



Mega Holdings

Stock Code: 5842

Website:

MOPS:

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

Web Site:

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



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

Annual Report

101

2012

Printed in: April 2013

■ Spokesman and Deputy Spokesman for the Corporation

Spokesman: Chin-Tsan Wei
Job title: Senior Executive Vice President
Tel. No.: (02)2389-3399
Email: ctwei@megabills.com.tw
Deputy spokesman: Chih-Hsiung Chiu
Job title: General Manager, Treasury Dept.
Tel. No.: (02)2382-6660
Email: chiou516@megabills.com.tw

■ Addresses and Telephone Numbers of the Head Office and Branches

Head Office	Address:	: 2-5F, No. 91 Heng-yang Road, Taipei City
	Tel. No.:	: (02) 2383-1616 (Representative)
	Fax No.:	: (02) 2382-2878 (General Affairs Department)
Kaohsiung Branch	Address:	: 3F, No. 420 Cheng Kung First Road, Kaohsiung City
	Tel. No.:	: (07) 282-5171(5 Lines)
	Fax No.:	: (07)215-1887
Tainan Branch	Address:	: 14F-1, No. 307, Sec. 2, Min Sheng Road, Tainan City
	Tel. No.:	: (07) 228-3131(5 Lines)
	Fax No.:	: (06)229-3654
Chiayi Branch	Address:	: 5F, No. 381 Wufeng North Road, Chiayi City
	Tel. No.:	: (05) 271-2211(5 Lines)
	Fax No.:	: (05)277-7884
Taichung Branch	Address:	: 4F-1, No. 142 Chung Cheng Road, Taichung City
	Tel. No.:	: (04) 2220-2176(5 Lines)
	Fax No.:	: (04)2222-5424
Hsinchu Branch	Address:	: 3F, No. 307 Pei Ta Road, Hsinchu City
	Tel. No.:	: (05) 526-6022(5 Lines)
	Fax No.:	: (03)524-5544
Taoyuan Branch	Address:	: 3F, No. 32, Sec. 1, Cheng Kung Road, Taoyuan City
	Tel. No.:	: (05) 335-8877(5 Lines)
	Fax No.:	: (03)333-6137
Panchiao Branch	Address:	: 3F, 69 Chung Cheng Road, Panchiao District, New Taipei City
	Tel. No.:	: (05) 2965-2836(5 Lines)
	Fax No.:	: (02)2965-2819
Sanchung Branch	Address:	: 4F, No. 192, Sec. 3, Chung Yang Road, Sanchung District, New Taipei City
	Tel. No.:	: (05) 2981-1931(5 Lines)
	Fax No.:	: (02)2980-0374

■ Organization Handling Stock Transfer Affairs

Name: Mega Securities Co., Ltd.
Address: No. 95, Sec. 2, Chungsiao East Road, Taipei
Website: <http://www.emega.com.tw/>
Tel. No.: (02)3393-0898

■ Credit Rating Organization

Name: Taiwan Ratings Co., Ltd.
Address: 49F, No. 7, Sec. 5, Shin Yi Road, Taipei (101 Building)
Website: <http://www.taiwanratings.com/tw/>
Tel. No.: (02)8722-5800

■ CPA Certifying Financial Statements of Most Recent Year

Name: Chien-Hung Chou, CPA, and Hsiu-Ling Li, CPA
Firm Name: PricewaterhouseCoopers, Certified Public Accountants
Address: 27F, No. 333, Sec. 1, Keelung Road, Taipei City
Website: <http://www.pwc.com/tw/>
Tel. No.: (02)2729-6666

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

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Message to Shareholders

One. Business Report 2012

I. Global and Taiwan Financial Environment, 2012

As a result of the Greece's possible walkout from the EU in the first half of 2012, the concern about the European Debt Crisis has since emerged again. The Middle East turmoil in the second half of 2012 and uncertain factors, such as the fiscal cliff and debt ceiling issues in U.S, also struck the global financial markets. Therefore, the momentum toward economic stability and recovery also suffered a rigid challenge. In order to stabilize the financial environment and stimulate economic recovery, the major world economies have successively cut the interest rate or implemented a monetary easing policy starting from the second half of 2012. But despite that the signs of economic recovery are showing improvement, the momentum still appears to be mild.



Chairman Ta-Pei Liu

In Taiwan, owing to the poor global economy, the domestic economic growth is also relatively weak. The Directorate-General of Budget, Accounting and Statistics has adjusted the economic growth rate downward nine times consecutively throughout the year in 2012. The Central Bank has also maintained the monetary easing policy to stimulate the economic growth and therefore the long-term and short-term interest rates remained at low level. As a result, the export and industrial production indices were recovering starting November, and the domestic monitoring indicators and leading indicators were also increasing, which showed that the economy is gradually recovering. Nevertheless, the pace toward recovery still appears to be moderate.

In terms of the US monetary policy, the FED expanded the QE scale in the last FOMC in 2012 and announced that it would also release the QE4 for bonds purchase at the rate of US\$45 billion per month starting from January 2013, to replace Operation Twist 2 (OT2) that expired at the end of 2012. The FED indicated that as long as the unemployment rate reached above 6.5%, the Federal Funds Rate would still remain the prevailing 0-0.25% rate since December 2008, unless the inflation rate is more than 2.5%. Although the potential impact caused by fiscal cliff to the US economy has been substantially mitigated after ratification and enforcement of the "American Taxpayer Relief Act of 2012" in January 2013, the debt ceiling issue is still a big concern in US, which remains to be resolved by the Democratic Party and Republican Party through negotiation. If the agreement fails upon negotiation, the continuously QE adopted by Fed is expected to mitigate the impact that might arise.

In terms of the economic condition in Taiwan, the weakened demand of export in 2012 was a result of the consequence of European Debt Crisis and economic recession in Europe, as well as the sluggish economic growth in US and the weak economic growth in Mainland China. Therefore, private investment and consumption also turned conservative. Meanwhile, the increase of international oil and food prices, in addition to the concern about inflation caused by the climate factors, resulted in a slowdown in economic growth. Due to the increase in gas and utility charges as well as disasters caused by typhoons, the CPI once climbed to 2.0%. Fortunately, the decline of international oil prices and raw material prices in November resulted in a decline of the CPI, and inflation was mitigated accordingly. The Central Bank continued to apply the same policy to maintain interest rate at 1.875%. In 2013, even if the economic growth improves more than that in 2012, the recovery momentum will still appear to be mild. Moreover, the central banks around the world still maintain a QE policy. Therefore, the Central Bank is expected to be maintaining the current interest rate, and may adjust the monetary policy through open market operations to deal with any potential change which may happen in connection with the economic condition.

II. Organizational changes

As of April 1, 2012, some units subordinated to the Head Office have been adjusted as stated in the following table:

Before Adjustment		After Adjustment	
Bills Dept.	Bills trading and fund procurement	Bills Dept.	Bills trading, fund procurement and promotion of loan business
Loan Department	Promotion of loan business and credit investigation system	Credit Department	Credit investigation system and planning business
Control and Planning Department	Law compliance officer system, risk management, credit examination and planning business	Risk Control Department	Law compliance officer system, risk management and credit examination

III. Results of Implementation of Business Plan and Strategy

Unit: NT\$ million

Item	Final Accounting Figure, 2012	Final Accounting Figure, 2011	Increase/Decrease (%)
Underwriting and purchasing bills	1,876,115	1,803,100	4.05
Commercial paper issued	1,704,681	1,606,140	6.14
Trading volume of bills	9,430,418	9,740,259	-3.18
Trading volume of bonds	4,838,912	5,981,968	-19.11
Guaranteed issues of commercial paper average outstanding amount	133,996	124,587	7.55
Overdue credit amounts	0	0	-
Percentage for overdue credits (%)	0	0	-

IV. Budget Implementation

Unit: NT\$ million

Item	Final Accounting Figure, 2012	Budget Figure, 2012	Achievement Rate (%)
Underwriting and purchasing bills	1,876,115	1,783,287	105.21
Commercial paper issued	1,704,681	1,582,307	107.73
Trading volume of bills	9,430,418	9,763,117	96.59
Trading volume of bonds	4,838,912	4,793,020	100.96
RP outstanding balance of bills and bonds	159,377	140,138	113.73
Guaranteed issues of commercial paper average outstanding amount	133,996	122,812	109.11
Overdue credit amounts	0	0	-
Percentage for overdue credits (%)	0	0	-
Net Income after tax	2,881	2,360	122.08

V. Financial Income and Expenditure, and Analysis of Profitability

Unit: NT\$ million

Item	Final Accounting Figure, 2012	Item	Final Accounting Figure, 2012
Gross profit	4,272	EPS after tax (NT\$)	2.20
Income before tax	3,349	ROA (%)	1.30
Net Income after tax	2,881	ROE (%)	8.81

VI. Research & Development

(1) Management

1. Complete the re-organization of company chart and modification of KPI.
2. Execute 3rd-stage milestone for adoption of IFRS.

(2) Product and Business

1. Define the regulations and SOPs related to bonds and bills business.
2. Promote RMB bonds business.

(3) Risk Control

1. Plan out the Basel III system framework and put into practices.
2. Continue improving the existing operational risk self-assessment system to enhance the control over operational risk.
3. Complete the internal credit rating calibration.



President Chii-Bang Wang

Two. Summary of Business Plan 2013

I. Operating policy

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

II. Projection of Business Goals

Unit: NT\$ million

Item	Budget Figure, 2013
Underwriting and purchasing of bills	1,876,551
Commercial Paper issued	1,708,289
Trading volume of bills	9,637,552
Trading volume of bonds	4,467,360
RP outstanding balance of bills and bonds	156,006
Average outstanding balance of Commercial Paper issued	135,000

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

III. Major Business Policies

- (1) Aggressively promote the short-term bills business.
- (2) To establish bonds position in a timely manner in order to generate more revenue.
- (3) To generate all sources of funds in order to lower interest expense.
- (4) To review the fundamental performance and dividend policy for the selective industry in order to provide the investment decision to invest in stocks.
- (5) To continuously enhance the credit risk management system in order to mitigate the credit risks.
- (6) To review and evaluate the quality of assets, and to reserve the appropriate NPL provision to strengthen financial structure.
- (7) To take the advantage of company network and the company's credit rating to maintain market leader.
- (8) To integrate the group resources and explore the synergy of cross-selling.
- (9) To maintain the market share of trading volume of bills and bonds as market leader in the industry.

IV. Future Development Strategies

- (1) To observe the change of domestic and overseas financial market; forecast the trend of interest rates; adjust the positions and strategies as needed; and generate more income.
- (2) To expand the bond position on the condition that the bonds have good credit rating, acceptable yield and shorter duration
- (3) To develop potential RP clients base in order to lower the funding cost and to diversify the source of funding, as well as mitigate liquidity risks.
- (4) To develop RMB bonds business in order to increase source of profit and interest spread, and also to seek the opening of RMB bills business.
- (5) To closely watch the fundamentals, technicals, trading volume and information sides for stock market, and increase blue-chip stocks for investment in accordance with conservative principle.
- (6) To make more frequent visits to customers; adjust the structure of customers base; enhance well-founded financial structure; develop niche-type customers; push up the utilization of credit facility; adopt flexible pricing strategies; increase the outstanding balance of Commercial Paper and increase revenue from underwriting of Commercial Paper; maintain the market share as the market leader.
- (7) To establish the bilateral trading relationship with customers for loan business and reinforce the existing customer relationships in order to develop stable and low-interest rate funding sources, and to eliminate the dependence on those customers who are bidding the higher interest rate, thus expand the interest spread of trading and increase revenue.
- (8) To actively participate banks' syndicated loan project or organize guarantee-free long-term underwriting projects to stabilize the source of bills, expand interest spread and increase the commission revenue.

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

- (1) Given that the worldwide central banks will stop cutting interest rates and the local interest rate stays low, it is very likely for the interest to bottom out. The potential interest risk is increasing, thereby narrowing the interest spread for tradings.
- (2) Despite the recovering of global economy, the multiple uncertain factors still result in fluctuation in the global financial market, thereby rendering adverse effect on trading domestic stocks and bonds.
- (3) The competent authority broadened the credit rating for foreign-currency bonds to BB or more, and no credit rating would be required for overseas bonds issued by local enterprises, thereby increasing the objects purchasable in the future.
- (4) The competent authority permitted the local RMB bonds business and trading of RMB bonds, thereby resulting in increase in profit.
- (5) Given the fact that there are increasingly diversified fund-raising sources in the market and continuous penetration to the market from banks, further business expanding in the near future may be tough due to the fierce competition .
- (6) In consideration of the liquidity risk, the competent authority acts more cautious toward bills companies' expanding new business lines (e.g., RMB bills business, USD bills business, and credit loans for one-year term or longer), thereby resulting in a loss of bills companies' competitiveness.

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 +	2012.10.22

Four. Appreciation and Prospect

Thanks to the hard working of our staff and the continued support from our board of directors, supervisors as well as the parent holding company, our company maintained its rank as the market leader and outperformed our peers in terms of net income. The Company also achieved its goal of earnings for the year of 2012.

As we prospect the future, when dealing with the fluctuation of global economy, QE monetary policies and the intensive competition of local financial industry, it will be a great challenge for the company to control its operation risk and seek more opportunities to develop. All our staffs have to persistently follow the guidelines of “Sincerity, Honesty, Services, Efficiency, Innovation, and Development”, and continue to achieve excellent business performance results for our shareholder-Mega Financial Holding Company.

Best wishes for all of you
Health and Happiness,

President

Chii-Bang Wang

Chairman

Ta-Pei Liu

Profile of the Corporation

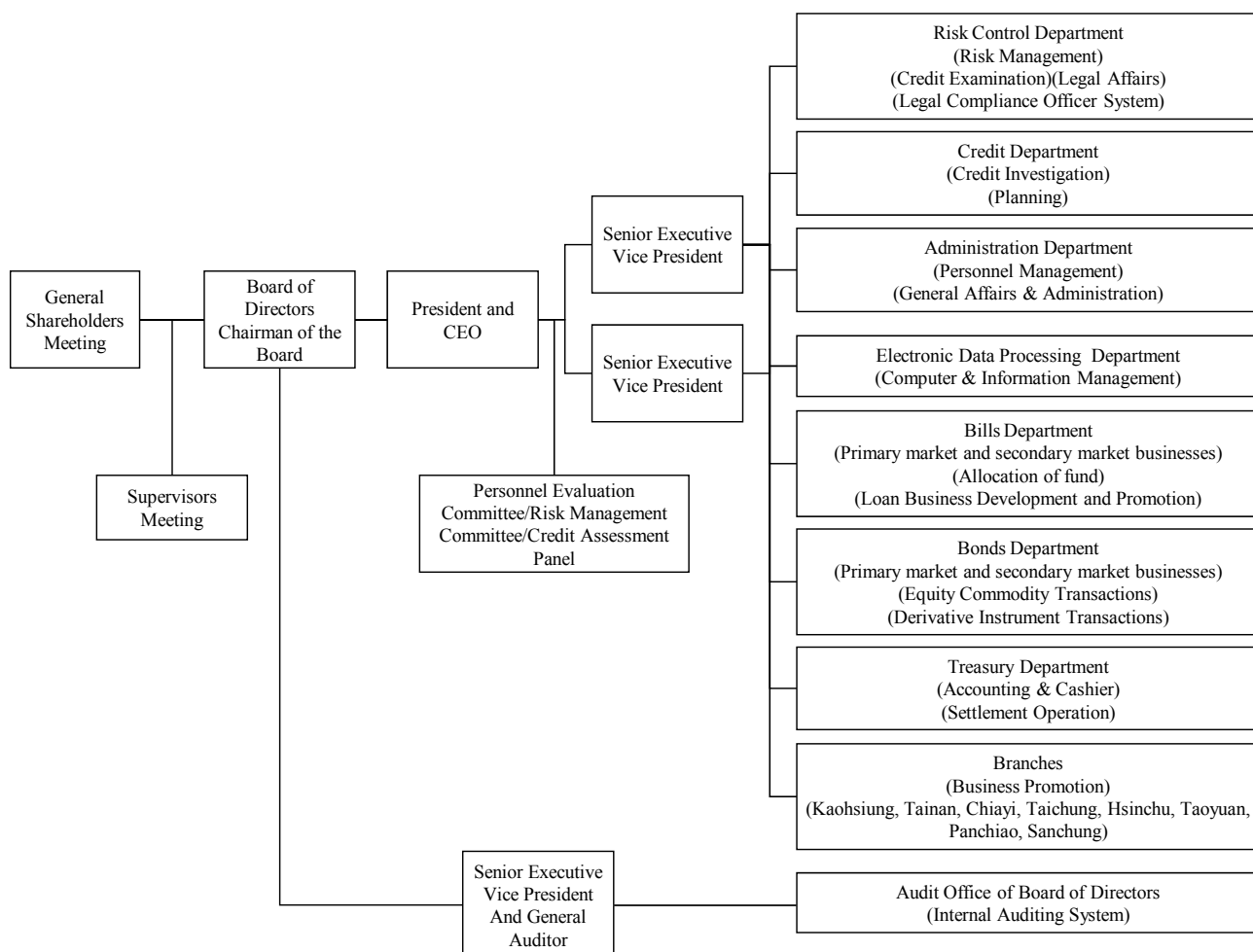
I. Founded: May 3, 1976

2. Company history

- (1) May 20, 1976, start 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

1. 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 directors and supervisors (1)

December 31, 2012

Job Title (Note 1)	Name	Date of Election (Appointment)	Term of Office (Note 2)	Date of First Election (Appointment)	Current Share Holding	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	Ta-Pei Liu (Note 4)	2012.09.26	2015.02.24	2012.09.26	(Note 1)	PhD of Public Administration, University of Raffles; Doctoral research in finance, Shanghai University of Finance and Economics	Chairman of Capital VC Limited, Executive Director & President of Core Pacific (Hong Kong), Chairman & President of UNI-CHINA INVESTMENT & DEVELOPMENT COMPANY LIMITED, Director of Central Investment Holding Co., and Director of ChungHsing Bills Finance Corporation	Chairman of Mega Bills Finance Co., Ltd., and Member of Hong Kong-Taiwan Business Co-operation Committee	N/A
Director & President	Chii-Bang Wang	2012.02.25	2015.02.24	2011.05.25		Department of International Trade, 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	President of Mega Bills Finance Co., Ltd., VP of Mega Holdings, Supervisor of Mega International Commercial Bank, and Director of Mega Charity Foundation	
Independent Director	Tsai-Chih Chen	2012.02.25	2015.02.24	2010.02.26		PHD of Insurance, Wharton School, University of Pennsylvania,	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	
Independent Director	Tai-Lung Chen (Note 3)	2012.07.24	2015.02.24	2012.07.24		MBA, University of West Florida	Vice Secretariat of Taiwan Financial Services Roundtable, Executive Vice President of Taiwan Academy of Banking and Finance and also Director of Financial Research Institute and Overseas Business Institute	Executive Vice President of Taiwan Academy of Banking and Finance, Chairman of Education & Training Committee of Association of Financial Planners of Taiwan (CFP), Member of R&D Committee of the Bankers Association of the Republic of China, Mainland China Division, and Member of Executive Committee on Financial Information System Inter-Bank Protocol	
Director	Jui-Yun Lin	2012.02.25	2015.02.24	2006.04.06		Master, Graduate Institute of Public Finance, NCCU	Executive Vice President of Financial Control Dept., Mega Holdings	Senior Executive Vice President of Mega Holdings, Chairman of Chung Kuo Insurance Company, Limited, Chairman and President of Mega Venture Capital Co., Ltd., Director of Taipei Financial Center Corporation, and Chairman & Director of the R.O.C. Nuclear Insurance Pool	
Director	Chao-Hsien Lai	2012.02.25	2015.02.24	2009.02.25		Master, Arthur D. Little School of Management	Executive Vice President and General Manager of Mega International Commercial Bank Manager, Zhongshan Branch of ICBC	Director of Mega Asset Management Co., VP of Mega Holdings, Senior Executive Vice President of Mega International Commercial Bank, Director of Mega International Commercial Bank, Chairman of Zhong Yin Financial Consulting Company and Director of Overseas Investment & Development Corp.	
Director	Ying-Hua Wu	2012.02.25	2015.02.24	2009.11.24		MBA, National Taipei University	Director-General of Legal Dept. of Bank of Communications	President of Taiwan Financial Asset Service Corporation	
Director	To-Ching Hu	2012.02.25	2015.02.24	2011.11.23		MBA, Bloomsburg University	VP of Sunny Bank, VP of Kao Hsing Bank and Executive Vice President of Macoto Bank	VP of Chung Kuo Insurance Company, Limited	
Supervisors	Tan-Hung Lu	2012.02.25	2015.02.24	2009.02.25		Master, Graduate Institute of Public Finance, NCCU	Executive Vice President, Planning Department of Mega International Commercial Bank, General Manager, Investment Department of Bank of Communications	Senior Executive Vice President of Mega Holdings, Senior Executive Vice President of Mega International Commercial Bank, Chairman of Yin Kai Company, Director of Cathay Investment & Development (Bahamas) Company, Director of First Venture Capital Co., Ltd., Supervisor of Waterland Financial Holdings, and Director of MEGA INTERNATIONAL COMMERCIAL BANK, PUBLIC COMPANY LTD.	
Supervisors	Ching-Lung Hung	2012.02.25	2015.02.24	2012.02.25		MBA, Waseda University	Executive Vice President of Mega International Commercial Bank and also General Manager of OBU, Executive Vice President and Director of Central Regional Credit Center	Chief Auditor of Mega International Commercial Bank, and Supervisor of Mega International Investment Trust Co., Ltd.	
Supervisors	Chia-Min Hung	2012.02.25	2015.02.24	2009.02.25		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
- The Company's total number of shares is 1,311,441,084 shares. The Company is a wholly owned subsidiary of Mega Financial Holding Co., Ltd, and its directors and supervisors are all appointed by representative of Mega Holdings.
 - Mega Holdings appointed the Company's directors and supervisors of 13th 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 13th term include Chairman and also President Chii-Bang Wang, Independent Director Tsung-Tien Cheng, Independent Director Tsai-Chih Chen, Director Jui-Yun Lin, Director Chao-Hsien Lai, Director Ying-Hua Wu, Director To-Ching Hu, Supervisor Tan-Hung Lu, Supervisor Ching-Long Hong, and Supervisor Chia-Ming Hong.
 - Independent Director Tsung-Tien Cheng resigned on June 15, 2012, and Mega Financial Holding re-appointed the new independent director, Tai-Lung Chen as of July 24, 2012.
 - Chairman Yin-Kuei Li was discharged on February 25, 2012, and succeeded to by Director & President, Chii-Bang Wang. Chairman Ta-Pei Liu assumed the office on September 26, 2012.

