management Corporation was discussed (Chairman Gerry Y. G. Lee and Director Chao-Hsien Lai was recused from the discussion and voting, and Independent Director Chun-Tien Cheng acted as the chairperson on behalf thereof).
  - (11) At the 37<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on December 27, 2011, the motion for the amendments to the Company's "Enforcement Rules for Employees' Year-End Bonus" reported on behalf of the shareholders' meeting was discussed. Chairman Gerry Y. G. Lee and Director and also President C. B. Wang was recused from the discussion and voting, and Independent Director Chun-Tien Cheng acted as the chairperson on behalf thereof.
  - (12) At the 37<sup>th</sup> Board Meeting of the 12<sup>th</sup> Term on December 27, 2011, the motion for (1) extending the facility of guaranteed promissory note to Ching Fu Shipbuilding was discussed (Director Ruei-Yun Lin and Director Chao-Hsien Lai was recused from the discussion and voting) and for (2) Mega Holdings' appointment of the Company to underwrite (or buy in) the facility of guarantee-free promissory note (Independent Director Chun-Tien Cheng and Director Ruei-Yun Lin was recused from the discussion and voting).
- III. Objectives for strengthening board of directors functions (such as establishment of audit committee, raising transparency of information, etc.), of this year and recent years, and assessment of state of implementation: N/A

(2) Supervisors' Participation in Board Meetings:

13(A) Board Meetings Called in the Most Recent Year and Attendance Thereof:

Job Title	Name	Attendance in Person (B)	Actual Attendance Rate (%) [B/A]	Remark
Supervisors	Dan-Hun Lu	12	92	
Supervisors	C. R. Weng	10	100	Assumed on 2011.3.23
Supervisors	Chia-Min Hong	13	100	

Other notes to be specified:

I. Formation and responsibilities of supervisors:

- (1) Communication between supervisors and the Company's employees and stockholders (channels and ways of communication):

Communication can be made in writing or by telephone, fax or other ways at any time

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- (2) Communication between supervisors and the Company's heads of the internal audit and the CPAs (ways of communication and results in terms of the Company's financial and business status): The Company's internal audit reports and financial statements are regularly sent to supervisors for review. Communication can be made through supervisors' meetings, in writing or by telephone, fax, or other ways. Supervisors can also attend board meetings to have an understanding of the relevant resolutions and the Company's financial and business status.

- II. Where a supervisor has expressed comments with respect to a matter or resolution in a Board Meeting, the Company should detail the date of the meeting, term of the Board, contents of the motion, resolution by the Board of Directors, and Company's response to the comments: N/A

(3) Information about status of corporate governance: Please visit the Company's Web site. The "Statutory Disclosure" (<http://www.megabills.com.tw/>)

(4) The Company's status of corporate governance, and non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance

Item	Status	Non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance
I. Company equity structure and shareholders' equity (1) Means of processing and settling directors' proposals or dispute (2) Major shareholders of actual holding company and name list of parties ultimately controlling major shareholders (3) Means of establishing risk management mechanisms and firewalls with business associates	I. The Company is a subsidiary wholly owned by Mega Financial Holding Co, Ltd. and conducted the relevant business in accordance with Mega Financial Holdings Co., Ltd.'s regulations. II. The Company's only shareholder is Mega Financial Holdings Co., Ltd. The name list of ultimate controlling parties may be requested from the parent company. III. The authority to manage the relevant personnel, assets and finance of the Company and various affiliates are separate and independent, and adhere to the "Risk Management Policy and Guidance of Mega Financial Group" and "Fire-Wall Policy of Mega Holdings and Subsidiaries Thereof". (1) Data security: the Company has established parameters to transaction authority management and data file access. (2) Confidentiality of client data: Access to and utilization of client data when login/logoff of clients' basic data, may only be performed by those with specific authorization. The Company's confidentiality measures are disclosed on line. Co-marketing and interchange and utilization of resources will be conducted upon receipt of written consent form from the client, and the Company also enters into the non-disclosure agreement with various subsidiaries to maintain the confidentiality of client data. (3) Transactions with stakeholders: The Company has established stakeholder data files, and will periodically report to the parent company, Mega Holdings, to enable it to disclose the relevant information and report to the competent authority.	Compliance with the Corporate Governance Practice Regulations for Bills Finance Companies
II. Formation and functions of Board of Directors (1) Status of installation of independent directors (2) Periodically appraise the certifying CPA's independence	I. The Company has 7 directors, including 2 independent directors, and the other directors appointed by the parent company, Mega Financial Holdings. II. The Company will appraise the CPA's independence when appointing the CPA.	Compliance with the Corporate Governance Practice Regulations for Bills Finance Companies
III. Establishment of channels for communication with stakeholders	The Company will disclose information as required and communicate with stakeholders at any time.	Compliance with the Corporate Governance Practice Regulations for Bills Finance Companies
IV. Disclosure of information (1) State of establishment of Web site disclosing information about financial businesses and the Company's corporate governance (2) Other means to disclose information (such as establishing English-language Web sites, appointing specialists to handle the collection and dissemination of information, implementing spokesperson systems, posting of the process of investor conference presentation at the Company's Web site)	I. The Company has established a zone dedicated to public disclosure on its Web site to disclose financial reports, important financial and business information, interest rate quotation, information about corporate governance and information about credit ratings pursuant to laws. II. Other means to disclose information (1) The Company has established a zone dedicated to disclosure of English annual reports on the Company's Web site. (2) There are personnel dedicated to collecting information for various exclusive zones, and maintaining and updating the information in the zones periodically. (3) The Company has defined "Notes to Implementation of Spokesperson and Acting Spokesperson System". The Company's information is released in accordance with the relevant procedures. Employees are not entitled to speak on behalf of the Company externally. (4) The Company is not a listed/OTC bills financial company. Its information shall be disclosed via its parent company, Mega Financial Holdings.	Compliance with the Corporate Governance Practice Regulations for Bills Finance Companies
V. State of establishment of nomination, remuneration or other functional committees	N/A	The Company is a subsidiary wholly owned by Mega Financial Holdings Co., Ltd., and its directors and supervisors are appointed by Mega Financial Holdings. Currently, the Company's major decisions and resolutions are submitted to the Board of Directors for approval and verification. Remuneration or performance appraisal of the Company's managers and sale representatives is granted in accordance with the Company's



		reward and bonus policy, subject to the business performance and future risk instead of the performance for sale of financial products or services by them.
VI.	The Company's status of corporate governance, and non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance: Compliance with the Corporate Governance Practice Regulations for Bills Finance Companies	
VII.	<p>Other important information to provide understanding of the Company's status of corporate governance:</p> <ol style="list-style-type: none"> <li>(1) Employees' interests and rights: Subject to the Labor Standard Law and the Company's work rules</li> <li>(2) Employee benefits: The Company has an Employee Benefits Committee that handles employee benefits issues and provides timely care for employees. All employees are covered by labor insurance, national health insurance plan and group life insurance. Labor safety and health issues are handled in accordance with Taiwan's Labor Safety and Health Law. Employee benefits also include health check-ups, wedding and funeral subsidies.</li> <li>(3) Investor relationship: The Company is a subsidiary wholly owned by Mega Financial Holdings Co., Ltd., and its sole investor is Mega Financial Holdings.</li> <li>(4) Stakeholder rights: The Company fully discloses its information according to law, and communication channels are kept open and smooth. Employees, clients and vendors may send requests, questions or comments in writing or by telephone, e-mail or through the Company's customer service hotline.</li> <li>(5) Continuing education of directors/supervisors: Some directors/supervisors attended the programs, including "Operation of listed/OTC companies' auditing committee and salary review committee, how to effectively control business negotiations to reach the win-win strategies, directors'/supervisors' functions and responsibilities in terms of corporate governance, establishment and operation of salary review committee" organized by the Chinese National Association of Industry and Commerce, Taiwan (CNAIC), "Potential Risk in Financial Statements" organized by Taiwan Securities Association and "Taiwan Financial Forum Series Workshop" organized by the Taiwan Academy of Banking and Finance (TABF).</li> <li>(6) Directors' and supervisors' attendance at board meetings: All attended, or present at the meetings periodically as required</li> <li>(7) Risk management policy and implementation thereof: Compliance with the regulations of the competent authorities and the parent company, Mega Financial Holdings, evaluation of the Company's operating risks, identification of risk limit that each business is capable of sustaining, and urging the administrative units to take any necessary actions to ensure the Company's operating security and performance. In order to ensure that each risk management policy is implemented effectively and the meetings of the loans evaluation committee and the risk management committee, and so forth, are called periodically to provide the best possible assurance of risk control outcomes, gains and losses, as well as to adapt each risk control measure appropriately to developments.</li> <li>(8) Implementation of consumer protection or customer policy: In accordance with the standards of the competent authorities and Taiwan Bills Finance Association, the Company has expressly defined the provisions to be complied with by the Company in contracts. Consumers may assert their rights thereof, and a contact point is installed at the Company's Web site available to consumers for communications.</li> <li>(9) Liability insurance of directors and supervisors: All directors and supervisors are covered by a liability insurance program as required.</li> <li>(10) Social responsibility: <ol style="list-style-type: none"> <li>1. Execute the cooperative work experience education to provide school students with the chance for practical experience, and work with schools to arrange the school students' visit tours</li> <li>2. Attend various fairs organized by external entities in a timely manner to meet the Group's needs.</li> </ol> </li> </ol>	
VIII.	Details of self-assessment (or external assessment), major weaknesses (or recommendations) and status of improvement in relation to corporate governance practices where a self-assessment or assessment by an external professional body has been performed: N/A	

## (5) Performance of Social Responsibilities

Item	Status
<p>I. Implement corporate governance</p> <p>(1) State of corporate social responsibility policy or system defined by a bills financial company, and review of the results thereof;</p> <p>(2) State of the unit dedicated to promoting the corporate social responsibility on a full-time (part-time) basis to be installed by a bills financial company;</p> <p>(3) State of the corporate ethical training and promotional events to be held by a bills financial company for directors, supervisors and employees periodically, and effective reward and punishment system established by integration of the events with the employees' performance appraisal system.</p>	<p>I. The Company has not yet defined its social responsibility policy or system. Notwithstanding, during its routine operating activities, it has implemented the social responsibilities including promotion of corporate governance, strict compliance with the legal requirements, provision of excellent working environment and reasonable remuneration and benefit to employees, execution of environmental protection and energy-saving activities, and participation in social public welfare functions.</p> <p>II. The Administration Dept. takes charge of the promotion of the Company's social responsibilities concurrently, and it implements the relevant corporate governance regulations, plans personnel system, participates in social public welfare functions, define the Company's environment and energy-saving policies, and implements the relevant governmental energy-saving and carbon emission reduction programs.</p> <p>III. The Company propagates work rules to employees through the internal training programs, encourages them to participate in public welfare functions and energy-saving programs, and take the employees' performance and morals into consideration when conducting performance appraisal and rendering reward or punishment.</p>
<p>II. Develop sustainable environments</p> <p>(1) State of utilization of various resources to be increased by a bills financial company, and utilization of recycled materials that cause less adverse impact to the environment;</p> <p>(2) State of the adequate environment management system to be established by a bills financial company by its industrial characteristics;</p> <p>(3) State of the unit or personnel dedicated to environment management;</p> <p>(4) State of the effect caused by climate change to operating activities to be noted by a bills financial company, and energy-saving and green house gas reduction strategies to be defined by a bills financial company.</p>	<p>I. The Company has already adopted the measures including recycling of various envelopes, periodical recycling of waste toner cartridges, auction of old office desks and chairs, and recycling of old computers;</p> <p>II. Effects caused by the Company's operating activities to the environment: The Company is dedicated to reducing the effects to the environment caused by business vehicles, power used at the office premises, water resources and waste generated thereof by recycling resources and practicing energy conservation regarding elevators, controlling path lights, air conditioner and water resources, and controlling and periodically maintaining business vehicles.</p> <p>III. The environment management affairs shall be processed by the Administration Dept. of the Head Office, and various branches, jointly.</p> <p>IV. The Company's has defined the enforcement rules for energy-saving measures against the buildings where the Company's office premises are situated, to implement the energy-saving and carbon emission reduction measures. Meanwhile, to deal with the government's policy, the energy-saving ratio for the Company's electricity charges and fuel charges in 2011 and 2010 also increased by 18.50% and 11.13%, respectively.</p>
<p>III. Maintain social public welfare</p> <p>(1) State of compliance with the relevant labor laws and regulations, protection of employees' legal interests and rights, methods and procedures of establishing adequate management;</p> <p>(2) State of the safe and healthy work environment to be provided by a bills financial company, and periodic safety and health training programs to be provided to employees;</p> <p>(3) State of the consumers policy to be defined and disclosed by a bills financial company, and the transparent and effective complaining procedure to be provided to consumers for its products and services;</p> <p>(4) State of cooperation between a bills financial company and its suppliers to enhance the enterprise's social responsibilities;</p> <p>(5) State of participation in social development and charity group-related functions by a bills financial company by virtue of business activities, donations, volunteer service or other free professional services.</p>	<p>I. Compliance with the relevant labor laws and regulations, protection of employees' legal interests and rights, methods and procedures of establishing adequate management:</p> <p>(1) Provide employees with reasonable remuneration and bonus policy;</p> <p>(2) Organize employees' training programs;</p> <p>(3) Implement insurance programs and shift system;</p> <p>(4) Allocate pension fund pursuant to laws.</p> <p>II. Provide the following safe and healthy working environments to employees:</p> <p>(1) Organize employees' health examination on a yearly basis;</p> <p>(2) Define the "Instructions to Employees' Suggestions and Complaints" to establish a diversified communication channel;</p> <p>(3) Define the "Instructions to Sexual Harassment Control" to provide the complaint channel and maintain work environment order;</p> <p>(4) Maintain accidental and medical insurance programs for employees and their dependents;</p> <p>(5) Define the safety maintenance requirements and instructions to respond to disasters and emergencies; organize fire-protection seminars and drills on a yearly basis; organize safety maintenance meetings periodically;</p> <p>III. The Company has, in accordance with the standards of the competent authorities and Taiwan Bills Finance Association, expressly defined the provisions to be complied with by the Company in contracts. Consumers may assert their rights thereof, and a contact point is installed at the Company's Web site available to consumers for communications. The unit dedicated to acceptance of customers' complaints is the Administration Dept.</p> <p>IV. The Company will note whether the products provided by suppliers are equipped with energy-saving and carbon emission reduction function, in order to enhance the corporate social responsibilities.</p> <p>V. Participation in social development and charity group-related functions:</p> <p>(1) The Company has entered into academic and industrial cooperation programs with multiple universities/colleges permanently, to provide the chance for practicing.</p> <p>(2) Sponsor the budget for Mega Group's participating in organizing the "Public Welfare Trust Le Cheng Human Rights Foundation"</p> <p>(3) Participate in functions organized by Mega Charity Foundation</p> <p>(4) Sponsorship of the training budget of the representative teams of Junior High School of Hsinchu City and Elementary School of Hsinchu City.</p> <p>(5) Sponsor the budget for Mega Group's participating in organizing the Function entitled "Running the Silk Road" for the Marathon player, Kevin Lin</p> <p>(6) Attend the function entitled "Brace the Golden Decade-100 Years Celebration of the R.O.C. Ministry of Finance Carnival"</p>
<p>IV. Enhance disclosure of information</p> <p>(1) Method for a bills financial company's disclosure of critical and reliable information about corporate social responsibilities;</p> <p>(2) State of the enterprise social responsibility report prepared by a bills financial company and disclosure of the promotion of the enterprise social responsibility.</p>	<p>I. The state of the Company's performance of its social responsibilities is disclosed in the annual report and also posted at the Company's Web site.</p> <p>II. The Company is a subsidiary wholly owned by Mega Financial Holdings. Therefore, the corporate social responsibility report is prepared by its parent company, the holding company.</p>
V. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation: N/A	
VI. Other important information to facilitate better understanding of the Company's corporate social responsibility practices (e.g., systems and measures that a bills financial company has adopted with respect to environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights, safety and health, other corporate social responsibilities and activities, and the status of implementation.): Please refer to the important information about the Company's state of corporate governance on Page 20.	
VII. If the Company's products or corporate social responsibility reports have received assurance from external institutions, they should state so below: N/A	

(6) Performance of Operation with Integrity and Actions Thereof:

Item	Status
1. Forbid dishonest business conduct	The work rules expressly define that employees (hires) shall not take advantage of or violate their duty or receive entertainment, gifts, rebates or other illegal benefits, or benefit themselves or others by means of their authority, or embezzle fund from accounts trading with them, or apply for loans with the Company in another person's name.
2. Law compliance	The Company defines its law compliance policy in accordance with the Regulations Governing the Implementation of Internal Control and Audit Systems by Bills Houses, and complies with the relevant laws and defines its internal control rules engage in honest business conduct.
3. Policy	The Company adheres to the management philosophy highlighting "Sincerity, Prosperity, Service, Efficiency, Innovation and Development". "Sincerity" is the first priority and also the basis for the operating policy, to establish the Company's sound corporate governance and risk control systems and create the operating environment for sustainable development.
4. Prevention actions	The work rules provide that employees who break laws and regulations or engage in abuse or embezzlement shall be disciplined by verbal warning, admonition, demerit, major demerit, degradation or termination of employment, and shall be brought to justice if any criminal liability is involved, in order to enhance the internal control system.
5. State of performance of honesty business conduct and implementation thereof	The Company strictly implemented the corporate governance-related requirements, established the law compliance officer system, internal control and audit system, risk management system, and also enhanced the board of directors functions, exerted supervisors' functions, respected the interested party's interests and rights, and enhance the transparency of information.
6. Business conduct with integrity	The routine operating activities shall be fair and transparent. It is necessary to confirm whether the trading counterpart had a dishonorable record, e.g., a bounced check, to prevent the Company from trading or contracting with the counterpart who has a dishonorable record. Where the trading counterpart is suspected of dishonorable business conduct, the contract with the counterpart may be terminated or rescinded at any time.
7. Forbid the offering and receipt of bribes, illegal political donations, inadequate charity donations or sponsorships, offering or receipt of unreasonable gifts, entertainment or any other illegal gains	N/A
8. Avoidance of conflict of interest by directors, supervisors and managers	The Company has defined the parliamentary rules for board meetings including the provisions about avoidance of conflict of interest. For the implementation thereof, please see Three. Status of Corporate Governance.
9. Accounting system and internal control system	The Company's accounting system is established per the competent authority's requirements and financial reports are prepared in accordance with the Financial Accounting Standards. The Company retains external accounts or internal accounts. The internal control system requires that the cashier and accountant shall not be the same person. The job responsibilities of front-end and back-end traders shall be identified expressly. The Enforcement Rules for Employees' Special Leave require that employees shall take special leave for at least consecutive three days, and the internal auditors shall audit compliance with said system periodically to reduce the possibility of dishonorable operating activities.
10. Non-disclosure agreement on business secrets and information	The Company has defined the "Instructions to Confidentiality of Customer Data" requiring that the staff shall not disclose or transfer to others the customers' information or various business documents including customers' information received by them due to performance of business, without the customers' written agreement.
11. Regulations and treatment for trading counterpart engaging in dishonorable activities	The Company has defined in various business manuals the operating procedure for credit investigation on trading counterparts to check if they have a dishonorable record.
12. Performance appraisal, complaint, discipline and complaint	The Company will take the employees' performance and morals into consideration when conducting performance appraisals and rendering reward or punishment. Meanwhile, the Company has defined the "Instructions to Employees' Suggestions and Complaints" available to employees.
13. Disclosure of information	The state of the Company's performance of honest business conduct is disclosed in the annual report and also posted at the Company's Web site.
14. Review and correction	The Company will pay attention to the development and promulgation of the relevant requirements defined by the competent authority and foreign authorities from time to time, and will encourage directors, supervisors, managers and employees to comment on the correction of dishonorable activities, to help the Company review and improve and to upgrade the effect of the Company's business with integrity.

- (7) State of the internal control system to be disclosed:

**1. Internal Control Declaration**

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

Taking care to reflect pronouncements by Mega Bills, the Company from 1 January 2011 to 31 December 2011 truly abided by the Regulations Governing the Implementation of Internal Control and Audit Systems by Bills Houses, established an internal control system, implementing risk management, and undertaking inspection by an impartial and independent audit department, periodically reported to the Board of Directors and supervisors, all while conducting bills business, and, in accordance with the determinants of effectiveness of internal control systems stipulated in the Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets, drafted and decreed by the Securities and Futures Bureau under the Financial Supervisory Commission (Executive Yuan), 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 confirmed to have been effective 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, Executive Yuan

**Declared by**

Chairman of the  
Board:

Gerry Y.  
G. Lee



(Affixed with  
seal/signature)

President and CEO:

C. B.  
Wang



(Affixed with  
seal/signature)

Chief Auditor:

Cheng-  
Tsung  
Kan



(Affixed with  
seal/signature)

Legal Compliance  
Officer, Head Office:

Ching-  
Tsan Wai



(Affixed with  
seal/signature)

February 24, 2012

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

Record Date: December 31, 2011

Required Improvement	Corrective Action	When Improvement Scheduled to be Completed
N/A		

2. Disclosure of the audit report where a CPA has been entrusted to audit the Company's internal control system: N/A
- (8) Punishment for violations of laws, and the major defects and correction thereof for the most recent two years:
  1. Persons in charge or officers prosecuted for business offences: N/A
  2. Persons fined by Financial Supervisory Commission, Executive Yuan for violations of laws: N/A
  3. Defects to be rectified as required by FSC: N/A
  4. Matters which, in accordance with Article 51 of the Act Governing Bills Finance Business are punishable under Article 61-1 of the Banking Act of the Republic of China:  
FSC conducted the general business inspection in 2010. As a result, it held that the Company's traders dedicated to equity commodity investment failed to separate their private stock exchange from the Company's stock exchange strictly and, therefore, were suspected of conducting private investing activities by virtue of the messages known by them during performance of duty, and it demanded that the Company should rectify the defect.
  5. The nature of — and the value of the losses incurred by — the following security incidents are to be disclosed for the year in which they occur: incidents caused by employee malfeasance, or some other major legal matter (including such major matters as deception, theft, misappropriation or embezzlement of funds, false transactions, acquisition of negotiable securities using forged documentation, receipt of kickbacks, losses incurred as a result of natural disaster, losses due to external factors, attack by computer hackers, theft and leaking of business secrets and client data, and so on) or failure to perform the safety maintenance requirements, which individually or together incur actual losses exceeding NT\$50 million: N/A
  6. Other matters to be disclosed per instruction of FSC: N/A
- (9) Important resolutions of shareholders' meetings and board meetings in the most recent year and until the date of publication of this annual report:
  1. 27<sup>th</sup> Board Meeting of 12<sup>th</sup> Term held on March 22, 2011 approved by resolution:  
Recognition of such reports as the final accounting report and so forth for the year 2010, and the allocation of earnings for the year 2010, and to distribute NT\$1,901,589,572 (NT\$1.45 per share) in shareholder dividends and bonuses, all paid in cash, and NT\$65,044,967 as employee bonuses, also paid in cash. Accordingly, at 28<sup>th</sup> Board Meeting of 12<sup>th</sup> Term held on April 22, 2011, the Board of Directors, acting on behalf of the shareholders meeting and with the latter's authority, approved by resolution that May 9, 2011 should be the record date for distribution of the Company's shareholder dividend and bonus for the year 2010.
  2. At 28<sup>th</sup> Board Meeting of 12<sup>th</sup> Term held on April 26, 2011, Board of Directors, acting on behalf of the shareholders meeting and with the latter's authority, approved by resolution that:  
To lift restriction on non-competition of the Company's directors
  3. At 30<sup>th</sup> Board Meeting of 12<sup>th</sup> Term held on June 21, 2011, it was resolved:  
To amend the "Board Meeting Parliamentary Rules of Mega Bills Finance Co., Ltd.", and submit the report made on behalf of the shareholders meeting at 32<sup>nd</sup> Board Meeting of 12<sup>th</sup> Term held on July 26, 2011.
  4. At 33<sup>rd</sup> Board Meeting of 12<sup>th</sup> Term held on behalf of the shareholders' meeting on August 23, 2011, it was resolved:

- To define the “Regulations for Payment of Attendance Fees, Transportation Allowance and Fares to Directors/Supervisors of Mega Bills Finance Co., Ltd.”.
5. At 34<sup>th</sup> Board Meeting of 12<sup>th</sup> Term held on September 27, 2011, it was resolved:  
To amend the “Rules Governing Functions of Independent Directors of Mega Bills Finance Co., Ltd.”.
  6. At 37<sup>th</sup> Board Meeting of 12<sup>th</sup> Term held on behalf of the shareholders’ meeting on December 27, 2011, it was resolved:  
To amend the “Articles of Incorporation of Mega Bills Finance Co., Ltd.”.
  7. At 2<sup>nd</sup> Board Meeting of 13<sup>th</sup> Term held on behalf of the shareholders’ meeting on March 20, 2012, it was resolved:  
To relieve the non-competition restriction imposed on the Company’s directors.
  8. At 2<sup>nd</sup> Board Meeting of 13<sup>th</sup> Term held on March 20, 2012, it was resolved:  
To relieve the non-competition restriction imposed on the Company’s managers.
- (10) Important resolutions of Board of Directors for which directors’ or supervisors’ dissent was recorded or stated in writing in the most recent year and until the date of publication of this annual report: N/A
- (11) Summarization of resignation, discharge and appointment of persons related to financial report (including the Chairman of Board, President and CEO, chief accountants and chief internal auditors, et al.) in the most recent year and until the date of publication of this annual report:  
Director and President Jung-Hsiung Lu resigned as of July 1, 2011. At 31<sup>st</sup> Board Meeting of 12<sup>th</sup> Term held on July 1, 2011, it was resolved to appoint Director C. B. Wang to assume the President as of July 1, 2011.

