



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

2016

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

■ Organization Handling Stock Transfer Affairs

Name: Yuanta Securities Co., Ltd.
Address: B1, No. 210, Sec. 3, Chengde Rd., Taipei City
Website: <http://www.yuanta.com.tw/>
Tel. No.: (02)2586-3117

■ Credit Rating Organization

Name: Taiwan Ratings Co., Ltd.
Address: 49F, No. 7, Sec. 5, Hsin 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: Shu-Mei Ji, CPA Chien-Hung Chou, CPA, and
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 2016

I. Global and Local Financial Environment, 2016

During the first half of 2016, the global economy was undermined by a number of factors including weak performance from the world's advance economies, lack of momentum in the emerging markets, geopolitical conflicts, and UK's vote to exit the European Union (EU) in June. Financial and trade activities in other parts of the world were affected as a result, which contributed to the weak recovery of the global economy. However, the U.S. economic indicators picked up in the second half, showing improvements particularly in terms of



Chang-Ruey Shiau, Chairman of the Board

private spending and the employment, while the other major economies also showed signs of improvement. There are still many uncertainties, such as the U.S. monetary policy, Trump's new trade approach, slowing growth of the emerging economies including China, UK's exit from EU, geopolitical risks, movement of international oil and commodity prices, etc., as to whether the global economy is able to continue its recovery into 2017.

Owing to the recovery of the global economy, the domestic economy began to stabilize in the second half of 2016, with the Industrial Production Index increasing by 6.25% year-on-year by December 2016, registering an increase for the 5th consecutive month. Meanwhile, the export growth rate has turned positive since July 2016, increasing by as much as 14.0% year-on-year in December 2016. Export orders also turned favorable, reaching a 6.3% growth (in USD terms) year-on-year by December 2016 and registering an increase for the 4th consecutive month. Economic monitoring indicators published in December 2016 showed a "Green" status for the 6th consecutive month with the overall score increasing by 2 points to a total of 28. Both leading and coincident indicators continued to rise, which indicated that the domestic economy is gradually recovering its lost momentum. With regard to domestic price levels, the

consumer price index (CPI) made a year-on-year increase of 1.70% in December 2016, and is expected to increase further by 1.08% in 2017 to reflect a moderate price pressure. In the first quarter of 2017, the Directorate-General of Budget, Accounting and Statistics (DGBAS) estimated Taiwan's 2016 economic growth rate at 1.50% and the 2017 growth rate at 1.92%. However, given the likelihood of the U.S. adopting protectionism and the growing tension between China and Taiwan, there remain uncertainties to the nation's foreign trade performance, which may adversely affect economic growth.

In terms of the domestic monetary policy, the Central Bank had decided to remain the rediscount rate, rate on accommodations with collateral and rate on accommodations without collateral at 1.375%, 1.75% and 3.625%, respectively, during the 4th quarter board meeting held on December 22, 2016. The Central Bank chose not to raise interest rates as the Fed did, because even the domestic economy had shown signs of recovery, there remain significant uncertainties in Taiwan's economic performance in 2017. However, if the Fed decides on a rate hike for the 3rd time in 2017, the Central Bank may follow and begin raising interest rates in 2017.

II. Organizational changes: None.

III. Results of Implementation of Business Plan and Strategy

Unit: NT\$ million

| Item | Final Accounting Figure, 2016 | Final Accounting Figure, 2015 | Increase/ Decrease (%) |
|---|----------------------------------|----------------------------------|---------------------------|
| Underwriting and purchasing bills | 2,457,301 | 2,334,321 | 5.27 |
| CP2 issued amounts | 2,165,844 | 2,050,131 | 5.64 |
| Trading volume of bills | 8,427,016 | 8,177,922 | 3.05 |
| Trading volume of bonds | 5,646,907 | 5,592,022 | 0.98 |
| Guaranteed issued of CP2 average outstanding balance | 152,160 | 148,882 | 2.20 |
| Overdue credit amounts | 0 | 0 | - |
| Percentage of overdue credits (%) | 0 | 0 | - |

IV. Budget Implementation

Unit: NT\$ million

| Item | Final Accounting Figure, 2016 | Budget Figure, 2016 | Achievement rate (%) |
|---|----------------------------------|------------------------|-------------------------|
| Underwriting and purchasing bills | 2,457,301 | 2,355,944 | 104.30 |
| CP2 issued amounts | 2,165,844 | 2,089,904 | 103.63 |
| Trading volume of bills | 8,427,016 | 8,244,313 | 102.22 |
| Trading volume of bonds | 5,646,907 | 5,599,264 | 100.85 |
| RP outstanding balance of bills and bonds | 210,810 | 173,785 | 121.31 |
| Guaranteed issued of CP2 average outstanding balance | 152,160 | 152,500 | 99.78 |
| Overdue credit amounts | 0 | 0 | - |
| Percentage of overdue credits (%) | 0 | 0 | - |
| Net income | 2,980 | 2,630 | 113.31 |

V. Financial Income and Expenditure, and Analysis of Profitability

Unit: NT\$ million

| Item | Final Accounting Figure, 2016 | Item | Final Accounting Figure, 2016 |
|-------------------|----------------------------------|------------|----------------------------------|
| Net revenue | 4,322 | EPS (NT\$) | 2.27 |
| Income before tax | 3,571 | ROA (%) | 1.22 |
| Net income | 2,980 | ROE (%) | 8.74 |

VI. Research and Development

(I) Management

1. Continue perfecting the Company's paperless conference system and paperless report management system.
2. Continue making adjustments to the internal performance evaluation system.

(II) Product and Business

1. Studied the feasibility of undertaking RP transaction of US dollar bonds with life insurance companies.
2. Applied to the competent authority for relaxing derivatives transaction scope of bills finance companies.



Chi-Fu Lin, President and CEO

(III) Risk Control

1. Planned Basel III system framework and introduction practice.
2. Continuously enhanced self-assessment system of operational risks and strengthened risk management regarding various business risk categories.
3. Enhanced implementation and risk monitoring of AML/CFT.

Two. Summary of Business Plan 2017

I. Operating Guidelines

- (I) Strengthen organization management to improve performance efficiency and maintain company ranking as market leader.
- (II) Implement performance evaluation and strengthen the production efficiency of human resources.
- (III) Implement internal control system and strengthen corporate governance.
- (IV) Strengthen risk management and maintain the strong financial condition and quality of assets.

II. Projection of Business Goals

Unit: NT\$ million

| Item | Budget Figure, 2017 |
|--|---------------------|
| Underwriting and purchasing bills | 2,207,630 |
| CP2 issued amounts | 1,944,681 |
| Trading volume of bills | 7,398,596 |
| Trading volume of bonds | 4,500,460 |
| RP outstanding balance of bills and bonds | 208,129 |
| Guaranteed issued of CP2 average outstanding balance | 152,000 |

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) Capital source and cost reduction: Engaged credit customers in secondary deals of foreign currency bonds; secured source of foreign currency capital from domestic financial institutions by engaging them in interbank funding, currency swaps and repurchase agreements; reduce cost of capital and increase returns on holding positions without liquidity risks.

- (II) Expand bills issuance and margin: Monitor the Central Bank's monetary policy and movements of the financial market to enable flexible adjustment of primary and secondary deal rates; manage and expand bills portfolio with increased margins to maintain leading position in the market.
- (III) Deliberate on credit assessment and quality: Pay close attention to customers' business/financial performance, industry prospects, and funding capacity for more robust credit decisions.
- (IV) Develop portfolio size and gains: Actively explore opportunities in syndicated lending, underwriting of non-guarantee commercial papers, NCD, acquisition of guaranteed or non-guarantee bills underwriting for portfolio growth and higher gains; build position in foreign currency bonds; diversify country risk and increase portfolio weight in foreign currency corporate bonds for higher overall gains and mitigation of U.S. interest rate hike.
- (V) Trade frequently and consolidate market position: Secure leading position in the bills/bonds market through frequent transactions.
- (VI) Manage portfolio duration and risk: Manage duration of NTD and foreign currency bonds for risk avoidance and higher gains; allocate capital for greater efficiency and enhance the current risk management system.
- (VII) Apply technology and improve efficiency: Assist business units in exploring new customers and potential business opportunities by adopting new database analysis technologies and integrating external data sources; continue enhancement of internal information system and operating efficiency; create a standardized reporting and accounting platform and improve efficiency of credit investigation, credit extension, credit review and back-end operations.
- (VIII) Introduce innovation and fulfill corporate social responsibility: Expand business scope by exploring new service types; research and develop big data applications; promote the use of paperless conference system and

paperless report management system as a means to cut back resource usage and fulfill corporate social responsibilities.

IV. Future Development Strategies

- (I) Strengthen the position as market leader of the bills and bonds business.
- (II) Build a profitable bonds portfolio. Expand trading of repurchase agreements and secure profitability with the use of derivatives.
- (III) Enhance operation efficiency by reducing cost of funding and expanding interest spread.
- (IV) Ensure regulatory compliance through enhanced internal controls and internal audit systems.
- (V) Make efficient allocation of capital; strengthen existing risk management and systems.
- (VI) Continue efforts in talent development and nurturing.
- (VII) Introduce new services and expand service reach.
- (VIII) Work with Mega Financial Holding Company to integrate the information system and share information services.
- (IX) To integrate the group resources and explore the synergy of cross-selling.

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

- (I) The United States is expected to continue raising interest rates in the next year, which may cause the USD to strengthen and motivate some primary market customers to borrow NTD to repay USD debts, thus increases demand for NTD capital. Furthermore, corporate customers will be more willing to hold U.S. dollars as it strengthens, which presents the opportunity of channeling customers' USD capital into the Company's foreign currency bonds position.
- (II) The authority has relaxed restrictions with regards to the range and limit of foreign currency bonds that can be traded by bills finance companies. This development will provide the Company with greater flexibility in building up

and profiting from foreign currency bond positions.

- (III) The authority has permitted general investors to trade in NTD-denominated corporate bonds and bank debentures listed on the professional board, and repurchase agreements listed on the foreign board. It provides bills finance companies with broader access to capital, which helps grow bonds services.
- (IV) The lack of investor confidence and economic momentum in Taiwan combined with the growth of the Chinese supply chain and protectionism in the U.S. have made the business environment all the more difficult. Furthermore, globalization has made credit customers' business performance and financial position more susceptible to market changes, causing an overall reduction in profit margins and increased credit risks.
- (V) Increasing variety of funding channels are being introduced into the financial market, while banks continue to expand the domestic credit portfolio at a low interest rate, particularly when the Chinese market and wealth management segment no longer contributes the level of profitability they are used to, some of which have even attained the bills financing license to underwrite non-guarantee commercial papers in the primary market, which posed direct competition against specialized bills finance companies.
- (VI) Due to limitations by capital adequacy and liquidity coverage ratios, the banking system has been conservative about long-term interbank funding and transactions in the secondary market, which affect the market's capital supply and cause higher interest rate volatility in short-term instruments completed at month-end and quarter-end.
- (VII) Out of expectations that the Central Bank may follow the Feds in raising the interest, both long-term and short-term market interest rates have already begun to rise, which signify the beginning of a series of interest rate hikes to come. This development has the worst effect on a bills finance company not only because of the tightened money supply, but the increase in RP cost and interbank funding cost would also erode much of the Company's margins.
- (VIII) Although the global economy is showing signs of recovery, there are still

many factors that need to be monitored closely, particularly those that involve uncertainties in Trump’s decisions, as increased volatility will undermine the Company’s trade performance in the domestic equity and bonds markets.

Three. Most Recent Credit Rating and Date of Rating

| Credit Rating Organization | Long-Term Credit Rating | Rating Outlook | Short- Term Credit Rating | Date of Announcement |
|-------------------------------|----------------------------|-------------------|------------------------------|-------------------------|
| Taiwan Ratings Corp. | twAA | Stable | twA-1+ | 2016.10.13 |

Four. Appreciation and Prospect

Last year, the Company had been able to maintain its market leadership and surpass not only its annual earnings target, but also the profitability of its peers as well. This was largely attributed to the efforts of our employees and the guidance and support of our directors, supervisors and parent holding company.

In the future, the Company and its employees shall remain committed to the values of “integrity, stability, innovation, growth, efficiency and sustainability”, and contribute to society, environment, economy and shareholders of the financial group by directing attention towards corporate social responsibilities, sustainable business, internal control, risk management and compliance.

Best wishes for all of you

Health and Happiness,

Chairman of the Board

Chang-Ruey Shiau

President and CEO

Chi-Fu Lin



Chairman of the Board, President and Headquarter Management Team Photography



Mega Bills Finance Co., Ltd. received Outstanding Prize of the “Best Bills Finance Company Award”
in the “8th Taiwan Banking and Finance Best Practice Awards”

Profile of the Corporation

I. Founded: May 3, 1976

II. Company History

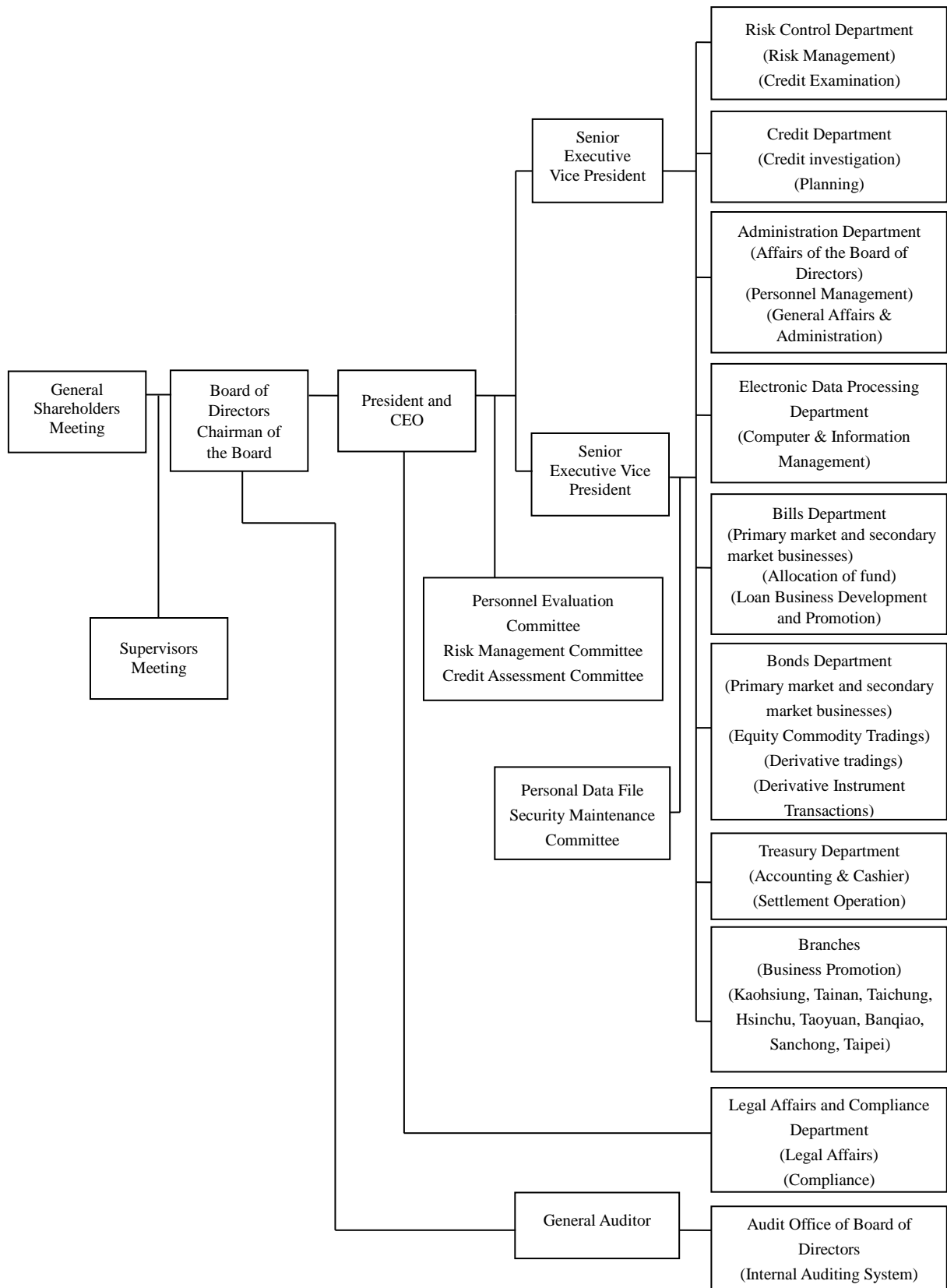
- (I) May 20, 1976, started business, with paid-in capital of NT\$200 million.
- (II) January 5, 1981, relocated the head office to an acquired property at Section 2, Nanjing East Road, Taipei City.
- (III) June 26, 1990, completed an initial public offering that increased paid-in capital to NT\$2.88 billion.
- (IV) February 28, 2000, relocated the head office to “Chung Hsing Bills Tower” at Section 2, Zhongxiao East Road, Taipei City; share capital was increased to NT\$28.11 billion later in May.
- (V) June 12, 2002, a resolution was passed during the regular meeting of shareholders to have the Company merged into Chiao Tung Financial Holding Company through a share exchange arrangement. The exchange of shares took place on August 22 later in that year.
- (VI) December 31, 2002, Chiao Tung Financial Holding Company, the parent company, was renamed Mega Financial Holding Company.
- (VII) September 1, 2004, share capital was reduced by \$3 billion to NT\$25.11 billion.
- (VIII) May 3, 2005, share capital was reduced by \$5 billion to NT\$20.11 billion.
- (IX) May 2, 2006, relocated the head office to 2F~5F, 9F and 10F, No. 91 Hengyang Road, Taipei City.
- (X) June 26, 2006, the Company was renamed Mega Bills Finance Co., Ltd. in alignment with other subsidiaries of Mega Financial Holding Company.
- (XI) July 2, 2007, share capital was reduced by \$5 billion to NT\$15.11 billion.
- (XII) August 3, 2009, share capital was reduced by \$2 billion to NT\$13.11 billion.
- (XIII) November 1, 2012, received “Best Bills Finance Company Award” in the “6th Annual Taiwan Excellent Financial Elite Award” directed by the Financial Supervisory Commission and organized by the Taiwan Academy of Banking and Finance.
- (XIV) October 31, 2014, received “Best Bills Finance Company Award” in the “7th

Annual Taiwan Excellent Financial Elite Award” directed by the Financial Supervisory Commission and organized by the Taiwan Academy of Banking and Finance.

- (XV) November 1, 2016, received Outstanding Prize of the “Best Bills Finance Company Award” in the “8th Taiwan Banking and Finance Best Practice Awards” 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 Executives of each Department and Branch-Office

(I) Directors and Supervisors

1. Information about directors and supervisors (1)

March 31, 2017

| Job Title (Note 1) | Country or place of registration | Name | Gender | Date of Election (Appointment) | Term of Office (Note 2) | Date of First Election (Appoint ment) | 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 | Republic of China | Chang-Ru ey Shiau (Note 3) | Male | 2016.08.31 | 2018.03 .01 | 2016.08.31 | (Note 1) | Department of Law, National Chung Hsing University | President of Taiwan Financial Holding Co., Ltd.; Acting President of Bank of Taiwan Co., Ltd.; Head of Fiscal, Statistical and Financial Affairs, Executive Yuan; Counselor of Executive Yuan and 4th Division Chief; Chief Secretary of the Financial Supervisory Commission; Deputy Director General of the Banking Bureau; Member of Petition Reviewing Commission, Executive Yuan; Director of Taiwan Cooperative Financial Holding Co., Ltd.; Director of Taiwan Cooperative Bank Co., Ltd. | None | None |
| Director and President | Republic of China | Chi-Fu Lin | Male | 2015.03.02 | 2018.03 .01 | 2015.03.02 | | Department of Public Finance, National Chung Hsing University | Vice President, MBF, Assistant Vice President and manager of Bills Department | None | |
| Independent Director | Republic of China | Tsai-Chih Chen | Female | 2015.03.02 | 2018.03 .01 | 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, NCCU | |
| Independent Director | Republic of China | Yi-Jui Huang (Note 4) | Male | 2016.10.26 | 2018.03 .01 | 2016.10.26 | | Ph.D., Jinan University | Certified CPA of Solomon & Co.; Chairman of Kaohsiung City CPA Association; Standing Director of Taiwan CPA Association; Director of Neoflex Technology Co., Ltd. | Owner of Solomon & Co.; Chairman of Taiwan CPA Association; Supervisor of Huaku Development Co., Ltd.; Director of Ma Kuang Healthcare Holding Limited; Chairman of Weidu Investment Co., Ltd.; Supervisor of i-Kiddo Co., Ltd.; Supervisor of Ma Kuang International Development Co., Ltd.; Director of e-Family Co., Ltd.; Supervisor of PChome Online Inc. | |

| | | | | | | | | | |
|----------|-------------------|--------------------------|--------|------------|------------|------------|--|---|---|
| Director | Republic of China | Jui-Yun Lin | Female | 2015.03.02 | 2018.03.01 | 2006.04.06 | Master, Graduate Institute of Public Finance, NCCU | Ministry of Finance - Auditor of National Treasury Administration, Ministry of Finance; Section Chief of Taxation Administration; Head of Accounting Division, Chiao Tung Bank; Executive Vice President of Treasury Department, Mega Holdings; Director of Mega Holdings; Supervisor of Mega Bank; Standing Director and Standing Supervisor of Taiwan Business Bank; Chairman of Chung Kuo Insurance Co., Ltd.; Chairman of Nuclear Energy Insurance Pool of the Republic of China | Senior Executive Vice President of Mega Holdings; Chairman and President of Mega Venture Capital Co., Ltd.; Director of Mega Charity Foundation; Director of Taipei Financial Center Corporation; Standing Director of Non-life Insurance Association of the Republic of China |
| Director | Republic of China | Ruey-Yuan Fu (Note 5) | Female | 2017.03.29 | 2018.03.01 | 2017.03.29 | EMBA, National Chengchi University | Yonghe Branch Manager, Nanking East Road Branch Manager, and Central Branch Manager of Mega Bank; Chairman of ICBC Assets Management & Consulting Co., Ltd.; Chairman of SmartVision Co., Ltd. | Vice President of Mega Bank; Director of EXCEL Chemical Corp; Director of Taiwan Asset Management Co., Ltd. |
| Director | Republic of China | Zong-Ming Yen | Male | 2015.03.02 | 2018.03.01 | 2014.06.24 | Master of Economics, Soochow University | Head of National Science Council Science Park Administration, part-time associate professor-grade technician of National Chiao Tung University, Executive Director of Asian Science Parks Association, Director of International association of Science Parks, and head of Industrial and Commercial Section, head of Investment Section, and deputy head of Science Park Administration, part-time lecturer of Chung Hua University Department of Technology Management, and advisor for Hsinchu City Government | Director of Wind Online Corporation, Vice Chairman of Wholtech System Hitech Limited, Supervisor of Ablere Electronics Co., Ltd., visiting professor of Hsuan Chuang University postgraduate business administration program, Consultant of Chinese Professional Management Association of Hsinchu |
| Director | Republic of China | Chun-Hsiang Lee | Female | 2015.03.02 | 2018.03.01 | 2015.03.02 | Master of Accounting, University of Illinois | Executive Vice President, Manager and Deputy Manager of Finance Department, Mega Bank; President of Cathay Investment & Development Corporation (Bahamas) | Vice President of Mega Bank; Supervisor of Chung Kuo Insurance Co., Ltd.; Director of China Products Company; Director of ICBC Assets Management & Consulting Co., Ltd.; Director of Taipei Forex Inc.; Director of Cathay Investment & Development Corporation (Bahamas); Director of Overseas Investment & Development Corp.; Director of Global Venture Investment Co., Ltd.; Chairman of Win Card Co., Ltd. |

| | | | | | | | | | | |
|------------|-------------------|--------------------------|--------|------------|------------|------------|--|---|---|--|
| Supervisor | Republic of China | Fu-Jung Chen (Note 6) | Female | 2016.09.30 | 2018.03.01 | 2016.09.30 | Department of Agricultural Economics, National Taiwan University | Minsheng Branch Manager, Sydney Branch Manager, Xindian Branch Manager, Lanya Branch Manager, and Executive Vice President/Head of Wealth Management Division, Mega Bank; Director of Win Card Co., Ltd.; Director of Synmax Biochemical Co., Ltd.; Director of Hua Sheng Venture Capital Co., Ltd. | Chief Auditor of Mega Bank; Supervisor of Mega International Investment Trust Co., Ltd. | |
| Supervisor | Republic of China | Chun-Ke Su (Note 6) | Male | 2016.09.30 | 2018.03.01 | 2016.09.30 | | Department of International Trade, College of Commerce, National Taiwan University | Datong Branch Manager, Osaka Branch Manager, Tokyo Branch Manager, Head of Credit Analysis, and COO of 1st Northern Operations Center, Mega Bank | Executive Vice President and Head of Credit Control, Mega Bank; Director of China Products Company; Director of JADS Comm. Co., Ltd.; Director of ShineMore Technology Materials Corporation.; Director of Mega Asset Management Co., Ltd. |
| Supervisor | Republic of China | Jin-Cun Chen (Note 7) | Male | 2015.09.01 | 2018.03.01 | 2015.09.01 | | Ph.D. of Engineering (Finance Major), National Taiwan University of Science and Technology | Dean of College of Finance, Takming University of Science and Technology; Standing Supervisor of Mega Bank; Supervisor of Hua Nan Financial Holdings; Director and Standing Director of First Commercial Bank Ltd; Director and Independent Director of Chunghwa Telecom Co., Ltd.; Supervisor of Joint Credit Information Center; Head of Management Center, Head of General Affairs, Acting President and Professor of National Central University; member of Consultative Committee, Central Deposit Insurance Corporation | Supervisor of Mega Securities; Supervisor of Taipei Rapid Transit Corporation; Consultant, Sector Chief Editor and Deputy General Editor of Taiwan Academy of Banking and Finance; Ombudsman Officer of Financial Ombudsman Institution; Professor of College of Finance, Takming University of Science and Technology |

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 the representative of Mega Holdings.
2. The Company's 14th board of directors and supervisors were appointed by Mega Holdings on 2015.2.24 to serve a term from 2015.3.2 until 2018.3.1. The 14th board of directors (including independent directors) and supervisors is comprised of: Chairman Feng-Chi Ker, Director/President Chi-Fu Lin, Independent Director Tsai-Chih Chen, Independent Director Tai-Lung Chen, Director Zong-Ming Yen, Director Jui-Yun Lin, Director To-Ching Hu, Director Chun-Hsiang Lee, Supervisor Dan-Hun Lu, Supervisor Ching-Lung Hung, and Supervisor Jia-Min Hung.
3. Chairman Feng-Chi Ker retired on 2016.08.31, while Mr. Chang-Ruey Shiau was appointed director by Mega Holdings on 2016.8.31. During the 23rd meeting of the 14th board of directors held on 2016.8.31, Director Chang-Ruey Shiau was elected Chairman of the Company.
4. Independent Director Tai-Lung Chen resigned from position on 2016.10.01, and Mr. Yi-Jui Huang was appointed independent director by Mega Holdings later on 2016.10.26.
5. On 2017.3.29, Mega Holdings appointed Madam Ruey-Yuan Fu to replace Director To-Ching Hu.
6. On 2016.9.30, Mega Holdings appointed Madam Fu-Jung Chen and Mr. Chun-Ke Su to replace Supervisors Dan-Hun Lu and Ching-Lung Hung.
7. On 2015.9.01, Mega Holdings appointed Mr. Jin-Cun Chen to replace Supervisor Jia-Min Hung.