2. Major Shareholders of Corporate Shareholders

Transfer to be suspended on Dec. 31, 2012

Name of Corporate Shareholder	Major Shareholder of Corporate Shareholder (with shareholding among the top 10)	Shareholding
Mega Financial Holding 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	4.66%
	Chunghwa Post Co., Ltd.	2.73%
	Bank of Taiwan Co., Ltd.	2.51%
	Fubon Life Insurance Co., Ltd.	1.66%
	Pou Chen Corporation	1.43%
	Standard Chartered Bank entrusted with Vanguard Emerging Market Stock Index Fund Account	1.33%
	Fubon Life Insurance Co., Ltd.	1.07%
	Standard Chartered Bank, Tunhua N. Road Branch entrusted with Fidelity Fund Investment Account	1.02%

3. Major Shareholders of Major Corporate Shareholders

Transfer to be suspended on Dec. 31, 2012

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 Financial Holdings Co., Ltd.	100.00%
Pou Chen Corporation	PC Brothers Corporation (Panama)	7.25%
	Quan Mao Investment Co., Ltd.	5.55%
	Red Magnet Developments (BVI) Ltd.	4.61%
	Kai Tai Investment Co., Ltd.	4.56%
	Chi-Jui Tsai	3.46%
	HSBC Bank (Taiwan) Limited entrusted with Hong Kong Investment Trust Account of SG SECURITIES (HK) LIMITED, the subsidiary of Societe Generale	2.59%
	HSBC Bank (Taiwan) Limited entrusted with Investment Account of Mega Capital (Asia) Co., Ltd. and Mega Securities (Hong Kong) Co., Ltd.	1.92%
	Bank of Taiwan entrusted with Investment Account of UOB Kay Hian Private Company	1.61%
	Fubon Life Insurance Co., Ltd.	1.51%
	Shu-Man Huang	1.46%
Nan Shan Life Insurance Company, Ltd.	First Bank entrusted with Trust Account of Ruen Chen Investment Holding Co.	83.11%
	Ruen Chen Investment Holding Co.	7.55%
	Ying-Tsung Tu	3.25%
	Taishin Bank entrusted Trust Property Account of Nan Shan Life Insurance Company, Ltd.	2.07%
	Ruen Hua Dyeing & Weaving Co., Ltd.	0.28%
	Ruen Tai Co., Ltd.	0.15%
	Wen-Te Kuo	0.11%
	Chi Ping Investment Co., Ltd.	0.11%
	Po Chi Investment Co., Ltd.	0.05%
	Po Yi Investment Co., Ltd.	0.05%
	Po Huei Investment Co., Ltd.	0.05%
	Po Huang Investment Co., Ltd.	0.05%

Note: Top 10 shareholders

4. Information about directors and supervisors (2)

December 31, 2012

Qualifications	Five-Year or More Work Experience and Following Professional Qualifications			Status of Compliance With Independence (Note)										Number of other public companies in which the director/supervisor serves as independent directors concurrently
	Lecturer or higher senior post at public or private junior college in fields related to business, law, finance, accounting, or other fields that the company's businesses might require	Judges, prosecutors, lawyers, accountants or other specialist professional and technical staff possessing pass certificates for national examinations in other fields required by the company's businesses	Work experience required for business, law, finance, accounting or corporation business	1	2	3	4	5	6	7	8	9	10	
Name														
Ta-Pei Liu	V		V	V		V	V	V	V	V	V	V		0
Chii-Bang Wang			V			V	V			V	V	V		0
Tsai-Chih Chen	V		V	V	V	V	V	V	V	V	V	V	V	0
Tai-Lung Chen			V	V	V	V	V	V	V	V	V	V	V	0
Jui-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
To-Ching Hu			V	V		V	V	V		V	V	V		0
Tan-Hung Lu	V		V			V	V			V	V	V		0
Ching-Lung Hung			V			V	V	V		V	V	V		0
Chia-Min Hung		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 right).
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 three, 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. However, this shall not apply to the remuneration committee members who exercise their powers in accordance with Article 7 of the Regulations on the Establishment of Remuneration Committees by TWSE/GTSM Listed Companies and their Exercise of Powers.
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

March 8, 2013

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	Chii-Bang Wang	2011.07.01	—	—	—	—	—	—	Department of International Trade, 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, Supervisor of Mega International Commercial Bank, and Director of Mega Charity Foundation	—	—	—
Senior Executive Vice President	Chin-Tsan Wei	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, Fong Chia University	Executive Vice President, MBF, and General Manager, Bills Dept., MBF	—	—	—	—
Senior Executive Vice President and General 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 General Manager, Risk Control Dept.	Yi-Sheng Wang	2012.04.01	—	—	—	—	—	—	Dept. of Banking, Tamkang University	Executive Vice President, MBF, and General Manager, Control and Planning Dept., MBF	—	—	—	—
Deputy General Manager, Credit Dept.	Shuo-Cheng Li	2013.03.08	—	—	—	—	—	—	Master, Graduate Institute of Economics, NTU	Vice General Manager, Risk Control Dept. MBF	Director, Core Pacific City Co. Ltd.	—	—	—
Executive Vice President and General Manager, Bills Dept.	Chi-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.	Chi-Cheng Tsai	2005.05.03	—	—	—	—	—	—	Dept. of Economics, Chinese Culture University	General Manager, Panchiao Branch, MBF	—	—	—	—
General Manager, Treasury Dept.	Chih-Hsiung Chiu	2011.03.01	—	—	—	—	—	—	Master, Graduate Institute of Accounting, Tamkang University	Deputy General Manager, Treasury Dept. MBF	—	—	—	—
Executive Vice President and General Manager, Administration Dept.	Chun-Chang Li	2012.02.01	—	—	—	—	—	—	Master, Graduate Institute of Business, NTU	General Manager, Administration Dept. MBF	—	—	—	—
General Manager, Electronic Data Processing Dept.	Hsi-Pin Yu	2002.01.29	—	—	—	—	—	—	Master, 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-Kuang Tsai	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,	Tsung-Chung Lin	2012.02.01	—	—	—	—	—	—	Dept. of Business Administration, Chung Yuan Christian University	General Manager, Tainan Branch, MBF	—	—	—	—
Executive Vice President and General Manager, Sanchong Branch,	Chin-Sheng Huang	2012.04.01	—	—	—	—	—	—	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	Executive Vice President, MBF, and General Manager, Credit Investigation Dept., MBF	—	—	—	—
Executive Vice President and General Manager, Panchiao Branch,	Jung-Chieh Cheng	2013.03.08	—	—	—	—	—	—	Master, Graduate Institute of Commerce Automation and Management, National Taipei Institute of Technology,	General Manager, Panchiao Branch, MBF	—	—	—	—
General Manager, Hsinchu Branch	Kun-Shui Lin	2013.03.08	—	—	—	—	—	—	Master, Graduate Institute of Management, I-Shou University,	General Manager, Chiayi Branch, MBF	—	—	—	—
General Manager, Taichung Branch	Jung-Kun Wu	2010.07.01	—	—	—	—	—	—	Department of Banking, NCCU	General Manager, Tainan Branch, MBF	—	—	—	—
General Manager, Taoyuan Branch	Shih-Yi Chen	2013.03.08	—	—	—	—	—	—	MBA, Catholic University of Louvain	Deputy General Manager, Sanchong Branch, MBF	—	—	—	—
General Manager, Chiayi Branch	Ming-Pao Wang	2013.03.08	—	—	—	—	—	—	Master, Graduate Institute of Accounting and Taxation, Feng Chia University	Deputy General Manager, Taichung Branch, MBF	—	—	—	—

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

1. Remuneration to directors (including independent directors)

December 31, 2012; Unit: NT\$ Thousand

Job Title	Name	Remuneration to Director								Total of (A), (B), (C) and (D) in Post-Tax Profit Ratio (%)		Remuneration Drawn by Employees Holding Concurrent Posts												Total of (A), (B), (C), (D), (E), (F) and (G) in Post-Tax Profit Ratio (%)		Whether remuneration is also drawn from subsidiary companies in which the company has invested		
		Remuneration (A)		Pension (B)		Remuneration allocated from earnings (C)		Professional practice expenses (D)				Salaries, bonuses and special allowances (E)		Pension (F)		Employee bonus allocated from earnings (G)				Quantity of shares entitled under employee stock options (H)		Acquired limited employee rights new shares						
		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		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 amount	Stock dividend amount	Cash dividend amount	Stock dividend amount									
Chairman of the Board	Ta-Pei Liu (Note 2)																											
Former Chairman of the Board	Yin-Kuei Li																											
Director	Chii-Bang Wang																											
Director	Jui-Yun Lin																											
Director	Chao-Hsien Lai																											
Director	Ying-Hua Wu																											
Director	To-Ching Hu																											
Director	Chih-Wen Cheng																											
Independent Director	Tsai-Chih Chen																											
Independent Director	Tai-Lung Chen (Note 3)																											
Independent Director	Tsung-Tien Cheng (Note 3)																											
	Remittance by Mega Financial Holding																											
	Total	3,860	3,860	-	-	-	-	1,521	1,521	0.19	0.19	7,039	7,039	-	-	-	-	-	-	-	-	-	-	-	-	0.43	0.43	N/A

- Note: 1. Mega Holdings appointed the Company's directors (including independent directors) of 13th term on February 21, 2012, including Chairman and also President Chii-Bang Wang, Independent Director Tsung-Tien Cheng, Independent Director Tsai-Chih Chen, Director Jui-Yun Lin, Director Chao-Hsien Lai, Director Ying-Hua Wu and Director To-Ching Hu, and Chairman Yin-Kuei Li and Director Chih-Wen Cheng were discharged on February 25, 2012.
2. Chairman Yin-Kuei Li was discharged on February 25, 2012, and succeeded to by Director & President, Chii-Bang Wang. Chairman Ta-Pei Liu assumed the office on September 26, 2012.
3. Independent Director Tsung-Tien Cheng resigned on June 15, 2012, and Mega Holdings appointed the new independent director, Tai-Lung Chen, on July 24, 2012.
4. Housing and vehicle lease payments were included into the "professional practice expenses (D)" section. For the relevant information, please refer to Schedules A & B on page 18.
5. Performance bonus and allocation of earnings granted by the Company to the officers 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	Yin-Kuei Li, Chii-Bang Wang, Jui-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, To-Ching Hu, Chih-Wen Cheng, Tsai-Chih Chen, Tai-Lung Chen, Tsung-Tien Cheng, remittance by Mega Financial Holding	Yin-Kuei Li, Chii-Bang Wang, Jui-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, To-Ching Hu, Chih-Wen Cheng, Tsai-Chih Chen, Tai-Lung Chen, Tsung-Tien Cheng, remittance by Mega Financial Holding	Yin-Kuei Li, Jui-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, Chih-Wen Cheng, To-Ching Hu, Mei-Yu Wei, Tsung-Tien Cheng, Tsai-Chih Chen, remittance by Mega Financial Holding	Yin-Kuei Li, Jui-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, Chih-Wen Cheng, To-Ching Hu, Mei-Yu Wei, Tsung-Tien Cheng, Tsai-Chih Chen, remittance by Mega Financial Holding
NT\$2,000,000~NT\$5,000,000	Ta-Pei Liu	Ta-Pei Liu	Ta-Pei Liu	Ta-Pei Liu
NT\$5,000,000~NT\$10,000,000			Chii-Bang Wang	Chii-Bang Wang
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)	5,381	5,381	12,420	12,420

2. Remuneration to supervisors

December 31, 2012; 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 in
		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	Tan-Hung Lu											
Supervisors	Chi-Jung Wen											
Supervisors	Ching-Lung Hung											
Supervisors	Chia-Min Hung											
Total		-	-	-	-	-	-	823	823	0.03	0.03	N/A

Note: Mega Holdings appointed the Company's supervisors of 13th term on February 21, 2012, including Supervisor Tan-Hung Lu, Supervisor Ching-Long Hong and Supervisor Chia-Min Hung, and Supervisor Chi-Jung Wen was discharged on February 25, 2012.

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	Tan-Hung Lu, Ching-Long Hong, Chia-Min Hung and Chi-Jung Wen	Tan-Hung Lu, Ching-Long Hong, Chia-Min Hung and Chi-Jung Wen
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)	823	823

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

December 31, 2012; 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 entitled under employee stock options/Acquired limited employee rights new shares				Whether remuneration is also drawn from non-subsidiary companies in which the company has invested in
		The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	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	
								Cash dividend amount	Stock dividend amount	Cash dividend amount	Stock dividend amount							
President and CEO	Chii-Bang Wang																	
Senior Executive Vice President	Chin-Tsan Wei																	
Senior Executive Vice President	Ching-Wen Wu																	
General Auditor	Cheng-Tsung Kan																	
Total		9,928	9,928	-	-	10,136	10,136	3,149	-	3,149	-	0.81	0.81	-	-	-	-	N/A

Note: 1. Performance bonus and allocation of earnings were based on the annual estimates. The actual amount thereof shall be authorized by the parent company.
2. For the information about the vehicles, fuel reimbursement and housing provided by the Company, please refer to Schedules A & B on Page 18.

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\$2,000,000~NT\$5,000,000		
NT\$5,000,000~NT\$10,000,000	Chii-Bang Wang, Ching-Tsan Wei, Ching-Wen Wu, Cheng-Tsung Kan	Chii-Bang Wang, Ching-Tsan Wei, 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)	23,213	23,213

Schedule A. Vehicles provided to Chairman, Presidents and CEOs and Senior Executive Vice Presidents, and imputed annual rent thereof in 2012

December 31, 2012; Unit: NT\$ Thousand

Job Title	User	Purchase of Vehicle	Imputed Annual Rent	Fuel Expense	Remark
Chairman of the Board	Ta-Pei Liu	-	1,956	300	Rent
Former Chairman of the Board	Yin-Kuei Li				
President and CEO	Chii-Bang Wang				
Senior Executive Vice President	Chin-Tsan Wei				
Senior Executive Vice President	Ching-Wen Wu				
General Auditor	Cheng-Tsung Kan				

Note The salary, bonus, allowance and employee bonus paid to the drivers of the Chairman and Presidents and CEOs (assumed by formal employees concurrently) totaled NT\$2,518 thousand in 2012.

Schedule B. Value of housing provided to Chairman, Presidents and CEOs and Senior Executive Vice Presidents in 2012

December 31, 2012; Unit: NT\$ Thousand

Job Title	User	Cost	Imputed Annual Rent	Remarks
President and CEO	Chii-Bang Wang	3,510	-	The housing is owned by the Company, and the value thereof is subject to the book value of house and building stated in the catalogue of property on December 31, 2012.

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

December 31, 2012; Unit: NT\$ Thousand

	Job Title	Name	Stock dividend amount	Cash dividend amount	Total	Total in Post-Tax Profit Ratio (%)
Senior Vice Presidents and General Managers	Senior Executive Vice President	Chin-Tsan Wei				
	Senior Executive Vice President	Ching-Wen Wu				
	General Auditor	Cheng-Tsung Kan				
	Executive Vice President	Yi-Sheng Wang				
	Executive Vice President	Chi-Cheng Tsai				
	Executive Vice President	Kuei-Yao Chien				
	Executive Vice President	Chin-Sheng Huang				
	Executive Vice President	Chi-Fu Lin				
	Executive Vice President	Yao-Kuang Tsai				
	Executive Vice President	Chun-Chang Li				
	Executive Vice President	Tsung-Chung Lin				
	General Manager	Hsi-Pin Yu				
	General Manager	Jung-Kun Wu				
	General Manager	Ying-Ping Liu				
	General Manager	Jung-Chieh Cheng				
	General Manager	Ming-Chih Cheng				
	General Manager	Chih-Hsiung Chiu				
	General Manager	Kun-Shui Lin				
	Total		-	15,636	15,636	0.54

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

1. Total of remuneration paid to 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 1.21% and 1.02% in 2011 and 2012, 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 Holding 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 remaining directors and supervisors are compensated for meeting attendance and transportation allowances. 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:

14(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	Ta-Pei Liu	5	0	100	Assumed on 2012.9.26
Former Chairman of the Board	Yin-Kuei Li	2	0	100	Discharged on 2012.2.25
Director	Chii-Bang Wang	14	0	100	
Director	Jui-Yun Lin	14	0	100	
Director	Chao-Hsien Lai	12	2	86	
Director	Ying-Hua Wu	14	0	100	
Director	To-Ching Hu	14	0	100	
Director	Chih-Wen Cheng	2	0	100	Discharged on 2012.2.25
Independent Director	Tsung-Tien Cheng	6	0	100	Resigned on 2012.6.15
Independent Director	Tsai-Chih Chen	13	1	93	
Independent Director	Tai-Lung Chen	6	1	86	Assumed on 2012.07.24

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:
- At 38th Board Meeting of 12th Term on January 17, 2012, the motion for guaranteed issues of commercial paper limit by BRIGHTON-BEST INTERNATIONAL, INC. was discussed. Director Jui-Yun Lin and Director Cao-Hsien Lai avoided the discussion and voting.
 - At 39th Board Meeting of 12th Term on February 21, 2012, the motion for the guarantee-free issues of commercial paper underwritten by the Company was discussed. Director and also CEO, Chii-Bang Wang, Independent Director Tsung-Tien Cheng, Director Jui-Yun Lin and Director Cao-Hsien Lai avoided the discussion and voting.
 - At 1st Board Meeting of 13th Term on February 24, 2012, the motion for appointment of the Company's President was discussed. Director Chii-Bang Wang avoided the discussion and voting.
 - At 2nd Board Meeting of 13th Term on March 20, 2012, 1. the motion for relieving the Company's directors from non-competition restriction submitted on behalf of shareholders' meeting was discussed. Chairman Chii-Bang Wang, Independent Director Tsung-Tien Cheng, Director Jui-Yun Lin and Director Cao-Hsien Lai avoided the discussion and voting. Independent Director Tsai-Chih Chen acted as the chairperson as proxy. 2. When the motion for the sale of NPL of Tong Yun Company was discussed, Director Ying-Hua Wu avoided the discussion and voting. 3. When the motion for relieving the Company's management from non-competition restriction was discussed, Chairman Chii-Bang Wang avoided discussion and voting. Independent Director Tsung-Tien Cheng acted as the chairperson as proxy. 4. When the motion for Donation to "Mega Charity Foundation" to promote the charity business expenditure was discussed, Chairman Chii-Bang Wang avoided discussion and voting. Independent Director Tsung-Tien Cheng acted as the chairperson as proxy. 5. When the motion for guaranteed issues of commercial paper limit by Hexiong Construction was discussed, Director Jui-Yun Lin and Director Cao-Hsien Lai avoided the discussion and voting.
 - At 3rd Board Meeting of 13th Term on April 24, 2012, the motion for guaranteed issues of commercial paper limit by Mega Asset Management Co. was discussed. Director Cao-Hsien Lai avoided the discussion and voting.
 - At 4th Board Meeting of 13th Term on May 22, 2012, the motion for public offering of the Company's NPL was discussed. Director Cao-Hsien and Director Ying-Hua Wu avoided the discussion and voting.
 - At 5th Board Meeting of 13th Term on June 26, 2012, the motion for guaranteed issues of commercial paper limit by Zig Sheng Industrial Co., Ltd. was discussed. Chairman Chii-Bang Wang and Director Cao-Hsien Lai avoided the discussion and voting.
 - At 6th Board Meeting of 13th Term on July 25, 2012, the motion for guaranteed issues of commercial paper limit by VIBO Telecom Inc. was discussed. Chairman Chii-Bang Wang and Director Cao-Hsien Lai avoided the discussion and voting.
 - At 7th Board Meeting of 13th Term on August 28, 2012 the motion for guaranteed issues of commercial paper limit by China Petrochemical Development Corporation was discussed. Chairman Chii-Bang Wang and Director Cao-Hsien Lai avoided the discussion and voting. Independent Director Tsai-Chih Chen acted as the chairperson as proxy.
 - At 8th Board Meeting of 13th Term on September 26, 2012, the motion for election of Chairman of the Board among the present directors was discussed. Director Ta-Pei Liu avoided the discussion and voting. Independent Director Tai-Lung Chen acted as the chairperson as proxy.
 - At 10th Board Meeting of 13th Term on October 23, 2012, 1. the motion for monthly salary payable to Chairman Liu and special leave granted to him was discussed. Director Ta-Pei Liu avoided the discussion and voting. Independent Director Tsai-Chih Chen acted as the chairperson as proxy. 2. When the motion for guaranteed issues of commercial paper limit by Chi Mei Lighting Technology Corporation was discussed, Chairman Chii-Bang Wang and Director Cao-Hsien Lai avoided the discussion and voting.
 - At 11th Board Meeting of 13th Term on November 27, 2012, 1. the motion for guaranteed issues of commercial paper limit by Mega Asset Management Co. was discussed. Director Cao-Hsien Lai avoided the discussion and voting. 2. When the motion for guaranteed issues of commercial paper limit by Ching Fu Shipbuilding was discussed, Chairman Chii-Bang Wang and Director Cao-Hsien Lai avoided the discussion and voting.
 - At 12th Board Meeting of 13th Term on December 25, 2012, the motion for lease of B1, 1F~13F (exclusive of 6F, 7F, 8F and 9F) and 33 parking lots at B2 of Mega Finance Building to Mega International Commercial Bank and the Company's lease of B1 and 13 parking lots, and 2F~5F and a part of 10F of Mega Hengyang Building owned by Mega International Commercial Bank for offices and parking was discussed. Chairman Chii-Bang Wang and Director Cao-Hsien Lai avoided 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:

