Mega Holdings

Stock Code: 5842

Website:

Market Observation Post System:

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

Mega Bills Web Site:

http://www.megabills.com.tw

MEGA BILLS FINANCE CO., LTD.

Annual Report

2013

Printed in: May 2014

■ 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.268 Sec. 1, Taiwan Blvd., Taichung City
	Tel. No.:	：	(04) 2220-2176(5 Lines)
	Fax No.:	：	(04)2222-5424
Hsinchu Branch	Address:	：	3F, No. 307 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 Po-Ju Kuo, 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 2013

I. Global and Taiwan Financial Environment, 2013

In respect of the global economic recovery, the US unemployment rate keeps declining and the economy shows moderate growth. The Mainland China is continuing to pursue the structural reform and as a result, economy growth has been slowed down from strong growth to moderate. For the economy in the Euro zone, it is still in recession, but seems on the rebound from the bottom. As for Japan Prime Minister Shinzo Abe’s strategy to stimulate a moderate economic recovery by using the strategies of depreciating value of Yen and of easing monetary policy, whether it will work or not is yet to be observed. Overall, the momentum of global economy recovery is similar to 2012.

In terms of the US monetary policy, as the economy data continued to improve, the market was speculating when the quantitative easing (QE) policy will be ended. Finally the FED announced in December 2013 that QE will be over at a moderate pace, and the size for the monthly purchase of debts will be decreased from USD 85 billion to USD 75 billion (originally the mortgage-backed securities and long-term government bonds were purchased at USD 45 billion and USD 40 billion, and will be reduced USD 5 billion, respectively). This has led to an outflow of international capital from the emerging markets and a volatile fluctuation in the emerging financial markets, which adds the uncertainty to the global financial stability and economic recovery. The raising of the debt ceiling has put the Democratic Party and Republican Party into a political stalemate. An agreement was finally reached in October, 2013. The acts for government expenditures and the raising of the debt ceiling were finally passed, resolving that the government might shut down and breach borrowing contracts, thus avoiding a global nightmare.

As to the domestic economy, the Central Bank has seen that the international economy continues to improve but with uncertain factors. Under the condition that the domestic economy grows modestly and shows no sign of inflation, the Central Bank announced, starting September 2011, for the tenth time consecutively, that the interest policy would remain unchanged. In terms of commodity prices, the consumer price index (CPI) in 2013, comparing to that in 2012, rose 0.79%. The trend of commodity prices is stable. In the foreign exchange market, the exchange rate of New Taiwan Dollars to US Dollars was averaged at 29.77 for the year, slightly depreciated compared to 29.614 in 2012.

II. Organizational changes: N/A

III. Results of Implementation of Business Plan and Strategy:

Unit: NT$ million

Item	Final Accounting Figure, 2013	Final Accounting Figure, 2012	Increase/ Decrease (%)
Underwriting and purchasing bills	2,060,701	1,876,115	9.84
Commercial paper issued	1,815,104	1,704,681	6.48
Trading volume of bills	8,012,401	9,430,418	-15.04
Trading volume of bonds	5,744,470	4,838,912	18.71
Guaranteed issues of commercial	139,224	133,996	3.90

paper average outstanding amount			
Overdue credit amounts	0	0	-
Percentage for overdue credits (%)	0	0	-

IV. Budget Implementation

Unit: NT$ million

Item	Final Accounting Figure, 2013	Budget Figure, 2013	Achievement Rate (%)
Underwriting and purchasing bills	2,060,701	1,876,551	109.81
Commercial paper issued	1,815,104	1,708,289	106.25
Trading volume of bills	8,012,401	9,637,552	83.14
Trading volume of bonds	5,744,470	4,467,360	128.59
RP outstanding balance of bills and bonds	163,870	156,006	105.04
Guaranteed issues of commercial paper average outstanding amount	139,224	135,000	103.13
Overdue credit amounts	0	0	-
Percentage for overdue credits (%)	0	0	-
Net Income after tax	2,630	2,150	122.33

V. Financial Income and Expenditure, and Analysis of Profitability

Unit: NT$ million

Item	Final Accounting Figure, 2013	Item	Final Accounting Figure, 2013
Gross profit	3,652	EPS after tax (NT$)	2.01
Income before tax	3,054	ROA (%)	1.20
Net Income after tax	2,630	ROE (%)	8.11

VI. Research & Development

(I) Management

1. Complete the modification of KPI.
2. Complete the last stage for adoption of IFRS.

(II) Product and Business

1. Organize non-guarantee commercial paper underwriting syndicates projects for large-scale enterprises.
2. Promote RMB bonds business.
3. Carry out offshore trading of self-owned accounts in respect of foreign currencies.

(III) 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. Enhance the simulation information system used for capital adequacy ratio. Calculate rate of return of the risk assets to increase efficiency use of the capital.

Two. Summary of Business Plan 2014:

I. Operating policy

(I) Strengthen organization management to improve performance efficiency and maintain company ranking as market leader.

(II) Implement performance evaluation for business units and strengthen the production efficiency of human resource.

(III) Implement internal control system and strengthen corporate governance.

(IV) Strengthen risk management and maintain the strong financial condition and quality of asset.

II. Projection of Business Goals

Unit: NT$ million

Item	Budget Figure, 2014
Underwriting and purchasing bills	2,010,780
Commercial paper issued	1,783,818
Trading volume of bills	7,821,550
Trading volume of bonds	5,255,760
RP outstanding balance of bills and bonds	160,249
Average outstanding balance of Commercial Paper issued	138,000

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

(I) As the guaranteed issues of CP2 business reaches statutory ratio limit, the credit business will focus on enhancing risk management by monitoring and replacing customers. The bills business will focus on expanding interest rates margin. By controlling the volumes of issuance and trading, the Company continues to maintain a leading position in the market.

(II) Actively invite other banks to co-host syndicated loan projects, as well as work on organizing underwriting projects and NIF exclusive underwriting projects to increase revenues for bills business.

(III) Watch closely changes of domestic and overseas financial markets; pay attention to the monetary policy of the Central Bank and changes of the economy; adjust bills positions and interest rate strategies as needed to expand interest spread and generate more bills revenues; carefully engage in the buy-out and outright sales of bonds position to increase profit.

(IV) To establish a bilateral business relationship with customers in order to expand varieties of fund sources and lower the interest expenditures; monitor monetary market closely and evaluate the possibility to obtain low cost funds through different channels such as interbank loan, SWAP and RP; actively develop stable and low-interest rate fund sources from local customers to diversify sources of obtaining funds.

(V) Actively carry out the right to claim receivables with recourse and dispose of collaterals to increase recoverable amounts of overdue receivables.

(VI) Actively deal in bonds and fixed income securities, and establish high yielding rate bond position in a timely manner in order to increase bonds yielding.

(VII) Tie in with the spot transaction of bonds, operate the interest financial derivatives flexibly, and hedge the spot transaction risk;

(VIII) 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.

(IX) Carry out the offshore trading of self-owned accounts in respect of foreign currencies. Actively establish the bonds position denominated in foreign currencies in order to expand the interest spread.

(X) Monitor performance of the investment targets and changes on the technical aspects of stock prices. Operate short-term stocks flexibly to make a profit, decide the right point to build positions for stocks that have good fundamentals and a promising future.

(XI) Enhance efficiency of the information system and internal operations by building a platform for the standardized processing of report management, database maintenance and accounting work so as to increase efficiency of the credit check, credit extension, reviews and back-end operations.

IV. Future Development Strategies

(I) Strengthen the position as market leader of the bills and bonds business.

(II) Continue to build and adjust proper bonds position, expand the business scale of RP, and operate derivatives products to maintain stable profitability.

(III) Increase operation efficiency by reducing the capital costs and expanding the interest spread.

(IV) Rationally allocate the capital, maintain the efficiency to use capital, strengthen risk management system.

(V) Deal with the Competent Authority for its approval to open up new business through Bills Finance Association.

(VI) Seek approval from the Competent Authority to set up offices in Mainland China.

(VII) Integrate the parent holding’s resources to utilize the synergy of cross-selling.

(VIII) Work with the parent holding company to integrate the information system and share information services.

(IX) Enhance training program for employees and increase the opportunities for managerial personnel to receive rigorous training to gain experience and improve working skills.

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

(I) Given that there are increasingly diversified fund-raising sources in the market and continuous penetration to credit businesses from banks, further business expanding in the near future may be tough due to fierce competition.

(II) The Competent Authority has regulated statutory ratio limit on the guaranteed issues of CP2 business for bills finance companies. In the given framework, it has unfavorable impact for the CP2 market and has difficulty to expand operation scale.

(III) In consideration of liquidity risk, the Competent Authority acts more cautiously toward the bills finance companies to expand new business lines (e.g., RMB bills business, allow bills finance companies to invest and set up office in Mainland China, guaranteed issues of US Dollars CP2 business, and guaranteed issues of CP2 business with one-year term or longer), thereby resulting in the bills finance companies to have hard time breaking through and to develop new businesses in the near future.

(IV) The US FED has started to taper its QE scale. However, it will still maintain low interest rates. In the long run, yield rates have formed an upward trend, increasing the interest rate risk. With the moderate economy recovery of this coming year, it is expected the domestic interest rate will bottom out, and the interest spread from buy-sales of bills and bonds will be eroded.

(V) 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.

(VI) The Competent Authority has opened up its door toward bills finance companies applying for the offshore issuing of bonds denominated in foreign currencies on its own accounts, as well as requesting for funds in foreign currencies. Companies may collect funds through interbank loan from foreign exchange designated banks or offshore financial institutions. This will benefit the Company with respect to evaluating and selecting the bonds for purchase and generate more profits. Also, it will help the company to expand channels for financing, increase flexibility of fund procurement and decrease costs to obtain funds.

(VII) The Competent Authority has opened up its door toward bills finance companies collecting funds through interbank loan from foreign exchange designated banks or offshore financial institutions, completely abolishing the restriction for percentage ceiling on interbank loans denominated in US Dollars. As interbank loans is a major vehicle for fund procurement in the monetary market, with the door completely opening up, the bills finance companies will be able to manage positions denominated in US Dollars and expand businesses in the future. The Company will actively seek the sources of bills for underwriting and buy-sales of bills denominated in US Dollars.

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 +	2013.10.16.

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 2013.

As we look toward the future, when dealing with the fluctuation of a global economy, and the intensive competition of local banking 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 “Integrity, 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,

Chairman of the Board
Darby Liu

President and CEO
Chii-Bang Wang

Profile of the Corporation

I. Founded: May 3, 1976

II. Company History

(I) May 20, 1976, start business, with paid-in capital NT$200,000,000.

(II) January 5, 1981, the Head Office moved into and began operations at the new, freehold-owned property on Nanking East Road, Section 2, Taipei.

(III) June 26, 1990, the Company’s shares were formally listed, with paid-in capital NT$2,879,500,000.

(IV) 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.

(V) 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.

(VI) December 31, 2002, the parent company, Chiao Tung Bank Financial Holding Company changed its name to Mega Financial Holding Company.

(VII) September 1, 2004, capital stock was reduced to NT$25,114,410,840 by NT$3,000,000,000.

(VIII) May 3, 2005, capital stock was reduced to NT$20,114,410,840 by NT$5,000,000,000.

(IX) 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.

(X) June 26, 2006, the Company’s name was formally changed to Mega Bills Finance Co., Ltd.

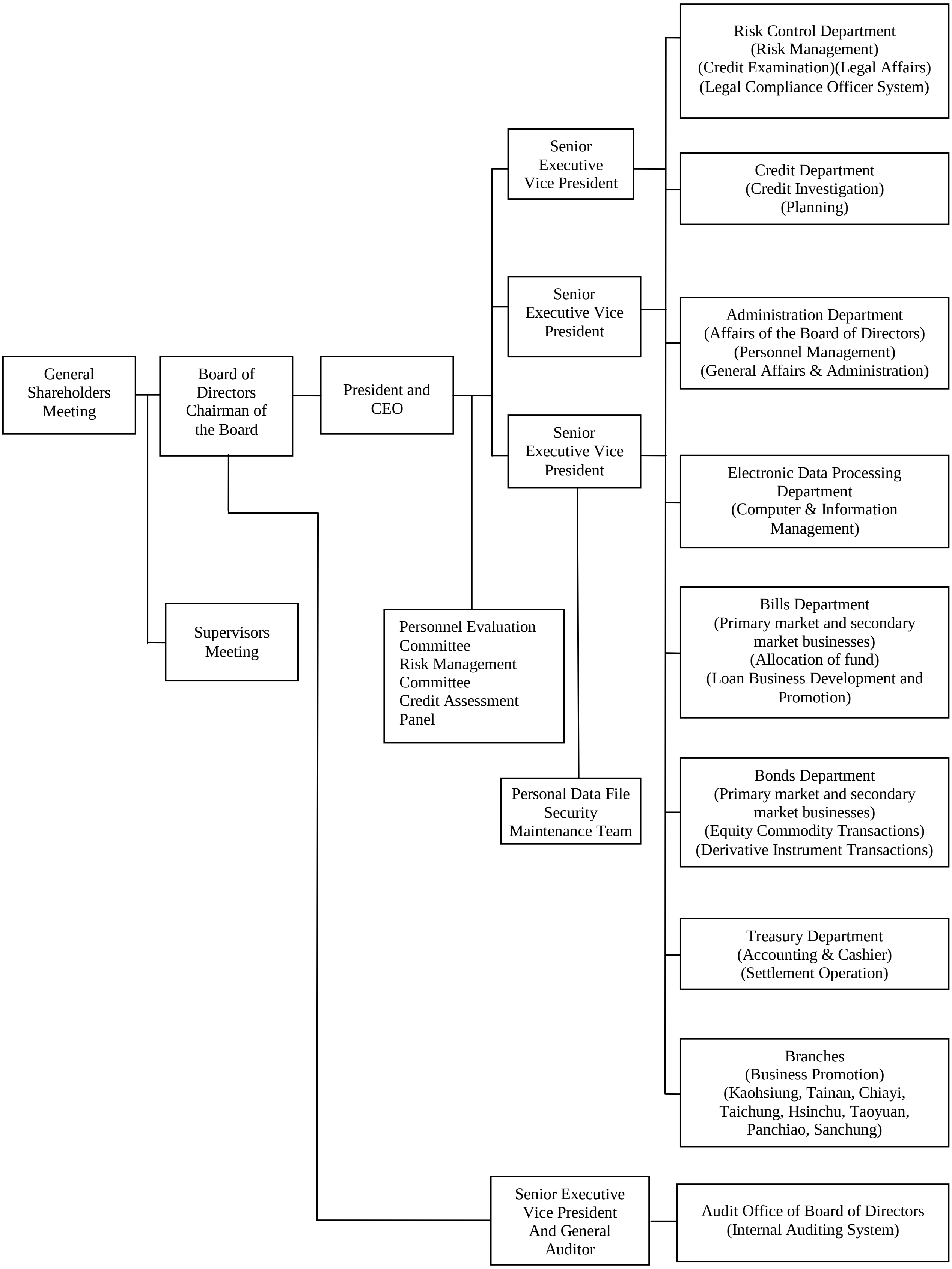
(XI) July 2, 2007, capital stock was reduced to NT$15,114,410,840 by NT$5,000,000,000.

(XII) August 3, 2009, capital stock was reduced to NT$13,114,410,840 by NT$2,000,000,000.

(XIII) On November 1, 2012, received “Best Bills Finance Company Award” in the “Taiwan Excellent Financial Elite Award” directed by the Financial Supervisory Commission and organized by the Taiwan Academy of Banking and Finance.

Corporate Governance Report

I. Organizational Structure



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

(I) Directors and Supervisors

1. Information about directors and supervisors (1)

December 31, 2013

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	Darby Liu	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., member of Hong Kong-Taiwan Business Co-operation Committee, Director of Dr. John C.H. Fei memorial and culture foundation, adjunct associate professor of EMBA program at Ming Chuan University.	N/A
Director & President and CEO	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	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	Senior Executive Vice President of Mega International Commercial Bank, VP of Mega Holdings, Chairman of Zhong Yin Financial Consulting Company, Director of Overseas Investment & Development Corp., Executive Vice President and General Manager of Mega International Commercial Bank Manager, Zhongshan Branch of ICBC	Director of Mega Asset Management Co., Director of Mega International Commercial Bank, Director of Mega Charity Foundation	
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	Chairman 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, Executive Vice President of Macoto Bank and VP of Chung Kuo Insurance Company, Limited	Consultant 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:

1. 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.
2. Mega Holdings appointed the Company's directors of 13^{th} term on February 21, 2012, whose term of office commended from February 25, 2012 until February 24, 2015.

2. Major Shareholders of Corporate Shareholders

Transfer to be suspended on Dec. 31, 2013

Name of Corporate Shareholder	Major Shareholders of Corporate Shareholders (with shareholding among the top 10)	Shareholding
Mega Financial Holding Co., Ltd.	Ministry of Finance	9.18%
	The National Development Fund, Executive Yuan of the R.O.C.	6.10%
	Fubon Life Insurance Co., Ltd.	3.30%
	Chunghwa Post Co., Ltd.	2.71%
	Cathay Life Insurance Co., Ltd.	2.58%
	Bank of Taiwan Co., Ltd.	2.49%
	China Life Insurance Company Limited	1.43%
	Pou Chen Corporation	1.42%
	Standard Chartered Bank entrusted with Vanguard Emerging Market Stock Index Fund Account	1.41%
	Citibank (Taiwan) entrusted with dimension Emerging Market evaluation fund account	1.17%

3. Major Shareholders of Major Corporate Shareholders

Transfer to be suspended on Dec. 31, 2013

Name of Corporate	Major Shareholders of Corporate (Note)
Ministry of Finance	Government
The National Development Fund, Executive Yuan of the R.O.C.	Government
Fubon Life Insurance Co., Ltd.	Fubon Financial Holdings Co., Ltd. (100.00%)
Chunghwa Post Co., Ltd.	MOTC (100.00%)
Cathay Life Insurance Co., Ltd.	Cathay Financial Holdings Co., Ltd. (100.00%)
Bank of Taiwan Co., Ltd.	Taiwan Financial Holdings Co., Ltd. (100.00%)
China Life Insurance Company Limited	KGI Securities Co. Ltd. (8.42%) J. P. Morgan Taiwan - Taipei Branch entrusted with Saudi Arabia Central Bank Investment Account (5.94%) New Labor Pension System (2.78%) Citibank entrusted with Singapore Government Investment Account (2.77%) Videoland Co., Ltd. (2.39%) Standard Chartered Bank, Tunhua N. Road Branch entrusted with Fidelity Fund Investment Account (1.95%) J. P. Morgan Taiwan - Taipei Branch entrusted with

	Abu Dhabi Investment Authority (ADIA) investment account (1.90%) Chen, Shih-Jin (1.76%) Cathay Life Insurance Co., Ltd. (1.61%) Chase entrusted with ABP Pension fund investment account (1.60%)
Pou Chen Corporation	PC Brothers Corporation (Panama) (7.24%) 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%) Fubon Life Insurance Co., Ltd. (2.02%) Mega International Commercial Bank entrusted with Inv. Mega Securities (Hong Kong) Co., Ltd. (1.91%) Bank of Taiwan entrusted with Investment Account of UOB Kay Hian Private Company (1.61%) Shu-Man Huang (1.45%)

Note: Top 10 shareholders

4. Information about directors and supervisors (2)

December 31, 2013

Qualifications / Name	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	
Darby Liu	ˇ		ˇ	ˇ		ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ		0
Chii-Bang Wang			ˇ			ˇ	ˇ			ˇ	ˇ	ˇ		0
Jui-Yun Lin	ˇ		ˇ			ˇ	ˇ			ˇ	ˇ	ˇ		0
Chao-Hsien Lai			ˇ	ˇ		ˇ	ˇ	ˇ		ˇ	ˇ	ˇ		0
Ying-Hua Wu			ˇ	ˇ		ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ		0
To-Ching Hu			ˇ			ˇ	ˇ	ˇ		ˇ	ˇ	ˇ		0
Tsai-Chih Chen	ˇ		ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	0
Tai-Lung Chen			ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	ˇ	0
Tan-Hung Lu	ˇ		ˇ			ˇ	ˇ			ˇ	ˇ	ˇ		0
Ching-Lung Hung			ˇ			ˇ	ˇ	ˇ		ˇ	ˇ	ˇ		0
Chia-Min Hung		ˇ	ˇ			ˇ	ˇ			ˇ	ˇ	ˇ		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.

(II) Information about President and CEO, Senior Executive Vice Presidents, Executive Five Presidents, and Heads of Departmental and Branch Offices

April 1, 2014

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 Presidents and General Manager, Bills Dept., MBF	Chi-Fu Lin	2014.04.01	—	—	—		—	—	Department of Public Finance, National Chung Hsing University	Executive Vice President , MBF, and General Manager, Bills Dept., MBF	—	—	—	—
Senior Executive Vice President and General Auditor	Yi-Sheng Wang	2013.07.01	—	—	—		—	—	Dept. of Banking, Tamkang University	Executive Vice President and General Manager, Risk Control Dept.	—	—	—	—
Executive Vice President and General Manager, Risk Control Dept.	Chin-Sheng Huang	2014.03.03	—	—	—		—	—	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	Executive Vice President, MBF, and General Manager, Sanchong branch, MBF	—	—	—	—
General Manager, Credit Dept.	Shuo-Cheng Lee	2013.03.08	—	—	—		—	—	Master, Graduate Institute of Economics, NTU	Vice General Manager, Risk Control Dept. MBF	Director, Core Pacific City Co. Ltd.	—	—	—
Deputy General Manager, bonds Dept.	Shih-Rong Lin	2013.09.01	—	—	—		—	—	Master, Finance Department, University of Iowa	Deputy General Manager, bonds Dept. 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,	Chun-Chang Lee	2012.02.01	—	—	—		—	—	Master, Graduate Institute of Business, NTU	General Manager, Administration Dept. MBF	—	—	—	—

Administration Dept.														
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	—	—	—	—
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	—	—	—	—
General Manager, Taichung Branch	Jung-Kun Wu	2010.07.01	—	—	—		—	—	Department of Banking, NCCU	General Manager, Tainan 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, Taoyuan Branch	Shih-Yi Chen	2013.03.08	—	—	—		—	—	MBA, Catholic University of Louvain	Deputy General Manager, Sanchong Branch, 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, Sanchong Branch, MBF	—	—	—	—
General Manager, Sanchung Branch	Ming-Chih Cheng	2014.03.03	—	—	—		—	—	PhD, Department of International Relations, Jinan University	The Company's Senior Executive Officer and Vice General Manager, Risk Control Dept.	—	—	—	—

(III) 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, 2013; 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 non-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	Darby Liu																									
Director	Chii-Bang Wang																									
Director	Jui-Yun Lin																									
Director	Chao-Hsien Lai																									
Director	Ying-Hua Wu																									
Director	To-Ching Hu																									
Independent Director	Tsai-Chih Chen																									
Independent Director	Tai-Lung Chen																									
Total		8,400	8,400	-	-	-	-	1,948	1,948	0.39	0.39	7,039	7,039	-	-	-	-	-	-	-	-	-	-	0.66	0.66	N/A

Note: 1. 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.

2. 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	Chii-Bang Wang, Jui-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, To-Ching Hu, Tsai-Chih Chen, Tai-Lung Chen	Chii-Bang Wang, Jui-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, To-Ching Hu, Tsai-Chih Chen, Tai-Lung Chen	Jui-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, To-Ching Hu, Chih-Wen Cheng, Tai-Lung Chen	Jui-Yun Lin, Chao-Hsien Lai, Ying-Hua Wu, To-Ching Hu, Chih-Wen Cheng, Tai-Lung Chen
NT$2,000,000~NT$5,000,000				
NT$5,000,000~NT$10,000,000	Darby Liu	Darby Liu	Darby Liu, Chii-Bang Wang	Darby Liu, 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)	10,348	10,348	17,387	17,387

2 Remuneration to Supervisor

December 31, 2013; Unit: NT$ Thousand

Job Title	Name	Remuneration to Supervisor								Total of (A), (B), (C) and (D) in Post-Tax Profit Ratio (%)		Whether remuneration is also drawn from non-subsidiary companies in which the company has invested
		Remuneration (A)		Pension (B)		Remuneration allocated from earnings (C)		Professional practice expenses (D)				
		The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	
Supervisors	Tan-Hung Lu											
Supervisors	Ching-Lung Hung											
Supervisors	Chia-Min Hung											
Total		-	-	-	-	-	-	823	823	0.03	0.03	N/A

Scales of Remuneration

Scale of Remuneration Paid to Each of the Company's Supervisors	Supervisor's Name	
	Total of A+B+C+D	
	The Company	All companies in consolidated financial statements (E)
Less than NT$2,000,000	Tan-Hung Lu, Ching-Long Hong, Chia-Min Hung	Tan-Hung Lu, Ching-Long Hong, Chia-Min Hung
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 the President and CEO and Senior Executive Vice Presidents

December 31, 2013; 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 (%)		Numbers of Employee Stock Option obtained		Acquired limited employee rights new shares		Whether remuneration is also drawn from non-subsidiary companies in which the company has invested
		The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	The Company		All companies in consolidated financial statements		The Company	All companies in consolidated financial statements	The Company	All companies in consolidated financial statements	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																	
Former General Auditor	Cheng-Tsung Kan																	
Senior Executive Vice President and General Auditor	Yi-Sheng Wang																	
Total		9,877	9,877	12,256	12,256	9,564	9,564	3,951	-	3,951	-	1.36	1.36	-		-		N/A

Note: 1. Cheng-Tsung Kan, the General Auditor, requested to retire on July 1, 2013. His successor is Yi-Sheng Wang.
2. Performance bonus and allocation of earnings were based on the annual estimates. The actual amount thereof shall be authorized by the parent company.
3. 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 President and CEO and Senior Executive Vice Presidents	Remuneration to the 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	Yi-Sheng Wang	Yi-Sheng Wang
NT$5,000,000~NT$10,000,000	Chii-Bang Wang, Ching-Tsan Wei, Ching-Wen Wu	Chii-Bang Wang, Ching-Tsan Wei, Ching-Wen Wu
NT$10,000,000~NT$15,000,000	Cheng-Tsung Kan	Cheng-Tsung Kan
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)	35,648	35,648

Note: Remuneration of Cheng-Tsung Kan, the former Auditor in General, includes the retirement pension.