2. Major shareholders of corporate shareholders

Book closure date: December 31, 2016

| Name of Corporate shareholder | Major shareholders of Corporate shareholders (with shareholding among the top 10) | Shareholding |
|----------------------------------|---|--------------|
| Mega Financial Holding Co., Ltd. | Ministry of Finance | 8.40% |
| | National Development Fund, Executive Yuan | 6.11% |
| | Chunghwa Post Co., Ltd. | 3.50% |
| | Fubon Life Insurance Co., Ltd. | 3.47% |
| | Cathay Life Insurance Co., Ltd. | 2.98% |
| | Bank of Taiwan Co., Ltd. | 2.46% |
| | Nan Shan Life Insurance Company Ltd. | 1.80% |
| | China Life Insurance Company Limited | 1.69% |
| | Pou Chen Corporation | 1.41% |
| | Government of Singapore | 1.29% |

3. Major Shareholders of Major Corporate Shareholders

Shares transfers suspended on: December 31, 2016

| Name of corporate entity | Key shareholders of corporate entity (Note) | Shareholding |
|---|---|--------------|
| Ministry of Finance | Government | |
| National Development Fund, Executive Yuan | Government | |
| Chunghwa Post Co., Ltd. | Ministry of Transportation and Communications | 100.00% |
| Fubon Life Insurance Co., Ltd. | Fubon Financial Holding Co., Ltd. | 100.00% |
| Cathay Life Insurance Co., Ltd. | Cathay Financial Holding Co., Ltd. | 100.00% |
| Bank of Taiwan Co., Ltd. | Taiwan Financial Holding Co., Ltd. | 100.00% |
| Nan Shan Life Insurance Company Ltd. | First Bank in its Capacity as Trustee of Ruen Chen Investment Holding | 76.46% |
| | Ruen Chen Investment Holding | 14.16% |
| | Ying-Zong Du | 3.24% |
| | Ruen Hua Dyeing & Weaving Co., Ltd. | 0.27% |
| | Ruentex Leasing Co., Ltd. | 0.14% |
| | Wen-Te Kuo | 0.10% |
| | Jipin Investment Co., Ltd. | 0.10% |
| | Bao Chi Investment Co., Ltd. | 0.05% |
| | Bao Yi Investment Co., Ltd. | 0.05% |
| | Bao Hui Investment Co., Ltd. | 0.05% |
| | Bao Huang Investment Co., Ltd. | 0.05% |

| | | |
|--------------------------------------|--|-------|
| China Life Insurance Company Limited | KGI Securities Co., Ltd. | 9.64% |
| | Cathay Life Insurance Co., Ltd. | 2.99% |
| | Government of Singapore | 2.78% |
| | City of New York Group Trust | 2.69% |
| | JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency | 2.52% |
| | Videoland Inc. | 2.35% |
| | HSBC Bank (Taiwan) Limited in its Capacity as Master Custodian for Investment Account of Invesco Asia Equity Fund | 1.43% |
| | Citibank Taiwan in its Capacity as Master Custodian for Investment account of the Central Bank of Norway | 1.32% |
| | Hermes Investment Funds Public Limited | 1.31% |
| | JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority | 1.29% |
| Pou Chen Corporation | PC Brothers Corporation | 7.24% |
| | Quan Mao Investment Co., Ltd. | 5.55% |
| | Red Magnet Developments (BVI) Ltd. | 4.60% |
| | Kai Tai Investment Co., Ltd. | 4.55% |
| | Taishin International Bank in its Capacity as Trustee for Property Account of Chi-Jui Tsai | 3.46% |
| | Fubon Life Insurance Co., Ltd. | 3.22% |
| | Bank of Taiwan entrusted with Investment Account of UOB Kay Hian Private Company | 2.51% |
| | Mega International Commercial Bank in its Capacity as Master Custodian for Investment Account of Mega Securities (Hong Kong) Co., Ltd. | 1.86% |
| | Standard Chartered Bank in its Capacity as Master Custodian for Development Bank of Singapore - 0600049662 | 1.82% |
| | Government of Singapore | 1.73% |

Note: Top 10 shareholders

4. Information about directors and supervisors (2)

March 31, 2017

| Criteria Name | Meet one of the following professional qualification requirements, together with at least five years work experience | | | Independence criteria (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 certificates 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 | |
| Chang-Ruey Shiau | | | √ | √ | √ | √ | √ | | | √ | √ | √ | | 0 |
| Chi-Fu Lin | | | √ | | √ | √ | √ | √ | √ | √ | √ | √ | | 0 |
| Tsai-Chih Chen | √ | | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 0 |
| Yi-Jui Huang | | √ | √ | √ | √ | √ | √ | √ | | √ | √ | √ | √ | 0 |
| Jui-Yun Lin | √ | | √ | | | √ | √ | | | √ | √ | √ | | 0 |
| Ruey-Yuan Fu | | | √ | | √ | √ | √ | √ | | √ | √ | √ | | 0 |
| Zong-Ming Yen | √ | | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | | 0 |
| Chun-Hsiang Lee | | | √ | | √ | √ | √ | √ | | √ | √ | √ | | 0 |
| Fu-Jung Chen | | | √ | | | √ | √ | √ | | √ | √ | √ | | 0 |
| Chun-Ke Su | | | √ | | | √ | √ | √ | | √ | √ | √ | | 0 |
| Jin-Cun Chen | √ | | √ | √ | | √ | √ | √ | √ | √ | √ | √ | | 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.

- Not employed by the Company or any of its affiliated companies.
- 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).
- Neither himself, his spouse, nor any non-adult male or female child of himself, either in his 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.
- Not a spouse, a relative to the second degree or closer, or a direct kin to the third degree or closer to anyone listed in the three preceding criteria.
- 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.
- 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 the shares.
- Not a professional, business owner, partner, director, supervisor, or manager of any sole-proprietorship, partnership, company, or institution providing commercial, legal, financial or accounting services or consultation to the bills finance company or any of its affiliated companies; nor a spouse to anyone listed herein. 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.
- Not a spouse of, or related within the second degree of consanguinity to, any other director.
- Free from any circumstances referred to in Article 30 of the Company Act.
- 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 Vice Presidents, and Executives of each Department and Branch Office

March 31, 2017

| Title | Nationality | Name | Gender | Date of Election (Appointment) | Shareholdings | | Shareholdings of spouse and underage children | | Shares held by proxy | | Main Educational and Professional Background | | Current post held concurrently in other companies | Other General Managers within two degrees of kinship of self or spouse | | |
|---|-------------------|------------------|--------|--------------------------------|---------------|---------------|---|---------------|----------------------|---------------|---|--|---|--|------|--------------|
| | | | | | Quantity | Shareholdings | Quantity | Shareholdings | Quantity | Shareholdings | Education | Experience | | Job Title | Name | Relationship |
| President and CEO | Republic of China | Chi-Fu Lin | Male | 2015.03.02 | — | — | — | — | — | — | Department of Public Finance, National Chung Hsing University | Senior Executive Vice President, Executive Vice President and General Manager of the Bills Department, MBF | — | — | — | — |
| Senior Executive Vice President | Republic of China | Chin-Tsan Wei | Male | 2006.09.08 | — | — | — | — | — | — | Dept. of Accounting, Fu Jen University | Executive Vice President, Mega Holdings | — | — | — | — |
| Senior Executive Vice President | Republic of China | Ching-Wen Wu | Male | 2009.01.05 | — | — | — | — | — | — | Department of Business Administration, Feng Chia University | Executive Vice President, MBF and General Manager, Bills Dept., MBF | — | — | — | — |
| Senior Executive Vice President and General Auditor | Republic of China | Yi-Sheng Wang | Male | 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 Department | Republic of China | Yao-Kuang Tsai | Male | 2016.07.04 | — | — | — | — | — | — | Dept. of Banking, Tamkang University | Executive Vice President and Kaohsiung Branch Manager of the Company | — | — | — | — |
| Executive Vice President and General Manager, Bills Department | Republic of China | Chin-Sheng Huang | Male | 2016.07.04 | — | — | — | — | — | — | Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology | Executive Vice President and General Manager, Risk Control Dept. | — | — | — | — |
| Executive Vice President and General Manager, Bonds Department | Republic of China | Chun-Chang Lee | Male | 2015.02.02 | — | — | — | — | — | — | Master of Commerce, National Taiwan | Executive Vice President and General Manager, | — | — | — | — |

| | | | | | | | | | | | | | | | | |
|---|-------------------|------------------|--------|------------|---|---|---|---|---|---|---|--|---------------------------------------|---|---|---|
| | | | | | | | | | | | University | Administration Department, MBF | | | | |
| Executive Vice President and General Manager, Electronic Data Processing Department | Republic of China | Hsi-Bin Yo | Male | 2014.05.16 | — | — | — | — | — | — | Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology | General Manager, Electronic Data Processing Department, MBF | — | — | — | — |
| General Manager, Treasury Department | Republic of China | Chih-Hsiung Chiu | Male | 2011.03.01 | — | — | — | — | — | — | Master, Graduate Institute of Accounting, Tamkang University | Deputy General Manager, Treasury Dept. MBF | — | — | — | — |
| General Manager, Credit Department | Republic of China | Shuo-Cheng Lee | Male | 2013.03.08 | — | — | — | — | — | — | Master, Graduate Institute of Economics, National Taiwan University | Deputy General Manager, Risk Control Dept. MBF | Director, Core Pacific City Co., Ltd. | — | — | — |
| General Manager, Administration Department | Republic of China | Ming-Pao Wang | Male | 2016.03.01 | — | — | — | — | — | — | Master, Graduate Institute of Accounting and Taxation, Feng Chia University | Acting manager of Administration Department | — | — | — | — |
| Legal Affairs and Compliance Department General Manager | Republic of China | Cheng-Bi Dai | Female | 2017.01.03 | — | — | — | — | — | — | Department of Agriculture Promotion, National Taiwan University | Acting Manager of Legal Affairs and Compliance Department of the Company | — | — | — | — |
| Executive Vice President and General Manager, Kaohsiung Branch | Republic of China | Tsung-Chung Lin | Male | 2016.07.04 | — | — | — | — | — | — | Dept. of Business Administration, Chung Yuan Christian University | Executive Vice President and Tainan Branch Manager of the Company | — | — | — | — |
| Executive Vice President and General Manager, Tainan Branch | Republic of China | Jung-Kun Wu | Male | 2016.07.04 | — | — | — | — | — | — | Department of Banking, NCCU | Executive Vice President and Taichung Branch Manager of the Company | — | — | — | — |
| Executive Vice President and General Manager, Taichung Branch | Republic of China | Ming-Chih Cheng | Male | 2016.07.04 | — | — | — | — | — | — | Ph.D. in International Relations, Jinan | Executive Vice President, and General Manager, | — | — | — | — |

| | | | | | | | | | | | | | | | | |
|---|-------------------|------------------|------|------------|---|---|---|---|---|---|--|--|---|---|---|---|
| | | | | | | | | | | | University | Banqiao Branch, MBF | | | | |
| General Manager, Hsinchu Branch | Republic of China | Kun-Shui Lin | Male | 2013.03.08 | — | — | — | — | — | — | Master of Business Administration, I-Shou University | General Manager, Chiayi Branch, MBF | — | — | — | — |
| General Manager, Taoyuan Branch | Republic of China | Shih-Ming Wang | Male | 2014.07.01 | — | — | — | — | — | — | Master of Finance, Tamkang University | Deputy General Manager, Risk Control Dept. MBF | — | — | — | — |
| General Manager, Sanchong Branch | Republic of China | Shih-Yi Chen | Male | 2014.07.01 | — | — | — | — | — | — | MBA, Katholieke Universiteit Leuven | General Manager, Taoyuan Branch, MBF | — | — | — | — |
| Executive Vice President and Banqiao Branch manager | Republic of China | Jung-Chieh Cheng | Male | 2016.07.04 | — | — | — | — | — | — | Master of Commercial Automation and Administration, National Taipei University of Technology | Executive Vice President , MBF and General Manager, Bills Dept., MBF | — | — | — | — |
| General Manager, Taipei Branch | Republic of China | Jia-Chi Shao | Male | 2015.06.01 | — | — | — | — | — | — | Department of Accounting and Statistics, Shih Chien College of Design (3-year program) | Mega Bills Finance - Senior Officer of Taipei Branch | — | — | — | — |

III. Remuneration paid to directors, supervisors, President and CEO, and Senior Executive Vice Presidents in the most recent year

(I) Remuneration to directors (including independent directors)

December 31, 2016; unit: NT\$ thousands

| 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 (C) | | Professional practice expenses (D) | | | | Salaries, bonuses and special allowances (E) | | Pension (F) | | Employee remuneration (G) | | | | | | | | |
| | | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | | All companies included in the financial statements | | The Company | All companies included in the financial statements | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| Chairman of the Board | Chang-Ruey Shiau (Note 1) | | | | | | | | | | | | | | | | | | | | | | | |
| Director | Chi-Fu Lin | | | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Tsai-Chih Chen | | | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Yi-Jui Huang (Note 2) | | | | | | | | | | | | | | | | | | | | | | | |
| Director | Jui-Yun Lin | | | | | | | | | | | | | | | | | | | | | | | |
| Director | Zong-Ming Yen | | | | | | | | | | | | | | | | | | | | | | | |
| Director | Chun-Hsiang Lee | | | | | | | | | | | | | | | | | | | | | | | |
| Former Director | Feng-Chi Ker (Note 1) | | | | | | | | | | | | | | | | | | | | | | | |
| Former Director | To-Ching Hu | | | | | | | | | | | | | | | | | | | | | | | |
| Former Independent Director | Tai-Lung Chen (Note 2) | | | | | | | | | | | | | | | | | | | | | | | |
| Total | | 7,718 | 7,718 | - | - | - | - | 2,071 | 2,071 | 0.33 | 0.33 | 6,754 | 6,754 | - | - | - | - | - | - | - | - | 0.55 | 0.55 | NONE |

Note:
1. Chairman Feng-Chi Ker retired on 2016.08.31, while Mr. Chang-Ruey Shiau was appointed director by Mega Holdings on 2016.8.31. During the 23rd meeting of the 14th board of directors held on 2016.8.31, Director

Chang-Ruey Shiau was elected Chairman of the Company.

2. Independent Director Tai-Lung Chen resigned from his position on 2016.10.01, and Mr. Yi-Jui Huang was appointed independent director by Mega Holdings later on 2016.10.26.

3. Directors' remuneration (including independent directors) was accurate as at 2016.12.31.

4. Housing and vehicle lease payments were included in "professional practice expenses (D)". For relevant information, please refer to Schedules A and B on page 33.

5. Performance bonus to senior management and employees' remuneration were estimated figures. The actual amount is subject to parent company's approval.

6. Compensation received by directors for providing service to any company included in the financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: NT\$0.

Scales of Remuneration

| Directors' remuneration bracket | Director's Name | | | |
|----------------------------------|---|---|---|---|
| | Total of A+B+C+D | | Total of A+B+C+D+E+F+G | |
| | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements |
| Below NT\$ 2,000,000 | Chi-Fu Lin, Jui-Yun Lin, To-Ching Hu, Zong-Ming Yen, Chun-Hsiang Lee, Tsai-Chih Chen, Yi-Jui Huang, Tai-Lung Chen | Chi-Fu Lin, Jui-Yun Lin, To-Ching Hu, Zong-Ming Yen, Chun-Hsiang Lee, Tsai-Chih Chen, Yi-Jui Huang, Tai-Lung Chen | Jui-Yun Lin, To-Ching Hu, Zong-Ming Yen, Chun-Hsiang Lee, Tsai-Chih Chen, Yi-Jui Huang, Tai-Lung Chen | Jui-Yun Lin, To-Ching Hu, Zong-Ming Yen, Chun-Hsiang Lee, Tsai-Chih Chen, Yi-Jui Huang, Tai-Lung Chen |
| NT\$2,000,000 ~ NT\$5,000,000 | Chang-Ruey Shiau, Feng-Chi Ker | Chang-Ruey Shiau, Feng-Chi Ker | Chang-Ruey Shiau, Feng-Chi Ker | Chang-Ruey Shiau, Feng-Chi Ker |
| NT\$5,000,000 ~ NT\$10,000,000 | | | Chi-Fu Lin | Chi-Fu Lin |
| 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\$ Thousands) | 9,789 | 9,789 | 16,543 | 16,543 |

Note: This remuneration bracket table is accurate as at 2016.12.31

(II) Remuneration to Supervisors

December 31, 2016; unit: NT\$ thousands

| Title | Name | Supervisors' remuneration | | | | | | | | Sum of A, B, C, and D as a percentage of after-tax profits | | Remuneration is also drawn from non-subsidiary companies in which the company has invested businesses other than the subsidiaries |
|-------------------|------------------------|---------------------------|--|-------------|--|------------------|--|------------------------------------|--|--|--|---|
| | | Remuneration (A) | | Pension (B) | | Remuneration (C) | | Professional practice expenses (D) | | | | |
| | | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | |
| Supervisor | Jin-Cun Chen | | | | | | | | | | | |
| Supervisor | Fu-Jung Chen (Note) | | | | | | | | | | | |
| Supervisor | Chun-Ke Su (Note) | | | | | | | | | | | |
| Former Supervisor | Dan-Hun Lu (Note) | | | | | | | | | | | |
| Former Supervisor | Ching-Lung Hung (Note) | | | | | | | | | | | |
| Total | | - | - | - | - | - | - | 843 | 843 | 0.03 | 0.03 | NONE |

Note: On 2016.9.30, Mega Holdings appointed Madam Fu-Jung Chen and Mr. Chun-Ke Su to replace Supervisors Tan-Hun Lu and Ching-Lung Hung.

Scales of Remuneration

| Supervisor' remuneration bracket | Supervisor's Name | |
|----------------------------------|---|---|
| | Total of A+B+C+D | |
| | The Company | All companies included in the financial statements (E) |
| Below NT\$ 2,000,000 | Jin-Cun Chen, Fu-Jung Chen, Chun-Ke Su, Dan-Hun Lu, Ching-Lung Hung | Jin-Cun Chen, Fu-Jung Chen, Chun-Ke Su, Dan-Hun Lu, Ching-Lung 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\$ Thousands) | 843 | 843 |

Note: This remuneration bracket table is accurate as at 2016.12.31

(III) Remuneration to the President and CEO and Senior Executive Vice Presidents

December 31, 2016; unit: NT\$ thousands

| Title | Name | Salary (A) | | Pension (B) | | Bonus and allowance etc. (C) | | Employee remuneration (D) | | | | 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 |
|---|---------------|-------------|--|-------------|--|------------------------------|--|---------------------------|-----------------------|--|-----------------------|---|--|--|
| | | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | | All companies included in the financial statements | | The Company | All companies included in the financial statements | |
| | | | | | | | | Amount paid in cash | Amount paid in shares | Amount paid in cash | Amount paid in shares | | | |
| President and CEO | Chi-Fu Lin | | | | | | | | | | | | | |
| Senior Executive Vice President | Chin-Tsan Wei | | | | | | | | | | | | | |
| Senior Executive Vice President | Ching-Wen Wu | | | | | | | | | | | | | |
| Senior Executive Vice President And General Auditor | Yi-Sheng Wang | | | | | | | | | | | | | |
| Total | Total | 9,772 | 9,772 | - | - | 9,082 | 9,082 | 3,717 | - | 3,717 | - | 0.76 | 0.76 | None |

Note:

1. President and Senior Executive Vice Presidents' remuneration were accurate as at 2016.12.31.
2. Performance bonus and employees' remuneration were estimated figures. The actual amount is subject to parent company's approval.
3. Refer to Schedules A and B on page 33 for details relating to company vehicles, gas and housing subsidies.

Scales of Remuneration

| President and CEO and Senior Executive Vice Presidents' remuneration brackets | Names of President and CEO and Senior Executive Vice Presidents | |
|---|---|--|
| | The Company | All companies included in the financial statements |
| Below NT\$ 2,000,000 | | |
| NT\$2,000,000 ~ NT\$5,000,000 | | |
| NT\$5,000,000 ~ NT\$10,000,000 | Chi-Fu Lin, Chin-Tsan Wei, Ching-Wen Wu, Yi-Sheng Wang | Chi-Fu Lin, Chin-Tsan Wei, Ching-Wen Wu, Yi-Sheng 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\$ Thousands) | 22,571 | 22,571 |

Schedule A. Vehicles provided to Chairman of the Board, Presidents and CEO, and Senior Executive Vice Presidents, and imputed annual rent thereof in 2016

December 31, 2016; unit: NT\$ thousands

| Title | User | Purchase of Vehicle | Imputed Annual Rent | Fuel Expense | Remarks |
|---|------------------|---------------------|---------------------|--------------|---------|
| Chairman of the Board | Chang-Ruey Shiau | - | 2,134 | 135 | Rental |
| President and CEO | Chi-Fu Lin | | | | |
| Senior Executive Vice President | Chin-Tsan Wei | | | | |
| Senior Executive Vice President | Ching-Wen Wu | | | | |
| Senior Executive Vice President And General Auditor | Yi-Sheng Wang | | | | |
| Former Director | Feng-Chi Ker | | | | |

Note:

Drivers' salary and overtime pay totaling NT\$1,454,000 were paid in 2016 as compensation for the Chairman's and President's services.

Schedule B. Housing allowance provided for the Chairman, the President, and Senior Executive Vice Presidents in 2016

December 31, 2016; unit: NT\$ thousands

| Title | User | Cost | Imputed Annual Rent | Remarks |
|-----------------------|------------------|------|---------------------|---------|
| Chairman of the Board | Chang-Ruey Shiau | - | 733.5 | |
| President and CEO | Chi-Fu Lin | - | | |
| Former Chairman | Feng-Chi Ker | - | | |

(IV) Names of managers entitled to employee remuneration and amount entitled

December 31, 2016; unit: NT\$ thousands

| Title | Name | Amount paid in shares | Amount paid in cash | Total | As a percentage of after-tax profit (%) |
|---|------------------|-----------------------|---------------------|--------|---|
| Senior Executive Vice President | Chin-Tsan Wei | | | | |
| Senior Executive Vice President | Ching-Wen Wu | | | | |
| Senior Executive Vice President and General Auditor | Yi-Sheng Wang | | | | |
| Executive Vice President | Yao-Kuang Tsai | | | | |
| Executive Vice President | Chin-Sheng Huang | | | | |
| Executive Vice President | Chun-Chang Lee | | | | |
| Executive Vice President | Tsung-Chung Lin | | | | |
| Executive Vice President | Jung-Chieh Cheng | | | | |
| Executive Vice President | Hsi-Bin Yo | | | | |
| Executive Vice President | Jung-Kun Wu | | | | |
| Executive Vice President | Ming-Chih Cheng | | | | |
| General Manager | Chih-Hsiung Chiu | | | | |
| General Manager | Kun-Shui Lin | | | | |
| General Manager | Shuo-Cheng Lee | | | | |
| General Manager | Ming-Pao Wang | | | | |
| General Manager | Shih-Yi Chen | | | | |
| General Manager | Shih-Ming Wang | | | | |
| General Manager | Cheng-Bi Dai | | | | |
| General Manager | Jia-Ji Shao | | | | |
| Total | | - | 14,843 | 14,843 | 0.5 |

(V) Analysis of remuneration paid to directors, supervisors, the President and Vice Presidents

1. Remuneration to directors, supervisors, the President and Senior Executive Vice Presidents as a percentage of net income.

The sum of remuneration paid to the Company's directors, supervisors, President and Vice Presidents represented 1.11% of net income in 2015 and 2016.

2. Remuneration policies, standards, packages and procedures, and relevance to risks and future business performance.

The Company's directors and supervisors have been entirely appointed by the sole shareholder - Mega Financial Holding Co., Ltd. The Chairman and the director who co-heads the President position are remunerated according to the policies of

the Company and its parent company for services rendered; independent directors are remunerated within limits set by the parent company; all other directors and supervisors are given compensation and travel allowances only for meetings attended. Senior Executive Vice Presidents are remunerated based on performance, subject to the Company's policies.

IV. Corporate governance:

(I) Functionality of the board of directors:

15(A) Board of directors meetings were held last year; attendance records are shown below:

| Title | Name | Attendance in Person (B) | Attendance by Proxy | Actual Attendance Rate (%) 【B/A】 | Remarks |
|-----------------------------|------------------|--------------------------|---------------------|----------------------------------|---------------------------|
| Chairman of the Board | Chang-Ruey Shiau | 5 | 1 | 83 | Elected on 2016.8.31 |
| Director and President | Chi-Fu Lin | 15 | 0 | 100 | |
| Independent Director | Tsai-Chih Chen | 15 | 0 | 100 | |
| Independent Director | Yi-Jui Huang | 3 | 0 | 100 | On board since 2016.10.26 |
| Director | Jui-Yun Lin | 15 | 0 | 100 | |
| Director | To-Ching Hu | 15 | 0 | 100 | |
| Director | Zong-Ming Yen | 15 | 0 | 100 | |
| Director | Chun-Hsiang Lee | 12 | 3 | 80 | |
| Former Chairman | Feng-Chi Ker | 9 | 0 | 100 | Retired on 2016.8.31 |
| Former Independent Director | Tai-Lung Chen | 11 | 0 | 100 | Discharged on 2016.10.01 |
| Former Director | To-Ching Hu | 15 | 0 | 100 | Discharged on 2017.3.29 |

Other notes to be specified:

- I. Any board meeting that exhibits the conditions listed in Article 14-3 of the Securities and Exchange Act, or any documented objections or qualified opinions raised by the independent director against board resolutions in relation to matters other than those described above: None.
- II. Avoidance of conflicting-interest agendas by directors:
 - (I) 14th meeting of the 14th board held on January 26, 2016: Motion to underwrite non-guarantee commercial paper of Mega Asset Management Co., Ltd.; Chairman Feng-Chi Ker had abstained from voting and the discussion.
 - (II) 15th meeting of the 14th board held on February 23, 2016: 1. Motion to fund charity activities of "Mega Charity Foundation" by way of a donation, for which Director Jui-Yun Lin had abstained from all discussions and voting in relation to the agenda. 2. Motion to underwrite non-guarantee commercial papers of Mega Financial Holding Co., Ltd.; Director Jui-Yun Lin abstained from voting and the discussion.
 - (III) 16th meeting of the 14th board held on March 22, 2016: Proposal to grant Shin Ruenn development Co., Ltd. and Hsi Hua Construction Co., Ltd. the credit limit to issue guaranteed commercial paper to;

Independent Director Tai-Lung Chen and Director Chun-Hsiang Lee had abstained from the discussions and voting on this agenda.