14(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	Tan-Hung Lu	14	100	
Supervisors	Chi-Jung Wen	2	100	Discharged on 2012.2.25
Supervisors	Ching-Lung Hung	11	92	Assumed on 2012.2.25
Supervisors	Chia-Min Hung	14	100	

Other notes to be specified:

- I. Formation and responsibilities of supervisors:
- 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, e-mail or other ways at any time
Tel. No.: (02) 2358-1665/Fax No.: (02)3393-8755/Address: 20F, No. 123, Chung Hsiao E. Road, Taipei 100
 - Communication between supervisors and the Company's heads of internal audit and 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, e-mail or other methods. Supervisors can also attend board meetings to have an understanding of 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, the term of the Board, contents of the motion, resolution by the Board of Directors, and the Company's response to the comments: N/A

- (3) Information about status of corporate governance: Please visit the Company's website.
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 Holding Co., Ltd.'s regulations. II. The Company's sole shareholder is Mega Financial Holding Co., Ltd.. The name list of ultimate controlling parties may be requested from the parent company. III. The authority and responsibility to manage the Company's and its affiliated companies' employees, assets and financial affairs are entirely independent and are exercised in accordance with the Mega Financial Holding Risk Management Policy and Guidance Criteria, and the Firewall Policy of Mega Financial Holding Co., Ltd. and the Instructions to Customers' Data Processing by Mega Financial Holding Co., Ltd. and its Subsidiaries, drawn up by the parent company, Mega Financial Holding Co., Ltd.. (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 8 directors, including 2 independent directors, and the other directors appointed by the parent company, Mega Financial Holding. 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 website disclosing information about financial businesses and the Company's corporate governance (2) Other means to disclose information (such as establishing English-language websites, 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 website)	I. The Company has established a zone dedicated to public disclosure on its website 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 website. (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 Holding.	Compliance with the Corporate Governance Practice Regulations for Bills Finance Companies
V. State of establishment of nomination or other functional committees	N/A	The Company is a subsidiary wholly owned by Mega Financial Holding Co., Ltd, and its directors and supervisors are appointed by Mega Financial Holding. 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. Other important information that helps understand the Company's status of corporate governance: (1) Employees' interest and right: Subject to the Labor Standard Law and the Company's work rules (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. (3) Investor relationship: The Company is a subsidiary wholly owned by Mega Financial Holding Co., Ltd., and its sole investor is Mega Financial Holding. (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. (5) Continuing education of directors/supervisors: Some directors/supervisors attended the programs, including "Study Program for Directors and Supervisors-Legal Issues about Insider Trading" and "Study Program for Directors and Supervisors" organized by the Chinese National Association of Industry and Commerce, Taiwan (CNAIC), "Presentation and Symposium for Functions of Independent Directors of Listed Companies" organized by the Securities and Futures Institute, "Coordination Between Directors and Management Team-Interpretation of Operations of Board of Directors and Functions of Directors/Supervisors", "Exercise of Functions of Independent Directors and Audit Committee" and "Common Dispute over Corporate Governance in M&A" organized by Taiwan Corporate Governance Association, and "Corporate Governance Forum of 8 th Term-First Round" and "Corporate Governance Forum of 8 th Term-Second Round" organized by the Financial Supervisory Commission. (6) Directors' and supervisors' attendance at board meetings: All attended, or present at, the meetings periodically as required (7) Risk management policy and implementation thereof: Compliance with the regulations of competent authorities and the parent company, Mega Financial Holding, evaluation of the Company's operating risk, identification of risk limit that each business is capable of sustaining, and urging the administration 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 meetings of the loans evaluation committee and the risk management committee periodically, 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. (8) Implementation of consumer protection or customer policy: The Company has defined the "Instructions to Deal With Dispute over Transactions or Customers' Complaints" in accordance with the "Financial Consumers Protection Act" promulgated by the Financial Supervisory Commission and "Self-Discipline Regulations Governing Financial Derivatives Underwritten by Bills Financial Holding Companies" to expressly state the relevant requirements to be followed by the Company. Meanwhile, the Company also expressly defined in the "General Bills/RP Contract" the rules to be followed by the Company, based on which consumers or customers may claim their right. The Company also set up the contact window for customer's complaint and service hotline at the Company's website available to consumers or customers. (9) Liability insurance of directors and supervisors: All directors and supervisors are covered by liability insurance program as required. (10) Corporate social responsibility: 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 2. Attend various public welfare and charity events organized by external entities in a timely manner to meet the Group's needs. 3. Execute the energy-saving and carbon-reduction policy promoted by the Government vigorously to achieve the goals of saving power and gasoline at the same time.		
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 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 greenhouse 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 effects to the environment caused by the business vehicles, power used at office premises, water resources and waste generated by recycling resources, energy-saving of elevators, and controlling the path lights, air conditioner and water resource, and controlling and periodically maintaining the business vehicles.</p> <p>III. The environment management affairs shall be processed by Administration Dept. of the Head Office, and various branches, jointly.</p> <p>IV. In consideration of the raise of both gas and utilities implemented by the Government in 2012, the Company has defined the enforcement rules for energy-saving measures against the buildings where the Company's office premises are situated. After the Company strictly implemented the energy saving and carbon emission reduction measures, the energy-saving ratio for the Company's electricity charges and fuel charges in 2012 and 2011 also increased by 3.32% and 7.22%, respectively.</p>
<p>III. Maintain social public welfare</p> <p>(1) State of compliance with the relevant labor laws and regulations and respect of basic labor human right principles recognized in the world, protection of employees' legal interests and rights, non-discrimination toward employment policies, methods and procedures of establishing adequate management and fulfillment thereof;</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) Establishment of the mechanism for periodic communication with employees, and notification to employees of the circumstances which might materially affect the operation in a reasonable manner</p> <p>(4) 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>(5) State of cooperation between a bills financial company and its suppliers to enhance the enterprise's social responsibilities;</p> <p>(6) 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. State of compliance with the relevant labor laws and regulations and respect of basic labor human right principles recognized in the world, protection of employees' legal interests and rights, non-discrimination toward employment policies, methods and procedures of establishing adequate management and fulfillment thereof;</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>(5) Prohibit discrimination toward the job seekers or employees in terms of gender and respect gender equality, hire handicapped persons pursuant to laws, and define the regulations governing employees' complaints and complaints against sexual harassment and internal investigation.</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 Sexual Harassment Control" to provide the complaining channel and maintain the work environment order;</p> <p>(3) Maintain accidental and medical insurance programs for employees and their dependents;</p> <p>(4) Define the safety maintenance requirements and instructions to response to disasters and emergencies; organize fire-protection seminars and drills on a yearly basis; organize safety maintenance meetings periodically;</p> <p>III. Establishment of the mechanism for periodic communication with employees, and notification to employees of the circumstances which might materially affect the operation in a reasonable manner</p> <p>(1) In order to establish the mechanism for periodic communication with employees, the Company called the morning meeting/weekly business reporting meeting/work reporting meeting per day/week/month, to be attended by the Company's executive officers and unit supervisors or employees to exchange opinion about the orientation of business development, and the meeting minute will be recorded in the internal NOTES, in hopes of making sound policies through the brainstorming communication.</p> <p>(2) The amendments to any internal rules critical to employees' interest and right, changes of labor conditions or circumstances which might materially affect the operation will be discussed by the meeting between labor and employer after the employer researches and defines the relevant policy, and be enforced only upon agreement by the labor and employer. The relevant meeting minute will also be recorded in the internal NOTES.</p> <p>(3) The Company has also defined the "Instructions to Employees' Suggestions and Complaints" to establish a diversified communication channel;</p> <p>IV. The Company has defined the "Instructions to Deal With Dispute over Transactions or Customers' Complaints" in accordance with Article 13 of the "Financial Consumers Protection Act" promulgated by the Financial Supervisory Commission and Article 15 of the "Self-Discipline Regulations Governing Financial Derivatives Underwritten by Bills Financial Holding Companies" of the R.O.C. Bills Finance Association to expressly state the relevant requirements to be followed by the Company. Meanwhile, the Company also expressly defined in the "General Bills/RP Contract" the rules to be followed by the Company, based on which consumers or customers may claim their right. The Company also set up the contact window for customer's complaint and service hotline at the Company's website available to consumers or customers. The unit dedicated to acceptance of customers' complaints is the Administration Dept.</p> <p>V. 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. 6. 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 students with the chance for practicing.</p> <p>(2) Sponsor the budget for "Special Lecture by Lawrence Summers, the former Minister of Finance, Principal of Harvard University and Advisor on Economic Policy of the United States President" organized by Mega Group and Global Views Monthly.</p> <p>(3) Participate in functions organized by Mega Charity Foundation</p> <p>(4) Sponsor the budget for "2012 Taiwan Lantern Festival" organized by Mega Group and Changhua County Government.</p> <p>(5) Sponsorship of the training budget of the representative teams of Junior High School of Hsinchu City and Elementary School of Hsinchu City.</p> <p>(6) Sponsor the "2012 Global Elite Forum" organized by Mega Group and Business Today and invite the master of finance and economy from the U.S.A., Mr. Robert Shiller to give a lecture in Taiwan.</p> <p>(7) Attend the function entitled "Ministry of Finance 2012 Uniform Invoice Cup Running Game" jointly organized by Mega Group and National Taxation Bureau of the Central Area.</p>

IV. Enhance disclosure of information (1) Method for a bills financial company's disclosure of critical and reliable information about corporate social responsibilities; (2) State of the enterprise social responsibility report prepared by a bills financial company and disclosure of the promotion of the enterprise social responsibility.	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 website. II. The Company is a subsidiary wholly owned by Mega Financial Holding. Therefore, the corporate social responsibility report is prepared by its parent company, the holding company.
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 ethical corporate management:

Item	Status
I. Define ethical corporate management policy and action: (1) A bills financial company shall clearly specify ethical corporate management policies in their rules and external documents. The board of directors and the management level shall undertake to rigorously and thoroughly enforce such policies. (2) A bills financial company is advised to establish in its own ethical corporate management best practice principle comprehensive programs to forestall unethical conduct, including operational procedures, guidelines, and training. (3) When establishing the prevention program, a bills financial company shall take some preventive measures against offering and acceptance of bribes and illegal political donations with respect to business activities within their business scope which may be at a higher risk of being involved in an unethical conduct.	I. 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. II. The work rules provide that employees who break the 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 involved, in order to enhance the internal control system. III. 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 funds from accounts trading with them, or apply for loans with the Company in another person's name.
II. Performance of ethical corporate management (1) A bills financial company is advised not to have any dealings with persons who have any records of unethical conduct, and when entering into contracts with other parties, it shall include in such contracts provisions demanding ethical corporate management policy compliance. (2) A bills financial company is advised to form a dedicated (concurrent) unit to be in charge of establishing and enforcing the ethical corporate management policies and reporting to the board of directors. (3) A bills financial company shall promulgate policies for preventing conflicts of interests and offer appropriate means for making declaration. (4) A bills financial company shall establish effective accounting systems and internal control systems to perform ethical corporate management, and have internal auditors conduct reviews.	I. The routine operating activities shall be fair and transparent. It is necessary to confirm whether the trading counterpart had dishonored record, e.g. bounced check, to prevent the Company from trading or contracting with the counterpart who has dishonored record. Where the trading counterpart is suspected of dishonored business conduct, the contract with the counterpart may be terminated or rescinded at any time. II. 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 interest and right, and enhance the transparency of information. III. The Company defines its own compliance system in accordance with the Regulations Governing the Implementation of Internal Control and Audit Systems by Bills Houses to follow the relevant laws and regulations and define its own internal rules, and encourages directors, supervisors, managers and employees to comment on the correction of unethical corporate management, to help the Company review and improve and to upgrade the effect of the Company's ethical corporate management. IV. 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 unethical corporate management.
III. A bills financial company shall establish a well-defined disciplinary and complaint system to handle violation of the ethical corporate management rules.	The Company will take the employees' performance and ethics into consideration when conducting performance appraisal and rendering reward or punishment. Meanwhile, the Company has defined the "Instructions to Employees' Suggestions and Complaints" available to employees.
IV. Enhance disclosure of information (1) A bills financial company shall set up its own website to disclose the status of the enforcement of their own ethical corporate management best practice principles. (2) The other manners in which a bills financial company discloses information (e.g., set-up of website, personnel dedicated to collecting the company's information, and disclosure of the same on the company's website, etc.)	The state of the Company's performance of honest business conduct is disclosed in the annual report and also posted at the Company's website.
V. If the Company has established corporate social responsibility principles based on "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation: N/A	
VI. Other information material to the understanding of ethical corporate management (e.g. the company's determination and policy to propagate the ethical corporate management to trading counterparts and invitation of the trading counterparts to take part in the education training programs, discussion and amendment to the ethical business best practice principles defined by the company): N/A	

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

1. Internal Control Declaration

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

Representing the declaration by Mega Bills, the Company, from January 1, 2012 to December 31, 2012 has truly abided by the “**Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries**”. The company has established an internal control system, implemented risk management, and undertook inspection by an impartial and independent audit department, periodically reporting to the Board of Directors and supervisors. While conducting bills business, and in accordance with the determinants of effectiveness of internal control systems stipulated in the “**Standards for Establishment of Internal Control Systems in Securities and Future Systems**”, drafted and decreed by the Securities and Futures Bureau under the Financial Supervisory Commission, determined whether the design and implementation of the internal control system were effective. Careful evaluation has shown that each department’s internal control and legal and regulatory compliance, apart from the items listed in the accompanying chart, can all be confirmed to have been effectively enforced. This Declaration will constitute the main content of the Company’s annual report and prospectus, and will be open to external scrutiny. The illegal inclusion of falsehoods or the illegal concealment of information in the above public data, will incur legal liability in relation to Articles 20, 32, 171 and 174 of the Securities and Exchange Act.

- {} - Respectful to

Financial Supervisory Commission, Executive Yuan

Declared by

Chairman of the Board: Ta-Pei Liu (Affixed with seal/signature)

President and CEO: Chii-Bang Wang (Affixed with seal/signature)

General Auditor: Cheng-Tsung Kan (Affixed with seal/signature)

Legal Compliance Officer, Head Office: Chin-Tsan Wei (Affixed with seal/signature)

March 11, 2013

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

Record Date: December 31, 2012

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. 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: N/A.
 4. 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.
 5. 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. 2nd Board Meeting of 13th Term held on March 20, 2012 approved by resolution:
Recognition of such reports as the final accounting report and so forth for the year 2011, and the allocation of earnings for the year 2011, and to distribute NT\$1,877,983,632 (NT\$1.432 per share) in shareholder dividends and bonuses, all paid in cash, and NT\$65,716,408 as employee bonuses, also paid in cash. Accordingly, at 3rd Board Meeting of 13th Term held on April 24, 2012, Board of Directors, acting on behalf of the shareholders meeting and with the latter's authority, approved by resolution that May 7, 2012 should be the record date for distribution of the Company's shareholder dividend and bonus for the year 2011.
 2. At 2nd Board Meeting of 13th Term held on March 20, 2012, 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 11th Board Meeting of 13th Term held on November 27, 2012, 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 12th Board Meeting of 13th Term held on December 25, 2012.
 4. At 11th Board Meeting of 13th Term held on behalf of the shareholders' meeting on November 27, 2012, it was resolved: To amend the "Articles of Incorporation of Mega Bills Finance Co., Ltd."
- (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:

Job Title	Name	Date of Appointment	Date of Discharge	Cause of Resignation or Discharge
Chairman of the Board	Yin-Kuei Li	2009.10.01	2012.02.25	Compulsory Retirement

IV. Information about professional fees paid to CPA:

Name of CPA Firm	CPA's Name		Duration of Audit	Remark
PricewaterhouseCoopers, Certified Public Accountants	Chien-Hung Chou	Hsiu-Ling Li	2012/1/1-2012/12/31	To deal with the internal reorganization of PricewaterhouseCoopers, Certified Public Accountants, the external auditors of the Company's financial statement 2012 were changed from Hsiu-Ling Li, CPA and Chang-Chou Li, CPA (for the first three quarters of 2012) to Chien-Hung Chou, CPA and Hsiu-Ling Li, CPA (for 2012).

Currency Unit: NT\$ Thousand

Item/Scale of Amount		Audit	Non-Audit	Total
1	Less than NT\$2,000 thousand	1,194	94	1,288
2	NT\$2,000 thousand – NT\$4,000 thousand			
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: N/A.
- (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 years by 15% or more: N/A.

V. Information about change of CPA:

- (1) About former CPA:

Date of Change	Ratified at Board Meeting on February 26, 2013		
Cause of Change and Explanation Thereof	To deal with the internal reorganization of PricewaterhouseCoopers, Certified Public Accountants, the external auditors of the Company’s financial statement 2012 were changed from Hsiu-Ling Li, CPA and Chang-Chou Li, CPA to Chien-Hung Chou, CPA and Hsiu-Ling Li, CPA.		
Was the termination of audit services initiated by the principal or by the CPA?	Status	Counterpart	CPA
	Service Terminated by		Chang-Chou Li, CPA and Hsiu-Ling Li, CPA
	Service no longer accepted (continued) by		
Reasons for issuing opinions other than unqualified opinions in the recent 2 years	N/A		
Disagreements with the Company	Yes		Accounting policy or practice
			Financial statement disclosure
			Audit coverage or procedures
			Others
	N/A	V	
	Descriptions		
Other disclosures (Disclosures deemed necessary under Section 10.5.1.4 of The Guidelines)	N/A		

(2) About new CPA:

Firm Name	PricewaterhouseCoopers, Certified Public Accountants	
CPA's Name	Chien-Hung Chou, CPA, and Hsiu-Ling Li, CPA	
Date of Appointment	Ratified at Board Meeting on February 26, 2013	
Inquiries and replies relating to the accounting practices or accounting principles of certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment	N/A	
Written disagreements from the new auditor against the opinions made by the former CPA	N/A	

(3) Former CPA's response to the application of Section 10.5.1 and 10.5.2.3 of the Guidelines: N/A.

- VI. Disclosure of names, job titles and terms of the 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 during the most recent year and up to the date of publication of this annual report: N/A.
- VIII. Top 10 shareholders in proportion of shareholdings and who are stakeholders to one another as required to be disclosed 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

December 31, 2012; 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	3.690	—	—	60,000,000	3.690
Taiwan Financial Asset Services Co., Ltd.	5,000,000	2.941	—	—	5,000,000	2.941
Taiwan Depository and Clearing Co., Ltd.	2,015,439	0.628	—	—	2,015,439	0.628
Taiwan Asset Management Co., Ltd.	10,000,000	0.568	—	—	10,000,000	0.568
Taiwan Futures Exchange Co., Ltd.	1,427,756	0.512	—	—	1,427,756	0.512
Agora Garden Co., Ltd.	21,090	0.030	—	—	21,090	0.030

Review of Raised Funds

One. Capital and Shares:

I. Sources of capital stock up to the date of publication of this annual report

Unit: NT\$; Share

Year and Month	Sale Price	Authorized Capital Stock		Paid-in Capital Stock		Remarks	
		Quantity	Amount	Quantity	Amount	Sources of capital stock	Others
2013.3	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			Remarks
	Outstanding Shares	Unsold Shares	Total	
Common stock	1,311,441,084	0	1,311,441,084	Public offering, non-listed/OTC

II. Shareholder Structure

March 31, 2013

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 March 31, 2013

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

IV. Roster of Major Shareholder

Name of Major Shareholder	Shares	Quantity of Shares Held	Shareholding
Mega Financial Holding 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		2012	2011	Until March 31, 2013
Market value per share	Maximum	-	-	-
	Minimum	-	-	-
	Average	-	-	-
Net value per share	Before allocation	25.03	24.85	25.17
	After allocation	Note	23.42	-
EPS	Quantity of shares under weighted average method	1,311,441,084	1,311,441,084	1,311,441,084
	EPS	2.20	2.05	0.77
Dividend per share	Cash dividend		1.538 (Note)	1.432
	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 2012 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 is used to allocating shareholders' dividend in cash, provided that the allocation ratio might be adjusted subject to the business development, capital planning and other relevant factors.

(2) Allocation of stock dividend to be discussed at this shareholders' meeting:

Mega Financial Holding, as the only shareholder of the Company, decided to distribute dividend, amounting to a total of NT\$2,016,996,387, at NT\$1,538 per share, in the form of cash.