Schedule A. Vehicles provided to Chairman, Presidents and CEOs and Senior Executive Vice Presidents, and imputed annual rent thereof in 2013

December 31, 2013; Unit: NT$ Thousand

<table>
<tr><th>Job Title</th><th>User</th><th>Purchase of Vehicle</th><th>Imputed Annual Rent</th><th>Fuel Expense</th><th>Remark</th></tr>
<tr><td>Chairman of the Board</td><td>Darby Liu</td><td rowspan="6">-</td><td rowspan="6">2,229</td><td rowspan="6">286</td><td rowspan="6">Rent</td></tr>
<tr><td>President and CEO</td><td>Chii-Bang Wang</td></tr>
<tr><td>Senior Executive Vice President</td><td>Chin-Tsan Wei</td></tr>
<tr><td>Senior Executive Vice President</td><td>Ching-Wen Wu</td></tr>
<tr><td>Former General Auditor</td><td>Cheng-Tsung Kan</td></tr>
<tr><td>Senior Executive Vice President and General Auditor</td><td>Yi-Sheng Wang</td></tr>
</table>

Note: The salary, bonus, allowance and employee bonus paid to the drivers of the Chairman and Presidents and CEOs totaled NT$2,832 thousand in 2013.

Schedule B. Value of housing provided to Chairman, Presidents and CEOs and Senior Executive Vice Presidents in 2013

December 31, 2013; Unit: NT$ Thousand

<table>
<tr><th>Job Title</th><th>User</th><th>Cost</th><th>Imputed Annual Rent</th><th>Remark</th></tr>
<tr><td>Chairman of the Board</td><td>Darby Liu</td><td>-</td><td rowspan="2">1,186</td><td rowspan="2"></td></tr>
<tr><td>President and CEO</td><td>Chii-Bang Wang</td><td>3,487</td></tr>
</table>

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

December 31, 2013; 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				
	Former General Auditor	Cheng-Tsung Kan				
	Senior Executive Vice President and General Auditor	Yi-Sheng Wang				
	Executive Vice President	Chi-Cheng Tsai				
	Executive Vice President	Yao-Kuang Tsai				
	Executive Vice President	Chin-Sheng Huang				
	Executive Vice President	Chi-Fu Lin				
	Executive Vice President	Chun-Chang Lee				
	Executive Vice President	Tsung-Chung Lin				
	Executive Vice President	Jung-Chieh Cheng				
	General Manager	Hsi-Pin Yu				
	General Manager	Jung-Kun Wu				
	General Manager	Chih-Hsiung Chiu				
	General Manager	Kun-Shui Lin				
	General Manager	Shih-Rong Lin				
	General Manager	Shuo-Cheng Lee				
	General Manager	Ming-Pao Wang				
	General Manager	Shih-Yi Chen				
	Total		-	16,677	16,677	0.63

(IV) 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 1.02% and 1.78% in 2012 and 2013, 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:

(I) 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	Darby Liu	14	0	100	
Director	Chii-Bang Wang	14	0	100	
Director	Jui-Yun Lin	12	2	86	
Director	Chao-Hsien Lai	14	0	100	
Director	Ying-Hua Wu	13	1	93	
Director	To-Ching Hu	14	0	100	
Independent Director	Tsai-Chih Chen	13	1	93	
Independent Director	Tai-Lung Chen	14	0	100	

Other notes to be specified:

1. 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
2. Implementation of directors' avoidance of motions that have conflict of interest with them:
   (1) At 13th Board Meeting of 13th Term on January 22th, 2013, when the motion of the valuation, classification, combination and outsource for sale of the 2012 NPL were evaluated and discussed, Director Ying-Hua Wu was recused from the discussion and voting. When the motion for guaranteed issues of commercial paper limit by Jie-Jiang International Co., Ltd. was discussed, Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting.
   (2) At 12th Board Meeting of 13th Term on February 26th, 2013, 1. When the motion for donation to "Mega Charity Foundation" to promote the charity business and the expenditure was discussed, Director Chii-Bang Wang was recused from the discussion and voting. 2. When the motion for the lease of the housing for the special use of Chairman Liu was discussed. Chairman Liu was recused from the discussion and voting. Independent Director Tsai-Chih Cheng acted as the chairperson as proxy. 3. When the motion for promoting the person in charge of the branch office, except for VP Chun-Chang Li, two other Senior Executive Vice Presidents and all other managers were recused from the discussion and voting. 4. When the motion for the guarantee issues of commercial paper limit by HeXiong Construction was discussed, Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting. 5. When the motion for the guarantee-free issues of commercial paper limit by Mega Holdings was discussed, Director Chii-Bang Wang, Director Jui-Yun Lin, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Chia-Ming Hong were recused from the discussion and voting.
   (3) At 15th Board Meeting of 13th Term on March 26th, 2013, the motion for the guarantee issues of commercial paper limit by Sunrise amusement Co., Ltd. was discussed. Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting. 2. When the motion for the guarantee issues of commercial paper limit by Shih Ruenn Co., Ltd. and Xihwa Construction Co., Ltd. was discussed, Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting.
   (4) At 16th Board Meeting of 13th Term on April 23th, 2013, 1. When the motion on behalf of the shareholder's meeting for relieving management from non-competition was discussed, Director Jui-Yun Lin and Director Chao-Hsien Lai were recused from discussion and voting. 2. When the motion for the guarantee issues of commercial paper by SinoPac International Leasing Corp. was discussed, Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting.
   (5) At 17th Board Meeting of 13th Term on May 7, 2013, the motion for lease of the Jen Ai dormitory, the purchase of items used in the dormitory, and other relevant issues were discussed. Chairman Liu was recused from the discussion and voting. Independent Director Tsai-Chih Cheng acted as the chairperson as proxy.
   (6) At 19th Board Meeting of 13th Term on June, 25, 2013, 1. As General Auditor Cheng-Tsung Kan requested to retire, the motion for promoting VP Yi-Sheng Wang as the successor was discussed. Two Senior Executive Vice Presidents, the General Auditor and all other managers were recused from the discussion and voting. 2. When the motion for the guarantee issues of commercial paper by SinoPac International Leasing Corp was

discussed, Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting. 3. When the motion for the guarantee issues of commercial paper limit by VIBO Telecome Inc. was discussed, Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting.

(7) At 20th Board Meeting of 13th Term on July 23, 2013, the motion for the guarantee issues of commercial paper limit by Gloria Material Technology Corp. (GMTC) was discussed. Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting. 2. When the motion for the guarantee issues of commercial paper limit by VIBO Telecome Inc. was discussed, Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting.

(8) At the 21th Board Meeting of 13th Term on August 27, 2013, when the motion for adjusting the roles of the managerial personnel in the Risk Control and the Bills and Bond Departments was discussed, except for VP Lee Jun Chang, two other Senior Executive Vice Presidents, the General Auditor and all other managers were recused from the discussion and voting.

(9) At the 22th Board Meeting of 13th Term on September 30 2013, 1. When the motion for the guarantee issues of commercial paper limit by Ton Yi Industrial Corporation was discussed. Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting. 2. When the motion for the guarantee-free issues of commercial paper limit by MEGA BILLS FINANCE CO., LTD. was discussed, Supervisor Chia-Ming Hong was recused from the discussion and voting.

(10) At the 23th Board Meeting of the 13th Term on October 22 2013, when the motion for consenting Director Chii-Bang Wang to continue assuming the position of the Company's President until the time the term of 13th Board of Directors expire (i.e., until February 24, 2015) was discussed, Director Chii-Bang Wang was recused from the discussion and voting.

(11) At 25th Board Meeting of 13th Term on November 26, 2013, 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 Co. Ltd. was discussed, Director Chii-Bang Wang, Director Chao-Hsien Lai, Supervisor Tan-Hung Lu and Supervisor Ching-Long Hong were recused from the discussion and voting.

3. 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

(II) 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	13	93	
Supervisors	Ching-Lung Hung	14	100	
Supervisors	Chia-Min Hung	14	100	

Other notes to be specified:

1. Formation and responsibilities of supervisors:
   (1) Communication between supervisors and the Company's employees and stockholders (channels and ways of communication): Communication can be made in writing or by telephone, fax, 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
   (2) 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.
2. 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

(III) Information about status of corporate governance: Please visit the Company's website. "Statutory Disclosure" (http://www.megabills.com.tw/)

(IV) 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
1. 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	1. 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. 2. 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. 3. 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
2. Formation and functions of Board of Directors (1) Status of installation of independent directors (2) Periodically appraise the certifying CPA's independence	1. The Company has 8 directors, including 2 independent directors, and the other directors appointed by the parent company, Mega Financial Holding. 2. The Company will appraise the CPA's independence when appointing the CPA.	Compliance with the Corporate Governance Practice Regulations for Bills Finance Companies
3. 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
4. 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)	1. 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. 2. 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
5. <u>State of establishment of nomination or other functional committees</u>	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.

6. 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

7. 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) Advanced studies by Directors and Supervisors: The courses attended by the Directors and Supervisors include "Corporate Governance and Risk Management" seminar by "The Chinese National Association of Industry and Commerce, Taiwan (CNAIC)", "Disputes most often encountered by Taiwan enterprises invested in Mainland China and how to deal with the risks" seminar by the "Taiwan Securities Association", " Integrity with respect to business operation and the social responsibility of business" seminar by Securities and Futures Institutes, "functions of board of directors and the performance evaluation" and "the design and implementation with respect to development and guidelines of the Remuneration Committee" by "Taiwan Corporate Governance Association" , as well as " the 9th Corporate Governance Forum in Taipei" by the Financial Supervisory Committee.
   (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.

8. 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

(V) Performance of Social Responsibilities

Item	Status
1. Implement corporate governance (1) State of corporate social responsibility policy or system defined by a bills financial company, and review of the results thereof; (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; (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.	1. The Company has not yet defined its corporate social responsibility policy or system. Notwithstanding, during routine operating activities, it has implemented corporate social responsibility including the 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. 2. 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 polices, and implements the relevant governmental energy-saving and carbon emission reduction programs. 3. 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.

2. Develop sustainable environments (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; (2) State of the adequate environment management system to be established by a bills financial company by its industrial characteristics; (3) State of the unit or personnel dedicated to environment management; (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.	1. The Company has adopted the measures including recycling of various envelops, periodical recycling of waste toner cartridges, and adopted the multi-function business machine certified by the Environmental Protection Administration. 2. Effects caused by the Company's operating activities to the environment are mainly from use of business vehicles, power used at office premises, water resources and waste. The Company is dedicated to lowering the unfavorable impact to the environment by managing the overall use volume, the energy-saving of elevators during non-peak hours, control of the path lights, air conditioners and water resources, and the periodical maintenance of business vehicles. 3. The environment management affairs shall be processed by Administration Dept. of the Head Office, and various branches, jointly. 4. The Company has defined the enforcement rules for energy-saving measures in 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 ratios for the Company's water, electricity and fuel charges in 2013 are 9.58%, 8.24%, and 10.42% respectively.
3. Maintain social public welfare (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; (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; (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; (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; (5) State of cooperation between a bills financial company and its suppliers to enhance the enterprise's social responsibilities; (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.	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; (1) Provide employees with reasonable remuneration and bonus policy; (2) Organize employees' training programs; (3) Implement insurance programs and shift system; (4) Allocate pension fund pursuant to laws. (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. 2. Provide the following safe and healthy working environments to employees: (1) Organize employees' health examination on a yearly basis; (2) Define the "Instructions to Sexual Harassment Control" to provide the complaining channel and maintain the work environment order; (3) Maintain accidental and medical insurance programs for employees and their dependents; (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. 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: (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. (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. (3) The Company has also defined the "Instructions to Employees' Suggestions and Complaints" to establish a diversified communication channel. 4. 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. 5. The multi-function business machine leased by the Company is certified by the Environmental Protection Administration. Future equipment and items purchased will be sourced to suppliers that are involved with the environmental protection activities and provide products that are energy saving and with carbon emission reduction functions, in order to enhance the Company's corporate social responsibilities.

	6. Participation in social development and charity group-related functions: (1) The Company has entered into academic and industrial cooperation programs with multiple universities/colleges permanently, to provide students with the chance for practicing. (2) Sponsored Mega Charity Foundation. (3) Sponsorship of the training budget of the representative teams of Junior High School of Hsinchu City and Elementary School of Hsinchu City. (4) Sponsored Mega Group to participate in the 2013 Lantern Festival held by Government of Hsinchu County. (5) Sponsored the Environment Protection, the Energy-Saving and the 2013 Carbon Emission Reduction Association for activities to make the city healthy. (6) Sponsored the Rui Bao Lion Club in Taichung City for a charity concert for students from disadvantaged families. (7) Sponsored the celebrations activity held by Yu-yi temple in the Chia-ding District, Kaohsiung City to care for local people and promote folk customs. (8) Sponsored the Chia-Hsin Culture Promotion Association in Miaoli County for the "2013 Healthy City" activity, promoting the etiquette of filial piety, parents and children relationships and the energy saving concept. (9) Donated used computers to the judicial person "Aboriginal People Cultural and Educational Foundation" in Ping Tong County. (10) Sponsored judicial person Jue-Rong Cultural And Educational Foundation in Pingtung County for a 2013 children's concert promoting children's musical education. (11) Participated the "The 2013 fair to care for society by financial service providers," events co-hosted with peers in the industry with the governments of Chiayi and Hsinchu Counties.
4. 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.	1. 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. 2. 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.
5. 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	
6. 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 **.	
7. If the Company's products or corporate social responsibility reports have received assurance from external institutions, they should state so below: N/A	

(VI) Performance of ethical corporate management:

Item	Status
1. 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.	1. 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. 2. 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. 3. The work rules expressly define that employees (hirees) 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.

2. 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.	1. 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. 2. 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. 3. 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. 4. 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 no external accounts or secret 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.
3. 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.
4. 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.
5. 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	
6. 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	

(VII) 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, 2013 to December 31, 2013 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, implementeded 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 Securitiesand Future Systems", drafted and decreed by the Securities and Futures Bureau under the Financial Supervisory Commission, determined whether the design and implementation of the internal control system were effective. Careful evaluation has shown that each department's internal control and legal and regulatory compliance, apart from the items listed in the accompanying chart, can all be accurately and effectively enforced. This Declaration will constitute the main content of the Company's annual report and prospectus, and will be open to external scrutiny. The illegal inclusion of falsehoods or the illegal concealment of information in the above public data, will incur legal liability in relation to Articles 20, 32, 171 and 174 of the Securities and Exchange Act.

Respectful to

Financial Supervisory Commission, Executive Yuan

Declared by

Chairman of the Board:	Darby Liu	(Affixed with seal/signature)
President and CEO:	Chii-Bang Wang	(Affixed with seal/signature)
General Auditor:	Yi-Sheng Wang	(Affixed with seal/signature)
Legal Compliance Officer, Head Office:	Chin-Tsan Wei	(Affixed with seal/signature)

February 25, 2014

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

Record Date: December 31, 2013

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

(VIII) 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. Deficiencies corrected by the Financial Supervisory Commission: N/A.
4. Matters which, in accordance with Article 51 of the Act Governing Bills Finance Business are punishable under Article 61-1 of the Banking Act of the Republic of China: N/A.
5. The nature of — and the value of the losses incurred by — the following security incidents are to be disclosed for the year in which they occur: incidents caused by employee malfeasance, or some other major legal matter (including such major matters as deception, theft, misappropriation or embezzlement of funds, false transactions, acquisition of negotiable securities using forged documentation, receipt of kickbacks, losses incurred as a result of natural disaster, losses due to external factors, attack by computer hackers, theft and leaking of business secrets and client data, and so on) or failure to perform the safety maintenance requirements, which individually or together incur actual losses exceeding NT$50 million: N/A.
6. Other matters to be disclosed per instruction of FSC: N/A.

(IX) Important resolutions of shareholders' meetings and board meetings in the most recent year and until the date of publication of this annual report:

1. 15th Board Meeting of 13th Term held on March 26, 2013 approved by resolution:

   Recognition of such reports as the final accounting report and so forth for the year 2012, and the allocation of earnings for the year 2012, and to distribute NT$2,016,996,387 (NT$1.538 per share) in shareholder dividends and bonuses, all paid in cash, and NT$70,583,662 as employee bonuses, also paid in cash. Accordingly, at 17th Board Meeting of 13th Term held on May 7, 2013, Board of Directors, acting on behalf of the shareholders meeting and with the latter's authority, approved by resolution that May 20, 2013 should be the record date for distribution of the Company's shareholder dividend and bonus for the year 2012.
2. At 16th Board Meeting of 13th Term held on April 23, 2013, 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 24th Board Meeting of 13th Term held on November 12, 2013, Board of

Directors, acting on behalf of the shareholders meeting and with the latter's authority, approved by resolution that:

Abolished the "Directors and supervisors election method of MEGA BILLS FINANCE CO., LTD."

(X) 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.

(XI) 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
Senior Executive Vice President and General Auditor	Cheng-Tsung Kan	2002.11.01	2013.07.01	Self-requested 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	Po-Ju Kuo	2013/1/1-2013/12/31	

Currency Unit: NT$ Thousand

Scale of Amount \ Item		Audit	Non-Audit	Total
1	Less than NT$2,000 thousand	1,303	113	1,416
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			

(I) 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.

(II) 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.

(III) 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:

(I) About former CPA:

<table>
<tr><td>Date of Change</td><td colspan="5">Ratified at Board Meeting on February 26, 2013</td></tr>
<tr><td>Cause of Change and Explanation Thereof</td><td colspan="5">(1) 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.
(2) To deal with the internal reorganization of PricewaterhouseCoopers, Certified Public Accountants, the external auditors of the Company’s financial statement 2013 were changed from Chien-Hung Choui, CPA and Hsiu-Ling L, CPA to Chien-Hung Chou, CPA and Po-Ju Kuo, CPA.</td></tr>
<tr><td rowspan="3">Was the termination of audit services initiated by the principal or by the CPA?</td><td colspan="2">Counterpart
Status</td><td colspan="2">CPA</td><td>Principal</td></tr>
<tr><td colspan="2">Service Terminfated by</td><td colspan="2">(1) Chang-Chou Li, CPA and Hsiu-Ling Li, CPA
(2) Chien-Hung Chou, CPA, and Hsiu-Ling Li, CPA</td><td></td></tr>
<tr><td colspan="2">Service no longer accepted (continued) by</td><td colspan="2"></td><td></td></tr>
<tr><td>Reasons for issuing opinions other than unqualified opinions in the recent 2 years</td><td colspan="5">N/A</td></tr>
<tr><td rowspan="7">Disagreements with the Company</td><td rowspan="5">Yes</td><td colspan="2"></td><td colspan="2">Accounting policy or practice</td></tr>
<tr><td colspan="2"></td><td colspan="2">Financial statement disclosure</td></tr>
<tr><td colspan="2"></td><td colspan="2">Audit coverage or procedures</td></tr>
<tr><td colspan="2"></td><td colspan="2">Others</td></tr>
<tr><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>N/A</td><td colspan="4">∨</td></tr>
<tr><td colspan="5">Descriptions</td></tr>
<tr><td>Other disclosures (Disclosures deemed necessary under Section 10.5.1.4 of The Guidelines)</td><td colspan="5">N/A</td></tr>
</table>

(II) About new CPA:

Firm Name	(1) PricewaterhouseCoopers, Certified Public Accountants (2) PricewaterhouseCoopers, Certified Public Accountants
CPA's Name	(1) Chien-Hung Chou, CPA, and Hsiu-Ling Li, CPA (2) Chien-Hung Chou, CPA, and Po-Ju Kuo, 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

(III) 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, 2013; 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	3.458	—	—	60,000,000	3.458
Taiwan Financial Asset Services Co., Ltd.	5,000,000	2.941	—	—	5,000,000	2.941
Taiwan Depository and Clearing Co., Ltd.	2,055,747	0.628	—	—	2,055,747	0.628
Taiwan Asset Management Co., Ltd.	7,500,000	0.568	—	—	7,500,000	0.568
Taiwan Futures Exchange Co., Ltd.	1,456,311	0.512	—	—	1,456,311	0.512
Agora Garden Co., Ltd.	21,090	0.030	—	—	21,090	0.030

Review of Raised Funds

One. Shares and dividends items that should be recorded.

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
2014.4	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

April 30, 2014

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 April 30, 2014

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

Shares / Name of Major Shareholder	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			2013	2012	Until April 30, 2014
Market value per share	Maximum		-	-	-
	Minimum		-	-	-
	Average		-	-	-
Net value per share	Before allocation		24.49	25.03	25.38
	After allocation		Note	23.49	-
EPS	Quantity of shares under weighted average method		1,311,441,084	1,311,441,084	1,311,441,084
	EPS		2.01	2.20	0.96
Dividend per share	Cash dividend		1.336 (Note)	1.538	-
	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 2013 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

(I) 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.

(II) 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$1,752,085,288, at NT$1.336 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

(I) 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.

(II) 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$77,270,844 for the year 2013. 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 2013.

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.

(III) 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 30th Board Meeting of 13th Term on April 22, 2014, the employee bonus to be allocated in 2013 was NT$59,974,226. 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 2013 in the amount of NT$59,974,226, a discrepancy of NT$17,296,618 from NT$77,270,844, the amount recognized as employee bonus expense in 2013 financial statements. The discrepancy was due to a change in the employee bonus percentage, which has been adjusted as the income for 2014.

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 2013 have been derecognized from the income statement, and the Company has an EPS of NT$2.02 after the discrepancy between the distributed amount and the estimated figure was taken into consideration.

(IV) 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 17^{th} Board Meeting of 13^{th} Term on May 7, 2013, the employee cash dividend to be allocated in 2012 was NT$70,583,662. The employee bonus distributed for the year 2012 was 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. 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

(I) 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 corporate bonds on the corporation’s own account
   - (4) Trading in foreign currency-denominated bonds on the corporation’s own account and investment business
3. Equity investment business
4. Others
   - (1) Transactions of derivative instruments
   - (2) Trading on the corporation’s own account and investing fixed-income securities

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

1. Assets

Unit: NT$ Thousand

Year / Item	2013		2012	
	Amount	As a proportion of total assets (%)	Amount	As a proportion of total assets (%)
Bills Business	129,715,513	58.52	125,240,337	57.60
Bonds Business	81,335,960	36.70	83,055,910	38.20
Equity investment business	2,662,009	1.20	3,160,223	1.45
Others	7,929,488	3.58	5,961,104	2.75
Total assets	221,642,970	100.00	217,417,574	100.00

2. Revenue Unit: NT$ Thousand

Item \ Year	2013		2012	
	Amount	As a proportion of total revenue (%)	Amount	As a proportion of total revenue (%)
Bills Business	2,366,377	49.50	2,098,326	38.22
Bonds Business	1,699,490	35.55	1,904,912	34.70
Equity investment business	533,423	11.16	381,093	6.94
Others	180,813	3.79	1,105,269	20.14
Total Revenue	4,780,103	100.00	5,489,600	100.00

II. Business plan for this year

(I) Bills Business

1. The guaranteed issues of CP2 business has been facing a statutory ratio limit. The strategy of credit business has switched from expanding scale to placing weight on both quality (high interest spread and low risk) and quantity. Select blue-chip customers to replace those with high credit risks. Raise the interest rate for bills issuance and lower the interest rate for bills sales. Expand the interest spread and prevent any NPL from occurring. By controlling the volumes of issuance and trading, the Company could maintain the leading position in the market.
2. Actively invite other banks to co-host syndicated loan projects and work on organizing underwriting projects and NIF exclusive underwriting project to increase bills revenues.
3. Continue to observe changes in domestic and overseas financial markets; pay attention to the monetary policy of the Central Bank and the changes in the economy; adjust positions and interest rate strategies as needed; increase the interest spread from bills positions to generate more income; carefully engage in the buy-out and outright sale of bills position to increase efficiency and profits.
4. Establish a bilateral trading relationship with existing customers and actively develop stable and low-interest rate funding sources from local customers to obtain funds; monitor fund supply in the financial market and achieve the goal to lower fund costs through the interbank market and the bills trading market to reduce the cost of capital.
5. Actively carry out the right to claim receivables recourse on the overdue debts and timely dispose of the collateral to achieve revenue goals parent holding company.

(II) 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. Buy convertible corporate bonds with fair credit ratings to increase the income from bonds.

5. Continue working on foreign-currency bonds and other new business types to increase diversification and operation of business.

(III) Equity investment 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.

(IV) Other financial business

1. Carefully deal with the fixed income component of convertible bond asset swaps, in order to increase interest spreads.

2. Continue planning and working foreign-currency derivative instruments to increase diversification and operation of business.

III. Market Analysis

(I) 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) Open up toward the bills finance companies' applying for the issuance of bonds designated in foreign currencies offshore. This helps to generate the need for foreign currencies and benefits the Company to evaluate and select the debts for purchase and generate more profits. Also, it helps to expand the channels for financing, increase the flexibility of fund procurement as well as to decrease the costs to obtain fund and the risks of foreign exchange fluctuation.

2) Open up toward bills companies' borrowing loans and interbank loan designated in foreign currencies with foreign exchange designated banks or offshore financial institutions; completely abolish the restriction of ceiling on the percentage of interbank loan designated in US Dollars. The "completely open up" policies helps the bills and bonds companies to manage US Dollar position and the development of business that follow.

(2) Market conditions

1) Bills market

The economy in the US is improving. In Mainland China, the focus is on the structural reform. In the Euro Zone, there shows the sign of a bottoming out. In Japan, the Yen devaluation and monetary easing fiscal policy was adopted to stimulate economic growth. The global economy is gradually recovering and the economic growth rate adjusted upward by the Directorate-General of Budget, Accounting and Statistics this year, per the per domestic economy condition, is 2.82%. As the international economy grows, the domestic economy is expected to follow the trend and the demand of capital in the market should increase. In order to help the economy grow, the Central Bank will maintain its current policy to have interest rate remained unchanged and to have M2 to grow between 2.5% to 6.5% in 2014. It is expected the overall bills market, except for the growth of guaranteed issues of CP2 business, will be limited due to the ceiling imposed by the statutory limit ratio, all others including the purchase of negotiable certificates of time deposit (NCD), the bank guaranteed commercial paper and the guarantee free commercial paper, should still have room to grow. With respect to the interest rate, as the domestic economy is recovering, the monthly routine write-off amount of the 364-day deposit certificates by the Central Bank has been adjusted up in February from NTD 100 billion to NTD 120 billion. Therefore, it is important to pay attention to the development of monetary policy by the Central Bank to monitor the changes of interest rate and timing to underwrite and purchase bills so as to create profit and trading momentum to maintain market share and be the market leader.

2) Bonds market

The US Federal Reserve has gradually reduced the bond purchase scale in QE, which triggered the mass selling of assets in the emerging markets and created suspicion that capital would flow out from those markets. The global economy, led by the US, is expected to have a sustained recovery. The market generally expects the yields on global bonds to gradually go up. For the domestic market, the momentum of the economic recovery, compared to that of the global market, still appears to be mild. The increase in the commodity price appears to be mild; in the short term, the chance that the Central Bank will increase interest rates is not high and it is expected its monetary easing policy will continue. The RP interest rate is expected to stay low. The yields of bond might have a chance to bottom out, however the increase may be limited. Continue to monitor the economy situation and the trend and changes of the yields of bonds. Wait for the right time to replenish bonds and strictly control RP interests to increase revenues from establishing the bond positions. Maintain the market share of trading volume of bonds as a market leader in the industry.