- (IV) 20th meeting of the 14th board held on June 28, 2016: Proposal to grant Yue Ma Investment No. 2 Co., Ltd. the credit limit to issue guaranteed commercial paper; Independent Director Tai-Lung Chen and Director Chun-Hsiang Lee had abstained from the discussions and voting on this agenda.
- (V) 21st meeting of the 14th board held on July 26, 2016: Proposal to grant Jun Tai Development and Construction Co., Ltd. and Gogoro Energy Network (Cayman) Taiwan Branch the credit limit to issue guaranteed commercial paper; Independent Director Tai-Lung Chen and Director Chun-Hsiang Lee had abstained from the discussions and voting on this agenda.
- (VI) 22nd meeting of the 14th board held on August 23, 2016: Proposal to grant Chan Cheng Development Co., Ltd., Te Shuo Construction Co., Ltd., and Hsin Yuan Enterprise Co., Ltd. the credit limit to issue guaranteed commercial paper; Director Chun-Hsiang Lee and Independent Director Tai-Lung Chen had abstained from the discussions and voting of this agenda.
- (VII) 24th meeting of the 14th board held on September 29, 2016: Proposal to grant YeaShin International Development Co., Ltd. and SinoPac Leasing Co. the credit limit to issue guaranteed commercial paper ; Director Chun-Hsiang Lee (absent) and Independent Director Tai-Lung Chen had abstained from the discussions and voting on this agenda.
- (VIII) 25th meeting of the 14th board held on October 25, 2016: Proposal to underwrite (or purchase) non-guarantee commercial papers of Mega Securities Co., Ltd.; Supervisor Jin-Cun Chen had abstained from the discussions and voting on this agenda.
- (IX) 27th meeting of the 14th board held on November 22, 2016: Proposal to engage National Chengchi University in an industry-academia collaboration agreement and pay academia compensations; Independent Director Tsai-Chih Chen had abstained from the discussions and voting on this agenda.

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

(II) Supervisors' involvements in board of directors meetings:

15 (A) Board of directors meetings were held last year; attendance records are shown below:

| Title | Name | Attendance in Person (B) | Actual Attendance Rate (%) 【B/A】 | Remarks |
|-------------------|-----------------|--------------------------|-------------------------------------|---------------------------|
| Supervisor | Fu-Jung Chen | 4 | 100 | On board since 2016.09.30 |
| Supervisor | Chun-Ke Su | 3 | 75 | On board since 2016.09.30 |
| Supervisor | Jin-Cun Chen | 15 | 100 | |
| Former Supervisor | Dan-Hun Lu | 11 | 100 | Discharged on 2016.09.30 |
| Former Supervisor | Ching-Lung Hung | 11 | 100 | Discharged on 2016.09.30 |

Other notes to be specified:

I. Constitution and obligations of supervisors:

- (I) Supervisors' communication with employees and shareholders (e.g. communication channels and methods): supervisors are able to communicate with the Company's employees and shareholders via written correspondence, telephone, fax and other appropriate means.
TEL: (02)2563-3156/FAX: (02)2356-9801/Address: 5F, No. 123, Section 2, Zhongxiao East Road, Taipei City 100
- (II) Supervisors' communication with Chief Auditor and external auditors (e.g. the details, means and outcomes of discussion regarding the Company's financial position and business performance): the Company's internal audit reports and financial statements are submitted regularly for review by supervisors. Supervisors may also initiate communication with the Chief Auditor and external auditors via meetings, written correspondence, telephone, fax or other appropriate means. In addition, supervisors may be invited to participate in board of directors meeting to gain more insight on the agendas discussed as well as the Company's financial position and business performance.

II. Opinions expressed by supervisors in board meetings; state the date and term of the meeting held, the agenda, the board's resolution, and how the company has responded to supervisors' opinions: None.

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

(IV) Corporate governance execution status and deviation from “Corporate Governance Best-Practice Principles for Bills Finance Companies”

| Item | Status | | Non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance |
|--|--------|----|---|
| | Yes | No | |
| <p>1. Shareholding structure and shareholders' interests</p> <p>(1) Are shareholders' suggestions, queries, disputes and litigations handled properly?</p> <p>(2) Is the company constantly informed of the identities of its major shareholders and the ultimate controller?</p> <p>(3) Has the company established and implemented risk management practices and firewalls for companies it is affiliated with?</p> | V | | <p>1. The Company is a 100%-owned subsidiary of Mega Holdings. All above matters are handled according to the policies of Mega Holdings.</p> <p>2. Mega Holdings is the Company's sole shareholder; the identity of the Company's ultimate controller can be established via the parent company.</p> <p>3. The Company is entirely independent from affiliated entities in terms of personnel, assets, and financial decisions. The parent company's "Mega Group Risk Management Policy and Guidelines" and "Mega Holdings and Subsidiaries Firewall Policy" govern dealings with affiliated entities.</p> <p>(1) Information security: the Company has established the transaction authority and file access rights as means of control.</p> <p>(2) Confidentiality of customers' information: accesses to customers' information are subject to proper authorization before proceeding. Customers' consents are obtained before their information can be used and shared for joint marketing purposes. The Company has established confidentiality agreements with other subsidiaries of the group to ensure the secrecy of customers' information.</p> <p>(3) Related party transactions: the Company maintains a list of related parties and reports transactions regularly to the parent company - Mega Holdings, through which related party disclosures are made to the authority.</p> |
| <p>2. Constitution and obligations of the board of directors</p> <p>(1) Does the company have independent directors in place? Has the company assembled other functional committees?</p> <p>(2) Are external auditors' independence assessed on a regular basis?</p> | V | | <p>1. The Company has 8 directors, 2 of whom are independent directors. All directors are appointed by the parent company - Mega Holdings.</p> <p>2. The Company is a 100%-owned subsidiary of Mega Holdings. Its directors and supervisors are entirely appointed by Mega Holdings, while all major decisions are referred to the board of directors. The Company currently does not have other functional committees in place.</p> <p>3. The Company evaluates independence of its external auditors at the time of appointment.</p> |
| <p>3. Whether the company is a TWSE/TPEX listed company, has the company designated a department or personnel that specializes (or is involved) in corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, convention of board meetings and shareholder meetings, company registration and changes, preparation of board meeting and shareholder meeting minutes, etc.)?</p> | V | | <p>The Company is not listed on TWSE or TPEX, and hence does not have any department or personnel that specializes (or is involved) in corporate governance affairs.</p> |
| <p>4. Does the company have means of communication with its stakeholders (including but not limited to shareholders, employees and customers)?</p> | V | | <p>The Company adopts an open policy that facilitates communication with stakeholders at any time.</p> |
| <p>5. Information disclosure</p> <p>(1) Has the company established a website that discloses financial, business, and corporate governance-related information?</p> | V | | <p>1. The Company has made a Statutory Disclosures section on its website to disclose important information such as financial reports, business performance, interest rate quotations, corporate governance, and credit rating.</p> |

| | | | | |
|---|---|--|--|--|
| (2) Has the company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)? | V | | <p>2. Other means of information disclosure</p> <p>(1) The Company has published an English version of the annual report on its website.</p> <p>(2) The Company has assigned dedicated personnel to gather, maintain and update information published in various sections of its website.</p> <p>(3) The Company has "Spokesperson and Acting Spokesperson Policy" in place to prohibit employees from speaking for the Company, thereby making sure that information is disseminated according to proper procedures.</p> <p>(4) The Company is not listed on TWSE or TPEX; its information is disclosed via the parent company - Mega Holdings.</p> | |
| <p>6. Other information relevant to corporate governance practices:</p> <p>(1) Employee welfare: enforced in accordance with Labor Standards Act and the Company's work rules.</p> <p>(2) Employee care: the Company has an Employee Welfare Committee in place to handle matters such as labor insurance, national health insurance, group insurance, workers' health and safety, health checks, wedding and funeral subsidies etc.</p> <p>(3) Investor relations: the Company is a 100%-owned subsidiary of Mega Holdings, which is the sole investor.</p> <p>(4) Stakeholders' interests: the Company adopts an open policy that enables employees, customers and vendors to reflect opinions via telephone, physical mail, email, or the customer complaint hotline.</p> <p>(5) Directors' and supervisors' education: Courses completed by directors/supervisors include: "Sound Corporate Governance through Protection of Business Secrets and Prevention of Fraud", "Protection of Business Secrets", "Corporate Governance Framework and Board of Directors' Responsibilities", "Risk Management, Internal Control and Information Management Practice", "Audit Committee and Remuneration Committee Practice", "Detecting Fraud in Financial Statements", "Insight to Corporate M&A Laws", "Corporate M&A - A Director's/Supervisor's Perspective", "Fiduciary Duty - Implications of Directors' and Supervisors' Obligations", "Board Functionality and Effect of Resolution", "Prevention of Insider Trading and Case Studies", and "Opportunities and Risks of the Digital Trend" organized by Taiwan Corporate Governance Association; "Advance to New Generation - Digital Banking Transformation", "Unveiling Secrets to Corporate Financial Statements", "The 45th Audit Manager Workshop", "2016 Financial Management Conference", and "U.S. Bank Secrecy Act and Money Laundering Control Act Conference (Session 1)" organized by Taiwan Academy of Banking and Finance; "Introduction to U.S. Anti-money Laundering Laws" organized by Mega Bank; and "Tax Impact Analysis on New Real Estate Tax System and Joint Construction/Partial Sale Project (Tainan)", "Application and Challenges of Fiscal Big Data (Kaohsiung)", "2016 Company Act and Company Registration Seminar", and "Useful Business Accounting Principles and New Tax Perspectives (Part 2)" organized by the Taiwan CPA Association. .</p> <p>(6) Meeting attendance by directors and supervisors: all directors and supervisors have attended board meetings as required by policy.</p> <p>(7) Risk management policies and risk assessment standards: the Company has been assessing business risks in accordance with the authority's instructions and rules of the parent company - Mega Holdings. It has set risk limits on the various types of activities it performs and monitors to ensure that necessary measures are taken for the safety and performance of the Company. Credit review meetings, Risk Management Committee meetings and various other meetings are held regularly to ensure the effectiveness of risk management policies and evaluate strengths and weaknesses of existing risk practices. This enables the Company to flexibly adjust its control measures in line with the changing circumstances.</p> <p>(8) Consumer and customer protection: based upon the "Financial Consumer Protection Act" developed by Financial Supervisory Commission and the "Derivative Self-discipline for Bills Finance Companies" developed by Bills Finance Association, the Company has implemented a set of "Bills on Transaction Disputes and Customer Grievance" that outlines the rules the Company is bound to comply with respect to consumers' and customers' interests. The "Bill/Bond Repurchase Master Agreement" has made a comprehensive description of the Company's obligations and claims that consumers and customers are entitled to enforce. An opinion mailbox has been provided on the Company's website while service hotlines are made available as means of contact for consumers and customers.</p> <p>(9) Directors and supervisors' liability insurance: coverage has been procured according to policies.</p> <p>(10) Social responsibilities: refer to the section titled "Fulfillment of Social Responsibilities".</p> | | | | |
| <p>7. Please explain the improvements made, based on the latest Corporate Governance Evaluation results published by TWSE Corporate Governance Center, and propose enhancement measures for any issues that are yet to be rectified. (Not required as the Company is not subject to evaluation)</p> <p>The Company is not listed on TWSE or TPEX; it is not subject to evaluation and hence this does not apply.</p> | | | | |

(V) Fulfillment of Social Responsibilities

| Item | Status | | |
|---|--------|----|--|
| | Yes | No | Summary description |
| <p>1. Sound corporate governance</p> <p>(1) Does the company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis?</p> <p>(2) Does the company organize social responsibility training on a regular basis?</p> <p>(3) Does the company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors?</p> <p>(4) Has the company implemented a reasonable remuneration system that associates employees' performance appraisals with CSR? Is the remuneration system supported by an effective reward/discipline system?</p> | V | V | <p>1. The Company is a 100%-owned subsidiary of Mega Holdings; its CSR report is prepared collectively by the parent company on a group level. The Company has not implemented any CSR policy or system, but it conducts daily business activities in accordance with the group's "Corporate Social Responsibilities Policy" and the Company's "Governance Code of Conduct". Some of the initiatives taken by the Company to fulfill corporate social responsibilities include implementing sound corporate governance, complying with laws, providing employees with healthy work environment and reasonable compensation, adopting environmental friendly solutions, and participating in charitable activities.</p> <p>2. The Company organizes at least 3 internal training sessions per year on a wide range of topics including enhancement of professional skills, regulatory compliance, workplace health and safety, employer's and employees' rights, and corporate responsibilities.</p> <p>3. All CSR matters are managed by the Company's Administration Department, from corporate governance, human resources, charity activities, environmental policy, to complying with government regulations.</p> <p>4. The Company's "Work Rules" and "Performance Appraisal Guidelines" have outlined a reasonable compensation scheme, which is communicated to employees via internal meetings and training programs. The Work Rules and Performance Appraisal Guidelines have conformed to the Company's corporate social responsibility policy in terms of employee welfare, performance assessment, reward and discipline, regulatory compliance, work ethics and business integrity.</p> |
| <p>2. Fostering a sustainable environment</p> <p>(1) Is the company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment?</p> <p>(2) Has the company developed an appropriate environmental management system, given its distinctive characteristics?</p> <p>(3) Is the company aware of how climate changes affect its business activities? Are there any actions taken to measure and reduce greenhouse gas emission and energy use?</p> | V | V | <p>1. Guided by the parent company's "Corporate Social Responsibility Principles", the Company has pledged itself to obeying regulations and international standards for the protection of natural environment. It aims to achieve the most efficient use of resources and is committed to using reusable materials for the sustainability of Earth's resources. The Company's environmental protection policies were set out to achieve the following: (1) Reduce use of water, electricity and petrol. (2) Replace use of paper with digital process. (3) Make green procurements and use products with environmental certifications. (4) Recycle or dispose of waste properly.</p> <p>2. As a financial service provider, paper accounts for the majority of resources used by the Company and presents the largest impact on the environment. To reduce the volume of paper consumed, the Company has been adopting new practices from electronic forms, paper-less conferences, to reusing paper. Gas, water, electricity and petrol are the main sources of energy used by the Company, for which a variety of volume controls has been imposed on elevators, corridor lighting, air conditioning and water supply during off-peak hours, while company vehicles are subjected to regular maintenance to minimize the impacts they have on the environment.</p> <p>3. Environmental affairs are managed collectively by the Administration Department and individually at branch level. Each unit is bound to comply strictly with energy policies set forth by their building administrators. In 2016, the Company used 1.40% lesser power and 3.45% lesser fuel.</p> |
| <p>3. Enforcement of public welfare</p> <p>(1) Has the company developed its policies and procedures in accordance with laws and International Bill of Human Rights?</p> <p>(2) Does the company have means through which employees may raise complaints? Are employee complaints being handled properly?</p> <p>(3) Does the company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?</p> | V | V | <p>1. Compliance with labor laws and internationally-recognized workers' rights; the measures and procedures adopted to protect employees' legal rights and to ensure equality in employment; and how these measures are implemented:</p> <p>(1) Reasonable compensation and bonus/remuneration scheme for employees.</p> <p>(2) Employee training programs.</p> <p>(3) Insurance and leave policy.</p> <p>(4) Pension contributions.</p> <p>(5) The Company makes no gender distinctions when hiring staff, and is committed to ensuring equal employment opportunities for both genders. The Company hires disabled persons in compliance with the law and has implemented internal policies to facilitate sexual harassment complaints and investigations.</p> <p>2. The Company's "Bills on Employee Suggestions and Complaints" has outlined the</p> |

| Item | Status | | |
|---|--------|----|--|
| | Yes | No | Summary description |
| (4) Does the company have means to communicate with employees on a regular basis, and inform them of operational changes that may be of significant impact? | V | | appropriate procedures for making complaints; the confidentiality measures are in place to protect employees from retaliation; and the scope and subjects against which complaints or suggestions can be raised. |
| (5) Has the company implemented an effective training program that helps employees develop skills over their career? | V | | 3. The following initiatives have been taken to ensure workplace health and safety: (1) Annual employee health checks. (2) Implementation of “Bills on Prevention of Sexual Harassment” as a complaint channel and a means to maintain order in the workplace. (3) Accidental insurance and health insurance for employees and family members. (4) Implementation of safety protocols and emergency responses, which are rehearsed on a yearly basis and revised in regular meetings. |
| (6) Has the company implemented consumer protection and grievance policies concerning its research, development, procurement, production, operating and service activities? | V | | 4. Presence of a communication channel between the company and its employees, and the means through which employees are notified of material changes in the company’s operations: |
| (7) Has the company complied with laws and international standards with regards to the marketing and labeling of products and services? | V | | (1) The Company communicates regularly with its employees through daily/weekly/monthly meetings and reporting sessions, during which the senior management exchanges opinions with unit managers and staff about where the Company is progressing. Proceedings of these meetings are recorded in the NOTES system to serve as reference for future decisions. |
| (8) Does the company evaluate suppliers’ environmental and social conducts before commencing business relationships? | V | | (2) Any changes of internal policy, employment terms or organization that are material to employees’ interests will be discussed during employer-employee meetings and implemented with consensus from both sides. Details of such meetings are also recorded in the NOTES system. |
| (9) Is the company entitled to terminate supply agreement at any time with a major supplier, if the supplier is found to have violated its corporate social responsibilities and caused significant impacts against the environment or the society? | V | | (3) Furthermore, the Company has established “Bills on Employee Suggestions and Complaints” to introduce broader means of communication. 5. The Company’s “Work Rules” and “Staff Promotion Review Principles” provide detailed job descriptions, skills criteria, education, promotion opportunities and other information relevant to the employees’ career development. 6. Pursuant to FSC Letter No. Jin-Kuan-Fa-Zi-1040054727 dated May 25, 2015, financial institutions are required to develop consumer dispute resolution systems and implement them with the approval of the board of directors. To ensure fair and efficient resolution of customers’ disputes involving financial transactions while at the same time protect financial consumers’ interests, the Company has revised its “Notes on Transaction Disputes and Customer Grievance” based on FSC’s “Financial Consumer Protection Act” and later renamed the policy as “Financial Consumer Dispute Resolution Rules”. The Rules outline the Company’s duty to abide to the contractual terms agreed with customers, as well as standardized procedures for handling consumer disputes. Consumers can hold the Company liable for violation against the rules. An opinion mailbox has been provided on the Company’s website while service hotlines are made available as a means to express grievances. All complaints are handled by the Company’s Administration Department. 7. All marketing, labeling, advertising, solicitation and promotional activities relating to products and services are conducted in accordance with the “Regulations Governing Advertising, Business Solicitation and Promotion” and in conformity with common ethical standards and integrity. 8. The Company requires all renovation works to be carried out using as many environmental friendly materials and construction methods as possible, and all office equipment to be certified by the Environmental Protection Administration. When making future procurement of office equipment and supplies, the Company will take into account suppliers’ commitment to environmental protection, energy conservation, carbon reduction, mitigation of environmental impacts, and fulfillment of corporate social responsibilities. 9. The Company follows the practices of its parent company by demanding all contractors to sign a “Declaration of Corporate Social Responsibility” as a commitment to: (1) Comply with labor regulations and globally recognized workers’ rights, and to protect employees’ rightful interests (including freedom of |

| Item | Status | | |
|---|--------|----|--|
| | Yes | No | Summary description |
| | | | <p>association and collective bargaining) without discrimination in terms of gender, race, age, marital and family status. (2) Implement and strictly enforce workplace health and safety policies. (3) Prohibit use of child labor (under 16 years of age) and forced labor of any kind. (4) Adopt energy-saving solutions while continually improve and innovate to minimize impacts on the environment. (5) Comply with minimum legal requirements on waste disposal, handling of hazardous materials, and discharge of waste. All suppliers are required to issue declarations of commitment to the above. Furthermore, to enforce suppliers' corporate social responsibilities, all procurement contracts are drafted with a clause that reads: "If the supplier is proven to have committed any violation against the terms of the corporate social responsibility policy that results in significant impact against the environment or the community from which the supply is originated, the Company shall be entitled to terminate or cancel the contract at any time".</p> <p>10. Involvements in community development and charitable activities:</p> <p>(1) The Company has collaborated with several universities to offer internships for students.</p> <p>(2) Financially sponsored Mega Charity Foundation.</p> <p>(3) Sponsored charity event: "Loving Financial Institutions – Food (Kind) Bank" by making the 3rd and 4th donations.</p> <p>(4) Sponsored Economic Daily News in hosting "2016 Masters Forum", and invited Angus Deaton, who won the Nobel Memorial Prize in Economic Sciences in 2015, to deliver a speech.</p> <p>(5) Sponsored Mega Holdings and National Tax Bureau of the Central Area in hosting "2016 MOF Run - Changhua" at Lukang Stadium, Changhua County.</p> <p>(6) Made donations to "Taitung County Government Social Aid Account" to assist Taitung County Government in the reconstruction work from the aftermath of Typhoon Nepartak.</p> |
| 4. Enhanced information disclosure Has the company disclosed relevant and reliable CSR information on its website and at the Market Observation Post System? | V | | The Company's social responsibility activities are disclosed in annual reports and on the Company's website. |
| 5. If the company has established code of conducts in accordance with "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM-Listed Companies", please describe its current practices and any deviations from the Best-Practice Principles: None | | | |
| 6. Other information relevant to the understanding of corporate social responsibilities: None | | | |
| 7. Describe the criteria undertaken by any institution to certify the company's CSR report: None | | | |

(VI) Fulfillment of Ethical Corporate Management

| Item | Actual governance | | |
|--|-------------------|----|--|
| | Yes | No | Summary description |
| 1. Formulate integrity policies and solutions (1) Has the company stated in its Articles of Incorporation or external correspondence about the policies and practices it has to maintain business integrity? Are the board of directors and the management committed to fulfilling this commitment? | V | | 1. The Company has based its business philosophy upon "integrity, pragmatism, service, efficiency, innovation and growth". It adopts principles of the parent company's "Integrity Manual" and places integrity ahead of all business strategies. Meanwhile, the Company implements sound corporate governance and risk management practices to create a sustainable business environment. |
| (2) Does the company have any policies against dishonest conducts? Are these policies enforced by proper procedures, behavioral guidelines, disciplinary actions and complaint systems? | V | | 2. According to the Work Rules, employees who are found to have violated laws or committed acts of fraud, embezzlement, etc. will be subject to disciplinary actions such as warning, demotion or involuntary dismissal; misconducts may even be referred to the |

| Item | Actual governance | | |
|---|-------------------|----|--|
| | Yes | No | Summary description |
| (3) Has the company taken steps to prevent occurrences listed in Article 7, Paragraph 2 of “Ethical Corporate Management Best-Practice Principles for TWSE/TPEx-Listed Companies” or business conducts that are prone to integrity risks? | V | | <p>justice system if they involve criminal liabilities. “Bills on Employee Suggestions and Complaints” have clearly outlined the scope and procedures through which employees may raise their complaints.</p> <p>3. According to the Work Rules and parent company’s “Integrity Manual”, directors, managers and employees are prohibited from accepting treatments, gifts, kickbacks or illegal benefits of any kind in relation to their duties and neither are they permitted to exploit their positions for personal gains or gains of others, or to engage in private financial arrangements with customers of the Company.</p> |
| 2. Fulfillment of Ethical Corporate Management | | | |
| (1) Does the company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners? | V | | 1. All daily business activities are carried out in a fair and transparent manner. The Company checks credit records such as returned check history to avoid dealing with less-credible counterparties; furthermore, the Company may terminate agreements at any time if a counterpart is found to have been involved in dishonest behaviors. |
| (2) Does the company have a unit that specializes (or is involved) in business integrity? Does this unit report its progress to the board of directors on a regular basis? | V | | 2. The Company has taken steps to improve corporate governance by developing compliance systems, internal controls, audit practices and risk management measures, and by enhancing board of directors’ functionalities, supervisors’ authorities, information transparency, and dedication to stakeholder interests. |
| (3) Does the company have any policy that prevents conflict of interest, and channels that facilitate the reporting of conflicting interests? | V | | 3. The Company has developed a compliance system based on “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” to institute business integrity. Meanwhile, directors, supervisors, managers and employees are encouraged to raise suggestions regarding conducts of integrity. |
| (4) Has the company implemented effective accounting and internal control systems for maintaining business integrity? Are these systems reviewed by internal or external auditors on a regular basis? | V | | 4. The Company has developed its accounting system based on the authority’s policies, and prepared financial reports in accordance with generally accepted accounting principles and Financial Statement Preparation for Public Listed Bills Finance Companies. No secret accounts are kept outside of those reported in the financial statements. For proper internal controls, the Company has explicitly required cash disbursements and bookkeeping activities to be performed by different persons, whereas trading and settlement responsibilities need to be clearly separated. To reduce chances of dishonest behaviors in high-risk activities, the Company’s “Leave Policy” requires all employees to take a leave of absence for at least three consecutive days in a year, while internal auditors have been assigned to perform regular audits on employees’ compliance with the above requirement. |
| (5) Does the company organize internal or external training on a regular basis to maintain business integrity? | V | | 5. Courses on regulatory compliance, internal controls and business integrity have been included as part of the training program. |
| 3. Reporting malpractice | | | |
| (1) Does the company provide incentives and means for employees to report malpractices? Does the company assign dedicated personnel to investigate the reported malpractices? | V | | 1. The Company’s “Bills on Employee Suggestions and Complaints” has outlined the appropriate procedures for making complaints, the confidentiality measures are in place to protect employees from retaliation and the scope and subjects against which complaints or suggestions can be raised. Employees may raise suggestions and complaints verbally or in writing, telephone, email or other appropriate means to the head of Administration Department or any trusted manager. |
| (2) Has the company implemented any standard procedures or confidentiality measures for handling reported malpractices? | V | | |
| (3) Does the company assure malpractice reporters that they will not be mistreated for making such reports? | V | | 2. Bills on Employee Suggestions and Complaints have clearly outlined the scope of which suggestions and complaints can be made, including but not limited to: business development, lack of management, operational defects, regulatory or policy violations, fraud, corruption, bribery, blackmailing, mistreatment, health and |

| Item | Actual governance | | |
|---|-------------------|----|---|
| | Yes | No | Summary description |
| | | | <p>safety issues, concealment or misstatement of facts, etc. Suggestions and complaints are reported to the President immediately upon knowledge and are handled by specialized personnel. All parties are required to maintain secrecy and ensure timely processing of the complaints they receive.</p> <p>3. Suggestions and complaints are subject to independent investigation and are handled in a fair manner according to laws and the Company's policies. In the event that a complaint leads to the discovery of inappropriate or illegal conducts, the Company will impose disciplinary actions and legal actions, if applicable, against those who are responsible. In the meantime, the identity of the informer will be kept secret.</p> |
| 4. Enhanced information disclosure Has the company disclosed its integrity principles and progress onto its website and MOPS? | V | | The Company's integrity activities are disclosed in annual reports and on the Company's website. |
| 5. If the company has established business integrity policies in accordance with "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX-Listed Companies", please describe its current practices and any deviations from the Best-Practice Principles: None | | | |
| 6. Other information relevant to understanding the company's business integrity (e.g. revision of business integrity principles): None | | | |

(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, 2016 to December 31, 2016 has truly abided by the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries”. The company has established an internal control system, implemented risk management, and undertook inspection by an impartial and independent audit department, periodically reporting to the Board of Directors and supervisors. While conducting bills business, and in accordance with the determinants of effectiveness of internal control systems stipulated in the “Standards for Establishment of Internal Control Systems in Securities and Future Systems”, drafted and decreed by the Securities and Futures Bureau under the Financial Supervisory Commission, determined whether the design and implementation of the internal control system were effective. Careful evaluation has shown that each department’s internal control and legal and regulatory compliance, apart from the items listed in the accompanying chart, can all be accurately and effectively enforced. This Declaration will constitute the main content of the Company’s annual report and prospectus, and will be open to external scrutiny. The illegal inclusion of falsehoods or the illegal concealment of information in the above public data, will incur legal liability in relation to Articles 20, 32, 171 and 174 of the Securities and Exchange Act.