#### IV. Information about professional fees paid to CPA:

Name of CPA Firm	CPA’s Name		Duration of Audit	Remark
PricewaterhouseCoopers, Certified Public Accountants	Chang-Zhou Li	Hsiu-Ling Lee	2011/1/1-2011/12/31	

Currency Unit: NT\$ Thousand

Sale of Amount \ Item		Audit	Non-Audit	Total
1	Less than NT\$2,000 thousand			
2	NT\$2,000 thousand – NT\$4,000 thousand	1,150	1,388	2,538
3	NT\$4,000 thousand – NT\$6,000 thousand			
4	NT\$6,000 thousand – NT\$8,000 thousand			
5	NT\$8,000 thousand – NT\$10,000 thousand			
6	NT\$10,000 thousand and above			

- (1) When professional fees paid to a CPA or CPA firm or its affiliated company for non-audit services account for a proportion equal to one-quarter or more of the fees paid for audit:

Name of CPA Firm	CPA’s Name	Audit	Non-Audit					Duration of Audit	Remark
			System Design	Commerce and industrial registration	HR	Others	Subtotal		
PricewaterhouseCoopers, Certified Public Accountants	Chang-Zhou Li	1,150				1,388	1,388	2011/1/1-2011/12/31	The others refer to the consultant fees NT\$1,300 thousand for
	Hsiu-Ling Lee								

									delivery of IFRS and the professional fees of Hsiu-Ling for transfer of pricing, NT\$88 thousand
--	--	--	--	--	--	--	--	--	--

- (2) When the Company changes its CPA firms and the amount of professional fees paid for audit services during the year in which the change is made are lower than for the previous year: N/A
- (3) When the amount of professional fees paid for audit services is lower than previous year by 15% or more: N/A

- V. Information about change of CPA: N/A
- VI. Disclosure of names, job titles and terms of Chairman, President and CEO or managers responsible for financial or accounting affairs who have worked in a certified public accounting firm or its affiliated company over the past year: N/A
- VII. Changes in equity transfer and pledge of directors, supervisors, Senior Vice President and General Managers and those required by Article 10 of the Act Governing Bills Finance Business to declare their equity: N/A
- VIII. Top 10 shareholders in proportion of shareholdings and who are stakeholders to one another as required to disclose under Statement of Financial Accounting Standards No. 6, or spouses, or kin at the second tier under the Civil Code: N/A
- IX. Quantity of shareholdings of the same investee by the Company and its directors, supervisors, President and CEO, senior executive vice presidents, executive vice presidents and heads of departments and branches and the business directly or indirectly controlled by the Company, and the combined shareholdings

Dec. 31, 2011; Unit: Share; %

Investee	The Company		Directors, supervisors, President and CEO, senior executive vice presidents, executive vice presidents and heads of departments and branches and the business directly or indirectly controlled by the Company		Combined Investment	
	Quantity	Shareholding	Quantity	Shareholding	Quantity	Shareholding
Core Pacific City Corporation	60,000,000	3.932	-	-	60,000,000	3.932
Taiwan Financial Holdings Co., Ltd.	5,000,000	2.941	-	-	5,000,000	2.941
Taiwan Depository and Clearing Co., Ltd.	1,966,282	0.628	-	-	1,966,282	0.628
Taiwan Asset Management Co., Ltd.	10,000,000	0.568	-	-	10,000,000	0.568
Taiwan Futures Exchange Co., Ltd.	1,392,933	0.512	-	-	1,392,933	0.512
Agora Garden Co., Ltd.	21,090	0.030	-	-	21,090	0.030

## **Review of the Raised Funds**

*Review of the Raised Funds*



## One. Shares and Dividends:

### I. Sources of capital stock

Unit: NT\$; Share

Year and Month	Sale Price	Authorized Capital Stock		Paid-in Capital Stock		Remark	
		Quantity	Amount	Quantity	Amount	Sources of capital stock	Others
2012.3	10	1,311,441,084	13,114,410,840	1,311,441,084	13,114,410,840	Public offering	-

Unit: Share

Category of Shares	Authorized Capital Stock			Remark
	Outstanding Shares	Unsold Shares	Total	
Common stock	1,311,441,084	0	1,311,441,084	Public offering, non-listed/OTC

### II. Shareholder Structure

December 31, 2011

Shareholder Structure Quantity	Government	Financial Organization	Other Corporations	Individuals	Overseas Organizations and Foreigners	Total
Number of person	0	1	0	0	0	1
Quantity of 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

Face value per share: NT\$10 December 31, 2011

Breakdown of Shareholdings	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. Roster of Major Shareholders

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

**V. Market value, net value, earnings, and stock dividend, and other related data for the most recent two years**

Item \ Year		2011	2010	Until March 31, 2012
Market value per share	Maximum	-	-	-
	Minimum	-	-	-
	Average	-	-	-
Net value per share	Before allocation	24.85	24.81	25.03
	After allocation	Note	23.36	-
EPS	Quantity of shares under weighted average method	1,311,441,084	1,311,441,084	1,311,441,084
	EPS	2.05	2.02	0.60
Dividend per share	Cash dividend		1.432 (Note)	1.45
	Stock dividend	From retained earnings	-	-
		From capital surplus	-	-
	Accumulated unpaid dividend		-	-
Analysis of ROI	Price-earnings ratio		-	-
	PI ratio		-	-
	Cash dividend yield		-	-

Note: Until the date of publication of this annual report, the motion for allocation of earnings for the year 2011 had been adopted by the Board of Directors but had not yet approved by the Board of Directors acting on behalf of the shareholders meeting.

**VI. Dividend Policy and Implementation Thereof**

- (1) Dividend policy defined by Articles of Incorporation  
The Company operates in a mature business environment, but there remains scope for development within the business, and, taking into account changing investor and capital suitability, the fifty-fifty ratio principle adopted by the Company in the granting of stock dividends and bonuses will only be modified in the light of changing business, investment or stock market conditions or factors related thereto.
- (2) Allocation of stock dividend to be discussed at this shareholders' meeting:  
Mega Financial Holdings, as the only shareholder of the Company, and, in the name of the rights and interests of shareholders, increased the ability of financial holding companies to manage funds, decided to distribute dividend, amounting to a total of NT\$1,877,983,632 and planned to distribute all dividends in the form of cash, in response to actual needs.

**VII. Impact on the Company's business performance and EPS by the allocation of stock dividend discussed at this shareholders' meeting: N/A**

**VIII. Employee bonus and remuneration to directors/supervisors**

**(1) Percentage and scope of employee bonus and remuneration to directors and supervisors as stated in the Company's Articles of Incorporation:**

1. Employee bonus

Any profit from settlement of the year shall be subject to applicable taxes as the top priority, followed by the offsetting of losses carried forward from previous years. Then, the Company shall set aside a legal reserve in accordance with law. Aside from the aforesaid legal reserve, the Company may set aside a special reserve in accordance with law or its actual needs. The remainder (including a reversible special reserve according to law) shall be distributed as follows: employee bonus between 3% and 5%. Any remaining balance of net earnings, including undistributed earnings from previous fiscal years, shall be distributed or retained in accordance with the Board of Directors' motion, subject to resolutions of the Shareholders' Meeting. The total amount of employee bonus shall be determined by the Board of Directors and will be distributed after the Shareholders' Meeting approved the resolution authorizing appropriation of earnings.

2. Remuneration to directors/supervisors: N/A

**(2) The basis for estimating the amount of employee bonuses and remuneration to directors/supervisors, for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period.**

1. The basis for estimating the amount of employee bonuses and remuneration to directors/supervisors, and for calculating the number of shares to be distributed as stock bonuses, for the current period.

The estimated amount of the Company's employee bonus was NT\$84,492,525 for the year 2011. The estimation was based on a number of factors, including current post-tax profit, the legal reserve and the percentage or range with respect to employee bonuses, as set forth in the Company's Articles of Incorporation. The Company did not have estimation for the amount of remuneration to directors/supervisors or the number of shares to be distributed as stock bonuses in 2011.

2. The accounting treatment of the discrepancy, if any, between the estimated figure and the actual distributed amount of employee bonuses.

In the event of any major change in the distributed amount resolved by the Board of Directors after the current period, the change shall be adjusted over the vesting period (the year when the employee bonus is recognized as an expense). If there is still a change in the distributed amount in the following year by the annual shareholders meeting, the change is treated as a change in accounting estimates and is recognized as an expense in the following year.

**(3) Motions approved by Board of Directors for distribution of employee bonuses, etc.**

1. Cash dividend and stock dividend to be allocated to employees, and remuneration to directors and supervisors

In accordance with the Company's Articles of Incorporation and the resolution by 2<sup>nd</sup> Board Meeting of 13<sup>th</sup> Term on March 20, 2012, the employee bonus to be allocated in 2010 was NT\$65,716,408. Further, the Company did not allocate stock dividend or remuneration to directors/supervisors. The Board of Directors adopted a resolution to distribute an employee bonus for the year 2011 in the amount of NT\$65,716,408, a discrepancy of NT\$18,776,117 from the NT\$84,492,525, the amount recognized as employee bonus expense in 2011 financial statements. The discrepancy was due to a change in the employee bonus percentage, which has been adjusted as income for 2012.

2. Quantity of stock dividends to be allocated to employees, and the proportion thereof to post-tax profit, and total of the same and employee bonus to post-tax profit, for the current period:

N/A

3. Imputed the EPS after taking into consideration the employee bonus to be allocated and remuneration to directors/supervisors  
The employee bonus 2011 has been deducted from the income statement. After the difference in the employee bonus to be allocated and the estimate initially provided is taken into consideration, the EPS is NT\$2.06.
- (4) **The actual distribution of employee bonuses and remuneration to directors/supervisors for the previous fiscal year**
  1. Distribution of employee bonuses  
In accordance with the Company's Articles of Incorporation and the resolution by 28<sup>th</sup> Board Meeting of 12<sup>th</sup> Term on April 26, 2011, the employee cash dividend to be allocated in 2010 was NT\$65,044,967. The employee bonus distributed for the year 2010 was NT\$65,044,967, a discrepancy of NT\$9,292,138 from the NT\$74,337,105, the amount recognized as employee bonus expense in 2010 financial statements. The discrepancy was due to a change in the employee bonus percentage, which has been adjusted as the income for 2011.
  2. Remuneration to directors/supervisors: N/A

**IX. Repurchase of the Company's shares: N/A**

**Two. Corporate Bond, Preferred Stock, Employee Stock Option, Merger & Acquisition or Assignment to Other Financial Institutions: N/A**

**Three. Execution of Funding Utilization Plan: N/A**

## **Overview of Business Operations**

### *Review of Business Operations*

## One. Business Scope

### I. Main business

#### (1) Main business lines by department

##### 1. Bills Business

- (1). Acting as a certifier, underwriter and broker, and trading on own account in respect of short-term transaction instruments (including USD-denominated instruments).
- (2). Acting as a guarantor or endorser of commercial promissory notes.

##### 2. Bonds Business

- (1). Acting as a certifier, vendor, manager and trader on own account in respect of bank debentures.
- (2). Trading in government bonds on the corporation's own account
- (3). Trading in government bonds on the corporation's own account
- (4). Trading in foreign currency-denominated bonds on the corporation's own account and investment business.

##### 3. Other financial business

- (1). Transactions of derivative instruments
- (2). Investment in equity commodity
- (3). Trading on the corporation's own account and investing fixed-income securities

#### (2) Each business assets and (or) income as a proportion of total assets and (or) income, and development and changes therein.

##### 1. Assets

Unit: NT\$ Thousand

Item \ Year	2011		2010	
	Amount	As a proportion of total assets (%)	Amount	As a proportion of total assets (%)
Short-term instruments	130,990,314	58.09	108,860,135	51.55
All bonds	85,557,876	37.94	92,112,665	43.62
Other assets	8,934,421	3.97	10,214,301	4.83
Total assets	225,482,611	100.00	211,187,101	100.00

##### 2. Income

Unit: NT\$ Thousand

Item \ Year	2011		2010	
	Amount	As a proportion of total income (%)	Amount	As a proportion of total income (%)
Bills income	1,688,869	34.16	1,664,909	34.88
Bonds income	2,283,681	46.19	2,877,818	60.29
Other income	971,869	19.65	230,674	4.83
Total income	4,944,419	100.00	4,773,401	100.00

## **II. Business plan for this year**

### **(1) Bills Business**

1. Apply flexible pricing principles subject to the scale of customers' credit risk, execute the discriminative pricing strategies, upgrade the drawdown rate of bills, and increase the income from bills.
2. Solicit public and private enterprises with good credit ratings to issue guarantee-free bills, underwrite the promissory note certification guaranteed by banks of specific credit ratings, to increase the source of bills, enhance exchange channels and increase the income from bills.
3. Having a thorough understanding of the changes of domestic and global financial markets, flexibly adjusting positions and strategies, analyzing interest rate trends, and improving trading tactics in bills and bonds, strictly controlling funds gap in order to reduce liquidity risks.
4. Reinforcing existing customer relationships, and vigorously expanding moderate and low-cost customer funding, in order to help successful disposition of bills and bonds and enlarge buy-sell spreads to enhance profit margins.
5. Continue developing the primary issue and secondary exchange of the bills in US dollars to increase diversification and operation.

### **(2) Bonds Business**

1. Operate buy-out and outright sale with care to upgrade the operating efficiency;
2. Establish bond yielding in a timely manner and adjusting positions based on credit ratings; selecting targets with higher yields and shorter duration;
3. Enhance developing bond RP customers, adjust customer underwriting structures to reduce funding cost and enlarge yield spread, and pay attention to the dispersion of investment to reduce the liquidity risk;
4. Tie in with the spot transaction of bonds, operate the financial derivatives with interest flexibly, and hedge the spot transaction risk;
5. Buy in convertible corporate bonds with fair credit ratings to increase the income from bonds;
6. Continue underwriting foreign-currency bonds and other new business types to increase diversification and operation of business.

### **(3) Other financial business**

1. Carefully selecting the high-yielding rate equity of adequate cash flow and optimistic prospect, and engaging in short-term trade of remarkable targets
2. Carefully dealing in the fixed income component of convertible bond asset swaps, in order to increase interest spreads
3. Continue planning foreign-currency derivative instruments to increase diversification and operation of business.

## **III. Market Analysis**

- (1) Regions of business operation, future supply and demand in market, and the market's potential for growth.

1. Regions of business operations

The Company's operating strongholds, apart from the Head Office in Taipei City, are also in the combined administrative areas represented by the eight branch offices it has established in Taiwan's main cities, in which it conducts all lines of business, including loans, bills and bonds.

2. Future supply and demand in market, and the market's potential for growth

Market conditions

1) Bills market

There were originally 8 domestic companies specialized in bills finance. Therein three companies were subordinate to financial holding companies. In addition, there remain 43 banks and 5 securities houses concurrently conducting bills business, in a fiercely competitive market.

Benefiting from the fair domestic economic growth in the first half of 2011, the issue of bills and trading value in the monetary market increased more than those in the same period of 2010. The underwriting value for CP2 in the primary market in 2011 increased by NT\$120.1 billion more than that in 2010, a growth rate by 8.09%. The market share in 2011, 31.25%, increased by 2.96% more than 28.29% in 2010. The trading value in the secondary market increased by NT\$849.1 billion more than that in 2010, a growth rate by 9.55%. The market share in 2011, 36.24%, increased by 2.12% more than 34.12% in 2010. The market shares for exchange of bills in the primary and secondary markets were both in a leading position.

The Central Bank has escalated the interest for 5 times consecutively from June 2010 to June 2011, and the secondary exchange interest rate in the monetary market increased accordingly. Notwithstanding, given that the issuing interest rate in the primary market is subject to banks' active development of corporate banking and the price war in the same trade, the issuing interest rate could not increase following the escalation of secondary exchange interest rate. The Company worked hard to reduce the cost and the bill interest spread tended to reduce month by month in the second half of 2009. Nonetheless, the interest spread has tended to recover since the Central Bank suspended the interest escalation at the end of September.

Looking forward to 2012, the sluggish international economic growth and worsening financial condition increased the uncertainty in global economy. Recently, the international forecast organizations have successively adjusted the global economic growth rate forecast of this year and next year downward. In addition to adjusting the facility structure, enhancing to develop the niche-type SMEs and expanding the low-cost funding cost customers in the secondary market to increase the bill interest spread, the Company will keep watching the trend of the Central Bank's monetary policy. If the expected interest rate declines, the Company will increase the bills moderately to mitigate the adverse effect caused by the minimized buy-sale interest spread.

2) Bonds market

In the aftermath of the tsunami and nuclear disaster in Japan in the first half of 2011, and upon the termination of QE2 by the U.S.A., the market had a concern about the dull global economic development and Taiwan government bond yield rate tended to be sluggish. In the second half of 2011, the European Debt Crisis brought out impact to the domestic and overseas economy which was recovering stably. The U.S.A. unprecedentedly stated that it would maintain the low interest rate until the end of 2014 and thereby the bond yield rate declined following the sluggish economic growth. The Central Bank has maintained the discount rate of Mega Bills Finance Co., Ltd. at 1.875% for consecutive two quarters as of the end of September. Nonetheless, the Central Bank continued to offset the idle funds in the market and the RP/RS exchange interest rate tended to increase slowly, thereby causing the 10-year Taiwan government bond yield rate to range from 1.25% to 1.35% in the second half of the year. The dealers acted conservative and the entire trading value of Taiwan government bond declined, and the liquidity risk increased accordingly. At last, the



10-year government bond yield rate was 1.2850%, declining by 26.38BP comparing with 1.5488% at the end of 2010.

For the RP/RS exchanges, since the Central Bank escalated the interest as of the end of June 2010, the interbank call loan rate has been increased slowly. Though the Central Bank suspended the interest escalation as of the end of September 2011, the RP/RS exchange interest rate tended to increase because the Central Bank continued to issue NCD to offset the idle fund in the market and the financial corporate bonds were issued at mass quantity, thereby causing it difficult to dispose of the bonds in a short term. Accordingly, the RP/RS exchange interest rate in 2011 increased more than that in 2010.

The Company's entire bond turnover in 2011 was NT\$5998.3 billion, decreasing by NT\$7227.9 billion compared with that in 2010. Nonetheless, the market share, 33.19%, increased more than 32.63% in 2010 and remained the leading position in the market.

In 2012, under the Government's policy to expand finance, the government bonds of 19 terms will be issued in 2012. That is, 10-year and 20-year government bonds of one addition term will be issued plus the bonds of 17 terms in 2011. The government of more than 20 years will be issued for 9 times in order to meet the life insurance industry's investment need for long-term government bonds. Nonetheless, the total issuing quantity of government bonds in 2012 might increase by NT\$40 billion to NT\$60 billion more than NT\$620 billion in 2011, amounting to NT\$680 billion. The chip counters increase and the bond yield rate might bottom up. The Company will operate the bond buy-out and outright sale with care. Meanwhile, following the increasing opening Mainland China policy and sluggish overseas economic recovery, the domestic economy is expected to be more and more optimistic. The Central Bank will keep offsetting the idle fund in the market and the RP/RS exchange cost will increase inevitably. In the future, the Company will enhance the capital control efficiency and continue developing the private funding source and strictly control the RP/RS exchange cost.

### 3) Equity investment business

After the Taiwan stock index broke through 9000 at the beginning of 2011, the index retreated rapidly after selling pressure caused by the foreign investment. The highest index mark was 9220 points after the Lunar New Year. The nuclear disaster at the Fukushima Daiichi Nuclear Power Plant on March 15 caused the market in panic and Taiwan stock index dropped to 8070 points, the lowest, and bottomed out afterwards. The Taiwan stock index tended to fluctuate from April to June. The index faced more rigid selling pressure when it attained 9000 points. Further, Q2 was the off season for electronics stock. For the absence of mainstream stock in the market, the index remained at 8500-9000 points. In the second half of the year, the stock index fluctuated drastically in August, because Standard & Poor's degraded the U.S. credit rating and thereby interrupted the global stock market drastically. Taiwan stock had had a gap of 342 points on August 5. After that, because the global stock market was interrupted by the Greece Debt and degraded credit ratings of various European countries, the index continued to drop and down to 7000 points. The market insight was interrupted by Mega Bills Finance Co., Ltd. greatly. In Q4, the index fluctuation became more and more significant due to the effect produced by the international stock market. Therefore, the competent authority started to release such policy as forbidden short-selling in order to stabilize the stock market, and Taiwan stock has suffered multiple gaps accordingly. In the last month of the year, the index was 6609 points, the lowest in 2011, on December 19. After that, the Government announced it would release the state-owned National Stabilization Fund. Driven by the financial stocks, the index increased and was more than 460 points within three business days, and went back to 7000 points. The index was 7072 points upon closing at the end of the year. In total, the weighted index dropped by 1900 points (21.2%) in 2011.

In 2012, the concern about European Debt is eliminating and, therefore, the unfavorable factors liable to interrupt the international stock market shall be less serious than those in 2011. In Taiwan, according to the Council for Economic

Planning and Development, the economic monitoring indicators have been the blue light in November and December 2011. Notwithstanding, the leading index has bounced upon as of September 2011. It appears that the domestic economy will recover soon after Q1. In a simple word, the domestic and overseas economic fundamentals are expected to recover from the record low. Besides, upon formation of the new cabinet domestically, the market investors restore their investment confidence, and the chips counters in the market were cleaned out widely. As a whole, the prospect is more optimistic than last year. Therefore, exchange of stock held for trading subject to the trend in the market will be applied as the basic strategy, while the long-term plan is intended to seek the layout of low-cost but high-yielding rate positions.

- (2) Favorable and unfavorable factors for development in the future, and countermeasures:
1. Favorable factors
    - (1). The competent authority opened the operation of bills and bonds denominated in foreign currency, so that the sources of profit may be increased and asset risk may be dispersed.
    - (2). The entire stock price base period declined in the stock market last year, and the fund raising level was restricted sharply and the market risk became less relatively.
  2. Unfavorable factors
    - (1). The Central Bank continues to offset the idle fund in the market and the RP interest rate does not decline after the economic growth is sluggish. This is unfavorable to the buy-sell interest spread expansion.
    - (2). The upcoming increase in issue of government bonds is unfavorable to stabilize the chips counters, and the difficulty in operation of buy-out and outright sale is increased. Meanwhile, the low yielding rate of the bonds of various terms increases the evaluation risk too.
    - (3). The drastic fluctuation in the international stock market and financial market still results in the uncertainty about entire economic recovery and is unfavorable to Taiwan stock market.
  3. Countermeasures
    - (1). Having a thorough understanding of the changes of domestic and global financial markets, flexibly adjusting positions and strategies, analyzing interest rate trends, and improving trading tactics in bills and bonds, strictly controlling funds gap in order to reduce liquidity risks.
    - (2). Reinforcing existing customer relationships, and vigorously expanding moderate and low-cost customer funding, in order to help successful disposition of bills and bonds and enlarge buy-sell spreads to enhance profit margins.
    - (3). Establishing bond yielding in a timely manner and adjusting positions based on credit ratings; selecting targets with higher yields and shorter duration; strictly controlling bond RP/RS trading cost; adjusting customer underwriting structures to enlarge yield spreads.
    - (4). Enhance the controls over fundamentals, technologies, chips and news about stock, and continue finding fine-quality corporate objectives, control the scale of investment position with care, and operate pursuant to the principle of stability.