3) Equity investment business

As the QE of the US gradually exits the market, the momentum of the emerging market's capital to subside remains to be watched. The impact from international stock market on domestic stocks will be increased. For domestic stocks, there is the phenomenon that the fluctuation of the market index is within a certain range; however, the performance of individual stocks shows wild swings. The stocks with good news and special features are subject to the favor of the investment. Therefore, it is still difficult to select and trade stocks. With respect to stock picking strategy, except to grasp the logic to select targets with higher yields, it is also important to review whether the stock has any mid- to long-term prospect to tie-in with the trend and movement of the matrix index to operate.

(III) Favorable and unfavorable factors for development in the future, and countermeasures:

1. Favorable factors

(1) The Competent Authority has completely removed the restriction of the statutory limit ratio on the interbank loans designated in US currencies. This helps the Company to undertake the business to issue and trade US denominated bills and bonds that will increase the source of revenues.

(2) Driven by cross-strait cooperation, it is expected the Mainland China capital-backed enterprises will come to Taiwan and Taiwan enterprises doing business in Mainland China will return. It is expected the demand for capital will increase for these enterprises and thus create a niche market to develop the bill and bond business.

(3) The Central Bank in Taiwan has maintained a capital easing policy, so the short-term capital supply in the market is plenty. This helps the interest rate in the bond secondary market to be low and increase the interest spread of bills and bonds.

(4) The Competent Authority has given full permission to the offshore trading of self-owned accounts in respect of foreign currencies to increase revenue sources.

(5) The long-term interest rate of the domestic bond market has increased and the short-term interest rate has remained stable. The increase of the interest spread in the short- and long-term is favorable to establishing bond positions.

2. Unfavorable factors

(1) The increasingly diversified fund-raising channels in the market and the continuous penetration of banks to the corporate finance market and their striving to lure blue chip customers will impact the development of the bills issuance market. Starting from 2013, the Company has worked on adjusting the structure for credit extension to increase interest spread. The interest spread for guaranteed issues of CP2 has thus increased; however, the competition is still fierce, and it takes continued efforts to increase the interest spread.

(2) Per the “Regulations Governing Total Balance for Bills Finance Companies to guarantee and endorse for Short-term bills”, the Company is required to maintain a capital adequacy ratio above 12%, and the maximum limit of endorsement and guarantee is five times to the Company’s net worth. As of the year end of 2013, the guaranteed issues of CP2 balance was 4.75 times over net worth. All business operations were close to their ceilings, and future room for business growth is limited.

(3) Starting August 2013, the Central Bank restarted the sales of

negotiable certificates of time deposit (NCD) and continues to write down idle funds in the market. It is expected that the Central Bank will gradually tighten the fund source, and this might impact the future operation of establishing bonds position.

(4) The economy is estimated to be gradually recovering in 2014; however, the momentum still appears mild, thus increasing the fluctuation in the international stock and financial market, and the difficulty in operation of government bonds buy-out, the outright sale, the timing to replenish bonds and the operations in domestic stock market.

3. Countermeasures

(1) In terms of primary market of bonds, enhance visits to customers to understand their operations, monitor credit risks, adjust structure for the credit extension, develop niche customers, adopt flexible pricing strategies to increase the interest spread and revenues from bills.

(2) Closely observe the change of domestic and overseas financial market; forecast the trend of interest rates; adjust the positions and strategies as needed to increase revenues from bills. Also, operate outright purchase/sales of government bonds cautiously to improve operating performance.

(3) On the condition that the bonds have a good credit rating, select ones with shorter duration and higher yields. Expand the bond position according to the credit rating and in a timely manner and adjust positions based on credit ratings to increase interest income.

(4) Reinforce existing customer relationships for the bills and bonds in the secondary market, develop customers of both judicial and natural persons with stable and low-interest rate funding sources to help successfully dispose of bills and bonds and eliminate the dependence on customers with high costs of capital so to expand the interest spread of trading and increase revenue.

(5) Carefully select blue-chip companies with promising future and growth potential in revenues and profitability as objectives for investment. Also closely watch the monetary policy of the Central Bank in US, mainland China and Taiwan to grasp the fundamentals, technicals, trading volume and information sides for stock market for the right time to buy. Make investments in accordance with a conservative principle.

IV. Financial Product Research and Overview of Business Development

(I) Premium financial products and new banking units, their sizes and status of profit for the most recent two years and until the date of publication of this annual report: N/A.

(II) R&D expenditure and results for the most recent two years:

1. R&D expenditure

Unit: NT$ Thousand

Item	R&D expenditure	
	2013	2012
Costs of employee participation in various research and training programs	544	521

2. R&D results

(1) 2012

1) Complete the re-organization of company chart and modification of KPI.

2) Install municipal bonds and bills trading system and define the regulations and SOPs related to municipal bonds business.

3) Plan RMB bonds business development.

4) Complete the adjustment on IFRS information system.

(2) 2013

1) Complete the chart and modification of KPI.

2) Complete the last stage milestone for adoption of IFRS.

3) Actively organize the syndicated guarantee-free commercial paper underwriting projects for large-scale enterprises.

4) Promote RMB bonds business.

5) Engage in the offshore trading of self own accounts in respect of foreign currencies.

6) Plan out the Basel III system framework and put into practices.

7) Continue improving the existing operational risk self-assessment system to enhance the control over operational risk.

8) To enhance the simulation information system used for the capital adequacy ratio business. Calculate rate of return of the risk assets to increase efficiency use of the capital.

(3) Future R&D plan

1) Strive for opening of RMB bills business.

2) Seek approval from the Competent Authority to engage in the credit extension business for commercial paper with terms of less than 3 years (the term for issuing commercial paper is still limited to within one year).

3) Promote foreign currency-denominated bonds business.

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

(I) Short-term

1. As the guaranteed issues of CP2 business faces statutory ratio limit, the credit extension business will focus on enhancing risk management by monitoring movement of customers and replacing those with high credit risks. As for the bills business, the focal point will be to increase interest rates for bond issuance and reduce interest rates for bond sales. By controlling the volumes of issuance and trading, the Company continues to maintain a leading position in the market.

2. Actively invite other banks to co-host syndicated loan projects, as well as obtain the underwriting projects and NIF exclusive underwriting projects to increase revenues for bills business.

3. Watch closely changes of domestic and overseas financial markets; pay attention to the monetary policy of the Central Bank and changes of the economy; adjust bond positions and interest strategies as needed; increase the interest spread from bond positions to generate more revenue;

carefully engage in the buy-sell of bond position to increase efficiency and profit.

4. To establish a bilateral trading relationship with customers in order to develop varieties of fund sources and lower the interest expenditures; monitor changes of funds availability and evaluate the possibility to obtain low cost funds through different channels such as interbank loan, SWAP and RP; actively develop stable and low-interest rate fund sources from local customers to diversify sources of a fund.
5. Actively carry out the right to claim receivables with recourse and timely dispose of collateral to increase recoverable amounts of overdue receivables.
6. Actively deal in bonds and fixed income securities, and establish high yielding rate bond position in a timely manner in order to increase bond yielding.
7. Tie in with the spot transaction of bonds, operate the interest financial derivatives flexibly, and hedge the spot transaction risk.
8. 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.
9. Carry out the offshore trading of self-owned accounts in respect of foreign currencies. Actively establish the bonds position designated in foreign currencies in order to expand the interest spread.
10. Monitor performance of the investment targets and changes on the technical aspects of stock prices. Operate short-term stocks flexibly to make a profit, decide the right point to build positions for stocks that have good fundamentals and a promising future.
11. Enhance the efficiency of information system and internal operations as well as build the standardized platform for report management, database and accounting to increase the efficiency of credit check, credit extension, reviews and back-end operations.

(II) Long-term

1. Strengthen the position as market leader of the bills and bonds business.
2. Continue to build and adjust proper bonds position, expand the business scale of RP, and operate derivatives products to maintain stable profitability.
3. Increase operation efficiency by reducing the capital costs and expanding the interest spread.
4. Rationally allocate the capital, maintain the efficiency to use capital, strengthen risk management system and the system.
5. Deal with the Competent Authority for its approval to open up new business though the bills finance association.
6. Seek approval from the Competent Authority to set up sales offices in Mainland China.
7. To integrate the group resources and explore the synergy of cross-selling.
8. Work with Mega Financial Holding Company to integrate the information system and share information services.
9. Enhance training program for employees and increase the opportunities for managerial personnel to receive rigorous training to gain experience to improve quality.

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

April 30, 2014

Year		2012	2013	March 31, 2014
Number of employees	Staff	181	181	181
	Interns	43	43	44
	Total	224	224	225
Average age		42.14	42.40	42.22
Average length of service		14.28	14.66	14.52
Educational background distribution	PhD	2	2	3
	Master	71	75	75
	Bachelor	144	140	140
	Senior high school	7	7	7
	Below senior high school	0	0	0
Professional designation and licensing	Bills Finance Specialist	173	174	172
	Securities Investment Analyst	7	7	7
	Senior Securities Specialist	129	130	129
	Securities Specialist	67	70	70
	Securities Investment Trust and Consulting Professionals	83	82	81
	Trust Operations Specialist	107	108	108
	Futures Specialist	78	79	76
	Life Insurance Specialist	129	129	129
	Property Insurance Specialist	123	120	122
	Bank Internal Control Specialist	99	99	98
	Financial Planning Personnel	71	70	71
	Basic Foreign Exchange Personnel	6	6	6
	Basic Bank Lending Personnel	33	34	34
	Advanced Bank Lending Personnel	6	6	6

Three. Corporate Responsibility and Ethical Conduct

Please refer to Page 29 ~ Page 32 of the Corporate Governance Report for “performance of social responsibility” and ”performance of 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 Linkou Information Facility Remote Replication Center in 2007, and will deal with the Company's application system server IBMRS/6000 update program at the same time to update the computer equipment of the recovery center at different location. The Company is 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

(I) Continue to update the Company's application system server IBMRS/6000.

(II) Build the Company's paperless report management system.

(III) Build the Company's meeting information review system.

(IV) Replace dot matrix printers.

(V) Replace the web server.

(VI) 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:

Subject to the Labor Standard Law and the Company's work rules.

IV. Measures to protect employees' interests and rights:

Subject to the Labor Standard Law and the Company's work rules.

V. 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 and income statements

Condensed balance sheets

Unit: NT$ Thousand

Item \ Year		Financial information in the latest year 2013
Cash and cash equivalent, central bank deposits, call loans to banks		544,617
Financial assets at fair value through profit and loss		133,085,711
Available-for-sale financial assets		80,127,802
Bills and bonds purchased under resale agreements		1,966,157
Receivables– net		1,072,383
Held-to-maturity financial assets		500,000
Other financial assets - net		1,303,700
Property and equipment - net		362,205
Investment property– net		2,560,415
Intangible assets - net		3,303
Deferred income tax assets- net		89,030
Other assets		27,647
Total assets		221,642,970
Banks overdrafts and call loans from banks		21,259,000
Financial liabilities at fair value through profit and loss		1,352
Bills and bonds payable under repurchase agreements		163,869,633
Payables		809,067
Current income tax liabilities		124,310
Liabilities reserve		3,282,308
Deferred income tax liabilities		62
Other liabilities		179,726
Total liabilities	Before allocation	189,525,458
	After allocation	Note
Capital stock		13,114,411
Capital surplus		320,929
Retained earnings	Before allocation	17,386,645
	After allocation	Note
Other equity		1,259,527
Total equity	Before allocation	32,117,512
	After allocation	Note

Note: Until the date of publication of this annual report, the motion for allocation of earnings for the year 2013 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.

Condensed income statements

Unit: NT$ Thousand

Item \ Year	Financial information in the latest year 2013
Interest Income	2,837,819
Less: Interest Expense	(1,058,294)
Interest income, net	1,779,525
Revenue other than interest income, net	1,872,669
Gross profit	3,652,194
Provisions	177,739
Operating expenses	(775,732)
Income before Income Tax from Operating Unit	3,054,201
Income tax (expense) gain	(423,718)
Net Income Tax from Operating Unit	2,630,483
Income (loss) from discontinued operations	-
Net Income (loss)	2,630,483
Other comprehensive income for the current period (net of tax expense)	(1,220,140)
Comprehensive Income for the current period	1,410,343
EPS	2.01

II. Condensed balance sheets and income statements-R.O.C. GAAP

Condensed balance sheets

Unit: NT$ Thousand

Item \ Year		Financial information from 2009 to 2012			
		2012	2011	2010	2009
Cash and cash equivalent, central bank deposits, call loans to banks		367,174	601,915	736,833	681,894
Financial assets at fair value through profit or loss		129,072,587	135,756,870	112,685,775	85,843,648
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
Receivables		1,261,152	1,833,166	2,101,018	2,208,658
Held-to-maturity financial assets		500,000	250,000	250,000	450,000
Fixed assets		2,918,234	2,928,881	2,945,800	2,967,869
Intangible assets		4,750	1,096	309	2,064
Other financial assets		1,299,398	822,684	693,381	1,284,921
Other assets		110,397	47,010	55,134	53,841
Total assets		217,417,574	225,482,611	211,187,101	202,863,251
Banks overdrafts and call loans from banks		20,861,000	3,416,000	3,897,000	5,586,000
Financial liabilities at fair value through profit or loss		3,154	-	10,130	74,990
Bills and bonds payable under repurchase agreements		159,376,775	184,993,275	170,163,470	159,606,041
Payables		1,000,645	1,257,098	1,243,823	1,328,258
Other liabilities		3,356,926	3,221,063	3,337,357	3,431,885
Total liabilities	Before allocation	184,598,500	192,887,436	178,651,780	170,027,174
	After allocation	186,615,496	194,765,419	180,553,370	171,994,336
Capital stock		13,114,411	13,114,411	13,114,411	13,114,411
Capital surplus		312,823	312,823	312,823	312,823
Retained earnings	Before allocation	16,900,777	15,897,794	14,917,082	14,229,347
	After allocation	14,883,781	14,019,811	13,015,492	12,262,185
Unrealized gain or loss on financial products		2,567,813	3,327,430	4,191,005	5,179,496
Other equities		-76,750	-57,283	-	-
Total stockholders' equity	Before allocation	32,819,074	32,595,175	32,535,321	32,836,077
	After allocation	30,802,078	30,717,192	30,633,731	30,868,915

Condensed income statements

Unit: NT$ Thousand

Item \ Year	Financial information from 2009 to 2012			
	2012	2011	2010	2009
Interest income, net	1,989,274	2,407,627	2,838,161	3,969,761
Revenue other than interest income, net	2,282,614	1,599,847	1,426,187	1,210,772
Provisions	126,379	89,757	345,695	843,888
Operating expenses	796,950	779,614	763,003	830,484
Income before income tax from continuing operations	3,348,559	3,138,103	3,155,650	3,506,161
Income after income tax from continuing operations	2,880,966	2,682,302	2,654,897	2,858,622
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
EPS	2.20	2.05	2.02	2.00

III. Independent Auditor's Name and Opinion

Year	Name of CPA Firm	CPA's Name	Opinion
2013	PricewaterhouseCoopers, Certified Public Accountants	Chien-Hung Chou, CPA, and Po-Ju Kuo, CPA	Unqualified 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

Two. Financial information for the recent five years

I. Financial Analysis - International Financial Reporting Standards

Unit: NT$ Thousand; %

Item \ Year		Financial information for the latest year
		2013
Managerial ability	Average number of days of bill and bond holding	5.54
	NPL ratio	0
	Total assets turnover rate	0.02
	Average yield per employee	16,304
	Average profit per employee	11,743
Profitability	ROA (%)	1.20
	ROE (%)	8.11
	Net profit margin (%)	72.02
	EPS (NT$)	2.01
Financial structure	Liability to total assets ratio (%)	84.17
	Property and equipment to stockholder equity ratio (%)	1.13
Growth rate	Asset growth rate (%)	1.89
	Profit growth rate (%)	-9.02
Cash flow	Cash flow ratio (%)	0.96
	Cash flow adequacy ratio (%)	156.92
Credit extended to stakeholders		0
Percentage of credits extended to stakeholders (%)		0
Scale of operations	Asset market share (%)	26.77
	Net value market share (%)	29.59
	Market share for guaranteed and endorsed bills (%)	32.91
	Market share for each type of bill and bond issue and first time purchase (%)	30.34
	Market share for each type of bill and bond transaction (%)	32.83
Capital adequacy ratio	Capital adequacy ratio (%)	13.57
	Eligible capital	28,705,412
	Total value of risk assets	211,584,531
	Ratio of Tier I capital to risk - weighted assets (%)	13.29

Explanation of analysis of changes for the most recent two years: (Variations exceeded 20%).

1. The increase in asset growth rate was a result of the increase of short-term bills positions aiming at bringing additional net interest income.
2. The decrease in profit growth rate was a result of the maturity of mass high yields bond positions that led to the decrease of interest income from the bonds.
3. The decrease in percentage of credits extended to stakeholders is a result of no credit was extended to stakeholders in 2013.

Note: Equations for analysis items:

1. Managerial ability
   (1) Average number of days of bill and bond holding=365/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/average 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 equity, net.
   (3) Net profit margin=Income after tax/income (Income=interest income + revenue other than interest income).
   (4) Earnings per share = (income and loss attributed to owners of parent company –dividends of the preferred stocks) / weighted average numbers of outstanding shares.
3. Financial structure
   (1) Liability to total assets ratio=Total liabilities/total assets.
   (2) Property and equipment to stockholders' equity ratio = Property and equipment net /Total stockholders' equity.
   (3) Total liabilities should exclude allowances for the guarantee liability.
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 and 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 value market share = Net value/total net 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. Capital adequacy ratio
   (1) Capital adequacy ratio=Eligible capital/total risk assets.
   (2) Eligible capital=Tier I capital + Tier II eligible capital +Tier III eligible and used capital.
   (3) Total risk assets=Credit risk weighted risk assets + (operational risk capital requirement +market risk capital requirements) x 12.5.
   (4) Ratio of Tier I capital to risk - weighted assets = Tier I capital/total risk assets.

II. Financial Analysis - R.O.C. GAAP

Unit: NT$ Thousand; %

Item		Financial Analysis from 2009 to 2012			
		2012	2011	2010	2009
Managerial ability	Average number of days of bill and bond holding	5.26	4.95	4.40	5.08
	NPL ratio	0	0	0.09	0.38
	Total assets turnover rate	0.02	0.02	0.02	0.02
	Average yield per employee	19,071	17,891	19,209	23,336
	Average profit per employee	12,861	11,975	11,959	12,877
Profitability	ROA (%)	1.30	1.23	1.28	1.23
	ROE (%)	8.81	8.24	8.12	8.64
	Net profit margin (%)	67.44	66.93	62.26	55.18
	EPS (NT$)	2.20	2.05	2.02	2.00
Financial structure	Liability to total assets ratio (%)	83.53	84.25	83.13	82.29
	Fixed assets to stockholders' equity ratio (%)	8.89	8.99	9.05	9.04
Growth rate	Asset growth rate (%)	-3.58	6.77	4.10	-22.33
	Profit growth rate (%)	6.71	-0.56	-10.00	79.24
Cash flow	Cash flow ratio (%)	N/A	1.19	2.12	3.68
	Cash flow adequacy ratio (%)	189.27	386.83	323.05	249.74
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
	Net value market share (%)	30.39	30.16	29.51	28.25
	Market share for guaranteed and endorsed bills (%)	35.79	36.85	33.49	31.22
	Market share for each type of bill and bond issue and first time purchase (%)	31.40	31.29	27.69	30.60
	Market share for each type of bill and bond transaction (%)	33.65	34.74	32.95	32.40
Capital adequacy ratio	Capital adequacy ratio (%)	13.49	14.48	16.22	16.88
	Eligible capital	28,584,534	28,220,229	29,002,098	27,479,317
	Total value of risk assets	211,953,033	194,834,756	178,834,426	162,778,852
	Ratio of Tier I capital to risk - weighted assets (%)	12.94	13.71	15.16	16.98

Note: Equations for analysis items:

1. Managerial ability
   (1) Average number of days of bill and bond holding=365/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/average 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 (Total liabilities exclude allowances for guarantee liability and for loss on securities exchange.)
   (2) Fixed assets to stockholders' equity ratio = Fixed assets, net/stockholders' equity, net.
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 value 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. Capital adequacy ratio
   (1) Capital adequacy ratio=Eligible capital/total risk assets.
   (2) Eligible capital=Tier I capital + Tier II eligible capital +Tier III eligible and used capital.
   (3) Total risk assets=Credit risk weighted risk assets (operational risk capital requirement +market risk capital requirements) x 12.5.
   (4) Ratio of Tier I capital to risk - weighted assets = Tier I capital/total risk assets.

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 2013. The financial statements were audited and certified by Chien-Hung Chou, CPA and Po-Ju, Kuo 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 2014 of Mega Bills Finance Corporation

Supervisor: Tan-Hung Lu

Supervisor: Ching-Lung Hung

Supervisor: Chia-Min Hung

April 22, 2014

Four. MEGA BILLS FINANCE CO., LTD. FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS (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 (singed and official seal affixed)

Content of the Financial Report (audited and attested by CPA)

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

DECEMBER 31, 2013 AND 2012

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.

PWCR13000317

Report of Independent Accountants

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

We have audited the accompanying balance sheets of Mega Bills Finance Co., Ltd (the “Company”) as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2013 and 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation 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, 2013, December 31, 2012 and January 1, 2012, and their financial performance and cash flows for the years ended December 31, 2013 and 2012 in conformity with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations as endorsed by Financial Supervisory Commission.

PricewaterhouseCoopers, Taiwan

March 25, 2014

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.

MEGA BILLS FINANCE CO., LTD.
BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS	NOTES	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	6(1) and 7	$ 544,617	$ 367,174	$ 601,915
Financial assets at fair value through profit or loss	6(2), 7 and 8	133,085,711	129,163,193	135,756,068
Available-for-sale financial assets	6(3), 7 and 8	80,127,802	81,883,882	83,240,989
Bills and bonds investment with resale agreements	6(4)	1,966,157	-	-
Receivables - net	6(5)	1,072,383	1,270,152	1,837,318
Held-to-maturity financial assets	6(6)	500,000	500,000	250,000
Other financial assets – net	6(7) and 8	1,303,700	1,299,398	822,684
Property and equipment - net	6(8)	362,205	347,155	347,138
Investment property - net	6(9)	2,560,415	2,571,079	2,581,743
Intangible assets - net		3,303	4,750	1,096
Deferred income tax assets - net	6(28)	89,030	100,207	98,292
Other assets - net	6(10) and 7	27,647	35,022	32,204
TOTAL ASSETS		$ 221,642,970	$ 217,542,012	$ 225,569,447
LIABILITIES AND' EQUITY				
Interbank overdraft and call loans	6(11) and 7	$ 21,259,000	$ 20,861,000	$ 3,416,000
Financial liabilities at fair value through profit or loss	6(12)	1,352	3,154	-
Bills and bonds payable under repurchase agreements	6(4) and 7	163,869,633	159,376,775	184,993,275
Payables	6(13)	809,067	673,142	939,621
Current income tax liabilities	6(28)	124,310	444,111	337,407
Provisions for liabilities	6(14)(15) and 7	3,282,308	3,391,554	3,282,886
Deferred income tax liabilities	6(28)	62	-	-
Other liabilities	7	179,726	76,217	73,473
Total Liabilities		189,525,458	184,825,953	193,042,662
Capital stock				
Common stocks	6(16)	13,114,411	13,114,411	13,114,411
Capital surplus	6(17) and (18)	320,929	312,823	312,823
Retained earnings	6(19) and (28)			
Legal reserve		14,678,366	13,814,076	13,009,385
Special reserve		203,090	203,090	203,090
Unappropriated retained earnings		2,505,189	2,703,846	2,559,646
Other equity interest				
Unrealized gain or loss on available-for-sale financial assets	6(3)	1,295,527	2,567,813	3,327,430
Total equity		32,117,512	32,716,059	32,526,785
Commitments And Contingent Liabilities	9			
TOTAL LIABILITIES AND EQUITY		$ 221,642,970	$ 217,542,012	$ 225,569,447

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

MEGA BILLS FINANCE CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME

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

	NOTES	For the years ended December 31 2013	2012
Interest Income	6(20)	$ 2,837,819	$ 3,206,986
Less：Interest Expense	6(20) and 7	(1,058,294)	(1,217,712)
Interest Income, Net		1,779,525	1,989,274
Non-Interest Income, Net			
Service fee and commission income, net	6(21) and 7	706,324	593,311
Gain or loss from financial assets and liabilities at fair value through profit or loss	6(22) and 7	355,856	230,851
Realized gain or loss on available-for-sale financial assets	6(23)	650,551	379,658
Foreign exchange gain (loss), net		544	(293)
Other non-interest income or loss, net			
Revenues on investment property	6(9) and 7	102,565	106,895
Gains on sale of non-performing loans	7	-	802,264
Others	7	56,829	18,417
Net Revenues		3,652,194	4,120,377
Provisions	6(24)	177,739	25,132
Operating Expenses			
Employee benefit expense	6(25)	(550,147)	(572,747)
Depreciation and amortization	6(26)	(20,483)	(19,320)
Other business and administrative expenses	6(27) and 7	(205,102)	(196,287)
Total operating expenses		(775,732)	(788,354)
Income before Income Tax from Operating Unit		3,054,201	3,357,155
Income Tax Expense	6(28)	(423,718)	(529,272)
Net Income		2,630,483	2,827,883
Other comprehensive income			
Unrealized loss on valuation of available-for-sale-financials assets		(1,272,286)	(759,617)
Actuarial gains (losses) on defined benefit plan		62,827	(1,215)
Income tax relating to component of other comprehensive income		(10,681)	206
Total other comprehensive income (after Income Tax)		(1,220,140)	(760,626)
Total comprehensive income		$ 1,410,343	$ 2,067,257
Earnings Per Share			
Basic and Diluted earnings per share	6(29)	$ 2.01	$ 2.16

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

MEGA BILLS FINANCE CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

			Retained Earnings			Other equity interest	
For the year ended December 31, 2012	Capital Stocks	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings	Unrealized gain or loss on available-for-sale financial assets	Total Equity
Balance as of January 1, 2012	$ 13,114,411	$ 312,823	$ 13,009,385	$ 203,090	$ 2,559,646	3,327,430	$ 32,526,785
Appropriation of 2011 earnings (Note)							
Legal reserve	-	-	804,691	-	(804,691)	-	-
Cash dividends	-	-	-	-	(1,877,983)	-	(1,877,983)
Total comprehensive income							
Net income for 2012	-	-	-	-	2,827,883	-	2,827,883
Total other comprehensive income for 2012	-	-	-	-	(1,009)	(759,617)	(760,626)
Total comprehensive income for 2012	-	-	-	-	2,826,874	(759,617)	2,067,257
Balance as of December 31, 2012	$ 13,114,411	$ 312,823	$ 13,814,076	$ 203,090	$ 2,703,846	$ 2,567,813	$ 32,716,059
For the year ended December 31, 2013							
Balance as of January 1, 2013	$ 13,114,411	$ 312,823	$ 13,814,076	$ 203,090	$ 2,703,846	$ 2,567,813	$ 32,716,059
Appropriation of 2012 earnings (Note)							
Legal reserve	-	-	864,290	-	(864,290)	-	-
Cash dividends	-	-	-	-	(2,016,996)	-	(2,016,996)
Share-based payment transactions	-	8,106	-	-	-	-	8,106
Total comprehensive income							
Net income for 2013	-	-	-	-	2,630,483	-	2,630,483
Total other comprehensive income for 2013	-	-	-	-	52,146	(1,272,286)	(1,220,140)
Total comprehensive income for 2013	-	-	-	-	2,682,629	(1,272,286)	1,410,343
Balance as of December 31, 2013	$ 13,114,411	$ 320,929	$ 14,678,366	$ 203,090	$ 2,505,189	$ 1,295,527	$ 32,117,512

Note: Employee bonuses amounting to $65,716 and $70,584 thousand for 2011 and 2012 have been deducted from the statements of comprehensive income.