Respectful to

Financial Supervisory Commission, Executive Yuan

Declarers

Chairman of the Board: **Chang-Ruey Shiau**

President and CEO: **Chi-Fu Lin**

General Auditor: **Yi-Sheng Wang**

Legal Compliance Officer,

Head Office: **Cheng-Bi Dai**

Date: January 24, 2017

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

Date: December 31, 2016

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

2. Disclosure of the audit report where a CPA has been entrusted to audit the Company's internal control system: None

(VIII) Penalties imposed against the company in the last 2 years due to violation; describe the weaknesses found, the improvements made, and provide the following disclosures:

1. Prosecution against company representatives or staff for criminal conducts: None.
2. Fines imposed by Financial Supervisory Commission (FSC) for violations: None.
3. Penalties imposed by FSC in accordance with Article 51 of Act Governing Bills Finance Business and Article 61-1 of the Banking Act: None.
4. Disclosure of losses exceeding NT\$50 million incurred during the year, whether in one event or aggregately over several events, as a result of extraordinary non-recurring incidents (such as fraud, theft, embezzlement, fictitious transactions, forgery of documents and securities, kickbacks, natural disasters, external forces, hackers' attacks, theft and leakage of confidential information, disclosure of customers' details or other material occurrences), or accidents arising due to failure on safety measures: None.
5. Other disclosures mandated by FSC: None.

(IX) Significant resolutions made in shareholder meetings and board of directors meetings in the last financial year, up to the publication date of this annual report

1. Resolutions passed on behalf of shareholders during the 16th meeting of the 14th board held on March 22, 2016:
Amendments "Mega Bills Finance Articles of Incorporation".
2. Resolutions passed during the 16th meeting of the 14th board held on March 22, 2016:
 - (1) Passed 2015 year-end accounts and 2015 earnings appropriation, which included dividends totaling NT\$2,077,322,677 (NT\$1.584 per share), to be paid entirely in cash. This resolution was later acknowledged by the board of directors on behalf of shareholders during the 17th meeting of the 14th board held on April 26, 2016; the ex-dividend date was set at May 9, 2016.
 - (2) 2015 employee remuneration totaling NT\$62,175,114, to be paid in cash.
3. Resolutions passed on behalf of shareholders during the 27th meeting of the 14th board held on November 22, 2016:
Amendments to "Mega Bills Finance Derivative Trading Procedures".
4. Resolutions passed on behalf of shareholders during the 28th meeting of the 14th

board held on December 27, 2016:

Amendments to “Mega Bills Finance Asset Acquisition and Disposal Procedures”.

5. Resolutions passed on behalf of shareholders during the 32nd meeting of the 14th board held on March 21, 2017:

Establishment of “Mega Bills Finance Integrity Principles”.

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

- (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:

| Title | Name | Date of Appointment | Date Discharged | Cause of Resignation or Discharge |
|-----------------------|--------------|---------------------|-----------------|-----------------------------------|
| Chairman of the Board | Feng-Chi Ker | 2015.03.02 | 2016.08.31 | Retired |

V. Information about professional fees paid to CPA:

| Name of accounting firm | CPA’s Name | | Audit period | Remarks |
|--|------------|-----------------|---------------------|---------|
| PricewaterhouseCoopers, Certified Public Accountants | Shu-Mei Ji | Chien-Hung Chou | 2016/1/1-2016/12/31 | |

Unit: NT\$ thousands

| Range \ Fee category | | Audit Fees | Non-Audit Fees | Total |
|----------------------|--------------------------------|------------|----------------|-------|
| 1 | Below NT\$ 2,000,000 | 1,336 | 77 | 1,413 |
| 2 | NT\$2,000,000 ~ NT\$4,000,000 | | | |
| 3 | NT\$4,000,000~ NT\$6,000,000 | | | |
| 4 | NT\$6,000,000 ~ NT\$8,000,000 | | | |
| 5 | NT\$8,000,000 ~ NT\$10,000,000 | | | |
| 6 | NT\$10,000,000 and above | | | |

- (I) Non-audit fees to external auditors, accounting firms and related businesses that amount to one-quarter or higher of audit fees: None.
- (II) Any replacement of accounting firm and reduction in audit fees paid compared with the previous year: None.
- (III) Any reduction in audit fees by more than 15% compared with the previous year: None.

VI. Information about change of CPA:

(I) About former CPA:

| | | | |
|---|---|----------------------------|--------------------------------|
| Date of Change | Ratified at Board Meeting on September 22, 2015 | | |
| Cause of Change and Explanation Thereof | Following a reorganization within PriceWaterhouseCoopers Taiwan, the Company’s financial statements have been audited by CPA Chien-Hung Chou and CPA Shu-Mei Ji since 2015 third quarter, instead of CPA Chien-Hung Chou and CPA Po-Ju Kuo. | | |
| Was the termination of audit services initiated by the client or by the auditor | <div>Parties</div> <div>Situation</div> | Auditor | Principal |
| | Service terminated by | Chien-Hung Chou, Po-Ju Kuo | |
| | Service no longer accepted (continued) by | | |
| Reasons for issuing opinions other than unqualified opinions in the recent 2 years | None | | |
| Disagreements with the Company | Yes | | Accounting policy or practice |
| | | | Financial statement disclosure |
| | | | Audit coverage or procedures |
| | | | Others |
| | | | |
| | None | ✓ | |
| Description | | | |
| Other disclosures (Disclosures deemed necessary under Item 1-4, Subparagraph 6, Article 10 of the Guidelines) | None | | |

(II) About new CPA:

| | |
|---|--|
| Firm Name | PricewaterhouseCoopers, Certified Public Accountants |
| CPA's Name | Chien-Hung Chou, Shu-Mei Ji |
| Date of Appointment | Ratified at Board Meeting on September 22, 2015 |
| 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 | None |

| | |
|--|------|
| prior to reappointment | |
| Written disagreements from the succeeding auditor against opinions of the former auditor | None |

(III) Former CPA's response relating to Item 1 and Item 2-3, Subparagraph 6, Article 10 of the Guidelines: Not applicable.

- VII. Any of the company's Chairman, President, or accounting/finance managers employed by the auditing firm or any of its affiliated business in the recent year; disclose their names, job titles, and duration of employment at auditing firm or any of its affiliated company: None.**
- VIII. Transfer or pledge of shares by directors, supervisors or managers in the last year up till the publication date of this annual report that is subject to reporting under Article 10 of Act Governing Bills Finance Business: None.**
- IX. Relationships characterized as spouse or second degree relatives or closer among top-ten shareholders: None.**
- X. Investments jointly held by the company, the company's directors, supervisors, president, vice presidents, assistant vice presidents, department heads, branch managers, and directly/indirectly controlled entities:**

December 31, 2016; unit: shares; %

| 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 | 3.130 | — | — | 60,000,000 | 3.130 |
| Taiwan Financial Asset Services Co., Ltd. | 5,000,000 | 2.941 | — | — | 5,000,000 | 2.941 |
| Taiwan Depository and Clearing Co., Ltd. | 2,213,813 | 0.628 | — | — | 2,213,813 | 0.628 |
| Taiwan Asset Management Co., Ltd. | 7,500,000 | 0.568 | — | — | 7,500,000 | 0.568 |
| Taiwan Futures Exchange Co., Ltd. | 1,568,249 | 0.512 | — | — | 1,568,249 | 0.512 |
| Agora Garden Co., Ltd. | 21,090 | 0.030 | — | — | 21,090 | 0.030 |

Capital Overview

One. Information on share capital and dividends:

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

Unit: NT\$ thousands; shares

| Year/ month | Issue price | Authorized capital | | Paid-in capital | | Remarks | |
|----------------|----------------|--------------------|----------------|-----------------|----------------|----------------------------|--------|
| | | Shares | Amount | Shares | Amount | Source of share capital | Others |
| 2017.3 | 10 | 1,311,441,084 | 13,114,410,840 | 1,311,441,084 | 13,114,410,840 | Public offering | — |

Unit: shares

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

II. Shareholder structure

March 31, 2017

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

III. Diversification of Shareholdings

Face value: NT\$10 per share; as March 31, 2017

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

IV. Major Shareholders

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

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

| Item \ Year | | 2015 | 2016 | Year-to-date March 31, 2017 |
|------------------------|-------------------------------------|----------------------|---------------|-----------------------------|
| Market price per share | Maximum | - | - | - |
| | Minimum | - | - | - |
| | Average | - | - | - |
| Net value per share | Before allocation | 26.27 | 25.76 | 26.63 |
| | After allocation | 24.69 | (Note) | - |
| EPS | Weighted average outstanding shares | 1,311,441,084 | 1,311,441,084 | 1,311,441,084 |
| | EPS | 2.30 | 2.27 | 0.51 |
| Dividends per share | Cash dividends | 1.584 | 1.55 (Note) | - |
| | Stock dividends | From earnings | - | - |
| | | From capital surplus | - | - |
| | Cumulative unpaid dividends | - | - | - |
| Analysis of ROI | P/E ratio | - | - | - |
| | Price to dividends ratio | - | - | - |
| | Cash dividends yield | - | - | - |

Note: As of the publication date of this annual report, the 2016 earnings appropriation plan had been passed by the board of directors and was pending for shareholders' resolution, which the board of directors will exercise decision-making authority on shareholders' behalf.

VI. Dividends policy and implementation

(I) Dividends policies stated in the Company's Articles of Incorporation

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

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

Mega Financial Holding is the sole shareholder of the Company, to which cash dividends totaling NT\$2,032,733,680 or NT\$1.55 per share have been proposed.

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

VIII. Employees'/Directors'/Supervisors' remuneration

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

1. Employees' remuneration

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

offset accumulated losses if any.

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

2. Directors and supervisors' remuneration: None.

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

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

The Company had estimated its 2016 employee remuneration at NT\$86,459,341. This estimate was made based on the amount of current pre-tax profits before employee remuneration, and the percentage stipulated in the Articles of Incorporation. The Company did not recognize directors'/supervisors' remuneration or propose to pay employee remuneration in shares for 2016.

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

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

(III) Remuneration passed by the board of directors

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

Pursuant to the Articles of Incorporation and resolution of the 32nd meeting of the 14th board of directors held on March 21, 2017, the 2016 employee remuneration was determined at NT\$63,706,883, to be distributed in cash. The Company did not propose any share payment for employees'/directors'/supervisors' remuneration. The NT\$63,706,883 cash payment of 2016 employee remuneration resolved by the board of directors was different from the NT\$86,459,341 previously recognized in the 2016 financial statements, by a discrepancy of NT\$22,752,458. This discrepancy was attributable to a change of employee remuneration percentage and has been adjusted into 2017 profit and loss.

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

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

1. Actual payment of employee remuneration

Pursuant to the Articles of Incorporation and resolution of the 16th meeting of the 14th board of directors held on March 22, 2016, the 2015 employee remuneration was determined at NT\$62,175,114, to be distributed in cash. The actual cash payment of 2015 employee remuneration, NT\$62,175,114, was different from the NT\$88,821,591 previously recognized in 2015 financial statements, by a discrepancy of NT\$26,646,477. This discrepancy was attributable to a change of employee remuneration percentage, and has been adjusted into 2016 profit and loss.

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

IX. Buyback of the Company's shares: None.

Two. Corporate Bond, Preferred Stock, Employee Stock Option, Merger and Acquisition or Assignment to Other Financial Institutions: None.

Three. Execution of Funding Utilization Plan: None.

Overview of Business Operation

One. Business Scope

I. Main business

(I) Major business activities by segment

1. Bills Business

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

2. Bonds Business

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

3. Equity investment business

4. Others

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

1. Assets

Unit: NT\$ thousands

| Year Item | 2016 | | 2015 | |
|----------------------------|-------------|-------------------------------------|-------------|-------------------------------------|
| | Amount | As a proportion of total assets (%) | Amount | As a proportion of total assets (%) |
| Bills Business | 120,027,368 | 45.41 | 109,132,348 | 48.92 |
| Bonds Business | 137,576,623 | 52.05 | 107,575,093 | 48.22 |
| Equity investment business | 910,683 | 0.35 | 993,890 | 0.45 |
| Others | 5,787,527 | 2.19 | 5,396,394 | 2.41 |
| Total assets | 264,302,201 | 100.00 | 223,097,725 | 100.00 |

2. Revenues

Unit: NT\$ thousands

| Item \ Year | 2016 | | 2015 | |
|----------------------------|-----------|----------------|-----------|----------------|
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Bills Business | 2,660,680 | 49.97 | 2,676,826 | 51.99 |
| Bonds Business | 2,377,473 | 44.65 | 1,751,888 | 34.03 |
| Equity investment business | 134,026 | 2.52 | 444,193 | 8.63 |
| Others | 152,358 | 2.86 | 275,901 | 5.35 |
| Total Revenue | 5,324,537 | 100.00 | 5,148,808 | 100.00 |

II. Business plan of the year

(I) Bills Business

1. Pay close attention to customers' business/financial performance, industry prospects, and funding capacity for more robust credit decisions.
2. Proactively leap at opportunities to lead-arrange syndicated loans and underwriting of non-guarantee commercial papers; hence stabilize CP sources and increase fee income.
3. Actively explore opportunities in NCD, acquisition of guaranteed or non-guarantee bills underwriting for portfolio growth and higher gains.
4. Monitor the Central Bank's monetary policy and movements of the financial market to enable flexible adjustment of primary and secondary deal rates; manage and expand bills portfolio with increased margin to maintain leading position in the market.

(II) Bonds Business

1. Improve trade performance by executing outright purchases/sells in line with NTD bond maturity.
2. Build position in foreign currency bonds; diversify country risk and increase portfolio weight in foreign currency corporate bonds for higher overall gains and mitigation of U.S. interest rate hike.
3. Engage credit customers in secondary deals of foreign currency bonds; secure source of foreign currency capital from domestic financial institutions by engaging them in interbank funding, currency swaps and repurchase

agreements; reduce cost of capital and increase returns on holding positions without liquidity risks.

4. Long convertible bonds and CBAS issued by companies with good credit ratings, in order to increase profits.
5. Manage duration of NTD and foreign currency bonds for risk avoidance and higher gains.

(III) Equity investment business

1. Aim to profit from equity investments by gaining insight into corporate fundamentals and timing share price movements.
2. Build position in shares with good credit and high dividend yields to replace corporate bonds that offer low returns.

III. Market analysis

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

1. Regions of business operations

Apart from the Taipei head office, the Company has 8 branches nationwide to conduct credit, bills and bond-related services.

2. Future market supply, demand and growth

(1) Market changes

1) Permission for banks to issue AUD-denominated NCDs: On September 20, 2016, the Central Bank amended “Notes on Issuance of Foreign Currency-denominated Negotiable Certificate of Deposit by Banks” and allow banks to issue AUD-denominated NCDs. Enhanced system has gone live since the end of December 2016, thereby enabling the Company to trade NCDs and make DVP settlement over the foreign currency clearing platform.

2) A securities dealer that trades any 5-year and 10-year central government bond announced by the TPEx may not have a cumulative net trading position in that bond exceeding one-third of the total issued amount in the quarterly plan: On November 16, 2015, Taipei Exchange amended its

“Taipei Exchange Rules Governing Securities Trading on the TPEX” to introduce a new rule that, starting from 2016, no single securities dealer may hold more than one-third of any of the 5-year and 10-year central government bonds announced by the TPEX at any time between the period from the date of its when-issued trading to 6 months after the bond issuance or reopening. This restriction will help eliminate monopolistic competition in bonds market and bring trade activities to stimulate market interest rate movements.

- 3) Starting from January 1, 2016, banks are required to maintain the liquidity coverage ratio above 70%, and this minimum requirement will be raised progressively to 100% by January 1, 2019: On December 29, 2014, the Financial Supervisory Commission announced the “Liquidity Coverage Ratio (LCR) Implementation Standards” (referred to as the Implementation Standards below) and implemented from January 1, 2015. From January 1, 2016 onwards, banks are required to maintain LCR above 70%, and the minimum LCR requirement will be raised progressively to 100% by January 1, 2019. Under the Implementation Standards, some large banks will have to adjust asset quality, and bills finance companies may encounter some difficulties with funding.

(2) Market conditions

1) Bills market

Following the recovery of local and global economic activities, the Central Bank had ceased cutting interest rates since the end of September 2016. Later in mid-November, Trump’s victory in the U.S. presidential election gave market investors reasons to expect further rate hikes from the FED, causing a significant rise in U.S. bond yields. The series of events led to a tightening of liquidity in the money market towards the end of 2016, with short-term note interest rate rising significantly higher than the first half year. 364-day NCD and 273-day treasury bills were auctioned on

December 5, 2016 and January 6, 2017, respectively; each average rate of the winning bids were concluded at 0.583% and 0.483%, which were 21.2 b.p. and 18.3 b.p., respectively higher than the previous tender of identical instruments. This shows that the market is eagerly expecting a rise in short-term interest rates. In 2016, the value of CP2 underwritten by all bills finance companies in the primary market amounted to NT\$7,598.3 billion, up NT\$839.9 billion (or 12.43%) from 2015, in which the Company represented a market share of 28.50%. The value of transactions completed by all bills finance companies in the secondary market amounted to NT\$25,282.4 billion in 2016, up NT\$1,827.5 billion (or 7.79%) from 2015, in which the Company represented a market share of 33.33%. The Company has secured its position as the top performer in the bills finance industry. The FED has officially begun a cycle of interest rate hikes, and given the likelihood of the Central Bank to follow the FED's footsteps, short-term bill interest rates are very likely to rise in 2017. However, overall money supply should remain neutral and relatively abundant.

2) Bonds market

Recap of Taiwan's bond market in 2016: Following the negative interest rate policies introduced in Europe and Japan, the postponement of interest rate hike in the U.S., and after seeing export volume decline for the 17th consecutive month, the Central Bank of Taiwan made two interest rate cuts in the first half of 2016, reducing local bond yields to a historical low. However, after Trump's victory in the U.S. presidential election in November, international capital shifted back to the United States with the expectation that Trump may introduce expansionary fiscal policies such as tax cuts and infrastructure spending to create domestic demands. As a result, the USD strengthened, U.S. bond yields rose by more than 100 points, while Taiwan's 5-year and 10-year government bond yields also set a new high for recent year. In 2016, bond transactions by all bills finance companies amounted to NT\$18,486.2 billion; NT\$5,642.1 billion of which was contributed by the Company, representing 30.55% market share that

secured its No. 1 place in the bills finance industry. In forecasts, Fed officials have signaled another small rate increase is coming in 2017, meaning that a rise in NTD and foreign currency short-term interest rate is expected. It is reasonable to predict that the Company's current holding position will incur additional funding costs and significantly reduce the spread on NTD and foreign currency bonds.

3) Equity investment business

Back at the time when Europe, USA and Japan were still maintaining expansionary monetary policies, Taiwan's equity market managed to attract foreign capital with its consistent and high dividend yields since the beginning of 2016. Although the equity market encountered temporary setbacks at the time when UK voted to exit EU and when Trump won the U.S. presidential election, TAIEX managed to overcome investors' doubts for the most part of 2016 and reached as high as 9,430 points. The FED's interest rate hike in the end of 2016 may somewhat disrupt the inflow of foreign capital into Taiwan's equity market, and whether or not TAIEX continues to gain will depend largely on the speed and extent at which capital is redirected into the United States. Also, competition between China and USA, two of the world's largest economies, may give rise to political and economic uncertainties throughout 2017 and high volatility in Taiwan's equity market that may increase trading difficulty.

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

1. Opportunities

- (1) The United States is expected to continue raising interest rates in the next year, which may cause the USD to strengthen and motivate some primary market customers to borrow NTD to repay USD debts, thus increases demand for NTD capital.
- (2) The authority has relaxed restrictions with regards to the range and limit of foreign currency bonds that can be traded by bills finance companies. This development will provide the Company with greater flexibility in building up

and profiting from foreign currency bond positions.

- (3) The authority has permitted general investors to trade NTD-denominated corporate bonds and bank debentures listed on the professional board, and repurchase agreements listed on the foreign board. It provides bills finance companies with broader access to capital, which helps grow bond services.

2. Threats

- (1) The lack of investor confidence and economic momentum in Taiwan combined with the growth of the Chinese supply chain and protectionism in the U.S. have made the business environment all the more difficult. Furthermore, globalization has made credit customers' business performance and financial position more susceptible to market changes, causing an overall reduction in profit margins and increased credit risks.
- (2) Increasing variety of funding channels are being introduced into the financial market, while banks continue to expand the domestic credit portfolio at a low interest rate, particularly when the Chinese market and wealth management segment no longer contributes the level of profitability they are used to, some of which have even attained the bills financing license to underwrite non-guarantee commercial papers in the primary market, which posed direct competition against specialized bills finance companies.
- (3) Due to limitations by capital adequacy and liquidity coverage ratios, the banking system has been conservative about long-term interbank funding and transactions in the secondary market, which affect the market's capital supply and cause higher interest rate volatility in short-term instruments completed at month-end and quarter-end.
- (4) Out of expectations that the Central Bank may follow the Fed in raising the interest, both long-term and short-term market interest rates have already begun to rise, which signify the beginning of a series of interest rate hikes to come. This development has the worst effect on a bills finance company not only because of the tightened money supply, but the increase in RP cost and

interbank funding cost would also erode much of the Company's margins.

3. Responsive strategies

- (1) Monitor credit customers' business/financial performance, industry prospects, and funding capability for more robust credit decisions.
- (2) Adjust credit portfolio and source quality customers without compromising credit risk. Adopt a flexible pricing strategy that increases margin on bills.
- (3) Maintain long-term relationships with financial institutions for more diverse funding sources. Negotiate for lower cost of funding and maintain contact to gain the latest market insights that would enable the Company to react to the changing environment.
- (4) Expand source of capital in the secondary market by exploring customers that are characterized by stability and low funding costs. Reduce the position of bills and bonds held on hand, and thereby reduce funding costs and increase profit margins.
- (5) Pay close attention to equity market movements and actively explore quality CBAS customers. Introduce customers of lower funding cost; increase NTD bond spread through optimized NTD interest rate structure and stable funding source from the secondary market.
- (6) Build position in foreign currency bonds and explore diverse foreign currency funding channels. Enhance foreign currency funding capabilities and spread.
- (7) Invest in companies characterized by prospective industry, growing revenues and profits. Choose sectors that present future potential and observe to determine the right timing of entry.

IV. Financial Product Research and Overview of Business Development

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

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

1. R&D expenses

Unit: NT\$ thousands

| Item | R&D expenses | |
|---|--------------|------|
| | 2016 | 2015 |
| Costs of employee participation in various research and training programs | 602 | 838 |

2. R&D results

(1) 2015

- 1) Completed a paperless conference system and a paperless report management system.
- 2) Studied ways of improving settlement efficiency for foreign currency bond transactions that involve RMB.
- 3) Continued foreign currency NCD services.
- 4) Conducted studies on complying with the Equator Principles.

(2) 2016

- 1) Continue perfecting the Company's paperless conference system and paperless report management system.
- 2) Continue making adjustments to the internal performance evaluation system.
- 3) Study the feasibility of undertaking RP transaction of US dollar bonds with life insurance companies.
- 4) Apply to the competent authority for relaxing derivatives transaction scope of bills finance companies.
- 5) Planned Basel III system framework and introduction practice.
- 6) Continuously enhanced self-assessment system of operational risks and strengthen risk management regarding various business risk categories.
- 7) Enhanced implementation and risk monitoring of AML/CFT.

(3) Future R&D plans

- 1) Seek interpretation from the Ministry of Finance on tax-exempt income

and amortization of costs, expenses, losses and interest outlays.

- 2) Seek the authority's approval for engaging life insurance companies in USD RP deals.
- 3) Seek the authority's approval to relax currency risk limits of bills finance companies when transacting foreign currency bonds. This can be achieved by excluding valuation gains and interests accrued on zero coupon bonds from limit calculation, or by increasing overall limit.
- 4) Continuously request for the authority's permission to issue CP2 up to 3 years in tenor (up to today, CP2 could only be issued up to 1 year).
- 5) Apply to the competent authority for relaxing derivatives transaction scope of bills finance companies.
- 6) Explore applications of big data technology.

V. Long-term and short-term business plans

(I) Short-term

1. Pay close attention to customers' business/financial performance, industry prospects, and funding capacity for more robust credit decisions.
2. Proactively leap at opportunities to lead-arrange syndicated loans and underwriting of non-guarantee commercial papers; hence stabilize CP sources and increase fee income.
3. Actively explore opportunities in NCD, acquisition of guaranteed or non-guarantee bills underwriting to achieve portfolio growth and higher gains.
4. Monitor the Central Bank's monetary policy and movements of the financial market to enable flexible adjustment of primary and secondary deal rates; manage and expand bills portfolio at increased margin to secure a leading position in the market.
5. Improve trade performance by executing outright purchases/sells in line with NTD bond maturity.
6. Build position in foreign currency bonds; diversify country risk and increase portfolio weight in foreign currency corporate bonds for higher overall gains and mitigation of U.S. interest rate hike.
7. Engage credit customers in secondary deals of foreign currency bonds; secure source of foreign currency capital from domestic financial institutions by

engaging them in interbank funding, currency swaps and repurchase agreements; reduce cost of capital and increase returns on holding positions without liquidity risks.

8. Aim to profit from equity investments by gaining insight into corporate fundamentals and timing share price movements.
9. Long convertible bonds and CBAS issued by companies with good credit ratings, in order to increase profits.
10. Build position in shares with good credit and high dividend yields to replace corporate bonds that offer low returns.
11. Manage duration of NTD and foreign currency bonds for risk avoidance and higher gains.
12. Enhance anti-money laundering (AML) and counter financing terrorism (CFT) measures; improve the professional capacity of AML personnel and develop a continually effective AML/CFT monitoring system.
13. Assist business units in exploring new customers and potential business opportunities by adopting new database analysis technologies and integrating external data sources.
14. Continuously strengthen the Company's information systems and operating efficiency. Develop automated reporting and standardized accounting platforms that improve efficiency of credit investigation, credit extension, and credit review and back-end operations.
15. Promote the use of paperless conference system and paperless report management system as a means to cut back resource usage and fulfill corporate social responsibilities.