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 the 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\$100,833,803 for the year 2012. 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 an estimate for the amount of remuneration to directors/supervisors or the number of shares to be distributed as stock bonuses in 2012.
 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 15th Board Meeting of 13th Term on March 26, 2013, the employee bonus to be allocated in 2012 was NT\$70,583,662. 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 2012 in the amount of NT\$70,583,662, a discrepancy of NT\$30,250,141 from the NT\$100,833,803, the amount recognized as employee bonus expense in 2012 financial statements. The discrepancy was due to a change in the employee bonus percentage, which has been adjusted as the income for 2013.

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 EPS following calculation of proposed employee bonuses and remuneration to directors and supervisors: The employee bonuses of 2012 have been derecognized from the income statement, and the Company has an EPS of NT\$2.22 after the discrepancy between the distributed amount and the estimated figure was taken into consideration.
- (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 3rd Board Meeting of 13th Term on April 24, 2012, the employee cash dividend to be allocated in 2011 was NT\$65,716,408. The employee bonus distributed for the year 2011 was 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 the income for 2012.
 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

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 financial 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

Year Item	2012		2011	
	Amount	As a proportion of total assets (%)	Amount	As a proportion of total assets (%)
Short-term bills	125,240,337	57.60	130,990,314	58.09
All bonds	83,055,910	38.20	85,557,876	37.94
Other assets	9,121,327	4.20	8,934,421	3.97
Total assets	217,417,574	100.00	225,482,611	100.00

2 Income

Unit: NT\$ Thousand

Year Item	2012		2011	
	Amount	As a proportion of total income (%)	Amount	As a proportion of total income (%)
Bills income	2,098,326	38.22	1,688,869	34.16
Bonds income	1,904,912	34.70	2,283,681	46.19
Other income	1,486,362	27.08	971,869	19.65
Total income	5,489,600	100.00	4,944,419	100.00

II. Business plan for this year

(1) Bills Business

- 1 Upgrade the drawdown rate of bills of high-quality high-interest spread customers to expand the interest spread; apply flexible pricing principles to low-risk excellent customers; push up the utilization of credit facility; increase the outstanding balance of commercial paper and increase revenue from underwriting of commercial paper; maintain the market share as the market leader.
- 2 Strengthen organization and management of guarantee-free long-term underwriting projects to stabilize the source of bills and increase the commission revenue; 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 Have 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 risk.
- 4 Establish the bilateral relationship with customers and reinforce existing customer relationships, and vigorously expand moderate and low-cost customer funding, in order to help successfully disposing bills and bonds and enlarge buy-sell spreads to enhance profit margins.
- 5 Continue developing the primary issuing and secondary trading of the bills in US dollars and also seek the opening of RMB short-term bills business from the competent authority, in order to increase business diversification and operation.

(2) Bonds Business

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

(3) Other financial business

- 1 Carefully select the high-yielding rate equity with adequate cash flow and optimistic prospect, and engage in short-term trade of targets with good news coming;
- 2 Carefully deal with the fixed income component of convertible bond asset swaps, in order to increase interest spreads
- 3 Continue planning and working 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 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 major cities, in which it conducts all lines of business, including loans, bills and bonds.

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

(1) Market developments

- 1) The competent authority broadened the credit rating for foreign-currency bonds to BB or more, and no credit rating would be required for overseas bonds issued by local enterprises, thereby increasing the objects purchasable in the future.
- 2) The competent authority permitted the local RMB bonds business and trading of bonds, thereby resulting in increase in profit.

(2) Market conditions

- 1) There are 8 domestic companies specialized in bills finance in the bills market. Therein three companies are subordinate to financial holding companies. In addition, there are still 43 banks and 5 securities houses concurrently conducting bills business. Hence, the competition is intense. Looking forward to 2013, the economy in the U.S.A. is being improved. The growth in Mainland China remains stable. Japan adopts QE and fiscal policy to recover its economy. The global economic recovery tends to be stable. The Directorate-General of Budget, Accounting and Statistics adjusts the economic growth rate this year upward and expects that the domestic funding demand will be increased and monetary easing will continue, and it is still necessary to pay attention to the development of monetary policy to keep up with the market change.

2) Bonds market

Given that European Central Bank released OMT (Outright Monetary Transactions) and FED enforced QE4, the international capital might flow into instruments and emerging markets, boosting the raw material price and arouse the concern about inflation. The domestic market would inevitably suffer from the pressure caused by the increase in commodity price. Due to the negative interest rate, it is unlikely for the Central Bank to cut interest rates in the future because the domestic economic growth is recovering. Also, the Central Bank continues to issue long-term deposit certificates to write off market capital thereby RP interest rate stays low now and is less likely to drop. Though the bond yielding rate might have chance to bottom up, it remains low for the time being. Generally speaking, the yield rate curve appears to be flat, and the interest spread for bonds might be narrowed down so it is not easy to make profit. It is necessary to evaluate and operate buy-out and outright sale more carefully. The capital control must be enhanced for RP operations and it is necessary to continue developing the source of private capital and strictly control the trading cost for RP. Top market share of trading volume of bonds is still our goal. Furthermore, since the domestic financial institutions have started the RMB operations, the bonds denominated by RMB are expected to be traded in GreTai Securities Market.

3) Equity investment business

Looking forward to 2013, given that the major world economies are enforcing a QE policy, the capital might be driven optimistically in Q1. Overall, QE might be exiting the market gradually, while the fiscal cliff issue remains unsolved. Besides, the Europe Debt Crisis is still unresolved and the economic recovery in Euro Zone is still weak. It is expected that starting from Q2, the uncertainty resulting from the imposition of additional ex-dividend interest from 2nd generation health insurance program will be increased in the market; therefore, it will still be very difficult to select and trade stocks.

- (2) Favorable and unfavorable factors for development in the future, and countermeasures:
- 1 Favorable factors
 - (1) The domestic economy shows a stable recovery to help private consumption, with an increase in enterprise need for capital, which is very helpful to the Company's bills business.
 - (2) The competent authority opened the operation of the bonds and treasury bills business, so that the sources of profit may be increased and asset risk may be dispersed.
 - (3) The competent authority has given full permission to RMB denominated bonds and bills trading business, which will help increase sources of profitability.
 - 2 Unfavorable factors
 - (1) There are more diversified financing channels on the market nowadays. Besides, banks continue to expand their corporate banking business and attract top clients by slashing loan rates. This will affect the Company to expand its issuance business. It is unlikely to improve business in the short run amid fierce competition.
 - (2) The competent authority has given full permission to RMB deposit and remittance business, and the deposit interest rate is higher than the domestic interest rate. Therefore, the capital transfer is unfavorable to the overall funding.
 - (3) The Central Bank continues to writedown idle funds in the market which makes the RP interest rate less likely to drop. This is unfavorable for bonds position to widen interest spread.
 - (4) The matured debt paid by the Government from 2012 to 2016 totals NT\$22 trillion, accounting for 48.46% of the outstanding debt balance. Apparently, the Government has to bear a tremendous debt until 2016 and might need to increase the issues of bonds, which unstabalize the market. Besides, the domestic interest rate level remains low. Therefore, the difficulty in operation of buy-out and outright sale is increasing.
 - (5) The uncertain factors that the FED's earlier termination or reduction of QE scales are increasing. Given this, the various investment organizations might re-allocate their assets thus increasing the fluctuation in the international stock market and financial market in 2013, thereby increasing the difficulty in operations in domestic stock market.
 - (6) In consideration of the liquidity risk, the competent authority acts more cautious toward bills companies' underwriting of new business lines (e.g., RMB bills business, US Bills business and guaranteed loan of one-year term or more), thereby resulting in loss of bills companies' competitiveness.
 - 3 Countermeasures
 - (1) Observe the change of domestic and overseas financial market; predict the trend of interest rates; adjust the positions and strategies as needed; and generate more income.
 - (2) Establish bond yielding in a timely manner and adjusting positions based on credit ratings; selecting targets with higher yields and shorter duration;
 - (3) Maintain and enhance developing RP customers, adjust customer structures to reduce funding cost and enlarge yield spread, and pay attention to the maturity date to reduce the liquidity risk;
 - (4) Develop RMB bonds business in order to increase source of profit and interest spread, and also to seek the opening of RMB bills business.

- (5) Enhance the controls over fundamentals, technologies, trading volume and information sides for stock market, and continue finding blue-chip corporate objectives in accordance with conservative principle.
- (6) Make more frequent visits to customers; adjust the structure of customers base; enhance a well-founded financial structure; develop niche-type customers; increase the utilization of credit facility; adopt flexible pricing strategies; increase the outstanding balance of Commercial Paper and increase revenue from underwriting of Commercial Paper; maintain the market share as the market leader.
- (7) Establish the bilateral trading relationship with customers for loan business and reinforce the existing customer relationships in order to develop stable and low-interest rate funding sources, and to eliminate the dependence on those customers who are bidding the higher interest rate, thus expand the interest spread of trading and increase revenue.
- (8) Actively participate banks' syndicated loan project or organize guarantee-free long-term underwriting projects to stabilize the source of bills, expand interest spread and increase the commission revenue.

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	
	2012	2011
Costs of employee participation in various research and training programs	521	599

2 R&D results

(1) 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 2nd phase design and layout of IFRS conversion plan.

(2) 2012

- 1) Complete the re-organization of company chart and modification of KPI
- 2) Install bonds and treasury bills trading system and define the regulations and SOPs related to bonds and treasury bills business.
- 3) Plan RMB bonds business development.
- 4) Complete the adjustment on IFRS information system.

- (3) Future R&D plan
 - 1 Strive for opening of RMB bonds and bills business
 - 2 Promote such mid-term as 1~3-year loan business
 - 3 Promote RMB bonds business.
 - 4 Complete 3rd-stage milestone for adoption of IFRS
 - 5 Research and plan the Basel III system framework and delivery practices

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

- (1) Short-term
 - 1 Strengthen guaranteed bills quality management, perform credit review operations strictly, and avoid the occurrence of loan defaults.
 - 2 Enforce the drawdown rate of bills of high-interest rate spread customers to expand interest spread; apply flexible pricing principles to low credit risk excellent customers and push up the utilization of credit facility; increase revenue from underwriting of guarantee-free bills; maintain the market share as the market leader.
 - 3 Strengthen organization and management of guarantee-free long-term underwriting projects to stabilize the source of bills and increase the commission revenue.
 - 4 Keep up with the international financial market, understand the Central Bank's monetary policy and changes in economy, adjust the positions and strategies flexibly, increase bonds positions when the interest rate expects to decline to expand bills yielding interest spread and to increase the income from bills.
 - 5 Actively seek clients from the private sectors and lower funding cost and diversifying sources of funds
 - 6 Actively handle the USD bills and municipal notes business; enhance the market competition niche, and diversify the company's sources of income
 - 7 Actively deal in bonds and fixed income securities, and establish bond position in a timely manner in order to increase bond yielding.
 - 8 Operate outright purchase/sells cautiously to improve operating performance.
 - 9 Tie in with the spot transaction of bonds; operate interest rate derivatives flexibly and hedge the spot transaction risk.
 - 10 Purchase convertible bonds issued by companies with good credit ratings, and dealing in fixed income component of convertible bond asset swaps, in order to increase profits.
 - 11 Engage in investing long-term high yielding stock to earn revenue from stock dividends, and put less position in trading short-term objectives.
- (2) Long-term
 - 1 Continue to strengthen internal credit risk management system in order to lower loan risk and maintain appropriate scope of business and profit.
 - 2 Verify and evaluate asset quality and provide adequate reserves to strengthen financial structure.
 - 3 Utilize the strength in channels and excellent credit rating to maintain a leading position in the market.
 - 4 Engage in new businesses once approved by the competent authority, in order to diversify sources of profit and stabilizing operating performance.
 - 5 Organize staff training programs to improve their competence and capability, in order to deal with the competition in the industry and the rapidly changing business environment.

- 6 Actively engage in foreign currency (including RMB) bonds business to increase the sources of earnings.
- 7 Continue to review department organizational efficiency and improve operational performance.

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

March 31, 2013

Year		2011	2012	March 31, 2013
Number of employees	Staff	181	181	180
	Interns	43	43	47
	Total	224	224	227
Average age		41.17	42.14	41.88
Average length of service		13.44	14.28	14.18
Educational background distribution	PhD	0	2	2
	Master	70	71	71
	Bachelor	147	144	147
	Senior high school	7	7	7
	Below senior high school	0	0	0
Professional designation and licensing	Bills Finance Specialist	173	173	173
	Securities Investment Analyst	7	7	7
	Senior Securities Specialist	124	129	129
	Securities Specialist	28	67	67
	Securities Investment Trust and Consulting Professionals	83	83	83
	Trust Operations Specialist	107	107	107
	Futures Specialist	78	78	77
	Life Insurance Specialist	128	129	128
	Property Insurance Specialist	123	123	122
	Bank Internal Control Specialist	99	99	98
	Financial Planning Personnel	71	71	71
	Basic Foreign Exchange Personnel	6	6	6
	Basic Bank Lending Personnel	33	33	33
	Advanced Bank Lending Personnel	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 ethical corporate management.

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 the Lin Ko Information Facility Remote Replication Center in 2007, dedicated to carrying out data recovery drills every year, in order to reduce information operating risk and protect customer trading safety and move towards sustainable management.

III. Future development or purchase plans

- (1) Update the Company's application system server IBMRS/6000.
- (2) Upgrade the core system database version.
- (3) Upgrade application program software development tools and update of application system program.
- (4) Continue setting up the database auditing system.
- (5) Develop bonds and treasury bills and RMB bonds transaction system.
- (6) Purchase PC-end protection system (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, employees' tour reimbursement, 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:
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:
Agreement between employer and labors: Subject to the Labor Standard Law and the Company's work rules
- V. Loss caused by labor dispute in the most recent year and until the date of publication of this annual report: N/A

Six. Major contracts: N/A

Financial Statements

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

I. Condensed balance sheets

Unit: NT\$ Thousand

Item	Year	Financial information for the most recent five years				
		2012	2011	2010	2009	2008
Cash and cash equivalent, central bank deposits, call loans to banks		367,174	601,915	736,833	681,894	629,350
Financial assets at fair value through profit or loss		129,072,587	135,756,870	112,685,775	85,843,648	129,302,575
Bills and bonds purchased under resale agreements		-	-	529,800	-	-
Available-for-sale financial assets		81,883,882	83,240,989	91,189,051	109,370,356	122,763,214
Receivables		1,261,152	1,833,166	2,101,018	2,208,658	3,543,749
Held-to-maturity financial assets		500,000	250,000	250,000	450,000	200,000
Fixed assets		2,918,234	2,928,881	2,945,800	2,967,869	2,993,257
Intangible assets		4,750	1,096	309	2,064	5,279
Other financial assets		1,299,398	822,684	693,381	1,284,921	1,595,562
Other assets		110,397	47,010	55,134	53,841	163,325
Total assets		217,417,574	225,482,611	211,187,101	202,863,251	261,196,311
Banks overdrafts and call loans from banks		20,861,000	3,416,000	3,897,000	5,586,000	8,609,000
Financial liabilities at fair value through profit or loss		3,154	-	10,130	74,990	119,016
Bills and bonds payable under repurchase agreements		159,376,775	184,993,275	170,163,470	159,606,041	215,025,089
Payables		1,000,645	1,257,098	1,243,823	1,328,258	952,516
Other liabilities		3,356,926	3,221,063	3,337,357	3,431,885	3,169,887
Total liabilities	Before allocation	184,598,500	192,887,436	178,651,780	170,027,174	227,875,508
	After allocation	Note	194,765,419	180,553,370	171,994,336	228,933,517
Capital stock		13,114,411	13,114,411	13,114,411	13,114,411	15,114,411
Capital surplus		312,823	312,823	312,823	312,823	312,823
Retained earnings	Before allocation	16,900,777	15,897,794	14,917,082	14,229,347	12,428,734
	After allocation	Note	14,019,811	13,015,492	12,262,185	11,370,725
Unrealized gain or loss on financial products		2,567,813	3,327,430	4,191,005	5,179,496	5,464,835
Other equities		-76,750	-57,283	-	-	-
Total stockholders' equity	Before allocation	32,819,074	32,595,175	32,535,321	32,836,077	33,320,803
	After allocation	Note	30,717,192	30,633,731	30,868,915	32,262,794

Note: Until the date of publication of this annual report, the motion for allocation of earnings for the year 2012 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				
		2012	2011	2010	2009	2008
Interest income, net		1,989,274	2,407,627	2,838,161	3,969,761	2,467,446
Revenue other than interest income, net		2,282,614	1,599,847	1,426,187	1,210,772	1,269,488
Provisions		126,379	89,757	345,695	843,888	1,027,965
Operating expenses		796,950	779,614	763,003	830,484	752,867
Income before income tax from continuing operations		3,348,559	3,138,103	3,155,650	3,506,161	1,956,102
Income after income tax from continuing operations		2,880,966	2,682,302	2,654,897	2,858,622	1,515,316
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		2,880,966	2,682,302	2,654,897	2,858,622	1,515,316
EPS		2.20	2.05	2.02	2.00	1.00

III. Independent Auditor's Name and Opinion

Year	Name of CPA Firm	CPA's Name	Opinion
2012	PricewaterhouseCoopers, Certified Public Accountants	Chien-Hung Chou, CPA, and Hsiu-Ling Li, CPA	Unqualified opinion
2011	PricewaterhouseCoopers, Certified Public Accountants	Chang-Chou Li, CPA and Hsiu-Ling Li, CPA	Unqualified opinion
2010	PricewaterhouseCoopers, Certified Public Accountants	Chang-Chou Li, CPA and Hsiu-Ling Li, CPA	Unqualified opinion
2009	PricewaterhouseCoopers, Certified Public Accountants	Chang-Chou Li, CPA and Hsiu-Ling Li, CPA	Unqualified opinion
2008	PricewaterhouseCoopers, Certified Public Accountants	Chang-Chou Li, CPA and Hsiu-Ling Li, CPA	Unqualified opinion

Two. Financial information for the recent five years

Unit: NT\$ Thousand; %

Item		Financial information for the most recent five years				
		2012	2011	2010	2009	2008
Managerial ability	Average number of days of bill and bond holding	2.63	2.47	4.29	5.08	5.30
	NPL ratio	0	0	0.09	0.38	0.51
	Total assets turnover rate	0.03	0.02	0.02	0.03	0.03
	Average yield per employee	24,507	22,073	21,502	25,378	31,800
	Average profit per employee	12,861	11,975	11,959	12,877	6,735
Profitability	ROA (%)	1.30	1.23	1.28	1.23	0.60
	ROE (%)	8.81	8.24	8.12	8.64	4.84
	Net profit margin (%)	52.48	54.25	55.62	50.74	21.18
	EPS (NT\$)	2.20	2.05	2.02	2.00	1.00
Financial structure	Liability to total assets ratio (%)	83.53	84.25	83.13	82.29	86.15
	Fixed assets to stockholders' equity ratio (%)	8.89	8.99	9.05	9.04	8.98
Growth rate	Asset growth rate (%)	-3.58	6.77	4.10	-22.33	6.10
	Profit growth rate (%)	6.71	-0.56	-10.00	79.24	-23.74
Cash flow	Cash flow ratio (%)	N/A	1.19	2.12	3.68	1.57
	Cash flow adequacy ratio (%)	189.27	386.83	323.05	249.74	222.53
Credit extended to stakeholders		545,000	210,000	230,000	340,000	-
Percentage of credits extended to stakeholders (%)		0.38	0.16	0.20	0.34	-
Scale of operations	Asset market share (%)	28.36	28.57	28.10	27.88	33.23
	Net value market share (%)	30.39	30.16	29.51	28.25	29.78
	Market share for guaranteed and endorsed bills (%)	35.79	36.85	33.49	31.22	36.83
	Market share for each type of bill and bond issue and first time purchase (%)	31.40	31.29	27.69	30.60	31.54
	Market share for each type of bill and bond transaction (%)	33.65	34.74	32.95	32.40	28.42
Capital adequacy ratio	Capital adequacy ratio (%)	13.49	14.48	16.22	16.88	14.09
	Net value of own capital	28,584,534	28,220,229	29,002,098	27,479,317	27,761,307
	Total value of risk assets	211,953,033	194,834,756	178,834,426	162,778,852	197,008,594
	Tier I capital to risk weighted risk assets ratio (%)	12.94	13.71	15.16	16.98	14.10
	Tier I capital and Tier II capital to risk weighted risk assets ratio (%)	12.94	13.71	15.16	19.27	16.19
	Leverage ratio (%)	12.39	12.24	13.09	11.91	10.95
Explanation of analysis of changes for the most recent two years: (Variations exceeded 20%).						
<ol style="list-style-type: none"> The increase in the total assets turnover rate was a result of the increase in gain from disposal of stock and collected bad debt and delinquent loan resulting in the increase in the income in 2012. The increase in asset growth rate was a result of the outright sale of long-term bills position to hedge the interest rate risk resulting in the decrease in bills assets. The increase in profit growth rate is a result of active expansion of interest spread for bills and clearance of delinquent loan to make up the adverse effect of maturity of mass high yielding rate bond positions in 2012. The cash flow ratio was not applicable this year, and the decrease in cash flow adequacy ratio was a result of the net cash outflow from operating activities in 2012. The increase in percentage of credits extended to stakeholders is a result of the increase in total balance of credits extended to stakeholders in 2012. 						