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

MEGA BILLS FINANCE CO., LTD.
STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	For the years ended December 31	
Cash Flows from Operating Activities	2013	2012
Income before income tax	$ 3,054,201	$ 3,357,155
Adjustments to reconcile income before tax to net cash provided by (used in) operating activities:		
Income and expenses having no effect on cash flows		
Depreciation	17,235	17,057
Amortization	3,248	2,263
Provisions for bad debts and various reserves	86,661	126,379
Interest income	(2,837,819)	(3,206,986)
Dividend income	(116,338)	(88,996)
Interest expense	1,058,294	1,217,712
Gains on disposal of property and equipment	(521)	(81)
Share-based payment transactions	8,106	-
Changes in assets/liabilities relating to operating assets:		
(Increase) decrease in financial assets at fair value through profit or loss	(3,922,518)	6,592,875
Increase in bills and bonds investment with resale agreements	(1,966,157)	-
Increase in receivables	(67,950)	(4,839)
Decrease in available-for-sale financial assets	483,794	597,490
Increase in held-to-maturity financial assets	-	(250,000)
Increase in other financial assets	(96,819)	(515,360)
Decrease (increase) in other assets	6,298	(2,925)
(Decrease) increase in financial liabilities at fair value through profit or loss	(1,802)	3,154
Increase (decrease) in bills and bonds payable under repurchase agreements	4,492,858	(25,616,500)
Increase (decrease) in payables	148,024	(274,169)
(Decrease) increase in provisions for liabilities	(6,203)	19,720
Increase in other liabilities	103,509	2,744
Interest paid	(1,070,393)	(1,210,022)
Interest received	3,044,178	3,778,991
Dividend received	116,338	88,996
Income tax paid	(742,961)	(424,277)
Net cash provided by (used in) operating activities	1,793,263	(15,789,619)
Cash Flows from Investing Activities		
Proceeds from capital reduction of investment measured at cost	25,000	-
Acquisition of property and equipment	(21,621)	(6,410)
Proceeds from disposal of property and equipment	521	81
Increase in other assets	(724)	(5,810)
Net cash provided by (used in) investing activities	3,176	(12,139)
Cash Flows from Financing Activities		
Increase (decrease) in interbank overdraft and call loans	398,000	17,445,000
Payments of cash dividends	(2,016,996)	(1,877,983)
Net cash (used in) provided by financing activities	(1,618,996)	15,567,017
Net increase (decrease) in cash and cash equivalents	177,443	(234,741)
Cash and cash equivalents, beginning of year	367,174	601,915
Cash and cash equivalents, end of year	$ 544,617	$ 367,174

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

MEGA BILLS FINANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013, DECEMBER 31, 2012 AND JANUARY 1, 2012
(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 (Ultimate parent).

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These financial statements were authorized for issuance by the Board of Directors on March 25, 2014.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

Not applicable as it is the first-time adoption of IFRSs by the Company this year.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

A. IFRS 9, 'Financial Instruments': Classification and measurement of financial instruments.

(A) The International Accounting Standards Board ("IASB") published IFRS 9, 'Financial Instruments', in November 2009, which will take effect on January 1, 2013 with early application permitted (Through the amendments to IFRS 9 published on November 19, 2013, the IASB has removed the previous mandatory effective date, but the standard is available for immediate application). Although the FSC has endorsed IFRS 9, FSC does not permit early application of IFRS 9 when IFRSs are adopted in R.O.C. in 2013. Instead, enterprises should apply International Accounting Standard No. 39 ("IAS 39"), 'Financial Instruments: Recognition and Measurement' reissued in 2009.

(B) IFRS 9 was issued as the first step to replace IAS 39. IFRS 9 outlines the new classification and measurement requirements for financial instruments, which might affect the accounting treatments for financial instruments of the Company.

(C) The Company has not evaluated the overall effect of the IFRS 9 adoption. However, based on preliminary evaluation, it was noted that the IFRS 9 adoption might have an impact on those instruments classified as 'available-for-sale financial assets' held by the Company, as IFRS 9 specifies that the fair value changes in the equity instruments that meet certain criteria may be reported in other comprehensive income, and such amount that has been recognised in other comprehensive income should not be reclassified to profit or loss when such assets are derecognised. The Company recognised loss on debt instruments and on equity instruments amounting to $904,633 thousand and $367,653 thousand, respectively, in other comprehensive income for the year ended December 31, 2013.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

A. The following are the new standards and amendments issued by IASB that are effective but not yet endorsed by the FSC and have not been adopted by the Company:

New Standards, Interpretations and Amendments	Main Amendments	Effective Date
Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1)	The amendment provides first-time adopters of IFRSs with the same transition relief that existing IFRS preparers received in IFRS 7, 'Financial Instruments: Disclosures' and exempts first-time adopters from providing the additional comparative disclosures.	July 1, 2010
Improvements to IFRSs 2010	Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 34 and IFRIC 13.	January 1, 2011
IFRS 9, 'Financial instruments: Classification and measurement of financial liabilities'	1. IFRS 9 requires gains and losses on financial liabilities designated at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which shall be presented in other comprehensive income, and cannot be reclassified to profit or loss when derecognizing the liabilities; and all other changes in fair value are recognised in profit or loss. The new guidance allows the recognition of the full amount of change in the fair value in the profit or loss only if there is reasonable evidence showing on initial recognition that the recognition of	After issuance in November 19, 2013, it was optional to adopt immediately any version issued by IASB, and no compulsory effective date.

New Standards, Interpretations and Amendments	Main Amendments	Effective Date
	changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch (inconsistency) in profit or loss. (That determination is made at initial recognition and is not reassessed subsequently.) 2. An entity is allowed to separately apply relevant regulations set out in 1. above.	
Disclosures - transfers of financial assets (amendment to IFRS 7)	The amendment enhances qualitative and quantitative disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in transferred assets, existing at the reporting date.	July 1, 2011
Deferred tax: recovery of underlying assets (amendment to IAS 12)	The amendment gives a rebuttable presumption that the carrying amount of investment properties measured at fair value is recovered entirely by sale, unless there exists any evidence that could rebut this presumption. The amendment also replaces SIC 21, 'Income taxes - recovery of revalued non-depreciable assets'.	January 1, 2012
IFRS 12,'Disclosure of interests in other entities'	The standard requires the disclosure of interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities.	January 1, 2013
IFRS 13, 'Fair value measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.	January 1, 2013
IAS 19 revised, 'Employee benefits' (as amended in 2011)	The revised standard eliminates corridor approach and requires actuarial gains and losses to be recognised immediately in other comprehensive income. Past service costs will be recognised immediately in the period incurred. Net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, replace the finance charge and expected return on	January 1, 2013

New Standards, Interpretations and Amendments	Main Amendments	Effective Date
	plan assets. The return on plan assets, excluding net interest expense, is recognised in other comprehensive income.	
Presentation of items of other comprehensive income (amendment to IAS 1)	The amendment requires profit or loss and other comprehensive income (OCI) to be presented separately in the statement of comprehensive income. Also, the amendment requires entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss subsequently.	July 1, 2012
Disclosures—Offsetting financial assets and financial liabilities (amendment to IFRS 7)	The amendment requires disclosures to include quantitative information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements.	January 1, 2013
Offsetting financial assets and financial liabilities (amendment to IAS 32)	The amendment clarifies criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts' and gross settlement mechanisms with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would therefore satisfy the IAS 32 criterion in these instances.	January 1, 2014
Government loans (amendment to IFRS 1)	The amendment provides exception to first-time adopters to apply the requirements in IFRS 9, 'Financial instruments', and IAS 20, 'Accounting for government grants and disclosure of government assistance', prospectively to government loans that exist at the date of transition to IFRS.	January 1, 2013
Improvements to IFRSs 2009-2011	Amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34.	January 1, 2013
IFRIC 21, 'Levies'	The interpretation addresses the accounting for levies imposed by governments in accordance with legislation (other than income tax). A liability to pay a levy shall be recognised in accordance with IAS 37, 'Provisions, contingent liabilities and contingent assets'.	January 1, 2014

New Standards, Interpretations and Amendments	Main Amendments	Effective Date
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	The amendments remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or intangible assets with indefinite useful lives that were not impaired.	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	The amendment states that the novation of a hedging instrument would not be considered an expiration or termination giving rise to the discontinuation of hedge accounting when the hedging instrument that is being novated complies with specified criteria.	January 1, 2014
Improvements to IFRSs 2010-2012	Amendments to to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.	July 1, 2014
Improvements to IFRSs 2011-2013	Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.	July 1, 2014

B. The Company is assessing the potential impact of the new standards and amendments above and has not yet been able to reliably estimate their impact on the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in these financial statements are set out below. These accounting policies set out below have been consistently applied to all the periods presented in financial statements, unless otherwise stated.

(1) Compliance statement

A. The accompanying financial statements are the first financial statements prepared in conformity with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

B. In the preparation of the balance sheet of January 1, 2012 (the Company’s date of transition to IFRSs) (“the opening IFRS balance sheet”), the Company has adjusted the amounts that were reported in the financial statements in accordance with previous R.O.C. GAAP. Please refer to Note 17 for the impact of transitioning from R.O.C. GAAP to the IFRSs, International Accounting Standards, and Interpretations/bulletins as endorsed by the FSC (collectively referred herein as the “IFRSs”) on the Company’s financial position, financial performance operating results and cash flows.

(2) Basis for preparation

A. Except for the following items, these financial statements have been prepared under the historical cost convention:

(A) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(B) Available-for-sale financial assets measured at fair value.

(C) Defined benefit liabilities recognised based on the net amount of pension fund assets plus unrecognised past service cost and unrecognised actuarial losses, and less unrecognised actuarial gains and present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translations

A. Functional and presentation currency

Items included in the financial statements of the Company is measured using the currency of the primary economic environment in which it operates (the "functional currency"). The financial statements are presented in New Taiwan Dollars, which is the Company's functional and presentation currency.

B. Transactions and balances

(A) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(B) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the spot exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(4) Cash and cash equivalents

"Cash and cash equivalents" include cash on hand, demand deposits, short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

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

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(A) Hybrid (combined) contracts; or

(B) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(C) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(6) Bills and bonds under repurchase or resale agreements

Bills and bonds under repurchase or resale agreements are stated at the amount actually received from or paid to the counterparties. When transactions of bills and bonds with a condition of resale agreements occur, the actual payment shall be recognised in bills and bonds investment with resale agreements. When transactions of bills and bonds with a condition of repurchase agreements occur, the actual receipt shall be recognised in bills and bonds payable under repurchase agreements. Any difference between the actual payment/receipt and predetermined resale (repurchase) price is recognised in interest income or interest expense.

(7) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value. Any changes in the fair value of these financial assets are recognised in other comprehensive income and shall be recognised as profit or loss in the period when available-for-sale financial assets are derecognised.

D. When the reduction of fair value of available-for-sale financial asset has been recognised in other comprehensive income and with objective evidence indicating that the impairment has incurred, even if the financial asset has not been derecognised, accumulated losses recognised in other comprehensive income shall be reclassified from equity items to gain and loss. The amount of the impairment loss is measured as the difference between the asset’s acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

In respect of investment in equity instruments classified as available-for-sale, whose impairment loss recognised in profit or loss shall not be reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income. For debt instruments classified as available-for-sale, impairment loss can be reversed and recognised in profit or loss if subsequent increase in the fair value of the investment can be objectively related to an event occurring after the impairment loss is recognised in profit or loss.

(8) Held-to-maturity financial assets

A. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables and those that are designated as at fair value through profit or loss or as available-for-sale on initial recognition.

B. On a regular way purchase or sale basis, held-to-maturity financial assets are recognised and derecognised using trade date accounting.

C. Held-to-maturity financial assets are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognised in profit or loss.

D. An impairment loss is recognised when there is objective evidence of impairment. The amount of the impairment loss is the difference between the financial assets' book value and the estimated future cash flow discounted using 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 recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amounts shall not exceed the amortized cost that would have been determined had no impairment loss been recognised in prior years.

(9) Financial assets measured at cost

A. Financial assets measured at cost refer to investments in equity instruments that do not have a quoted market price in an active market or derivatives that are linked to unquoted equity instruments without reliably measured fair value and must be settled by delivery of such unquoted equity instruments.

B. Financial assets measured at cost are accounted for using trade date accounting. These assets are initially recognised at fair value plus transaction costs of acquisition. The fair value can be reasonably estimated when the following criteria are met at the balance sheet date: (a) the variability in the range of reasonable fair value estimates is insignificant for that instrument, or (b) the probabilities of the estimates within the range can be reasonably assessed and used in estimating fair value. If the variability in the range of reasonable fair value estimate could vary significantly, and the probabilities of the various estimates cannot be reasonably measured, then it should be assessed by cost instead of fair value.

C. When there is objective evidence of impairment indicating an impairment loss has occurred on the financial assets carried at cost, the impairment loss should be recognized under asset impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset. Such impairment loss is not reversible.

(10) 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 initially recognised at fair value, which includes the price of transaction, significant costs of transaction, significant handling fees paid or received, discount and premium, etc., and subsequently measured at amortized cost using the effective interest method.

E. Allowance for doubtful accounts for claims such as accounts receivable and overdue receivables is recognised by assessing at balance sheet date whether objective evidence exists indicating impairment losses generated from material individual financial assets, and impairment losses generated individually or as a company from immaterial individual financial assets. An impairment loss is recognised when there is objective evidence of impairment. The amount of the impairment loss is the difference between the financial assets' book value and the estimated future cash flow discounted using 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 recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amounts shall not exceed the amortized cost that would have been determined had no impairment loss been recognised in prior years.

(11) Property and equipment

A. Property and equipment are initially recorded at cost.

B. Land is not depreciated. Other property and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property and equipment are as follows: Buildings, 60 years; Machinery and Computer equipment, 3 to 6 year; Miscellaneous equipment, 3 to 5 years.

C. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(12) Leases

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(13) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 60 years.

(14) Intangible assets

A. Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 3 to 5 years.

B. Intangible assets are subsequently measured using the cost model.

(15) Impairment of financial assets

A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a company of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:

(A) Significant financial difficulty of the issuer or debtor;

(B) A breach of contract, such as a default or delinquency in interest or principal payments;

(C) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(D) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(E) The disappearance of an active market for that financial asset because of financial difficulties;

(F) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(G) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(H) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; or

(I) Other objective evidence

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment shall be made according to the category of financial assets as mentioned previously.

(16) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(17) Derecognition of financial assets and liabilities

A. The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

B. A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(18) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(19) Financial guarantee contracts

The Company initially recognises financial guarantee contracts at fair value on the date of issuance. The Company charges a service fee when the contract is signed and therefore the service fee income charged is the fair value at the date that the financial guarantee contract is signed. Service fee received in advance is recognised in deferred accounts and amortized through straight-line method during the contract term.

Subsequently, the Company should measure the financial guarantee contract issued at the higher of:

A. the amount determined in accordance with IAS 37, "Provisions, contingent liabilities and contingent assets"; and

B. The amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18, "Revenue".

The best estimate of the liability amount of a financial guarantee contract requires management to exercise their judgment combined with historical loss data based on the similar transaction experiences. The increase in liabilities due to financial guarantee contract is recognised in “Provisions”.

The Company assesses the possible loss on credit assets within and off balance sheets in accordance with “Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt”, and provides adequate reserve for guarantee liabilities.

(20) Provisions for liabilities, contingent liabilities and contingent assets

A. When all the following criteria are met, the Company shall recognize a provision:

(A) A present obligation (legal or constructive) as a result of a past event;

(B) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(C) The amount of the obligation can be reliably estimated.

If there are several similar obligations, the outflow of economic benefit as a result of settlement is determined based on the overall obligation. Provisions for liabilities should be recognised when the outflow of economic benefits is probable in order to settle the obligation as a whole even if the outflow of economic benefits from any one of the obligation is remote.

Provisions are measured by the present value of expense which is required for settling the anticipated obligation. The pre-tax discount rate is used with timely adjustment that reflects the current market assessments on the time value of money and the risks specific to the obligation.

B. Contingent liability is a possible obligation that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Or it could be a present obligation as a result of past event but the payment is not probable or the amount cannot be measured reliably. The Company did not recognize any contingent liabilities but made appropriate disclosure in compliance with relevant regulations.

C. Contingent asset is a possible obligation that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. The Company did not recognize any contingent assets and made appropriate disclosure in compliance with relevant regulations when the economic inflow is probable.

(21) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

The pension plan of the Company includes both defined contribution plans and defined benefit plans .

(A) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(B) Defined benefit plans

a. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using market yields at the balance sheet date on high-quality corporate bonds with a currency and term consistent with the currency and term of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses market yields on government bonds (at the balance sheet date) instead.

b. Actuarial gains and losses arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise.

c. Past service costs are recognised immediately in profit or loss if vested immediately; if not, the past service costs are amortized on a straight-line basis over the vesting period.

C. Employees’ bonus and directors’ and supervisors’ remuneration

Employees’ bonus and directors’ and supervisors’ remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. 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 recognised); if there are still changes as approved during the stockholders’ meeting, the changes shall be recognised as profit or loss.

(22) Revenue and expense

Income and expense of the Company are recognised as incurred, the main components are as follows:

A. Interest income and expense: Interest income means interest income generated from holding bills and bonds, bills and bonds investment with resale agreements, various deposits, and other financial assets. Interest expense means various interest expenses resulting from bills and bonds payable under repurchase agreements and financing from banks. All the interest income and interest expense generated from interest-bearing financial instruments are calculated by effective interest rate according to relevant regulations and recognised as interest income and interest expense.

B. Service fee income and expense: Service fee income means service fee income earned from provision of guarantee, certification, and underwriting services. Service fee expense means expenses resulting from authorizing others to handle various procedures. Amounts the Company receives when providing the services, such as guarantee service, is recognised as service fee income on a straight-line basis over the guarantee period. If the amounts earned are classified as income from implementation of significant activities, such as certification service, the amounts shall be recognised as income when the certification service is completed.

C. Operating expenses: operating expenses refer to expenditures required to carry out business operations, which primarily comprise employee benefit expense, depreciation and amortization expenses, and other business and administrative expenses.

(23) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.

E. 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 "Current income tax assets (liabilities)".

F. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(24) Share capital

Net of incremental costs directly attributable to the issuance of new shares will be removed from equity after related income tax expense is eliminated. Dividends on ordinary shares are recognised in equity in the year in which they are approved by the shareholders. Cash dividends are recorded as liabilities. They are not recognized and only disclosed as subsequent event in the notes to the financial statements if the dividend declaration date is later than the balance sheet date.

(25) Share-based payment

When the parent company reserves shares from cash capital increase for employee preemption, fair value of the services received shall be measured at the fair value of equity instruments granted at the grant date and recognized as employee benefit expense in accordance with IFRS 2, ‘Share-based Payment’.

(26) 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.

(27) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these financial statements requires management to make critical judgements in applying the Company’s accounting policies and make critical assumptions and estimates concerning future events. Judgements and estimates are continually evaluated and adjusted based on historical experience and other factors. The above information is addressed below:

(1) As the financial statements of the Company may be affected by the adoption of accounting policy, accounting estimate and assumption, the Company’s management shall properly exercise its professional judgement, estimates, and assumptions on the information of the key risks that is obtained from other resources and could affect the carrying amounts of financial assets and liabilities in the next fiscal year while adopting critical accounting policies as stated in Note 4. Estimates and assumptions of the Company are the best estimates made in compliance with IFRSs as endorsed by the FSC. Estimates and assumptions are made based on past experience and other factors deemed relevant; however, the actual results may differ from the estimates. The Company reviews the estimates and assumptions on an ongoing basis and recognizes the adjustment of the estimates only in the period which is affected by the adjustment. If the adjustment

simultaneously affects both the current and future periods, it should be recognised in both periods.

(2) The Company makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

A. Guarantee reserve assessment

The Company assesses at the balance date the adequacy of guarantee reserve. Unless otherwise provided by laws or regulations, when deciding whether to set aside guarantee reserve, the Company shall primarily exercise its judgement on whether the guarantee is likely to occur and cash inflow that may arise after the guaranty obligation resulted. Evidences for making judgement include observable data indicating adverse movement in payment status of the debtor or industry news relevant to arrears. The Company periodically reviews assumptions of factors for judgement in order to reduce the difference between estimated loss and actual loss.

B. Fair value of financial instruments

The fair value of financial instruments in non-active market or financial instruments without a quoted market price in an active market is determined using valuation techniques. Such fair value is assessed based on observable data of similar financial instruments or a valuation model. If there are no observable market parameters, the fair value of financial instruments is assessed based on appropriate assumptions. If fair value is determined by a valuation model, all models are calibrated to ensure that all outputs reflect actual data and market prices. Sensitivity analysis of financial instruments is provided in Note 13(5).

C. Calculation of liabilities reserve for employee benefits

When calculating the present value of defined pension obligations, the Company must apply judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and expected rate of return on plan assets. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2013	December 31, 2012	January 1, 2012
Checking deposits	$ 235,126	$ 242,076	$ 238,353
Demand deposits	308,791	24,398	362,712
Time deposits	-	100,000	-
Petty cash	700	700	850
Total	$ 544,617	$ 367,174	$ 601,915

A. For bank deposits due from related parties, please refer to Note 7.

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, 2013, December 31, 2012 and January 1, 2012, demand deposits in USD amounted to US$34 thousand, US$45 thousand and US$37 thousand, respectively, and the exchange rate of USD to NTD was 1 : 29.775, 1 : 29.035 and 1 : 30.272, respectively. (Exchange rates of USD to NTD shown below are all the same).

D. As of December 31, 2013, CNY denominated demand deposits amounted to CNY $18 thousand, and the exchange rate of CNY to NTD was 1：4.9122 (Exchange rates of CNY to NTD shown below were all the same). As of December 31, 2012 and January 1, 2012, the Company did not have demand deposits denominated in CNY.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets held for trading			
Commercial paper	$ 100,554,133	$ 93,839,246	$ 96,995,893
Fixed rate commercial paper purchased	9,080	18,714	7,021
Fixed rate commercial paper sold	51	-	-
Foreign currency bills	-	11,245	11,723
Bankers’ acceptance	528,805	2,679	-
Negotiable certificates of time deposit	28,103,971	22,788,159	17,850,000
Treasury securities	496,774	8,561,894	16,109,122
Government bonds	-	647,988	-
Convertible corporate bonds	195,573	405,499	1,929,944
Stocks	-	3,751	26,279
Funds	-	-	15,643
Derivatives	31	-	-
	129,888,418	126,279,175	132,945,625
Valuation adjustments – non-derivatives	22,702	17,961	(13,576)
Subtotal	129,911,120	126,297,136	132,932,049
Financial assets designated as at fair value through profit or loss on initial recognition			
Convertible corporate bond asset swaps	3,168,100	2,843,400	2,756,700
Valuation adjustments	6,491	22,657	67,319
Subtotal	3,174,591	2,866,057	2,824,019
Total	$ 133,085,711	$ 129,163,193	$ 135,756,068

A. The Company recognized net gain of $372,547 thousand and $279,383 thousand on financial assets held for trading for the years ended December 31, 2013 and 2012, respectively, and recognized net loss of $16,166 thousand and $44,662 thousand on financial assets designated as at fair value through profit or loss on initial recognition for the years ended December 31, 2013 and 2012, respectively.

B. As of December 31, 2013, December 31, 2012 and January 1, 2012, the transaction cost of bills and bonds with repurchase agreement of above financial assets held for trading were $91,054,638 thousand, $97,082,867 thousand and $111,774,301 thousand, respectively.

C. As of December 31, 2013, December 31, 2012 and January 1, 2012,the above negotiable certificates of time deposits used for bank overdraft and loans collateral have maturities within one year. Please refer to Notes 7 and 8 for details.

D. As of December 31, 2013, December 31, 2012 and January 1, 2012, the fair value of bills denominated in USD amounted to US$0 thousand, US$388 thousand and $387 thousand, respectively.

(3) Available-for-sale financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
Government bonds	$ 43,104,511	$ 50,804,416	$ 65,063,577
Financial bonds	7,137,545	3,838,835	2,160,000
Foreign currency financial bonds	98,244	-	30,396
Corporate bonds	25,779,722	21,688,406	10,238,640
Foreign currency corporate bonds	-	145,175	151,360
Beneficiary or asset-backed securities	400,000	400,000	400,000
Stocks	2,312,253	2,439,237	1,869,586
Subtotal	78,832,275	79,316,069	79,913,559
Valuation adjustments	1,295,527	2,567,813	3,327,430
Total	$ 80,127,802	$ 81,883,882	$ 83,240,989

A. As of December 31, 2013, December 31, 2012 and January 1, 2012, the transaction cost of bills and bonds with repurchase agreement of above available-for-sale bonds were $63,900,453 thousand, $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, 2013, December 31, 2012 and January 1, 2012. Please refer to Notes 7 and 8 for details.

C. As of December 31, 2013, December 31, 2012 and January 1, 2012, 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 $901,939 thousand, $925,168 thousand and $943,355 thousand, respectively.

D. As of December 31, 2013, December 31, 2012 and January 1, 2012, the fair values of financial bonds denominated in USD have amounted to US$0 thousand, US$0 thousand and US$995 thousand, respectively. And the fair values of corporate bonds denominated in USD have amounted to US$0 thousand, US$5,000 thousand and US$4,989 thousand, respectively.

E. As of December 31, 2013, fair value of CNY denominated financial bonds was CNY 19,900 thousand. As of December 31, 2012 and January 1, 2012, the Company did not hold available-for-sale financial assets denominated in CNY.

(4) Bills and bonds under repurchase or resale agreements

	December 31, 2013	December 31, 2012	January 1, 2012
Bills and bonds investment with resale agreements	$ 1,966,157	$ -	$ -
Bills and bonds payable under repurchase agreements	$ 163,869,633	$ 159,376,775	$ 184,993,275

A. As of December 31, 2013, interest rate of bills and bonds investment with resale agreements was 0.59%~0.61%. The fair value of collaterals (bonds) obtained by transaction amounted to $2,018,199 thousand; the balance as of December 31, 2012 and January 1, 2012 was both $0.