(II) Long-term

1. Strengthen the position as market leader of the bills and bonds business.
2. Build a profitable bonds portfolio. Expand trading of repurchase agreements and secure profitability with the use of derivatives.
3. Enhance operation efficiency by reducing cost of funding and expanding interest spread.
4. Ensure regulatory compliance through enhanced internal controls and internal audit systems.

5. Make efficient allocation of capital; strengthen existing risk management and systems.
6. Continue efforts in talent development and nurturing.
7. Introduce new services and expand service reach.
8. Work with Mega Financial Holding Company to integrate the information system and share information services.
9. To integrate the group resources and explore the synergy of cross-selling.

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

| Year | | 2015 | 2016 | Up till March 31, 2017 |
|---|---|-------|-------|------------------------|
| Number of employees | Staff | 187 | 189 | 186 |
| | Total | 187 | 189 | 186 |
| Average age | | 47.39 | 47.82 | 47.83 |
| Average length of service | | 18.07 | 18.53 | 18.62 |
| Distribution of academic background | PhD | 2 | 2 | 2 |
| | Master | 82 | 86 | 84 |
| | Bachelor | 97 | 96 | 95 |
| | Senior high school | 6 | 5 | 5 |
| | Below senior high school | 0 | 0 | 0 |
| Professional certificates held by employees | Bills Finance Specialist | 179 | 184 | 182 |
| | Securities Investment Analyst | 7 | 8 | 8 |
| | Senior Securities Specialist | 140 | 144 | 142 |
| | Securities Specialist | 72 | 71 | 70 |
| | Securities Investment Trust and Consulting Professional | 88 | 86 | 84 |
| | Trust Operations Personnel | 114 | 113 | 109 |
| | Futures Specialist | 78 | 76 | 75 |
| | Life Insurance Specialist | 128 | 126 | 123 |
| | Property Insurance Specialist | 122 | 121 | 118 |
| | Bank Internal Control Specialist | 102 | 100 | 98 |
| | Financial Planning Personnel | 72 | 71 | 69 |

| | | | | |
|--|----------------------------------|----|----|----|
| | Basic Foreign Exchange Personnel | 9 | 10 | 10 |
| | Basic Bank Lending Personnel | 38 | 38 | 38 |
| | Advanced Bank Lending Personnel | 6 | 6 | 6 |

Three. Corporate Responsibility and Ethical Conduct

Please refer to pages 22 and 23 of the Corporate Governance Report, titled "Fulfillment of Social Responsibilities" and "Fulfillment of Ethical Corporate Management".

Four. Number of non-managerial staff, amount of average employee welfare expenses, and differences from the previous year

Unit: NT\$ thousands

| Year | Number of non-managerial staff | Welfare expense (average) |
|------|--------------------------------|---------------------------|
| 2015 | 129 | 2,159 |
| 2016 | 130 | 2,160 |

Five. 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 | Self-developed | Self-maintained |
| Correspondents | Inter-bank payments | IBM | Outsourced | Self-maintained |
| Notes | Email, bulletin boards, e-Form | Notes/WINDOWS | Self-developed | Self-maintained |

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 IBM RS/6000 update program at the same time to update the computer equipment of the recovery center at different location in 2014. 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) Develop EAS credit investigation system.
- (II) Develop IFRS 9 valuation system.
- (III) Replace redundant PCs.
- (IV) Enhanced information security management system.
- (V) Replace the Company's correspondent banking server and scrambling equipment.
- (VI) Replace the Company's mobile equipment (iPad).
- (VII) Explore applications of big data technology.

Six. Labor Relations

I. Employee welfare measures:

Welfare committee, employee remuneration, health examinations, employees' tour reimbursement, and so on.

II. Retirement system and its implementation:

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 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: None.

Seven. Major contracts: None.

Financial Information

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

I. Condensed balance sheets and income statements

Condensed Balance Sheet

Unit: NT\$ thousands

| Item \ Year | Financial information for the last 4 years | | | |
|---|--|-------------|-------------|-------------|
| | 2016 | 2015 | 2014 | 2013 |
| Cash, cash equivalents, central bank deposits, interbank call loans | 346,391 | 321,356 | 444,266 | 544,617 |
| Financial assets at fair value through profit and loss | 125,297,488 | 115,285,106 | 117,026,616 | 133,085,711 |
| Available-for-sale financial assets | 132,867,186 | 100,816,225 | 83,333,880 | 80,127,802 |
| Bills and bonds purchased under resale agreements | - | 1,000,000 | 9,805,054 | 1,966,157 |
| Receivables - net | 1,531,891 | 1,185,047 | 1,004,365 | 1,072,383 |
| Held-to-maturity financial assets | 350,000 | 600,000 | 850,000 | 500,000 |
| Other financial assets - net | 820,362 | 818,540 | 802,252 | 1,303,700 |
| Property, plant and equipment - net | 370,177 | 375,457 | 370,378 | 362,205 |
| Investment properties - net | 2,528,424 | 2,539,088 | 2,549,752 | 2,560,415 |
| Intangible assets - net | 3,310 | 2,427 | 2,886 | 3,303 |
| Deferred income tax assets - net | 152,104 | 106,254 | 95,088 | 89,030 |
| Other assets | 34,868 | 48,225 | 25,511 | 27,647 |
| Total assets | 264,302,201 | 223,097,725 | 216,310,048 | 221,642,970 |
| Interbank overdraft and call loans | 15,714,592 | 11,294,776 | 15,926,613 | 21,259,000 |
| Financial liabilities at fair value through profit and loss | 22,543 | 6,149 | 411 | 1,352 |
| Bills and bonds payable under repurchase agreements | 210,809,807 | 173,109,248 | 163,777,891 | 163,869,633 |
| Payables | 602,808 | 504,042 | 502,801 | 809,067 |
| Current income tax liabilities | 191,490 | 131,256 | 74,713 | 124,310 |
| Liabilities reserve | 2,728,105 | 2,757,420 | 2,774,969 | 3,282,308 |
| Deferred income tax liabilities | 22,700 | 12,647 | 790 | 62 |
| Other liabilities | 431,098 | 828,935 | 116,541 | 179,726 |

| | | | | | |
|-------------------|-------------------|-------------|-------------|-------------|-------------|
| Total liabilities | Before allocation | 230,523,143 | 188,644,473 | 183,174,729 | 189,525,458 |
| | After allocation | Note | 190,721,796 | 185,248,117 | 191,277,543 |
| Capital stock | Before allocation | 13,114,411 | 13,114,411 | 13,114,411 | 13,114,411 |
| | After allocation | Note | 13,114,411 | 13,114,411 | 13,114,411 |
| Capital surplus | | 320,929 | 320,929 | 320,929 | 320,929 |
| Retained earnings | Before allocation | 20,375,867 | 19,490,920 | 18,597,142 | 17,386,645 |
| | After allocation | Note | 17,413,597 | 16,523,754 | 15,634,560 |
| Other equity | | (32,149) | 1,526,992 | 1,102,837 | 1,295,527 |
| Total equity | Before allocation | 33,779,058 | 34,453,252 | 33,135,319 | 32,117,512 |
| | After allocation | Note | 32,375,929 | 31,061,931 | 30,365,427 |

Note: As of the publication date of this annual report, the 2016 earnings appropriation plan had been passed by the board of directors and was pending for shareholders' resolution, which the board of directors will exercise decision-making authority on shareholders' behalf.

Condensed income statements

Unit: NT\$ thousands

| <div style="text-align: center;">Year</div> <div style="text-align: center;">Item</div> | Financial information for the last 4 years | | | |
|---|--|-----------|-----------|-------------|
| | 2016 | 2015 | 2014 | 2013 |
| Interest Income | 3,322,888 | 2,930,965 | 2,791,448 | 2,837,819 |
| Less: Interest Expense | (899,280) | (901,456) | (980,992) | (1,058,294) |
| Interest income, net | 2,423,608 | 2,029,509 | 1,810,456 | 1,779,525 |
| Revenues other than interest income, net | 1,898,101 | 2,134,405 | 1,736,249 | 1,872,669 |
| Net revenue | 4,321,709 | 4,163,914 | 3,546,705 | 3,652,194 |
| Provisions | 45,896 | 134,508 | 660,965 | 177,739 |
| Operating expenses | (796,560) | (792,612) | (780,358) | (775,732) |
| Income before Tax from Operating Unit | 3,571,045 | 3,505,810 | 3,427,312 | 3,054,201 |
| Income tax (expense) gain | (590,919) | (495,374) | (426,465) | (423,718) |
| Net Income from Operating Unit | 2,980,126 | 3,010,436 | 3,000,847 | 2,630,483 |
| Income (loss) from discontinued operations | - | - | - | - |

| | | | | |
|--|-------------|-----------|-----------|-------------|
| Net Income (loss) | 2,980,126 | 3,010,436 | 3,000,847 | 2,630,483 |
| Other comprehensive income for the current period (net of tax expense) | (1,576,997) | 385,439 | (230,955) | (1,220,140) |
| Comprehensive Income for the current period | 1,403,129 | 3,395,875 | 2,769,892 | 1,410,343 |
| EPS | 2.27 | 2.30 | 2.29 | 2.01 |

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

Condensed balance sheets

Unit: NT\$ thousands

| Item \ Year | | Financial information - 2012 |
|---|-------------------|------------------------------|
| Cash, cash equivalents, central bank deposits, interbank call loans | | 367,174 |
| Financial assets at fair value through profit or loss | | 129,072,587 |
| Available-for-sale financial assets | | 81,883,882 |
| Receivables | | 1,261,152 |
| Held-to-maturity financial assets | | 500,000 |
| Fixed assets | | 2,918,234 |
| Intangible assets | | 4,750 |
| Other financial assets | | 1,299,398 |
| Other assets | | 110,397 |
| Total assets | | 217,417,574 |
| Interbank overdraft and call loans | | 20,861,000 |
| Financial liabilities at fair value through profit or loss | | 3,154 |
| Bills and bonds payable under repurchase agreements | | 159,376,775 |
| Payables | | 1,000,645 |
| Other liabilities | | 3,356,926 |
| Total liabilities | Before allocation | 184,598,500 |
| | After allocation | 186,615,496 |
| Capital stock | Before allocation | 13,114,411 |
| | After allocation | 13,114,411 |
| Capital surplus | | 312,823 |
| Retained earnings | Before allocation | 16,900,777 |
| | After allocation | 14,883,781 |
| Unrealized gain or loss on financial products | | 2,567,813 |
| Other equities | | (76,750) |
| Total stockholders' equity | Before allocation | 32,819,074 |
| | After allocation | 30,802,078 |

Condensed income statements

Unit: NT\$ thousands

| Item | Year | Financial information - 2012 |
|--|------|------------------------------|
| Interest income, net | | 1,989,274 |
| Revenues other than interest income, net | | 2,282,614 |
| Provisions | | (126,379) |
| Operating expenses | | (796,950) |
| Income before tax from continuing operations | | 3,348,559 |
| Income after tax from continuing operations | | 2,880,966 |
| 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 |
| EPS | | 2.20 |

III. Independent Auditor's Names and Opinion

| Year | CPA Firm | CPA's Name | Auditing Opinion |
|------|-----------------------------------|----------------------------------|---------------------|
| 2016 | PricewaterhouseCoopers, Taiwan | Chien-Hung Chou, Shu-Mei Ji | Unqualified opinion |
| 2015 | PricewaterhouseCoopers, Taiwan | Chien-Hung Chou, Shu-Mei Ji | Unqualified opinion |
| 2014 | PricewaterhouseCoopers, Taiwan | Chien-Hung Chou, Po-Ju Kuo | Unqualified opinion |
| 2013 | PricewaterhouseCoopers, Taiwan | Chien-Hung Chou, Po-Ju Kuo | Unqualified opinion |
| 2012 | PricewaterhouseCoopers, Taiwan | Chien-Hung Chou, Hsiu-Ling Li | Unqualified opinion |

Two. Financial analysis for the last five years

I. Financial Analysis - International Financial Reporting Standards

Unit: NT\$ thousands; %

| Item \ Year | | Financial analysis for the last four years | | | |
|--|---|--|--------|---------|--------|
| | | 2016 | 2015 | 2014 | 2013 |
| Managerial ability | Average number of days of bill and bond holding | 6.12 | 5.12 | 4.92 | 5.54 |
| | NPL ratio | 0 | 0 | 0 | 0 |
| | Total assets turnover rate | 0.02 | 0.02 | 0.02 | 0.02 |
| | Average yield per employee | 18,709 | 18,183 | 15,905 | 16,304 |
| | Average profit per employee | 12,901 | 13,146 | 13,457 | 11,743 |
| Profitability | ROA (%) | 1.22 | 1.37 | 1.37 | 1.20 |
| | ROE (%) | 8.74 | 8.91 | 9.20 | 8.11 |
| | Net profit margin (%) | 68.96 | 72.30 | 84.61 | 72.02 |
| | EPS (NT\$) | 2.27 | 2.30 | 2.29 | 2.01 |
| Financial structure | Liability to total assets ratio (%) | 86.37 | 83.52 | 83.57 | 84.17 |
| | Property and equipment to stockholder equity ratio (%) | 1.10 | 1.09 | 1.12 | 1.13 |
| Growth rate | Asset growth rate (%) | 18.47 | 3.14 | -2.41 | 1.89 |
| | Profit growth rate (%) | 1.86 | 2.21 | 12.22 | -9.02 |
| Cash flow | Cash flow ratio (%) | N/A | 3.57 | 3.89 | 0.96 |
| | Cash flow adequacy ratio (%) | 156.13 | 182.30 | 154.37 | 156.92 |
| Credit extended to stakeholders with collateral | | 97,000 | 97,000 | 520,000 | 0 |
| Percentage of credits extended to stakeholders with collateral (%) | | 0.07 | 0.06 | 0.36 | 0 |
| Scale of operations | Asset market share (%) | 26.83 | 23.83 | 26.48 | 26.77 |
| | Net value market share (%) | 28.83 | 29.44 | 29.60 | 29.58 |
| | Market share for guaranteed CP2(%) | 29.23 | 31.54 | 31.42 | 32.91 |
| | Market share for each type of bill and bond issue and first time purchase (%) | 27.46 | 29.65 | 29.05 | 30.38 |

| | | | | | |
|--|---|-------------|-------------|-------------|-------------|
| | Market share for each type of bill and bond transaction (%) | 31.85 | 33.18 | 35.07 | 33.57 |
| Capital adequacy ratio | Capital adequacy ratio (%) | 13.53 | 13.88 | 13.84 | 13.57 |
| | Eligible capital | 33,248,864 | 31,288,743 | 28,548,890 | 28,705,412 |
| | Total value of risk assets | 245,674,749 | 225,367,830 | 206,332,882 | 211,584,531 |
| | Tier I capital as a % of total risk-weighted assets | 13.53 | 13.55 | 13.59 | 13.29 |
| Significant variations in the last 2 years: (for variations above 20%) | | | | | |
| 1. The increase in asset growth rate was mainly due to an increase in bills and bonds held on hand. | | | | | |
| 2. Cash flow from operating activities resulted in a net outflow for the year, hence the cash flow ratio was not calculated. | | | | | |

Note: Equations for analysis items:

1. Managerial ability

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

2. Profitability

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

3. Financial structure

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

4. Growth rate

- (1) Asset growth rate = (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/(interbank overdraft and call loans +commercial promissory note payable + financial liabilities at fair value through profit and loss + bills and bonds payable under repurchase agreements + payables with maturity within one year).
- (2) Net cash flows adequacy ratio = Net cash flow from operating activities for the most recent five years/(capital expenditure + cash dividends) for the most recent five years.

6. Scale of operations

- (1) Asset market share = Total assets/total assets of all bills finance companies.
- (2) Net value market share = Net value/total net value of all bills finance companies.
- (3) Market share for guaranteed CP2 = Balance of guaranteed CP2/total balance of CP2 guaranteed and endorsed by all bills finance 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 finance 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 finance 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 - based on R.O.C. GAAP

Unit: NT\$ thousands; %

| Item | | Year | Financial analysis - 2012 |
|--|---|------|---------------------------|
| Managerial ability | Average number of days of bills and bonds holding | | 5.26 |
| | NPL ratio | | 0 |
| | Total assets turnover rate | | 0.02 |
| | Average yield per employee | | 19,071 |
| | Average profit per employee | | 12,861 |
| Profitability | ROA (%) | | 1.30 |
| | ROE (%) | | 8.81 |
| | Net profit margin (%) | | 67.44 |
| | EPS (NT\$) | | 2.20 |
| Financial structure | Liability to total assets ratio (%) | | 83.53 |
| | Fixed assets to stockholders' equity ratio (%) | | 8.89 |
| Growth rate | Asset growth rate (%) | | -3.58 |
| | Profit growth rate (%) | | 6.71 |
| Cash flow | Cash flow ratio (%) | | N/A |
| | Cash flow adequacy ratio (%) | | 189.27 |
| Credit extended to stakeholders with collateral | | | 545,000 |
| Percentage of credits extended to stakeholders with collateral (%) | | | 0.38 |
| Scale of operations | Asset market share (%) | | 28.36 |
| | Net value market share (%) | | 30.39 |
| | Market share for guaranteed CP2 (%) | | 35.79 |
| | Market share for each type of bill and bond issue and first time purchase (%) | | 31.40 |
| | Market share for each type of bill and bond transaction (%) | | 33.65 |
| Capital adequacy ratio | Capital adequacy ratio (%) | | 13.49 |
| | Eligible capital | | 28,584,534 |

| | | |
|--|---|-------------|
| | Total value of risk assets | 211,953,033 |
| | Tier I capital as a % of total risk-weighted assets | 12.94 |

Note: Equations for analysis items:

1. Managerial ability

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

2. Profitability

- (1) ROA = $\text{Net Income} / \text{average total assets}$.
- (2) ROE = $\text{Net Income} / \text{average stakeholders' equity, net}$.
- (3) Net profit margin = $\text{Net Income} / \text{income}$. (Income = interest income + revenues other than interest income).
- (4) EPS = $(\text{Net profit after tax-preferred stock dividend}) / \text{quantity of issued shares under weighted average method}$.

3. Financial structure

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

4. Growth rate

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

5. Cash flow

- (1) Cash flow ratio = $\text{Net cash flow from operating activities} / (\text{interbank overdraft and call loans})$

+commercial promissory note payable + financial liabilities at fair value through profit or loss + bills and bonds payable under repurchase agreements + payables with maturity within one year).

2) Net cash flows adequacy ratio = Net cash flow from operating activities for the most recent five years/(capital expenditure + cash dividends) for the most recent five years.

(3) Net cash flow was negative in 2012, hence not applicable.

6. Scale of operations

(1) Asset market share = Total assets/total assets of all bills finance companies.

(2) Net value market share = Net value/total net value of all bills finance companies.

(3) Market share for guaranteed CP2 = Balance of guaranteed CP2/total balance of CP2 guaranteed and endorsed by all bills finance 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 finance 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 finance 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

We have reviewed the Company's 2016 business reports, financial statements, property registries, and earnings distribution proposal prepared by the board of directors. The abovementioned financial statements were audited and certified by CPA Shu-Mei Ji and CPA Chien-Hung Chou of PriceWaterhouseCoopers Taiwan. The supervisors found no misstatements in the business reports, financial statements, property registries or earnings distribution proposals above, and have issued this review report in accordance with Article 219 of the Company Act and Article 36 of the Securities and Exchange Act.

To
General Shareholders' Meeting 2017 of Mega Bills Finance Corporation

Supervisor: **Jin-Cun Chen**

Supervisor: **Fu-Jung Chen**

Supervisor: **Chun-Ke Su**

March 21, 2017

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

PWCR16000318

Report of Independent Accountants

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

Opinion

We have audited the accompanying balance sheets of Mega Bills Finance Co., Ltd. as at December 31, 2016 and 2015, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mega Bills Finance Co., Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Mega Bills Finance Co., Ltd. in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Reserve for guarantee liabilities of financial guarantee contracts

Description

For the accounting policy for reserve for guarantee liabilities of financial guarantee contracts, please refer to Note 4(19) of the financial statements; for critical accounting judgments, estimates, and key sources of assumption uncertainty of reserve for guarantee liabilities, please refer to Note 5(2) of the financial statements; for explanations on reserve for guarantee liabilities, please refer to Note 6(16) provisions for liabilities of the financial statements.

As of December 31, 2016, Mega Bills Finance Co., Ltd's estimated reserve for guarantee liabilities for the financial guarantee contracts entered with debtors was NT\$2,255,703 thousand. For reserve for guarantee liabilities, in accordance with the requirements of IAS 37, 'Provisions, contingent liabilities and contingent assets', Mega Bills Finance Co., Ltd assesses the possibility of guarantee obligation occurrences and assesses the amount of possible losses for those occurrences that are probable. In addition, in accordance with "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt" and related regulations, after on and off balance sheet credit assets are classified according to the status of their loan collaterals and length of time in arrears, reserves for guarantee liabilities are calculated, based on classification amounts and respective fixed rates, to determine the appropriate amount of provisions, therein allowing reserve for guarantee liabilities to be adequately provisioned. For the above-mentioned assessment of the possibility of guarantee obligation occurrences, evidence used in Mega Bills Finance Co., Ltd's judgment include observable data that indicate adverse changes in the debtor's payment status or market insights regarding debts overdue. The amount of possible losses is determined by evaluating the difference between the expected recoverable amount and the net expected guarantee obligation amount, based on experience in similar transactions, historical loss data, and collateral value. Mega Bills Finance Co., Ltd periodically reviews the assumptions of the above-mentioned judgment factors in order to mitigate the difference between expected and actual amounts.

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

How our audit addressed the matter

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

1. Understood and assessed the reasonableness of Mega Bills Finance Co., Ltd's policies, internal control, and assessment and processing procedures related to the provisioning of reserve for guarantee liabilities.
2. Sampled and tested information on the debtor's time in arrears and status of loan collaterals for financial guarantee contracts, confirming the completeness of the financial statements and

the appropriateness of the logic for classifications; sampled and tested the appropriateness of provisions that were calculated according to classifications and respective fixed rates as stipulated under “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”.

3. Sampled, tested, and matched related evidence that supported the occurrence of guarantee obligations. For example, information related to the financial and business status of debtors, time in arrears, status of credit ratings, and credit anomalies etc.
4. Assessed Mega Bills Finance Co., Ltd.’s various assumption parameters used in assessing reserve for guarantee liabilities. For example, the appropriateness of experience in similar transaction and historical loss data, and periodic updates.
5. Sampled and tested the appraisal reports for the debtor’s collateral, assessed the reasonableness of the timing and assumptions of future cash flows, and assessed the accuracy of calculations.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”, “Regulations Governing the Preparation of Financial Reports by Securities Firms” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Mega Bills Finance Co., Ltd.’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Mega Bills Finance Co., Ltd. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Mega Bills Finance Co., Ltd.’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain

audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of liquidate Mega Bills Finance Co., Ltd's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on liquidate Mega Bills Finance Co., Ltd's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause liquidate Mega Bills Finance Co., Ltd to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers, Taiwan
March 21, 2017

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

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

MEGA BILLS FINANCE CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Assets | Notes | December 31, 2016 | December 31, 2015 |
|---|------------------|-----------------------|-----------------------|
| Cash and cash equivalents | 6(1) and 7 | \$ 346,391 | \$ 321,356 |
| Financial assets at fair value through profit or loss | 6(2)(6), 7 and 8 | 125,297,488 | 115,285,106 |
| Available-for-sale financial assets | 6(3)(6), 7 and 8 | 132,867,186 | 100,816,225 |
| Bills and bonds investment with resale agreements | 6(4) | - | 1,000,000 |
| Receivables – net | 6(5) | 1,531,891 | 1,185,047 |
| Held-to-maturity financial assets | 6(8) | 350,000 | 600,000 |
| Other financial assets – net | 6(9) and 8 | 820,362 | 818,540 |
| Property and equipment - net | 6(10) | 370,177 | 375,457 |
| Investment property - net | 6(11) | 2,528,424 | 2,539,088 |
| Intangible assets - net | | 3,310 | 2,427 |
| Deferred income tax assets - net | 6(29) | 152,104 | 106,254 |
| Other assets – net | 6(12) and 7 | 34,868 | 48,225 |
| TOTAL ASSETS | | \$ 264,302,201 | \$ 223,097,725 |
| Liabilities and equity | | | |
| Interbank overdraft and call loans | 6(13), 7 and 8 | \$ 15,714,592 | \$ 11,294,776 |
| Financial liabilities at fair value through profit or loss | 6(7)(14) | 22,543 | 6,149 |
| Bills and bonds payable under repurchase agreements | 6(2)(3)(4) and 7 | 210,809,807 | 173,109,248 |
| Payables | 6(15) | 602,808 | 504,042 |
| Current income tax liabilities | 6(29) | 191,490 | 131,256 |
| Provisions for liabilities | 6(16)(17) and 7 | 2,728,105 | 2,757,420 |
| Deferred income tax liabilities | 6(29) | 22,700 | 12,647 |
| Other liabilities | 7 | 431,098 | 828,935 |
| TOTAL LIABILITIES | | 230,523,143 | 188,644,473 |
| Capital stock | | | |
| Common stocks | 6(18) | 13,114,411 | 13,114,411 |
| Capital surplus | 6(19) | 320,929 | 320,929 |
| Retained earnings | 6(20) | | |
| Legal reserve | | 17,209,762 | 16,319,161 |
| Special reserve | | 203,090 | 203,090 |
| Unappropriated retained earnings | | 2,963,015 | 2,968,669 |
| Other equity interest | | | |
| Unrealized valuation gain or loss of available-for-sale financial assets | | (32,149) | 1,526,992 |
| TOTAL EQUITY | | 33,779,058 | 34,453,252 |
| Significant contingent liabilities and unrecognized 9 contract commitments | | | |
| TOTAL LIABILITIES AND EQUITY | | \$ 264,302,201 | \$ 223,097,725 |