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

- (1) 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: N/A
- (2) R&D expenditure and results for the most recent two years:
  1. R&D expenditure

Unit: NT\$ Thousand

Item	R&D expenditure	
	2011	2010
Costs of employee participation in various	599	751

research and training programs		
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2. R&D results
  - (1). 2010
    - 1) In response to the appraisal on compliance with co-marketing laws and regulations;
    - 2) Research of exchange and utilization of information provided by customers
    - 3) Complete the 1st-stage deviation analysis for adoption of IFRS
    - 4) Installation of foreign currency-denominated bills trading system and testing of various management statements.
    - 5) Plan and process bond and asset swap option business
    - 6) Plan and install stress testing system program for capital adequacy rate;
    - 7) Develop the system program simulating effect of business changes on capital adequacy rate.
  - (2). 2011
    - 1) Plan and install the operational risk self-assessment system to enhance the control over operational risk
    - 2) Develop the system programs for capital expenditure by unit and business, and establish the performance appraisal and risk-based mechanism
    - 3) Complete the 2<sup>nd</sup> phase design and layout of IFRS conversion plan
  - (3) Future R&D plan  
Promote the bonds and treasury bills

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

- (1) Short-term
  1. Strengthening guaranteed bills quality management and avoiding the occurrence of cases of defaults.
  2. Expand the niche-type SME customers to increase interest spread, apply flexible pricing strategies, increase the customers' drawdown rates, precisely control the customers' funding needs, strive for issuing business to maintain the leading position in the market.
  3. Observe the domestic and overseas financial market transformation, understand the Central Bank's monetary policy and changes in economy, adjust the positions and strategies flexibly, increase the positions as held when the expected interest rate declines, expand the bond yielding interest spread, and increase the income from bills.
  4. Establish the bilateral transactions with customers to increase the drawdown rate and develop the clientele in the secondary market.
  5. Actively exploring clients from the private sectors and lower funding cost and diversifying sources of funds
  6. Actively dealing in bonds and fixed income securities, and establishing bond yielding in a timely manner in order to raise gains on bond yielding.
  7. Conducting bond outright purchase/sell trading cautiously to enhance trading efficiency.
  8. Using flexible tactics in spot trading in bonds and interest rate derivatives in order to hedge the risk of spot trading
  9. Acquiring the renowned convertible corporate bonds, underwrite the convertible asset exchange fixed-yield transactions to increase income.
  10. Primarily engaging in the transaction of high yielding stock to earn revenue from stock dividends, and secondarily in short-swing trading.
  11. Actively handling the foreign-currency bonds and bills, upgrade the market competition niche, and disperse the Company's sources of profitability.
- (2) Long-term
  1. Continuing to strengthen internal credit risk management system in order to lower loan risks and maintain the appropriate scope of business and profit.
  2. Verify and evaluate asset quality and provide adequate reserves to strengthen financial well-being.

3. Utilize the strength in channels and excellent credit rating to maintain a leading position in the market.
4. Handling in a timely manner new businesses opened up by the competent authority, with a view to dispersing sources of profit and stabilizing operating performance.
5. Organizing staff training programs to improve their competence and capabilities in order to deal with the onslaught of competition in the industry and the rapidly changing business environment.
6. Continuing to review capital adequacy and organizational efficiency and improve operational performance.

## Two. Employee Data for the Most Recent Two Years and Until the Date of Publication of this Annual Report

February 29, 2012

Year		2010	2011	February 29, 2012
Number of employees	Members of staff	180	181	181
	Probationers	42	43	43
	Total	222	224	224
Average age		41.04	41.17	41.27
Average service seniority		13.26	13.44	13.59
Educational background ratios	PhD	0	0	0
	Master's	64	70	72
	Bachelor's	151	147	145
	Senior high school	7	7	7
	Below senior high school	0	0	0
Professional designation and licensing	Notes industry practitioner	173	173	173
	Portfolio investment analyst	7	7	7
	Senior practitioner, bills industry	123	124	125
	Bills industry practitioner	27	28	29
	Securities investment trust and consulting practitioner	83	83	83
	Trust business practitioner	106	107	107
	Futures trade practitioner	78	78	78
	Personal insurance practitioner	130	128	129
	Property insurance practitioner	126	123	123
	Internal banking controllers	100	99	99
	Financial planning practitioner	72	71	71
	Initial-level foreign exchange practitioner	5	6	6
	Initial-level loan practitioner	30	33	33
	Advanced-level loan practitioner	6	6	6

## Three. Corporate Responsibility and Ethical Conduct

Please refer to Pages 21 and 22 of the “Corporate Governance Report for the state of performance of social responsibility” and “honest business conduct, and the measures thereof”

## **Four. Computer equipment**

### **I. Computer system hardware and software configuration and maintenance**

System	Business	Platform	Development	Maintenance
MIS	NTD and foreign currency bills exchange, NTD and foreign currency bonds, credit investigation, credit extension, financial accounting, personnel, fixed assets, and risk management	RS/6000	In-house	In-house
Correspondents	Inter-bank payments	IBM	Outsourcing	In-house
Notes	Email, bulletin boards, e-Form	Notes/WINDOWS	In-house	In-house

### **II. Emergency contingency and security protection measures**

The Company completed the establishment of Lin Ko information facility remote replication center in 2007, dedicated to carrying out data recovery drills every year, in order to reduce information operating risks and protect customer trading safety and move towards sustainable management.

### **III. Future development or purchase plans**

- (1) Continue to develop the IFRS system
- (2) Develop the new internal credit rating system
- (3) Purchase the server for “CBC Computer Communication Service Remote Access Application Software”
- (4) Purchase the database auditing software
- (5) Purchase network safety management equipment to deal with the enforcement of the new Personal Information Protection Act

## **Five. Labor Relations**

### **I. Employee welfare measures:**

welfare committee, employee bonuses, health examinations, and so on.

### **II. Retirement system and implementation thereof:**

Handled in accordance with the Company’s retirement regulations, applying the provisions either more favorable than those of the Labor Standard Law, in line with those of the Labor Standard Law, or in line with those of the Labor Retirement Pension Act.

### **III. Agreement between employer and labors:**

Subject to the Labor Standard Law and the Company’s work rules

### **IV. Measures to protect employees’ interests and rights:**

subject to the Labor Standard Law and the Company’s work rules

### **V. Losses caused by labor disputes in the most recent year and until the date of publication of this annual report: N/A**

## **Six. Major contracts: N/A**

## **Financial Statements**

### *Financial Statements*

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

## I. Condensed balance sheets

Unit: NT\$ Thousand

Item	Year	Financial information for the most recent five years				
		2011	2010	2009	2008	2007
Cash and cash equivalent, central bank deposits, call loans to banks		601,915	736,833	681,894	629,350	386,602
Financial assets at fair value through profit or loss		135,756,870	112,685,775	85,843,648	129,302,575	90,953,726
Bills and bonds purchased under resale agreements		-	529,800	-	-	-
Available-for-sale financial assets		83,240,989	91,189,051	109,370,356	122,763,214	144,689,065
Receivables		1,833,166	2,101,018	2,208,658	3,543,749	4,767,886
Held-to-maturity financial assets		250,000	250,000	450,000	200,000	200,000
Fixed assets		2,928,881	2,945,800	2,967,869	2,993,257	3,024,870
Intangible assets		1,096	309	2,064	5,279	-
Other financial assets		822,684	693,381	1,284,921	1,595,562	1,900,045
Other assets		47,010	55,134	53,841	163,325	259,401
Total assets		225,482,611	211,187,101	202,863,251	261,196,311	246,181,595
Banks overdrafts and call loans from banks		3,416,000	3,897,000	5,586,000	8,609,000	5,390,000
Financial liabilities at fair value through profit or loss		-	10,130	74,990	119,016	162,165
Bills and bonds payable under repurchase agreements		184,993,275	170,163,470	159,606,041	215,025,089	203,409,282
Payables		1,257,098	1,243,823	1,328,258	952,516	654,725
Corporate bonds payable		-	-	-	-	5,000,000
Other liabilities		3,221,063	3,337,357	3,431,885	3,169,887	2,240,249
Total liabilities	Before allocation	192,887,436	170,027,174	227,875,508	216,856,421	270,253,300
	After allocation	Note	180,553,370	171,994,336	228,933,517	218,351,661
Capital stock		13,114,411	13,114,411	13,114,411	15,114,411	15,114,411
Capital surplus		312,823	312,823	312,823	312,823	312,823
Retained earnings	Before allocation	15,897,794	14,917,082	14,229,347	12,428,734	12,408,658
	After allocation	Note	13,015,492	12,262,185	11,370,725	10,913,418
Unrealized gain or loss on financial products		3,327,430	4,191,005	5,179,496	5,464,835	1,509,039
Other equities		-57,283	-	-	-	-19,757
Total stockholders' equity	Before allocation	32,595,175	32,535,321	32,836,077	33,320,803	29,325,174
	After allocation	Note	30,633,731	30,868,915	32,262,794	27,829,934

Note: Until the date of publication of this annual report, the motion for allocation of earnings for the year 2011 had been adopted by the Board of Directors but had not yet approved by the Board of Directors acting on behalf of the shareholders meeting.

## II. Condensed income statements

Unit: NT\$ Thousand

Item	Year	Financial information for the most recent five years				
		2011	2010	2009	2008	2007
Interest income, net		2,407,627	2,838,161	3,969,761	2,467,446	2,524,662
Revenue other than interest income, net		1,599,847	1,426,187	1,210,772	1,269,488	776,002
Provisions		89,757	345,695	843,888	1,027,965	74,252
Operating expenses		779,614	763,003	830,484	752,867	661,380
Income before income tax from continuing operations		3,138,103	3,155,650	3,506,161	1,956,102	2,565,032
Income after income tax from continuing operations		2,682,302	2,654,897	2,858,622	1,515,316	2,120,384
Income (loss) from discontinued operations		-	-	-	-	-
Extraordinary income (loss) (net of tax expense)		-	-	-	-	-
Cumulative effect of changes in accounting principles (net of tax expense)		-	-	-	-	-
Net income		2,682,302	2,654,897	2,858,622	1,515,316	2,120,384
EPS		2.05	2.02	2.00	1.00	1.20



### III. Independent Auditor's Name and Opinion

Year	Name of CPA Firm	CPA's Name	Opinion
2011	PricewaterhouseCoopers, Certified Public Accountants	Chang-Zhou Li, CPA and Hisu-Ling Lee, CPA	Unqualified opinion
2010	PricewaterhouseCoopers, Certified Public Accountants	Chang-Zhou Li, CPA and Hisu-Ling Lee, CPA	Unqualified opinion
2009	PricewaterhouseCoopers, Certified Public Accountants	Chang-Zhou Li, CPA and Hisu-Ling Lee, CPA	Unqualified opinion
2008	PricewaterhouseCoopers, Certified Public Accountants	Chang-Zhou Li, CPA and Hisu-Ling Lee, CPA	Unqualified opinion
2007	PricewaterhouseCoopers, Certified Public Accountants	Zong-Xi Lai, Chang-Zhou Li	Modified unqualified opinion

## Two. Financial Analysis

Unit: NT\$ Thousand; %

Item		Year	Financial information for the most recent five years				
			2011	2010	2009	2008	2007
Managerial ability	Average number of days of bill and bond holding		2.47	4.29	5.08	5.30	4.62
	NPL ratio		-	0.09	0.38	0.51	0.61
	Total assets turnover rate		0.02	0.02	0.03	0.03	0.03
	Average yield per employee		22,073	21,502	25,378	31,800	31,887
	Average profit per employee		11,975	11,959	12,877	6,735	9,300
Profitability	ROA (%)		1.23	1.28	1.23	0.60	0.76
	ROE (%)		8.24	8.12	8.64	4.84	6.28
	Net profit margin (%)		54.25	55.62	50.74	21.18	29.17
	EPS (NT\$)		2.05	2.02	2.00	1.00	1.20
Financial structure	Liability to total assets ratio (%)		84.25	83.13	82.29	86.15	87.31
	Fixed assets to stockholders' equity ratio (%)		8.99	9.05	9.04	8.98	10.31
Growth rate	Asset growth rate (%)		6.77	4.10	-22.33	6.10	-20.19
	Profit growth rate (%)		-0.56	-10.00	79.24	-23.74	-29.82
Cash flow	Cash flow ratio (%)		1.19	2.12	3.68	1.57	8.21
	Cash flows adequacy ratio (%)		386.83	323.05	249.74	222.53	184.77
Credit extended to stakeholders			210,000	230,000	340,000	-	90,000
Percentage of credits extended to stakeholders (%)			0.16	0.20	0.34	-	0.08
Scale of operations	Asset market share (%)		28.57	28.10	27.88	33.23	26.20
	Net value market share (%)		30.16	29.51	28.25	29.78	26.54
	Market share for guaranteed and endorsed bills (%)		36.85	33.49	31.22	36.83	29.25
	Market share for each type of bill and bond issue and first time purchase (%)		31.29	27.69	30.60	31.54	26.77
	Market share for each type of bill and bond transaction (%)		34.74	32.95	32.40	28.42	21.25
Capital adequacy ratio	Capital adequacy ratio (%)		14.48	16.22	16.88	14.09	11.72
	Net value of own capital		28,220,229	29,002,098	27,479,317	27,761,307	24,624,172
	Total value of risk assets		194,834,756	178,834,426	162,778,852	197,008,594	210,069,410
	Tier I capital to risk weighted risk assets ratio (%)		13.71	15.16	16.98	14.10	12.73
	Tier I capital and Tier II capital to risk weighted risk assets ratio (%)		13.71	15.16	19.27	16.19	13.94
	Leverage ratio (%)		12.24	13.09	11.91	10.95	9.65
Explanation of analysis of changes for the most recent two years: (Variations exceeded 20%). 1. The decrease in average number of days of bill and bond holding is a result of the decrease in the average balance of bills and bonds. 2. The decrease in NPL ratio is a result of no NPL balance in 2011. 3. The increase in asset growth rate was a result of increase in the bills and assets held to increase income from bills resulting from a decrease in bills spread. 4. The increase in profit growth rate is a result of the increase in collected bad debts and delinquent loans and decrease in various deposits resulting in the decrease in makeup of net income from bill and bond interest in 2011, causing the minor difference between the earnings before tax in 2011 and 2010. 5. The decline in cash flow ratio was a result of an increase in bills and assets held to expand the income from bills and decrease in the net cash inflow from operating activities. 6. The decrease in percentage of credits extended to stakeholders is a result of the increase in total balance of credits extended to stakeholders in 2011.							

Note: Equations for analysis items:

**1. Managerial ability**

- (1) Average number of days of bill and bond holding =  $365 / \text{bills/bond turnover rate}$  (Bill/bond turnover rate: Amount of each type of bill or bond transaction/average balance of each installment of bill or bond)
- (2) NPL ratio =  $\text{NPL (including non-accrual loan)} / \text{total loan (including non-accrual loan)}$
- (3) Total assets turnover rate =  $\text{Income} / \text{total assets}$
- (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 =  $\text{Income after tax} / \text{average stakeholders' equity, net}$
- (3) Net profit margin =  $\text{Income after tax} / \text{income}$  (Income = interest income + revenue other than interest income)
- (4) EPS =  $(\text{Net profit after tax} - \text{preferred stock dividend}) / \text{quantity of issued shares under weighted average method}$

**3. Financial structure**

- (1) Liability to total assets ratio =  $\text{Total liabilities} / \text{total assets}$
- (2) Fixed assets to net value ratio =  $\text{Fixed assets, net} / \text{stockholders' equity, net}$
- (3) Total liabilities exclude allowances for guarantee liability and for loss on securities exchange.

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

**6. Scale of operations**

- (1) Asset market share =  $\text{Total assets} / \text{total assets of all bills financial companies}$
- (2) Net stockholders' equity market share =  $\text{Net value} / \text{total net stockholders' equity of all bills financial companies}$
- (3) Market share for guaranteed and endorsed bills =  $\text{Balance of guaranteed and endorsed bills} / \text{total balance of bills guaranteed and endorsed by all bills financial companies}$
- (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. Own capital to risk assets ratio**

- (1) Capital adequacy ratio =  $\text{Own capital, net} / \text{total risk assets}$
- (2) Own capital, net = Tier I capital + Tier II capital + Tier III capital - capital deductions
- (3) Total risk assets = Credit risk weighted risk assets + market risk capital requirements  $\times 12.5$
- (4) Tier I capital to risk weighted risk assets ratio =  $\text{Tier I capital} / \text{risk weighted risk assets}$
- (5) Tier I capital and Tier II capital to risk weighted risk assets ratio =  $(\text{Tier I Capital} + \text{Tier II Capital}) / \text{risk weighted risk assets}$
- (6) Leverage ratio =  $\text{Tier I capital} / \text{average assets after adjustment (average assets less the "goodwill" included into Tier I capital)}$

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

#### **Supervisor's Audit Report**

The Board of Directors has submitted us the Company's business report, financial statements, catalogue of property and motion for allocation of earnings in 2011. The financial statements were audited and certified by Li Chang-Chou, CPA and Lee Hsiun-Ling, CPA of PwC Taiwan. We have audited said business report, financial statements, catalogue of property and motion for allocation of earnings and held that none of them has any non-compliance. Accordingly, this report is produced in accordance with Article 219 of the Company Law and Article 36 of the Securities and Exchange Act.

To: Mega Bills Finance Corporation

Supervisor: Lu Dan-Hong



Supervisor: Hong Ching-Long



Supervisor: Hong Chia-Ming



March 20, 2012

**MEGA BILLS FINANCE CO., LTD**  
**FINANCIAL STATEMENTS AND**  
**REPORT OF INDEPENDENT ACCOUNTANTS**  
  
**DECEMBER 31, 2011 AND 2010**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

PWCR1100378

Report of Independent Accountants

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

We have audited the accompanying balance sheets of Mega Bills Finance Co., Ltd (the “Company”) as of December 31, 2011 and 2010, and the related statements of income, of changes in stockholders’ equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mega Bills Finance Co., Ltd as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” and generally accepted accounting principles in the Republic of China.

March 20, 2012

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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 report of independent accountants 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.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers, Taiwan cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation

**MEGA BILLS FINANCE CO., LTD**  
**BALANCE SHEETS**  
**December 31, 2011 and 2010**  
(Expressed in Thousands of New Taiwan Dollars)

ASSETS	NOTES	2011	2010
<b>Assets</b>			
Cash and cash equivalents	4(1) and 5	\$ 601,915	\$ 736,833
Financial assets at fair value through profit or loss	4(2), 5 and 6	135,756,870	112,685,775
Bills and bonds investment with resale agreements	4(3)	-	529,800
Receivables - net	4(4)	1,833,166	2,101,018
Available-for-sale financial assets - net	4(5), 5 and 6	83,240,989	91,189,051
Held-to-maturity financial assets - net	4(6)	250,000	250,000
Other financial assets – net	4(7) and 6	822,684	693,381
Property and equipment - net	4(8)	2,928,881	2,945,800
Intangible assets - net		1,096	309
Other assets - net	4(9) and 5	47,010	55,134
<b>TOTAL ASSETS</b>		<b>\$ 225,482,611</b>	<b>\$ 211,187,101</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Bank overdrafts and call loans from banks	4(10) and 5	\$ 3,416,000	\$ 3,897,000
Financial liabilities at fair value through profit or loss	4(11)	-	10,130
Bills and bonds payable under repurchase agreements	4(3) and 5	184,993,275	170,163,470
Payables	4(12),(13) and 5	1,257,098	1,243,823
<b>Other Liabilities</b>			
Reserves for guarantee liabilities	5	2,911,927	2,884,046
Reserves for securities trading losses		-	200,000
Accrued pension liability	4(14)	235,663	166,141
Other liabilities - others	5	73,473	87,170
<b>Total Liabilities</b>		<b>192,887,436</b>	<b>178,651,780</b>
<b>Capital stock</b>			
Common stocks	4(15)	13,114,411	13,114,411
Capital surplus	4(16)	312,823	312,823
<b>Retained earnings</b>			
Legal reserve	4(13), (17) and (18)	13,009,385	12,212,916
Special reserve		203,090	3,090
Unappropriated retained earnings		2,685,319	2,701,076
<b>Other stockholders' equity adjustments</b>			
Unrealized gain or loss on financial instruments	4(5)	3,327,430	4,191,005
Losses not recognized as pension cost-net	4(14)	( 57,283)	-
<b>Total Stockholders' Equity</b>		<b>32,595,175</b>	<b>32,535,321</b>
<b>Commitments And Contingent Liabilities</b>	7		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>\$ 225,482,611</b>	<b>\$ 211,187,101</b>

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

**MEGA BILLS FINANCE CO., LTD**  
**STATEMENTS OF INCOME**  
For the Years Ended December 31, 2011 and 2010  
(Expressed in Thousands of New Taiwan Dollars, Except For Earnings Per Share)

	NOTES	2011	2010
Interest Income		\$ 3,344,572	\$ 3,347,214
Less : Interest Expense	5	( 936,945)	( 509,053)
Interest Income, Net		2,407,627	2,838,161
Non-Interest Income, Net			
Service fee and commission income, net	5 and 10(2)	712,572	795,646
Gain or loss from financial assets and liabilities at fair value through profit or loss	5 and 10(4)	85,780	221,564
Realized gain or loss on available-for-sale financial assets	10(2)	267,225	335,050
Foreign exchange loss, net		189	( 77)
Loss on asset impairment	4(7)	-	( 169,957)
Other non-interest income or loss, net			
Rental income	5	107,184	126,671
Recovery of bad debts and overdue accounts		414,100	104,713
Others		12,797	12,577
Net Revenues		4,007,474	4,264,348
Provisions	10(6)	( 89,757)	( 345, 695)
Operating Expenses			
Personnel expenses	4(19)	( 551,876)	( 513, 641)
Depreciation and amortization	4(19)	( 27,142)	( 37, 349)
Other business and administrative expenses	5	( 200,596)	( 212,013)
Total operating expenses		( 779,614)	( 763,003)
Income before Income Tax from Operating Unit		3,138,103	3,155,650
Income Tax Expense	4(13)	( 455,801)	( 500,753)
Net Income		\$ 2,682,302	\$ 2,654,897
		Before Tax	After Tax
Earnings Per Share (in dollars)	4(20)		
Net Income		\$ 2.39	\$ 2.05
		Before Tax	After Tax
		\$ 2.41	\$ 2.02

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

**MEGA BILLS FINANCE CO., LTD**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2011 and 2010**  
**(Expressed in Thousands of New Taiwan Dollars)**

	<u>Retained Earnings</u>					Unrealized	Losses not	Total
	<u>Common</u>	<u>Capital</u>	<u>Legal</u>	<u>Special</u>	<u>Unappropriated</u>	<u>Gain or Loss on</u>	<u>Recognized as</u>	<u>Stockholders'</u>
	<u>Stock</u>	<u>Surplus</u>	<u>Reserve</u>	<u>Reserve</u>	<u>Retained Earnings</u>	<u>Financial Assets</u>	<u>Pension Cost-</u>	<u>Equity</u>
							<u>Net</u>	
Balance as of January 1, 2010	\$ 13,114,411	\$ 312,823	\$ 11,355,330	\$ 3,090	\$ 2,870,927	\$ 5,179,496	\$ -	\$ 32,836,077
Appropriation of 2009 earnings (Note)								
Legal reserve	-	-	857,586	-	( 857,586)	-	-	-
Cash dividends	-	-	-	-	( 1,967,162)	-	-	( 1,967,162)
Net income for 2010	-	-	-	-	2,654,897	-	-	2,654,897
Changes in unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	( 988,491)	-	( 988,491)
Balance as of December 31, 2010	<u>\$ 13,114,411</u>	<u>\$ 312,823</u>	<u>\$ 12,212,916</u>	<u>\$ 3,090</u>	<u>\$ 2,701,076</u>	<u>\$ 4,191,005</u>	<u>\$ -</u>	<u>\$ 32,535,321</u>
Balance as of January 1, 2011	\$ 13,114,411	\$ 312,823	\$ 12,212,916	\$ 3,090	\$ 2,701,076	\$ 4,191,005	\$ -	\$ 32,535,321
Appropriation of 2010 earnings (Note)								
Legal reserve	-	-	796,469	-	( 796,469)	-	-	-
Cash dividends	-	-	-	-	( 1,901,590)	-	-	( 1,901,590)
Net income for 2011	-	-	-	-	2,682,302	-	-	2,682,302
Changes in unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	( 863,575)	-	( 863,575)
Trading loss reserve transferred to special reserve	-	-	-	200,000	-	-	-	200,000
Losses not recognized as pension cost-net	-	-	-	-	-	-	( 57,283)	( 57,283)
Balance as of December 31, 2011	<u>\$ 13,114,411</u>	<u>\$ 312,823</u>	<u>\$ 13,009,385</u>	<u>\$ 203,090</u>	<u>\$ 2,685,319</u>	<u>\$ 3,327,430</u>	<u>(\$ 57,283)</u>	<u>\$ 32,595,175</u>

Note: Employee bonuses amounting to \$65,045 and \$75,239 for 2010 and 2009, have been recorded under operation expense in the statement of income, not recorded as earnings appropriation items.