B. As of December 31, 2013, December 31, 2012 and January 1, 2012, the interest rate of bills and bonds payable under repurchase agreements were 0.26%~0.80%, 0.26%~0.87% and 0.15%~0.90%, respectively.

C. As of December 31, 2013, the face value of above-mentioned bills and bonds investment with resale agreements which were traded under repurchase agreement was $1,940,600 thousand.

D. As of December 31, 2013, December 31, 2012 and January 1, 2012, please refer to Note 7 for the balances of repo trades with related parties.

E. As of December 31, 2013, December 31, 2012 and January 1, 2012, recognised amount of USD denominated bills and bonds payable under repurchase agreements were US$0 thousand, US$5,184 thousand and US$6,303 thousand, respectively.

F. As of December 31, 2013, recognised amount of CNY denominated bills and bonds payable under repurchase agreements was CNY 1,240 thousand. As of December 31, 2012 and January 1, 2012, the Company did not underwrite bills and bonds payable under repurchase agreements denominated in CNY.

(5) Receivables – net

	December 31, 2013	December 31, 2012	January 1, 2012
Interest receivable	$ 1,054,743	$ 1,261,102	$ 1,833,107
Accounts receivable	77,000	-	-
Trade receivables on bond investment	-	9,000	-
Other receivables – others	-	50	4,211
Less: Allowance for doubtful accounts	(59,360)	-	-
Receivables, net	$ 1,072,383	$ 1,270,152	$ 1,837,318

For details of allowance for doubtful accounts, please refer to Note 6(14).

(6) Held-to-maturity financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
Corporate bonds	$ 500,000	$ 500,000	$ 250,000
Less: Accumulated impairment	-	-	-
Net	$ 500,000	$ 500,000	$ 250,000

(7) Other financial assets – net

	December 31, 2013	December 31, 2012	January 1, 2012
Certificate of deposit pledged	$ 900,000	$ 900,000	$ 400,000
Financial assets carried at cost - net	344,300	369,300	369,300
Designated account for allowance to pay back short-term bills	59,400	30,098	53,384
Net	$ 1,303,700	$ 1,299,398	$ 822,684

A. The above certificate of deposit pledged were provided as collaterals for bank overdrafts as of December 31, 2013, December 31, 2012 and January 1, 2012. Please refer to Note 8 for details.

B. For above-mentioned financial assets carried at cost, as the variability in the range of reasonable fair value estimate could vary significantly, and the probabilities of the various estimates cannot be reasonably measured, the assets are measured at cost. Relevant details are as follows:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	% of Shareholding	Amount	% of Shareholding	Amount	% of Shareholding
Unlisted stock investments						
Core Pacific City Co., Ltd.	$ 600,000	3.458	$ 600,000	3.690	$ 600,000	3.932
Taiwan Asset Management Co., Ltd.	75,000	0.568	100,000	0.568	100,000	0.568
Taiwan Financial Asset Services Co., Ltd.	50,000	2.941	50,000	2.941	50,000	2.941
Taiwan Futures Exchange Co., Ltd.	10,250	0.512	10,250	0.512	10,250	0.512
Taiwan Depository & Clearing Co., Ltd.	6,850	0.628	6,850	0.628	6,850	0.628
Agora Garden Co., Ltd.	900	0.030	900	0.030	900	0.030
Subtotal	743,000		768,000		768,000	
Less: Accumulated impairment	(398,700)		(398,700)		(398,700)	
Net	$ 344,300		$ 369,300		$ 369,300	

Note: Taiwan Asset Management Co., Ltd. had filed for capital reduction, which became effective on July 10, 2013. The Company therefore obtained returned proceeds from capital reduction of $25,000 thousand.

As of December 31, 2013, December 31, 2012 and January 1, 2012, the Company had recognised impairment loss for the above listed investees as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Core Pacific City Co., Ltd.	$ 397,800	$ 397,800	$ 397,800
Agora Garden Co., Ltd.	900	900	900
	$ 398,700	$ 398,700	$ 398,700

(8) Property and equipment – net

	Land	Buildings	Machinery and computer equipment	Miscellaneous equipment	Equipment prepayment	Total
January 1, 2013						
Cost	$ 227,347	$ 166,118	$ 88,037	$ 52,784	$ 1,444	$ 535,730
Accumulated depreciation	-	(57,574)	(79,891)	(51,110)	-	(188,575)
Net Book Value	227,347	108,544	8,146	1,674	1,444	347,155
Additions-Cost	-	-	84	2,496	19,041	21,621
Transfer-Cost	-	-	-	5,777	(5,777)	-
Disposals-Cost	-	-	(1,848)	(4,109)	-	(5,957)
Disposals-Accumulated depreciation	-	-	1,848	4,109	-	5,957
Depreciation	-	(2,722)	(3,080)	(769)	-	(6,571)
December 31, 2013	$ 227,347	$ 105,822	$ 5,150	$ 9,178	$ 14,708	$ 362,205
December 31, 2013						
Cost	$ 227,347	$ 166,118	$ 86,273	$ 56,948	$ 14,708	$ 551,394
Accumulated depreciation	-	(60,296)	(81,123)	(47,770)	-	(189,189)
Net Book Value	$ 227,347	$ 105,822	$ 5,150	$ 9,178	$ 14,708	$ 362,205

	Land	Buildings	Machinery and Computer equipment	Miscellaneous equipment	Equipment prepayment	Total
January 1, 2012						
Cost	$ 227,347	$ 166,118	$ 87,387	$ 53,158	$ -	$ 534,010
Accumulated depreciation	-	(54,853)	(80,696)	(51,323)	-	(186,872)
Net Book Value	227,347	111,265	6,691	1,835	-	347,138
Additions-Cost	-	-	4,343	623	1,444	6,410
Transfer-Cost	-	-	(3,693)	(997)	-	(4,690)
Disposals-Cost	-	-	3,693	997	-	4,690
Disposals-Accumulated depreciation						
Depreciation	-	(2,721)	(2,888)	(784)	-	(6,393)
December 31, 2012	$ 227,347	$ 108,544	$ 8,146	$ 1,674	$ 1,444	$ 347,155
December 31, 2012						
Cost	$ 227,347	$ 166,118	$ 88,037	$ 52,784	$ 1,444	$ 535,730
Accumulated depreciation	-	(57,574)	(79,891)	(51,110)	-	(188,575)
Net Book Value	$ 227,347	$ 108,544	$ 8,146	$ 1,674	$ 1,444	$ 347,155

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

(9) Investment property – net

	Land	Buildings	Total
January 1, 2013			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(145,683)	(145,683)
Net Book Value	2,204,894	366,185	2,571,079
Depreciation	-	(10,664)	(10,664)
December 31, 2013	$ 2,204,894	$ 355,521	$ 2,560,415
December 31, 2013			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(156,347)	(156,347)
Net Book Value	$ 2,204,894	$ 355,521	$ 2,560,415

	Land	Buildings	Total
January 1, 2012			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(135,019)	(135,019)
Net Book Value	2,204,894	376,849	2,581,743
Depreciation	-	(10,664)	(10,664)
December 31, 2012	$ 2,204,894	$ 366,185	$ 2,571,079
December 31, 2012			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(145,683)	(145,683)
Net Book Value	$ 2,204,894	$ 366,185	$ 2,571,079

A. All Investment property were not provided as collateral .

B. Rental income from the lease of the investment property for the years ended December 31, 2013 and 2012 was $102,565 thousand and $106,895 thousand, respectively.

C. Please refer to Note 7 for details of investment property granted by the related parties.

D. The fair value of the investment property held by the Company as at December 31, 2013, December 31, 2012 and January 1, 2012 was $3,878,229 thousand, $3,728,325 thousand and $3,556,409 thousand, respectively, which was revalued by independent valuers and based on the price with comprehensive reference to comparison approach and direct capitalization under income approach. Capitalization rate used in valuation was 1.79%~ 1.86%.

(10) Other assets – net

	December 31, 2013	December 31, 2012	January 1, 2012
Refundable deposits	$ 11,257	$ 16,594	$ 10,741
Guarantee deposits held for operation and funds for security settlements	7,743	7,077	10,700
Other deferred assets	5,501	6,578	6,685
Others	3,146	4,773	4,078
Total	$ 27,647	$ 35,022	$ 32,204

(11) Interbank overdraft and call loans

	December 31, 2013	Period	Interest Rate (%)
Bank overdrafts	$ 559,000	Nov.29.2013-Nov.29.2014(Note)	1.88
Call loans	20,700,000	Dec.12.2013-Jan.14.2014	0.41~0.44
Total	$ 21,259,000		

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

	January 1, 2012	Period	Interest Rate (%)
Bank overdrafts	$ 66,000	Nov. 30, 2011~Nov. 30, 2012 (Note)	1.88
Call loans	3,350,000	Dec. 29, 2011~Jan. 3, 2012	0.75~0.80
Total	$ 3,416,000		

Note: Represents contract period.

A. Please refer to Note 7 for details of bank overdrafts and call loans granted by the related parties.

B. Please refer to Note 8 for details for collaterals provided for bank overdrafts and loans as of December 31, 2013, December 31, 2012 and January 1, 2012.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Derivative financial instruments	$ 1,352	$ 1,297	$ -
Fixed rate commercial paper sold	-	1,857	-
	$ 1,352	$ 3,154	$ -

The Company recognised net loss of $525 thousand and $3,870 thousand on financial liabilities held for trading for the years ended December 31, 2013 and 2012, respectively.

(13) Payables

	December 31, 2013	December 31, 2012	January 1, 2012
Payables of transactions under repurchase agreements on maturity	$ 304,678	$ 56,152	$ 396,421
Bonus payable	197,528	197,162	187,134
Receipts under custody payable (Note)	109,788	125,840	183,365
Dividends and bonus payable	77,271	100,834	84,493
Interest payable	43,942	56,041	48,351
Others	75,860	137,113	39,857
Total	$ 809,067	$ 673,142	$ 939,621

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

(14) Provisions for liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Reserve for guarantee liabilities	$ 2,959,444	$ 2,999,660	$ 2,911,927
Liabilities reserve for employee benefits	322,864	391,894	370,959
Total	$ 3,282,308	$ 3,391,554	$ 3,282,886

Movements in allowance and reserves for accounts receivable, overdue loans are as follows:

	Allowance for accounts receivable, overdue loans	Reserve for guarantee liabilities
January 1, 2012	$ -	$ 2,911,927
Provision	44,998	81,381
Write-off	(44,998)	-
Deferred income transferred	-	6,352
December 31, 2012	$ -	$ 2,999,660
January 1, 2013	$ -	$ 2,999,660
Provision (Reversal)	90,409	(3,748)
Write-off	(31,049)	-
Deferred income transferred	-	(36,468)
December 31, 2013	$ 59,360	$ 2,959,444

(15) Pensions

A. (A) The Company has established a defined benefit pension plan in accordance with the Labor Standards Law. 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.

(B) The amounts recognised in the balance sheet are determined as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded obligations	$ 612,731	$ 670,048	$ 638,427
Fair value of plan assets	(281,779)	(267,464)	(254,178)
	330,952	402,584	384,249
Unrecognised past service cost	(8,088)	(10,690)	(13,290)
Net liability in the balance sheet	$ 322,864	$ 391,894	$ 370,959

(C) Movements of present value of funded obligations are as follows:

	For the years ended December 31, 2013	2012
Present value of funded obligations		
At January 1	$ 670,048	$ 638,427
Current service cost	20,646	22,090
Interest cost	8,843	9,663
Actuarial profit	(62,908)	(132)
Benefits paid	(23,898)	-
At December 31	$ 612,731	$ 670,048

(D) Movements of fair value of plan assets are as follows:

	For the years ended December 31, 2013	2012
Fair value of plan assets		
At January 1	$ 267,464	$ 254,178
Expected return on plan assets	3,549	3,863
Actuarial and loss	(81)	(1,348)
Employer contributions	34,745	10,771
Benefits paid	(23,898)	-
At December 31	$ 281,779	$ 267,464

(E) Amounts of expenses recognised in comprehensive income statements are as follows:

	For the years ended December 31, 2013	2012
Current service cost	$ 20,646	$ 22,090
Interest cost	8,843	9,663
Expected return on plan assets	(3,549)	(3,863)
Prior service costs	2,601	2,601
Pension costs	$ 28,541	$ 30,491

(F) Cumulative actuarial losses/(gains) recognised in other comprehensive income are as follows:

	For the years ended December 31, 2013	2012
Recognition for current period	$ 62,827	($ 1,215)

Accumulated amount	$ 61,612	($ 1,215)

(G)The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The constitution of fair value of plan assets as of December 31, 2013 and 2012 is given in the Annual Labor Retirement Fund Utilization Report published by the government. Expected return on plan assets was a projection of overall return for the obligations period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilization by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund's minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

(H) The principal actuarial assumptions used were as follows:

	For the years ended December 31,		
	2013	2012	2011
Discount rate	1.70%	1.35%	1.55%
Future salary increases	1.16%	1.80%	2.25%
Expected return on plan assets	1.70%	1.35%	1.55%

Assumptions regarding future mortality rate for 2013, 2012 and 2011 are set based on the 5th、5th and 4th Chart of Life Span Estimate Used by the Taiwan Life Insurance Enterprises, respectively.

(I) Historical information of experience adjustments was as follows:

	For the years ended December 31,	
	2013	2012
Present value of defined benefit obligation	$ 612,731	$ 670,048
Fair value of plan assets	(281,779)	(267,464)
Deficit in the plan	$ 330,952	$ 402,584
Experience adjustments on plan liabilities	($ 4,649)	$ 1,369
Experience adjustments on plan assets	($ 81)	($ 1,348)

(J) Expected contributions to the defined benefit pension plans of the Company within one year from December 31, 2013 amounts to $10,624 thousand.

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contribute 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 benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under defined contribution pension plans of the Company for the years ended

December 31, 2013 and 2012 were $4,211 thousand and $4,285 thousand, respectively.

(16) Capital stock

As of December 31, 2013 and 2012, the Company's paid-in capital was both $13,114,411 thousand, consisting of 1,311,441 thousand shares with a par value of $10 per share.

(17) Share-based payment-employee compensation

Employee compensation from share-based payment below originated from the 10% of cash capital increase reserved for the Company's employee preemption, which was stipulated under Paragraph One, Article 267 of R.O.C. Company Act by the parent-Mega Financial Holding Co., Ltd.

A. As of December 31, 2013, the Company's share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity Granted (share)	Vesting Conditions
Cash capital increase reserved for employee preemption	November 1, 2013	2,340,000	Vested immediately

B. Capital surplus arising from share-based payment transactions is $8,106 thousand.

(18) Capital surplus

A.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.

B.As of December 31, 2013 and 2012, all of the Company's capital surplus consisted of share premium.

(19) Retained earnings

	For the years ended December 31,	
	2013	2012
January 1	$ 16,721,012	$ 15,772,121
Profit for the period	2,630,483	2,827,883
Appropriation of earnings	(2,016,996)	(1,877,983)
Actuarial gain/loss on post employment benefit obligations net of tax	52,146	(1,009)
December 31	$ 17,386,645	$ 16,721,012

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. 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.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

E. Appropriation of 2012 and 2011 earnings as resolved by the Board of Directors on behalf of the stockholders on May 7, 2013 and April 24, 2012, respectively, were as follows:

	2012		2011	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 864,290		$ 804,691	
Cash dividends of stockholders	2,016,996	$ 1.538	1,877,983	$ 1.432
Cash bonus to employees (Note)	70,584		65,716	

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

The difference between the cash bonus to employees and the recognised employee bonus expenses ($100,834 thousand and $84,493 thousand, respectively) for the years ended December 31, 2012 and 2011 amounted to $30,250 thousand and $18,777 thousand, respectively, and such difference was due to changes in the employee bonus ratio; the difference has been adjusted as profit or loss for 2013 and 2012, respectively.

F. The estimated amount of employee bonus as of December 31, 2013 and 2012, amounted to $77,271 thousand and $100,834 thousand, respectively. Considering net profit after tax at the end of the period and statutory reserve, the bonus to employees were recognised as expenses of the period based on the formula stated in the Company's Articles of Incorporation.

G. 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.

(20) Interest income, net

	For the years ended December 31, 2013	2012
Interest income		
Interest income from bills	$ 1,287,028	$ 1,288,137
Interest income from bonds (Note)	1,541,677	1,887,401
Others	9,114	31,448
Subtotal	2,837,819	3,206,986
Interest expense		
Interest expense of bills payable under repurchase agreements	615,907	771,775
Interest expense of bonds payable under repurchase agreements	355,239	355,061
Interest expense of overdraft and call loans	86,894	89,087
Others	254	1,789
Subtotal	1,058,294	1,217,712
Net	$ 1,779,525	$ 1,989,274

Note: Including interest income of $51,952 thousand and $72,172 thousand from convertible bond asset swap recognised for the years ended December 31, 2013 and 2012, respectively.

(21) Service fee and commission income, net

	For the years ended December 31, 2013	2012
Service fee income from guarantee service	$ 483,069	$ 408,230
Service fee income from certification service	54,470	50,126
Service fee income from underwriting service	138,819	125,277
Others	40,189	19,389
Subtotal	716,547	603,022
Service fee expense	(10,223)	(9,711)
Net	$ 706,324	$ 593,311

(22) Gain or loss from financial assets and liabilities at fair value through profit or loss

	For the years ended December 31, 2013	2012
Dividends income	$ -	$ 104
Realized (Loss) Gain		
Bills	371,870	202,236
Bonds	5,518	33,406
Derivatives	(2,337)	(716)
Others	(19)	407
Subtotal	375,032	235,333
Valuation (Loss) Gain		
Bills	(3,428)	11,682
Bonds(Note)	(15,898)	(16,042)
Derivatives	(24)	(1,297)
Others	174	1,071
Subtotal	(19,176)	(4,586)
Total	$ 355,856	$ 230,851

Note: Including loss of $16,166 thousand and $44,662 thousand on convertible bond asset swap recognised for the years ended December 31, 2013 and 2012, respectively.

(23) Realized gain or loss on available-for-sale financial assets

	For the years ended December 31,	
	2013	2012
Dividends income	$ 103,979	$ 74,714
Stocks	399,863	304,797
Bonds	146,709	147
Total	$ 650,551	$ 379,658

(24) Provisions

	For the years ended December 31,	
	2013	2012
Provision for bad debts	$ 90,409	$ 44,998
Bad debt recovery	(264,400)	(151,511)
(Reversal of) provision for insurance reserve	(3,748)	81,381
Total	($ 177,739)	($ 25,132)

(25) Employee benefit

	For the years ended December 31,	
	2013	2012
Wages and salaries	$ 467,843	$ 502,011
Labor and health insurance fees	23,540	18,758
Pension costs	32,752	34,776
Other Employee benefits	26,012	17,202
Total	$ 550,147	$ 572,747

(26) Depreciation and amortization

	For the years ended December 31,	
	2013	2012
Depreciation	$ 17,235	$ 17,057
Amortization	3,248	2,263
Total	$ 20,483	$ 19,320

(27) Other business and administrative expenses

	For the years ended December 31,	
	2013	2012
Tax and official fee	$ 65,542	$ 62,264
Rental expenses	48,939	46,187
Professional expense	10,856	8,672
Repairs and maintenance	8,314	9,400
Others	71,451	69,764
Total	$ 205,102	$ 196,287

(28) Income taxes

A. Components of income tax expense:

(A) Components of income tax expense:

	For the years ended December 31, 2013	2012
Current tax:		
Current tax on profits for the period	$ 424,752	$ 533,069
Adjustments in respect of prior years	(12,273)	(1,882)
Total current tax	412,479	531,187
Deferred tax:		
Origination and reversal of temporary differences	11,239	(1,915)
Total deferred tax	11,239	(1,915)
Income tax expense	$ 423,718	$ 529,272

(B) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	For the years ended December 31, 2013	2012
Actuarial gains/losses on defined benefit obligations	($ 10,681)	$ 206

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31, 2013	2012
Tax calculated based on profit before tax and statutory tax rate	$ 519,214	$ 570,716
Effects from items disallowed by tax regulation	19,912	17,759
Prior year income tax (over) underestimation	(12,273)	(1,882)
Effects from tax exempt income	(103,135)	(57,321)
Tax expense	$ 423,718	$ 529,272

C. Temporary differences resulting in deferred income tax assets as of December 31, 2013 and 2012:

	For the year ended December 31, 2013			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Pension unfunded	$ 62,350	($ 1,055)	$ -	$ 61,295
Others	37,857	559	(10,681)	27,735
Subtotal	100,207	(496)	(10,681)	89,030
- Deferred tax liabilities:				
Others	-	(62)	-	(62)
Total	$ 100,207	($ 558)	($ 10,681)	$ 88,968

	For the year ended December 31, 2012			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Pension unfunded	$ 57,465	$ 4,885	$ -	$ 62,350
Others	40,827	(3,176)	206	37,857
Total	$ 98,292	$ 1,709	$ 206	$ 100,207

D. As of December 31, 2013, the Company's income tax returns through 2007 had been assessed by the Tax Authorities.

E. 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, 2013, December 31, 2012 and January 1, 2012, Current income tax liabilities on the joint filing of income tax returns (after deducting non-refundable withholding taxes) amounted to $124,310 thousand, $444,111 thousand and $337,407 thousand, respectively.

F. Unappropriated retained earnings

	December 31, 2013	December 31, 2012	January 1, 2012
1997 and before	$ -	$ 1,358	$ 1,358
1998 and onwards	2,505,189	2,702,488	2,558,288

G. As of December 31, 2013, December 31, 2012 and January 1, 2012, the balance of the imputation tax credit account was $16,017 thousand, $24,701 thousand and $25,453 thousand, respectively. The creditable tax rate was 0.90% for 2012 and is estimated to be 0.64% for 2013.

(29) Earnings per share

	2013		
	Amount after tax	Weighted-average number of shares outstanding (share in thousands)	Basic and diluted earnings per share (In dollars)
Net income	$ 2,630,483	1,311,441	$ 2.01

	2012		
	Amount after tax	Weighted-average number of shares outstanding (share in thousands)	Basic and diluted earnings per share (In dollars)
Net income	$ 2,827,883	1,311,441	$ 2.16

7. RELATED PARTY TRANSACTIONS

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

Names of related parties	Relationship with the Company
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, general managers, vice general managers, assistant managers, managers, and near kindred of the Company's directors, supervisors, general managers, and vice general managers.

(2) Significant transactions and balances with related parties

A. Bank deposits

	December 31, 2013		
	Demand deposits	Checking deposits	Total
Management of the parent			
BOT	$ 18,174	$ 56,168	$ 74,342
Fellow subsidiary			
MICB	339,248	66,358	405,606
Total	$ 357,422	$ 122,526	$ 479,948

	December 31, 2012		
	Demand deposits	Checking deposits	Total
Management of the parent			
BOT	$ 3,676	$ 50,000	$ 53,676
Fellow subsidiary			
MICB	39,885	61,074	100,959
Total	$ 43,561	$ 111,074	$ 154,635

	January 1, 2012		
	Demand deposits	Checking deposits	Total
Management of the parent			
BOT	$ 12,216	$ 54,987	$ 67,203
Fellow subsidiary			
MICB	385,387	63,252	448,639
Total	$ 397,603	$ 118,239	$ 515,842

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

B. Interbank overdraft and call loans

	For the year ended December 31, 2013			
	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
Bank overdrafts				
Management of the parent				
BOT	$ 932,000	$ 559,000	1.88	$ 10,720
Call loans				
Management of the parent				
BOT	3,500,000	3,500,000	0.40~0.46	6,680
Chunghwa Post	11,500,000	600,000	0.42~0.81	6,365
Fellow subsidiary				
MICB	7,800,000	2,200,000	0.41~0.51	8,766
Total		$ 6,859,000		$ 32,531

	For the year ended December 31, 2012			
	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
Bank overdrafts				
Management of the parent				
BOT	$ 1,228,000	$ 361,000	1.88	$ 10,643
Call loans				
Management of the parent				
Chunghwa Post	4,700,000	1,800,000	0.62~0.87	2,200
BOT	3,000,000	-	0.62~0.87	817
Fellow subsidiary				
MICB	10,800,000	5,900,000	0.45~0.81	18,319
Total		$ 8,061,000		$ 31,979

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,	
	2013	2012
Ultimate parent		
Mega	$ 11,991,983	$ -
Management of the parent		
Chunghwa Post	49,991	451,389
Fellow subsidiary		
MS	1,856,665	4,972,792
MICB	-	49,958
Total	$ 13,898,639	$ 5,474,139

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, 2013	
	Amount	Gain or loss from financial assets and liabilities at fair value through profit or loss
Management of the parent		
Chunghwa Post	$ 141,362,479	$ 38,777
BOT	23,206,243	5,960
Fellow subsidiary		
MICB	183,574,531	50,821
MS	398,208	(263)
Total	$ 348,541,461	$ 95,295

	For the year ended December 31, 2012	
	Amount	Gain or loss from financial assets and liabilities at fair value through profit or loss
Management of the parent		
Chunghwa Post	$ 99,005,880	$ 14,756
BOT	52,481,692	7,598
Fellow subsidiary		
MICB	18,608,546	2,772
MS	5,246,586	(622)
Total	$ 175,342,704	$ 24,504

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

E. Financial assets at fair value through profit or loss

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

	December 31, 2013					
	Type of instrument	Issuance date	Maturity date	Interest rate (%)	Face value	Cost
Fellow subsidiary						
MS	Commercial papers	2013.12.06	2014.01.24	0.98	$900,000	$899,302
MICB	Negotiable certificates of deposit	2013.06.25	2014.06.28	1.30	4,000	3,971

	December 31, 2012					
	Type of instrument	Issuance date	Maturity date	Interest rate (%)	Face value	Cost
Fellow subsidiary						
MICB	Negotiable certificates of deposit	2012.06.25	2013.06.25	0.988	$187,900	$187,364

January 1, 2012: None.

F. Bills and bonds under repurchase agreements

	For the year ended December 31, 2013		
	Amount	Ending balance	Interest expense
Ultimate parent			
Mega	$ 99,929	$ -	$ 4
Management of the parent			
BOT	25,634,801	509,568	9,489
Fellow subsidiary			
MS	3,141,643	150,289	166
Other related parties			
Others	683,802	10,000	80
Total	$ 29,560,175	$ 669,857	$ 9,739

	For the year ended December 31, 2012		
	Amount	Ending balance	Interest expense
Ultimate parent			
Mega	$ 46,471,486	$ -	$ 14,635
Management of the parent			
BOT	10,317,242	1,646,212	4,234
Fellow subsidiary			
MS	2,084,547	-	211
CKI	87,928	-	12
Other related parties			
Others	780,960	15,527	100
Total	$ 59,742,163	$ 1,661,739	$ 19,192

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

G. Guarantees provided to related parties

	December 31, 2013					
	Highest Balance	Ending Balance	Allowance for doubtful accounts and reserves for guarantee liabilities	Rates (%)	Pledged Asset	Fees income
Fellow subsidiary MAM	$ 515,000	$ -	$ -	1.05	Real estate	$ 859

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

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

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

	December 31, 2013			
	Highest Balance	Ending Balance	Rates (%)	Fees income
Ultimate parent Mega	$ 3,600,000	$ -	0.89~1.02	$ 166
Fellow subsidiary MS	$ 900,000	900,000	1.00~1.02	29
		$ 900,000		$ 195

December 31, 2012: None.