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

MEGA BILLS FINANCE CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

| Items | Notes | For the years ended December 31, | |
|---|--------------------|----------------------------------|---------------------|
| | | 2016 | 2015 |
| Interest income | 6(21) | \$ 3,322,888 | \$ 2,930,965 |
| Less : interest expense | 6(21) and 7 | (899,280) | (901,456) |
| Interest income, net | | 2,423,608 | 2,029,509 |
| Non-interest income, net | | | |
| Service fee and commission income, net | 6(22) and 7 | 1,021,838 | 967,377 |
| Gain or loss from financial assets and liabilities at fair value through profit or loss | 6(2)(14)(23) and 7 | 508,425 | 598,034 |
| Realized gain or loss on available-for-sale financial assets | 6(24) | 225,269 | 432,215 |
| Foreign exchange gain or loss, net | | 2,544 | 3,203 |
| Other non-interest income or loss, net | | | |
| Leasehold income | 7 | 106,167 | 112,699 |
| Others | | 33,858 | 20,877 |
| Net revenues | | 4,321,709 | 4,163,914 |
| Reversals (provisions) | 6(25) | 45,896 | 134,508 |
| Operating expenses | | | |
| Employee benefit expense | 6(17)(26) | (565,372) | (562,029) |
| Depreciation and amortization | 6(27) | (24,660) | (23,592) |
| Other business and administrative expenses | 6(28) and 7 | (206,528) | (206,991) |
| Total operating expenses | | (796,560) | (792,612) |
| Income before income tax from operating unit | | 3,571,045 | 3,505,810 |
| Income tax expense | 6(29) | (590,919) | (495,374) |
| Net income | | 2,980,126 | 3,010,436 |
| Other comprehensive income | | | |
| Not reclassifiable to profit or loss: | | | |
| Remeasurement of defined benefit plans | 6(17) | (21,513) | (46,645) |
| Income tax relating to items that are not reclassifiable to profit or loss | 6(29) | 3,657 | 7,929 |
| Potentially reclassifiable to profit or loss subsequently: | | | |
| Unrealized profit or loss on valuation of available-for-sale financials assets | | (1,559,141) | 424,155 |
| Total other comprehensive (loss) income (after income tax) | | (1,576,997) | 385,439 |
| Total comprehensive income | | \$ 1,403,129 | \$ 3,395,875 |
| Earnings per share | | | |
| Basic and diluted earnings per share | 6(30) | \$ 2.27 | \$ 2.30 |

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

MEGA BILLS FINANCE CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Capital Stocks | Capital Surplus | Retained Earnings | | Unappropriated Retained Earnings | Other equity interest Unrealized gain or loss on available-for-sale financial assets | Total equity |
|--|----------------------|--------------------|----------------------|--------------------|--|---|----------------------|
| | | | Legal Reserve | Special Reserve | | | |
| <u>For the year ended December 31, 2015</u> | | | | | | | |
| Balance as of January 1, 2015 | \$ 13,114,411 | \$ 320,929 | \$ 15,429,923 | \$ 203,090 | \$ 2,959,575 | \$ 1,102,837 | \$ 33,130,765 |
| Appropriation of 2014 earnings (Note) | | | | | | | |
| Legal reserve | - | - | 889,238 | - | (889,238) | - | - |
| Cash dividends | - | - | - | - | (2,073,388) | - | (2,073,388) |
| Total comprehensive income | | | | | | | |
| Net income for 2015 | - | - | - | - | 3,010,436 | - | 3,010,436 |
| Total other comprehensive (loss) income for 2015 | - | - | - | - | (38,716) | 424,155 | 385,439 |
| Total comprehensive income for 2015 | - | - | - | - | 2,971,720 | 424,155 | 3,395,875 |
| Balance as of December 31, 2015 | <u>\$ 13,114,411</u> | <u>\$ 320,929</u> | <u>\$ 16,319,161</u> | <u>\$ 203,090</u> | <u>\$ 2,968,669</u> | <u>\$ 1,526,992</u> | <u>\$ 34,453,252</u> |
| <u>For the year ended December 31, 2016</u> | | | | | | | |
| Balance as of January 1, 2016 | \$ 13,114,411 | \$ 320,929 | \$ 16,319,161 | \$ 203,090 | \$ 2,968,669 | \$ 1,526,992 | \$ 34,453,252 |
| Appropriation of 2015 earnings (Note) | | | | | | | |
| Legal reserve | - | - | 890,601 | - | (890,601) | - | - |
| Cash dividends | - | - | - | - | (2,077,323) | - | (2,077,323) |
| Total comprehensive income | | | | | | | |
| Net income for 2016 | - | - | - | - | 2,980,126 | - | 2,980,126 |
| Total other comprehensive loss for 2016 | - | - | - | - | (17,856) | (1,559,141) | (1,576,997) |
| Total comprehensive income (loss) for 2016 | - | - | - | - | 2,962,270 | (1,559,141) | 1,403,129 |
| Balance as of December 31, 2016 | <u>\$ 13,114,411</u> | <u>\$ 320,929</u> | <u>\$ 17,209,762</u> | <u>\$ 203,090</u> | <u>\$ 2,963,015</u> | <u>(\$ 32,149)</u> | <u>\$ 33,779,058</u> |

Note: Employee remuneration (bonuses) amounting to \$62,175 and \$64,322 thousand for 2015 and 2014 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
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Notes | For the years ended December 31, | |
|--|---------|----------------------------------|---------------|
| | | 2016 | 2015 |
| <u>Cash Flows from Operating Activities</u> | | | |
| Income before income tax | | \$ 3,571,045 | \$ 3,505,810 |
| Adjustments to reconcile income before tax to net cash provided by operating activities: | | | |
| Income and expenses having no effect on cash flows | | | |
| Depreciation | 6(27) | 20,660 | 19,550 |
| Amortization | 6(27) | 4,000 | 4,042 |
| Reversal for bad debts and various reserves | 6(16) (| 41,865) (| 64,115) |
| Interest income | 6(21) (| 3,322,888) (| 2,930,965) |
| Dividend income | (| 49,064) (| 75,992) |
| Interest expense | 6(21) | 899,280 | 901,456 |
| Gains on disposal of property and equipment | (| 53) (| 590) |
| Changes in assets/liabilities relating to operating assets: | | | |
| (Increase) decrease in financial assets at fair value through profit or loss | (| 10,012,382) | 1,741,510 |
| Decrease in bills and bonds investment with resale agreements | | 1,000,000 | 8,805,054 |
| Increase in receivables | (| 52,191) (| 3,928) |
| Increase in available-for-sale financial assets | (| 33,610,102) (| 17,058,190) |
| Decrease in held-to-maturity financial assets | | 250,000 | 250,000 |
| Increase in other financial assets | (| 27,625) (| 40,040) |
| Decrease (increase) in other assets | | 18,122 (| 20,018) |
| Increase in financial liabilities at fair value through profit or loss | | 16,394 | 5,738 |
| Increase in bills and bonds payable under repurchase agreements | | 37,700,559 | 9,331,357 |
| Increase in payables | | 67,925 | 11,460 |
| Increase in provisions for liabilities | | 17,472 | 18,186 |
| (Decrease) increase in other liabilities | (| 397,837) | 712,394 |
| Interest paid | (| 868,439) (| 911,675) |
| Interest received | | 3,027,603 | 2,754,211 |
| Dividend received | | 49,064 | 75,992 |
| Income tax paid | (| 562,825) (| 429,278) |
| Net cash (used in) provided by operating activities | (| 2,303,147) | 6,601,969 |
| <u>Cash Flows from Investing Activities</u> | | | |
| Acquisition of property and equipment | 6(10) (| 4,723) (| 15,075) |
| Increase in intangible assets | (| 1,627) (| 721) |
| Increase in other assets | (| 8,021) (| 4,448) |
| Proceeds from disposal of property and equipment | | 60 | 590 |
| Net cash used in investing activities | (| 14,311) (| 19,654) |
| <u>Cash Flows from Financing Activities</u> | | | |
| Increase (decrease) in interbank overdraft and call loans | | 4,419,816 | (4,631,837) |
| Payments of cash dividends | (| 2,077,323) (| 2,073,388) |
| Net cash provided by (used in) financing activities | | 2,342,493 | (6,705,225) |
| Net increase (decrease) in cash and cash equivalents | | 25,035 | (122,910) |
| Cash and cash equivalents, beginning of year | 6(1) | 321,356 | 444,266 |
| Cash and cash equivalents, end of year | 6(1) | \$ 346,391 | \$ 321,356 |

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

MEGA BILLS FINANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

1. HISTORY AND ORGANIZATION

- (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 bank debentures; (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 Holding”) 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 Holding. As a result, the Company was de-listed from the Taiwan Stock Exchange on August 22, 2002.
- (3) Mega Holding is the parent company of the Company (Ultimate parent).
- (4) The number of employees of the Company was 231 and 229 as of December 31, 2016 and 2015, respectively.

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 21, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

- (2) Effect of new issuances of or amendments to International Financial Reporting Standards as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|--|--|
| Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28) | January 1, 2016 |
| Accounting for acquisition of interests in joint operations (amendments to IFRS 11) | January 1, 2016 |
| IFRS 14, 'Regulatory deferral accounts' | January 1, 2016 |
| Disclosure initiative (amendments to IAS 1) | January 1, 2016 |
| Clarification of acceptable methods of depreciation and amortization (amendments to IAS 16 and IAS 38) | January 1, 2016 |
| Agriculture: bearer plants (amendments to IAS 16 and IAS 41) | January 1, 2016 |
| Defined benefit plans: employee contributions (amendments to IAS 19R) | July 1, 2014 |
| Equity method in separate financial statements (amendments to IAS 27) | January 1, 2016 |
| Recoverable amount disclosures for non-financial assets (amendments to IAS 36) | January 1, 2014 |
| Novation of derivatives and continuation of hedge accounting (amendments to IAS 39) | January 1, 2014 |
| IFRIC 21, 'Levies' | January 1, 2014 |
| Improvements to IFRSs 2010-2012 | July 1, 2014 |
| Improvements to IFRSs 2011-2013 | July 1, 2014 |
| Improvements to IFRSs 2012-2014 | January 1, 2016 |

The above standards and interpretations have no significant impact to the Company's financial condition and operating result based on the Company's assessment.

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|--|--|
| Classification and measurement of share-based payment transactions (amendments to IFRS 2) | January 1, 2018 |
| Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4) | January 1, 2018 |
| IFRS 9, 'Financial instruments' | January 1, 2018 |
| Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28) | To be determined by International Accounting Standards Board |

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|--|--|
| IFRS 15, 'Revenue from contracts with customers' | January 1, 2018 |
| Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15) | January 1, 2018 |
| IFRS 16, 'Leases' | January 1, 2019 |
| Disclosure initiative (amendments to IAS 7) | January 1, 2017 |
| Recognition of deferred tax assets for unrealized losses (amendments to IAS 12) | January 1, 2017 |
| Transfers of investment property (amendments to IAS 40) | January 1, 2018 |
| IFRIC 22, 'Foreign currency transactions and advance consideration' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities' | January 1, 2017 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures' | January 1, 2018 |

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and operating result based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

- (A) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (B) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).
- (C) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

B. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price.

Step 5: Recognize revenue when the performance obligation is satisfied.

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

The financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies", "Regulations Governing the Preparation of Financial Reports by Securities Firms", and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(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 recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity 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 are 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 recognized 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 recognized in profit or loss.

(4) Cash and cash equivalents

"Cash and cash equivalents" include cash on hand, demand deposits, short-term highly liquid time deposits or investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. Time deposits refer to those with short-term maturity used to satisfy short-term cash commitments that are not held for investment purposes or other purposes.

(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 recognized and derecognized using trade date accounting.

C. Financial assets at fair value through profit or loss are initially recognized 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 recognized 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 recognized 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 recognized in bills and bonds payable under repurchase agreements. Any difference between the actual payment/receipt and predetermined resale (repurchase) price is recognized 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 recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized 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 recognized in other comprehensive income and shall be recognized as profit or loss in the period when available-for-sale financial assets are derecognized.
- D. When the reduction of fair value of available-for-sale financial asset has been recognized in other comprehensive income and with objective evidence indicating that the impairment has incurred, even if the financial asset has not been derecognized, accumulated losses recognized 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 recognized in profit or loss.

In respect of investment in equity instruments classified as available-for-sale, whose impairment loss recognized in profit or loss shall not be reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. For debt instruments classified as available-for-sale, impairment loss can be reversed and recognized 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 recognized 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 recognized and derecognized using trade date accounting.
- C. Held-to-maturity financial assets are initially recognized 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 recognized in profit or loss.

- D. An impairment loss is recognized 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 recognized, the previously recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized, the previously recognized 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 recognized 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 8 year; miscellaneous equipment, 3 to 18 years.
- C. Subsequent costs are included in the asset's carrying amount or recognized 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 derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(12) Operating leases

Payments made under an operating lease (net of any incentives received from the lessor) are recognized 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 8 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 Company 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 recognized 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 amortized historical cost would have been if the impairment had not been recognized.

(17) Derecognition of financial assets and liabilities

- A. The Company derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.
- B. A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expired.

(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 recognized 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 recognizes 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 recognized 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 recognized less, when appropriate, cumulative amortization recognized 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 recognized 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 recognized 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 recognized 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 recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized 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 recognized 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. 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. Remeasurement arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- c. Past service costs are recognized immediately in profit or loss.

C. Employees' remuneration

Employees' remuneration is recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(22) Revenue and expense

Income and expense of the Company are recognized 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 recognized 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 recognized 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 recognized 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 recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized 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 recognized, 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 recognized 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, unrecognized and recognized deferred income tax assets are reassessed.
- E. Although the Company's income tax returns are filed jointly with Mega Holding, 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 recognized 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 recognized 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 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 recognized 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:

Guarantee reserve assessment

The Company assesses the adequacy of guarantee reserve of financial guarantee contract at the balance date. 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.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-------------------|--------------------------|--------------------------|
| Checking deposits | \$ 205,250 | \$ 243,093 |
| Demand deposits | 129,050 | 65,573 |
| Time deposits | 11,391 | 11,990 |
| Petty cash | 700 | 700 |
| Total | <u>\$ 346,391</u> | <u>\$ 321,356</u> |

- A. For bank deposits due from related parties, please refer to Note 7.
- B. Time deposits mature within three months. The CNY time deposit rate at December 31, 2016 and 2015 was 3.30% and 3.20%, respectively.

- C. As of December 31, 2016 and 2015, demand deposits in USD amounted to US\$428 thousand and US\$208 thousand, respectively, and the exchange rate of USD to NTD was 1 : 32.206 and 1 : 32.888 , respectively. (Exchange rates of USD to NTD shown below are all the same).
- D. As of December 31, 2016 and 2015, CNY denominated demand deposits amounted to CNY\$0 thousand and CNY\$1 thousand, respectively; as of December 31, 2016 and 2015, CNY denominated time deposits amounted to CNY\$2,463 thousand and CNY \$2,400 thousand, respectively, and the exchange rate of CNY to NTD was 1 : 4.6253 and 1 : 4.9959, respectively. (Exchange rates of CNY to NTD shown below are all the same).

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

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Financial assets held for trading | | |
| Commercial paper | \$ 96,861,866 | \$ 88,634,403 |
| Fixed rate commercial paper purchased | 15,941 | 45,070 |
| Bankers' acceptance | 700,074 | 665,637 |
| Negotiable certificates of time deposit | 22,449,487 | 19,787,238 |
| Convertible corporate bonds | 339,222 | 368,177 |
| Government bonds | 248,076 | - |
| Funds | 3,222 | - |
| Subtotal | <u>120,617,888</u> | <u>109,500,525</u> |
| Financial assets designated as at fair value through profit or loss on initial recognition | | |
| Convertible corporate bond asset swaps | <u>4,679,600</u> | <u>5,784,581</u> |
| Subtotal | <u>4,679,600</u> | <u>5,784,581</u> |
| Total | <u>\$ 125,297,488</u> | <u>\$ 115,285,106</u> |

- A. The Company recognized net gain of \$557,569 thousand and \$582,465 thousand on financial assets held for trading for the years ended December 31, 2016 and 2015, respectively, and recognized net (loss) gain of (\$24,781) thousand and \$24,406 thousand on financial assets designated as at fair value through profit or loss on initial recognition for the years ended December 31, 2016 and 2015, respectively.
- B. As of December 31, 2016 and 2015, the transaction cost of bills with repurchase agreement of above financial assets held for trading were \$87,273,962 thousand and \$85,868,075 thousand, respectively.
- C. As of December 31, 2016 and 2015, the above negotiable certificates of time deposits used for bank overdraft collateral have maturities within one year. Please refer to Notes 7 and 8 for details.

(3) Available-for-sale financial assets

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Government bonds | \$ 61,809,630 | \$ 53,575,077 |
| Foreign currency government bonds | 328,950 | 163,348 |
| Financial bonds | 7,337,356 | 9,040,668 |
| Foreign currency financial bonds | 30,889,338 | 6,322,735 |
| Corporate bonds | 24,728,512 | 27,132,595 |
| Foreign currency corporate bonds | 6,352,820 | 3,074,591 |
| Beneficiary or asset-backed securities | 513,119 | 513,321 |
| Stocks | 894,809 | 992,445 |
| Funds | 12,652 | 1,445 |
| Total | <u>\$ 132,867,186</u> | <u>\$ 100,816,225</u> |

- A. As of December 31, 2016 and 2015, the transaction cost of bonds and beneficiary or asset-backed securities with repurchase agreement of above available-for-sale bonds were \$121,081,530 thousand and \$82,083,925 thousand, respectively.
- B. The government bonds and corporate bonds were provided as collaterals for bank overdrafts as of December 31, 2016 and 2015. Please refer to Notes 7 and 8 for details.
- C. As of December 31, 2016 and 2015, in accordance with the relevant regulations, the Company deposited refundable deposits in Central Bank or other institutions. Bonds are collateralized as refundable deposits amounting to \$835,273 thousand and \$818,983 thousand, respectively.
- D. As of December 31, 2016 and 2015, the fair values of government bonds denominated in USD were US\$10,214 thousand and US\$4,967 thousand; respectively. As of December 31, 2016 and 2015, the fair values of financial bonds denominated in USD were US \$959,118 thousand and US\$192,251 thousand, respectively; as of December 31, 2016 and 2015, the fair values of corporate bonds denominated in USD were US \$197,256 thousand and US\$93,487 thousand, respectively.
- E. In consideration of increasing interest revenue, the Company holds two securitized SPT beneficial securities, which were issued in 2011 and 2014 by the Land Bank of Taiwan on behalf of Chailease Finance Co., Ltd.'s commission. The legal maturity dates of the asset-backed security investments were November 24, 2018 and July 24, 2021, respectively. However, investments are subject to an early termination according to the underlying's status of principal repayments.

As of December 31, 2016 and 2015, the maximum credit risk of the Company's investments in the above-mentioned structured entities was \$513,119 thousand and \$513,321 thousand, respectively. In addition, for the years ended December 31, 2016 and 2015, interest revenue from investing in the structured entities was \$9,276 thousand and \$12,341 thousand, respectively.

(4) Bills and bonds under repurchase or resale agreements

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Bills and bonds investment with resale agreements | \$ - | \$ 1,000,000 |
| Bills and bonds payable under repurchase agreements | <u>\$ 210,809,807</u> | <u>\$ 173,109,248</u> |

- A. As of December 31, 2016, there was no balance of bills and bonds investment with resale agreements. As of December 31, 2015, the interest rate of bills and bonds investment with resale agreements was 0.42%. The fair value of collaterals (bonds) obtained by transaction amounted to \$1,016,402 thousand.
- B. As of December 31, 2016 and 2015, the interest rate of bills and bonds payable under repurchase agreements in NTD were 0.18%~0.75% and 0.26%~0.60%, respectively.
- C. As of December 31, 2016 and 2015, please refer to Note 7 for the balances of repo trades with related parties.
- D. As of December 31, 2016 and 2015, the interest rate of bills and bonds payable under repurchase agreements in USD were 0.60%~2.00% and 0.55%~0.72%, and recognized amount of USD denominated bills and bonds payable under repurchase agreements were US\$1,150,298 thousand and US\$288,651 thousand, respectively.

(5) Receivables – net

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Interest receivable | \$ 1,471,362 | \$ 1,176,077 |
| Retractable rights of convertible bonds receivables | 30,225 | - |
| Trade receivables on bond investment and stocks | 20,000 | 8,970 |
| Other receivables – others | <u>10,936</u> | <u>-</u> |
| Subtotal | 1,532,523 | 1,185,047 |
| Less: Allowance for doubtful accounts | (632) | - |
| Receivables, net | <u>\$ 1,531,891</u> | <u>\$ 1,185,047</u> |

(6) Transfer of financial assets

Transferred financial assets that are not derecognized in their entirety

In the Company's ordinary course of transactions, transferred financial assets that are not derecognized in their entirety are financial instruments provided as liens for the counterparty through repurchase agreements. Because such transactions reflect a liability where the Company is obligated to repurchase transferred assets with a fixed price in the future, for such transactions, the Company may not use, sell or pledge such transferred financial assets within the effective period of the transactions; however, the Company still bears the interest rate risk and credit risk, thus they are not derecognized in their entirety. The following table analyzes information on financial assets not derecognized in their entirety and their related liabilities:

| | <u>December 31, 2016</u> | |
|---|--|---|
| <u>Financial assets category</u> | <u>Carrying amount of transferred financial assets</u> | <u>Carrying amount of related financial liabilities</u> |
| Financial assets at fair value through profit or loss | | |
| Repurchase agreements | \$ 87,028,992 | \$ 87,032,995 |
| Available-for-sale financial assets | | |
| Repurchase agreements | \$ 38,886,291 | \$ 36,187,999 |

| December 31, 2015 | | |
|--|--|---|
| <u>Financial assets category</u> | <u>Carrying amount of transferred financial assets</u> | <u>Carrying amount of related financial liabilities</u> |
| Financial assets at fair value through profit or loss | | |
| Repurchase agreements | \$ 85,868,075 | \$ 85,885,350 |
| Available-for-sale financial assets | | |
| Repurchase agreements | \$ 23,259,084 | \$ 22,948,981 |

(7) Offsetting financial assets and financial liabilities

When the Company has entered into an enforceable master netting arrangement with a counterparty, and both parties elect to settle by the net amount, the settlement may be based on the net amount after offsetting financial assets and financial liabilities. Related information is listed as follows:

A. Financial assets

The balance as of December 31, 2016 and 2015 were both \$0.

B. Financial liabilities

The balance as of December 31, 2016 and 2015 were both \$0.

(8) Held-to-maturity financial assets

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------|--------------------------|--------------------------|
| Corporate bonds | \$ 350,000 | \$ 600,000 |
| Less: Accumulated impairment | - | - |
| Net | <u>\$ 350,000</u> | <u>\$ 600,000</u> |

(9) Other financial assets – net

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Certificate of deposit pledged | \$ 400,000 | \$ 400,000 |
| Financial assets carried at cost - net | 344,300 | 344,300 |
| Designated account for allowance to pay back short-term bills | 76,062 | 74,240 |
| Net | <u>\$ 820,362</u> | <u>\$ 818,540</u> |

A. The above certificate of deposit pledged were provided as collaterals for bank overdrafts as of December 31, 2016 and 2015. 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:

| | <u>December 31, 2016</u> | |
|---|--------------------------|------------------------------|
| | <u>Amount</u> | <u>% of Shareholding</u> |
| Unlisted stock investments | | |
| Core Pacific City Co., Ltd. | \$ 600,000 | 3.130 |
| Taiwan Asset Management Co., Ltd. | 75,000 | 0.568 |
| Taiwan Financial Asset Services Co., Ltd. | 50,000 | 2.941 |
| Taiwan Futures Exchange Co., Ltd. | 10,250 | 0.512 |
| Taiwan Depository & Clearing Co., Ltd. | 6,850 | 0.628 |
| Agora Garden Co., Ltd. | 900 | 0.030 |
| Subtotal | 743,000 | |
| Less: Accumulated impairment | (398,700) | |
| Net | <u>\$ 344,300</u> | |

| | <u>December 31, 2015</u> | |
|---|--------------------------|------------------------------|
| | <u>Amount</u> | <u>% of Shareholding</u> |
| Unlisted stock investments | | |
| Core Pacific City Co., Ltd. | \$ 600,000 | 3.266 |
| Taiwan Asset Management Co., Ltd. | 75,000 | 0.568 |
| Taiwan Financial Asset Services Co., Ltd. | 50,000 | 2.941 |
| Taiwan Futures Exchange Co., Ltd. | 10,250 | 0.512 |
| Taiwan Depository & Clearing Co., Ltd. | 6,850 | 0.628 |
| Agora Garden Co., Ltd. | 900 | 0.030 |
| Subtotal | 743,000 | |
| Less: Accumulated impairment | (398,700) | |
| Net | <u>\$ 344,300</u> | |

As of December 31, 2016 and 2015, the Company had recognized impairment loss for the above listed investees as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------|--------------------------|--------------------------|
| Core Pacific City Co., Ltd. | \$ 397,800 | \$ 397,800 |
| Agora Garden Co., Ltd. | 900 | 900 |
| | <u>\$ 398,700</u> | <u>\$ 398,700</u> |

(10) Property and equipment – net

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery and computer equipment</u> | <u>Miscellaneous equipment</u> | <u>Equipment prepayment</u> | <u>Total</u> |
|---------------------------------------|-------------------|------------------|---|------------------------------------|---------------------------------|-------------------|
| January 1, 2016 | | | | | | |
| Cost | \$ 227,347 | \$ 166,118 | \$ 66,858 | \$ 56,067 | \$ 11,120 | \$ 527,510 |
| Accumulated depreciation | <u>-</u> | <u>(65,738)</u> | <u>(42,414)</u> | <u>(43,901)</u> | <u>-</u> | <u>(152,053)</u> |
| Net Book Value | 227,347 | 100,380 | 24,444 | 12,166 | 11,120 | 375,457 |
| Additions-Cost | - | - | 4,253 | 470 | - | 4,723 |
| Transfer-Cost | - | - | 11,120 | - | (11,120) | - |
| Disposals-Cost | - | - | (1,824) | (115) | - | (1,939) |
| Disposals-Accumulated depreciation | - | - | 1,817 | 115 | - | 1,932 |
| Depreciation | <u>-</u> | <u>(2,721)</u> | <u>(5,689)</u> | <u>(1,586)</u> | <u>-</u> | <u>(9,996)</u> |
| December 31, 2016 | <u>\$ 227,347</u> | <u>\$ 97,659</u> | <u>\$ 34,121</u> | <u>\$ 11,050</u> | <u>\$ -</u> | <u>\$ 370,177</u> |
| December 31, 2016 | | | | | | |
| Cost | \$ 227,347 | \$ 166,118 | \$ 80,407 | \$ 56,422 | \$ - | \$ 530,294 |
| Accumulated depreciation | <u>-</u> | <u>(68,459)</u> | <u>(46,286)</u> | <u>(45,372)</u> | <u>-</u> | <u>(160,117)</u> |
| Net Book Value | <u>\$ 227,347</u> | <u>\$ 97,659</u> | <u>\$ 34,121</u> | <u>\$ 11,050</u> | <u>\$ -</u> | <u>\$ 370,177</u> |

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery and computer equipment</u> | <u>Miscellaneous equipment</u> | <u>Equipment prepayment</u> | <u>Total</u> |
|---------------------------------------|-------------------|-------------------|---|------------------------------------|---------------------------------|-------------------|
| January 1, 2015 | | | | | | |
| Cost | \$ 227,347 | \$ 166,118 | \$ 111,774 | \$ 58,174 | \$ 3,045 | \$ 566,458 |
| Accumulated depreciation | - | (63,017) | (85,311) | (47,752) | - | (196,080) |
| Net Book Value | 227,347 | 103,101 | 26,463 | 10,422 | 3,045 | 370,378 |
| Additions-Cost | - | - | 2,681 | 1,274 | 11,120 | 15,075 |
| Transfer-Cost | - | - | - | 1,935 | (3,045) | (1,110) |
| Disposals-Cost | - | - | (47,597) | (5,316) | - | (52,913) |
| Disposals-Accumulated depreciation | - | - | 47,597 | 5,316 | - | 52,913 |
| Depreciation | - | (2,721) | (4,700) | (1,465) | - | (8,886) |
| December 31, 2015 | <u>\$ 227,347</u> | <u>\$ 100,380</u> | <u>\$ 24,444</u> | <u>\$ 12,166</u> | <u>\$ 11,120</u> | <u>\$ 375,457</u> |
| December 31, 2015 | | | | | | |
| Cost | \$ 227,347 | \$ 166,118 | \$ 66,858 | \$ 56,067 | \$ 11,120 | \$ 527,510 |
| Accumulated depreciation | - | (65,738) | (42,414) | (43,901) | - | (152,053) |
| Net Book Value | <u>\$ 227,347</u> | <u>\$ 100,380</u> | <u>\$ 24,444</u> | <u>\$ 12,166</u> | <u>\$ 11,120</u> | <u>\$ 375,457</u> |

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

(11) Investment property – net

| | <u>Land</u> | <u>Buildings</u> | <u>Total</u> |
|--------------------------|---------------------|-------------------|---------------------|
| January 1, 2016 | | | |
| Cost | \$ 2,204,894 | \$ 511,868 | \$ 2,716,762 |
| Accumulated depreciation | - | (177,674) | (177,674) |
| Net Book Value | 2,204,894 | 334,194 | 2,539,088 |
| Depreciation | - | (10,664) | (10,664) |
| December 31, 2016 | <u>\$ 2,204,894</u> | <u>\$ 323,530</u> | <u>\$ 2,528,424</u> |
| December 31, 2016 | | | |
| Cost | \$ 2,204,894 | \$ 511,868 | \$ 2,716,762 |
| Accumulated depreciation | - | (188,338) | (188,338) |
| Net Book Value | <u>\$ 2,204,894</u> | <u>\$ 323,530</u> | <u>\$ 2,528,424</u> |
| January 1, 2015 | | | |
| Cost | \$ 2,204,894 | \$ 511,868 | \$ 2,716,762 |
| Accumulated depreciation | - | (167,010) | (167,010) |
| Net Book Value | 2,204,894 | 344,858 | 2,549,752 |
| Depreciation | - | (10,664) | (10,664) |
| December 31, 2015 | <u>\$ 2,204,894</u> | <u>\$ 334,194</u> | <u>\$ 2,539,088</u> |
| December 31, 2015 | | | |
| Cost | \$ 2,204,894 | \$ 511,868 | \$ 2,716,762 |
| Accumulated depreciation | - | (177,674) | (177,674) |
| Net Book Value | <u>\$ 2,204,894</u> | <u>\$ 334,194</u> | <u>\$ 2,539,088</u> |

A. No investment property was provided as collateral.

B. Rental income from the lease of the investment property for the years ended December 31, 2016 and 2015 were \$104,107 thousand and \$110,656 thousand, respectively.