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=NPL (including non-accrual loan)/total loan (including non-accrual loan)
 - (3) Total assets turnover rate=Income/total assets
 - (4) Average yield per employee=Income/total number of employees
 - (5) Average profit per employee=Income after tax/total number of employees
2. Profitability
 - (1) ROA=Income after tax/average total assets
 - (2) ROE=Income after tax/average stakeholders' equity, net
 - (3) Net profit margin=Income after tax/income(Income=interest income+revenue other than interest income)
 - (4) EPS=(Net profit after tax-preferred stock dividend)/quantity of issued shares under weighted average method
3. Financial structure
 - (1) Liability to total assets ratio=Total liabilities/total assets
 - (2) Fixed assets to net value ratio=Fixed assets, net/stockholders' equity, net
 - (3) Total liabilities exclude allowances for guarantee liability and for loss on securities exchange.
4. Growth rate
 - (1) Asset growth rate=(Total assets in current period-total assets for the previous period)/Total assets for the previous year
 - (2) Profit growth rate=(Income before tax in current period-income before tax for the previous year)/Income before tax for the previous year
5. Cash flow
 - (1) Cash flow ratio=Net cash flow from operating activities/(bank overdrafts and call loans from banks+commercial promissory note payable+financial liabilities at fair value through profit or loss+bills and bonds payable under repurchase agreements+payables-current portion)
 - (2) Net cash flows adequacy ratio=Net cash flow from operating activities for the most recent five years/(capital expenditure+cash dividend) for the most recent five years
6. Scale of operations
 - (1) Asset market share=Total assets/total assets of all bills financial companies
 - (2) Net stockholders' equity market share=Net value/total net stockholders' equity of all bills financial companies
 - (3) Market share for guaranteed and endorsed bills=Balance of guaranteed and endorsed bills/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=Amount of each type of bill and bond issue and first time purchase/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=Amount of each type of bill and bond transaction/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=Own capital, net/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 x 12.5
 - (4) Tier I capital to risk weighted risk assets ratio=Tier I capital/risk weighted risk assets
 - (5) Tier I capital and Tier II capital to risk weighted risk assets ratio=(Tier I Capital+Tier II Capital)/risk weighted risk assets
 - (6) Leverage ratio=Tier I capital/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 to us the Company's business report, financial statements, catalogue of property and motion for allocation of earnings in 2012. The financial statements were audited and certified by Chien-Hung Chou, CPA and Hsiun-Ling, Lee 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:

General Shareholders' Meeting 2013 of Mega Bills Finance Corporation

Supervisors Tan-Hung Lu

Supervisors Ching-Lung
Hung

Supervisors Chia-Min Hung

March 26, 2013

**MEGA BILLS FINANCE CO., LTD.
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2012 AND 2011**

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.

Report of Independent Accountants Translated from Chinese

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, 2012 and 2011, 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 "Rules Governing the Audit of Financial Statements of Financial Institutions 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, 2012 and 2011, 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.

PricewaterhouseCoopers, Taiwan

March 26, 2013

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, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

<u>ASSETS</u>	<u>NOTES</u>	<u>2012</u>	<u>2011</u>
Assets			
Cash and cash equivalents	4(1) and 5	\$ 367,174	\$ 601,915
Financial assets at fair value through profit or loss	4(2), 5 and 6	129,072,587	135,756,870
Receivables - net	4(4)	1,261,152	1,833,166
Available-for-sale financial assets - net	4(5), 5 and 6	81,883,882	83,240,989
Held-to-maturity financial assets - net	4(6)	500,000	250,000
Other financial assets – net	4(7) and 6	1,299,398	822,684
Property and equipment - net	4(8)	2,918,234	2,928,881
Intangible assets - net		4,750	1,096
Other assets - net	4(9) and 5	110,397	47,010
TOTAL ASSETS		<u>\$ 217,417,574</u>	<u>\$ 225,482,611</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Liabilities			
Bank overdrafts and call loans from banks	4(10) and 5	\$ 20,861,000	\$ 3,416,000
Financial liabilities at fair value through profit or loss	4(11)	3,154	-
Bills and bonds payable under repurchase agreements	4(3) and 5	159,376,775	184,993,275
Payables	4(12),(13) and 5	1,000,645	1,257,098
Other Liabilities			
Reserves for guarantee liabilities	5	2,999,660	2,911,927
Accrued pension liability	4(14)	281,049	235,663
Other liabilities - others	5	76,217	73,473
Total Liabilities		<u>184,598,500</u>	<u>192,887,436</u>
Capital stock	4(15)		
Common stocks		13,114,411	13,114,411
Capital surplus	4(16)	312,823	312,823
Retained earnings	4(13), (17) and (18)		
Legal reserve		13,814,076	13,009,385
Special reserve		203,090	203,090
Unappropriated retained earnings		2,883,611	2,685,319
Other stockholders' equity adjustments			
Unrealized gain or loss on financial instruments	4(5)	2,567,813	3,327,430
Losses not recognized as pension cost-net	4(14)	(76,750)	(57,283)
Total Stockholders' Equity		<u>32,819,074</u>	<u>32,595,175</u>
Commitments And Contingent Liabilities	7		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>\$ 217,417,574</u>	<u>\$ 225,482,611</u>

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, 2012 AND 2011

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

	NOTES	2012	2011		
Interest Income		\$ 3,206,986	\$ 3,344,572		
Less : Interest Expense	5	(1,217,712)	(936,945)		
Interest Income, Net		1,989,274	2,407,627		
Non-Interest Income, Net					
Service fee and commission income, net	5 and 10(2)	593,311	712,572		
Gain or loss from financial assets and liabilities at fair value through profit or loss	5,10(2)and (4)	230,851	85,780		
Realized gain or loss on available-for-sale financial assets	10(2)	379,658	267,225		
Foreign exchange (loss) gain, net		(293)	189		
Other non-interest income or loss, net					
Rental income	5	108,754	107,184		
Recovery of bad debts and overdue accounts	5	953,776	414,100		
Others		16,557	12,797		
Net Revenues		4,271,888	4,007,474		
Provisions	10(6)	(126,379)	(89,757)		
Operating Expenses					
Personnel expenses	4(19)	(581,343)	(551,876)		
Depreciation and amortization	4(19)	(19,320)	(27,142)		
Other business and administrative expenses	5	(196,287)	(200,596)		
Total operating expenses		(796,950)	(779,614)		
Income before Income Tax from Operating Unit		3,348,559	3,138,103		
Income Tax Expense	4(13)	(467,593)	(455,801)		
Net Income		\$ 2,880,966	\$ 2,682,302		
		Before Tax	After Tax	Before Tax	After Tax
Earnings Per Share (in dollars)	4(20)				
Net Income		\$ 2.55	\$ 2.20	\$ 2.39	\$ 2.05

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, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Retained Earnings</u>					Unrealized	Losses not	Total
	Common	Capital	Legal	Special	Unappropriated	Gain or Loss on	Recognized as	Stockholders'
	<u>Stocks</u>	<u>Surplus</u>	<u>Reserve</u>	<u>Reserve</u>	<u>Retained Earnings</u>	<u>Financial Instruments</u>	<u>Pension Cost-Net</u>	<u>Equity</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>
Balance as of January 1, 2012	\$ 13,114,411	\$ 312,823	\$ 13,009,385	\$ 203,090	\$ 2,685,319	\$ 3,327,430	(\$ 57,283)	\$ 32,595,175
Appropriation of 2011 earnings (Note)								
Legal reserve	-	-	804,691	-	(804,691)	-	-	-
Cash dividends	-	-	-	-	(1,877,983)	-	-	(1,877,983)
Net income for 2012	-	-	-	-	2,880,966	-	-	2,880,966
Changes in unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	(759,617)	-	(759,617)
Changes in unrecognized gains or losses on pension cost-net	-	-	-	-	-	-	(19,467)	(19,467)
Balance as of December 31, 2012	<u>\$ 13,114,411</u>	<u>\$ 312,823</u>	<u>\$ 13,814,076</u>	<u>\$ 203,090</u>	<u>\$ 2,883,611</u>	<u>\$ 2,567,813</u>	<u>(\$ 76,750)</u>	<u>\$ 32,819,074</u>

Note: Employee bonuses amounting to \$65,716 and \$65,045 for 2011 and 2010, respectively have been recorded under operating expense in the statement of income, and 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, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>2012</u>	<u>2011</u>
<u>Cash Flows from Operating Activities</u>		
Net income	\$ 2,880,966	\$ 2,682,302
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	19,320	27,142
Provisions for bad debts and various reserves	126,379	89,757
Gains on disposal of fixed assets	(81)	(171)
Decrease (increase) in operating assets:		
Financial assets at fair value through profit or loss	6,684,283	(23,071,095)
Bills and bonds investment with resale agreements	-	529,800
Receivables	572,014	268,722
Available-for-sale financial assets	597,490	7,084,487
Held-to-maturity financial assets	(250,000)	-
Other financial assets	(515,360)	(192,049)
Other assets	(2,925)	7,530
Income tax on separately taxed income	(63,388)	-
Increase (decrease) in operating liabilities:		
Financial liabilities at fair value through profit or loss	3,154	(10,130)
Bills and bonds payable under repurchase agreement	(25,616,500)	14,829,805
Payables	(256,453)	13,275
Other liabilities – others	2,744	(13,697)
Accrued pension liability	28,738	12,994
Net cash (used in) provided by operating activities	(15,789,619)	2,258,672
<u>Cash Flows from Investing Activities</u>		
Acquisition of property and equipment	(6,410)	(3,460)
Proceeds from disposal of property and equipment	81	171
Increase in other assets	(1,706)	(6,686)
Increase in intangible assets	(4,104)	(1,025)
Net cash used in investing activities	(12,139)	(11,000)
<u>Cash Flows from Financing Activities</u>		
Increase (decrease) in bank overdrafts and call loans from banks	17,445,000	(481,000)
Payments of cash dividends	(1,877,983)	(1,901,590)
Net cash provided by (used in) financing activities	15,567,017	(2,382,590)
Net decrease in cash and cash equivalents	(234,741)	(134,918)
Cash and cash equivalents, beginning of year	601,915	736,833
Cash and cash equivalents, end of year	<u>\$ 367,174</u>	<u>\$ 601,915</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Interest paid	<u>\$ 1,210,022</u>	<u>\$ 913,908</u>
Income tax paid	<u>\$ 343,960</u>	<u>\$ 393,433</u>

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

MEGA BILLS FINANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

(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 de-listed from the Taiwan Stock Exchange on August 22, 2002.
- (3) Mega is the parent company of the Company. As of December 31, 2012 and 2011, the Company had 181 employees and 43 trainees.

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. Transactions denominated in foreign currencies are translated into functional currency 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. 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) 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.

(14) Income taxes

- A. 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).

(15) 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.

(16) Revenue recognition

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

(17) 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.

(18) 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.

(19) 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.

(20) 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.

(21) 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”. This change in accounting principle had no impact on net income and earnings per share for the year ended December 31, 2011.
- (3) Starting from January 1, 2011, pursuant to the explanatory letter Jin-Guan-Zheng-Zi-Quan No. 09900738571 issued by the former 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

	December 31,	
	2012	2011
Checking deposits	\$ 242,076	\$ 238,353
Demand deposits	24,398	362,712
Time deposits	100,000	-
Petty cash	700	850
Total	<u>\$ 367,174</u>	<u>\$ 601,915</u>

A. For bank deposits due from related parties, please refer to Note 5.

B. As of December 31, 2012, interest rates for time deposits, which shall mature within three months, were ranging from 0.39%~0.94%.

C. As of December 31, 2012 and 2011, demand deposits in USD amounted to US\$45 thousand and US\$37 thousand, respectively, and the exchange rate of USD to NTD was 1 : 29.035 and 1 : 30.272, respectively.

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

	December 31,	
	2012	2011
Commercial paper	\$ 93,839,246	\$ 96,995,893
Fixed rate commercial paper purchased	18,714	7,021
Foreign currency bills	11,245	11,723
Bankers' acceptance	2,679	-
Negotiable certificates of time deposit	22,788,159	17,850,000
Treasury securities	8,561,894	16,109,122
Government bonds	548,382	-
Convertible corporate bonds	405,499	1,929,944
Convertible corporate bond asset swaps	2,852,400	2,756,700
Stocks	3,751	22,929
Open-ended funds	-	19,748
Valuation adjustments – convertible corporate bond asset swaps	22,657	67,319
Valuation adjustments – non-derivatives	17,961	(13,529)
Total	<u>\$ 129,072,587</u>	<u>\$ 135,756,870</u>

A. As of December 31, 2012 and 2011, the transaction cost of bills and bonds with repurchase agreement of above financial assets at fair value through profit or loss were \$97,082,867 thousand and \$111,774,301 thousand, respectively.

B. As of December 31, 2012 and 2011, above negotiable certificates of time deposits used for bank overdraft and loans collateral fall due within one year. Please refer to Note 5 and 6 for details.

C. As of December 31, 2012 and 2011, the fair value of bills denominated in USD amounted to US\$388 thousand and \$387 thousand, respectively, and the exchange rate of USD to NTD was 1 : 29.035 and 1 : 30.272, respectively.

D. As of December 31, 2012 and 2011, please refer to Note 10(2) for information of convertible corporate bond asset swaps.

(3) Bills and bonds under repurchase or resale agreements

	December 31,	
	2012	2011
Bills and bonds investment with resale agreements	\$ -	\$ -
Bills and bonds payable under repurchase agreements	\$ 159,376,775	\$ 184,993,275

A. As of December 31, 2012 and 2011, the interest rate of bills and bonds payable under repurchase agreements were 0.26%~0.87% and 0.15%~0.90%, respectively.

B. As of December 31, 2012 and 2011, please refer to Note 5 for the balances of repo trades with related parties.

C. As of December 31, 2012 and 2011, the fair value of bills and bonds payable under repurchase agreements denominated in USD amounted to US\$5,184 thousand and US\$6,303 thousand, respectively, and the exchange rate of USD to NTD was 1 : 29.035 and 1 : 30.272, respectively.

(4) Receivables – net

	December 31,	
	2012	2011
Interest receivable	\$ 1,261,102	\$ 1,833,107
Other receivables – others	50	59
Subtotal	1,261,152	1,833,166
Less: Allowance for doubtful accounts	-	-
Receivables, net	\$ 1,261,152	\$ 1,833,166

(5) Available-for-sale financial assets

	December 31,	
	2012	2011
Government bonds	\$ 50,804,416	\$ 65,063,577
Financial bonds	3,838,835	2,160,000
Foreign currency financial bonds	-	30,396
Corporate bonds	21,688,406	10,238,640
Foreign currency corporate bonds	145,175	151,360
Beneficiary or asset-backed securities	400,000	400,000
Stocks	2,439,237	1,869,586
Subtotal	79,316,069	79,913,559
Valuation adjustments	2,567,813	3,327,430
Total	\$ 81,883,882	\$ 83,240,989

- A. As of December 31, 2012 and 2011, the available-for-sale financial bonds provided for repurchase agreements amounted to \$56,094,286 thousand and \$65,942,440 thousand, respectively.
- B. The government bonds and corporate bonds were provided as collaterals for bank overdrafts and loans as of December 31, 2012 and 2011. Please refer to Notes 5 and 6 for details.
- C. As of December 31, 2012 and 2011, 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 \$925,168 thousand and \$943,355 thousand, respectively.
- D. As of December 31, 2012 and 2011, the fair values of financial bonds denominated in USD have amounted to US\$0 thousand and US\$995 thousand, respectively. And the fair values of corporate bonds denominated in USD have amounted to US\$5,000 thousand and US\$4,989 thousand, respectively, and the exchange rate of USD to NTD was 1 : 29.035 and 1 : 30.272, respectively.

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

	December 31,	
	2012	2011
Corporate bonds	\$ 500,000	\$ 250,000
Less: Accumulated impairment	-	-
Net	<u>\$ 500,000</u>	<u>\$ 250,000</u>

(7) Other financial assets - net

	December 31,	
	2012	2011
Restricted assets - certificates of time deposit	\$ 900,000	\$ 400,000
Financial assets carried at cost - net	369,300	369,300
Designated account for allowance to pay back short-term bills	30,098	53,384
Net	<u>\$ 1,299,398</u>	<u>\$ 822,684</u>

- A. The above restricted assets-certificates of time deposit were provided as collaterals for bank overdrafts as of December 31, 2012 and 2011. Please refer to Note 6 for details.

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

	December 31, 2012		December 31, 2011	
	Amount	% of Shareholding	Amount	% of Shareholding
Unlisted stock investments				
Core Pacific City Co., Ltd.	\$ 600,000	3.690	\$ 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, 2012 and 2011, the Company had recognized impairment loss for the above listed investees as follows:

	December 31,	
	2012	2011
Core Pacific City Co., Ltd.	\$ 397,800	\$ 397,800
Agora Garden Co., Ltd.	900	900
	<u>\$ 398,700</u>	<u>\$ 398,700</u>

(8) Property and equipment - net

	December 31, 2012		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 2,432,241	\$ -	\$ 2,432,241
Buildings	677,986	(203,257)	474,729
Transportation equipment	7,647	(7,237)	410
Miscellaneous equipment	133,174	(123,764)	9,410
Equipment prepayment	1,444	-	1,444
Total	<u>\$ 3,252,492</u>	<u>(\$ 334,258)</u>	<u>\$ 2,918,234</u>

	December 31, 2011		
	Cost	Accumulated Depreciation	Net Book Value
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>

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

(9) Other assets

	December 31,	
	2012	2011
Deferred income tax assets- net	\$ 63,388	\$ -
Refundable deposits	16,594	10,741
Deferred pension cost	11,987	14,806
Fund joint services	7,077	10,700
Other deferred assets	6,578	6,685
Others	4,773	4,078
Total	<u>\$ 110,397</u>	<u>\$ 47,010</u>

(10) Bank overdrafts and call loans from banks

	<u>December 31, 2012</u>	<u>Period</u>	<u>Interest Rate</u> <u>(%)</u>
Bank overdrafts	\$ 361,000	Nov. 30, 2012~Nov. 30, 2013 (Note)	1.88
Call loans	<u>20,500,000</u>	Dec. 5, 2012~Jan. 11, 2013	0.48~0.81
Total	<u>\$ 20,861,000</u>		

	<u>December 31, 2011</u>	<u>Period</u>	<u>Interest Rate</u> <u>(%)</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>		

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, 2012 and 2011.

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

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Derivative financial instruments	\$ 1,297	\$ -
Fixed rate commercial paper sold	<u>1,857</u>	<u>-</u>
	<u>\$ 3,154</u>	<u>\$ -</u>

Information on derivative instrument contracts was as follows:

	<u>December 31, 2012</u>	
	<u>Contract amount</u> <u>(Notional principal)</u>	<u>Fair value</u>
Interest rate swap contracts	<u>\$ 1,400,000</u>	<u>\$ 1,297</u>

December 31, 2011: None.

(12) Payables

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Other payables - affiliated companies (Note 1)	\$ 444,111	\$ 337,407
Bonus payable	180,160	170,554
Receipts under custody payable (Note 2)	125,840	183,365
Dividends and bonus payable	100,834	84,493
Purchase of bills payable for customers	56,152	396,421
Interest payable	56,041	48,351
Others	<u>37,507</u>	<u>36,507</u>
Total	<u>\$ 1,000,645</u>	<u>\$ 1,257,098</u>

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

	<u>For the years ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Income tax at the statutory tax rate	\$ 569,255	\$ 533,478
Tax effect of permanent differences	(43,157)	(27,612)
Change in deferred income tax assets	6,791	(30,208)
Withholding taxes	(343,960)	(393,433)
Income tax payable in current year	<u>\$ 188,929</u>	<u>\$ 82,225</u>
Income tax payable in current year	\$ 188,929	\$ 82,225
Over provisions of prior years' income tax expenses	(1,908)	(19,857)
Change in deferred income tax assets- net	(63,388)	-
Withholding taxes	343,960	393,433
Income tax expense	<u>\$ 467,593</u>	<u>\$ 455,801</u>

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Income tax payable of prior years	\$ 255,182	\$ 255,182
Income tax payable in current year	<u>188,929</u>	<u>82,225</u>
Net income tax payable (recorded as "other payables – affiliated companies")	<u>\$ 444,111</u>	<u>\$ 337,407</u>

B. Temporary differences resulting in deferred income tax assets as of December 31, 2012 and 2011:

	<u>December 31, 2012</u>		<u>December 31, 2011</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	\$ 1,583,434	\$ 269,184	\$ 1,562,135	\$ 265,563
Loss on asset impairment	398,700	67,779	398,700	67,779
Others	<u>372,868</u>	<u>63,388</u>	<u>354,221</u>	<u>60,218</u>
	<u>\$ 2,355,002</u>	<u>400,351</u>	<u>\$ 2,315,056</u>	<u>393,560</u>
Valuation allowance		(336,963)		(393,560)
Deferred income tax assets		<u>\$ 63,388</u>		<u>\$ -</u>

C. Imputation tax credit

	December 31,	
	2012	2011
Account balance of imputation tax credit	\$ 24,701	\$ 25,453
	For the years ended December 31,	
	2012	2011
Estimated (actual) tax credit rate for individual stockholders	0.86%	0.97%

D. Unappropriated retained earnings

	December 31,	
	2012	2011
1997 and before	\$ 1,358	\$ 1,358
1998 and onwards	2,882,253	2,683,961
Total	\$ 2,883,611	\$ 2,685,319

E. As of December 31, 2012, 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, 2012 and 2011, the estimated amount payable to Mega on the joint filing of income tax returns (after deducting non-refundable withholding taxes) amounted to \$444,111 thousand and \$337,407 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, 2012 and 2011, the balances of pension fund deposited with Bank of Taiwan were \$264,949 thousand and \$251,932 thousand, respectively. Under the above plan, the Company recognized pension expenses of \$39,509 thousand and \$33,758 thousand for the years ended December 31, 2012 and 2011, respectively.