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

I. Sale of non-performing loans

December 31, 2013: None.

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

Counterparty	Loan component		Loan amount (Note 1)	Carrying amount (Note 2)	Evaluation on the recoverable amount of disposed loan	Gain and loss on disposal
MAM	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.

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

	Pledged Asset	December 31, 2013	December 31, 2012	January 1, 2012
Management of the parent				
BOT	Financial assets at fair value through profit or loss - negotiable certificates of time deposit	$ 700,855	$ -	$ -
	Available-for-sale financial assets - government bonds	1,269,662	3,310,218	4,129 ,971
	Available-for-sale financial assets - corporate bonds	752,779	754,360	-
Fellow subsidiary				
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	2,264,797	2,300,306	2,330,258
		$ 4,988,093	$ 6,564,999	$ 6,960,916

K. Assets provided as operating deposits for securities firm:

	Pledged Asset	December 31, 2013	December 31, 2012	January 1, 2012
Management of the parent				
BOT	Available-for-sale financial assets - government bonds	$ 96,051	$ 100,446	$ 104,593

L. Service fee expenses

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

	For the years ended December 31, 2013	For the years ended December 31, 2012
Fellow subsidiary		
MICB	$ 413	$ 561

M. Revenues on investment property

Lessee	Leased Property	Period	For the years ended December 31, 2013	For the years ended December 31, 2012
Fellow subsidiary				
MICB	Office and parking lots	Jan. 1, 2013 - Dec. 31, 2015	$ 84,246	$ 90,904

(A) The Company rented office space in Mega Financial Holding's building in Taipei City to MICB for office use. The lease agreement was signed for the period from January 1, 2013 to December 31, 2015 with the $14,041 thousand deposit already received.

(B) Additionally, the Company rented office space in Mega Financial Holding's building located in Taipei City to Mega Bank on a daily basis for the purpose of meetings in 2013. Relevant rental expense was $15 thousand.

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

N. Rental income

Lessee	Leased Property	Period	For the years ended December 31, 2013	2012
Fellow subsidiary				
CKI	Office	Dec. 1, 2011 - Nov. 30, 2016	$ 1,023	$ 852

(A) The Company's Sanchong branch rented the storage house to CKI for office use. The lease agreement was signed for the period from December 1, 2011 to November 30, 2016 with the $170 thousand dollar deposit already received. According to the contract terms, 3 months of rentals are free during the house renovation period.

(B) 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 2013	2012
Fellow subsidiary				
MICB	Office	Jan. 1, 2013-Dec. 31, 2015	$ 35,121	$ 33,646
MICB	Office	Jan. 1, 2010-Dec. 31, 2013	756	756
CKI	Warehouse	Dec. 1, 2011-Nov. 30, 2016	312	260
			$ 36,189	$ 34,662

(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, 2013 to December 31, 2015 with the $5,853 thousand deposit already 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 Keelung lodge from CKI for file storage. The lease agreement was signed for the period from December 1, 2011 to November 30, 2016 with the $52 thousand deposit already paid. According to the contract terms, 3 months of rentals are exempt during the house renovation period.

(D) Additionally, the Company rented an office space located in Hengyang Road, Taipei City from MICB on a daily basis for training purposes in 2012. Relevant rental expense was $10 thousand.

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

P. Insurance expenses

	For the years ended December 31,	
	2013	2012
Fellow subsidiary		
CKI	$ 3,525	$ 3,819

(3) Information on remunerations to the Company's directors, supervisors, general managers and assistant general manager:

	For the years ended December 31,	
	2013	2012
Salaries and other short-term employee benefits	$ 32,334	$ 27,501
Post-employment benefits	646	592
Total	$ 32,980	$ 28,093

8. PLEDGED ASSETS

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

	December 31, 2013	December 31, 2012	January 1, 2012	Secured for
Financial asset at fair value through profit or loss - negotiable certificates of time deposit	$ 13,007,071	$ 11,706,811	$10,410,865	Collateral for Central bank and other banks' overdraft
Available-for-sale financial assets - government bonds	7,628,529	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	752,779	754,360	-	Bank overdraft
Other financial assets- certificate of deposit pledged	900,000	900,000	400,000	Bank overdraft
Total	$ 22,288,379	$ 23,151,564	$21,505,028	

9. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2013, December 31, 2012 and January 1, 2012, the commitments and contingencies arising from the Company's normal course of business were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Securities bills and bonds investment with resale agreements	$ 1,966,157	$ -	$ -
Securities bills and bonds payable under repurchase agreements	163,869,633	159,376,775	184,993,275
Guarantees on commercial papers	142,710,000	141,622,600	134,979,200
Fixed rate commercial paper purchased	4,406,000	4,531,000	275,000
Fixed rate commercial paper sold	600,000	600,000	-
Index rate commercial paper purchased	27,660,000	22,090,000	21,215,000
Index rate commercial paper sold	1,150,000	-	-

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. FINANCIAL INSTRUMENTS

(1) Fair value and level information of financial instruments

A. Fair value information of financial instruments

Except for those listed in the table below, the carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, bills and bonds investment with resale agreements, accounts receivable, certificate of deposit pledged, designated account for allowance to pay back short-term bills, guarantee deposits held for operation and funds for security settlements, refundable deposits, interbank overdraft and call loans, bills and bonds payable under repurchase agreements, payables, and other liabilities) approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(1)B:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Held-to-maturity financial assets	$ 500,000	$ 503,882	$ 500,000	$ 504,468	$ 250,000	$ 251,469

B. Level information of financial instruments at fair value and Fair value estimation

(A) Three definitions of the Company's financial instruments at fair value

a. Level 1

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.

b. 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.

c. Level 3

The inputs adopted to measure fair value at this level are not based on available data from the markets. No financial instrument measured at fair value is included in level 3.

(B) Information of fair value hierarchy of financial instruments

Unit: In thousand of New Taiwan dollars

	December 31, 2013			
Non-derivative financial instruments	Total	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Investment in bills	$ 129,715,513	$ -	$ 129,715,513	$ -
Investment in bonds	195,576	-	195,576	-
Financial assets designated as at fair value through profit or loss on initial recognition	3,174,591	-	3,174,591	-
Available-for-sale financial assets				
Investment in stock	2,662,009	2,662,009	-	-
Investment in bonds	77,054,634	-	77,054,634	-
Beneficiary or asset-backed securities	411,159	-	411,159	-
Derivative Financial Instruments				
Assets				
Financial assets at fair value through profit or loss	$ 31	$ -	$ 31	$ -
Liabilities				
Financial liabilities at fair value through profit or loss	1,352	-	1,352	-

Non-derivative financial instruments	December 31, 2012 Total	Level 1	Level 2	Level 3
Assets				
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	1,053,222	647,498	405,724	-
Financial assets designated as at fair value through profit or loss on initial recognition	2,866,057	-	2,866,057	-
Available-for-sale financial assets				
Investment in stock	3,156,645	3,156,645	-	-
Investment in bonds	78,311,371	-	78,311,371	-
Beneficiary or asset-backed securities	415,866	-	415,866	-
Liabilities				
Financial liabilities at fair value through profit or loss	1,857	-	1,857	-
Derivative Financial Instruments				
Liabilities				
Financial liabilities at fair value through profit or loss	$ 1,297	$ -	$ 1,297	$ -

Non-derivative financial instruments	January 1, 2012 Total	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss				
Investment in bills	$ 130,990,314	$ -	$ 130,990,314	$ -
Investment in stock	25,143	25,143	-	-
Investment in bonds	1,901,058	-	1,901,058	-
Others	15,534	15,534	-	-
Financial assets designated as at fair value through profit or loss on initial recognition	2,824,019	-	2,824,019	-
Available-for-sale financial assets				
Investment in stock	2,658,190	2,658,190	-	-
Investment in bonds	80,166,067	-	80,166,067	-
Beneficiary or asset-backed securities	416,732	-	416,732	-

(C) The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Company's stocks, funds, benchmark bonds with transaction price, and the derivatives with a quoted price in an active market, are all included in level 1.

Fair values of stocks (excluding emerging stocks) listed on the Taiwan Stock Exchange or Over-The-Counter (hereinafter OTC) are determined by the closing price on the balance sheet date. Fair values of open-ended funds are determined by the net asset value on the balance sheet date. Fair value of benchmark bond is determined by the transaction price on the balance sheet date for fair value of bonds of different maturities bulletined by OTC. Fair values of derivatives traded on the Taiwan Futures Exchange are determined by the closing prices on the balance sheet date.

(D) If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If non-derivatives held by the Company have no active market, a valuation technique or quoted price offered by the counterparties will be adopted to measure their fair values. The fair value obtained through the valuation technique may take reference to the current fair value of other financial instruments with similar characteristics and actual terms, discounted cash flow method, or other valuation techniques, including the available market information obtained through the exercise of model calculations at the balance sheet date. When assessing non-standardized financial instruments with lower complexity, such as interest rate swaps, currency swaps and options, the Company adopts the valuation technique generally accepted by market users. The inputs used in the valuation models for these kinds of financial instruments are generally observable information in the market.

Bills and bonds (except for benchmark bonds with transaction price), fixed income securities, and derivatives (except for those traded in Taiwan Futures Exchange) are all included in level 2.

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. Government bonds are valued by the fair values of government bonds fair value offered by OTC 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 OTC. 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.

(E) There was no significant transfer between level 1 and level 2 for the years ended December 31, 2013 and 2012.

(F) If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. No financial instrument measured at fair value is included in level 3.

13. THE MANAGEMENT OBJECTIVES AND POLICIES OF FINANCIAL RISKS

(1) Overview

Except for complying with the laws and regulations, the Company's risk management aims to confine various operating risks to the tolerable scopes, maintain sound capital adequacy ratio, and pursue sustainable development. In order to maintain asset security and financial quality, risk management system was established for all employees to follow and work accordingly. With respect to various businesses, the Company established risk management mechanism for identification, measurement, supervision, and reporting purpose and set up relevant control methods such as specific risk management objectives, warning, and stop-loss limit.

The Company's activities expose it to a variety of financial risks: credit risk, market risk liquidity risk and operating risk. Market risk including interest rate risk, price risk and foreign exchange risk.

(2) The organization framework of risk management

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. Risk management committee established under the jurisdiction of general manager is responsible for examination of business risks such as credit risk, market risk, and operational risk and supervision of enforcement of risk management objectives. Credit management company and stock investment company were also set up under the jurisdiction of general manager to respectively examine and manage risks relevant to credit and investment transactions. Department of risk management is responsible for supervision of overall risk positions and concentration, assessment of capital adequacy, and submitting reports concerning enforcement of various risk management objectives to the Board of Directors. Besides, relevant risk management affairs are planned, supervised, or implemented in accordance with regulations by regulatory authorities and Mega Financial Holding Co., Ltd.

The Company also set up an audit department responsible for audit and assessment of internal control system to ensure sustained and effective implementation.

(3) Credit risk

A. The source and definition of credit risk

Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. Credit risk faced by the Company may arise from accounts in and off the balance sheet. For accounts balance sheet, credit risk mainly arises from debt instruments investment and derivatives. Off balance sheet accounts mainly comprise financial guarantees.

Above-mentioned financial guarantees refer to guarantees for underwriting of commercial papers issued. 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. Credit risk management policies

(A) Policy and procedure

The Company's credit risk management aims to control risk of loss from borrower or counterparty default because their financial status worsened or for other reasons and fails to fulfill the contract obligations. The Company established credit risk management standard and mechanism to ensure the credit risk is controlled within the tolerable scope. In avoidance of high risk concentration, the Company established summary of regulations governing credit risk concentration to define concentration limits by client (including the same person, the same company), location and country risk and set up early-warning indicator and monitoring mechanism.

a. Credit extensions

(a) The Company set up regulations governing credit risk to define ratio of credit ceiling by industry, ratio of credit ceiling on specific security requirements, and administration of limit on credit risk acceptance.

(b) The Company set up "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt" and evaluation method of asset quality and classification with regular review to check up on provision of allowance for losses.

b. Investments in financial instruments

Financial instruments held by the Company are mainly classified by credit ratings of counterparties. The Company regularly reviews, checks, and evaluates changes in the credit ratings to enhance control over credit risk taken by the Company. The Company also established rules governing control over credit risk on non-government bonds purchased to define administration of setting limits under credit ratings of bond debtor (issuer or guarantor) or specific debt.

(B) Measurement method

The Company's credit risk measurement system and statement comprises summary of total exposure to credit risk and management reports of ratio of overdue credits, credit ceiling by industry, underwriting limits for guarantee, credit ceiling for a single entity, the same associates, and the same related parties.

C. Policies of hedging and mitigation of credit risk

(A) Collaterals

The Company's credit extension cases are dealt with following the procedure of credit extension and checking. According to the client's financial position and credit status, the Company may consider obtaining collaterals and guarantors and setting of notices for handling of credit review to enhance management upon credit extension.

(B) Credit risk limit and credit risk concentration control

The Board of Directors assesses the annual risk management objectives concerning credit extension business, including ratio of overdue credits, coverage ratio of overdue credits, limit control over industry credit, specific security requirements, and the same entity or company's investments. Risk control department analyzes details of credit asset quality and credit risk concentration and reports to the general manager on a monthly basis. Risk control department also reports exposure to credit extension business, credit risk concentration, and enforcement of risk management objectives to the risk management committee and the Board of Director on a quarterly basis.

D. Maximum credit risk exposure

(A) The maximum exposure to credit risk of assets in the balance sheet, without consideration of the collateral or other credit strengthening instruments, is equivalent to the carrying amount.

(B) As of December 31, 2013, December 31, 2012 and January 1, 2012, the off-balance sheet contract amount for the guarantees of commercial papers subject to potential credit risks is NT$282,828 million, NT$282,555 million and NT$266,308 million, respectively (The contract amount which has been drawn upon amounted to NT$142,710 million, 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, 2013, December 31, 2012 and January 1, 2012, the percentage of guarantees with collaterals is 63.46%, 54.04% and 48.48%, 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, 2013	
Financial instruments	Carrying value	Maximum credit exposure risk
Financial assets at fair value through profit or loss	$ 133,085,711	$ 133,085,711
Available-for-sale financial assets	77,465,793	77,465,793
Bills and bonds investment with resale agreements	1,966,157	1,966,157
Receivables	1,072,383	1,072,383
Held-to-maturity financial assets	500,000	500,000
Other financial assets	959,400	959,400
Off-balance sheet guarantees	-	142,710,000
Total	$ 215,049,444	$ 357,759,444

Financial instruments	December 31, 2012 Carrying value	December 31, 2012 Maximum credit exposure risk
Financial assets at fair value through profit or loss	$ 129,159,616	$ 129,159,616
Available-for-sale financial assets	78,727,237	78,727,237
Receivables	1,270,152	1,270,152
Held-to-maturity financial assets	500,000	500,000
Other financial assets	930,098	930,098
Off-balance sheet guarantees	-	141,622,600
Total	$ 210,587,103	$ 352,209,703

Financial instruments	January 1, 2012 Carrying value	January 1, 2012 Maximum credit exposure risk
Financial assets at fair value through profit or loss	$ 135,715,391	$ 135,715,391
Available-for-sale financial assets	80,582,799	80,582,799
Receivables	1,837,318	1,837,318
Held-to-maturity financial assets	250,000	250,000
Other financial assets	453,384	453,384
Off-balance sheet guarantees	-	134,979,200
Total	$ 218,838,892	$ 353,818,092

E. Credit risk concentration

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 company 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 for provision of guarantees for commercial papers are as follows:

(A) Industry (guarantee service)

	December 31, 2013		December 31, 2012	
	Amount	Ratio(%)	Amount	Ratio(%)
Financial & insurance	$ 44,190,500	30.97	$ 42,550,000	30.04
Manufacturing	38,317,900	26.85	42,788,200	30.21
Real estate	31,323,400	21.95	25,558,400	18.05
Wholesale & retail	11,159,000	7.82	12,483,800	8.82
Others – less than 5% of balance of guarantees at period end	17,719,200	12.41	18,242,200	12.88
Total	$ 142,710,000	100.00	$ 141,622,600	100.00

	January 1, 2012	
	Amount	Ratio(%)
Financial & insurance	$ 41,604,600	30.82
Manufacturing	40,706,000	30.16
Real estate	26,135,600	19.36
Wholesale & retail	10,227,400	7.58
Others – less than 5% of balance of guarantees at period end	16,305,600	12.08
Total	$ 134,979,200	100.00

(B) Collateral (guarantee service)

	December 31, 2013		December 31, 2012	
	Amount	Ratio(%)	Amount	Ratio(%)
Unsecured	$ 52,146,714	36.54	$ 65,091,039	45.96
Secured	90,563,286	63.46	76,531,561	54.04
Secured by stocks	28,618,415	20.05	24,951,438	17.62
Secured by bonds	4,952,537	3.47	6,145,701	4.34
Secured by real estate	52,620,915	36.87	40,683,675	28.73
Others	4,371,419	3.07	4,750,747	3.35
Total	$ 142,710,000	100.00	$ 141,622,600	100.00

	January 1, 2012	
	Amount	Ratio(%)
Unsecured	$ 69,535,166	51.52
Secured	65,444,034	48.48
Secured by stocks	24,249,789	17.96
Secured by bonds	6,110,198	4.53
Secured by real estate	32,108,286	23.79
Others	2,975,761	2.20
Total	$ 134,979,200	100.00

F. Financial assets credit quality and analysis of past due and impairment

Financial assets held by the Company mainly comprise financial assets at fair value through profit or loss, bills and bonds investment with resale agreements, available-for-sale financial assets, held-to-maturity financial assets, and financial assets measured at cost. Most of these assets have sound and satisfactory asset quality.

For the Company's classification of asset quality, credit asset quality is based on the Company's internal credit rating (categorized into thirteen levels). Other financial asset quality is based on the external credit rating of counterparty, which is categorized into four levels: sound, satisfactory, fair, and weak.

Each of these four levels has internal and external credit rating equivalents in the following table:

	Equivalent default rate	Internal credit rating	Corresponding to S&P	Corresponding credit rating of Taiwan Ratings (long-term)
Sound	Below 0.4% (included)	1~5	AAA~BBB-	twAAA ~ twA
Satisfactory	0.4% above ~1.68%(included)	6~8	BB+~ BB-	twA- ~ twBBB-
Fair	1.68% above ~4.3%(included)	9~10	B+	twBB+
Weak	4.3% above	11~13	B and below	twBB and below

(A) Credit quality analysis on quoted securities investment

	December 31, 2013									
	Neither past due nor impaired									
Financial assets	Excellent	Satisfactory	Fair	Weaker	No rating(note)	Past due but not impaired	Impaired	Total	Reserve for losses	Net amount
Financial assets at fair value through profit or loss										
Investment in bills	$ 72,135,593	$ 41,055,602	$ 12,652,039	$ 3,557,590	$ 314,689	$ -	$ -	$ 129,715,513	$ -	$ 129,715,513
Investment in bonds	1,136,070	960,410	-	-	1,273,687	-	-	3,370,167	-	3,370,167
Derivatives	31	-	-	-	-	-	-	31	-	31
Bills and bonds investment with resale agreements	1,966,157	-	-	-	-	-	-	1,966,157	-	1,966,157
Available-for-sale financial assets										
Investment in bonds	72,896,239	4,158,395	-	-	-	-	-	77,054,634	-	77,054,634
Beneficiary or asset-backed securities	411,159	-	-	-	-	-	-	411,159	-	411,159
Held-to-maturity financial assets	-	500,000	-	-	-	-	-	500,000	-	500,000
Financial assets carried at cost	-	-	-	-	-	-	600,900	600,900	398,700	202,200

	December 31, 2012									
	Neither past due nor impaired									
Financial assets	Excellent	Satisfactory	Fair	Weaker	No rating(note)	Past due but not impaired	Impaired	Total	Reserve for losses	Net amount
Financial assets at fair value through profit or loss										
Investment in bills	$ 76,153,232	$ 32,924,013	$ 12,676,287	$ 2,724,145	$ 762,660	$ -	$ -	$ 125,240,337	$ -	$ 125,240,337
Investment in bonds	1,843,578	290,141	-	-	1,785,560	-	-	3,919,279	-	3,919,279
Available-for-sale financial assets										
Investment in bonds	73,709,485	4,601,886	-	-	-	-	-	78,311,371	-	78,311,371
Beneficiary or asset-backed securities	415,866	-	-	-	-	-	-	415,866	-	415,866
Held-to-maturity financial assets	-	500,000	-	-	-	-	-	500,000	-	500,000
Financial assets carried at cost	-	-	-	-	-	-	600,900	600,900	398,700	202,200

Financial assets	January 1, 2012									
	Neither past due nor impaired									
	Excellent	Satisfactory	Fair	Weaker	No rating(note)	Past due but not impaired	Impaired	Total	Reserve for losses	Net amount
Financial assets at fair value through profit or loss										
Investment in bills	$ 78,057,480	$ 40,732,164	$ 7,777,378	$ 4,289,419	$ 133,873	$ -	$ -	$ 130,990,314	$ -	$ 130,990,314
Investment in bonds	437,485	344,696	-	-	3,942,896	-	-	4,725,077	-	4,725,077
Available-for-sale financial assets										
Investment in bonds	75,473,129	4,692,938	-	-	-	-	-	80,166,067	-	80,166,067
Beneficiary or asset-backed securities	416,732	-	-	-	-	-	-	416,732	-	416,732
Held-to-maturity financial assets	-	250,000	-	-	-	-	-	250,000	-	250,000
Financial assets carried at cost	-	-	-	-	-	-	600,900	600,900	398,700	202,200

Note: Bills without ratings are mainly guaranteed bills, which do not have credit ratings as they are newly formed businesses and no complete annual financial reports are available. Bonds without ratings are mainly convertible corporate bonds listed and traded through the open market.

(B) Credit quality analysis on credit business

Financial assets	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Recognised losses/reserves	Net amount
December 31, 2013						
Receivables	$ -	$ -	$ 77,000	$ 77,000	$ 59,360	$ 17,640

There was no accounts receivable as of December 31, 2012 and January 1, 2012.

G. Analysis of impaired financial assets of the Company

Financial assets	Carrying amount prior to recognition of impairment loss	Amount of the impairment loss	Carrying amount after recognition of impairment loss	Available collateral and other credit strengthening collateral
December 31, 2013				
On-balance sheet accounts				
Receivables	$ 77,000	$ 59,360	$ 17,640	Property and unlisted stocks
Financial assets carried at cost	600,900	398,700	202,200	
December 31, 2012				
On-balance sheet accounts				
Financial assets carried at cost	$ 600,900	$ 398,700	$ 202,200	
January 1, 2012				
On-balance sheet accounts				
Financial assets carried at cost	$ 600,900	$ 398,700	$ 202,200	

H. The following information is disclosed in accordance with “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”.

(A) Asset Quality

Items	December 31, 2013	December 31, 2012
Guarantees in arrear and guaranteed credits overdue for no longer than three months	$ 77,000	$ -
Overdue credits (including overdue receivables)	-	-
Loans under surveillance	354,000	357,000
Overdue receivables	-	-
Ratio of overdue credits (%)	-	-
Ratio of overdue credits plus ratio of loans under surveillance (%)	0.25	0.25
Provision for bad debts and guarantees as required by regulation	2,896,849	2,835,952
Provision for bad debts and guarantees actually reserved	3,018,804	2,999,660

Note: Items follow ”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”.

(B) Primary Business Activities

Items	December 31, 2013	December 31, 2012
Total guarantees and endorsement for short-term bills	$ 142,710,000	$ 141,622,600
Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment)	4.75	4.73
Total bills and bonds payable under repurchase agreements	163,869,633	159,376,775
Bills and bonds payable under repurchase agreements / Net amount (after deducting final accounts allotment)	5.45	5.32

(C) Concentration of credit risk

Items	December 31, 2013		December 31, 2012	
Credits extended to related parties	$ -		$ 545,000	
Percentage of credits extended to related parties (%) (Note 1)	-		0.38	
Percentage of credits extended secured by equity (%) (Note 2)	20.04		17.62	
Industry concentration (Top 3 industries with maximum industry credit ratio)	Industry	Ratio(%)	Industry	Ratio(%)
	Financial and insurance	30.95	Manufacturing	30.21
	Manufacturing	26.84	Financial and insurance	30.04
	Real estate	21.94	Real estate	18.05

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”. For details of changes in allowance for doubtful accounts, please refer to Note 6(14).

(4) Liquidity risk

A. Definition and sources of liquidity risk

Liquidity risk is defined as possible losses to the Company when the Company is unable to realize the assets or obtain funds to meet the obligations soon to be matured. It can also be defined as risk of impact on the Company’s financial position due to adverse changes in interest rates. Gap in liquidity risk position refers to differences between assets with liquidity risk and liabilities with liquidity risk classified by maturity structure.

B. Procedures for management of liquidity risk

Liquidity risk management of the Company mainly refers to control over the limit management made to gaps in liquidity risk position across different periods that have been through business operation.

(A) Policies and procedures

Policies and procedures were created to establish rules governing liquidity risk management, effectively measure liquidity risk position, and maintain appropriate liquidity with ability to pay assured. Relevant control measures comprise:

a. Establishing limit on gap of each time period and supervising the Company's cash flow gap of each time period on a daily basis to appropriately hedge fund liquidity risk.

b. Establishing emergency response management mechanism for funding, which can start immediately to call on risk management committee for deliberation of emergency measures when prolonged capital austerity, prolonged increase in interest rates or unexpected financial events result in liquidity risk with significant impact.

c. With respect to the Company's control over liquidity risk, bill segment is responsible for daily operation and control over fund liquidity gap; and finance segment is responsible for reporting liquidity risk monitored.

(B) Risk measurement methods

Risk measurement methods are applied to set limit on cash flow gap of each time period based on the ability to allocate and transfer capital. Measurement system and statistics comprise: control over total major liabilities and limit control over funding gap of each time period.

C. Maturity date analysis for financial assets and liabilities held

(A) Most of financial instruments held by the Company have an open market. These financial instruments are expected to be sold easily and immediately at a price approximate to the fair value and they are sufficient to fulfill the payment obligation and potential emergent fund demand in the market.