C. The fair value of the investment property held by the Company as at December 31, 2016 and 2015 were \$3,801,532 thousand and \$3,886,422 thousand, respectively, which were revalued by independent valuers and based on the price with comprehensive reference to comparison approach and direct capitalization under income approach. The capitalization rate used in valuation was 2.03%~ 2.17%. The fair value of investment property held by the Company is classified as Level 2.

(12) Other assets – net

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Refundable deposits | \$ 10,970 | \$ 10,938 |
| Guarantee deposits held for operation and funds for security settlements | 5,955 | 6,039 |
| Other deferred assets | 12,013 | 7,248 |
| Others | <u>5,930</u> | <u>24,000</u> |
| Total | <u>\$ 34,868</u> | <u>\$ 48,225</u> |

(13) Interbank overdraft and call loans

| | <u>December 31, 2016</u> | <u>Period</u> | <u>Interest Rate (%)</u> |
|-----------------|--------------------------|-------------------------------|--------------------------|
| Bank overdrafts | \$ 184,000 | Nov.25.2016-Nov.25.2017(Note) | 1.38 |
| Call loans-NTD | 14,500,000 | Dec.16.2016-Jan.11.2017 | 0.45~0.57 |
| Call loans-USD | 1,030,592 | Dec.23.2016-Jan.23.2017 | 1.60~1.70 |
| Total | <u>\$ 15,714,592</u> | | |

| | <u>December 31, 2015</u> | <u>Period</u> | <u>Interest Rate (%)</u> |
|-----------------|--------------------------|-------------------------------|--------------------------|
| Bank overdrafts | \$ 129,000 | Nov.27.2015-Nov.27.2016(Note) | 1.755 |
| Call loans-NTD | 11,100,000 | Dec.18.2015-Jan.15.2016 | 0.40~0.45 |
| Call loans-USD | 65,776 | Dec.31.2015-Jan.4.2016 | 0.95 |
| Total | <u>\$ 11,294,776</u> | | |

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, 2016 and 2015.
- C. As of December 31, 2016 and 2015, call loans in USD amounted to US\$32,000 thousand and US\$2,000 thousand, respectively.

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

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---------------------------------------|--------------------------|--------------------------|
| Fixed rate commercial paper purchased | \$ 20,048 | \$ - |
| Fixed rate commercial paper sold | 2,495 | 6,149 |
| Total | <u>\$ 22,543</u> | <u>\$ 6,149</u> |

The Company recognized net loss of \$24,363 thousand and \$8,837 thousand on financial liabilities held for trading for the years ended December 31, 2016 and 2015, respectively.

(15) Payables

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Bonus payable | \$ 196,476 | \$ 192,647 |
| Payables of transactions under repurchase agreements on maturity | 110,710 | 42,724 |
| Receipts under custody payable (Note) | 110,498 | 110,456 |
| Dividends and bonus payable | 86,459 | 88,822 |
| Interest payable | 60,368 | 29,527 |
| Others | 38,297 | 39,866 |
| Total | <u>\$ 602,808</u> | <u>\$ 504,042</u> |

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

(16) Provisions for liabilities

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------------|--------------------------|--------------------------|
| Reserve for guarantee liabilities | \$ 2,255,703 | \$ 2,324,003 |
| Net defined benefit liability | <u>472,402</u> | <u>433,417</u> |
| Total | <u>\$ 2,728,105</u> | <u>\$ 2,757,420</u> |

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

| | <u>Allowance for accounts receivable and overdue loans</u> | <u>Reserve for guarantee liabilities</u> | <u>Total</u> |
|----------------------|--|--|---------------------|
| January 1, 2015 | \$ - | \$ 2,411,870 | \$ 2,411,870 |
| Reversal | - (| 64,115) | (64,115) |
| Write-off | (23,752) | - (| (23,752) |
| Transfer | <u>23,752</u> | <u>(23,752)</u> | <u>-</u> |
| December 31, 2015 | <u>\$ -</u> | <u>\$ 2,324,003</u> | <u>\$ 2,324,003</u> |
| January 1, 2016 | \$ - | \$ 2,324,003 | \$ 2,324,003 |
| Provision (Reversal) | 635 (| 42,500) | (41,865) |
| Write-off | (25,803) | - (| (25,803) |
| Transfer | <u>25,800</u> | <u>(25,800)</u> | <u>-</u> |
| December 31, 2016 | <u>\$ 632</u> | <u>\$ 2,255,703</u> | <u>\$ 2,256,335</u> |

(17) Pensions

A. (A)The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. In accordance with the plan, an amount equal to 8% of the total monthly payroll was contributed by the Company to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. 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 Act. 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 and limited to 45 points for employees who worked after May 1, 2005.

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

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | \$ 760,948 | \$ 720,004 |
| Fair value of plan assets | (288,546) | (286,587) |
| Net defined benefit liability | <u>\$ 472,402</u> | <u>\$ 433,417</u> |

(C) Movements in net defined benefit liabilities are as follows:

| | Present value of defined benefit <u>Obligation</u> | Fair value of <u>plan assets</u> | Net defined benefit liability |
|--|--|-------------------------------------|----------------------------------|
| Year ended December 31, 2016 | | | |
| Balance at January 1, | \$ 720,004 | (\$ 286,587) | \$ 433,417 |
| Current service cost | 23,095 | - | 23,095 |
| Interest expense (income) | 7,879 | (3,164) | 4,715 |
| | <u>750,978</u> | <u>(289,751)</u> | <u>461,227</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - | 1,123 | 1,123 |
| Change in financial assumptions | 6,357 | - | 6,357 |
| Experience adjustments | <u>14,033</u> | <u>-</u> | <u>14,033</u> |
| | <u>20,390</u> | <u>1,123</u> | <u>21,513</u> |
| Pension fund contribution | - | (10,338) | (10,338) |
| Paid pension | (10,420) | <u>10,420</u> | - |
| Balance at December 31, | <u>\$ 760,948</u> | <u>(\$ 288,546)</u> | <u>\$ 472,402</u> |
| | Present value of defined benefit <u>obligation</u> | Fair value of <u>plan assets</u> | Net defined benefit liability |
| Year ended December 31, 2015 | | | |
| Balance at January 1, | \$ 645,916 | (\$ 277,330) | \$ 368,586 |
| Current service cost | 21,816 | - | 21,816 |
| Interest expense (income) | 10,919 | (4,741) | 6,178 |
| | <u>678,651</u> | <u>(282,071)</u> | <u>396,580</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - | (2,708) | (2,708) |
| Change in financial assumptions | 41,315 | - | 41,315 |
| Experience adjustments | <u>8,038</u> | <u>-</u> | <u>8,038</u> |
| | <u>49,353</u> | <u>(2,708)</u> | <u>46,645</u> |
| Pension fund contribution | - | (9,808) | (9,808) |
| Paid pension | (8,000) | <u>8,000</u> | - |
| Balance at December 31, | <u>\$ 720,004</u> | <u>(\$ 286,587)</u> | <u>\$ 433,417</u> |

(D) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation 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 utilisation 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. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

| | For the years ended December 31, | |
|-------------------------|----------------------------------|--------------|
| | 2016 | 2015 |
| Discount rate | <u>1.20%</u> | <u>1.10%</u> |
| Future salary increases | <u>1.90%</u> | <u>1.70%</u> |

Assumptions regarding future mortality rate for 2016 and 2015 are set based on the 5th Chart of Life Span Estimate Used by the Taiwan Life Insurance Enterprises.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

| | Discount rate | | Future salary increases | |
|---|----------------|----------------|-------------------------|----------------|
| | Increase 0.25% | Decrease 0.25% | Increase 0.25% | Decrease 0.25% |
| December 31, 2016 | | | | |
| Effect on present value of defined benefit obligation | (\$ 17,487) | \$ 18,123 | \$ 17,140 | (\$ 16,635) |

(F) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2016 amounts to \$9,687.

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 contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The 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, 2016 and 2015 were \$4,388 thousand and \$4,311 thousand, respectively.

(18) Capital stock

As of December 31, 2016 and 2015, 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 dollars per share.

(19) 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% of 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, 2016 and 2015, the details of the Company's capital surplus is as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Share premium | \$ 312,823 | \$ 312,823 |
| Share-based payment transactions(Note) | 8,106 | 8,106 |
| | <u>\$ 320,929</u> | <u>\$ 320,929</u> |

Note: the above-mentioned share-based payments are payments by the parent company, Mega Financial Holding Co., Ltd., conducted in accordance with Article 267 Paragraph 1 of the Company Act, where upon issuing new shares for a capital increase, 10% was reserved for subscription by employees of the group.

(20) Retained earnings

| | <u>For the years ended December 31,</u> | |
|--|---|----------------------|
| | <u>2016</u> | <u>2015</u> |
| January 1 | \$ 19,490,920 | \$ 18,592,588 |
| Profit for the period | 2,980,126 | 3,010,436 |
| Appropriation of earnings | (2,077,323) | (2,073,388) |
| Remeasurement on post employment benefit obligations, net of tax | (17,856) | (38,716) |
| December 31 | <u>\$ 20,375,867</u> | <u>\$ 19,490,920</u> |

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 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.

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. Beginning from the year 1998, under the Income Tax Act, if there is any surplus earnings of the then current year not distributed by the Company, an additional profit-seeking income tax shall be levied at the rate of 10% on such undistributed surplus earnings.

F. (A) Appropriation of 2015 and 2014 earnings as resolved by the Board of Directors on behalf of the stockholders on April 26, 2016 and April 24, 2015, respectively, were as follows:

| | 2015 | | 2014 | |
|-----------------------------------|------------|--|------------|--|
| | Amount | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) |
| Legal reserve | \$ 890,601 | | \$ 889,238 | |
| Cash dividends of stockholders | 2,077,323 | \$ 1.584 | 2,073,388 | \$ 1.581 |

(B) The appropriation of 2016 earnings resolved by the Board of Directors on March 21, 2017 is set forth follows:

| | 2016 | |
|--------------------------------|------------|-------------------------------------|
| | Amount | Dividends per share (in dollars) |
| Legal reserve | \$ 888,905 | |
| Special surplus reserve | 32,149 | |
| Cash dividends of stockholders | 2,032,734 | \$ 1.550 |

G. For information relating to employees' remuneration, please refer to Note 6(26).

(21) Interest income, net

| | For the years ended December 31, | |
|--|----------------------------------|--------------|
| | 2016 | 2015 |
| <u>Interest income</u> | | |
| Interest income from bills | \$ 1,063,852 | \$ 1,133,231 |
| Interest income from bonds (Note) | 2,252,638 | 1,662,626 |
| Others | 6,398 | 135,108 |
| Subtotal | 3,322,888 | 2,930,965 |
| <u>Interest expense</u> | | |
| Interest expense of bills payable under repurchase agreements | 292,522 | 413,679 |
| Interest expense of bonds payable under repurchase agreements | 510,888 | 386,721 |
| Interest expense of overdraft and call loans | 95,624 | 100,762 |
| Others | 246 | 294 |
| Subtotal | 899,280 | 901,456 |
| Net | \$ 2,423,608 | \$ 2,029,509 |

Note: Including interest income of \$106,853 thousand and \$90,642 thousand from convertible bond asset swap recognized for the years ended December 31, 2016 and 2015, respectively.

(22) Service fee and commission income, net

| | For the years ended December 31, | |
|---|----------------------------------|------------|
| | 2016 | 2015 |
| Service fee income from guarantee service | \$ 638,802 | \$ 584,929 |
| Service fee income from certification service | 61,513 | 58,501 |
| Service fee income from underwriting service | 295,253 | 293,462 |
| Others | 37,403 | 41,290 |
| Subtotal | 1,032,971 | 978,182 |
| Service fee expense | (11,133) | (10,805) |
| Net | \$ 1,021,838 | \$ 967,377 |

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

| | <u>For the years ended December 31,</u> | |
|------------------------------|---|-------------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Realized (Loss) Gain</u> | | |
| Bills | \$ 567,121 | \$ 526,500 |
| Bonds | 9,812 | 21,685 |
| Derivatives | (7,968) | (2,833) |
| Others | - | 1,797 |
| Subtotal | <u>568,965</u> | <u>547,149</u> |
| <u>Valuation (Loss) Gain</u> | | |
| Bills | (39,170) | 36,384 |
| Bonds(Note) | (21,206) | 16,356 |
| Derivatives | - | 145 |
| Others | (164) | (2,000) |
| Subtotal | <u>(60,540)</u> | <u>50,885</u> |
| Total | <u>\$ 508,425</u> | <u>\$ 598,034</u> |

Note: Including (loss) gain of (\$24,781) thousand and \$24,406 thousand on convertible bond asset swap recognized for the years ended December 31, 2016 and 2015, respectively.

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

| | <u>For the years ended December 31,</u> | |
|------------------|---|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Dividends income | \$ 36,509 | \$ 63,851 |
| Stocks | 73,738 | 318,357 |
| Bonds | <u>115,022</u> | <u>50,007</u> |
| Total | <u>\$ 225,269</u> | <u>\$ 432,215</u> |

(25) Provisions (Reversal)

| | <u>For the years ended December 31,</u> | |
|--|---|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Bad debt recovery | (\$ 4,031) | (\$ 70,393) |
| Reversal provision for guarantee reserve | (41,865) | (64,115) |
| Total | <u>(\$ 45,896)</u> | <u>(\$ 134,508)</u> |

(26) Employee benefit

| | <u>For the years ended December 31,</u> | |
|---------------------------------|---|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Wages and salaries | \$ 486,362 | \$ 478,351 |
| Labor and health insurance fees | 23,235 | 23,638 |
| Pension costs | 32,198 | 32,305 |
| Other employee benefits | <u>23,577</u> | <u>27,735</u> |
| Total | <u>\$ 565,372</u> | <u>\$ 562,029</u> |

A. In accordance with the Company's Articles of Incorporation, if there are earnings for the fiscal year, 1.75%~3% shall be appropriated as employees' compensation. However, when there are accumulated deficits, earnings to cover the deficit shall first be retained.

B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at \$86,459 and \$88,822, respectively. The aforementioned amounts were recognized in salary expenses. The employees' compensation was estimated and accrued based on 2.375% and 2.5% of distributable profit of current year for the year ended December 31, 2016 and 2015. The employees' compensation resolved by the Board of Directors in 2017 was \$63,707 of 2016 and the employees' compensation will be distributed in the form of cash.

C. The Company distributed employees' cash compensation and recognized in employees' compensation expense on financial statements were \$62,175 and \$88,822 for the year ended December 31, 2015, respectively. Because the ratio of employee's compensation changed, the difference, \$26,647, had been adjusted the income for the year ended December 31, 2016.

D. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors and the stockholders at the stockholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(27) Depreciation and amortization

| | For the years ended December 31, | |
|--------------|----------------------------------|------------------|
| | 2016 | 2015 |
| Depreciation | \$ 20,660 | \$ 19,550 |
| Amortization | 4,000 | 4,042 |
| Total | <u>\$ 24,660</u> | <u>\$ 23,592</u> |

(28) Other business and administrative expenses

| | For the years ended December 31, | |
|-------------------------|----------------------------------|-------------------|
| | 2016 | 2015 |
| Tax and official fee | \$ 73,019 | \$ 74,378 |
| Rental expense | 45,038 | 45,565 |
| Professional expense | 7,706 | 7,112 |
| Repairs and maintenance | 5,479 | 4,387 |
| Others | 75,286 | 75,549 |
| Total | <u>\$ 206,528</u> | <u>\$ 206,991</u> |

(29) Income taxes

A. Components of income tax expense:

(A) Components of income tax expense:

| | For the years ended December 31, | |
|---|----------------------------------|-------------------|
| | 2016 | 2015 |
| Current tax: | | |
| Current tax on profits for the period | \$ 582,312 | \$ 485,083 |
| Tax on undistributed surplus earnings | 74 | - |
| Prior year income tax underestimation | 40,673 | 738 |
| Total current tax | <u>623,059</u> | <u>485,821</u> |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (32,140) | 9,553 |
| Total deferred tax | <u>(32,140)</u> | <u>9,553</u> |
| Income tax expense | <u>\$ 590,919</u> | <u>\$ 495,374</u> |

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

| | For the years ended December 31, | |
|--|----------------------------------|----------|
| | 2016 | 2015 |
| Remeasurement of defined benefit obligations | \$ 3,657 | \$ 7,929 |

B. Reconciliation between income tax expense and accounting profit

| | For the years ended December 31, | |
|--|----------------------------------|------------|
| | 2016 | 2015 |
| Tax calculated based on profit before tax and statutory tax rate | \$ 607,077 | \$ 595,988 |
| Effects from items disallowed by tax regulation | (32,541) | (27,786) |
| Effects from tax exempt income | (24,290) | (73,566) |
| Prior year income tax underestimation | 40,673 | 738 |
| Income tax expense | \$ 590,919 | \$ 495,374 |

C. Temporary differences resulting in deferred income tax assets or liabilities as of December 31, 2016 and 2015:

| For the year ended December 31, 2016 | | | | |
|--------------------------------------|------------|------------------------------|--|-------------|
| | January 1 | Recognized in profit or loss | Recognized in other comprehensive income | December 31 |
| Temporary differences: | | | | |
| - Deferred tax assets: | | | | |
| Pension unfunded | \$ 103,340 | \$ 2,967 | \$ 3,657 | \$ 109,964 |
| Others | 2,914 | 39,226 | - | 42,140 |
| Subtotal | 106,254 | 42,193 | 3,657 | 152,104 |
| - Deferred tax liabilities: | | | | |
| Others | (12,647) | (10,053) | - | (22,700) |
| Total | \$ 93,607 | \$ 32,140 | \$ 3,657 | \$ 129,404 |

| For the year ended December 31, 2015 | | | | |
|--------------------------------------|-----------|------------------------------|--|-------------|
| | January 1 | Recognized in profit or loss | Recognized in other comprehensive income | December 31 |
| Temporary differences: | | | | |
| - Deferred tax assets: | | | | |
| Pension unfunded | \$ 92,316 | \$ 3,095 | \$ 7,929 | \$ 103,340 |
| Others | 3,705 | (791) | - | 2,914 |
| Subtotal | 96,021 | 2,304 | 7,929 | 106,254 |
| - Deferred tax liabilities: | | | | |
| Others | (790) | (11,857) | - | (12,647) |
| Total | \$ 95,231 | \$ 9,553 | \$ 7,929 | \$ 93,607 |

D. As of December 31, 2016, the Company's income tax returns through 2010 had been assessed by the Tax Authorities. The Company disagreed with the assessment for 2009 and 2010, and has filed for a reassessment. In addition, the assessment for the 2011 tax returns was received on February 18, 2017. The Company disagrees with the assessment and has in accordance with regulations filed for a reassessment.

E. The Company's income tax returns are filed jointly with Mega Holding, the Company's

parent company, and its other subsidiaries starting 2003. As of December 31, 2016 and 2015, current income tax liabilities on the joint filing of income tax returns amounted to \$191,490 thousand and \$131,256 thousand, respectively.

F. Unappropriated retained earnings

As of December 31, 2016 and 2015, unappropriated retained earnings were both originated after 1998.

G. As of December 31, 2016 and 2015, the balance of the imputation tax credit account was \$8,965 thousand and \$12,622 thousand, respectively. The creditable tax rate was 0.43% for 2015 and is estimated to be 0.30% for 2016.

(30) Earnings per share

| | | 2016 | |
|------------|------------------|---|---|
| | | Weighted-average number of shares outstanding (share in thousands) | Basic and diluted earnings per share (In dollars) |
| | Amount after tax | | |
| Net income | \$ 2,980,126 | 1,311,441 | \$ 2.27 |

| | | 2015 | |
|------------|------------------|---|---|
| | | Weighted-average number of shares outstanding (share in thousands) | Basic and diluted earnings per share (In dollars) |
| | Amount after tax | | |
| Net income | \$ 3,010,436 | 1,311,441 | \$ 2.30 |

7. RELATED PARTY TRANSACTIONS

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

| <u>Names of related parties</u> | <u>Relationship with the Company</u> |
|---|--|
| Mega Financial Holding Co., Ltd. (Mega Holding) | 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 Holding |
| Mega Securities Co., Ltd. (MS) | Subsidiary of Mega Holding |
| Mega International Investment Trust Co., Ltd (MIIT) | Subsidiary of Mega Holding |
| Chung Kuo Insurance Co., Ltd. (CKI) | Subsidiary of Mega Holding |
| Mega Asset Management Co., Ltd. (MAM) | Subsidiary of Mega Holding |
| Mega Diamond Money Market Fund | Fund issued by subsidiaries of Mega Holding |
| Mega Prosperity Private Placement Fund | Fund issued by subsidiaries of Mega Holding |
| Mega USD Money Market Fund | Fund issued by subsidiaries of Mega Holding |
| Others | The Company's directors, supervisors, general managers, vice general managers, assistant managers, managers, and close relatives 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, 2016 | | | | |
|--------------------------|------------------------|--------------------------|----------------------|-------------------|
| | <u>Demand deposits</u> | <u>Checking deposits</u> | <u>Time deposits</u> | <u>Total</u> |
| Management of the parent | | | | |
| BOT | \$ 21,346 | \$ 47,687 | \$ - | \$ 69,033 |
| Fellow subsidiary | | | | |
| MICB | 105,347 | 66,907 | 11,391 | 183,645 |
| Total | <u>\$ 126,693</u> | <u>\$ 114,594</u> | <u>\$ 11,391</u> | <u>\$ 252,678</u> |

| December 31, 2015 | | | | |
|--------------------------|------------------------|--------------------------|----------------------|-------------------|
| | <u>Demand deposits</u> | <u>Checking deposits</u> | <u>Time deposits</u> | <u>Total</u> |
| Management of the parent | | | | |
| BOT | \$ 21,928 | \$ 41,928 | \$ - | \$ 63,856 |
| Fellow subsidiary | | | | |
| MICB | 41,736 | 75,790 | 11,990 | 129,516 |
| Total | <u>\$ 63,664</u> | <u>\$ 117,718</u> | <u>\$ 11,990</u> | <u>\$ 193,372</u> |

B. Other financial assets

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--------------------------|--------------------------|--------------------------|
| Management of the parent | | |
| BOT | \$ 8,549 | \$ 4,353 |
| Fellow subsidiary | | |
| MICB | 56,864 | 58,013 |
| Total | <u>\$ 65,413</u> | <u>\$ 62,366</u> |

The above-mentioned other financial assets include the designated accounts for allowance to pay back short-term bills.

C. Interbank overdraft and call loans

| For the year ended December 31, 2016 | | | | |
|--------------------------------------|------------------------|-----------------------|-------------------------|-------------------------|
| | <u>Highest Balance</u> | <u>Ending Balance</u> | <u>Interest Rate(%)</u> | <u>Interest Expense</u> |
| <u>Bank overdrafts</u> | | | | |
| Management of the parent | | | | |
| BOT | \$ 1,130,000 | \$ 184,000 | 1.38~1.755 | \$ 8,424 |
| <u>Call loans</u> | | | | |
| Management of the parent | | | | |
| BOT | 12,600,000 | 7,000,000 | 0.20~0.57 | 18,704 |
| Chunghwa Post | 11,500,000 | - | 0.30~0.46 | 4,601 |
| Fellow subsidiary | | | | |
| MICB | 6,392,650 | - | 0.28~1.40(Note 1) | 14,914 |
| Total | | <u>\$ 7,184,000</u> | | <u>\$ 46,643</u> |

(Note 1) Interest rates for call loans denominated in NTD and foreign currency were 0.28%~0.50% and 0.70%~1.40%, respectively.

| For the year ended December 31, 2015 | | | |
|--------------------------------------|------------------------|-----------------------|-------------------------|
| | <u>Highest Balance</u> | <u>Ending Balance</u> | <u>Interest Expense</u> |

Bank overdrafts

| | | | | | |
|--------------------------|----|---------|----|---------|------------|
| Management of the parent | | | | | |
| BOT | \$ | 866,000 | \$ | 129,000 | 1.755~1.88 |
| | | | | | \$ 10,486 |

Call loans

| | | | | | |
|--------------------------|------------|---------------------|------------------|--|------------------|
| Management of the parent | | | | | |
| Chunghwa Post | 11,300,000 | - | 0.365~0.46 | | 3,827 |
| BOT | 10,400,000 | - | 0.30~0.61 | | 20,790 |
| Fellow subsidiary | | | | | |
| MICB | 3,000,000 | 2,765,776 | 0.45~5.35(Note2) | | 1,905 |
| Total | | <u>\$ 2,894,776</u> | | | <u>\$ 37,008</u> |

(Note 2) Interest rates for call loans denominated in NTD and foreign currency were 0.45%~0.66% and 0.70%~5.35%, respectively.