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



**MEGA BILLS FINANCE CO., LTD**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2011 and 2010  
(Expressed in Thousands of New Taiwan Dollars)

	<u>2011</u>	<u>2010</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Net income	\$ 2,682,302	\$ 2,654,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,142	37,349
Provisions for bad debts and various reserves	89,757	345,695
Loss on asset impairment	-	169,957
Gains on disposal of fixed assets	( 171)	( 479)
Decrease (increase) in operating assets:		
Financial assets at fair value through profit or loss	( 23,071,095)	( 26,842,127)
Bills and bonds investment with resale agreements	529,800	( 529,800)
Receivables	268,722	106,770
Available-for-sale financial assets	7,084,487	17,192,814
Held-to-maturity financial assets	-	200,000
Other financial assets	( 192,049)	68,005
Other assets	7,530	3,451
Increase (decrease) in operating liabilities:		
Financial liabilities at fair value through profit or loss	( 10,130)	( 64,860)
Bills and bonds payable under repurchase agreement	14,829,805	10,557,429
Payables	13,275	( 84,435)
Other liabilities – others	( 13,697)	( 122,297)
Accrued pension liability	12,994	22,410
Net cash provided by operating activities	<u>2,258,672</u>	<u>3,714,779</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Acquisition of property and equipment	( 3,460)	( 3,528)
Proceeds from disposal of property and equipment	171	479
Increase in other assets	( 6,686)	( 416)
Increase in intangible assets	( 1,025)	( 213)
Net cash used in investing activities	<u>( 11,000)</u>	<u>( 3,678)</u>
<b><u>Cash Flows from Financing Activities</u></b>		
Decrease in bank overdrafts and call loans from banks	( 481,000)	( 1,689,000)
Payments of cash dividends	( 1,901,590)	( 1,967,162)
Net cash used in financing activities	<u>( 2,382,590)</u>	<u>( 3,656,162)</u>
Net (decrease) increase in cash and cash equivalents	( 134,918)	54,939
Cash and cash equivalents, beginning of year	736,833	681,894
Cash and cash equivalents, end of year	<u>\$ 601,915</u>	<u>\$ 736,833</u>
<b><u>Supplemental Disclosures of Cash Flow Information:</u></b>		
Interest paid	<u>\$ 913,908</u>	<u>\$ 496,730</u>
Income tax paid	<u>\$ 393,433</u>	<u>\$ 421,941</u>

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

MEGA BILLS FINANCE CO., LTD  
NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

(Expressed in thousands of new Taiwan dollars, except as otherwise indicated)

**1. ORGANIZATION AND OPERATIONS**

- (1) Mega Bills Finance Co., Ltd (the “Company”) formerly known as Chung Hsing Bills Finance Co., Ltd, was established on May 3, 1976. In accordance with the Explanatory Letter Jing-Shou-Shang-Zi Ruling 09501114390 of Economic Affairs, R.O.C., dated June 14, 2006, the Company was renamed as Mega Bills Finance Co., Ltd. The Company is mainly engaged in (1) acting as guarantor and endorser of commercial paper (CP2); (2) approval, underwriting, brokerage and proprietary trading service of short-term negotiable instruments; (3) approval, underwriting, brokerage and proprietary trading service of financial bonds; (4) proprietary trading service of government bonds; (5) proprietary trading service of corporate bonds; (6) transactions of derivative financial instruments; (7) investments of equity instruments; (8) proprietary trading and investment service of fixed income securities; (9) corporate financial consulting service and (10) other business approved by the authorities.
- (2) The common stock of the Company was originally traded on the Taiwan Stock Exchange. Pursuant to a resolution in the 2002 annual stockholders’ meeting, the Company was merged into Mega Financial Holding Co., Ltd. (hereinafter referred to as “Mega”) by way of a share swap. The ratio of the share swap was 1.39 shares of the Company’s common stock for one common share of Mega. As a result, the Company was delisted from the Taiwan Stock Exchange on August 22, 2002.
- (3) Mega is the parent company of the Company. The number of employees (including interns) was 224 and 222 as of December 31, 2011 and 2010, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements are prepared in conformity with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” and generally accepted accounting principles in the Republic of China. The significant accounting policies of the Company are summarized below:

**(1) Foreign currency transactions**

- A. The Company maintains its accounts in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year’s profit or loss.
- B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.

**(2) Financial assets and financial liabilities at fair value through profit or loss**

- A. Derivative instruments are recognized and derecognized using trade date accounting; others are recognized and derecognized using settlement date accounting and are recognized initially at fair value.
- B. These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss.
- C. When a derivative is an ineffective hedging instrument, it is initially recognized at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. If a derivative is a non-option derivative, the fair value initially recognized is zero.
- D. The fair values of the above-mentioned financial instruments are determined according to the following:
  - (a) Fair values of short-term bills are determined by the secondary trading’s offered rate index indicated by

quotation's interest rate index; fair values of USD bills are determined by the USD inter-bank rates of Taipei Foreign Exchange Brokerage Inc.

- (b) Government bonds are valued by the fair values of government bonds fair value offered by GreTai Securities Market on the balance sheet date; financial bonds, corporate bonds, foreign currency bonds and marketable securities of fixed income are valued by the corporate bonds reference rates or the volume-weighted average yield/price offered by GreTai Securities Market.
- (c) Fair values of stocks (excluding emerging stocks) listed on the Taiwan Stock Exchange or GreTai Securities Market are determined by the closing price on the balance sheet date.
- (d) Fair values of open-ended funds are determined by the net asset value on the balance sheet date.
- (e) Fair values of derivatives traded on the Taiwan Futures Exchange are determined by the closing prices on the balance sheet date, while the rest are determined by evaluation methods.

(3) Bills and bonds under repurchase or resale agreements

Bills and bonds under repurchase or resale agreements are accounted for under the financing method. Bills and bonds sold under repurchase agreements are recorded as "bills and bonds payable under repurchase agreements" at the selling date. Bills and bonds invested under resale agreements are recorded as "bills and bonds investment with resale agreements" at the purchasing date. The difference between the cost and the repurchase price is recorded as interest expense between the selling date and the repurchasing date. The difference between the cost and the resale price is recorded as interest income between the purchasing date and the reselling date.

(4) Available-for-sale financial assets

- A. Available-for-sale financial assets are accounted for using settlement date accounting. Such financial instruments are initially recognized at fair value plus the acquisition cost or issuance cost.
- B. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in an adjustment account in the stockholders' equity. The accumulated gains or losses in the stockholders' equity are transferred to gains or losses in the current period when such available-for-sale financial assets are derecognized.
- C. An impairment loss is recognized when there is objective evidence of impairment. In the subsequent period, if the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognized, for equity instruments, the decrease shall be recognized as an adjustment account in the stockholders' equity; and for debt instruments, the previously recognized impairment loss is reversed through profit and loss.
- D. For determination of fair values of bonds, marketable securities with fixed income and stocks, please refer to Note 2 (2) D for details.

(5) Held-to-maturity financial assets

- A. Held-to-maturity financial assets are accounted for using settlement date accounting. Such financial instruments are initially recognized at fair value plus the acquisition cost or issuance cost.
- B. Held-to-maturity financial assets are measured at amortized cost at the balance sheet date.
- C. An impairment loss is recognized when there is objective evidence of impairment. In the subsequent period, if the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amounts shall not exceed the amortized cost that would have been determined had no impairment loss been recognized in prior years.

(6) Financial assets measured at cost

- A. Financial assets measured at cost are accounted for using settlement date accounting. Such financial instruments are initially recognized at fair value plus the acquisition cost or issuance cost.

- B. For financial assets measured at cost, an impairment loss shall be recognized if there is objective evidence of impairment. The impairment loss shall not be reversed.

(7) Accounts receivable and overdue receivables

Accounts receivable include accounts receivable, notes receivable and other receivables. Accounts receivable are accounted for as follows:

- A. The commercial papers guaranteed by the Company which matures without being presented immediately within six months from the maturity, shall be accounted for as accounts receivable. Receivables overdue for longer than six months shall be accounted for as overdue receivables.
- B. During the period which guaranteed commercial papers are issued for, the collateral is subject to provisional attachment yet the borrower still pays the interest regularly. In order to extend a grace period for the borrower to apply for removal of such attachment, if such commercial paper matures without being presented immediately, the balance of the commercial paper shall be accounted for as notes receivable.
- C. Other receivables represent accounts receivable except for those listed under designated accounts.
- D. Accounts receivable and overdue receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Prior to January 1, 2011, the Company analyzed loss possibility in accordance with the ending balance of account receivables and overdue receivables to recognize allowance for doubtful debt. Starting from January 1, 2011, the Company evaluates whether objective evidence exists on balance sheet date indicating significant individual financial asset impairment loss and insignificant individual financial asset impairment loss occurring individually or collectively. An impairment loss is recognized when there is objective evidence of impairment. The impairment loss shall be the difference between carrying amount of the financial asset and the estimated future cash flow discounted at the original effective interest rate. In the subsequent period, if the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognized, then the previously recognized financial asset impairment losses should be reversed. The reversal should not result in the carrying amount of financial asset exceeding the amortized costs before impairment loss was recognized. The reversal is recognized as current year's profit or loss.

(8) Reserves for guarantee liabilities and provisions

The various reserves for guarantees for commercial papers are provided by analyzing the probability for potential losses based on the balance of each account at the fiscal year-end. In accordance with SFAS No. 34 "Financial Instruments: Recognition and Measurement", financial guarantee contracts are measure at the higher amount of either contingent liability or deferred unrealized income. As a result, unrealized deferred commission fee income not yet earned has been put into consideration for the guarantee policy reserve recognized.

(9) Property and equipment

- A. Property and equipment are stated at cost less accumulated depreciation. Major renovations and improvements are capitalized and recorded as property and equipment; whereas, repairs and maintenance are expensed as incurred.
- B. Depreciation of property and equipment is computed using the straight-line method over the useful lives listed below: Buildings - 60 years; transportation equipment - 5 years; and miscellaneous equipment – 3-5 years. If property and equipment are still in use after being fully depreciated using the foregoing useful lives, they will be depreciated over their revised estimated useful lives.
- C. When property and equipment are retired or disposed of, the stated costs and related accumulated depreciation are written off, and any resulting gain or loss is credited or charged to other non-interest net profit or loss.

(10) Other deferred assets

Other deferred assets are mainly the expenditures incurred on interior renovation and repairs and are amortized on a straight-line basis over 5 years.

(11) Intangible assets

Computer software expenditures are stated at cost and amortized over the estimated life of 3 to 5 years using the straight-line method.

(12) Impairment of non-financial assets

A. Pursuant to the R.O.C. Statement of Financial Accounting Standards (SFAS) No. 35 “Impairment of Assets”, the Company assesses indicators for impairment for all its non-financial assets within the scope of SFAS No. 35 on each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use. For previously recognized losses, the Company shall assess, on each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company is required to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

B. Impairment of non-financial assets and recovery gain from impairment are recorded as the net impairment losses (gains on reversal) of assets of the period.

(13) Reserve for securities trading losses

The Company provides a reserve for trading losses, as required under the “Regulations Governing Securities Firms”, at an amount equal to 10% of the net gain on trading of securities. The reserve is provided to the extent that the cumulative amount of the reserve equals \$200 million. The reserve can only be used to offset actual losses incurred on trading of securities. In addition, in accordance with Jin-Guan-Yi-Fa Letter No. 10010000440 of the Financial Supervisory Commission dated March 23, 2011, a revision on Regulations Governing Securities Firms was issued on January 11, 2011, the reserve for securities trading losses is no longer required; trading losses reserve at the end of 2010 shall be transferred to special reserve.

(14) Pensions

A. According to the Company’s employee retirement plan, an amount equal to 8% of their total monthly payroll is contributed by the Company to the pension fund deposited with the Bank of Taiwan in an exclusive account for the employees who meet the requirements specified in the Labor Standards Law.

B. Pensions are accounted for in accordance with SFAS No. 18, “Accounting for Pensions”. In a defined benefit plan, accrued pension liability and net pension cost are recognized based on actuarial calculations. Unrecognized net transition obligation or net benefit obligations are amortized on a straight-line basis over 23 years. Prior service costs and gain (loss) on plan assets are amortized on a straight-line basis over the average remaining service years of the employees. In a defined contribution plan, the amounts that the Company contributes to the pension fund are accrued as pension expenses in the current period.

C. The ROC Labor Pension Act (the “Act”), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees’ individual pension accounts on a basis of 6% of the employees’ monthly wages.

(15) Income taxes

A. The income taxes paid by the Company include the separate tax on gains on the trading of short-term bills issued before December 31, 2009 and the taxes levied on other income. Estimation of income taxes is based on the taxable income for the current year. The difference between the estimated taxes and the actual taxes

paid is recorded as an adjustment to the current year's income tax expense. The additional 10% tax levied on unappropriated retained earnings is recorded as income tax expense in the year when the stockholders resolve to distribute the earnings.

- B. Inter-period and intra-period income taxes are allocated in accordance with the SFAS No. 22, "Accounting for Income Taxes". Income tax effects arising from taxable temporary differences are recognized as deferred income tax liabilities. Income tax effects arising from deductible temporary differences, loss carryforwards and income tax credits are recognized as deferred income tax assets, and a valuation allowance is provided based on the expected realizability of the deferred income tax assets. When a change in the tax laws is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be recognized as an adjustment to income tax expense (benefit) for income from continuing operations in the current period.
- C. In accordance with the "Income Basic Tax Act" effective from January 1, 2006, the current income tax recognized is the higher of the basic tax calculated according to such Act and the income tax assessed by standards of the National Tax Administration. If the amounts assessed by the National Tax Administration are lower than amounts calculated based on "Income Basic Tax Act", provision shall be made and recorded as an adjustment to the current year's income tax expense.
- D. Although the Company's income tax returns are filed jointly with Mega, the Company's parent company, and its other subsidiaries starting 2003, income taxes are accounted for by the same principles stated above. The estimated amount of receivables (payables) arising from the joint filing of income tax returns is recorded under "other receivables (payables) – affiliated companies". Adjustments are made on a systematic and consistent basis to the current deferred income tax assets (liabilities) or income tax payable (income tax refundable) based on the above estimated amount of receivables (payables).

(16) Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal or constructive obligation and those amounts can be estimated reasonably. If there are significant changes in the appropriation amounts resolved by the Board of Directors, the changes shall be adjusted to the current year's profit or loss (in which employees' bonuses are recognized); if there are still changes as approved during the stockholders' meeting, the changes shall be recognized as profit or loss.

(17) Revenue recognition

Recognition of revenue is accounted for in accordance with the SFAS No. 32, "Accounting for Revenue Recognition".

(18) Basic earnings per share

Basic earnings per share are calculated based on the net income (loss) attributed to common stockholders and the weighted-average number of common shares outstanding during the year. Any capital increase (reduction) resulting from cash injection (withdrawal), treasury stock transactions or other factors that would cause a change in the number of shares outstanding are incorporated in the calculation on a weighted-average basis according to the circulation period. Adjustments are made retroactively to the weighted-average number of shares outstanding if there is any increase (decrease) in the number of shares outstanding (such as distribution of stock dividends, share splits and reduction in capital due to making up for accumulated deficits), which does not result in changes in the stockholders' percentage of equity interest in the Company.

(19) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

(20) Settlement date accounting

If an entity recognizes financial assets using settlement date accounting, any change in the fair value of the asset during the period between the trade date and the settlement date is not recognized for assets carried at cost or amortized cost. For financial asset and financial liability at fair value through profit or loss, the change in fair value is recognized in profit or loss. For available-for-sale financial asset, the change in fair value is recognized directly in equity.

(21) Presentation of financial statements

In accordance with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”, assets and liabilities in the accompanying financial statements are not classified into current and non-current items.

(22) Operating Segments

Operating segment information of the Company is reported in the same manner as the internal management report provided to the Chief Operating Decision-Maker (CODM). The CODM is in charge of allocating resources to operating segments and evaluating their performance.

In accordance with SFAS No. 41 “Operating Segments”, the Company discloses segment information in the financial statements.

### 3. CHANGES IN ACCOUNTING PRINCIPLES

- (1) Starting from January 1, 2011, the Company adopted the revised SFAS No. 34 “Financial Instruments: Recognition and Measurement”, which indicates that impairment losses (bad debts) of various creditors’ rights shall be recognized if objective evidence of impairment exists. This change in accounting principle had no significant impact on the net income and earnings per share for the year ended December 31, 2011.
- (2) Starting from January 1, 2011, the Company adopted the newly issued SFAS No. 41 “Operating Segments” to replace SFAS No. 20 “Segment Reporting”. At initial adoption, the Company restated the segment information of the previous period pursuant to the accounting standard. This change in accounting principle had no impact on the net income and earnings per share for the years ended December 31, 2011 and 2010.
- (3) Starting from January 1, 2011, pursuant to the explanatory letter Jin-Guan-Zheng-Zi-Quan No. 09900738571 issued by the Financial Supervisory Commission of the Executive Yuan and explanation letter Jin-Guan-Yi-Fa No. 10010000440 dated March 23, 2011, recognition for transaction loss reserve shall no longer be made and the transaction loss reserve amounting to \$200,000 thousand shall be transferred to special reserve. This change in accounting principle had no impact on net income and earnings per share for the year ended December 31, 2011.

### 4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Checking deposits	\$ 238,353	\$ 277,265
Demand deposits	362,712	458,718
Petty cash	850	850
Total	<u>\$ 601,915</u>	<u>\$ 736,833</u>

- A. For bank deposits due from related parties, please refer to Note 5.
- B. As of December 31, 2011 and 2010, demand deposits in USD amounted to US\$37 thousand and US\$14 thousand, respectively, and the exchange rate of USD to NTD was 1 : 30.272 and 1 : 29.105, respectively.

(2) Financial assets at fair value through profit or loss

	December 31,	
	2011	2010
Financial assets held for trading		
Commercial paper	\$ 96,995,893	\$ 88,200,475
Fixed rate commercial paper contracts	7,021	12,350
Foreign currency bills	11,723	68,300
Bankers' acceptance	-	64,055
Negotiable certificates of time deposit	17,850,000	20,000,000
Treasury securities	16,109,122	497,921
Government bonds	-	20,903
International financial bonds	-	374,395
Convertible corporate bonds	1,929,944	932,747
Convertible corporate bond asset swaps	2,756,700	2,185,800
Stocks	22,929	176,540
Open-ended funds	19,748	61,983
Derivative financial instruments	-	9,237
Valuation adjustments – convertible corporate bond asset swaps	67,319	5,705
Valuation adjustments – non-derivatives	(13,529)	75,364
Total	<u>\$ 135,756,870</u>	<u>\$ 112,685,775</u>

- A. As of December 31, 2011 and 2010, the amount of bills and bonds held for trading purpose that were provided for repurchase agreements were \$111,774,301 thousand and \$87,629,203 thousand, respectively.
- B. The negotiable certificates of time deposit were provided as collaterals for bank overdrafts and loans as of December 31, 2011 and 2010. Please refer to Notes 5 and 6 for details.
- C. Information of derivative instrument contracts was as follows:

December 31, 2011: None.

	December 31, 2010	
	Contract amount (Notional principal)	Fair value
Interest rate swap contracts	<u>\$ 2,600,000</u>	<u>\$ 9,237</u>

- D. As of December 31, 2011 and 2010, the fair value of bills denominated in USD amounted to US\$387 thousand and \$2,347 thousand, respectively, and the exchange rate of USD to NTD was 1 : 30.272 and 1 : 29.105, respectively.



(3) Bills and bonds under repurchase or resale agreements

	December 31,	
	2011	2010
Bills and bonds investment with resale agreements	\$ -	\$ 529,800
Bills and bonds payable under repurchase agreements	\$ 184,993,275	\$ 170,163,470

- A. As of December 31, 2010, the interest rate of bills and bonds investment with resale agreements was 0.42%.
- B. As of December 31, 2011 and 2010, the interest rate of bills and bonds payable under repurchase agreements were 0.15%~0.90% and 0.15%~1.10%, respectively.
- C. As of December 31, 2011 and 2010, the fair value of bills and bonds payable under repurchase agreements denominated in USD amounted to US\$6,303 thousand and US\$8,398 thousand, respectively, and the exchange rate of USD to NTD was 1 : 30.272 and 1 : 29.105, respectively.

(4) Receivables – net

	December 31,	
	2011	2010
Interest receivable	\$ 1,833,107	\$ 2,100,508
Accounts receivable	-	870
Other receivables – others	59	510
Subtotal	1,833,166	2,101,888
Less: Allowance for doubtful accounts	-	( 870)
Receivables, net	\$ 1,833,166	\$ 2,101,018

The above-mentioned accounts receivable are for performance guarantees.

(5) Available-for-sale financial assets

	December 31,	
	2011	2010
Government bonds	\$ 65,063,577	\$ 71,272,468
Financial bonds	2,160,000	1,080,813
Foreign currency financial bonds	30,396	29,507
Corporate bonds	10,238,640	12,200,724
Foreign currency corporate bonds	151,360	145,525
Beneficiary or asset-backed securities	400,000	-
Stocks	1,869,586	2,269,009
Subtotal	79,913,559	86,998,046
Valuation adjustments	3,327,430	4,191,005
Total	\$ 83,240,989	\$ 91,189,051

- A. As of December 31, 2011 and 2010, the available-for-sale financial bonds provided for repurchase agreements amounted to \$65,942,440 thousand and \$73,786,257 thousand, respectively.
- B. The government bonds and corporate bonds were provided as collaterals for bank overdrafts and loans as of December 31, 2011 and 2010. Please refer to Notes 5 and 6 for details.
- C. As of December 31, 2011 and 2010, in accordance with the relevant regulations, the Company deposited refundable deposits in Central Bank and other institutions. Bonds are collateralized as refundable deposits amounting to \$943,355 thousand and \$913,001 thousand, respectively.
- D. As of December 31, 2011 and 2010, the fair values of financial bonds denominated in USD have amounted to US\$995 thousand and US\$1,008 thousand, respectively. And the fair values of corporate bonds denominated in USD have amounted to US\$4,989 thousand and US\$4,990 thousand, respectively,

and the exchange rate of USD to NTD was 1 : 30.272 and 1 : 29.105, respectively.

(6) Held-to-maturity financial assets - net

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Corporate bonds	\$ 250,000	\$ 250,000
Less: Accumulated impairment	-	-
Net	<u>\$ 250,000</u>	<u>\$ 250,000</u>

(7) Other financial assets - net

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Restricted assets - certificates of time deposit	\$ 400,000	\$ 200,000
Financial assets carried at cost - net	369,300	369,300
Designated account for allowance to pay back short-term bills	53,384	31,259
Overdue receivables-net	-	82,367
Margin deposits for futures trading	-	10,455
Net	<u>\$ 822,684</u>	<u>\$ 693,381</u>

A. The above restricted assets-certificates of time deposit were provided as collaterals for bank overdrafts as of December 31, 2011 and 2010. Please refer to Note 6 for details.

B. Financial assets carried at cost are listed as follows:

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Amount</u>	<u>% of Shareholding</u>	<u>Amount</u>	<u>% of Shareholding</u>
Unlisted stock investments				
Core Pacific City Co., Ltd.	\$ 600,000	3.932	\$ 600,000	3.932
Taiwan Asset Management Co., Ltd.	100,000	0.568	100,000	0.568
Taiwan Financial Asset Services Co., Ltd.	50,000	2.941	50,000	2.941
Taiwan Futures Exchange Co., Ltd.	10,250	0.512	10,250	0.512
Taiwan Depository & Clearing Co., Ltd.	6,850	0.628	6,850	0.628
Agora Garden Co., Ltd.	900	0.030	900	0.030
Subtotal	768,000		768,000	
Less: Accumulated impairment	( 398,700)		( 398,700)	
Net	<u>\$ 369,300</u>		<u>\$ 369,300</u>	

As of December 31, 2011 and 2010, the Company had recognized impairment loss for the above listed investees as follows:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Core Pacific City Co., Ltd.	\$ 397,800	\$ 397,800
Agora Garden Co., Ltd.	900	900
	<u>\$ 398,700</u>	<u>\$ 398,700</u>

The Company purchased 60,000,000 shares of Core Pacific City Co., Ltd.'s stocks with a par value of \$10 in November, 1996, and the cost was \$600,000 thousand. Due to its continued operation losses, the Company assessed and recognized \$169,957 thousand of impairment losses in 2010.

C. Overdue receivables - net are disclosed as follows:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Overdue receivables	\$ -	\$ 100,827
Less: Allowance for doubtful accounts	-	( 18,460)
Net	<u>\$ -</u>	<u>\$ 82,367</u>

D. As of December 31, 2011, there are no unsettled transactions. As of December 31, 2010, unsettled futures

transactions are as follows:

<u>Item</u>	<u>Type of Transaction</u>	<u>Unsettled position</u>		<u>Nominal principal</u>	<u>Fair value</u>
		<u>Buyer/Seller</u>	<u>Number of contracts</u>		
Futures contract	TAIEX futures	Buyer	2	\$ 3,559	\$ 3,595

The principal futures transactions the Company is involved in are stock index futures. As of December 31, 2010, the balance of guarantees in futures accounts amounted to \$10,455 thousand, and the excess margin amounted to \$10,327 thousand.