(B) 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, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of financial assets and financial liabilities are classified according to their time-to-maturity as follows:

	December 31, 2013						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	$ 544,617	$ -	$ -	$ -	$ -	$ -	$ 544,617
Financial assets at fair value through profit or loss							
Non-derivative financial instruments	65,228,284	56,291,324	8,490,903	687,848	2,713,208	-	133,411,567
Available-for-sale financial assets	56,161	6,114,861	167,149	9,690,884	60,358,903	7,488,649	83,876,607
Bills and bonds investment with resale agreements	1,042,036	926,760	-	-	-	-	1,968,796
Receivables	-	-	-	-	17,640	-	17,640
Held-to-maturity financial assets	2,500	2,600	-	5,100	510,300	-	520,500
Other financial assets	560,417	200,401	402	200,803	-	-	962,023
Total assets	$ 67,434,015	$ 63,535,946	$ 8,658,454	$ 10,584,635	$ 63,600,051	$ 7,488,649	$ 221,301,750
Liabilities							
Interbank overdraft and call loans	(21,262,601)	-	-	-	-	-	(21,262,601)
Financial liabilities at fair value through profit or loss							
Bills and bonds payable under repurchase agreements	(144,095,338)	(18,123,621)	(1,495,304)	(238,396)	-	-	(163,952,659)
Payables	(294,732)	(6,342)	(142,356)	-	(321,695)	-	(765,125)
Other funds outflow upon maturity	(118,268)	-	-	-	(17,983)	(1,606)	(137,857)
Total liabilities	(165,770,939)	(18,129,963)	(1,637,660)	(238,396)	(339,678)	(1,606)	(186,118,242)
Net liquidity gap	($ 98,336,924)	$ 45,405,983	$ 7,020,794	$ 10,346,239	$ 63,260,373	$ 7,487,043	$ 35,183,508

	December 31, 2012						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	$ 267,174	$ 100,359	$ -	$ -	$ -	$ -	$ 367,533
Financial assets at fair value through profit or loss							
Non-derivative financial instruments	59,114,782	45,072,803	17,334,907	5,133,934	2,278,479	686,563	129,621,468
Available-for-sale financial assets	15,375	15,177,254	457,394	3,745,668	55,840,195	10,519,061	85,754,947
Receivables	9,051	-	-	-	-	-	9,051
Held-to-maturity financial assets	2,500	2,600	-	5,100	520,500	-	530,700
Other financial assets	530,994	200,401	402	200,803	-	-	932,600
Total assets	$ 59,939,876	$ 60,553,417	$ 17,792,703	$ 9,085,505	$ 58,639,174	$ 11,205,624	$ 217,216,299
Liabilities							
Interbank overdraft and call loans	(20,867,206)	-	-	-	-	-	(20,867,206)
Financial liabilities at fair value through profit or loss							
Non-derivative financial instruments	-	-	-	-	(1,857)	-	(1,857)
Bills and bonds payable under repurchase agreements	(139,000,774)	(18,198,272)	(2,242,495)	(35,195)	-	-	(159,476,736)
Payables	(263,773)	(64,883)	(215,291)	-	(73,153)	-	(617,100)
Other funds outflow upon maturity	(51,198)	(4,000)	-	-	(18,409)	-	(73,607)
Total liabilities	(160,182,951)	(18,267,155)	(2,457,786)	(35,195)	(93,419)	-	(181,036,506)
Net liquidity gap	($ 100,243,075)	$ 42,286,262	$ 15,334,917	$ 9,050,310	$ 58,545,755	$ 11,205,624	$ 36,179,793

	January 1, 2012						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	$ 601,915	$ -	$ -	$ -	$ -	$ -	$ 601,915
Financial assets at fair value through profit or loss							
Non-derivative financial instruments	53,568,152	55,517,085	15,524,877	8,006,706	3,557,825	-	136,174,645
Available-for-sale financial assets	9,045,402	4,963,894	1,554,985	11,436,515	51,172,890	9,193,455	87,367,141
Receivables	4,152	59	-	-	-	-	4,211
Held-to-maturity financial assets	-	-	254,250	-	-	-	254,250
Other financial assets	123,626	130,375	402	200,803	-	-	455,206
Total assets	$ 63,343,247	$ 60,611,413	$ 17,334,514	$ 19,644,024	$ 54,730,715	$ 9,193,455	$ 224,857,368
Liabilities							
Interbank overdraft and call loans	(3,416,274)	-	-	-	-	-	(3,416,274)
Bills and bonds payable under repurchase agreements	(139,885,883)	(42,355,962)	(2,471,101)	(391,000)	-	-	(185,103,946)
Payables	(288,219)	(1,154)	(188,896)	-	(413,001)	-	(891,270)
Other funds outflow upon maturity	(53,384)	-	-	(15,151)	(4,029)	-	(72,564)
Total liabilities	(143,643,760)	(42,357,116)	(2,659,997)	(406,151)	(417,030)	-	(189,484,054)
Net liquidity gap	($ 80,300,513)	$ 18,254,297	$ 14,674,517	$ 19,237,873	$ 54,313,685	$ 9,193,455	$ 35,373,314

(C) Structure Analysis for maturity of derivative financial assets and liabilities (on a gross basis)

	December 31, 2013						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Currency swap							
Inflow	$ 81,946	$ -	$ -	$ -	$ -	$ -	$ 81,946
Outflow	82,353	-	-	-	-	-	82,353
Total inflows	$ 81,946	$ -	$ -	$ -	$ -	$ -	$ 81,946
Total outflows	$ 82,353	$ -	$ -	$ -	$ -	$ -	$ 82,353

December 31, 2012 and January 1, 2012: None.

(D) Structure Analysis for maturity of derivative financial assets and liabilities-Net

	December 31, 2013						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swap							
Inflow	$ -	$ -	$ -	$ 436	$ -	$ -	$ 436
Outflow	203	-	190	543	820	-	1,756
Total inflows	$ -	$ -	$ -	$ 436	$ -	$ -	$ 436
Total outflows	$ 203	$ -	$ 190	$ 543	$ 820	$ -	$ 1,756

	December 31, 2012						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swap							
Inflow	$ -	$ -	$ 14	$ 444	$ 25	$ -	$ 483
Outflow	85	151	86	362	1,110	-	1,794
Total inflows	$ -	$ -	$ 14	$ 444	$ 25	$ -	$ 483
Total outflows	$ 85	$ 151	$ 86	$ 362	$ 1,110	$ -	$ 1,794

January 1, 2012: None.

D. Analysis on maturity value of off balance sheet accounts

The following table illustrates the maturity analysis for off balance sheet accounts of the Company by the remaining maturity from the balance sheet date to the contract expiration date. In terms of the Company's commercial paper business, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Total
December 31, 2013						
Off-balance sheet items						
Guarantees for commercial papers	$ 102,043,000	$ 38,737,000	$ 1,930,000	$ -	$ -	$ 142,710,000
December 31, 2012						
Off-balance sheet items						
Guarantees for commercial papers	$ 108,522,800	$ 28,395,300	$ 4,704,500	$ -	$ -	$ 141,622,600
January, 1, 2012						
Off-balance sheet items						
Guarantees for commercial papers	$ 77,097,300	$ 54,282,300	$ 3,599,600	$ -	$ -	$ 134,979,200

E. Maturity analysis for lease contract and capital expense commitment

Operating lease commitment is the total minimum lease payments that the Company should make as a lessee or lessor under an operating lease term which is not cancelable. The Company has no capital expenditure commitment.

December 31, 2013	Below 1 Year	1 Year – 5 Years	Over 5 Years	Total
lease commitment				
Operating lease expense (lessee)	($ 41,317)	($ 47,029)	$ -	($ 88,346)
Operating income (lessor)	106,189	120,333	6,422	232,944
Total	$ 64,872	$ 73,304	$ 6,422	$ 144,598
December 31, 2012				
lease commitment				
Operating lease expense (lessee)	($ 40,657)	($ 75,714)	$ -	($ 116,371)
Operating income (lessor)	99,460	193,870	-	293,330
Total	$ 58,803	$ 118,156	$ -	$ 176,959
January 1, 2012				
lease commitment				
Operating lease expense (lessee)	($ 39,574)	($ 9,173)	($ 23)	($ 48,770)
Operating income (lessor)	105,948	27,284	-	133,232
Total	$ 66,374	$ 18,111	($ 23)	$ 84,462

F. Additional information disclosed in accordance to the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”

Sources and Utilization of Capital
as of December 31, 2013
(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	65,080	55,891	8,239	496	-
Bonds	68	3,428	205	9,078	68,557
Bank deposit	1,044	200	-	200	-
Loans extended	-	-	-	-	-
Bills and bonds investment with resale agreements	1,041	925	-	-	-
Total	67,233	60,444	8,444	9,774	68,557
Sources of capital					
Loans borrowed	21,259	-	-	-	-
Bills and bonds payable under repurchase agreements	144,040	18,101	1,491	238	-
Own capital	-	-	-	-	32,118
Total	165,299	18,101	1,491	238	32,118
Net capital	(98,066)	42,343	6,953	9,536	36,439
Accumulated net capital	(98,066)	(55,723)	(48,770)	(39,234)	(2,795)

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	-	13,117	639	3,594	65,797
Bank deposit	766	300	-	200	-
Loans extended	-	-	-	-	-
Bills and bonds investment with resale agreements	-	-	-	-	-
Total	59,797	58,323	17,538	8,180	65,797
Sources of capital					
Loans borrowed	20,861	-	-	-	-
Bills and bonds payable under repurchase agreements	138,931	18,175	2,236	35	-
Own capital	-	-	-	-	32,716
Total	159,792	18,175	2,236	35	32,716
Net capital	(99,995)	40,148	15,302	8,145	33,081
Accumulated net capital	(99,995)	(59,847)	(44,545)	(36,400)	(3,319)

(5) Market risk

A. Definition and sources of market risk

Market risk refers to the risk of fluctuation in the fair value or future cash flows of financial instruments held by the Company as a result of the change in market price. The so-called market price include interest rate, exchange rate, and price of equity securities. The market risk faced by the Company mainly arises from the fluctuations in interest rates. Fluctuations in interest rates will result in change in fair value of bills and bonds investment held by the Company.

B. Procedures for management of market risk

The Company's market risk management aims to control the probable losses arising from on and off-balance sheet positions as a result of adverse change in market price. The Company established not only market risk management standard to control market risk assumed for holding financial instrument position but also sales management rules such as standard governing authorization of bill trading, standard governing operations and authorization of bond trading, standard governing brokerage and proprietary trading business and authorization of fixed income securities, procedures for engaging in derivatives transactions, and procedures for engaging in equity investments to define control measures for relevant businesses, which include:

(A) Monitoring relevant risk management objectives such as position limits, loss limits, and sensitivity limits on bills, bonds, stocks, derivatives, and various businesses on a daily basis.

(B) Performing interest rate sensitivity analysis on positions of bills and bonds on a daily basis.

(C) Performing valuation and verification on derivatives on a monthly basis.

C. Methods used in market risk measurement

Methods used in market risk measurement primarily aims to set limits based on risk characteristics of risk positions arising from bills, bonds, stocks, and derivatives, perform valuation and control loss limits according to operations of positions and hedge strategy, and set adverse scenarios for assessment of significant loss the Company may assume. Measurement system and statistics include: details of gains and losses, risk life, sensitivity analysis, and stress testing on positions of various bills, bonds, stocks, and derivatives.

D. Policies of hedging and mitigation of market risk

The Company's hedge strategy for financial assets aims to use hedging instruments individually or collectively to manage risk of change in fair value and achieve risk management objectives. The hedge strategy also aims to periodically review and revise various transaction risk limits based on change in economic and financial situation and adjustment of business strategy to ensure relevant risk measures and procedures conform to established policies, internal control, and operational procedures.

E. Interest rate risk management

(A) Interest rate risk mainly arises from bond positions of interest rate instruments, which are primarily held for earning spread between short-term and long-term interest rates because bonds are primarily recognised in available-for-sale financial assets. Interest rate risk management aims to assess bearable extent of interest rate risk assumed by comparing weighted yields on bond position held with interest rate level of bonds under repurchase agreements.

(B) The Company's interest rate risk management mainly refers to the business plan and objectives of budget surplus to set position limits, loss limits, and sensitivity limits on bond business as annual risk management objectives. The interest rate risk management is also applied to evaluate the economic situation, predict future path of interest rates, and draft operation strategy according to domestic and foreign economic data.

(C) Relevant control measures include: daily supervision on risk management objectives relevant to various bond businesses; daily price assessment and sensitivity analysis on bill and bond positions; monthly stress testing with an assumption of 100 bp increase in interest rates; and reporting to the Risk Management Committee quarterly.

F. Foreign exchange risk

(A) Foreign exchange risk faced by the Company refers to movement in fair values of foreign currency denominated assets less foreign currency denominated liability, and plus derivative position as a result of exchange rate fluctuations may result in losses to the Company.

(B) In terms of foreign exchange risk management, the Company mainly supervises position limits and loss limits on relevant businesses. Related control measures include daily supervision on exposure position, price assessment, and control over loss limits, daily calculation of currency position and analysis on foreign exchange sensitivity, monthly stress testing on the currency position held with an assumption of ±3% exchange rate fluctuations; and reporting to the Risk Management Committee quarterly.

G. Equity securities risk management

(A) The Company's equity securities market risk comprises the risk of individual equity security coming from the security's market price changes and the general market risk coming from overall equity securities market price changes.

(B) For equity securities risk management, the Company has set trading strategies for three categories of positions: (a) positions held for selling and earning capital gain in short-term; (b) positions held for earning dividends; and (c) positions held for earning capital gains reflecting stock price for good prospect industry or long-term good profitability, and set annual loss limits to the tolerable scopes.

(C) Related control measures include: daily market price valuation to control loss limits, monthly stress-testing calculating probable amount of loss on investment portfolio held by the Company on the assumption that overall market price decrease by 15%, and reporting to the Risk Management Committee quarterly.

H. Sensitivity Analysis

December 31, 2013			
Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 3%.	($ 372)	$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 3%	372	-
Interest rate risk	Major increases in interest rates 25BPS	(33,372)	(492,954)
Interest rate risk	Major decline in interest rates 25BPS	33,408	498,608
Equity securities risk	TAIEX declined by 2%.	-	(46,873)
Equity securities risk	TAIEX increased by 2%	-	46,873

December 31, 2012			
Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 3%.	($ 344)	$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 3%	344	-
Interest rate risk	Major increases in interest rates 25BPS	(62,237)	(544,966)
Interest rate risk	Major decline in interest rates 25BPS	62,688	552,556
Equity securities risk	TAIEX declined by 2%.	(65)	(36,486)
Equity securities risk	TAIEX increased by 2%	65	36,486

January 1, 2012			
Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 3%.	($ 163)	$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 3%	163	-
Interest rate risk	Major increases in interest rates 25BPS	(57,453)	(466,883)
Interest rate risk	Major decline in interest rates 25BPS	57,505	473,557
Equity securities risk	TAIEX declined by 2%.	(472)	(27,571)
Equity securities risk	TAIEX increased by 2%	472	27,571

I. Additional information disclosed in accordance to the "Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies"

(A) The information of interest rate sensitivity

Interest rate sensitivity analysis on assets and liabilities

December 31, 2013

Unit: In thousands of NT Dollars, %

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	127,677,266	8,443,953	9,773,875	68,557,322	214,452,416
Interest rate sensitive liabilities	183,399,596	1,491,344	237,694	-	185,128,634
Interest rate sensitive gap	(55,722,330)	6,952,609	9,536,181	68,557,322	29,323,782
Net worth					32,117,512
Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%)					115.84
Ratio of interest rate sensitivity gap to net worth (%)					91.30

December 31, 2012

Unit: In thousands of NT Dollars, %

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	118,119,935	17,537,408	8,180,348	65,796,921	209,634,612
Interest rate sensitive liabilities	177,966,379	2,236,308	35,088	-	180,237,775
Interest rate sensitive gap	(59,846,444)	15,301,100	8,145,260	65,796,921	29,396,837
Net worth					32,716,059
Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%)					116.31
Ratio of interest rate sensitivity gap to net worth (%)					89.85

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

(B) Average amounts and average interest rates of interest-earning assets and interest-bearing liabilities

	For the year ended December 31, 2013	
	Average Amount	Average Interest Rate (%)
Assets		
Cash and cash equivalents (Note)	$ 1,410,526	0.50
Financial assets at fair value through profit or loss	126,109,160	1.06
Bills and bonds investment with resale agreements(RS)	1,988,602	0.63
Available-for-sale financial assets	73,379,774	2.00
Held-to-maturity financial assets	500,000	2.04
Liabilities		
Interbank overdraft and call loans	18,390,808	0.47
Bills and bonds payable under repurchase agreements (RP)	157,206,596	0.62

	For the year ended December 31, 2012	
	Average Amount	Average Interest Rate (%)
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		
Interbank overdraft and call loans	13,190,497	0.68
Bills and bonds payable under repurchase agreements(RP)	164,692,531	0.68

Note: Cash and cash equivalents include certificate of deposit pledged.

(6) Operating risk and legal risk

The Company's operational risk management mainly aims to effectively implement internal control and reduce losses from operational risk due to improper internal operational procedures, personnel mistakes, system failure, or external events to achieve business and management objectives.

A. Risk management policy

The Company established operational risk management guidelines and risk management mechanism with objective review of effective implementation of operational risk management mechanism in accordance with independent internal audit process. The Company also set up emergency response plan and business continuity planning to ensure rapid operation recovery and maintenance of normal business operation in case of emergency and disaster.

B. Methods used in risk measurement

(A) The Company establishes operational loss database, gathers statistics on frequency and amount of loss for individual loss event, and screen key risk indicators for the purpose of enhancing current management mechanism of pointer event and decreasing operational loss.

(B) The Company set up system of operational risk control self-assessments to perform annual operational risk control self-assessments. The possibility and effect of loss are used as loss measure indicators for self-assessments to generate risk mapping and enhance control over businesses rated as medium risk. Besides, the Company follows suggestion for self-assessments to improve current control mechanism for the purpose of reducing losses from operational risk.

C. Additional information disclosed in accordance to the "Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies"

Information on Breach of Applicable Laws or Regulations
December 31, 2013

	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.

14. CAPITAL MANAGEMENT

For the purpose of establishing assessment procedure for capital adequacy and maintaining adequate capital to assume overall risk arising from operations, the Company set up capital adequacy self-assessment procedure and regulations to specify all significant risks that should be assessed under capital management and adequate capital required for acceptance of such risks. Moreover, the Company set up capital adequacy ratio for annual risk management objectives and periodically report capital adequacy ratio with disclosure of information about capital adequacy. Objectives, policies, and procedures of the Company's capital management are as follows:

(1) <u>The objectives of capital management</u>

A. Methods used in assessment of capital required for acceptance of various risks should follow the principle of supervisory review for capital adequacy by the competent authority except standardized approach used in assessment of credit risk and market risk, and basic indicator approach used in assessment of operational risk.

B. The Company's capital management should not only meet the minimum regulated capital adequacy ratio but also evaluate the risk profile, strategy, and operational plan that could be sufficiently handled by the internal eligible self-owned capital to set capital adequacy ratio as the objective of internal capital management.

(2) <u>Policies and procedures of capital management</u>

A. The Company shall keep meeting the capital adequacy ratio regulated by the competent authority and establish capital adequacy self-assessment procedure that conforms to the risk profile based on the business size, status of credit risk, market risk, and operational risk, as well as future trend in operation. The Company shall also set up strategy to maintain adequate capital and supervise the capital adequacy.

B. The risk control department annually sets target value and alarm value of capital adequacy ratio as the annual risk management objectives, which will be submitted to the risk management committee of the Company and Mega Financial Holding Co., Ltd. for deliberation and then the Company's Board of Directors for approval. The risk control department supervises enforcement of risk management objectives and quarterly reports it to the risk management committee and Board of Directors of the Company.

C. The risk control department calculates capital adequacy ratio, assesses the capital adequacy, and reports the details to the general manager on a monthly basis. Assessment of capital adequacy includes the following: capital structure and risk tolerance, impact of major business risks on the capital, simulation analysis on operational plan, capital adequacy ratio for capital increase/reduction plan or significant capital utilization, and stress testing.

(3) <u>Capital adequacy ratio</u>

Items \ Year		December 31, 2013	December 31, 2012
Eligible capital	Ratio of Tier I capital	28,122,347	27,428,536
	Ratio of Tier II capital	-	-
	Ratio of Tier III capital	583,065	1,155,998
	Eligible capital, net	28,705,412	28,584,534
Risk-weighted assets, total	Credit risk	140,414,568	141,519,133
	Operation risk	7,001,763	8,168,375
	Market risk	64,168,200	62,265,525
	Risk-weighted assets, total	211,584,531	211,953,033
Capital adequacy ratio (%)		13.57	13.49
Ratio of Tier I capital to risk - weighted assets (%)		13.29	12.94
Ratio of Tier II capital to risk - weighted assets (%)		-	-
Ratio of Tier III capital to risk - weighted assets (%)		0.28	0.55
Ratio of common stocks to total assets (%)		5.92	6.03

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 self-owned capital and risk-weighted assets as of December 31, 2013 are calculated and recorded in accordance with “Regulations Governing the Capital Adequacy of Bills Finance Companies” and “Statement and Form of Calculation Method for Bills Finance Companies’ Self-Owned Capital and Risk-Weighted Assets”, amended on February 21, 2013, whereas those as of December 31, 2012 are calculated and recorded in accordance with regulations prior to the amendment.

15. ADDITIONAL DISCLOSURES

(1) Significant transaction information:

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

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

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

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

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

F. Sales of non-performing loans : None.

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

H. Significant inter-company transactions : None.

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

(2) Information on the subsidiaries: None.

(3) Supplementary disclosure regarding investee companies: None.

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

(5) 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 7 for details.

B. Joint promotion of businesses

In order to create synergies within the company 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 company 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.

16. 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 segment. The branch segment refers to eight branches with similar economic and business characteristics which do not satisfy the criteria for quantitative threshold and are 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 characteristic. Therefore, the Company manages through a comprehensive system by business nature and location.

(2) Measurement for segmental information

The gains and losses of both bills and bonds segments of the Company are assessed by net income, whereas those of the subsidiaries are assessed by profit before income tax and used as basis for performance evaluation. The inter-segment bills and bonds transactions of the Company are regarded as transactions 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 4.

(3) <u>Information on segment profit and loss, assets and liabilities</u>

Segmental information provided to CODM :

Items	For the year ended December 31, 2013 Bills Segment	Bonds Segment	Branch Segment	Adjustments	Total
Net revenues	$ 786,030	$ 1,585,967	$ 1,005,452	$ 274,745	$ 3,652,194
Net revenues from external clients	1,561,201	1,667,410	406,913	16,670	3,652,194
Net bills revenues	1,557,909	-	188,241	-	1,746,150
Net bond revenues	-	1,115,510	207,257	-	1,322,767
Net equity investment revenues	-	503,998	-	-	503,998
Other net revenues	3,292	47,902	11,415	16,670	79,279
Net inter-segment revenues	(775,171)	(81,443)	598,539	258,075	-
Net bills revenues	(775,171)	-	590,949	184,222	-
Net bond revenues	-	(81,443)	7,590	73,853	-
Interest income (Note)	891,354	979,182	(12,872)	(78,139)	1,779,525
Gains(losses) from reportable segment	786,030	1,585,967	710,866	(28,662)	3,054,201
Reportable segment assets	90,313,491	64,499,252	63,112,208	3,718,019	221,642,970
Reportable segment liabilities	54,737,704	49,069,353	62,394,728	23,323,673	189,525,458

Items	For the year ended December 31, 2012				
	Bills Segment	Bonds Segment	Branch Segment	Adjustments	Total
Net revenues	$ 582,003	$ 1,494,873	$ 939,999	$ 1,103,502	$ 4,120,377
Net revenues from external clients	1,189,047	1,605,087	503,380	822,863	4,120,377
Net bills revenues	1,191,059	-	140,308	-	1,331,367
Net bond revenues	-	1,223,996	325,855	-	1,549,851
Net equity investment revenues	-	381,092	-	-	381,092
Gains on sale of non-performing loans	-	-	-	802,264	802,264
Other net revenues	(2,012)	(1)	37,217	20,599	55,803
Net inter-segment revenues	(607,044)	(110,214)	436,619	280,639	-
Net bills revenues	(607,044)	-	446,963	160,081	-
Net bond revenues	-	(110,214)	(10,344)	120,558	-
Interest income (Note)	720,595	1,206,632	144,560	(82,513)	1,989,274
Gains(losses) from reportable segment	582,003	1,494,873	718,931	561,348	3,357,155
Reportable segment assets	86,447,722	64,328,439	59,452,387	7,313,464	217,542,012
Reportable segment liabilities	61,923,799	40,415,866	58,587,528	23,898,760	184,825,953

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

17. <u>INITIAL APPLICATION OF IFRSs</u>

These financial statements are the first financial statements prepared by the Company in accordance with the IFRSs. The Company has adjusted the amounts as appropriate that are reported in the previous R.O.C. GAAP financial statements to those amounts that should be presented under IFRSs in the preparation of the opening IFRS balance sheet. Information about exemptions elected by the Company, exceptions to the retrospective application of IFRSs in relation to initial application of IFRSs, and how it affects the Company's financial position, operating results and cash flows in transition from R.O.C. GAAP to the IFRSs is set out below:

(1) Exemptions elected by the Company

The Company has elected to recognize all cumulative actuarial gains and losses relating to all employee benefit plans in 'retained earnings' at the transition date, and to disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments under the requirements of paragraph 120A (P), IAS 19, 'Employee Benefits', based on their prospective amounts for financial periods from the transition date.

(2) The Company other exceptions to the retrospective application are set out below:

<u>Accounting estimates</u>

Accounting estimates made under IFRSs on January 1, 2012 are consistent with those made under R.O.C. GAAP on that day.