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

	December 31,	
	2012	2011
Discount rate	1.35%	1.55%
Rate of increase in compensation levels	1.80%	2.25%
Expected return on plan assets	1.35%	1.55%

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

	December 31,	
	2012	2011
Benefit obligations		
Vested benefit obligation	(\$ 324,530)	(\$ 276,694)
Non-vested benefit obligation	(223,983)	(213,147)
Accumulated benefit obligation	(548,513)	(489,841)
Effects of future salary increments	(121,535)	(148,586)
Projected benefit obligation	(670,048)	(638,427)
Fair value of plan assets	267,464	254,178
Funded status	(402,584)	(384,249)
Unrecognized net transitional obligation	1,298	1,516
Unrecognized prior service costs	10,689	13,290
Unrecognized loss on plan assets	198,285	205,869
Additional accrued pension liability	(88,737)	(72,089)
Accrued pension liability	(\$ 281,049)	(\$ 235,663)

(C) Pension costs consist of the following:

	For the years ended December 31,	
	2012	2011
Service cost	\$ 22,090	\$ 19,891
Interest cost	9,663	12,505
Expected return on plan assets	(3,863)	(5,890)
Amortization on unrecognized pension loss	11,619	7,252
Net pension costs	\$ 39,509	\$ 33,758

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, 2012 and 2011 were \$4,285 thousand and \$4,057 thousand, respectively.

(15) Capital stock

As of December 31, 2012 and 2011, 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 and special 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.

According to Jin-Guan-Yi-Fa Letter No. 10010000440 dated March 23, 2011, the trading loss reserved set aside by December 31, 2010 should be transferred to special reserve to offset deficits. In the event that the special reserve is equal to 50% of the paid-in capital, it may be used as capital but no other purpose.

(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. Stock dividends are distributed by cash; however, the cash distribution ratio is adjusted based on the business development, plan on capital and other relevant factors.
- C. (A) Appropriation of 2011 and 2010 earnings as resolved by the Board of Directors on behalf of the stockholders on April 24, 2012 and April 26, 2011, respectively, were as follows:

	2011		2010	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 804,691		\$ 796,469	
Cash dividends of stockholders	1,877,983	\$ 1.432	1,901,590	\$ 1.450
Cash bonus to employees	65,716		65,045	

Note: Cash bonus to employees has been recognized in operating expenses in the income statement instead of earnings.

The difference between the cash bonus to employees and the recognized employee bonus expenses (\$84,493 thousand and \$74,337 thousand, respectively) for the years ended December 31, 2011 and 2010 amounted to \$18,777 thousand and \$9,292 thousand, respectively, and such difference was due to changes in the employee bonus ratio; the difference has been adjusted as profit or loss for 2012 and 2011, respectively.

(B) Appropriation of 2012 earnings as proposed by the Board of Directors on March 26, 2013 was as follows:

	2012	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 864,290	
Cash dividends of stockholders	2,016,996	\$ 1.538
Cash bonus to employees (Note)	70,584	

Note: Cash bonus to employees has been recognized in operating expenses in the income statement instead of earnings.

- D. The estimated amount of employee bonus as of December 31, 2012 and 2011, amounted to \$100,834 thousand and \$84,493 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, 2012 and 2011, the personnel expenses, depreciation and amortization are all presented as operating expenses and summarized below:

	For the years ended December 31,	
	2012	2011
Personnel expenses		
Salaries and wages	\$ 504,533	\$ 481,731
Labor and health insurance	18,758	18,143
Pension	43,794	37,815
Others	14,258	14,187
Subtotal	\$ 581,343	\$ 551,876
Depreciation	\$ 17,057	\$ 20,379
Amortization	\$ 2,263	\$ 6,763

(20) Basic earnings per share

2012

	Amount		Weighted-average number of shares outstanding	Basic earning per share (In dollars)	
	Before tax	After tax		Before tax	After tax
Net income	<u>\$ 3,348,559</u>	<u>\$ 2,880,966</u>	<u>1,311,441</u>	<u>\$ 2.55</u>	<u>\$ 2.20</u>

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>

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)	The director of the Company's parent company
Bank of Taiwan (BOT)	The director of the Company's parent company
Mega International Commercial Bank Co., Ltd (MICB)	Subsidiary of Mega
Mega Securities Co., Ltd. (MS)	Subsidiary of Mega
Chung Kuo Insurance Co., Ltd. (CKI)	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

	December 31, 2012		
	<u>Demand deposits</u>	<u>Checking deposits</u>	<u>Total</u>
MICB	\$ 39,885	\$ 61,074	\$ 100,959
BOT	<u>3,676</u>	<u>50,000</u>	<u>53,676</u>
Total	<u>\$ 43,561</u>	<u>\$ 111,074</u>	<u>\$ 154,635</u>

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

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

B. Bank overdrafts and call loans

For the year ended December 31, 2012				
	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
<u>Bank overdrafts</u>				
BOT	\$ 1,228,000	\$ 361,000	1.880	\$ 10,643
<u>Call loans</u>				
MICB	10,800,000	5,900,000	0.450-0.810	18,319
Chunghwa Post	4,700,000	1,800,000	0.620-0.870	2,200
BOT	3,000,000	-	0.620-0.870	817
Total		<u>\$ 8,061,000</u>		<u>\$ 31,979</u>

For the year ended December 31, 2011				
	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
<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>

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,			
	2012		2011
MS	\$ 4,972,792	\$	8,667,776
Chunghwa Post	451,389		52,473
MICB	49,958		52,454
Total	<u>\$ 5,474,139</u>	<u>\$</u>	<u>8,772,703</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, 2012				
	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	\$ 99,005,880	\$ 14,756		6.39
BOT	52,481,692	7,598		3.29
MICB	18,608,546	2,772		1.20
MS	5,246,586	(622)		(0.27)
Total	<u>\$ 175,342,704</u>	<u>\$ 24,504</u>		<u>10.61</u>

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>

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

E. Bills and bonds under repurchase agreements

For the year ended December 31, 2012			
	Amount	Ending balance	Interest expense
Mega	\$ 46,471,486	\$ -	\$ 14,635
BOT	10,317,242	1,646,212	4,234
MS	2,084,547	-	211
CKI	87,928	-	12
Others	780,960	15,527	100
Total	<u>\$ 59,742,163</u>	<u>\$ 1,661,739</u>	<u>\$ 19,192</u>

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>

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

F. Derivative transactions

For the year ended December 31, 2012: None.

For the year ended December 31, 2011
Taiwan dollars

Unit: In thousand of New

<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	-

G. Other payables

	December 31,	
	2012	2011
Mega	\$ 444,111	\$ 337,407

The above amount is the Company's 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.

H. Guarantees provided to related parties

December 31, 2012						
	Highest Balance	Ending Balance	Allowance for doubtful accounts and reserves for guarantee liabilities	Rates (%)	Pledged Asset	Fees income
MAM	\$ 515,000	\$ 515,000	\$ 5,150	1.01-1.02	Real estate	\$ 228

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	\$ 221

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

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

December 31, 2012: None

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

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

J. Sale of non-performing loans

The Company signed a contract with Mega Assets Management Co., Ltd. to dispose non-performing loans totaling \$802,264 thousand in May 2012 (the underlying non-performing loans were \$2,468,654 thousand). All payments have been received by June 2012 as binding by the contract and details are as follows:

Date of disposal : May 22, 2012			Unit: In thousand of New Taiwan dollars		
Loan component		Loan amount (Note 1)	Carrying amount (Note 2)	Evaluation on the recoverable amount of disposed loan	Gain and loss on disposal
Secured	3 commercial papers advancement	929,902	-	802,263	802,263
Unsecured	35 commercial papers advancement	1,538,752	-	1	1
Total		2,468,654	-	802,264	802,264

Note 1 : The loan amount is the amount that a buyer may claim from the creditor, including the sum of balance of disposal on non-performing loan (amounts before deduction of allowance for doubtful debt) and written-off bad debt.

Note 2 : The carrying amount is the balance of original loan amount less allowance for doubtful debt.

K. Collaterals provided to related parties for bank overdrafts and loans

		December 31,	
	Pledged Asset	2012	2011
BOT	Available-for-sale financial assets - government bonds	\$ 3,310,218	\$ 4,129,971
	Available-for-sale financial assets - corporate bonds	754,360	-
MICB	Financial assets at fair value through profit or loss - negotiable certificates of time deposit	200,115	500,687
	Available-for-sale financial assets - government bonds	2,300,306	2,330,258
Total		<u>\$ 6,564,999</u>	<u>\$ 6,960,916</u>

L. Assets provided as operating deposits for securities firm:

		December 31,	
	Pledged Asset	2012	2011
BOT	Available-for-sale financial assets - government bonds	<u>\$ 100,446</u>	<u>\$ 104,593</u>

M. Service fee expenses

The Company underwrote the short-term securities guaranteed by the Mega Financial Holding' subsidiary, MICB, and the service fee expenses are as follows:

For the years ended December 31,			
		2012	2011
		Amount	%
MICB		<u>\$ 561</u>	<u>0.09</u>
		<u>\$ 735</u>	<u>0.10</u>

N. Rental income

			For the years ended December 31,	
Lessee	Leased Property	Period	2012	2011
MICB	Office and parking lots	Jan. 1, 2011 - Dec. 31, 2012	\$ 90,904	\$ 90,904
CKI	Office	Dec. 1, 2011 - Nov. 30, 2016	852	-
Total			<u>\$ 91,756</u>	<u>\$ 90,904</u>

(A) The Company rented Mega Financial Holding Building in Taipei City to MICB as office use. The lease agreement was signed for the period from January 1, 2011 to December 31, 2012 and renewed for the period from January 1, 2013 to December 31, 2015 with \$14,041 thousand deposit received.

(B) 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.

(C) The rent is determined based on the comparable rental expense in the surrounding area.

O. Rental expenses

Lessor	Rental Property	Period	For the years ended December 31	
			2012	2011
MICB	Office	Jan. 1, 2011-Dec. 31, 2012	\$ 33,646	\$ 33,646
MICB	Office	Jan. 1, 2010-Dec. 31, 2013	756	756
MICB	Office	-	10	60
CKI	Warehouse	Dec. 1, 2011-Nov. 30, 2016	260	-
			<u>\$ 34,672</u>	<u>\$ 34,462</u>

(A) The Company rented partial office space located at HengYang Rd., Taipei City from MICB. The lease agreement was signed for the period from January 1, 2011 to December 31, 2012 and renewed for the period from January 1, 2013 to December 31, 2015 with \$5,853 thousand deposit paid.

(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 30, 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.

P. Insurance expenses

	For the years ended December 31,			
	2012		2011	
	Amount	%	Amount	%
CKI	<u>\$ 3,819</u>	<u>1.95</u>	<u>\$ 3,961</u>	<u>1.97</u>

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

	For the years ended December 31,	
	2012	2011
Salaries	\$ 12,289	\$ 14,098
Bonus	9,941	10,412
Business expenses	4,037	4,677
Earnings distribution	3,149	2,932
Total	<u>\$ 29,416</u>	<u>\$ 32,119</u>

- (A) Bonus includes general bonus and performance bonus. The amounts listed for 2012 are estimated amounts and the amounts listed for 2011 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 2012 are estimated amounts and the amounts listed for 2011 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,		Secured for
	2012	2011	
Financial asset at fair value through profit or loss - negotiable certificates of time deposit	\$ 11,706,811	\$ 10,410,865	Collateral for Central bank and other banks' overdraft
Available-for-sale financial assets - government bonds	9,790,393	10,694,163	Operating bond for bills and securities firms, and reserve for GTSM Electronic Bond Trading System (EBTS) and bank overdraft and call loan collateral
Available-for-sale financial assets - corporate bonds	754,360		- Bank overdraft
Restricted asset - certificates of time deposit	900,000	400,000	Bank overdraft
Total	<u>\$ 23,151,564</u>	<u>\$ 21,505,028</u>	

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

7. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) As of December 31, 2012 and 2011, the commitments and contingencies arising from the Company's normal course of business were as follows:

	December 31,	
	2012	2011
Bills and bonds payable under repurchase agreements	\$ 159,376,775	\$ 184,993,275
Guarantees on commercial papers	141,622,600	134,979,200
Fixed rate commercial paper purchased	4,531,000	275,000
Fixed rate commercial paper sold	600,000	-
Index rate commercial paper purchased	22,090,000	21,215,000

- (2) As of December 31, 2012, 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>
2013.1.1-2013.12.31	\$ 37,123
2014.1.1-2014.12.31	36,367
2015.1.1-2015.12.31	36,367
2016.1.1-2016.12.31	520
Total	<u>\$ 110,377</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, 2012</u>		<u>December 31, 2011</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 367,174	\$ 367,174	\$ 601,915	\$ 601,915
Financial assets at fair value through profit or loss	129,072,587	129,072,587	135,756,870	135,756,870
Receivables	1,261,152	1,261,152	1,833,166	1,833,166
Available-for-sale financial assets	81,883,882	81,883,882	83,240,989	83,240,989
Held-to-maturity financial assets	500,000	500,000	250,000	250,000
Other financial assets	930,098	930,098	453,384	453,384
<u>Liabilities</u>				
Bank overdrafts and call loans from banks	20,861,000	20,861,000	3,416,000	3,416,000
Financial liabilities at fair value through profit or loss	1,857	1,857	-	-
Bills and bonds payable under repurchase agreements	159,376,775	159,376,775	184,993,275	184,993,275
Payables	1,000,645	1,000,645	1,257,098	1,257,098
Other liabilities	76,217	76,217	73,473	73,473
<u>Derivative Financial Instruments</u>	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - Interest rate swap	1,297	1,297	-	-

- 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 cash equivalent, other financial assets (excluding financial assets carried at cost), 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 spot middle rate of the Megabank and the Bank of Taiwan.

- (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</u>	
	<u>Estimates</u>		<u>Quoted Market Price</u>	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
<u>Non-Derivative Financial Instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 551,469	\$ 41,479	\$ 128,521,118	\$ 135,715,391
Receivables	-	-	1,261,152	1,833,166
Available-for-sale financial assets	3,156,645	2,658,190	78,727,237	80,582,799
Held-to-maturity financial assets	-	-	500,000	250,000
Other financial assets	-	-	930,098	453,384
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	1,857	-
Bills and bonds payable under repurchase agreements	-	-	159,376,775	184,993,275
Payables	-	-	1,000,645	1,257,098
Other liabilities	-	-	76,217	73,473
<u>Derivative Financial Instruments</u>				
<u>Liabilities</u>	<u>Quoted Market Price</u>		<u>Fair Value based on</u>	
	<u>Estimates</u>		<u>Quoted Market Price</u>	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ 1,297	\$ -

- A. The interest revenue of \$1,832,036 thousand and \$2,276,575 thousand and interest expense of \$445,783 thousand and \$384,191 thousand were recognized for the years ended December 31, 2012 and 2011, 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, 2012 and 2011 is decreasing by \$759,617 thousand and \$863,575 thousand of which \$304,943 thousand and \$135,910 thousand, respectively, was deducted from equity and transferred to profit.

For the years ended December 31, 2012 and 2011, the Company's net commission income of \$593,311 thousand and \$712,572 thousand, respectively, results from the difference of commission revenues amounting to \$603,022 thousand and \$723,748 thousand, respectively, and commission expenses amounting to \$9,711 thousand and \$11,176 thousand, respectively.

- B. Convertible corporate bond asset swaps

- (A) As of December 31, 2012 and 2011, the convertible corporate bonds recognized as financial assets at fair value through profit and loss acquired through convertible bonds in exchange of fixed income instruments are as follows:

	<u>December 31, 2012</u>	
	<u>Contract amount</u>	<u>Fair value</u>
	December 31, 2012	December 31, 2011
Convertible corporate bond asset swap contract	\$ 2,843,400	\$ 22,657

		December 31, 2011	
		<u>Contract amount</u>	<u>Fair value</u>
Convertible corporate bond asset swap contract		\$ 2,756,700	\$ 67,319
(B)	The gain (loss) on financial instruments incurred due to the transactions carried out for convertible corporate bond asset swap are as follows:		

		For the year ended December 31, 2012		
		<u>Realized (Loss)</u>	<u>Valuation (Loss)</u>	
		<u>Gain</u>	<u>Gain</u>	<u>Total</u>
Convertible corporate bond asset swaps		\$ 72,172	(\$ 44,662)	\$ 27,510

		For the year ended December 31, 2011		
		<u>Realized (Loss)</u>	<u>Valuation (Loss)</u>	
		<u>Gain</u>	<u>Gain</u>	<u>Total</u>
Convertible corporate bond asset swaps		\$ 64,240	\$ 61,614	\$ 125,854

(C) Credit risk

The convertible corporate bond asset swap that the Company engages in are the underwriting of fixed income instrument transactions, and the main credit risk occurs when the bond issuer fails to fulfil the obligation at the convertible bond resale date as binding by the contract term. In addition to the continuous follow ups on the credit rating of issuers and others, the Company also checks on the operating condition and financial statements on a regular basis to monitor changes in credit rating. Therefore, no significant credit risk is expected.

(D) Market risk

The Company holds the convertible corporate bonds due to engagement in convertible corporate bond asset swap. While the exposure position is cleared at the agreed price of asset swap contract or at the resale price based on the bond issuance contract at maturity, the bonds are not influenced by the change in fair value of bonds. As a result, the market risk is deemed insignificant.

(E) Future cash flow

Due to the underwriting of fixed income instrument transactions, cash flow of fixed interest received based on the exchange schedule is insignificant, and there is no cash outflow when the counterparty terminates a contract prematurely or when the contract matures. As a result, there is no significant additional cash demand.

(3) Information of fair value hierarchy of financial instruments

Unit: In thousand of New Taiwan dollars
December 31, 2012

<u>Non-derivative financial instruments</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Investment in bills	\$ 125,240,337	\$ -	\$ 125,240,337	\$ -
Investment in stock	3,577	3,577	-	-
Investment in bonds	3,828,673	547,892	3,280,781	-
Available-for-sale financial assets				
Investment in stock	3,156,645	3,156,645	-	-
Investment in bonds	78,727,237	-	78,727,237	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	1,857	-	1,857	-
<u>Derivative Financial Instruments</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	\$ 1,297	\$ -	\$ 1,297	\$ -

December 31, 2011

<u>Non-derivative financial instruments</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Assets</u>				
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.

- a. 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.
- b. Public quotation of the same or similar financial instruments in a non-active market.
- c. 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.
- d. 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, 2012 and 2011, the Company did not hold any open interest of futures and options.
- (B) Gains (losses) on the futures and options for the years ended December 31, 2012 and 2011 are set forth below:

For the year ended December 31, 2012: None

	For the year ended December 31, 2011		
	Realized (Loss) Gain	Valuation (Loss) Gain	Total
Futures contracts	(\$ <u>517</u>)	(\$ <u>36</u>)	(\$ <u>553</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, 2012, please refer to Note 4(11) for interest swap contract that has not matured. As of December 31, 2011, there was no interest swap contract that has not matured.

(B) Gains (losses) on the interest rate swaps for the years ended December 31, 2012 and 2011 are set forth below:

	For the year ended December 31, 2012		
	Realized (Loss) Gain	Valuation (Loss) Gain	Total
Interest rate swap	(\$ 715)	(\$ 1,297)	(\$ 2,012)

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

(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, 2012 and 2011, there was no yet-to-mature currency swap contract transaction.
- (B) Gains (losses) on the currency swaps for the years ended December 31, 2012 and 2011 are set forth below:

For the year ended December 31, 2012			
	<u>Realized (Loss) Gain</u>	<u>Valuation (Loss) Gain</u>	<u>Total</u>
Currency swap	(\$ <u>1</u>)	\$ <u>-</u>	(\$ <u>1</u>)

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>)

(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, the Risk Control Management is responsible for process and consolidating of various management functions.