(8) Property and equipment - net

	<u>Cost</u>	<u>December 31, 2011</u>	
		<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 2,432,241	\$ -	\$ 2,432,241
Buildings	677,986	( 189,872)	488,114
Transportation equipment	8,582	( 8,039)	543
Miscellaneous equipment	131,963	( 123,980)	7,983
Total	<u>\$ 3,250,772</u>	<u>(\$ 321,891)</u>	<u>\$ 2,928,881</u>

	<u>Cost</u>	<u>December 31, 2010</u>	
		<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 2,432,241	\$ -	\$ 2,432,241
Buildings	679,713	( 178,214)	501,499
Transportation equipment	10,012	( 9,538)	474
Miscellaneous equipment	150,293	( 138,707)	11,586
Total	<u>\$ 3,272,259</u>	<u>(\$ 326,459)</u>	<u>\$ 2,945,800</u>

All property and equipment were neither provided as collateral nor revalued.

(9) Other assets

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Deferred pension cost	\$ 14,806	\$ 15,561
Refundable deposits	10,741	17,937
Fund joint services	10,700	10,700
Other deferred assets	6,685	6,524
Others	<u>4,078</u>	<u>4,412</u>
Total	<u>\$ 47,010</u>	<u>\$ 55,134</u>

(10) Bank overdrafts and call loans from banks

	<u>December 31, 2011</u>	<u>Period</u>	<u>Interest Rate (%)</u>
Bank overdrafts	\$ 66,000	Nov. 30, 2011~Nov. 30, 2012 (Note)	1.88
Call loans	<u>3,350,000</u>	Dec. 29, 2011~Jan. 3, 2012	0.75~0.80
Total	<u>\$ 3,416,000</u>		

	<u>December 31, 2010</u>	<u>Period</u>	<u>Interest Rate (%)</u>
Bank overdrafts	\$ 197,000	Nov. 30, 2010~Nov. 30, 2011 (Note)	1.505
Call loans	<u>3,700,000</u>	Dec. 28, 2010~Jan. 5, 2011	0.41~0.47
Total	<u>\$ 3,897,000</u>		

Note: Represents contract period.

- A. Please refer to Note 5 for details of bank overdrafts and call loans granted by the related parties.
- B. Please refer to Note 6 for details for collaterals provided for bank overdrafts and loans as of December 31, 2011 and 2010.

(11) Financial liabilities at fair value through profit or loss

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Derivative financial instruments	\$ -	\$ 10,130

Information on derivative instrument contracts was as follows:

December 31, 2011: None.

	<u>December 31, 2010</u>	
	<u>Contract amount (Notional principal)</u>	<u>Fair value</u>
Interest rate swap contracts	\$ 1,700,000	\$ 10,130

(12) Payables

	December 31,	
	2011	2010
Purchase of bills payable for customers	\$ 396,421	\$ 491,886
Other payable - affiliated companies (Note 1)	337,407	243,890
Receipts under custody payable (Note 2)	183,365	209,780
Bonus payable	170,554	167,131
Dividends and bonus payable	84,493	74,337
Interest payable	48,351	25,314
Others	36,507	31,485
Total	<u>\$ 1,257,098</u>	<u>\$ 1,243,823</u>

Note 1 : Please refer to Notes 4(13) and 5 for information of the above other payable- affiliated companies.

Note 2 : This represents withholding taxes on interest income from bills and bonds pertaining to former purchasers.

(13) Income taxes

A. The Company's income tax expense and income tax payable are reconciled as follows:

	For the years ended December 31,	
	2011	2010
Income tax at the statutory tax rate	\$ 533,478	\$ 536,461
Tax effect of permanent differences	( 27,612)	( 29,257)
Change in deferred income tax assets	( 30,208)	( 91,913)
Withholding taxes	( 393,433)	( 413,509)
Tax effect of amendments to the tax laws	-	77,352
Income tax payable in current year	<u>\$ 82,225</u>	<u>\$ 79,134</u>
Income tax payable in current year	\$ 82,225	\$ 79,134
Over provisions of prior years' income tax expenses	( 19,857)	( 322)
Income tax on separately taxed income	-	8,432
Withholding taxes	<u>393,433</u>	<u>413,509</u>
Income tax expense	<u>\$ 455,801</u>	<u>\$ 500,753</u>

	December 31,	
	2011	2010
Income tax payable of prior years	\$ 255,182	\$ 164,756
Income tax payable in current year	<u>82,225</u>	<u>79,134</u>
Net income tax payable (recorded as "other payables – affiliated companies")	<u>\$ 337,407</u>	<u>\$ 243,890</u>

B. Temporary differences resulting in deferred income tax assets as of December 31, 2011 and 2010:

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
Temporary difference				
Allowance for doubtful accounts in excess of tax law limits	\$ 1,562,135	\$ 265,563	\$ 1,757,586	\$ 298,790
Loss on asset impairment	398,700	67,779	398,700	67,779
Others	<u>354,221</u>	<u>60,218</u>	<u>336,464</u>	<u>57,199</u>
	<u>\$ 2,315,056</u>	<u>393,560</u>	<u>\$ 2,492,750</u>	<u>423,768</u>
Valuation allowance		( <u>393,560</u> )		( <u>423,768</u> )
Deferred income tax assets		<u>\$ -</u>		<u>\$ -</u>

The income tax rate was reduced to 17% and 20%, on June 15, 2010 and May 27, 2009, respectively. The revision is effective starting from 2010. The Company has recalculated deferred income tax assets at applicable rates, and the tax effect resulting from the deferred income tax assets is recognized as income tax expense of continuous operating segment in year 2010.

C. Imputation tax credit

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Account balance of imputation tax credit	<u>\$ 25,453</u>	<u>\$ 38,400</u>
	<u>For the years ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Estimated (actual) tax credit rate for individual stockholders	<u>0.95%</u>	<u>1.42%</u>

D. Unappropriated retained earnings

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
1997 and before	\$ 1,358	\$ 1,358
1998 and onwards	<u>2,683,961</u>	<u>2,699,718</u>
Total	<u>\$ 2,685,319</u>	<u>\$ 2,701,076</u>

E. As of December 31, 2011, the Company's income tax returns through 2006 had been assessed by the tax authorities. Based on the tax authorities' reassessment, 60% of the withholding taxes on accrued interest from bonds pertaining to former purchasers that have been paid by the Company would be refunded. The Company estimates withholding taxes on accrued interest from bonds pertaining to former purchasers for year 2007 to be \$627,059 thousand, which has not been assessed by the tax authorities.

F. The Company's income tax returns are filed jointly with Mega, the Company's parent company, and its other subsidiaries starting 2003. As of December 31, 2011 and 2010, the estimated amount payable to Mega on the joint filing of income tax returns (after deducting non-refundable withholding taxes) amounted to \$337,407 thousand and \$243,890 thousand, recorded under "other payable- affiliated companies", respectively.

(14) Retirement plan

A. A retirement plan is in place for all the Company's permanent employees. In accordance with the plan, an amount equal to 8% of the total monthly payroll was contributed by the Company to the pension fund. Benefits under this plan are calculated based on the number of years of service, salaries, meal allowances, overtime wages and other regular payments made in accordance with the Labor Standards Law. The maximum number of basic points used for the purpose of benefit calculation is limited to 61 points for

employees who worked before April 30, 2005. But for employees who worked after May 1, 2005, is limited to 45 points only. As of December 31, 2011 and 2010, the balances of pension fund deposited with Bank of Taiwan were \$251,932 thousand and \$260,141 thousand, respectively. Under the above plan, the Company recognized pension expenses of \$33,758 thousand and \$32,519 thousand for the years ended December 31, 2011 and 2010, respectively.

(a) Actuarial assumptions used to measure the funded status of the plan:

	December 31,	
	2011	2010
Discount rate	1.55%	2.25%
Rate of increase in compensation levels	2.25%	2.25%
Expected return on plan assets	1.55%	2.25%

(b) Reconciliation of the funded status of the plan to the carrying amount of accrued pension liability is as follows:

	December 31,	
	2011	2010
Benefit obligations		
Vested benefit obligation	(\$ 276,694)	(\$ 246,247)
Non-vested benefit obligation	( 213,147)	( 181,750)
Accumulated benefit obligation	( 489,841)	( 427,997)
Effects of future salary increments	( 148,586)	( 132,787)
Projected benefit obligation	( 638,427)	( 560,784)
Fair value of plan assets	254,178	261,856
Funded status	( 384,249)	( 298,928)
Unrecognized net transitional obligation	1,516	1,734
Unrecognized prior service costs	13,290	15,891
Unrecognized loss on plan assets	205,869	130,723
Additional accrued pension liability	( 72,089)	( 15,561)
Accrued pension liability	(\$ 235,663)	(\$ 166,141)

(c) Pension costs consist of the following:

	For the years ended December 31,	
	2011	2010
Service cost	\$ 19,891	\$ 20,323
Interest cost	12,505	12,511
Expected return on plan assets	( 5,890)	( 6,270)
Amortization on unrecognized pension loss	7,252	5,955
Net pension costs	\$ 33,758	\$ 32,519

B. Effective July 1, 2005, the Company established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"). Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The payment of pension benefits is based on the employees' individual pension fund accounts and the cumulative profit in such accounts, and the employees can choose to receive such pension benefits monthly or in lump sum. The pension costs under the defined contribution pension plan for the years ended December 31, 2011 and 2010 were \$4,057 thousand and \$3,528 thousand, respectively.

(15) Capital stock

As of December 31, 2011 and 2010, the Company's paid-in capital was \$13,114,411 thousand, consisting of 1,311,441 thousand shares with a par value of \$10 per share.

(16) Capital surplus

As required by Company Law, capital reserve of additional paid-in capital and income from donation after

offsetting accumulated deficit, the legal reserve may be used exclusively to increase capital by issuing new shares or distribute cash dividends according to original shareholders in proportion to the number of shares being held by each of them given there is no accumulated deficit in a company. In addition, according to Securities and Exchange Act, the capital reserve used for capital increase shall not exceed 10% total paid-in capital. Unless the earnings reserve is insufficient to offset the capital deficit, the capital reserve shall not be used.

(17) Legal reserve

Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

(18) Appropriation of earnings and dividend policies

A. According to the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating loss, and the remaining amount should then be set aside as legal reserve and special reserve in accordance with provisions under the applicable laws and regulations. The remaining earnings (including reversible special reserve) are then distributed using the percentage ranging from 3% to 5% as bonuses to employees, and the remaining earnings plus prior year's accumulated unappropriated earnings are subject to the Board of Directors' decision to propose a distribution plan and to be submitted to the Ordinary Stockholders' Meeting for approval. The total provision of bonuses to employees is at the Board's discretion and is distributed to employees after it is approved at the Ordinary Stockholders' Meeting.

B. Although the industry in which the Company operates has reached the mature stage, expansion of operations is still possible. In view of the Company's investing activities and the capital adequacy requirement, dividends distribution shall be in compliance with the Company's policy. The Board of Directors is responsible for structuring the principle of distribution which shall be finalized through the approval of Board of Directors on behalf of the stockholders afterwards.

C. (a) Appropriation of 2010 and 2009 earnings as resolved by the Board of Directors on behalf of the stockholders on April 26, 2011 and April 27, 2010, respectively, were as follows:

	2010		2009	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Provision for legal reserve	\$ 796,469		\$ 857,586	
Cash bonus to employees	Note		Note	
Cash dividends and cash bonus to stockholders	1,901,590	\$ 1.45	1,967,162	\$ 1.50

Note: For the years ended December 31, 2010 and 2009, \$65,045 thousand and \$75,239 thousand were distributed to employees as bonus.

The difference between the cash bonus to employees and the recognized employee bonus expenses (\$74,337 thousand and \$100,052 thousand, respectively) for the years ended December 31, 2010 and 2009 amounted to \$9,292 thousand and \$24,813 thousand, respectively, and such difference was due to changes in the employee bonus ratio; the difference has been adjusted as profit or loss for 2011 and 2010, respectively.

(b) Appropriation of 2011 earnings as proposed by the Board of Directors on March 20, 2012 was as follows:



	2011	
	Amount	Dividends per share (in dollars)
Provision for legal reserve	\$ 804,691	
Cash bonus to employees	Note	
Cash dividends and cash bonus to stockholders	1,877,984	\$ 1.432

Note: For the year ended December 31, 2011, \$65,716 thousand was intended to be distributed to employees as bonus.

- D. The estimated amount of employee bonus as of December 31, 2011 and 2010, amounted to \$84,493 thousand and \$74,337 thousand, respectively. Considering net profit after tax at the end of the period and statutory reserve, the bonus to employees were recognized as expenses of the period based on the formula stated in the Company's Articles of Incorporation.
- E. The status of the resolved earnings distribution and the bonus to employees by the Board of Directors exercised on behalf of the stockholders is available at the website of the Market Observation Post System provided by the Taiwan Stock Exchange.

(19) Personnel expenses, depreciation and amortization

As of December 31, 2011 and 2010, personnel expenses, depreciation and amortization were as follows:

	<u>For the years ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Personnel expenses		
Salaries and wages	\$ 481,731	\$ 446,167
Labor and health insurance	18,143	16,985
Pension	37,815	36,047
Others	14,187	14,442
Subtotal	<u>\$ 551,876</u>	<u>\$ 513,641</u>
Depreciation	<u>\$ 20,379</u>	<u>\$ 25,597</u>
Amortization	<u>\$ 6,763</u>	<u>\$ 11,752</u>

(20) Basic earnings per share

2011					
	Amount		Weighted-average number of shares outstanding	Basic earning per share (In dollars)	
	Before tax	After tax		Before tax	After tax
Net income	<u>\$ 3,138,103</u>	<u>\$ 2,682,302</u>	<u>1,311,441</u>	<u>\$ 2.39</u>	<u>\$ 2.05</u>
2010					
	Amount		Weighted-average number of shares outstanding	Basic earning per share (In dollars)	
	Before tax	After tax		Before tax	After tax
Net income	<u>\$ 3,155,650</u>	<u>\$ 2,654,897</u>	<u>1,311,441</u>	<u>\$ 2.41</u>	<u>\$ 2.02</u>

## 5. RELATED PARTY TRANSACTIONS

### (1) Names of the related parties and their relationship with the Company

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Mega Financial Holding Co., Ltd. (Mega)	The Company's parent company
Chunghwa Post Co., Ltd. (Chunghwa Post)	Supervisor of Mega
Bank of Taiwan (BOT)	Supervisor of Mega
Mega International Commercial Bank Co., Ltd (MICB)	Subsidiary of Mega
Mega Securities Co., Ltd. (MS)	Subsidiary of Mega
Mega Futures Co., Ltd. (MF)	Subsidiary of MS
Chung Kuo Insurance Co., Ltd. (CKI)	Subsidiary of Mega
Mega International Investment Trust Co., Ltd. (MITC)	Subsidiary of Mega
Mega Asset Management Co., Ltd. (MAM)	Subsidiary of Mega
Others	The Company's directors, supervisors, managers, and their spouses and the Company's directors, managers' relatives within second - degree kinship

### (2) Significant transactions and balances with related parties

#### A. Bank deposits

	<u>December 31, 2011</u>		
	<u>Demand deposits</u>	<u>Checking deposits</u>	<u>Total</u>
MICB	\$ 385,387	\$ 63,252	\$ 448,639
BOT	12,216	54,987	67,203
Total	<u>\$ 397,603</u>	<u>\$ 118,239</u>	<u>\$ 515,842</u>

	<u>December 31, 2010</u>		
	<u>Demand deposits</u>	<u>Checking deposits</u>	<u>Total</u>
MICB	\$ 465,114	\$ 64,637	\$ 529,751
BOT	7,930	56,138	64,068
Total	<u>\$ 473,044</u>	<u>\$ 120,775</u>	<u>\$ 593,819</u>

The above-mentioned bank deposits include the designated accounts for allowance to pay back short-term bills.

#### B. Bank overdrafts and call loans

	<u>For the year ended December 31, 2011</u>			
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Rate (%)</u>	<u>Interest Expense</u>
<u>Bank overdrafts</u>				
BOT	\$ 1,259,000	\$ 66,000	1.505-1.880	\$ 9,985
<u>Call loans</u>				
MICB	8,000,000	1,000,000	0.430-0.830	9,873
BOT	3,000,000	-	0.530-0.850	2,385
Chunghwa Post	3,000,000	-	0.550-0.860	822
Total		<u>\$ 1,066,000</u>		<u>\$ 23,065</u>

	<u>For the year ended December 31, 2010</u>			
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Rate (%)</u>	<u>Interest Expense</u>
<u>Bank overdrafts</u>				
BOT	\$ 1,225,000	\$ 197,000	1.355-1.605	\$ 8,105
<u>Call loans</u>				
MICB	4,000,000	100,000	0.110-0.470	2,707
Chunghwa Post	2,000,000	-	0.200-0.460	211
BOT	1,500,000	-	0.300-0.430	304
Total		<u>\$ 297,000</u>		<u>\$ 11,327</u>

Interest rates for call loans applied to the related parties are the same as those offered to other financial institutions.

C. Purchase of bills and bonds

	For the years ended December 31,	
	2011	2010
MS	\$ 8,667,776	\$ 30,762,929
Chunghwa Post	52,473	4,490,836
MICB	52,454	149,627
Total	<u>\$ 8,772,703</u>	<u>\$ 35,403,392</u>

The terms of the above transactions are the same as those with non-related parties.

D. Sale of bills and bonds

	For the year ended December 31, 2011		
	Amount	Gain or loss from financial assets and liabilities at fair value through profit or loss	% of the gain or loss from financial assets and liabilities at fair value through profit or loss
Chunghwa Post	\$ 68,235,045	\$ 4,161	4.85
BOT	61,293,781	4,314	5.03
MICB	3,149,119	148	0.17
MS	2,131,782	1,292	1.51
Mega	499,958	34	0.04
Total	<u>\$ 135,309,685</u>	<u>\$ 9,949</u>	<u>11.60</u>

	For the year ended December 31, 2010		
	Amount	Gain or loss from financial assets and liabilities at fair value through profit or loss	% of the gain or loss from financial assets and liabilities at fair value through profit or loss
Chunghwa Post	\$ 52,241,356	\$ 2,914	1.32
BOT	23,768,209	1,430	0.65
MS	22,529,304	3,395	1.53
MICB	1,549,384	94	0.04
Mega	399,997	6	-
Total	<u>\$ 100,488,250</u>	<u>\$ 7,839</u>	<u>3.54</u>

The terms of the above transactions are the same as those with non-related parties.

E. Financial assets at fair value through profit or loss

The Company's short-term bills issued by related parties are as follows:

December 31, 2011: None.

December 31, 2010						
	Type of instrument	Issuance date	Maturity date	Rate(%)	Face value	Cost
MS	Commercial paper	Dec. 17,2010	Jan. 19, 2011	0.630	\$ 370,000	\$ 369,789
	Commercial paper	Dec. 29,2010	Jan. 24, 2011	0.600	400,000	399,829
					<u>\$ 770,000</u>	<u>\$ 769,618</u>

F. Bills and bonds under repurchase agreements

For the year ended December 31, 2011			
	Amount	Ending balance	Interest expense
Mega	\$ 63,275,950	\$ 3,319,165	\$ 16,055
BOT	47,585,166	574,597	8,765
MS	2,398,892	-	227
MICB	289,698	-	21
CKI	199,763	-	43
Others	95,057	5,006	7
Total	<u>\$ 113,844,526</u>	<u>\$ 3,898,768</u>	<u>\$ 25,118</u>

For the year ended December 31, 2010			
	Amount	Ending balance	Interest expense
Mega	\$ 88,534,700	\$ 1,618,591	\$ 14,500
BOT	8,492,099	-	694
MS	2,901,110	39,962	101
CKI	449,545	-	21
Others	31,975	-	7
Total	<u>\$ 100,409,429</u>	<u>\$ 1,658,553</u>	<u>\$ 15,323</u>

The terms of the above transactions are the same as those with non-related parties.

G. Derivative transactions

For the year ended December 31, 2011

Unit: In thousand of New Taiwan dollars

<u>Name of the related parties</u>	<u>Title of derivative instrument contract</u>	<u>Contract period</u>	<u>Nominal principal</u>	<u>Gain (loss) on valuation for current period</u>	<u>Gain (loss) on disposal for current period</u>	<u>Balance on balance sheet date</u>	
						<u>Item</u>	<u>Balance</u>
MICB	Currency swap	-	-	-	(\$ 31)	Financial liability at fair value through profit or loss	-

For the year ended December 31, 2010

Unit: In thousand of New Taiwan dollars

<u>Name of the related parties</u>	<u>Title of derivative instrument contract</u>	<u>Contract period</u>	<u>Nominal principal</u>	<u>Gain (loss) on valuation for current period</u>	<u>Gain (loss) on disposal for current period</u>	<u>Balance on balance sheet date</u>	
						<u>Item</u>	<u>Balance</u>
MICB	Currency swap	-	-	-	(\$ 65)	Financial liability at fair value through profit or loss	-

H. Other payables

	December 31,	
	2011	2010
Mega	\$ 337,407	\$ 243,890

The above amount is the Company's net payables from allocating the estimated amount of payable from Mega in relation to the joint income tax return scheme with its other subsidiaries starting 2003.

I. Guarantees provided to related parties

December 31, 2011						
	Highest Balance	Ending Balance	Allowance for doubtful accounts and reserves for guarantee liabilities	Rates (%)	Pledged Asset	Fees income
MAM	\$ 230,000	\$ 100,000	\$ 1,000	0.72~0.98	Real estate	\$ 234

December 31, 2010						
	Highest Balance	Ending Balance	Allowance for doubtful accounts and reserves for guarantee liabilities	Rates (%)	Pledged Asset	Fees income
MAM	\$ 340,000	\$ 230,000	\$ 2,300	0.57~0.67	Real estate	\$ 487

The terms of the above commercial paper issuance guarantees are the same as those with non-related parties.

J. The issuance of non-guaranteed commercial papers from consigned related parties:

December 31, 2011				
	Highest Balance	Ending Balance	Rates (%)	Fees income
MS	\$ 2,000,000	\$ -	0.70~0.89	\$ 212

December 31, 2010				
	Highest Balance	Ending Balance	Rates (%)	Fees income
MS	\$ 1,450,000	\$ 820,000	0.43~0.70	\$ 417

The terms of the above non-guarantee commercial papers are the same as those with non-related parties.

K. Sale of non-performing loans:

No sale of non-performing loans with related parties for the years ended December 31, 2011 and 2010.

L. Collaterals provided to related parties for bank overdrafts and loans:

		December 31,	
		2011	2010
	Pledged Asset		
BOT	Available-for-sale financial assets - government bonds	\$ 4,129,971	\$ 4,173,409
MICB	Financial assets at fair value through profit or loss - negotiable certificates of time deposit	500,687	2,603,469
	Available-for-sale financial assets - government bonds	2,330,258	2,372,585
Total		\$ 6,960,916	\$ 9,149,463

M. Assets provided as operating deposits for securities firm:

December 31,		
	2011	2010
	Pledged Asset	
BOT	Available-for-sale financial assets - government bonds	\$ 104,593
		\$ 108,455

N. Service fee expenses

Details of the Company's expenses derived from the cross-selling were as follows:

	For the years ended December 31,			
	2011		2010	
	Amount	%	Amount	%
MICB	\$ 735	0.10	\$ 860	0.11

O. Rental income

Lessee	Leased Property	Period	For the years ended December 31,	
			2011	2010
MICB	Office and parking lots	Jan. 1, 2011 - Dec. 31, 2012	\$ 90,904	\$ 110,394
CKI	Office	May 1, 2008 - Dec. 31, 2010	-	1,595
Total			\$ 90,904	\$ 111,989

- (a) In accordance with the reorganization of subsidiaries' business locations as proposed by the parent Company, Mega; the Company moved out from Mega office building, rented the office to MICB for the period from January 1, 2011 to December 31, 2012 (The lease contract was signed for the period from May 1, 2006 till December 31, 2010, and renewed subsequent to lease expiration on January 1, 2011), and received \$15,151 thousand as security deposits.
- (b) The Company sublet the office rented from MICB to CKI as office use for the period from May 1, 2008 to December 31, 2010. However, CKI has ceased the lease from June 30, 2010.
- (c) The Company's Sanchong branch rented the storage house to CKI as office use. The lease agreement was signed for the period from December 1, 2011 to November 30, 2016 with \$170 thousand dollar deposit received. According to the contract term, 3 months of rentals are exempt during the house renovation period.
- (d) The rent is determined based on the comparable rental expense in the surrounding area.