(3) Requirement to reconcile from R.O.C. GAAP to IFRSs at the time of initial application

IFRS 1 requires that entity should make reconciliation for equity, comprehensive income and cash flows for the comparative periods. The Company's initial application of IFRSs has no significant effect on cash flows from operating activities, investing activities and financing activities. Reconciliation for equity and comprehensive income for the comparative periods as to transition from R.O.C. GAAP to IFRSs is shown below:

A. Reconciliation for equity on January 1, 2012:

Expressed in thousands of new Taiwan dollars

R.O.C GAAP		Effects of transition from R.O.C GAAP to IFRSs		IFRSs		
Account	Amount	Variance on recognition and measurement	Presentation variance	Amount	Account	Note
Cash and cash equivalents	$ 601,915	$ -	$ -	$ 601,915	Cash and cash equivalents	
Financial assets at fair value through profit or loss	135,756,870	(802)	(135,756,068)	-		(1) and (3)
		-	135,756,068	135,756,068	Financial assets at fair value through profit or loss	(1)
Receivables - net	1,833,166	4,152	-	1,837,318	Receivables - net	(3)
Available-for-sale financial assets - net	83,240,989	-	-	83,240,989	Available-for-sale financial assets	
Held-to-maturity financial assets - net	250,000	-	-	250,000	Held-to-maturity financial assets	
Other financial assets – net	822,684	-	-	822,684	Other financial assets – net	
Property and equipment - net	2,928,881	-	(2,928,881)	-		(2)
		-	347,138	347,138	Property and equipment - net	(2)
		-	2,581,743	2,581,743	Investment property - net	(2)
Intangible assets - net	1,096	-	-	1,096	Intangible assets - net	
		98,292	-	98,292	Deferred income tax assets	(4)、(5)、(6)
Other assets - net	47,010	(14,806)	-	32,204	Other assets - net	(5)
TOTAL ASSETS	$ 225,482,611	$ 86,836	$ -	$ 225,569,447	TOTAL ASSETS	
Bank overdrafts and call loans from banks	$ 3,416,000	$ -	$ -	$3,416,000	Interbank overdraft and call loans	
Bills and bonds payable under repurchase agreements	184,993,275	-	-	184,993,275	Bills and bonds payable under repurchase agreements	
Payables	1,257,098	19,930	(337,407)	939,621	Payables	(1)、(3) and (6)
		-	337,407	337,407	Current income tax liabilities	(1)
Reserves for guarantee liabilities	2,911,927	-	(2,911,927)	-		(1)
Accrued pension liability	235,663	-	(235,663)	-		(1)
		135,296	3,147,590	3,282,886	Provisions for liabilities	(1) and (5)
Other liabilities - others	73,473	-	-	73,473	Other Liabilities	
Total Liabilities	$ 192,887,436	$ 155,226	$ -	$ 193,042,662	Total Liabilities	
Common stocks	$ 13,114,411	$ -	$ -	$ 13,114,411	Common stocks	
Capital surplus	312,823	-	-	312,823	Capital surplus	
Legal reserve	13,009,385	-	-	13,009,385	Legal reserve	
Special reserve	203,090	-	-	203,090	Special reserve	
Unappropriated retained earnings	2,685,319	(125,673)	-	2,559,646	Unappropriated retained earnings	(4)、(5)、(6)
Unrealized gain or loss on financial instruments	3,327,430	-	-	3,327,430	Unrealized gain or loss on available-for-sale financial assets	
Losses not recognised as pension cost-net	(57,283)	57,283	-	-		(5)
Total Stockholders' Equity	$ 32,595,175	($ 68,390)	$ -	$ 32,526,785	Total equity	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 225,482,611	$ 86,836	$ -	$ 225,569,447	TOTAL LIABILITIES AND EQUITY	

Reason for reconciliation:

Note (1): To coordinate the differences in presentation of accounts in assets and liabilities according to newly revised chart of account code and "Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies", the Company has made reclassification to these accounts after transition to IFRSs.

Note (2): In accordance with IAS No. 40, "Investment Property", the Company reclassified the original "fixed assets" 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". The Company uses the initial costs of property, equipment, investment property and intangible assets as deemed cost. In accordance with "Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies", these assets are subsequently measured using the cost model.

Note (3): 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" decreased by $802 thousand.

Note (4): In accordance with IAS 12, 'Income Taxes', deferred income tax assets are recognised only if it is considered probable that it will be realized. The Company therefore reversed valuation allowance amounting to $60,218 thousand, which was originally recognised, to increase deferred income tax assets and unappropriated earnings after assessment. The remainder is deferred tax effect used to adjust the pension and the cost of unused compensated absences. Please refer to Notes 5 and 6 for more information.

Note (5): 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 unrecognised 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 recognised all the unrecognised actuarial gain and loss on pension at lump sum. Due to the effects of the above accounting standards difference, "provisions for liabilities" increased by $135,296 thousand, "deferred pension cost (recognised as "other assets - net" in above reconciliation)" decreased by $14,806 thousand, "losses not recognised 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 (6): 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.

B. Reconciliation for equity on December 31, 2012

Expressed in thousands of new Taiwan dollars

R.O.C GAAP		Effects of transition from R.O.C GAAP to IFRSs		IFRSs		
Account	Amount	Variance on recognition and measurement	Presentation variance	Amount	Account	Note
Cash and cash equivalents	$ 367,174	$ -	$ -	$ 367,174	Cash and cash equivalents	
Financial assets at fair value through profit or loss	129,072,587	90,606	(129,163,193)	-		(1) and (3)
		-	129,163,193	129,163,193	Financial assets at fair value through profit or loss	(1)
Receivables - net	1,261,152	9,000	-	1,270,152	Receivables - net	(3)
Available-for-sale financial assets - net	81,883,882	-	-	81,883,882	Available-for-sale financial Assets	
Held-to-maturity financial assets - net	500,000	-	-	500,000	Held-to-maturity financial assets	
Other financial assets – net	1,299,398	-	-	1,299,398	Other financial assets – net	
Property and equipment - net	2,918,234	-	(2,918,234)	-		(2)
		-	347,155	347,155	Property and equipment - net	(2)
			2,571,079	2,571,079	Investment property - net	(2)
Intangible assets - net	4,750	-	-	4,750	Intangible assets - net	
		36,819	63,388	100,207	Deferred income tax assets	(1)、(4)、(5) (6) and (7)
Other assets - net	110,397	(11,987)	(63,388)	35,022	Other assets - net	(1) and (5)
TOTAL ASSETS	$ 217,417,574	$ 124,438	$ -	$ 217,542,012	TOTAL ASSETS	
Bank overdrafts and call loans from banks	$ 20,861,000	$ -	$ -	$ 20,861,000	Interbank overdraft and call loans	
Financial liabilities at fair value through profit or loss	3,154	-	(3,154)	-		(1)
		-	3,154	3,154	Financial liabilities at fair value through profit or loss	(1)
Bills and bonds payable under repurchase agreements	159,376,775	-	-	159,376,775	Bills and bonds payable under repurchase agreements	
Payables	1,000,645	116,608	(444,111)	673,142	Payables	(1)、(3) and (6)
			444,111	444,111	Current income tax liabilities	(1)
Reserves for guarantee liabilities	2,999,660	-	(2,999,660)	-		(1)
Accrued pension liability	281,049	-	(281,049)	-		(1)
		110,845	3,280,709	3,391,554	Provisions for liabilities	(1)、(5) and (7)
Other liabilities - others	76,217	-	-	76,217	Other Liabilities	
Total Liabilities	$ 184,598,500	$ 227,453	$ -	$ 184,825,953	Total Liabilities	
Common stocks	$13,114,411	$ -	$ -	$ 13,114,411	Common stocks	
Capital surplus	312,823	-	-	312,823	Capital surplus	
Legal reserve	13,814,076	-	-	13,814,076	Legal reserve	
Special reserve	203,090	-	-	203,090	Special reserve	
Unappropriated retained earnings	2,883,611	(179,765)	-	2,703,846	Unappropriated retained earnings	(4)、(5)、(6) and (7)
Unrealized gain or loss on financial instruments	2,567,813	-	-	2,567,813	Unrealized gain or loss on available-for-sale financial assets	
Losses not recognised as pension cost-net	(76,750)	76,750	-	-		(5)
Total Stockholders' Equity	$ 32,819,074	($ 103,015)	$ -	$ 32,716,059	Total equity	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 217,417,574	$ 124,438	$ -	$ 217,542,012	TOTAL LIABILITIES AND EQUITY	

Reason for reconciliation:

Note (1): To coordinate the differences in presentation of accounts in assets and liabilities according to newly revised chart of account code and “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”, the Company has made reclassification to these accounts after transition to IFRSs.

Note (2): In accordance with IAS No. 40, “Investment Property”, the Company reclassified the original “fixed assets” 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”. The Company uses the initial costs of property, equipment, investment property and intangible assets as deemed cost. In accordance with “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”, these assets are subsequently measured using the cost model.

Note (3): 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” by $90,606 thousand and “payables” by $99,606 thousand.

Note (4): 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 17(3)(A) notes (4) to (6). 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” both decrease by $60,218 thousand. The remainder was effects of deferred income tax of pension and full-attendance bonus adjustments. Please refer to note (5) to (7).

Note (5): As of January 1, 2012, opening balances were adjusted which resulted in ‘provisions for liabilities’ increasing by $135,296 thousand, ‘deferred pension cost’ decreasing by $14,806 thousand, and ‘net losses not recognised as pension cost’ increasing by $57,283 thousand. Details are provided in Note 17(3)(A) note (5). As of December 31, 2012, related accounts were reversed which resulted in ‘provisions for liabilities’ decreasing by $16,648 thousand, ‘deferred pension cost’ increasing by $2,819 thousand (recognised in other assets-net), and ‘ losses not recognised as pension cost -net’ increasing by $19,467 thousand. In addition, change in actuarial assumption in pension of 2012 resulted in “provisions for liabilities” decreasing by $9,018 thousand, “deferred income tax asset” decreasing by $1,533 thousand, and “unappropriated retained earnings” increasing by $7,485 thousand.

Note (6): As of January 1, 2012, opening balances were adjusted which resulted in increase in “payables” by $16,580 thousand. Please refer to Note 17(3)(A) note (6). 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.

Note (7): The Company decided to recognize all actuarial gains and losses in retained earnings based on the actuarial report. The adjustment has made ‘provisions for liabilities’ increase by $1,215 thousand, ‘actuarial gains and losses on defined benefit plans’ decrease by $1,215 thousand (recognised in unappropriated earnings), and ‘deferred income tax assets’ and ‘income tax relating to component of other comprehensive income’ (recognised in unappropriated earnings) both increase by $206 thousand.

C. Reconciliation for comprehensive income for the year ended December 31, 2012:

Expressed in thousands of new Taiwan dollars

R.O.C GAAP		Effects of transition from R.O.C GAAP to IFRSs		IFRSs		
Account	Amount	Variance on recognition and measurement	Presentation variance	Amount	Account	Note
Interest Income	$ 3,206,986	$ -	$ -	$ 3,206,986	Interest Income	
Less：Interest Expense	(1,217,712)	-	-	(1,217,712)	Less：Interest Expense	
Interest Income, Net	1,989,274	-	-	1,989,274	Interest Income, Net	
Non-Interest Income, Net					Non-Interest Income, Net	
Service fee and commission income, net	593,311	-	-	593,311	Service fee and commission income, net	
Gain or loss from financial assets and liabilities at fair value through profit or loss	230,851	-	(230,851)	-		(1)
		-	230,851	230,851	Gain or loss from financial assets and liabilities at fair value through profit or loss	(1)
Realized gain or loss on available -for-sale financial asset	379,658	-	-	379,658	Realized gain or loss on available -for-sale financial asset	
Foreign exchange (loss) gain, net	(293)	-	-	(293)	Foreign exchange (loss) gain, net	
Other non-interest income or loss, net					Other non-interest income or loss, net	
Rental income	108,754	-	(108,754)	-		(1)
		-	106,895	106,895	Revenues on investment property	(1)
Recovery of bad debts and overdue accounts	953,776	-	(953,776)	-		(1)
		-	802,264	802,264	Gains on sale of non-performing loans	(1)
Others	16,557	-	1,860	18,417	Others	(1)
Net Revenues	4,271,888	-	(151,511)	4,120,377	Net Revenues	
Provisions	(126,379)	-	151,511	25,132	Provisions	(1)
Operating Expenses					Operating Expenses	
Personnel expenses	(581,343)	8,596	-	(572,747)	Employee benefit expense	(2)
Depreciation and amortization	(19,320)	-	-	(19,320)	Depreciation and amortization	
Other business and administrative expenses	(196,287)	-	-	(196,287)	Other business and administrative expenses	
Total operating expenses	(796,950)	8,596	-	(788,354)	Total operating expenses	
Income before Income Tax from Operating Unit	3,348,559	8,596	-	3,357,155	Income before Income Tax from Operating Unit	
Income Tax Expense	(467,593)	(61,679)	-	(529,272)	Income Tax Expense	(3)
Net Income	2,880,966	(53,083)	-	2,827,883	Net Income	
					Other comprehensive income	
		(759,617)	-	(759,617)	Unrealized loss on valuation of available-for-sale-financials assets	(4)
		(1,215)	-	(1,215)	Actuarial gains (losses) on defined benefit plans	(5)
		206	-	206	Income tax relating to component of other comprehensive income	(5)
	-	(760,626)	-	(760,626)	Total other comprehensive income	
	$ 2,880,966	($ 813,709)	$ -	$ 2,067,257	Total comprehensive income	

Reason for reconciliation:

Note (1): To coordinate the differences in presentation of accounts in assets and liabilities according to newly revised chart of account code and “Regulations Governing the

Preparation of Financial Reports by Publicly Held Bills Finance Companies", the Company has made reclassification to these accounts after transition to IFRSs.

Note (2): The Company adjusted employee retirement fund and unused compensated absences in accordance with International Accounting Standards, which resulted in employee benefits expense decreasing by $8,596 thousand. Details are provided in Note 17(3)(B) notes for reconciliation (5) and (6).

Note (3): Please refer to Note 17(3)(B) notes (4) to (6) for adjustments made on the income tax expense for the period due to various significant variances.

Note (4): Pursuant to IAS 39, 'Financial Instruments: Recognition and Measurement', gain and loss on available-for-sale financial assets should be recognised in other comprehensive income before the assets are derecognised.

Note (5): The Company decided to recognize all actuarial gains and losses in retained earnings based on the actuarial report. The adjustment has made 'actuarial gains and losses on defined benefit plans' decrease by $1,215 thousand and 'income tax relating to component of other comprehensive income' increase by $206 thousand.

D.Major adjustments for the statements of cash flows for the year ended December 31, 2012:

(A)According to the R.O.C. GAAP, the Company uses the statement of cash flows made by indirect method together with receipt of interest, receipt of dividend, payment of income tax and payment of interest as the cash flows from operating activities, and no separate disclosure is required. However, according to IAS 7, 'Statement of Cash Flows', the Company separately discloses receipt of interest, receipt of dividend, payment of income tax and payment of interest in the cash flow of operating activities.

(B)The transition from R.O.C. GAAP to IFRSs has no effect on the Company's cash flows reported.

(C)The reconciliation between R.O.C. GAAP and IFRSs has no net effect on the Company's cash flows reported.

Five. Entity financial report of the most recent fiscal year that is audited and attested by CPA: None.

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 Condition and Financial Performance, and Risk Management

One. Financial Condition

Unit: NT$ Thousand

Item \ Year	2013	2012	Difference Amount	Difference %
Cash and cash equivalents	544,617	367,174	177,443	48.33
Financial assets at fair value through profit and loss	133,085,711	129,163,193	3,922,518	3.04
Available-for-sale financial assets	80,127,802	81,883,882	(1,756,080)	(2.14)
Bills and bonds purchased under resale agreements	1,966,157	-	1,966,157	-
Receivables– net	1,072,383	1,270,152	(197,769)	(15.57)
Held-to-maturity financial assets	500,000	500,000	-	-
Other financial assets - net	1,303,700	1,299,398	4,302	0.33
Property and equipment - net	362,205	347,155	15,050	4.34
Investment property– net	2,560,415	2,571,079	(10,664)	(0.41)
Intangible assets - net	3,303	4,750	(1,447)	(30.46)
Deferred income tax assets-net	89,030	100,207	(11,177)	(11.15)
Other assets - net	27,647	35,022	(7,375)	(21.06)
Total assets	221,642,970	217,542,012	4,100,958	1.89
Banks overdrafts and call loans from banks	21,259,000	20,861,000	398,000	1.91
Financial liabilities at fair value through profit and loss	1,352	3,154	(1,802)	(57.13)
Bills and bonds payable under repurchase agreements	163,869,633	159,376,775	4,492,858	2.82
Payables	809,067	673,142	135,925	20.19
Current income tax liabilities	124,310	444,111	(319,801)	(72.01)
Liabilities reserve	3,282,308	3,391,554	(109,246)	(3.22)
Deferred income tax liabilities	62	-	62	-
Other liabilities	179,726	76,217	103,509	135.81
Total liabilities	189,525,458	184,825,953	4,699,505	2.54
Capital stock	13,114,411	13,114,411	-	-
Capital surplus	320,929	312,823	8,106	2.59
Retained earnings	17,386,645	16,721,012	665,633	3.98
Other equity	1,295,527	2,567,813	(1,272,286)	(49.55)
Total equity	32,117,512	32,716,059	(598,547)	(1.83)

Ratio change analysis: (Ratio change before and after over 20%; moreover, amount change for up to NT$10,000 thousand)

1. Fiscal year 2012 is used for comparison, with data compiled and listed in accordance with the

International Financial Reporting Standards,

2. The increase in cash and cash equivalent and accounts payable was a result of the matured RP payment deposited in the exclusive account not claimed by the customer's heir after the customer's death.
3. The decrease in current year tax liabilities was a result of payment of withholding taxes on accrued interest income on bonds pertaining to former purchases. The tax was assessed in year 2007 by tax authorities.
4. The increase in other liabilities was a result of the payable for accounts in custody and temporary receipts.
5. The decrease in other equities was a result of the decrease in unrealized valuation gain resulting from available-for-sale financial assets.

Two. Financial performance

Unit: NT$ Thousand

Item	2013	2012	Increase (Decrease) amount	Ratio Change (%)
Interest income, net	1,779,525	1,989,274	(209,749)	(10.54)
Revenue other than interest income, net	1,872,669	2,131,103	(258,434)	(12.13)
Net income	3,652,194	4,120,377	(468,183)	(11.36)
Provisions	177,739	25,132	152,607	607.22
Operating expenses	(775,732)	(788,354)	12,622	(1.60)
Income before Income Tax from Operating Unit	3,054,201	3,357,155	(302,954)	(9.02)
Income tax (expense) gain	(423,718)	(529,272)	105,554	(19.94)
Net Income	2,630,483	2,827,883	(197,400)	(6.98)
Other comprehensive income (net of tax expense)	(1,220,140)	(760,626)	(459,514)	60.41
Comprehensive Income for the current period	1,410,343	2,067,257	(656,914)	(31.78)

Explanation of analysis of changes: (Ratio change over 20%).

1. Fiscal year 2012 is used for comparison, with data compiled and listed in accordance with the International Financial Reporting Standards,
2. The increase in provisions offset was a result of the increase in the bad debts recovery and the overdue receivables.
3. The decrease in other comprehensive income was a result of the decrease in unrealized valuation gain resulting from available-for-sale financial assets.

Three. Cash flow

I. Liquidity analysis within two years

Item \ Year	2013	2012	Increase/ Decrease (%)
Cash flow ratio (%)	0.96	N/A	-
Cash flow adequacy ratio (%)	156.92	189.27	(17.09)
Explanation of analysis of changes: (Ratio change over 20%).			
N/A			

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
544,617	9,301,944	23,069,505	(13,222,944)	-	13,754,000

1. Current cash flow analysis:
   (1) Operating activity: Net cash inflow mainly from operating activity resulting from estimated repayment upon maturity of bonds and the decrease of bills and bonds positions.
   (2) Investing activity: No significant investment scheduled.
   (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 2013, the cash dividends allocated to the Company from the transfer investment were NT$12,359 thousand, and the stock dividends of TDCC were 40,308 shares and the stock dividends of Taiwan Futures Exchange 28,555 shares. In addition, Taiwan Asset Management Co., Ltd., had its capital reduced on July 10, 2013, and as a consequence, the Company received NTD$25,000 thousand as return of the shares invested.

Six. Risk management

I. Risk management organizational framework and policy

(I) Risk management organizational framework

The Board of Directors is the highest authority for the Company's risk management; therefore, the Board of Directors 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.

(II) 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:

(I) Credit risk management system and capital requirement

1. Credit risk management system

2013

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	With respect to the credit risk in the Company's granting of loans and

Item	Contents
framework of credit risk management system	various financial instruments, the Loan Review team and Risk Management Committee are responsible for supervising and reviewing various management regulations, granting of loans and business risk management objectives. Meanwhile, the Bills Department, Bond Department and all branches are the main operational units for credit risk control.
(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 counterparts, 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, 2014; Unit: NT$ Thousand

Type of Exposure	Capital Requirement	Risk Assets Amount
Sovereign state	0	0
Non-central government public sectors	5,010	62,629
Bank (including multilateral development banks)	152,473	1,905,910
Corporate (including securities and insurance company)	10,921,885	136,523,564
Retail creditor's right	43,818	547,727
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	272,590	3,407,369
Total	11,460,480	143,255,999

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

1. Risk management system of asset securitization

2013

Item	Contents
(1) Asset securitization management strategy and procedure	(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. (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.
(2) Organization and framework of asset securitization management	Under the Company's asset securitization product risk management framework, the Company's Board of Directors has defined the limit of various securitization products or limit of position and limit of loss. Bonds Dept. is responsible for the management of beneficiary securities and asset-based securities. Bills Dept. is responsible for the business management of securitization short-term bills, dedicated to reviewing the changes of credit rating related to asset securitization products and researching and defines the relevant countermeasures when the limit of loss is met. The Risk Control 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 related fund and guarantee-free asset securitization short-term bills.
(4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	The Company's asset securitization product hedging strategy is to avoid price risk, implement derivatives as operating tools, periodically assess profit and loss and report the same to the Board of Directors.
(5) Approach to require the authorized capital	Standard Method

2. Asset Securitization Exposure and Capital Requirement by Type of Transaction

March 31, 2014

Unit: NT$ Thousand

Type of Exposure / Company/Book / Role		Category of asset	Traditional: Exposure — Retention or Buy-in (1)	Traditional: Capital Requirement (2)	Portfolio: Exposure — Retention or Buy-in (3)	Portfolio: Capital Requirement (4)	Total: Exposure (5)=(1)+(3)	Total: Capital Requirement (6)=(2)+(4)	Capital Requirement Before Asset Securitization
Non-founding institution	Bank book								
	Trading book								
		Creditor's right to lease			411,111	23,639	411,111	23,639	
	Subtotal				411,111	23,639	411,111	23,639	
Founding institution	Bank book								
	Trading book								
	Subtotal								
Total					411,111	23,639	411,111	23,639	

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, 2014

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	11,111 (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	411,111

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, 2014; 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 18th 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	11,111 (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	411,111	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

(III) Operational risk management system and capital requirement

1. Operational risk management system

2013

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.

Item	Contents
(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, 2014

Unit: NT$ Thousand

Year	Gross Profit	Capital Requirement	Risk Assets Amount
2013	3,597,395		
2012	3,303,855		
2011	3,581,235		
Total	10,482,485	524,124	6,551,552

(IV) Market risk management system and capital requirement

1. Market risk management system

2013

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, 2014

Unit: NT$ Thousand

Type	Capital Requirement	Risk Assets Amount
Interest rate risk	4,537,984	56,724,800
Equity security risk	411,174	5,139,675
Foreign exchange risk	1,080	13,500
Product risk	0	0
Stock option processed with simplified method	0	0
Total	4,950,238	61,877,975

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: Please fill-out how the options are accrued by the company.

Note 3: If any other method is applied to calculate the market risk, please also disclose the capital requirement and risk asset amount.

(V) 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, 2014

Unit: NT$ million

	Total	Amount of the remaining period to maturity date				
		0 – 30 Days	31 – 90 Days	91 – 180 Days	181 Days – 1 Year	Over 1 Year
Assets	200,984	62,406	44,134	17,767	13,116	63,561
Liabilities	204,088	148,872	20,709	1,512	19	32,976
Deficit	-3,104	-86,466	23,425	16,255	13,097	30,585
Accumulated deficit		-86,466	-63,041	-46,786	-33,689	-3,104

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

(I) The impact of technical changes and industrial changes on the Company's finance and business

1. The transactions and risk control financial engineering and system are increasingly sophisticated to the advantage of bills finance company's financial and business operation.
2. The competent authorities open up new businesses (foreign currency bills and bonds, and treasury bills) that help diverse business operations and increase operating spaces to the advantage of enhancing the scale of operations.
3. The continuous development of new financial instruments has forced the bills

industry to face severe challenges.

(II) 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 has 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 economy 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 group and corporate and to 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.

Seven. Crisis contingency measure

The Company has defined a management crisis contingency measure to help the Company resolve crisis and resume business operation on a timely manner while suffering a huge loss of fund or faces a severe shortage of liquidity that is detrimental to the Company's solvency and sustainable management. The Company is in line with the corporate risk management system, has established emergency handling and notification system, and activates related emergency response mechanism and external reporting system in accordance with the emergency event.

In terms of liquidity risk, strictly control capital deficit of each term, maintain adequate liquidity, and ensure solvency. Activate emergency response mechanism promptly upon the occurrence of liquidity crunch, soaring interest rate or unexpected financial events causing serious impact on capital by utilizing business channels and resources of the holding parent company and subsidiaries for quick access to funds pour.

In terms of information safety, define the process recovery procedures of the server system, database, terminal system, application system, computer-related facilities; also, set up remote backup center in order to resume business operation promptly.

In terms of emergency rescue and protection, the disaster prevention measures and emergency response strategies are defined and the Company's disaster prevention and rescue system is established to help minimize the impact on and damage to business operation, office equipment, document archives, and employee safety.

Eight. Other important issues: None.

Special Recorded Items

One. Affiliated enterprises

I. Consolidated business report of affiliated enterprises: N/A.

II. Consolidated financial statements of affiliated enterprises: N/A.

III. Affiliation report

(I) Declaration of MEGA BILLS FINANCE CO., LTD.

Declaration

The Company has the Affiliation Report of 2013 (January 1 – December 31, 2013) 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 the Board: Darby Liu

March 25, 2014

(II) Independent Auditor's Report

MEGA BILLS FINANCE CO., LTD.

Affiliation Report - Independent Auditor's Report

Tze-Huei-Tsung-Tze No. 13007701

To: MEGA BILLS FINANCE CO., LTD.

Mega Bills Finance Co., Ltd. states that the Relations Report of 2013 dated March 25, 2014 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 2013 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
March 25, 2014

(III) 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	Darby Liu
					Director & President	Chii-Bang Wang
					Independent Director	Tsai-Chih Chen
					Independent Director	Tai-Lung Chen
					Director	Jui-Yun Lin
					Director	Chao-Hsien Lai
					Director	Ying-Hua Wu
					Director	To-Ching Hu
					Supervisors	Tan-Hung Lu
					Supervisors	Ching-Lung Hung
					Supervisors	Chia-Min Hung

(IV) Transactions

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

Bills and bond trade

Unit: NT$ Thousand

Transactions conducted with parent company		Trade terms and conditions with parent company	Remark
Item	Amount		
Purchase of bills and bonds	11,991,983	Terms of trade transactions are same as non-related party's trade terms	N/A
Total RS & RP Balances of repo trades with related parties	99,929 -	Terms of trade transactions are same as non-related party's trade terms	Interest expense for $4 thousand
The highest balance of guarantee-free commercial paper issued. The ending balance of guarantee-free commercial paper issued.	3,600,000 -	Terms of trade transactions are same as non-related party's trade terms	Fees income for $166 thousand

(IV) Endorsement and guarantee: None.

(VI) 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: Darby Liu

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