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, 2012 and 2011, the off-balance sheet contract amount for the guarantees of commercial papers subject to potential credit risks is NT\$282,555 million and NT\$266,308 million, respectively. (The contract amount which has been drawn upon amounted to NT\$141,623 million and NT\$134,979 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, 2012 and 2011, the percentage of guarantees with collaterals is 54% and 48%, 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, 2012		December 31, 2011	
	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	\$ 129,072,587	\$ 129,072,587	\$ 135,756,870	\$ 135,756,870
Receivables	1,261,152	1,261,152	1,833,166	1,833,166
Available-for-sale financial assets	81,883,882	81,883,882	83,240,989	83,240,989
Held-to-maturity financial assets	500,000	500,000	250,000	250,000
Other financial assets	1,299,398	1,299,398	822,684	822,684
Off-balance sheet guarantees	141,622,600	141,622,600	134,979,200	134,979,200
Total	<u>\$ 355,639,619</u>	<u>\$ 355,639,619</u>	<u>\$ 356,882,909</u>	<u>\$ 356,882,909</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, 2012		December 31, 2011	
	Carrying value	Maximum credit exposure risk	Carrying value	Maximum credit exposure risk
Manufacturing	\$ 42,788,200	\$ 42,788,200	\$ 40,706,000	\$ 40,706,000
Financial & insurance	42,550,000	42,550,000	41,604,600	41,604,600
Real estate	25,558,400	25,558,400	26,135,600	26,135,600
Wholesale & retail	12,483,800	12,483,800	10,227,400	10,227,400
Services	6,189,900	6,189,900	5,056,900	5,056,900
Others – less than 5% of balance of guarantees at period end	12,052,300	12,052,300	11,248,700	11,248,700
Total	<u>\$ 141,622,600</u>	<u>\$ 141,622,600</u>	<u>\$ 134,979,200</u>	<u>\$ 134,979,200</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, 2012	December 31, 2011
Guarantees in arrear and guaranteed credits overdue for no longer than three months	\$ -	\$ -
Overdue credits (including overdue receivables) (Note 1)	-	-
Loans under surveillance	357,000	555,300
Overdue receivables	-	-
Ratio of overdue credits (%) (Note 2)	-	-
Ratio of overdue credits plus ratio of loans under surveillance (%)	0.25	0.41
Provision for bad debts and guarantees as required by regulation	2,835,952	2,829,282
Provision for bad debts and guarantees actually reserved	2,999,660	2,911,927

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, 2012	December 31, 2011
Total guarantees and endorsement for short-term bills	\$ 141,622,600	\$ 134,979,200
Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment)	4.73	4.52
Total bills and bonds sold under repurchase agreements	159,376,775	184,993,275
Bills and bonds sold under repurchase agreements / Net amount (after deducting final accounts allotment)	5.32	6.19

c. Concentration of credit risk

Items	December 31, 2012		December 31, 2011	
Credits extended to related parties	\$	545,000	\$	210,000
Percentage of credits extended to related parties (%) (Note 1)		0.38		0.16
Percentage of credits extended secured by equity (%) (Note 2)		17.62		17.97
Industry concentration (Top 3 industries with maximum industry credit ratio)	Industry	Ratio(%)	Industry	Ratio(%)
	Manufacturing	30.21	Financial and insurance	30.82
	Financial and insurance	30.04	Manufacturing	30.16
	Real estate	18.05	Real estate	19.36

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:

	For the years ended December 31,	
	2012	2011
Beginning balance	\$ 2,911,927	\$ 2,903,376
Provisions	126,379	89,757
Write-off	(44,998)	(111,323)
Deferred income transferred	6,352	30,117
Ending balance	\$ 2,999,660	\$ 2,911,927

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, 2012</u>	
		<u>Average Amount</u>	<u>Average Interest Rate (%)</u>
Assets			
Cash and cash equivalents (Note)	\$	1,267,849	0.59
Call loans to banks		84,153	0.70
Financial assets at fair value through profit or loss		128,598,559	1.07
Available-for-sale financial assets		74,988,336	2.39
Held-to-maturity financial assets		521,858	2.23
Liabilities			
Bank overdrafts and call loans from banks		13,190,497	0.68
Bills and bonds payable under repurchase agreements (RP)		164,692,531	0.68
		<u>For the year ended December 31, 2011</u>	
		<u>Average Amount</u>	<u>Average Interest Rate (%)</u>
Assets			
Cash and cash equivalents (Note)	\$	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

Note: Cash and cash equivalent includes restricted asset – certificates of time deposit.

b. Interest rate sensitivity analysis on assets and liabilities

December 31, 2012

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	118,128,935	17,537,408	8,180,348	65,697,315	209,544,006
Interest rate sensitive liabilities	177,966,379	2,236,308	35,088	-	180,237,775
Interest rate sensitive gap	(59,837,444)	15,301,100	8,145,260	65,697,315	29,306,231
Net worth					32,819,074
Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%)					116.26
Ratio of interest rate sensitivity gap to net worth (%)					89.30

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

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, 2012 and 2011, the carrying amounts of financial assets and financial liabilities are classified according to their time-to-maturity as follows:

(Blank below)

	December 31, 2012								
	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	\$ 59,030,601	\$ 44,905,484	\$ 21,274,262	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125,210,347
Foreign currency bills investments	-	-	11,276	-	-	-	-	-	11,276
Fixed rate commercial paper purchased	-	-	38	4,064	14,612	-	-	-	18,714
Bond investments - government bonds	-	-	-	-	-	-	-	547,892	547,892
Bond investments - convertible corporate bonds	-	-	73,173	38,448	169,768	45,194	79,141	-	405,724
Convertible corporate bond asset swap	9,000	50,115	939,373	904,279	972,290	-	-	-	2,875,057
Available-for-sale financial assets									
Bond investments - government bonds	-	13,067,261	1,009,008	10,230,002	8,111,008	8,496,721	6,141,735	5,358,055	52,413,790
Bond investments - financial bonds	-	-	-	-	-	1,196,477	695,799	2,042,429	3,934,705
Bond investments - corporate bonds	-	-	2,065,502	1,670,279	1,403,509	4,685,697	10,976,955	1,015,772	21,817,714
Bond investments - foreign currency corporate bonds	-	-	145,162	-	-	-	-	-	145,162
Beneficiary or asset-backed securities	-	-	-	-	-	415,866	-	-	415,866
Held-to-maturity financial assets	-	-	-	-	250,000	250,000	-	-	500,000
Total assets	<u>\$ 59,039,601</u>	<u>\$ 58,022,860</u>	<u>\$ 25,517,794</u>	<u>\$ 12,847,072</u>	<u>\$ 10,921,187</u>	<u>\$ 15,089,955</u>	<u>\$ 17,893,630</u>	<u>\$ 8,964,148</u>	<u>\$ 208,296,247</u>
<u>Liabilities</u>									
Financial liabilities at fair value through profit or loss									
Fixed rate commercial paper sold	-	-	-	(1,857)	-	-	-	-	(1,857)
Derivative instruments - interest swap	-	-	-	-	(1,297)	-	-	-	(1,297)
Bills and bonds payable under repurchase agreements	(138,930,365)	(18,175,014)	(2,271,396)	-	-	-	-	-	(159,376,775)
Total liabilities	(138,930,365)	(18,175,014)	(2,271,396)	(1,857)	(1,297)	-	-	-	(159,379,929)
Net liquidity gap	<u>(\$ 79,890,764)</u>	<u>\$ 39,847,846</u>	<u>\$ 23,246,398</u>	<u>\$ 12,845,215</u>	<u>\$ 10,919,890</u>	<u>\$ 15,089,955</u>	<u>\$ 17,893,630</u>	<u>\$ 8,964,148</u>	<u>\$ 48,916,318</u>

	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 purchased	-	-	-	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>

(D) Supplementary information in accordance with the Regulations:

Sources and Utilization of Capital
as of December 31, 2012
(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	59,031	44,906	16,899	4,386	-
Bonds	9	13,117	639	3,594	65,697
Bank deposit	766	300	-	200	-
Loans extended	-	-	-	-	-
Bills and bonds investment with resale agreements	-	-	-	-	-
Total	59,806	58,323	17,538	8,180	65,697
Sources of capital					
Loans borrowed	20,861	-	-	-	-
Bills and bonds payable under repurchase agreements	138,931	18,175	2,236	35	-
Own capital	-	-	-	-	32,819
Total	159,792	18,175	2,236	35	32,819
Net capital	(99,986)	40,148	15,302	8,145	32,878
Accumulated net capital	(99,986)	(59,838)	(44,536)	(36,391)	(3,513)

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)

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

- 1) As of December 31, 2012 and 2011, the carrying amounts of floating interest-earning assets and floating interest-bearing liabilities maybe exposed 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 repricing date or expected maturity date:

	December 31, 2012								
	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>									
Available-for-sale financial assets									
Financial bonds with floating rate	\$ 10,000	\$ 1,200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,210,000
Total assets	<u>\$ 10,000</u>	<u>\$ 1,200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,210,000</u>
<u>Liabilities</u>									
Financial liabilities at fair value through profit and loss									
Derivative instruments – interest swap	(1,297)	-	-	-	-	\$ -	-	-	(1,297)
Total liabilities	<u>(1,297)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,297)</u>
Total	<u>\$ 8,703</u>	<u>\$ 1,200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,208,703</u>
	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>									
Available-for-sale financial assets									
Financial bonds with floating rate	\$ 10,000	\$ 700,000	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 760,000
Total assets	<u>\$ 10,000</u>	<u>\$ 700,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 760,000</u>

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

<u>Items of financial assets</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Available-for-sale financial assets		
Bond investments – government bonds	0.5690%-1.5941%	0.7356%-1.7457%
Bond investments –financial bonds	1.2278%-2.0058%	2.1441%-2.4288%
Bond investments –foreign currency financial bonds	-	4.1116%
Bond investments – corporate bonds	0.9585%-1.6527%	0.9012%-1.8473%
Bond investments –foreign currency corporate bonds	2.7983%	2.9465%
Beneficiary or asset-backed securities	1.1615%	1.3181%
Held-to-maturity financial assets		
Bond investments – corporate bonds	2.0000%-2.0800%	3.4000%

E. Operating risk and legal risk

Information on Breach of Applicable Laws or Regulations
December 31, 2012

	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	None

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 through telephone, mobile phone or email.

C. Sharing of information and operating facilities or premises

Under the Financial Holding Company Act, Personal Data Protection Law and the related regulations stipulated by FSC, 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 and operating premises. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

(8) Capital adequacy ratio

Year		December 31, 2012	December 31, 2011
Items			
Eligible capital	Ratio of Tier I capital	27,428,536	26,722,885
	Ratio of Tier II capital	-	-
	Ratio of Tier III capital	1,155,998	1,497,344
	Eligible capital, net	28,584,534	28,220,229
Risk-weighted assets, total	Credit risk	141,519,133	131,391,518
	Operation risk	8,168,375	8,215,825
	Market risk	62,265,525	55,227,413
	Risk-weighted assets, total	211,953,033	194,834,756
Capital adequacy ratio (%)		13.49	14.48
Ratio of Tier I capital to risk - weighted assets (%)		12.94	13.71
Ratio of Tier II capital to risk - weighted assets (%)		-	-
Ratio of Tier III capital to risk - weighted assets (%)		0.55	0.77
Ratio of common shares to total assets (%)		15.09	14.46
Leverage ratio(%)		12.55	12.38

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 :

Unit: In thousand of New Taiwan Dollar							Relationship with the Company
Trade date	Counterparty	Loan component	Carrying amount (Note 1)	Sale price	Gain and loss on disposal	Repo trade (Note 2)	
May 22, 2012	Mega Asset Management Co., Ltd.	Guarantee advance of commercial paper	\$ -	\$ 802,264	\$ 802,264	Nil	The subsidiary of Mega

Note 1: The carrying amount is the balance of original loan amount less allowance for doubtful debt.

Note 2 : Please disclose the condition of repo trade if any, such as profit sharing, Repo RP or Reverse Repo, RS.

Note 3: Please refer to Note 5 (B) 10 for transaction details of disposing non-performing loan to other related party.

- 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 segments for information reporting depending on the information used by Chief Operating Decision-Maker (CODM). There are three segments of the Company which are responsible for reporting: bills, bonds, and the branch. The branch 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 segment.

The bills segment is responsible for the commercial bill guarantee, short-term bill issuance in the primary market and the repo trade in the secondary market. The bonds segment 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 segments 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 expense to bills segment and bonds segment. 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, 2012					
Items	Bills Segment	Bonds Segment	Branch Segment	Adjustments	Total	
Net revenues	\$ 1,589,471	\$ 1,605,308	\$ 1,021,254	\$ 55,855	\$ 4,271,888	
Net revenues from external clients	2,061,567	1,605,087	549,379	55,855	4,271,888	
Net bills revenues	1,189,887	-	136,664	-	1,326,551	
Net bond revenues	-	1,223,996	325,855	-	1,549,851	
Net equity investment revenues	-	381,092	-	-	381,092	
Bad debt recovered and overdue accounts	872,520	-	81,256	-	953,776	
Other net revenues	(840)	(1)	5,604	55,855	60,618	
Net inter-segment revenues	(472,096)	221	471,875	-	-	
Net bills revenues	(472,096)	-	472,096	-	-	
Net bond revenues	-	221	(221)	-	-	
Interest income (Note)	720,595	1,206,632	144,560	(82,513)	1,989,274	
Gains(losses) from reportable segment	1,589,471	1,605,308	719,070	(565,290)	3,348,559	
Reportable segment assets	86,447,722	64,237,833	59,796,347	6,935,672	217,417,574	
Reportable segment liabilities	61,923,799	40,415,866	58,924,707	23,334,128	184,598,500	

For the year ended December 31, 2011					
Items	Bills Segment	Bonds Segment	Branch Segment	Adjustments	Total
Net revenues	\$ 1,071,858	\$ 1,673,508	\$ 1,228,661	\$ 33,447	\$ 4,007,474
Net revenues from external clients	1,342,687	1,678,348	952,992	33,447	4,007,474
Net bills revenues	931,740	-	239,364	-	1,171,104
Net bond revenues	-	1,479,272	487,862	-	1,967,134
Net equity investment revenues	-	199,911	-	-	199,911
Bad debt recovered and overdue accounts	251,633	-	162,467	-	414,100
Other net revenues	159,314 (835)	63,299	33,447	255,225
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	1,071,858	1,673,508	901,785	(509,048)	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

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 former Financial Supervisory Commission, Executive Yuan (FSC), financial enterprises supervised by former 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 former 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	Completed.
8. Decide on Taiwan IFRSs’ accounting policies	Completed.

Working items for IFRSs Adoption	Status of Execution
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	Completed.
11. Complete the preparation of Taiwan IFRSs comparative financial information for 2012	In progress.
12. Complete the adjustment of relevant internal controls (including the standard procedure of financial reporting and relevant information system)	Completed.

- (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 different from the actual differences that may arise when new issuances of or amendments to IFRSs are subsequently ratified by FSC or relevant interpretations or amendments to the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” come in the future.

Material differences identified by the Company that may arise between current accounting standards used and Taiwan IFRSs, “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” as well as exemptions chosen in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” in the future are set forth below (please refer to Note 13(3)):

(A) Balance sheet reconciliation as of January 1, 2012:

	R.O.C. GAAP	Adjustments	IFRSs	Note
Receivables	\$ 1,833,166	\$ 4,152	\$ 1,837,318	(1)
Investment property– net	-	2,581,743	2,581,743	(2)
Deferred income tax– net	-	98,292	98,292	(3) 、(4)and(5)
Other assets	223,649,445	(2,597,351)	221,052,094	(1)·(2)·(4) and (6)
Total assets	\$ 225,482,611	\$ 86,836	\$ 225,569,447	
Payables	\$ 1,257,098	(\$ 317,477)	\$ 939,621	(1) 、(5) and (6)
Liabilities reserve	-	3,282,886	3,282,886	(4) and (6)
Other liabilities	191,630,338	(2,810,183)	188,820,155	(6)
Total liabilities	\$ 192,887,436	\$ 155,226	\$ 193,042,662	
Unappropriated retained earnings	\$ 2,685,319	(\$ 125,673)	\$ 2,559,646	(3) 、(4) and (5)
Losses not recognized as pension cost-net	(57,283)	57,283	-	(4)
Other stockholders’ equity	29,967,139	-	29,967,139	
Total stockholders’ equity	\$ 32,595,175	(\$ 68,390)	\$ 32,526,785	

Note (1): Regular way purchase and sale was adjusted according to IAS No. 39, “Financial Instruments: Recognition and Measurement”. As a result, “receivables” increased by \$4,152 thousand, “payables” increased by \$3,350 thousand and “financial assets at fair value through profit and loss” (recognized as “other asset” in above sheet) decreased by \$802 thousand.

- Note (2): In accordance with IAS No. 40, “Investment Property”, the Company reclassified the original “fixed assets (recognized as “other assets” in above reconciliation)” meeting the criteria of investment property amounting to \$2,581,743 thousand into “investment property”, and the remaining \$347,138 thousand shall be reclassified into “property and equipment (recognized as “other assets” in above reconciliation)”.
- Note (3): In accordance with IAS No. 12, “Income Taxes”, deferred income tax assets are recognized only if it is considered probable that it will be realized. Therefore, the recognized allowances which are evaluated to be highly realizable amount have resulted in “deferred income tax assets” and “unappropriated retained earnings” increasing by \$60,218 thousand. The remainder is deferred tax effects of pension and full-attendance bonus, please refer to Notes 4 and 5.
- Note (4): In accordance with IAS No. 19, “Employee Benefit”, no specific limits are set out for recognition of minimum pension liability, and the related accounts were reversed. In addition, the Company applied the first-time adoption of International Financial Reporting Standards and the transitional rules of above standards are not applicable. Therefore, no net unrecognized transitional liabilities occurred and transitional payment was adjusted retrospectively. In addition, the Company adopted the employee benefit exemptions under IFRS No. 1 “First-time Adoption of International Financial Reporting Standards” and recognized all the unrecognized actuarial gain and loss on pension at lump sum. Due to the effects of the above accounting standards difference, “liabilities reserve” increased by \$135,296 thousand, “deferred pension cost (recognized as “other assets” in above reconciliation)” decreased by \$14,806 thousand, “losses not recognized as pension cost-net” increased by \$57,283 thousand, “deferred income tax asset” increased by \$35,255 thousand and “unappropriated retained earnings” decreased by \$172,130 thousand.
- Note (5): Accumulated full-attendance bonus expense is evaluated in accordance with IAS 19, “Employee Benefits”. As result, “payables” increased by \$16,580 thousand, “deferred income tax assets” increased by \$2,819 thousand and “unappropriated retained earnings” decreased by \$13,761 thousand.
- Note (6): Other accounts have been reclassified in accordance with “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” effective in 2013 as follows:
- 1) \$337,407 thousand profit-seeking income tax of the consolidated tax returns under “payables” was reclassified as “current income tax liabilities (recognized as “other liabilities” in above reconciliation) ”.
 - 2) \$235,663 thousand “accrual pension liabilities (recognized as “other liabilities” in above reconciliation)” was reclassified as “liabilities reserve”.
 - 3) \$2,911,927 thousand “guarantee policy reserve (recognized as “other liabilities” in above reconciliation)” was reclassified as “liabilities reserve”.

(B) Balance sheet reconciliation as of December 31, 2012

	R.O.C. GAAP	Adjustments	IFRSs	Note
Receivables	\$ 1,261,152	\$ 9,000	\$ 1,270,152	(1)
Investment property– net	-	2,571,079	2,571,079	(2)
Deferred income tax– net	63,388	36,819	100,207	(3) ∙ (4) ∙ (5)and(6)
Other assets	216,093,034	(2,492,460)	213,600,574	(1) ∙ (2) ∙ (4)and(7)
Total assets	\$ 217,417,574	\$ 124,438	\$ 217,542,012	
Payables	\$ 1,000,645	(\$ 327,503)	\$ 673,141	(1) ∙ (5)and(7)
Liabilities reserve	-	3,391,554	3,391,554	(4) ∙ (6)and(7)
Other liabilities	183,597,855	(2,836,598)	180,761,257	(7)
Total liabilities	\$ 184,598,500	\$ 227,453	\$ 184,825,953	
Unappropriated retained earnings	\$ 2,883,611	(\$ 179,765)	\$ 2,703,846	(3) ∙ (4) ∙ (5)and(6)
Losses not recognized as pension cost-net	(76,750)	76,750	-	(4)
Other stockholders' equity	30,012,213	-	30,012,213	
Total stockholders' equity	\$ 32,819,074	(\$ 103,015)	\$ 32,716,059	

Note (1): Regular way purchase and sale was adjusted in accordance with IAS No. 39, “Financial Instruments: Recognition and Measurement”. As a result, “receivables” increased by \$9,000 thousand, “financial assets at fair value through profit and loss (recognized as “other assets” in above reconciliation)” by \$90,606 thousand and “payables” by \$99,606 thousand.

Note (2): In accordance with IAS No. 40, “Investment Property”, the Company reclassified the original “fixed assets (recognized as “other assets” in above reconciliation)” meeting the criteria of investment property amounting to \$2,571,079 thousand into “investment property”, and the remaining \$347,155 thousand was reclassified into “property and equipment (recognized as “other assets” in above reconciliation)”.

Note (3): As of January 1, 2012, opening balances were adjusted which resulted in increase in “deferred income tax assets” by \$98,292 thousand and decrease in unappropriated earnings by \$125,673 thousand. Please refer to Note 13(2)(A)note (3) to (5). In addition, in accordance with IAS No. 12, “Income Taxes”, deferred income tax assets which are evaluated to be probably realizable has made “deferred income tax assets” and “unappropriated earnings” decrease by \$60,128 thousand. The remainder was effects of deferred income tax of pension and full-attendance bonus adjustments. Please refer to Note 13(2)(A)note (3) to (5).

Note (4): As of January 1, 2012, opening balances were adjusted which resulted in increase in “liabilities reserve” by \$135,296 thousand, decrease in “deferred pension cost (recognized as “other assets” in above reconciliation)” by \$14,806 thousand, increase in “net losses not recognized as pension cost” by 57,283 thousand. Please refer to Note 13(2)(A)note(4). As of December 31, 2012, “liabilities reserve” decreased by \$16,648 thousand, “deferred pension cost (recognized as “other assets” in above reconciliation)” increased by \$2,819 thousand, “net losses not recognized as pension cost” increased by 19,467 thousand. In addition, due to the change in actuarial assumption in pension of 2012, “liabilities reserve” decreased by \$9,018 thousand, “deferred income tax asset” decreased by \$1,533 thousand and “unappropriated retained earnings” increased by \$7,485 thousand.

Note (5): As of January 1, 2012, opening balances were adjusted which resulted in increase in “payables” by \$16,580 thousand. Please refer to Note 13(2)(A)note(5). In addition, the full-attendance estimated for 2012 has made “payables” increase by \$422 thousand, “deferred income tax assets” increase by \$72 thousand and “unappropriated retained earnings” decrease by \$350 thousand.

Note (6): The labor retirement benefit of pension actuarial for 2012 are recognized in other comprehensive income. The adjustment has made “liabilities reserve” increase by \$1,215 thousand, “actuarial gain and loss of defined benefit plan (recognized as “unappropriated retained earnings” in above reconciliation)” decrease by \$1,215 thousand, “deferred income tax assets” and “income tax relating to component of other comprehensive income (recognized as “unappropriated retained earnings” in above reconciliation)” increase by \$206 thousand.