P. Rental expenses

Lessor	Rental Property	Period	For the years ended December 31	
			2011	2010
MICB	Office	Jan. 1, 2011 -Dec. 31, 2012	\$ 33,646	\$ 45,344
MICB	Office	Jan. 1, 2010 -Dec. 31, 2013	756	756
MICB	Office	-	60	-
			\$ 34,462	\$ 46,100

- (A) The Company rented part of an office space located in Hengyang Road Building for the period from Jan. 1, 2011 to Dec. 31, 2012, (The lease contract was signed for the period from May 1, 2006 till December 31, 2010, and renewed subsequent to lease expiration on January 1, 2011) and paid \$5,608 thousand as security deposits.
- (B) The Company's Chiayi Branch rented part of an office space from Chaixing branch of MICB. The lease agreement was signed for the period from January 1, 2010 to December 31, 2013 with \$189 thousand deposit paid.
- (C) The Company rented part of an office space located in Hengyang Road from MICB on a daily basis for the training purpose.
- (D) The Company rented Keelung lodge from CKI for file storage. The lease agreement was signed for the period from December 1, 2011 to November 31, 2016 with \$52 thousand deposit paid. According to the contract term, 3 months of rentals are exempt during the house renovation period.
- (E) The rent is determined based on the comparable rental expense in the surrounding area.



Q. Insurance expenses

	For the years ended December 31,			
	2011		2010	
	Amount	%	Amount	%
CKI	<u>\$ 3,961</u>	<u>1.97</u>	<u>\$ 4,096</u>	<u>1.93</u>

R. Information on remunerations to the Company's directors, supervisors, general managers and assistant general manager:

	For the years ended December 31,			
	2011		2010	
	Amount	%	Amount	%
Salaries	\$ 14,098		\$ 14,418	
Bonus	10,886		10,925	
Business expenses	4,676		4,640	
Earnings distribution	2,757		2,936	
Total	<u>\$ 32,417</u>		<u>\$ 32,919</u>	

- (A) Bonus represents bonus and reward. The amounts listed for 2011 are estimated amounts and the amounts listed for 2010 are actual amounts distributed.
- (B) Business expenses represent transportation expense, extraneous charges, subsidies and housing and vehicle benefits.
- (C) Earnings distribution represent bonus to employees. The amounts listed for 2011 are estimated amounts and the amounts listed for 2010 are actual amounts distributed.
- (D) Please refer to the Company's annual report for relevant information.

## 6. PLEDGED ASSETS

The Company has pledged the following assets as collaterals for bank overdrafts, call loans and refundable deposit.

	December 31,	
	2011	2010
Restricted asset - certificates of time deposit	\$ 400,000	\$ 200,000
Financial asset at fair value through profit or loss - negotiable certificates of time deposit	10,410,865	18,509,507
Available-for-sale financial assets - government bonds	10,694,163	8,732,025
Available-for-sale financial assets - corporate bonds	-	2,019,564
Total	<u>\$ 21,505,028</u>	<u>\$ 29,461,096</u>

Please refer to Note 5 for assets pledged to the related parties.

## 7. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) As of December 31, 2011 and 2010, the commitments and contingencies arising from the Company's normal course of business were as follows:

	December 31,	
	2011	2010
Bills and bonds payable under repurchase agreements	\$ 184,993,275	\$ 170,163,470
Guarantees on commercial papers	134,979,200	114,477,300

- (2) As of December 31, 2011, the expected future rent expense to be incurred for the long-term lease signed by the Company for renting office space is presented as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 35,597
2013	2,003
2014	1,246
2015	1,246
2016	520
Total	<u>\$ 40,612</u>

## 8. SIGNIFICANT DISASTER LOSS

None.

## 9. SIGNIFICANT SUBSEQUENT EVENTS

None.

## 10. OTHERS

### (1) Financial instruments

#### A. Fair values of financial instruments

<u>Non-derivative Financial Instruments</u>	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 601,915	\$ 601,915	\$ 736,833	\$ 736,833
Financial assets at fair value through profit or loss	135,756,870	135,756,870	112,676,538	112,676,538
Bills and bonds investment with resale agreements	-	-	529,800	529,800
Receivables	1,833,166	1,833,166	2,101,018	2,101,018
Available-for-sale financial assets	83,240,989	83,240,989	91,189,051	91,189,051
Held-to-maturity financial assets	250,000	250,000	250,000	250,000
Other financial assets	453,384	453,384	324,081	324,081
<u>Liabilities</u>				
Bank overdrafts and call loans from banks	3,416,000	3,416,000	3,897,000	3,897,000
Bills and bonds payable under repurchase agreements	184,993,275	184,993,275	170,163,470	170,163,470
Payables	1,257,098	1,257,098	1,243,823	1,243,823
Other liabilities	73,473	73,473	87,170	87,170
<u>Derivative Financial Instruments</u>	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Assets</u>				
Financial assets at fair value through profit or loss - Interest rate swap	\$ -	\$ -	\$ 9,237	\$ 9,237
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - Interest rate swap	-	-	10,130	10,130

#### B. The assumptions and methods adopted by the Company in estimating the fair values of the above financial instruments are summarized below:

- (A) The fair value of short-term financial instruments (including cash and equivalents, bills and bonds investment with resale agreements, other financial assets (excluding financial assets carried at costs), bank overdrafts and call loans from banks, bills and bonds payable under repurchase agreements, payables and other liabilities) are estimated at carrying amounts at the balance sheets, as maturity date is near the balance sheet date or the future receivable or payable amount is close to the carrying amounts.
- (B) For financial assets or liabilities at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets, the quoted market price, if available, is used as the fair

value. If quoted market price is not available for reference, the fair value is determined based on estimates. The estimation and assumptions considered for determining the fair value is equivalent to that considered by market participants in pricing the financial instruments. The discounted interest rate used by the Company is the same as the return on investments for financial instruments with equivalent terms and similar characteristics. Such terms and characteristics includes the debtor's credibility, remaining period of fixed interest income as specified in the contract, time to principal repayment and currencies for repayment.

- (C) The fair value for accounts receivable and overdue receivables (recorded as other financial assets) is determined as the expected recoverable amount (mainly net of the allowance for bad debts).
- (D) The fair value measurement is not applicable to financial assets carried at costs. In addition, there is no quoted market price in an active market for the unlisted stocks under the financial asset carried at cost, and their variability in the range of reasonable fair value estimates is not insignificant and their probability of the various estimates within the range cannot be reasonably assessed, so the fair value of the unlisted stocks is not reliably measurable. As a result, information of the book value and the fair value with respect to these financial assets is not disclosed.
- (E) Assuming that the Company terminates the contract on the statement date, the fair values of derivative financial instruments are the estimated amounts to be received or paid, which generally includes unrealized profit or loss of unsettled contracts of the period. The fair values are the quoted price in an active market; if the market is not active, apart from options the fair value of which are determined using the Black-Scholes model, the fair values are based on discounted future cash flows.
- (F) The Company used the evaluation system for interest rate swaps, currency swaps, convertible corporate bond asset swaps and fixed rate commercial papers. Fair values are determined by individual contracts. The yield curve used in calculating fair values of instruments with maturity within one year is based on the offered rate by the Reuters; those with maturity above one year is based on the middle price of the Reuters. The exchange rate adopted is the foreign exchange rate of the Reuters.
- (2) The fair value of the Company's financial assets and financial liabilities determined based on the quoted market price or based on estimations are as follows:

	<u>Quoted Market Price</u>		<u>Fair Value based on Estimates</u>	
	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
<u>Non-Derivative Financial Instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 41,479	\$ 262,824	\$ 135,715,391	\$ 112,413,714
Bills and bonds investment with resale agreements	-	-	-	529,800
Receivables	-	-	1,833,166	2,101,018
Available-for-sale financial assets	2,658,190	2,879,965	80,582,799	88,309,086
Held-to-maturity financial assets	-	-	250,000	250,000
Other financial assets	-	-	453,384	324,081
<u>Liabilities</u>				
Bills and bonds payable under repurchase agreements	-	-	184,993,275	170,163,470
Payables	-	-	1,257,098	1,243,823
Other liabilities	-	-	73,473	87,170
<u>Derivative Financial Instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ 9,237
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	-	10,130

The interest revenue of \$2,276,575 thousand and \$2,629,898 thousand and interest expense of \$384,191 thousand and \$266,190 thousand were recognized for the years ended December 31, 2011 and 2010, respectively, for financial assets or financial liabilities not at fair value through profit or loss. For the available-for-sale financial assets, the adjustments recognized in equity for the years ended December 31, 2011 and 2010 is decreasing by \$863,575 thousand and \$988,491 thousand of which \$135,910 thousand and \$217,578 thousand, respectively, was deducted from equity and transferred to profit and loss.

For the years ended December 31, 2011 and 2010, the Company's net commission income of \$712,572 thousand and \$795,646 thousand, respectively, results from the difference of commission revenues amounting to \$723,748 thousand and \$807,148 thousand, respectively, and commission expenses amounting to \$11,176 thousand and \$11,502 thousand, respectively.

(Blank below)

(3) Information of fair value hierarchy of financial instruments

December 31, 2011				
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Investment in bills	\$ 130,990,314	\$ -	\$ 130,990,314	\$ -
Investment in stock	21,793	21,793	-	-
Investment in bonds	4,725,077	-	4,725,077	-
Others	19,686	19,686	-	-
Available-for-sale financial assets				
Investment in stock	2,658,190	2,658,190	-	-
Investment in bonds	80,582,799	-	80,582,799	-

Note 1: Level 1: In accordance with SFAS No. 34 “Financial Instruments: Recognition and Measurement”, if the market for the financial instrument is active, the fair value of the financial instrument is represented by the quoted prices of the same instruments. An active market refers to a market that meets all of the following conditions:

- The goods traded in the market are homogeneous;
- Willing sellers and buyers can be found at the same time; and
- The price information is available to the public.

Note 2: Level 2: Observable prices other than the quoted prices in an active market comprise direct (e.g. prices) or indirect (e.g. introduced by prices) observable inputs obtained from an active market.

- The quoted prices of similar financial instruments in an active market represent the fair value of the financial instruments held by the Company. The quoted prices are introduced by recent transaction prices of similar financial instruments, which are decided based on their features and transaction terms. The fair value of financial instruments needs to be adjusted based on observable transaction prices of similar financial instruments; adjustment elements might include time lag of the last financial instrument transactions, differences of transaction terms, transaction prices involving related parties, relevance between observable transaction prices of similar financial instruments and the prices of held financial instruments.
- Public quotation of the same or similar financial instruments in a non-active market.
- Fair value is measured using an evaluation model, and the inputs (e.g. interest rate, yield curve, volatility rate) used in the model are based on obtainable data (e.g. observable inputs obtained from market materials, which reflect market participants’ expectation) from the market. For example, use the implied volatility rate as the input for option pricing module.
- Most inputs are derived from observable market data, or that the relevance can be verified by observable market data.

Note 3: Level 3: The inputs adopted to measure fair value at this level are not based on available data from the markets (non-observable inputs, e.g. option pricing model using history volatility rate, because history volatility rate cannot represent the expectation value of market participants for future volatility rate).

(4) Derivative instruments

A. Derivative financial instruments - futures and options

- (A) As of December 31, 2011, the Company did not hold any uncovered positions of futures and options. And as of 2010, please refer to Note 4(7) D for uncovered positions of futures and options.
- (B) Gains (losses) on the futures and options for the years ended December 31, 2011 and 2010 are set forth below:

For the year ended December 31, 2011			
	<u>Realized (Loss) Gain</u>	<u>Valuation (Loss) Gain</u>	<u>Total</u>
Futures contracts	(\$ <u>517</u> )	(\$ <u>36</u> )	(\$ <u>553</u> )
For the year ended December 31, 2010			
	<u>Realized (Loss) Gain</u>	<u>Valuation (Loss) Gain</u>	<u>Total</u>
Futures contracts	(\$ <u>1,034</u> )	\$ <u>36</u>	(\$ <u>998</u> )
Options contracts	<u>687</u>	( <u>1,637</u> )	( <u>950</u> )
	(\$ <u>347</u> )	(\$ <u>1,601</u> )	(\$ <u>1,948</u> )

(C) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The Company trades derivative instruments via exchange market and counterparties and banks and securities firms with good credit rating. Therefore, no significant credit risk is expected to arise.

(D) Market risk

The major risk associated with the futures and option trading undertaken by the Company is the market risk arising from the fluctuations in the market prices of the underlying securities. Losses will be incurred if market index prices and the prices of the underlying securities move in opposite directions. To control the risk within a tolerable limit, a stop-loss mechanism has been established.

(E) Liquidity risk

As guarantees or premiums are paid before futures and option contracts are bought, no funding requirement is expected. In addition, the options written and the outstanding futures contracts can be settled at reasonable prices. Therefore, liquidity risk is assessed to be remote.

(F) Amount and timing of future cash flows

The Company engages in TAIEX Index Futures and TAIEX Index Option contracts. Margin deposits are paid before the transactions take effect. The Company's position in the outstanding futures contracts is marked to market daily, and its working capital is assessed to be adequate to support the margin calls. Hence, no cash flow risk or significant cash requirements are expected.

B. Derivative financial instruments - interest rate swaps

- (A) As of December 31, 2011, there was no yet-to-mature interest swap. Please refer to Notes 4(2) C and (11) for details of the interest rate swap contracts outstanding as of December 31, 2010.

- (B) Gains (losses) on the interest rate swaps for the years ended December 31, 2011 and 2010 are set forth below:

For the year ended December 31, 2011			
	<u>Realized (Loss) Gain</u>	<u>Valuation (Loss) Gain</u>	<u>Total</u>
Interest rate swap	(\$ <u>1,037</u> )	\$ <u>893</u>	(\$ <u>144</u> )

For the year ended December 31, 2010			
	<u>Realized (Loss) Gain</u>	<u>Valuation (Loss) Gain</u>	<u>Total</u>
Interest rate swap	\$ <u>106</u>	(\$ <u>60</u> )	\$ <u>46</u>

- (C) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The counterparties of the Company are all well-known banks and securities firms with good credit ratings. Thus, the credit risk is assessed to be remote.

- (D) Market risk

The market risk arises from the fluctuations in interest rates. When the interest rate moves in an unfavorable direction, the loss can be controlled within a tolerable limit. As a result, no significant market risk is expected.

- (E) Amount and timing of expected future cash flows

Upon settlement of the contracts, the amount of the notional principal multiplied by the interest rate differential is received or paid. As the amount settled is insignificant and the notional principal is not settled, no significant cash requirement is expected.

C. Derivative financial instruments – currency swaps:

- (A) As of December 31, 2011 and 2010, there was no yet-to-mature currency swap contract transaction.

- (B) Gains (losses) on the currency swaps for the years ended December 31, 2011 and 2010 are set forth below:

For the year ended December 31, 2011			
	<u>Realized (Loss) Gain</u>	<u>Valuation (Loss) Gain</u>	<u>Total</u>
Currency swap	(\$ <u>138</u> )	\$ <u>-</u>	(\$ <u>138</u> )

For the year ended December 31, 2010			
	<u>Realized (Loss) Gain</u>	<u>Valuation (Loss) Gain</u>	<u>Total</u>
Currency swap	(\$ <u>191</u> )	\$ <u>-</u>	(\$ <u>191</u> )

- (C) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The counterparties of the Company are all well-known banks with good credit ratings. Thus, the credit risk is assessed to be remote.

- (D) Market risk

The currency swap contracts the Company involves in mainly deal with hedging exchange rate fluctuation of foreign bills and bonds positions. Signed positions are equivalent with cash positions in the contract period and can offset market risk; therefore, no significant market risk is expected.

(E) Amounts and time of future cash flow

As of the maturity date of currency swaps, the amount of differences arising from nominal principal multiplied by exchange rate gap in receivables or payables is not significant and can be covered with the Company's operation capital; therefore, no significant additional cash is needed.

(5) Procedure of financial risk control and hedge

Other than complying with the laws and regulations, the purpose of risk management for the Company is to ensure operating risks are under control and maintaining proper capital adequacy ratio, pursuant to sustainable development. In order to achieve this goal, the Company's risk management mechanism is set up via a system and culture followed by the Board of Directors, management and all staff, to safeguard the Company's assets and ensure asset and financial quality. The effective mechanism is also to identify, measure, monitor, report and respond to the levels of risk, setting up a controlling and organized manner of risk management and allocation of responsibility.

The Company's Board of Directors has the ultimate approval right in risk management. Major management risk items that include the Company-wide risk management policy, risk tolerance limit, and authority must be approved by the Board of Directors. Under the Board of Directors, there is a risk management committee, which is responsible to supervise market risk, credit risk and operating risk. Besides, Audit Committee supervises and controls the implementation status of operating risk management policy. In order to effectively manage overall risks and integrate associated information of risk, define risk evaluation techniques and sum up risk positions, business segment is responsible for implementing the risk management strategy of the Company.

The Company's risk management procedures are divided into establishment of risk policy and process of implementation status, setting up proper internal control system and management procedures against potential risks, building up limits of authority toward the entry of electronic files and evaluate potential negative impacts arising from associated risks.

Financial instruments held by the Company have high level of risk-factor (interest rate, foreign exchange rate and price changes). The Company reduces or avoids liquidity risk or risk of changes in fair value by using individual or combination hedging tools. The Company also reviews and adjusts limits of trading risks according to the changes of economic and financial situations and operating perspectives, to ensure data measured from associated risks and procedures conform to established policies, internal control and operating process.

(6) Financial risk information

A. Credit risk

- (A) The credit risk pertains to the risk that the issuers may default at expiration of the contracts. One of the primary operations of the Company is providing guarantees for the issuance of commercial papers. Such guarantees agreement normally comes with a 1 year expiration period. The range of contract period for commercial papers is normally from 10 days to 180 days and the expiration dates are not concentrated on the same day.
- (B) As of December 31, 2011 and 2010, the off-balance sheet contract amount for the guarantees of commercial papers subject to potential credit risks is NT\$266,308 million and NT\$259,285 million, respectively. (The contract amount which has been drawn upon amounted to NT\$134,979 million and NT\$114,477 million, respectively).
- (C) Since the Company is only subject to payments in the event of default on the issuer of commercial papers in such guarantee contracts, the contract amount for such financial instruments does not represent the expected future cash outflow. In fact, the demand for future cash flow is less than the contract amount. When the guaranteed amount had been drawn upon and the underlying collateral or other collaterals has completely lost its values, the amount of credit risk exposure will equal to the contract amount which is the maximum potential loss.

- (D) In granting guarantees for the issuance of commercial papers, the Company undertakes strict credit



assessment and also demands appropriate collaterals from the customers as necessary. As of December 31, 2011 and 2010, the percentage of guarantees with collaterals is 48% and 52%, respectively. Collaterals provided normally include real estate properties, circulating securities or other properties, etc. In the event of customer defaults, the Company assumes rights on such collaterals.

(E) For all financial instruments held by the Company, the maximum credit exposures are as follows:

	December 31, 2011		December 31, 2010	
	Carrying value	Maximum credit exposure risk	Carrying value	Maximum credit exposure risk
<u>Financial instruments</u>				
Financial assets at fair value through profit or loss	\$ 135,756,870	\$ 135,756,870	\$ 112,685,775	\$ 112,685,775
Bills and bonds investment with resale agreements	-	-	529,800	529,800
Receivables	1,833,166	1,833,166	2,101,018	2,101,018
Available-for-sale financial assets	83,240,989	83,240,989	91,189,051	91,189,051
Held-to-maturity financial assets	250,000	250,000	250,000	250,000
Other financial assets	822,684	822,684	693,381	693,381
Off-balance sheet guarantees	<u>134,979,200</u>	<u>134,979,200</u>	<u>114,477,300</u>	<u>114,477,300</u>
Total	<u>\$ 356,882,909</u>	<u>\$ 356,882,909</u>	<u>\$ 321,926,325</u>	<u>\$ 321,926,325</u>

The credit exposure amounts stated above are for those with positive fair value as of the balance sheet date and those contracts with off-balance sheet commitments and guarantees. The disclosed maximum credit exposures did not take fair value of collateral into account.

(F) Information on concentrations of assets, liabilities and off-balance sheet items:

There will be a significant concentration of credit risk when the counterparty of the financial instruments is highly concentrated in a single customer or a group of counterparties who engage mostly in similar business activities with similar economic nature, and such business activities make their abilities to fulfill the contractual obligations influenced similarly by the economic affairs or other situations. The Company does not engage in transactions that are concentrated significantly in a single customer or counterparty. However, significant credit risk concentrations (including on and off-balance sheet items) for provision of guarantees for commercial papers are as follows:

	December 31, 2011		December 31, 2010	
	Carrying value	Maximum credit exposure risk	Carrying value	Maximum credit exposure risk
Financial & insurance	\$ 41,604,600	\$ 41,604,600	\$ 40,456,834	\$ 40,456,834
Manufacturing	40,706,000	40,706,000	30,608,970	30,608,970
Real estate	26,135,600	26,135,600	20,748,600	20,748,600
Wholesale & retail	10,227,400	10,227,400	7,720,204	7,720,204
Services	5,056,900	5,056,900	5,181,800	5,181,800
Others – less than 5% of balance of guarantees at period end	<u>11,248,700</u>	<u>11,248,700</u>	<u>9,862,589</u>	<u>9,862,589</u>
Total	<u>\$ 134,979,200</u>	<u>\$ 134,979,200</u>	<u>\$ 114,578,997</u>	<u>\$ 114,578,997</u>

(G) The following information is disclosed in accordance with “Guidelines for Preparation of Financial Reports by Publicly Listed Bills Finance Companies”.

a. Asset Quality

Items	December 31, 2011	December 31, 2010
Guarantees in arrear and guaranteed credits overdue for no longer than three months	\$ -	\$ 870
Overdue credits (including overdue receivables) (Note 1)	-	100,827
Loans under surveillance	555,300	646,900
Overdue receivables	-	100,827
Ratio of overdue credits (%) (Note 2)	-	0.09
Ratio of overdue credits plus ratio of loans under surveillance (%)	0.41	0.65
Provision for bad debts and guarantees as required by regulation	2,829,282	2,674,543
Provision for bad debts and guarantees actually reserved	2,911,927	2,903,376

Note 1: "Overdue credits" means the balance of guaranteed and endorsed credit that is in arrears more than three months past the maturity date, or not yet in arrears more than three months, but for which there has been legal action for recovery against the primary debtor and secondary debtor or disposal of collateral.

Note 2: Ratio of overdue credits = overdue credits ÷ (outstanding guaranteed credits + payments for guarantee credits).

b. Primary Business Activities

Items	December 31, 2011	December 31, 2010
Total guarantees and endorsement for short-term bills	\$ 134,979,200	\$ 114,477,300
Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment)	4.52	3.80
Total bills and bonds sold under repurchase agreements	184,993,275	170,163,470
Bills and bonds sold under repurchase agreements / Net amount (after deducting final accounts allotment)	6.19	5.65

c. Concentration of credit risk

Items	December 31, 2011		December 31, 2010	
Credits extended to related parties	\$	210,000	\$	230,000
Percentage of credits extended to related parties (%) (Note 1)		0.16		0.20
Percentage of credits extended secured by equity (%) (Note 2)		17.97		19.60
Industry concentration (Top 3 industries with maximum industry credit ratio)	<u>Industry</u>	<u>Ratio(%)</u>	<u>Industry</u>	<u>Ratio(%)</u>
	Financial and insurance	30.82	Financial and insurance	35.31
	Manufacturing	30.16	Manufacturing	26.71
	Real estate	19.36	Real estate	18.11

Note 1: The ratio of credit extensions to related parties = the amount of credit extensions to related parties / the total amount of all credit extensions.

Note 2: The ratio of credit extensions secured by stocks = the amount of credit extensions secured by stocks / the total amounts of all credit extensions.

Note 3: Total amount of credit extensions include loans, bills discounted, acceptances receivable, guarantees receivable, and advance accounts for factoring receivable.

d. Policy of reserve for losses and movements of allowance for credit losses:

The Company has evaluated the allowance and reserves for bills receivable, accounts receivable, overdue loans, and the ending balance guaranteed by commercial papers by considering unrecoverable risks and analyzed the possibility of loss based on “[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](#)”. Movements in allowance and reserves for bills receivable, accounts receivable, overdue loans are as follows:

	<u>For the years ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 2,903,376	\$ 3,039,239
Provisions	89,757	345,695
Write-off	( 111,323 )	( 481,558 )
Deferred income transferred	30,117	-
Ending balance	<u>\$ 2,911,927</u>	<u>\$ 2,903,376</u>

B. Market risk

(A) Market risk arises from the fluctuations in interest rates. Fluctuations in market interest rates results in changes in the fair value of debt investments. The amount of the financial instruments undertaken by the Company is properly monitored. Therefore, the market risk and losses are controlled within a tolerable limit.

(B) Additional information disclosed in accordance to the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” were as follows:

a. Average amounts and average interest rates of interest-earning assets and interest-bearing liabilities

	<u>For the year ended December 31, 2011</u>	
	<u>Average Amount</u>	<u>Average Interest Rate (%)</u>
Assets		
Cash and cash equivalents	\$ 1,090,372	0.33
Financial assets at fair value through profit or loss	110,690,685	0.96
Bills and bonds investment with resale agreements (RS)	315,847	0.50
Available-for-sale financial assets	78,932,159	2.78
Held-to-maturity financial assets	250,000	3.40
Liabilities		
Bank overdrafts and call loans from banks	7,960,227	0.77
Bills and bonds payable under repurchase agreements (RP)	157,572,913	0.56

	<u>For the year ended December 31, 2010</u>	
	<u>Average Amount</u>	<u>Average Interest Rate (%)</u>
Assets		
Cash and cash equivalents	\$ 1,036,805	0.16
Financial assets at fair value through profit or loss	105,510,126	0.68
Bills and bonds investment with resale agreements (RS)	278,479	0.37
Available-for-sale financial assets	90,662,363	2.88

Held-to-maturity financial assets	282,329	3.31
Liabilities		
Bank overdrafts and call loans from banks	6,702,079	0.43
Bills and bonds payable under repurchase agreements (RP)	166,583,192	0.29

b. Interest rate sensitivity analysis on assets and liabilities

December 31, 2011

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	120,238,992	18,060,358	18,588,988	60,653,896	217,542,234
Interest rate sensitive liabilities	185,374,995	2,229,037	805,243	-	188,409,275
Interest rate sensitive gap	( 65,136,003)	15,831,321	17,783,745	60,653,896	29,132,959
Net worth					32,595,175
Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%)					115.46
Ratio of interest rate sensitivity gap to net worth (%)					89.38

December 31, 2010

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	110,202,423	6,597,874	8,784,465	76,841,471	202,426,233
Interest rate sensitive liabilities	172,758,458	1,302,012	-	-	174,060,470
Interest rate sensitive gap	( 62,556,035)	5,295,862	8,784,465	76,841,471	28,365,763
Net worth					32,535,321
Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%)					116.30
Ratio of interest rate sensitivity gap to net worth (%)					87.18

Note 1: Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.

Note 2: Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities.

Note 3: Interest rate sensitivity gap = Interest rate sensitive assets – Interest rate sensitive liabilities

C. Liquidity risk

- (A) The operating capital of the Company is sufficient to meet cash flows for all contractual obligations; therefore, there is no liquidity risk regarding inability to raise capital to meet existing contractual obligations.
- (B) Both investment at fair value through profit or loss and the available-for-sale stocks, bills and bonds of the Company have an open market and are financial assets expected to be instantly liquidated near the fair value in the market. Therefore, no significant risk of cash flow is expected.
- (C) The Company's fundamental management policy is to match the maturity date and interest rate on assets and liabilities and control cap arising from any mismatch. Due to uncertainty of terms and variety of types, maturity date and interest rate on assets and liabilities usually cannot fully match up, such mismatch may result to either potential gain or loss. As of December 31, 2011 and 2010, the carrying amounts of financial assets and financial liabilities are classified according to their time-to-maturity as follows:

(Blank below)

	December 31, 2011								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
<u>Assets</u>									
Financial assets at fair value through profit or loss									
Investment in bills	\$ 53,159,878	\$ 55,178,808	\$ 22,632,884	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 130,971,570
Foreign currency bills investments	-	-	11,723	-	-	-	-	-	11,723
Fixed rate commercial paper contracts	-	-	-	345	6,676	-	-	-	7,021
Bond investments - convertible corporate bonds	34,104	-	720,553	91,218	128,921	575,520	350,742	-	1,901,058
Convertible corporate bond asset swap	-	65,280	372,994	1,075,491	1,310,254	-	-	-	2,824,019
Available-for-sale financial assets									
Bond investments - government bonds	8,492,452	2,506,905	9,257,815	14,289,273	10,362,460	8,444,583	8,672,807	5,344,585	67,370,880
Bond investments - financial bonds	-	-	50,000	-	-	-	518,548	1,662,479	2,231,027
Bond investments - foreign currency financial bonds	-	-	30,127	-	-	-	-	-	30,127
Bond investments - corporate bonds	-	-	3,474,447	2,127,345	1,675,078	1,414,534	1,691,614	-	10,383,018
Bond investments - foreign currency corporate bonds	-	-	-	151,015	-	-	-	-	151,015
Beneficiary or asset-backed securities	-	-	-	-	-	-	416,732	-	416,732
Held-to-maturity financial assets	-	-	250,000	-	-	-	-	-	250,000
Total assets	<u>\$ 61,686,434</u>	<u>\$ 57,750,993</u>	<u>\$ 36,800,543</u>	<u>\$ 17,734,687</u>	<u>\$ 13,483,389</u>	<u>\$ 10,434,637</u>	<u>\$ 11,650,443</u>	<u>\$ 7,007,064</u>	<u>\$ 216,548,190</u>
<u>Liabilities</u>									
Bills and bonds payable under repurchase agreements	( 137,952,107)	( 44,006,887)	( 3,034,281)	-	-	-	-	-	( 184,993,275)
Total liabilities	( 137,952,107)	( 44,006,887)	( 3,034,281)	-	-	-	-	-	( 184,993,275)
Net liquidity gap	<u>(\$ 76,265,673)</u>	<u>\$ 13,744,106</u>	<u>\$ 33,766,262</u>	<u>\$ 17,734,687</u>	<u>\$ 13,483,389</u>	<u>\$ 10,434,637</u>	<u>\$ 11,650,443</u>	<u>\$ 7,007,064</u>	<u>\$ 31,554,915</u>

	December 31, 2010								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
<u>Assets</u>									
Financial assets at fair value through profit or loss									
Investment in bills	\$ 86,194,563	\$ 19,145,529	\$ 3,439,388	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,779,480
Foreign currency bills investments	29,094	29,065	10,146	-	-	-	-	-	68,305
Fixed rate commercial paper contracts	-	60	12,290	-	-	-	-	-	12,350
Bond investments - government bonds	-	-	-	-	-	20,679	-	-	20,679
Bond investments – international financial bonds	-	374,395	-	-	-	-	-	-	374,395
Bond investments - convertible corporate bonds	-	-	-	576,546	49,990	-	340,464	-	967,000
Convertible corporate bond asset swap	-	95,038	735,014	863,011	498,442	-	-	-	2,191,505
Derivative instruments - interest rate swaps	5,340	3,897	-	-	-	-	-	-	9,237
Bills and bonds investments with resale agreements	529,800	-	-	-	-	-	-	-	529,800
Available-for-sale financial assets									
Bond investments - government bonds	2,197,492	666,247	6,900,503	21,126,661	14,539,901	10,491,571	8,755,042	9,946,753	74,624,170
Bond investments - financial bonds	-	-	180,824	-	-	-	-	919,631	1,100,455
Bond investments - foreign currency financial bonds	-	-	-	29,327	-	-	-	-	29,327
Bond investments - corporate bonds	300,208	-	4,299,174	3,547,042	2,023,322	1,021,465	1,218,684	-	12,409,895
Bond investments - foreign currency corporate bonds	-	-	-	-	145,239	-	-	-	145,239
Held-to-maturity financial assets	-	-	-	250,000	-	-	-	-	250,000
Total assets	<u>89,256,497</u>	<u>20,314,231</u>	<u>15,577,339</u>	<u>26,392,587</u>	<u>17,256,894</u>	<u>11,533,715</u>	<u>10,314,190</u>	<u>10,866,384</u>	<u>201,511,837</u>
<u>Liabilities</u>									
Financial liabilities at fair value through profit or loss									
Derivative instruments - interest rate swaps	-	( 2,837)	( 7,293)	-	-	-	-	-	( 10,130)
Bills and bonds payable under repurchase agreements									
	( 154,820,706)	( 14,040,752)	( 1,302,012)	-	-	-	-	-	( 170,163,470)
Total liabilities	( 154,820,706)	( 14,043,589)	( 1,309,305)	-	-	-	-	-	( 170,173,600)
Net liquidity gap	<u>(\$ 65,564,209)</u>	<u>\$ 6,270,642</u>	<u>\$ 14,268,034</u>	<u>\$ 26,392,587</u>	<u>\$ 17,256,894</u>	<u>\$ 11,533,715</u>	<u>\$ 10,314,190</u>	<u>\$ 10,866,384</u>	<u>\$ 31,338,237</u>

## (D) Supplementary information in accordance with the Regulations:

Sources and Utilization of Capital  
as of December 31, 2011  
(Expressed in Millions of NT Dollars)

	1 – 30 Days	31 – 90 Days	91 – 180 Days	181 Days – 1 Year	Over 1 Year
Utilization of capital					
Bills	53,160	55,179	15,700	6,944	-
Bonds	8,527	2,572	2,360	11,445	60,654
Bank deposit	671	130	-	200	-
Loans extended	-	-	-	-	-
Bills and bonds investment with resale agreements	-	-	-	-	-
Total	62,358	57,881	18,060	18,589	60,654
Sources of capital					
Loans borrowed	3,416	-	-	-	-
Bills and bonds payable under repurchase agreements	137,952	44,007	2,229	805	-
Own capital	-	-	-	-	32,595
Total	141,368	44,007	2,229	805	32,595
Net capital	( 79,010)	13,874	15,831	17,784	28,059
Accumulated net capital	( 79,010)	( 65,136)	( 49,305)	( 31,521)	( 3,462)

Sources and Utilization of Capital  
as of December 31, 2010  
(Expressed in Millions of NT Dollars)

	1 – 30 Days	31 – 90 Days	91 – 180 Days	181 Days – 1 Year	Over 1 Year
Utilization of capital					
Bills	86,224	19,174	3,263	187	-
Bonds	2,498	1,041	3,335	8,397	76,841
Bank deposit	736	-	-	200	-
Loans extended	-	-	-	-	-
Bills and bonds investment with resale agreements	530	-	-	-	-
Total	89,988	20,215	6,598	8,784	76,841
Sources of capital					
Loans borrowed	3,897	-	-	-	-
Bills and bonds payable under repurchase agreements	154,821	14,041	1,302	-	-
Own capital	-	-	-	-	32,535
Total	158,718	14,041	1,302	-	32,535
Net capital	( 68,730)	6,174	5,296	8,784	44,306
Accumulated net capital	( 68,730)	( 62,556)	( 57,260)	( 48,476)	( 4,170)

D. Cash flow risk and fair value risks associated with movements in interest rates

- 1) As of December 31, 2011 and 2010, the carrying amounts of floating interest-earning assets and floating interest-bearing liabilities which may expose to future cash flow risk due to the market interest rate fluctuation. Future cash flows of such assets and liabilities may fluctuate and result in risk due to market interest rate. The following table shows the interest rate risk of the subsidiary, and is presented by the book value of financial assets and financial liabilities and is classified by the earlier of the expected reprising date or expected maturity date:

	December 31, 2011								
	<u>Less than 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<u>Assets</u>									
Available-for-sale financial assets									
Financial bonds with floating rate	\$ 10,000	\$ 700,000	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 760,000
Total assets	\$ 10,000	\$ 700,000	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 760,000

(Blank below)



	December 31, 2010								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
<u>Assets</u>									
Financial assets at fair value through profit or loss									
Derivative instruments - interest rate swaps	\$ 3,123	\$ 6,114	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,237
International financial bonds with floating rate	-	374,395	-	-	-	-	-	-	374,395
Total assets	<u>\$ 3,123</u>	<u>\$ 380,509</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 383,632</u>
<u>Liabilities</u>									
Financial liabilities at fair value through profit or loss									
Derivative instruments - interest rate swaps	( 7,293)	( 2,837)	-	-	-	-	-	-	( 10,130)
Total liabilities	( 7,293)	( 2,837)	-	-	-	-	-	-	( 10,130)
Total	<u>(\$ 4,170)</u>	<u>\$ 377,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 373,502</u>

(Blank below)

(A) Market interest rate (Excluding financial assets held for trading)

Items of financial assets	December 31, 2011	December 31, 2010
Available-for-sale financial assets		
Bond investments – government bonds	0.7356%~1.7457%	0.4971%~2.1731%
Bond investments –financial bonds	2.1441%~2.4288%	2.0160%~2.9334%
Bond investments –foreign currency financial bonds	4.1116%	2.4411%
Bond investments – corporate bonds	0.9012%~1.8473%	0.6619%~2.1335%
Bond investments –foreign currency corporate bonds	2.9465%	2.8773%
Beneficiary or asset-backed securities	1.3181%	-
Held-to-maturity financial assets		
Bond investments – corporate bonds	3.4000%	3.4000%

E. Operating risk and legal risk

Information on Breach of Applicable Laws or Regulations  
December 31, 2011

	Reason and Amount Incurred
Indictment of the Company's chairman or employees for breach of applicable laws or regulations in the latest year	None
Penalties imposed by the regulatory authority for breach of the Bills Financing Act in the latest year	None
Rectification requested by the Ministry of Finance for business misconduct in the latest year	None
Frauds committed by the Company's employees, major contingencies, or incidents caused by non-compliance with the Safety Rules Governing the Financial Institutions, which have incurred a total loss exceeding \$50 million on one single incident or all the incidents in the latest year	None
Others	The Financial Supervisory Commission of the Executive Yuan (FSC) conducted general business examination in 2010. Findings related to Article 51 of The Act Governing Bills Finance Business which states that Article 61-1 of the Banking Act shall apply to where there is a suspicion that a Bills Finance Company has violated laws and regulations or its Articles of Incorporation or has disturbed the sound operation: certain equity investment traders of the Company did not separate personal stock investment with that of the Company and utilize acquired information at work for personal investment; the FSC has notified for correction.

Note: The latest period denotes one-year time from the current period of disclosure.

(7) Information on the apportionment of the revenues, costs, expenses, gains and losses arising from the transactions among the Company, Mega Financial Holding Co., Ltd. and its subsidiaries, joint promotion of businesses, and sharing of information, operating facilities or premises:

A. Please refer to Note 5 for details.

B. Joint promotion of businesses

In order to create synergies within the group and provide customers financial services in all aspects, the

Company provides mobility service (e.g. visiting clients) or promotes banking or insurance products through telephone, mobile phone or email.

C. Sharing of information and operating facilities or premises

Under the Financial Holding Company Act, Computer-Process Personal Data Protection Law and the related regulations stipulated by the Ministry of Finance, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the group or exchanged between the subsidiaries for the purpose of cross-selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are bound to use the information for the specified purposes only. In addition, the Company is required to publish its "Measures for Protection of Customers' Information" at its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

(8) Capital adequacy ratio

Year		December 31, 2011	December 31, 2010
Items			
Eligible capital	Ratio of Tier I capital	26,722,885	27,107,207
	Ratio of Tier II capital	-	-
	Ratio of Tier III capital	1,497,344	1,894,891
	Eligible capital, net	28,220,229	29,002,098
Risk-weighted assets, total	Credit risk	131,391,518	111,993,111
	Operation risk	8,215,825	7,492,340
	Market risk	55,227,413	59,348,975
	Risk-weighted assets, total	194,834,756	178,834,426
Capital adequacy ratio (%)		14.48	16.22
Ratio of Tier I capital to risk - weighted assets (%)		13.71	15.16
Ratio of Tier II capital to risk - weighted assets (%)		-	-
Ratio of Tier III capital to risk - weighted assets (%)		0.77	1.06
Ratio of common shares to total assets (%)		14.46	15.41
Leverage ratio(%)		12.38	13.17

A. Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets

B. The total amount of assets equals the total assets presented in the balance sheet.

C. The ratio is calculated for the end of June and December which were also disclosed in the first and third quarter financial statements.

D. The above eligible capital and risk-weighted assets are calculated and recorded in accordance with Regulations Governing Capital Adequacy of Bills Finance Companies and Calculation and Forms of Own Capital and Risk Assets of Bills Finance Companies.

E. Leverage ratio= Tier I capital/ adjusted assets average (average assets less Tier I capital reductions on Goodwill, unamortized losses from sale of non-performing loans and the reduction amounts regulated in the Calculation and Forms of Own Capital and Risk Assets of Bills Finance Companies).

## 11. Additional Disclosures

(1) Significant transaction information:

A. Marketable securities acquired or disposed of, at costs or prices of at least NT\$100 million or 20% of the issued capital: None.

B. Acquisition of individual real estate, at costs or prices of at least NT\$100 million or 20% of the issued capital: None.

C. Disposal of individual real estate, at costs or prices of at least NT\$100 million or 20% of the issued

capital: None.

D. Allowance for service fees to related parties amounting to at least NT\$5 million: None.

E. Receivables from related parties amounting to at least NT\$100 million or 20% of the issued capital: None.

F. Sales of non-performing loans : None.

G. Securitization products and its related information that applied by subsidiaries in compliance with the “Financial Asset Securitization Act” or “Real Estate Securitization Act” : None.

H. Other significant transactions which may affect the decisions of users of financial reports: None.

(2) Supplementary disclosure regarding investee companies

A. Information of which the Company has significant influence or control over the invested companies directly or indirectly: None.

B. Information of which the Company has control over the invested companies directly or indirectly: None.

(3) Information on investments in Mainland China: None.

## 12. Disclosure of financial information by segments

(1) General information

The Company determines the responsible departments for information reporting depending on the information used by Chief Operating Decision-Maker (CODM). There are three departments of the Company which are responsible for reporting: bills, bonds, and the branch. The branch here refers to eight branches with similar economic and business characteristics which do not satisfy the criteria for quantitative threshold and are consolidated into a reporting department.

The bills department is responsible for processing the short-term bills instrument issuances in the primary market and the business for bills under repurchase or reverse sell agreements and transactions in the secondary market. The bonds department is responsible for the business of bonds, bonds under repurchase or reverse sell agreements, fixed-income instruments, equity investment and businesses of financial derivative transactions. The branches are responsible for bills and bonds businesses other than the abovementioned trades for equity investment and derivative instruments.

The main income sources of the Company are from bills and bonds business. And the bills and bonds business managed by the branches shares a similarity with the head office, adding that the clients for primary market and investors in secondary market usually have a strong regional character. Therefore, the Company manages through a comprehensive system by business nature and location.

(2) Measurement for segmental information

The gains and losses of the Company's operating departments are assessed by its net income and used to evaluate their performance. Except that the branches assesses their performance through net profit before tax. The inter-segment bills transaction and bonds trades of the Company are regarded as trades with a third party and are evaluated by current market prices. The Company does not amortize the operating expenses and income tax expenses to bills department and bonds department. The amounts reported should be consistent with the report submitted to the CODM. All the accounting policies of operating segments are the same with the significant accounting policies summarized in Note 2.

(3) Information on segment profit and loss, assets and liabilities

Segmental information provided to CODM:

For the year ended December 31, 2011					
Items	Bills Department	Bonds Department	Branch Department	Adjustment	Total
Net revenues	\$ 660,911	\$ 1,673,508	\$ 1,228,661	\$ 444,394	\$ 4,007,474
Net revenues from external clients	931,740	1,678,348	952,992	444,394	4,007,474
Net bills revenues	942,760	-	233,674	-	1,176,434
Net bond revenues	-	1,479,272	487,862	-	1,967,134
Net equity investment revenues	-	199,911	-	-	199,911
Other net revenues	( 11,020)	( 835)	231,456	444,394	663,995
Net inter-segment revenues	( 270,829)	( 4,840)	275,669	-	-
Net bills revenues	( 270,829)	-	270,829	-	-
Net bond revenues	-	( 4,840)	4,840	-	-
Interest income (Note)	526,630	1,462,633	470,147	( 51,783)	2,407,627
Gains(losses) from reportable segment	660,911	1,673,508	901,785	( 98,101)	3,138,103
Reportable segment assets	100,296,982	68,402,907	52,267,000	4,515,722	225,482,611
Reportable segment liabilities	82,758,099	52,627,085	51,091,503	6,410,749	192,887,436

For the year ended December 31, 2010					
Items	Bills Department	Bonds Department	Branch Department	Adjustment	Total
Net revenues	\$ 799,959	\$ 2,015,632	\$ 1,436,697	\$ 12,060	\$ 4,264,348
Net revenues from external clients	1,081,315	2,020,030	1,150,943	12,060	4,264,348
Net bills revenues	1,106,256	-	346,626	-	1,452,882
Net bond revenues	-	1,878,067	767,175	-	2,645,242
Net equity investment revenues	-	144,056	-	-	144,056
Other net revenues	( 24,941)	( 2,093)	37,142	12,060	22,168
Net inter-segment revenues	( 281,356)	( 4,398)	285,754	-	-
Net bills revenues	( 281,356)	-	281,356	-	-
Net bond revenues	-	( 4,398)	4,398	-	-
Interest income (Note)	453,370	1,745,914	662,798	( 23,921)	2,838,161
Gains (losses) from reportable segment	799,959	2,015,632	1,163,118	( 823,059)	3,155,650
Reportable segment assets	95,890,147	71,697,093	42,844,690	755,171	211,187,101
Reportable segment liabilities	74,538,032	56,550,304	41,120,020	6,443,424	178,651,780

Note: Net revenues include net interest income and net non-interest income. And net bills revenues and net bond revenues of the net revenues have included net interest income.

(4) Information on products and services

The Company, engaging in the business of underwriting, brokering, and trading bonds and bills, is in a single industry.

(5) Information on location

The Company has no foreign operating segment.

(6) Important client information

The Company has no client accounting for 10% or more of total income revenue.

13. Information on adoption of IFRSs

In accordance with the Financial Supervisory Commission, Executive Yuan (FSC), financial enterprises supervised by FSC and public listed companies should prepare financial statements in accordance with International Financial Reporting Standards, and the relevant interpretation letters and announcements pronounced by the FSC (“Taiwan IFRSs”), starting from the fiscal year of 2013.

The Company pre-discloses the following information before the adoption of Taiwan IFRSs in accordance with Jin-Guan-Zheng-Zeng Letter No. 0990004943 dated February 2, 2010 and Jin-Guan-Yi Letter No. 10000073410 dated April 7, 2011:

(1) Major contents and status of execution of the Company’s plan for Taiwan IFRSs adoption

The Company has already set up an ad hoc committee with regards to IFRSs and the conversion plan for adoption. The Vice President will be expected to champion the conversion plan. Important content and executive status are as follows:

Working items for IFRSs Adoption	Status of Execution
1. Set up the project team	Completed.
2. Establish an adoption plan for Taiwan IFRSs conversion	Completed.
3. Complete identification of GAAP differences between current accounting policies and Taiwan IFRSs	Completed.
4. Complete identification of Taiwan IFRSs consolidated entities	Not applicable. The Company has no other IFRSs consolidated entity.
5. Complete impact evaluation from various exemptions of IFRS 1 - First-time Adoption of International Financial Reporting Standards	Completed.
6. Complete the evaluation of adjustments needed for information system	Completed.
7. Complete the evaluation of adjustments needed for internal controls	In progress.
8. Decide on Taiwan IFRSs’ accounting policies	Completed.
9. Decide on various exemptions and options of IFRS No. 1 “First-time Adoption of International Financial Reporting Standards”	Completed.
10. Complete the preparation of Taiwan IFRSs statement of financial position on the date of transition	In progress.
11. Complete the preparation of Taiwan IFRSs comparative financial information for 2012	In planning stage.
12. Complete the adjustment of relevant internal controls (including	In planning stage.



Working items for IFRSs Adoption	Status of Execution
the standard procedure of financial reporting and relevant information system)	

- (2) Significant differences may arise between current accounting standards and the standards adopted in accordance with Taiwan IFRSs, “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” in the future. The Company evaluates the significant differences on the basis of Taiwan IFRSs approved by the FSC and “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”, estimated to be effective in year 2013. However, the current assessment result may be affected by International Accounting Standards, Interpretation Letters, or announcements pronounced or released by the FSC in the future. As a result, the variances arise from the actual practice with future Taiwan IFRSs adoption.

The potential significant differences between current accounting standards and Taiwan IFRSs, “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” that will be used in the preparation of the financial statements in the future are set forth below:

#### (A) Income tax

In accordance with current accounting standards in R.O.C., when evidence shows that part or whole of the deferred tax asset with 50% probability or above will not be realized, an entity should reduce the amount of deferred tax asset by adjusting the valuation allowance account. In accordance with IAS 12, “Income Taxes”, a deferred tax asset should be recognized if, and only if, it is considered highly probable that it will be realized.