Note (7): Other accounts were reclassified in accordance with “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” effective in 2013.

- 1) \$444,111 thousand profit-seeking income tax of the consolidated tax returns under “payables” was reclassified as “current income tax liabilities (recognized as “other liabilities” in above reconciliation) ”.
- 2) \$281,049 thousand “accrual pension liabilities” (recognized as “other liabilities” in above reconciliation)” was reclassified as “liabilities reserve”.
- 3) \$2,999,660 thousand “guarantee policy reserve (recognized as “other liabilities” in above reconciliation)” was reclassified as “liabilities reserve”.

(C)Income statement reconciliation for 2012

	R.O.C. GAAP	Adjustments	IFRSs	Note
Net interest income	\$ 1,989,274	\$ -	\$ 1,989,274	
Net non-interest income	2,282,614	(151,511)	2,131,103	(1)
Net income	4,271,888	(151,511)	4,120,377	
Various provisions	(126,379)	151,511	25,132	(1)
Operating expenses	(796,950)	8,596	(788,354)	(2)
Net income of operating segment before tax	3,348,559	8,596	3,357,155	
Income tax expense	(467,593)	(61,679)	(529,272)	(3)
Net income	\$ 2,880,966	(\$ 53,083)	\$ 2,827,883	

Note 1:According to “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”, “bad debt recovered and overdue accounts” is reclassified into various reserves.

Note 2:Under IFRS, adjustments are made on employee pension reserve and unused pay leave and the change has made payroll expense decrease by \$8,596 thousand dollars. Please refer to Note 13(2)(B)note (4) and (5).

Note 3:Please refer to Note 13(2)(B)note (3) to (5) for adjustments made on the income tax expense for the period due to various significant variances.

- (3) The Company is eligible for the exemptions set out in IFRS No. 1, “First-time Adoption of International Financial Reporting Standards” and “Regulation Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” effective in 2013. Explanations are summarized below:

(A)Employee benefits

The Company chose to recognize cumulative actuarial gains and losses related to employee benefit as retained earnings at the conversion date. Also, based on each accounting period subsequent to the conversion date in which the amounts are determined, the present value of benefits and obligation, plan assets at fair value, plan profit and loss and information of experience adjustment required by paragraph 120A (P) set out in IAS No. 19 “Employee benefits” shall be disclosed.

The above exemptions may be different from the actual situation due to the regulations announced by competent authorities, changes in economic environment or the change in evaluation on impacts over various exemptions.

Five.CPA Certifying Financial Statements of Parent and Subsidiary Companies in the Most Recent Year: N/A.

Six. Financial difficulties of the Company and its affiliated companies in the most recent years and up to the printing of the annual report: N/A.

Analysis of Financial Status and Operating Results, and Risk Management

One. Financial Status

Unit: NT\$ Thousand

Item \ Year	2012	2011	Difference	
			Amount	%
Cash and cash equivalent	367,174	601,915	(234,741)	(39.00)
Financial assets at fair value through profit or loss	129,072,587	135,756,870	(6,684,283)	(4.92)
Accounts receivable – net	1,261,152	1,833,166	(572,014)	(31.20)
Available-for-sale financial assets - net	81,883,882	83,240,989	(1,357,107)	(1.63)
Held-to-maturity financial assets - net	500,000	250,000	250,000	100.00
Other financial assets - net	1,299,398	822,684	476,714	57.95
Fixed assets - net	2,918,234	2,928,881	(10,647)	(0.36)
Intangible assets - net	4,750	1,096	3,654	333.39
Other assets - net	110,397	47,010	63,387	134.84
Total assets	217,417,574	225,482,611	(8,065,037)	(3.58)
Banks overdrafts and call loans from banks	20,861,000	3,416,000	17,445,000	510.69
Financial liabilities at fair value through profit or loss	3,154	-	3,154	-
Bills and bonds payable under repurchase agreements	159,376,775	184,993,275	(25,616,500)	(13.85)
Payables	1,000,645	1,257,098	(256,453)	(20.40)
Other liabilities	3,356,926	3,221,063	135,863	4.22
Total liabilities	184,598,500	192,887,436	(8,288,936)	(4.30)
Capital stock	13,114,411	13,114,411	-	-
Capital surplus	312,823	312,823	-	-
Retained earnings	16,900,777	15,897,794	1,002,983	6.31
Other equities	2,491,063	3,270,147	(779,084)	(23.82)
Total stockholders' equity	32,819,074	32,595,175	223,899	0.69
<p>Ratio change analysis: (Ratio change before and after over 20%; moreover, amount change for up to NT\$10,000 thousand)</p> <ol style="list-style-type: none"> 1. The decrease in cash and cash equivalent and accounts payable was a result of the matured RP payment deposited in the exclusive account as claimed by the customer's heir after the customer's death. 2. The decrease in accounts receivable was a result of the decrease in bond interest receivable resulting from maturity of the bonds. 3. The increase in the held-to-maturity financial assets was a result of purchase of bonds. 4. The increase in other financial assets was a result of the increase in restricted assets-time deposit certificate furnished as the security for bank overdraft. 5. The increase in other assets was a result of the increase in the deferred income tax assets. 6. The increase in the banks overdrafts and call loans from banks was a result of the increase in the call loans from banks. 7. The decrease in other equities was a result of the decrease in unrealized valuation gain resulting from maturity of bonds and shortened time limit of risk. 				

Two. Operating results

Unit: NT\$ Thousand

Item	2012	2011	Increase (Decrease) amount	Ratio Change (%)
Interest income, net	1,989,274	2,407,627	(418,353)	(17.38)
Revenue other than interest income, net	2,282,614	1,599,847	682,767	42.68
Net income	4,271,888	4,007,474	264,414	6.60
Provisions	126,379	89,757	36,622	40.80
Operating expenses	796,950	779,614	17,336	2.22
Pre-tax net profit	3,348,559	3,138,103	210,456	6.71
Income tax (expense) gain	(467,593)	(455,801)	(11,792)	2.59
Net income	2,880,966	2,682,302	198,664	7.41
Explanation of analysis of changes: (Ratio change over 20%). 1. The increase of net income other than interest was a result of the increase in gain from disposal of stock and increase in the collected bad debt and delinquent loan. 2. The increase in provisions was a result of the increase in the allowance for guarantee liability to deal with the increase in extended credit.				

Three. Cash flow

I. Liquidity analysis within two years

Item \ Year	2012	2011	Increase/Decrease (%)
Cash flow ratio (%)	N/A	1.19	-
Cash flows adequacy ratio (%)	189.27	386.83	(51.07)
Explanation of analysis of changes: (Ratio change over 20%). The decrease in the cash flow adequacy ratio was a result of the decrease in RP liabilities and increase in the call loans from banks in consideration of the funding cost in 2012, resulting in the net cash outflow from operating activities.			

II. Liquidity analysis within one year

Beginning cash balance ①	Estimated net cash flow from operating activity ②	Estimated annual cash outflow ③	Estimated cash surplus (deficit) ① + ② - ③	Remedial measures for estimated cash deficit	
				Investment Plan	Financial Plan
367,174	9,365,133	22,957,646	(13,225,339)	-	13,591,000
1. Current cash flow analysis: (1) Operating activity: Net cash inflow from operating activity resulting from the estimated repayment upon maturity of bonds. (2) Investing activity: Scheduled to replace the computer server. (3) Financing activity: Primarily scheduled to release cash dividend and pay banks overdrafts and call loans from banks. 2. Remedial measures for estimated cash deficit and liquidity analysis: scheduled to be paid by the banks overdrafts and call loans from banks.					

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 2012, the cash dividends allocated to the Company from the transfer investment were NT\$14,177 thousand, and the stock dividends of TDCC were 49,157 shares and the stock dividends of Taiwan Futures Exchange 34,823 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 Committee is under the supervision of the General Manager to review business risk management reports, the allocation of business risk and the deployment of risk assets, business risk management objectives and implementation scenarios, and other risk management issues.

The Risk Management Dept. is 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 relies 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. Qualitative and quantitative information about various risks:

(1) Credit risk management system and capital requirement

1 Credit risk management system

2012

Item	Contents
(1) Strategy, objective, policy and procedure	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) Organization and framework of credit risk management system	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.
(3) Scope and characteristics of credit 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 credit risk report covers 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.
(4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	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 counterparties, and reviewed, followed up and evaluated periodically, in order to enhance the ability to bear the credit risk.
(5) Approach to require the authorized capital	Standard Method

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

March 31, 2013

Unit: NT\$ Thousand

Type of Exposure	Capital Requirement	Risk Assets Amount
Sovereign state	0	0
Non-central government public sectors	3,185	39,814
Bank (including multilateral development banks)	130,850	1,635,627
Corporate (including securities and insurance company)	10,222,026	127,775,329
Retail creditor’s right	61,955	774,434
Investment in equity securities	64,704	808,800
Credit extended to parent company or subsidiary and credit secured by marketable securities issued by parent company or subsidiary	0	0
Other assets	245,005	3,062,557
Total	10,727,725	134,096,561

Note 1: Please complete the form based on the information available until the quarter proceeding the date of publication of this annual report.

Note 2: If any other method is applied to calculate the credit risk, please also disclose the capital requirement and risk asset amount.

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

1 Risk management system of asset securitization

2012

Item	Contents
(1) Asset securitization management strategy and procedure	<p>(1) In order to manage the transaction of asset securitization products, the Company defined its “SOP and License Guidelines for Fixed-Income Securities Underwritten and Traded for Its Own Account for Customers”, “SOP for Investment in Beneficiary Securities, Asset-Based Securities and Related Fund”. Meanwhile, in order to underwrite or buy in guarantee-free short-term bills, it also defined the “SOP for Underwriting or Buy-in of Guarantee-Free Short-Term Bills” and “Instructions to Certify Underwriting and Trading of Beneficiary Securities and Asset-Based Securities”, which provide that buy-in of asset securitization products and asset securitization short-term bills shall take into consideration the issuing terms and conditions, yield, issuer (or guarantor) or credit relating to specific debts, and relevant limit management, limit review, risk control and business management operations.</p> <p>(2) The relevant control measures include daily monitoring of single beneficiary security bought in, evaluation on market value of asset-based securities, limit of tolerable market risk (value of change per basic point or per market transaction); underwriting and buy-in of guarantee-free short-term bills positions; reporting the beneficiary securities invested by the Company, balance of asset-based securities and income thereof to the Board of Director on a quarterly basis.</p>
(2) Organization and framework of asset securitization management	Under the Company’s asset securitization product risk management framework, the Company defined the limit of various securitization products or limit of position and limit of loss. Bonds Dept. is responsible for the management of beneficiary securities and asset-based securities. Bills Dept. is responsible the business management of securitization short-term bills, dedicated to reviewing the changes of credit rating related to asset securitization products and researching and defines the relevant countermeasures when the limit of loss is meet. Risk Control Dept. is responsible for controlling the change in the entire risk of asset securitization products.
(3) Scope and characteristics of asset securitization risk reporting and the measurement system	The business management units of the Head Office submit the asset securitization product risk report to Risk Management Committee on a quarterly basis by functions in order to explain the changes of credit relating related to various asset securitization products, asset portfolio and analysis about position income. The measurement system and reports include credit ratings and income management statement related to beneficiary securities, asset-based securities and guarantee-free asset securitization short-term bills.
(4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	The Company’s asset securitization product hedging strategy is to avoid price risk, implement derivatives as operating tools, periodically assess profit and loss and report the same to the Board of Directors.
(5) Approach to require the authorized capital	Standard Method

2 Asset Securitization Exposure and Capital Requirement by Type of Transaction

March 31, 2013

Unit: NT\$ Thousand

Type of Exposure Company/Book Role		Category of Asset	Traditional		Portfolio		Total		
			Exposure Retention or Buy-in (1)	Capital Requirement (2)	Exposure Retention or Buy-in (3)	Capital Requirement (4)	Exposure (5)=(1)+(3)	Capital Requirement (6)=(2)+(4)	Capital Requirement Before Asset Securitization
Non-founding institution	Bank book								
	Trading book				415,138	28,022	415,138	28,022	
	Subtotal				415,138	28,022	415,138	28,022	
Founding institution	Bank book								
	Trading book								
	Subtotal								
Total					415,138	28,022	415,138	28,022	

Note 1: The “category of asset” section shall be completed in accordance with the categories of asset securitization products as issued or securities as invested.

Note 2: The exposure in the bank book shall be that after mitigation of risk.

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

March 31, 2013

Unit: NT\$ Thousand

Item	Accounting Titles	Initial 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.	Available-for-sale financial assets	400,000	15,138 (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	415,138

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:

March 31, 2013

Unit: NT\$ Thousand

Securities	Accounting Titles	Currency	Issuer and business location	Date of purchase	Maturity date	Coupon rate	Credit rating	Payment for interest and principal	Initial Cost	Cumulative valuation gain or loss	Accumulated 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.	Available-for-sale financial assets	NTD	Land Bank, Taipei City	November 24, 2011	Scheduled to be matured on November 24, 2016	2.2%	Taiwan Ratings twAAA	To pay the interest on the 18 th 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	15,138 (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	415,138	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) Operational risk management system and capital requirement

1 Operational risk management system

2012

Item	Contents
(1) Strategy and procedure of operational risk management	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.
(2) Organization and framework of operational risk management system	The Company’s operational risk controls mean the express enactment of various operational manuals, which may be amended from time to time due to changes in the laws and regulations, or if required, in order to help the workers follow the same. Risk Management Department shall design and introduce the operational risk management framework approved by the Board of Directors. The various units shall comply with the internal controls, laws, and the requirements about operating risk self-assessment system, fulfill the self-assessment periodically. The auditing unit shall review the effective implementation of risk management mechanisms independently and objectively to promote the Company’s well-founded operation.
(3) Scope and characteristics of operational risk reporting and the measurement system	The business management units of the Head Office report the corrective actions against important operational risk loss events, operating procedures and operating systems to Risk Management Committee on a quarterly basis by functions; Risk Control Dept. reports the annual operational risk map to Risk Management Committee periodically, analyze the operational risk event loss data and other information, and report to the Board of Directors the development of qualitative risk management objectives (various projects); the audit unit shall report the audit result to the Board of Directors and follow up and control required improvements periodically.
(4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	It is mainly to assess the probability of risk losses and the size of potential losses. The choices of 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.
(5) Approach to require the authorized capital	Basic Indicator Method

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

March 31, 2013

Unit: NT\$ Thousand

Year	Gross Profit	Capital Requirement	Risk Assets Amount
2012	3,303,855		
2011	3,581,235		
2010	4,317,737		
Total	11,202,827	560,141	7,001,765

(4) Market risk management system and capital requirement

1 Market risk management system

2012

Item	Contents
(1) Strategy and procedure of market risk management	The “Market Risk Management Guidelines” are stipulated for the managing of market risk of financial instrument position. Control adverse movement resulted from market price causing possible losses inside and outside the Balance Sheet as guidelines for business operation. Based on domestic and foreign economic data, measure economic status, predict interest rate, and draft up operating strategies to plan control measures. The measures include daily 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.
(2) Organization and framework of market risk management system	The Company’s market risk is mainly the price risk of bills, bonds, equities, and derivatives. The Risk Management Committee reviews the risk management objectives of all financial instruments. The Bills Department, Bond Department, and all branches are the main operational units for market risk control.
(3) Scope and characteristics of market risk reporting and the measurement system	The business management units of the Head Office shall submit 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 to Risk Management Committee on a quarterly basis by functions; Risk Control Dept. reports the development of market risk management objectives to the Board of Directors on a quarterly basis; Audit Office submits the audit report on transaction of derivatives to the Board of Directors on a monthly basis. 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) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	The Company’s trade hedging strategy is to avoid price risk, implement derivatives as operating tools, and periodically assess profit and loss.
(5) Approach to require the authorized capital	Standard Method

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

March 31, 2013

Unit: NT\$ Thousand

Type	Capital Requirement	Risk Assets Amount
Interest rate risk	4,318,885	53,986,063
Equity security risk	412,976	5,162,200
Foreign exchange risk	875	10,937
Product risk	0	0
Stock option processed with simplified method	0	0
Total	4,732,736	59,159,200

(5) The liquidity risk includes the analysis about maturity of assets and liabilities, and also explains the method to manage the asset liquidity and funding gap liquidity.

1. By the characteristics of business lines, the Company’s liquidity assets include bonds, Treasury bills, Central Bank Certificate of Deposits, and short-term promissory notes, with low credit risk and liquidity.
2. The “Liquidity Risk Management Guidelines” are stipulated for the measuring of liquidity risk position effectively, maintaining adequate liquidity, and ensuring solvency. The relevant control measures include: Monitor daily the Company’s cash flow deficit limits of each term and appropriately avoid capital liquidity risk; establish a capital emergency response management mechanism, activate an emergency response mechanism promptly upon the occurrence of a liquidity crunch, soaring interest rates or unexpected financial events causing serious impacts on liquidity risk, and convene the Risk Management Committee to form contingency measures.

3. 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 risk measurement system and reports include: Control of total main liabilities amount and capital flow deficit management of each term. The Finance Department is responsible for reporting the monitoring and control of liquidity risk.

Analysis on Maturity of Assets and Liabilities

March 31, 2013

Unit: NT\$ million

	Total	Amount of the remaining period to maturity date				
		0~30 days	31~90 days	91~180 days	180 days~1 year	1 year or above
Asset	203,689	60,183	56,338	14,511	6,253	66,404
Liability	205,992	148,481	23,472	999	32	33,008
Deficit	-2,303	-88,298	32,866	13,512	6,221	33,396
Accumulated deficit		-88,298	-55,432	-41,920	-35,699	-2,303

- 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, and treasury bills) 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 change of the Company's corporate identity, and the countermeasures: None
- VI. Expected effect of acquisition and the possible risk: None
- VII. Expected effect and possible risk of expanding business locations and the countermeasures: None

VIII. Risk of business concentration and countermeasures

The Company'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. Effect of any major quantity of shares belonging to directors, supervisors, or shareholders holding greater than a 1 percent stake in the Company is transferred or otherwise changes hands, and risk and countermeasures thereof: None

XI. Litigious or non-litigious matters: None

XII. 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 the 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.

VII. 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.

VIII. Other important issues: None

Special Notes

One. Affiliated enterprises

- I. Consolidated business report of affiliated enterprises: N/A
- II. Consolidated financial statements of affiliated enterprises: N/A
- III. Affiliation report
 - (1) Declaration of MEGA BILLS FINANCE CO., LTD.

Declaration

The Company has the Affiliation Report of 2012 (January 1 – December 31, 2012) 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: MEGA BILLS FINANCE CO., LTD.

Chairman of Board: Ta-Pei Liu

April 16, 2013

(2) Independent Auditor's Report

MEGA BILLS FINANCE CO., LTD.
Affiliation Report - Independent Auditor's Report

Tze-Huei-Tsung-Tze No. 12008059

To: MEGA BILLS FINANCE CO., LTD.

Mega Bills Finance Co., Ltd. states that the Relations Report of 2012 dated April 16, 2013 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 2012 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.

PricewaterhouseCoopers, Certified Public Accountants

Chien-Hung Chou, CPA

April 16, 2013

(3) Relationship between subsidiary and parent company

Unit: Share; %

Parent Company	Cause of Control	Shareholding & pledge of parent company			Directors, Supervisors, and Managers appointed by parent company	
		Quantity of Shares Held	Shareholding	Pledged shares	Job Title	Name
Mega Financial Holding Co., Ltd.	Wholly owned	1,311,441,084	100%	0	Chairman of Board (Note 2) Director & President Independent Director Independent Director (Note 3) Director Director Director Director Supervisors Supervisor (Note 1) Supervisors	Ta-Pei Liu Chii-Bang Wang Tsai-Chih Chen Tai-Lung Chen Jui-Yun Lin Chao-Hsien Lai Ying-Hua Wu To-Ching Hu Tan-Hung Lu Ching-Lung Hung Chia-Min Hung

Note 1: Mega Holdings appointed the Company's directors of 13th term on February 21, 2012, whose term of office commenced from February 25, 2012 until February 24, 2015. The name list of directors (including independent directors) and supervisors of 13th term includes Chairman and also President Chii-Bang Wang, Independent Director Tsung-Tien Cheng, Independent Director Tsai-Chih Chen, Director Jui-Yun Lin, Director Chao-Hsien Lai, Director Ying-Hua Wu, Director To-Ching Hu, Supervisor Tan-Hung Lu, Supervisor Ching-Long Hong and Supervisor Chia-Min Hung.

Note 2: Chairman Yin-Kuei Li was discharged on February 25, 2012, and succeeded to by Director & President, Chii-Bang Wang. Chairman Ta-Pei Liu assumed the office on September 26, 2012.

Note 3: Independent Director Tsung-Tien Cheng resigned on June 15, 2012. Mega Holdings appointed the new independent director Tai-Lung Chen as of July 24, 2012.

- (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	Remark
Item	Amount		
Total RS & RP	46,471,486	Terms of trade transactions are same as non-related party's trade terms	Interest expense for \$14,635 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 \$444,111 thousand on December 31, 2012 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

MEGA BILLS FINANCE CO., LTD.

Chairman of Board: Ta-Pei Liu

Head Office
2~5F, No. 91 Heng-yang Road, Taipei City
Tel. No.: (02) 2383-1616 (Representative)
Fax: (02) 2382-2878 (Administration Department)
Website: <http://www.megabills.com.tw/>