#### (B) Pension

- (a) Discount method adopted for pension actuarial calculation is determined by referencing Sec. 23 set out in SFAS No. 18. However, according to IAS No. 19 “Employee Benefits”, adoption of discount rate should be determined with reference to market yields on high quality corporate bonds with the same currency at the reporting period ending date and maturity periods.
- (b) According to the current accounting standards adopted by the R.O.C., unrecognized transition obligation payables are amortized under straight line method based on the expected average remaining working lives of the participating employees who are eligible for pensions. However, considering that it is the first time for the Company to adopt IFRSs, the transition regulation of IAS No. 19 “Employee benefits” should not be applicable here and no transition liabilities are recognized.
- (c) Pursuant to the current accounting standards adopted by the R.O.C., the amount of obligation payable on the balance sheet date exceeding fair value of the pension fund assets should be recognized as the lower limit of pension liability. However, there is no such requirement set out in IAS No. 19 “Employee Benefits”.
- (d) The profits and losses for the pension actuarial calculation of the Group should be recognized as net current pension costs under the corridor approach according to the current accounting standards adopted by the R.O.C.. However, it shall be immediately recognized in other comprehensive income according to IAS No. 19 “Employee Benefits”.

#### (C) Employee benefit

The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Company recognizes such costs as expenses upon actual payment. However, IAS 19, “Employee Benefits”, requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period.

#### (D) Customary trade

However, according to IAS No. 39 “Financial Instrument: Recognition and Measurement”, settlement date accounting or trade date accounting should be adopted for purchase or disposal of financial asset under the customary trading practice and should be consistently applied for the acquisition and disposal of all financial assets of the same type.

(E) Investment property

Investment property available for lease of the Company should be classified as “Investment property” if the definition of investment property is met, in accordance with IAS No. 40 “Investment Property”.

(F) Financial guarantee contract

(a) According to the current accounting standard, contingent liabilities are divided into three categories of probable, reasonably probable and remote. Recognition should be made for those that are probable and the amount can be measured reliably. However, According to IAS No. 37 “Provisions, Contingent Liabilities and Contingent Assets”, for a liability to be recognized, it requires not only present obligation as a result of past events but also possible settlement which is expected to result in an outflow of resources. If at the end of reporting period, the chance of the present obligation is more likely than not, provision should be made for liability reserve.

(b) According to the current accounting standard, provision should be made for those probable liabilities and the amounts can be measured reliably. No discounting is expressly provided by the regulation. However, According to IAS No. 37 “Provisions, Contingent Liabilities and Contingent Assets”, if there is a material influence on currency over a period of time, liability reserve should be the present value of obligation with expected expenses.

With regard to the above differences, some may be deemed exempt due to rules under IFRS No. 1, “First-time Adoption of International Financial Reporting Standards” and therefore no impact on amounts during transition may occur.

**V. CPA Certifying Financial Statements of Parent and Subsidiary Companies in the Most Recent Year: None**

**VI. Financial difficulties of the company and related party in the most recent years and up to the printing of the annual report: None**

*Analysis of Financial Status, Operating  
Results, and Risk Management*

## One. Financial status

Unit: NT\$ Thousand

Item \ Year	2011	2010	Difference	
			Amount	%
Cash and cash equivalent	601,915	736,833	( 134,918)	(18.31)
Financial assets with change in fair value included in profit and loss	135,756,870	112,685,775	23,071,095	20.47
Bills and bonds purchased under resale agreements	-	529,800	( 529,800)	(100.00)
Accounts receivable – net	1,833,166	2,101,018	( 267,852)	(12.75)
Financial assets available for sale– net	83,240,989	91,189,051	( 7,948,062)	(8.72)
Financial assets held to maturity - net	250,000	250,000	-	-
Other financial assets – net	822,684	693,381	129,303	18.65
Fixed assets - net	2,928,881	2,945,800	( 16,919)	(0.57)
Intangible assets – net	1,096	309	787	254.69
Other assets - net	47,010	55,134	( 8,124)	(14.74)
Total assets	225,482,611	211,187,101	14,295,510	6.77
Loans from banks and overdrafts	3,416,000	3,897,000	( 481,000)	(12.34)
Financial liabilities with change in fair value included in profit and loss	-	10,130	( 10,130)	(100.00)
Bills and bonds sold under repurchase agreements	184,993,275	170,163,470	14,829,805	8.72
Payables	1,257,098	1,243,823	13,275	1.07
Other liabilities	3,221,063	3,337,357	( 116,294)	(3.48)
Total liabilities	192,887,436	178,651,780	14,235,656	7.97
Capital stock	13,114,411	13,114,411	-	-
Additional paid-in capital	312,823	312,823	-	-
Retained earnings	15,987,794	14,917,082	980,712	6.57
Other equity items	3,270,147	4,191,005	( 920,858)	(21.97)
Total shareholder's equity	32,595,175	32,535,321	59,854	0.18
Ratio change analysis: (Ratio change before and after over 20%; moreover, amount change for up to NT\$10,000 thousand)				
1. The increase of financial assets with changes in fair value included in profit and loss results from the increase of bills holding position for expanding bills earnings in response to the lower interest spread of bills.				
2. The decrease of bills and bonds purchased under resale agreements results from no underwriting of bills and bonds purchased under resale agreements at the end of 2011.				
3. The decrease of financial liabilities with change in fair value included in profit and loss results from no balance of the financial liabilities with change in fair value included in profit and loss at the end of 2011.				
4. The decrease of other equity items results from a decrease in unrealized gain on revaluation as a result of the repayment of bonds upon maturity and shortened time limit of risk.				

## Two. Operating results

Unit: NT\$ Thousand

Item	2011	2010	Increase (Decrease) amount	Ratio Change (%)
Net interest income	2,407,627	2,838,161	( 430,534)	( 15.17)
Net income other than interest income	1,599,847	1,426,187	173,660	12.18
Net operating income	4,007,474	4,264,348	( 256,874)	( 6.02)
Reserves	89,757	345,695	( 255,938)	( 74.04)
Operating expenses	779,614	763,003	16,611	2.18
Net income before tax	3,138,103	3,155,650	( 17,547)	( 0.56)
Income tax (expense) profit	( 455,801)	( 500,753)	44,952	( 8.98)
Net income	2,682,302	2,654,897	27,405	1.03
Ratio change analysis: (Ratio change over 20%) The decrease of reserves results from proper credit risk management.				

## Three. Cash flow

### I. Liquidity analysis within two years

Item \ Year	2011	2010	Ratio Change (%)
Cash flow ratio (%)	1.19	2.12	(43.87)
Cash flow adequacy ratio (%)	386.83	323.05	19.74
Ratio change analysis: (Ratio change over 20%)			
The decrease of the cash flow ratio is due to the decrease of net cash inflow from operating activity, increasing the holding position of bills assets for the expansion of bills earnings.			

### II. Liquidity analysis within one year

Beginning cash balance ①	Estimated net cash flow from operating activity ②	Estimated annual cash flow ③	Estimated cash surplus (shortage) ①+②-③	Remedial measures for estimated cash shortage	
				Investment Plan	Financial plan
601,915	(981,207)	5,360,795	(5,740,087)	-	6,344,000
1. Current cash flow analysis: (1) Operating activity: Cash outflow from operating activity results from the attempt of lowering RP position. (2) Investing activity: No expected increase of major investment. (3) Financing activity: Expect cash dividend distribution and payment for bank call loans, borrowing, and overdrafts. 2. Remedial measures for the expected cash shortage and liquidity analysis: Expect to support it with bank call loans, borrowing, and overdrafts.					

**Four. Impact of major capital expenditure on financial operations in the most recent years: None**

**Five. Transfer investment policy, the root cause of profit and loss, improvement plan, and the next-year investment plan in the most recent years:**

**I. Transfer investment policy and investment plan within one year**

The Company's transfer investment policy is based on the requirements of the "Rules Governing the Transfer Investment Management of Bills Finance Companies." Except for those investments authorized by the competent authorities before the enforcement of "Rules Governing the Transfer Investment Management of Bills Finance Companies," new investments must be done with the approval of the holding parent company and the competent authorities. The Company has no investment plan within the year.

**II. The root cause of transfer investment profit or loss and the corresponding corrective action**

In 2011, the cash dividends allocated to the Company from the transfer investment were NT\$11,968 thousand, and the stock dividends of TDCC were 93,632 shares and the stock dividends of Taiwan Futures Exchange 23,284 shares.

**Six. Risk management**

**I. Risk management organizational framework and policy**

**(1) Risk management organizational framework**

The Board of Directors is the highest authority for the Company's risk management; therefore, the Board of Directors bears ultimate responsibility for establishing the Company's risk management system and ensuring its effective operation.

The Risk Management Dept. governs the Risk Management Section responsible for enacting the risk management-related regulations, enforcing the plans under the risk management system pursuant to the New Basel Capital Accord, 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.

**(2) Risk management policy**

The Company has based on the "Financial Holding Company and Banking Internal Control and Auditing System Enforcement Rules," "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 and Operating Procedures" as the guidance for business risk management in order to establish the Company's risk management system, ensure that the operational risk control within the tolerance, and maintain a sound capital adequacy ratio.

## II. Risk measurement, control methods, and risk exposure quantitative information

### (1) General qualitative disclosure

#### 1. Strategies and processes

- (1). Credit risk  
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:
  - 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.”
  - 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.”
- (2). Market risk  
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 including: Daily monitor risk management objectives including the relevant position limit, loss limit, and sensitivity limit of bills, bonds, equities, and derivatives; daily conduct bills, and bonds position sensitivity analysis; and monthly validation of derivatives and equities transaction valuation.
- (3). Operational risk  
The “Operational Risk Management Guidelines” is stipulated for the establishment of a sound operational risk management framework and reduction of operational risk losses. The framework referred to above includes: Define internal control and management measures of operational risk and objectively review the effective implementation of operational risk management mechanism in accordance with independent internal auditing procedures; stipulate operational risk identification, assessment, measurement, communication, and monitoring the management processes of implementing countermeasures; establish risk management information framework including loss event notification, follow-up and verification, and systematic control of individual loss event frequency, severity, and related information; establish emergency response and business continuity plans; ensure the resumption of operations promptly during an emergency or disaster; and maintain business operations normally.
- (4). Liquidity risk  
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.



## **2. Organization and framework of relevant risk management system**

- (1). Credit risk  
With respect to the credit risk in the Company's granting of loans and various financial instruments, the Loan Review Committee 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.
- (2). Market risk  
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). Operational risk  
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. The various units shall comply with the internal controls, laws, and the requirements about operating risk self-assessment system, fulfill the self-assessment periodically, and promote the Company's well-founded operation. The risk management units shall report the operational risk issues to the Risk Management Committee periodically to enhance the internal controls and ensure that the various management levels understand the overview of the Company's risk, and shall report the Board of Directors about its independent and objective observation towards the valid execution of various risk management systems, pursuant to the internal auditing procedure.
- (4). Liquidity risk  
The Company's liquidity risk control is under the supervision of the Risk Management Committee. The Bills Department is responsible for daily operations and capital liquidity deficit management. The Finance Department is responsible for reporting the monitoring and control of liquidity risk.

## **3. Scope and characteristics of risk reporting and the measurement system**

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 Department to the Risk Management Committee on a quarterly basis. The Risk Management Committee is to report the risk management profile to the board of directors periodically. The risk report and measurement system is as follows:

- (1). Capital adequacy  
Monitor capital adequacy rate, analyze changes in eligible capital and risk assets, and assess capital adequacy for the reference of decision-maker.
- (2). Credit risk  
Report the total credit risk exposures by customer, industry and country, and the status of operation of credit risk position. 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 of guarantee, and maximum limit of credit extension to a single enterprise, same affiliate and same related party.
- (3). Market risk  
The report on the economic situation and interest rate analysis, operation of bills, bonds, equities, and derivatives position, capital cost and deployment, and hedging strategies and implementation. The risk measurement system and reports include: Bills, bonds, equities, and derivatives positions, profit and loss, risk life and stress tests, and sensitivity analysis.
- (4). Operational risk  
The report on significant operational risk loss events, operating procedures, operational system improvement and analysis of operational risk event loss data for

controlling the frequency, severity, and related information of individual loss events in order to gradually establish an operational risk information management framework.

(5). Liquidity risk

The report on liquidity risk monitoring. The risk measurement system and reports include: Control of total main liabilities amount and capital flow deficit management of each term.

**4. Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging**

(1). Credit risk

The Company grants loans in accordance with a defined credit investigation procedure, and considers the requirement of collaterals and guarantor based on the customer's financial and credit status. Meanwhile, the Company defined the "Notes to Loan Review Operation" to enhance the post-credit extension management. The financial instruments are primarily managed in accordance with the credit ratings for issuers and trading counterparts, and reviewed, followed up and evaluated periodically, in order to enhance the ability to bear the credit risk.

(2). Market risk

The Company's trade hedging strategy is to avoid price risk, implement derivatives as operating tools, and periodically assess profit and loss.

(3). Operational risk

It is mainly to assess the probability of risk losses and the size of potential losses. The choices of countermeasures 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.

(4). Liquidity risk

The Company's business operation is mainly for security trade. The Company's liquidity assets include bonds, Treasury bills, Central Bank Certificate of Deposits, and short-term promissory notes. The Company's financial instruments are with the quality of liquidity, safety, and diversification. Assess funding needs, maintain adequate liquidity, and ensure the Company's solvency in accordance with the scale of operation.

**(2) Disclosure of credit risk****1. Items in Balance Sheet – Credit risk, risk assets amount**

December 31, 2011; Unit: NT\$ Thousand

Item	Applicable risk weight	Risk assets
Sovereign state	0%	0
Non-central government public sectors	20%	1,458
	100%	12,044
Bank (including multilateral development banks)	50%	524,121
	100%	41,375
Corporate (including securities and insurance company)	50%	1,915
	100%	305,306
Investment in equity securities	400%	808,800
Other assets	100%	2,981,426
Total		4,676,445

**2. RP, RS, and items outside Balance Sheet–Credit risk, risk assets amount**

December 31, 2011; Unit: NT\$ Thousand

Item	Risk assets amount
RP	3,525,383
RS	0
General transactions outside Balance Sheet	123,110,755
Derivatives	78,935
Total	126,715,073

3. Assets securitization of the Company (as the founding institution):

- (1) Be an assets securitization founding institution: None  
(2) Securitized instruments information:  
① Summary of investment in securitized instruments

December 31, 2011; Unit: NT\$ Thousand

Item	Accounting accounts	Historical cost	Cumulative valuation gain or loss	Accumulated impairment	Book Value
Land Bank is commissioned to manage the 2011 Securitization Special Purpose Trust Beneficial Securities Preferred Securities A of Chailease Finance Co., Ltd.	Financial assets in available-for-sale	400,000	16,732 (based on the reference yield curve for corporate bond published by GTSM (including the four rating curves twAAA, twAA, twA and twBBB), apply the straight-line interpolation to seek the yield rate applicable to the residual days and to evaluate the market value)	0	416,732

- ② I. For the investment in one securitized instrument for an amount over NT\$300 million (excluding the Company as a founding institution holding for the purpose of credit enhancement), the following information must be disclosed:

Unit: NT\$ Thousand

Securities	Accounting account	Currency	Issuer and business location	Date of purchase	Maturity date	Coupon rate	Credit rating	Payment for interest and principal	Historical cost	Cumulative valuation profit and loss	Cumulative impairment	Book value	Point of claim	Assets pool capacity
Land Bank is commissioned to manage the 2011 Securitization Special Purpose Trust Beneficial Securities Preferred Securities A of Chailease Finance Co., Ltd.	Financial assets in available-for-sale	NTD	Land Bank Taipei City	11/24/2011	11/24/2015	2.2%	Taiwan Ratings twAAA	To pay the interest on the 18 <sup>th</sup> business day after the closing date, and no assets will be purchased cyclically upon maturity of lease, installment and contingent call and put from the assets pool on November 24, 2014, and the principal for the beneficial securities A will be repaid as the first priority.	400,000	16,732 (based on the reference yield curve for corporate bond published by GTSM [including the four rating curves twAAA, twAA, twA and twBBB], apply the straight-line interpolation to seek the yield rate applicable to the residual days and to evaluate the market value)	0	416,732	23.38%	Lease, installment and contingent call and put of trading counterparts of Chailease Finance Co., Ltd.

- II. The Bill Finance Company as a founding institution of securitization holding position for the purpose of credit enhancement: None

- III. The Bill Finance Company as securitized instruments credit impaired assets buying institution or settlement buying institution: None

- ③ The Bill Finance Company as securitized instruments assurance agency or providing liquidity financing credit line: None

**(3) Market risk capital provisions and risk assets**

December 31, 2011; Unit: NT\$ Thousand

<b>Risk Category</b>	<b>Capital provisions</b>	<b>Risk assets amount (Note)</b>
Interest rate risk	3,718,336	46,479,200
Equity security risk	699,416	8,742,700
Stock option processed with sensitivity analysis	0	0
Exchange risk	441	5,513
Total	4,418,193	55,227,413

Note: It is the provision of capital multiplied by 12.5

#### **(4) Liquidity risk**

##### **1. Maturity analysis of assets and liabilities**

December 31, 2011; Unit: NT\$ Million

	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	217,542	62,358	57,881	18,060	18,589	60,654
Liabilities	221,004	141,368	44,007	2,229	805	32,595
Deficit	-3,462	-79,010	13,874	15,831	17,784	28,059
Cumulative deficits		-79,010	-65,136	-49,305	-31,521	-3,462

##### **2. Assets liquidity and deficit liquidity management**

The Company has stipulated the “Liquidity Risk Management Rules” for measuring cash flow deficit effectively, adequately avoiding liquidity risk, upgrading capital management effect, and enhancing cash flow deficit management of each term in order to daily control cash flow deficit of each term, maintain adequate liquidity, and ensure solvency.

#### **III. The impact of domestic and foreign policies and changes in law on the Company’s finance and business and the countermeasures: None**

#### **IV. The impact of technical changes and industrial changes on the Company’s finance and business and the countermeasures**

##### **(1) 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) that help diverse business operations and increase operating spaces to the advantage of enhancing the scale of operations.
3. The continuous development of new financial instruments has forced the bills industry to face severe challenges.

##### **(2) The Company’s countermeasures**

1. Outsource systems and develop systems in-house to support transactions and risk control.
2. Construct a foreign currency bills and bonds trade platform for the customers’ trade security.
3. Control risk strictly and timely conduct new businesses authorized by the competent authorities to increase revenues.

#### **V. The impact of image change on the Company 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’s interest-sensitive assets position is high and endures high interest rate risks due to the business nature. Therefore, the Company has managed bills and bonds related businesses with risk management objectives defined in accordance with the overall economic situation and business

development needs in order to enhance risk position and risk life control to effectively control the adverse effect of market risk. In terms of credit guarantee businesses, the Company faces the risk of high guarantor concentration. Therefore, for the corporate credit business, the Company has enhanced the control of corporate credit risk in accordance with the “Procedural Guidelines for One Corporate Business Credit Control” to analyze the operation, finance, and financial liabilities of the corporate credit, corporate business operation, and subject business profile; also, control credit balance in accordance with corporate credit rating to improve credit quality.

**IX. Impact of changes in operating concessions on bills finance company, the related risk, and the countermeasures: None**

**X. Litigation or advocacy event: None**

**XI. Other important risks and countermeasures**

The Company has business risk management objectives defined annually in accordance with the laws and policies of the competent authorities, the development of macroeconomy, 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.

## **Seven. Crisis contingency measure**

The Company has defined a management crisis contingency measure to help the Company resolve crisis and resume business operation on a timely manner while suffering a huge loss of fund or faces a severe shortage of liquidity that is detrimental to the Company’s solvency and sustainable management. The Company is in line with the corporate risk management system, has established emergency handling and notification system, and activates related emergency response mechanism and external reporting system in accordance with the emergency event. In terms of liquidity risk, strictly control capital deficit of each term, maintain adequate liquidity, and ensure solvency. Activate emergency response mechanism promptly upon the occurrence of liquidity crunch, soaring interest rate or unexpected financial events causing serious impact on capital by utilizing business channels and resources of the holding parent company and subsidiaries for quick access to funds pour. In terms of information safety, define the process recovery procedures of the server system, database, terminal system, application system, computer-related facilities; also, set up remote backup center in order to resume business operation promptly. In terms of emergency rescue and protection, the disaster prevention measures and emergency response strategies are defined and the Company’s disaster prevention and rescue system is established to help minimize the impact on and damage to business operation, office equipment, document archives, and employee safety.

## **Eight. Other important issues**

## *Specially Recorded Items*



## One. Affiliated enterprises

- I. Consolidated business report of affiliated enterprises: None
- II. Consolidated financial statements of affiliated enterprises: None
- III. Relations report
  - (1) Declaration of Mega Bills Finance Co., Ltd.

### Declaration

The Company has the Relations Report of 2011 (January 1 – December 31, 2011) composed in accordance with the “Criteria Governing the Preparation of Consolidated Business Report, Consolidated Financial Statements, and Relation Report by Affiliated Enterprise.” Moreover, there are no significant discrepancies between the information disclosed and the information disclosed in the notes to financial statements during the period referred to above.

Sincerely yours,

Company name: Mega Bills Finance Co., Ltd.

President: C. B. Wang

April 17, 2012

(2) Independent Auditor's Report

**Mega Bills Finance Co., Ltd.**  
**Relations Report - Independent Auditor's Report**

Tze-Huei-Tsung-Tze No. 10007210

To: Mega Bills Finance Co., Ltd.

Mega Bills Finance Co., Ltd. states that the Relations Report of 2011 dated April 17, 2012 was composed in accordance with the "Criteria Governing the Preparation of the Consolidated Business Report, Consolidated Financial Statements, and Relation Report by Affiliated Enterprise." Moreover, there are no significant discrepancies between the information disclosed and the information disclosed in the notes to financial statements during the period referred to above.

We have made comparisons between the Relations Report of Mega Bills Finance Co., Ltd. and the notes to financial statements of 2011 in accordance with the "Criteria Governing the Preparation of the Consolidated Business Report, Consolidated Financial Statements, and Relation Report by Affiliated Enterprise" without any significant discrepancies found.

Sincerely yours,

PricewaterhouseCoopers CPA

CPA: Chong-Jo Li

April 17, 2012

(3) Relationship between subsidiary and parent company

Unit: Shares; %

Parent Co.	Reason for control	Shareholding & pledge of parent company			Directors, Supervisors, and Managers appointed by parent company	
		Shareholding	Shareholding ratio	Pledged shares	Title	Name
Mega Financial Holding Co.	Wholly owned	1,311,441,084	100%	0	Chairman	Gerry Y. G. Lee
					Chairman and also President (Note 2)	C. B. Wang
					Independent Director	C.D. Jen
					Director	C.T. Chen
					Director	R.Y. Lin
					Director	C.T. Lai
					Director	Y.H. Wu
					Director (Note 3)	C. W. Cheng
					Director (Note 3)	D. C. Hu
					Supervisor	D.H. Lu
					Supervisor (Note 3)	C. R. Weng
					Supervisor	J.M. Hong

Note 1: Mega Holdings appointed the Company's directors and supervisors of 13<sup>th</sup> term on February 21, 2012, who shall assume the position from February 25, 2012 until February 24, 2015. The directors (including independent directors) and supervisors of 13<sup>th</sup> term include Chairman and also President C. B. Wang, Independent Director T. D. Cheng, Independent Director T. C. Chen, Director R. Y. Lin, Director C. T. Lai, Director Y. H. Wu, Director D. C. Hu, Supervisor D. H. Lu, Supervisor C. L. Hong, and Supervisor J. M. Hong.

Note 2: Director and President Jung-Hsiung Lu resigned as of July 1, 2011, and was succeeded to by Chairman and President C. B. Wang.

Note 3: Mega Holdings re-appointed the new supervisor C. R. Weng, Chairman C. B. Wang, Director C. W. Cheng, and Director D. C. Hu on March 23, 2011, May 25, 2011, June 29, 2011 and November 23, 2011. Director M. Y. Wei resigned as of May 19, 2011.

**(4) Transactions**

1. Purchase (sales) transaction: None
2. Property trade: None
3. Financing transaction: None
4. Assets leasing: None
5. Other important transactions:
  - (1) Bills and bond trade

Unit: NT\$ Thousand

Transactions conducted with parent company		Trade terms and conditions with parent company	Remarks
Item	Amount		
Total bills and bond sold	499,958	Terms of trade transactions are same as non-related party's trade terms	Gain from disposition for \$34,000
Total RS & RP RS & RP balance	63,275,950 3,319,165	Terms of trade transactions are same as non-related party's trade terms	Interest expense for \$16,055 thousand

- (2) The Company's business income tax return is filed together with Mega Financial Holding Company. The Company's net tax payable amounted to \$337,407 thousand on December 31, 2011 and it is booked in the "Other accounts payable" account.

**(5) Endorsement and guarantee: None**

**(6) Other matters with a significant impact on finance and business: None**

**Two. Offering of marketable securities as of last year and the Annual Report publication date: None**

**Three. Subsidiary holds or disposes the shares of the Company as of last year and the Annual Report publication date: None**

**Four. Other supplementary information: None**

**Five. Matters that have a significant impact on the shareholders' equity or securities price as defined in Securities Exchange Act Article 36.2.2 as of last year and the Annual Report publication date: None**

**Head Office**

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