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

D. Purchase of bills and bonds

| | <u>For the years ended December 31,</u> | |
|--------------------------|---|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Ultimate parent | | |
| Mega Holding | \$ 20,191,016 | \$ 26,487,445 |
| Management of the parent | | |
| Chunghwa Post | - | 50,586 |
| Fellow subsidiary | | |
| MAM | 23,610,718 | 6,097,241 |
| MS | 759,002 | 3,267,912 |
| Total | <u>\$ 44,560,736</u> | <u>\$ 35,903,184</u> |

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

E. Sale of bills and bonds

| | <u>For the year ended December 31, 2016</u> | | |
|--------------------------|---|--|---|
| | <u>Amount</u> | <u>Gain from financial assets and liabilities at fair value through profit or loss</u> | <u>Realized gain on available-for-sale financial assets</u> |
| Management of the parent | | | |
| Chunghwa Post | \$ 181,181,742 | \$ 58,269 | \$ 51, |
| BOT | 21,955,636 | 1,204 | - |
| Fellow subsidiary | | | |
| MICB | 163,364,928 | 53,232 | - |
| Other related parties | | | |
| Mega Diamond Money | | | |
| Market Fund | 27,793,486 | 9,616 | - |
| Total | <u>\$ 394,295,792</u> | <u>\$ 122,321</u> | <u>\$ 51,427</u> |

| <u>For the year ended December 31, 2015</u> | |
|---|--|
| <u>Amount</u> | <u>Gain from financial assets and liabilities at fair value through profit or loss</u> |

| | | | |
|--------------------------------|----|--------------------|-------------------|
| Management of the parent | | | |
| Chunghwa Post | \$ | 63,926,278 | \$ 19,795 |
| BOT | | 23,736,387 | 5,065 |
| Fellow subsidiary | | | |
| MICB | | 323,756,768 | 116,403 |
| Other related parties | | | |
| Mega Diamond Money Market Fund | | <u>19,365,304</u> | <u>8,322</u> |
| Total | \$ | <u>430,784,737</u> | <u>\$ 149,585</u> |

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

F. Financial assets at fair value through profit or loss

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

December 31, 2016: None.

| December 31, 2015 | | | | | | |
|-------------------|--------------------|---------------|---------------|-------------------|-------------|-------------|
| | Type of instrument | Issuance date | Maturity date | Interest rate (%) | Face value | Cost |
| Fellow subsidiary | | | | | | |
| MAM | Commercial papers | 2015.12.23 | 2016.01.22 | 0.64 | \$1,100,000 | \$1,099,421 |

G. Bills and bonds under repurchase agreements

| For the year ended December 31, 2016 | | | |
|--|-----------------------|---------------------|------------------|
| | Amount | Ending balance | Interest expense |
| Ultimate parent | | | |
| Chunghwa Post | \$ 4,860,253 | \$ - | \$ 808 |
| Fellow subsidiary | | | |
| MICB | 141,010,835 | - | 9,860 |
| MS | 2,550,762 | - | 71 |
| CKI | 1,147,443 | 333,569 | 236 |
| Other related parties | | | |
| Mega Diamond Money Market Fund | 669,664 | - | 9 |
| Mega Prosperity Private Placement Fund | 34,093,990 | 1,201,219 | 15,538 |
| Mega USD Money Market Fund | <u>1,479,491</u> | <u>66,022</u> | <u>748</u> |
| Total | <u>\$ 185,812,438</u> | <u>\$ 1,600,810</u> | <u>\$ 27,270</u> |

| For the year ended December 31, 2015 | | | |
|--------------------------------------|----------------------|-------------------|------------------|
| | Amount | Ending balance | Interest expense |
| Ultimate parent | | | |
| Mega Holding | \$ 7,880,508 | \$ - | \$ 2,837 |
| Fellow subsidiary | | | |
| MICB | 80,179,796 | - | 1,556 |
| CKI | 4,027,481 | 49,902 | 1,101 |
| MS | 3,695,208 | 149,881 | 787 |
| MIIT | 166,159 | - | 81 |
| Other related parties | | | |
| Mega Diamond Money | | | |
| Market Fund | 799,226 | - | 105 |
| Others | 100,000 | - | 14 |
| Total | <u>\$ 96,848,378</u> | <u>\$ 199,783</u> | <u>\$ 6,481</u> |

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

H. Financial derivative transactions

As of December 31, 2016 and 2015, the realized loss of financial derivative transactions were \$7,003 thousand and \$1,287 thousand, respectively.

I. Guarantees provided to related parties

December 31, 2016: None.

| For the year ended December 31, 2015 | | | | | | |
|--------------------------------------|-----------------|----------------|--|-----------|---------------|-------------|
| | Highest Balance | Ending Balance | Allowance for doubtful accounts and reserves for guarantee liabilities | Rates (%) | Pledged Asset | Fees income |
| Fellow subsidiary | | | | | | |
| MAM | \$ 420,000 | \$ - | \$ - | 0.63 | Real estate | \$ 45 |

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

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

| For the year ended December 31, 2016 | | | | |
|--------------------------------------|-----------------|---------------------|-----------|---------------|
| | Highest Balance | Ending Balance | Rates (%) | Fees income |
| Ultimate parent | | | | |
| Mega Holding | \$ 4,000,000 | \$ 2,100,000 | 0.40~0.80 | \$ 232 |
| Fellow subsidiary | | | | |
| MAM | 2,650,000 | - | 0.42~0.75 | 278 |
| MS | 210,000 | - | 0.42~0.57 | 10 |
| | | <u>\$ 2,100,000</u> | | <u>\$ 520</u> |

| For the year ended December 31, 2015 | | | | |
|--------------------------------------|------------------------|-----------------------|------------------|--------------------|
| | <u>Highest Balance</u> | <u>Ending Balance</u> | <u>Rates (%)</u> | <u>Fees income</u> |
| Ultimate parent | | | | |
| Mega Holding | \$ 4,000,000 | \$ 3,000,000 | 0.63~0.91 | \$ 964 |
| Fellow subsidiary | | | | |
| MAM | 2,650,000 | 2,650,000 | 0.63~0.93 | 307 |
| MS | 810,000 | <u>210,000</u> | 0.65~0.98 | <u>177</u> |
| | | <u>\$ 5,860,000</u> | | <u>\$ 1,448</u> |

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

K. Collaterals provided to related parties for bank overdrafts

| | | December 31, | |
|--------------------------|--|---------------------|---------------------|
| | | <u>2016</u> | <u>2015</u> |
| | <u>Pledged Asset</u> | | |
| Management of the parent | | | |
| BOT | Financial assets at fair value through profit or loss - negotiable certificates of time deposit \$ | 700,802 | \$ 700,971 |
| | Available-for-sale financial assets - government bonds | 304,092 | 378,756 |
| | Available-for-sale financial assets – corporate bonds | 1,707,660 | 1,623,094 |
| Fellow subsidiary | | | |
| MICB | Financial assets at fair value through profit or loss - negotiable certificates of time deposit | 3,000,852 | 2,700,409 |
| | Available-for-sale financial assets - government bonds | <u>2,250,067</u> | <u>2,243,934</u> |
| | | <u>\$ 7,963,473</u> | <u>\$ 7,647,164</u> |

L. Assets provided as operating deposits for securities firm:

| | | December 31, | |
|--------------------------|--|------------------|------------------|
| | | <u>2016</u> | <u>2015</u> |
| | <u>Pledged Asset</u> | | |
| Management of the parent | | | |
| BOT | Available-for-sale financial assets - government bonds | <u>\$ 50,049</u> | <u>\$ 50,758</u> |

M. 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, | |
|-------------------|--|----------------------------------|---------------|
| | | <u>2016</u> | <u>2015</u> |
| Fellow subsidiary | | | |
| MICB | | <u>\$ -</u> | <u>\$ 114</u> |

N. Leasehold income

| <u>Lessee</u> | <u>Leased Property</u> | <u>Period</u> | <u>For the years ended December 31,</u> | |
|-------------------|----------------------------|----------------------------|---|------------------|
| | | | <u>2016</u> | <u>2015</u> |
| Fellow subsidiary | | | | |
| MICB | Office and parking lots | Jan. 1, 2016-Dec. 31, 2018 | \$ 79,779 | \$ 84,246 |
| CKI | Office | Dec. 1, 2016-Nov. 30, 2021 | <u>1,054</u> | <u>1,037</u> |
| | | | <u>\$ 80,833</u> | <u>\$ 85,283</u> |

- (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 with the \$14,041 thousand deposit already received.
- (B) The Company's Sanchong branch rented the storage house to CKI for office use. The lease agreement was signed with the \$170 thousand dollar deposit already received.
- (C) The rent is determined based on the comparable rental expense in the surrounding area.

O. Rental expenses

| <u>Lessor</u> | <u>Rental Property</u> | <u>Period</u> | <u>For the years ended December 31,</u> | |
|-------------------|----------------------------|----------------------------|---|------------------|
| | | | <u>2016</u> | <u>2015</u> |
| Fellow subsidiary | | | | |
| MICB | Office | Jan. 1, 2016-Dec. 31, 2018 | \$ 34,183 | \$ 35,121 |
| MICB | Office | Jan. 1, 2014-Feb. 28, 2015 | - | 126 |
| MICB | Office | - | 25 | 20 |
| CKI | Warehouse | Dec. 1, 2016-Nov. 30, 2021 | <u>331</u> | <u>316</u> |
| | | | <u>\$ 34,539</u> | <u>\$ 35,583</u> |

- (A) The Company rented partial office space located at HengYang Rd., Taipei City from MICB. The lease agreement was signed with the \$5,853 thousand deposit already paid.
- (B) The Company leased the office on Hengyang Rd., Taipei City from MICB based on a daily rent for education and training venues.
- (C) The Company rented Keelung lodge from CKI for file storage. The lease agreement was signed with the \$52 thousand deposit already paid.
- (D) The rent is determined based on the comparable rental expense in the surrounding area.

P. Insurance expenses

| | <u>For the years ended December 31,</u> | |
|-------------------|---|-----------------|
| | <u>2016</u> | <u>2015</u> |
| Fellow subsidiary | | |
| CKI | <u>\$ 3,352</u> | <u>\$ 3,403</u> |

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

| | For the years ended December 31, | |
|---|----------------------------------|------------------|
| | 2016 | 2015 |
| Salaries and other short-term employee benefits | \$ 30,580 | \$ 30,220 |
| Post-employment benefits | 700 | 700 |
| | <u>\$ 31,280</u> | <u>\$ 30,920</u> |

8. PLEDGED ASSETS

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

| | December 31, | | Secured for |
|--|----------------------|----------------------|---|
| | 2016 | 2015 | |
| Financial asset at fair value through profit or loss - negotiable certificates of time deposit | \$ 10,503,132 | \$ 10,405,233 | Collateral for Central bank and other banks' overdraft |
| Available-for-sale financial assets - government bonds | 6,595,349 | 6,635,254 | 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 | 1,707,660 | 1,623,094 | Bank overdraft |
| Other financial assets- certificate of deposit pledged | <u>400,000</u> | <u>400,000</u> | Bank overdraft |
| Total | <u>\$ 19,206,141</u> | <u>\$ 19,063,581</u> | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

As of December 31, 2016 and 2015, the commitments and contingencies arising from the Company's normal course of business were as follows:

| | December 31, | |
|--|--------------|--------------|
| | 2016 | 2015 |
| Securities bills and bonds investment with resale agreements | \$ - | \$ 1,000,000 |
| Securities bills and bonds payable under repurchase agreements | 210,809,807 | 173,109,248 |
| Guarantees on commercial papers | 147,973,500 | 150,968,600 |
| Fixed rate commercial paper purchased | 14,170,000 | 8,870,000 |
| Fixed rate commercial paper sold | 500,000 | 500,000 |
| Index rate commercial paper purchased | 29,310,000 | 29,710,000 |
| Index rate commercial paper sold | 4,000,000 | 5,500,000 |

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. FINANCIAL INSTRUMENTS AFTER THE BALANCE SHEET DATE

(1) Fair value and level information of financial instruments

A. Fair value information of financial instruments

- (a) 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) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(1)B. In addition, information on the counterparty's and Company's credit risk is also considered and assessed throughout the valuation process.

| | <u>December 31, 2016</u> | | <u>December 31, 2015</u> | |
|-----------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| | <u>Carrying</u> | <u>Fair</u> | <u>Carrying</u> | <u>Fair</u> |
| | <u>Value</u> | <u>Value</u> | <u>Value</u> | <u>Value</u> |
| Held-to-maturity financial assets | <u>\$ 350,000</u> | <u>\$ 354,948</u> | <u>\$ 600,000</u> | <u>\$ 606,715</u> |

The fair values of the above-mentioned held-to-maturity financial assets are all classified as Level 2.

- (b) The Company's methods and assumptions used in measuring fair value is as follows:

Held-to-maturity financial assets: if there are public quotes in active markets, then the market price is the fair value; when there are no available market prices for reference, then estimates from valuation methods.

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

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

b. Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

c. Level 3

Unobservable inputs for the asset or liability. There are no financial instruments measured at fair value held by the Company which are classified as Level 3.

(B) Information of fair value hierarchy of financial instruments

| Unit: In thousand of New Taiwan dollars | | | | |
|--|----------------|----------------|----------------|----------------|
| December 31, 2015 | | | | |
| <u>Recurring fair value measurement</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <u>Non-derivative Financial Instruments</u> | | | | |
| <u>Assets</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets held for trading | | | | |
| Investment in bills | \$ 120,027,368 | \$ - | \$ 120,027,368 | - |
| Investment in bonds | 587,298 | - | 587,298 | - |
| Other | 3,222 | 3,222 | - | - |
| Financial assets designated as at fair value through profit or loss on initial recognition | 4,679,600 | - | 4,679,600 | - |
| Available-for-sale financial assets | | | | |
| Investment in stock | 894,809 | 894,809 | - | - |
| Investment in bonds | 131,446,606 | 284,212 | 131,162,394 | - |
| Beneficiary or asset-backed securities | 513,119 | - | 513,119 | - |
| Other | 12,652 | 12,652 | - | - |
| <u>Liabilities</u> | | | | |
| Financial liabilities at fair value through profit or loss | 22,543 | - | 22,543 | - |

| December 31, 2015 | | | | |
|--|----------------|----------------|----------------|----------------|
| <u>Recurring fair value measurement</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <u>Non-derivative Financial Instruments</u> | | | | |
| <u>Assets</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets held for trading | | | | |
| Investment in bills | \$ 109,132,348 | \$ - | \$ 109,132,348 | - |
| Investment in bonds | 368,177 | - | 368,177 | - |
| Financial assets designated as at fair value through profit or loss on initial recognition | 5,784,581 | - | 5,784,581 | - |
| Available-for-sale financial assets | | | | |
| Investment in stock | 992,445 | 992,445 | - | - |
| Investment in bonds | 99,309,014 | 514,975 | 98,794,039 | - |
| Beneficiary or asset-backed securities | 513,321 | - | 513,321 | - |
| Other | 1,445 | 1,445 | - | - |
| <u>Liabilities</u> | | | | |
| Financial liabilities at fair value | 6,149 | - | 6,149 | - |

through profit or loss

- (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 at the balance sheet date. Fair values of open-ended funds are determined by the net asset value at the balance sheet date. Fair value of benchmark bond is determined by the transaction price at 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 at 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. Government bonds are valued by the fair values of government bonds fair value offered by OTC or Bloomberg L.P at the balance sheet date; bank debentures, 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 or the information of average prices of foreign currency bonds and marketable securities offered by Bloomberg L.P. 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 average price of the Reuters. The exchange rate adopted is the spot average 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, 2016 and 2015.
- (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. Additionally, 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 processed 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) Master netting arrangements

The Company's transactions predominantly settle at gross amount. A portion of transactions have entered into net master netting arrangements with counterparties or upon the event of a default may cease all transactions with the counterparties and settle by net amount in order to further reduce credit risk.

(C) Other credit enhancements

A portion of the Company's held financial instruments have obtained guarantees from financial institutions in order to reduce credit risk.

(D) 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 enhancements, is equivalent to the carrying amount. The maximum exposure amount related to off-balance-sheet items is as follows:

| Off-balance-sheet items | Carrying amount | Maximum credit risk exposure amount |
|------------------------------|-----------------|-------------------------------------|
| December 31, 2016 | | |
| Off-balance-sheet guarantees | \$ - | \$ 147,973,500 |
| December 31, 2015 | | |
| Off-balance-sheet guarantees | - | 150,968,600 |

- (B) As of December 31, 2016 and 2015, the off-balance sheet contract amount for the guarantees of commercial papers subject to potential credit risks is NT\$300,440 million and NT\$292,445 million, respectively (The contract amount which has been drawn upon amounted to NT\$147,974 million and NT\$150,969 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, 2016 and 2015, the percentage of guarantees with collaterals is 72.60% and 68.49%, 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) Information on the financial impact of collateral, master netting arrangements and other credit enhancements of the Company's assets subject to credit exposure is as follow:

| December 31, 2016 | <u>Collateral</u> | <u>Other credit enhancements</u> | <u>Total</u> |
|---|-------------------|----------------------------------|--------------|
| Financial assets measured at fair value through profit or loss-debt instruments | \$ - | \$ 7,175,148 | \$ 7,175,148 |
| Available-for-sale financial assets-debt instruments | - | 5,719,977 | 5,719,977 |
| Off-balance-sheet guarantees | 107,422,666 | - | 107,422,666 |
| December 31, 2015 | <u>Collateral</u> | <u>Other credit enhancements</u> | <u>Total</u> |
| Financial assets measured at fair value through profit or loss-debt instruments | \$ - | \$ 4,352,415 | \$ 4,352,415 |
| Available-for-sale financial assets-debt instruments | - | 3,075,000 | 3,075,000 |
| Investments in bills and bonds with resale agreements | 1,000,000 | - | 1,000,000 |
| Off-balance-sheet guarantees | 103,394,900 | - | 103,394,900 |

Note 1: Collaterals include property, movable property, securities and certificates of deposits.

(1)Value of collaterals pledged for assets that arise from lending is the lower of collateral value/ market value and maximum exposure amount. If the collateral value cannot be obtained, value of collaterals must be assessed.

(2)Value of collaterals pledged for assets that do not arise from lending is the lower of market value and maximum exposure amount.

Note 2: For explanations on master netting arrangements and other credit enhancements, please refer to Note 13(3)C(B) and (C).

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, 2016 | | December 31, 2015 | |
|--|-----------------------|---------------|-----------------------|---------------|
| | Amount | Ratio(%) | Amount | Ratio(%) |
| Real estate | \$ 43,451,100 | 29.36 | \$ 38,380,700 | 25.42 |
| Financial & insurance | 39,665,700 | 26.81 | 46,194,200 | 30.60 |
| Manufacturing | 32,604,000 | 22.03 | 34,344,900 | 22.75 |
| Wholesale & retail | 9,255,600 | 6.26 | 9,301,200 | 6.16 |
| Accommodation and Food | 8,302,900 | 5.61 | - | - |
| Others – less than 5% of balance of guarantees at period end | 14,694,200 | 9.93 | 22,747,600 | 15.07 |
| Total | <u>\$ 147,973,500</u> | <u>100.00</u> | <u>\$ 150,968,600</u> | <u>100.00</u> |

(B) Collateral (guarantee service)

| | December 31, 2016 | | December 31, 2015 | |
|------------------------|-----------------------|---------------|-----------------------|---------------|
| | Amount | Ratio(%) | Amount | Ratio(%) |
| Unsecured | \$ 40,550,834 | 27.40 | \$ 47,573,700 | 31.51 |
| Secured | | | | |
| Secured by stocks | 25,880,261 | 17.49 | 28,689,887 | 19.00 |
| Secured by bonds | 5,674,315 | 3.84 | 5,433,555 | 3.60 |
| Secured by real estate | 72,822,154 | 49.21 | 65,398,229 | 43.32 |
| Others | 3,045,936 | 2.06 | 3,873,229 | 2.57 |
| Total | <u>\$ 147,973,500</u> | <u>100.00</u> | <u>\$ 150,968,600</u> | <u>100.00</u> |

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, investments in bills and bonds 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 to 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 |

(Blank Below)

(A) Credit quality analysis on securities investment

| December 31, 2016 | | | | | | | | | | |
|---|-------------------------------|---------------|---------------|--------------|-----------------|---------------------------|----------|----------------|--------------------|----------------|
| Financial assets | Neither past due nor impaired | | | | | Past due but not impaired | Impaired | Total | Reserve for losses | Net amount |
| | Excellent | Satisfactory | Fair | Weaker | No rating(note) | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | | | |
| Investment in bills | \$ 49,826,633 | \$ 42,373,653 | \$ 21,997,895 | \$ 5,499,237 | \$ 329,950 | \$ - | \$ - | \$ 120,027,368 | \$ - | \$ 120,027,368 |
| Investment in bonds | 1,341,593 | 107,592 | - | - | 3,817,713 | - | - | 5,266,898 | - | 5,266,898 |
| Available-for-sale financial assets | | | | | | | | | | |
| Investment in bonds | 124,898,319 | 2,925,479 | - | - | 3,622,808 | - | - | 131,446,606 | - | 131,446,606 |
| Beneficiary or asset-backed securities | 513,119 | - | - | - | - | - | - | 513,119 | - | 513,119 |
| Held-to-maturity financial assets | 250,000 | 100,000 | - | - | - | - | - | 350,000 | - | 350,000 |
| Financial assets carried at cost | - | - | - | - | - | - | 600,900 | 600,900 | 398,700 | 202,200 |
| December 31, 2015 | | | | | | | | | | |
| Financial assets | Neither past due nor impaired | | | | | Past due but not impaired | Impaired | Total | Reserve for losses | Net amount |
| | Excellent | Satisfactory | Fair | Weaker | No rating(note) | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | | | |
| Investment in bills | \$ 49,196,831 | \$ 38,961,487 | \$ 17,128,378 | \$ 3,650,986 | \$ 194,666 | \$ - | \$ - | \$ 109,132,348 | \$ - | \$ 109,132,348 |
| Investment in bonds | 1,406,676 | 540,104 | - | - | 4,205,978 | - | - | 6,152,758 | - | 6,152,758 |
| Bills and bonds investment with resale agreements | - | 1,000,000 | - | - | - | - | - | 1,000,000 | - | 1,000,000 |
| Available-for-sale financial assets | | | | | | | | | | |
| Investment in bonds | 94,487,075 | 4,560,225 | - | - | 261,714 | - | - | 99,309,014 | - | 99,309,014 |
| Beneficiary or asset-backed securities | 513,321 | - | - | - | - | - | - | 513,321 | - | 513,321 |
| Held-to-maturity financial assets | 250,000 | 350,000 | - | - | - | - | - | 600,000 | - | 600,000 |
| 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

There were no accounts receivable as of December 31, 2016 and 2015.

G. Analysis of impaired financial assets of the Company

| <u>Financial assets</u> | <u>Carrying amount prior to recognition of impairment loss</u> | <u>Amount of the impairment loss</u> | <u>Carrying amount after recognition of impairment loss</u> | <u>Available collateral and other credit strengthening collateral</u> |
|----------------------------------|--|--|---|---|
| <u>December 31, 2016</u> | | | | |
| <u>On-balance sheet accounts</u> | | | | |
| Financial assets carried at cost | \$ 600,900 | \$ 398,700 | \$ 202,200 | None |
| Other receivables | 632 | 632 | - | None |
| <u>December 31, 2015</u> | | | | |
| <u>On-balance sheet accounts</u> | | | | |
| Financial assets carried at cost | 600,900 | 398,700 | 202,200 | None |

(Blank Below)

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, 2016 | December 31, 2015 |
|---|-------------------|-------------------|
| Guarantees in arrear and guaranteed credits overdue for no longer than three months | \$ - | \$ - |
| Overdue credits (including overdue receivables) | - | - |
| Loans under surveillance | - | - |
| Overdue receivables | - | - |
| Ratio of overdue credits (%) | - | - |
| Ratio of overdue credits plus ratio of loans under surveillance (%) | - | - |
| Provision for bad debts and guarantees as required by regulation | 2,130,454 | 2,292,234 |
| Provision for bad debts and guarantees actually reserved | 2,255,703 | 2,324,003 |

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, 2016 | December 31, 2015 |
|---|-------------------|-------------------|
| Total guarantees and endorsement for short-term bills | \$ 147,973,500 | \$ 150,968,600 |
| Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment) | 4.68 | 4.98 |
| Total bills and bonds payable under repurchase agreements | 210,809,807 | 173,109,248 |
| Bills and bonds payable under repurchase agreements / Net amount (after deducting final accounts allotment) | 6.66 | 5.71 |

(C) Concentration of credit risk

| Items | December 31, 2016 | | December 31, 2015 | |
|--|-------------------------|----------|-------------------------|----------|
| Credits extended to related parties | \$ | 97,000 | \$ | 97,000 |
| Percentage of credits extended to related parties (%) (Note 1) | | 0.07 | | 0.06 |
| Percentage of credits extended secured by equity (%) (Note 2) | | 17.49 | | 19.00 |
| Industry concentration (Top 3 industries with maximum industry credit ratio) | Industry | Ratio(%) | Industry | Ratio(%) |
| | Real estate | 29.36 | Financial and insurance | 30.60 |
| | Financial and insurance | 26.81 | Real estate | 25.42 |
| | Manufacturing | 22.03 | Manufacturing | 22.75 |

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(16).

(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, 2016 and 2015, the carrying amounts of financial assets and financial liabilities are classified according to their time-to-maturity as follows:

| | December 31, 2016 | | | | | | |
|--|---------------------------|-----------------------|-----------------------|---------------------------|----------------------|----------------------|------------------------|
| | <u>1 to 30 days</u> | <u>31 to 90 days</u> | <u>91 to 180 days</u> | <u>181 days to 1 year</u> | <u>1 to 5 years</u> | <u>Over 5 years</u> | <u>Total</u> |
| <u>Assets</u> | | | | | | | |
| Cash and cash equivalents | \$ 335,000 | \$ 11,485 | \$ - | \$ - | \$ - | \$ - | \$ 346,485 |
| Financial assets at fair value through profit or loss | | | | | | | |
| Non-derivative financial instruments | 67,509,372 | 48,513,849 | 4,680,467 | 1,702,537 | 3,074,901 | 101,125 | 125,582,251 |
| Available-for-sale financial assets | 908,041 | 2,779,226 | 4,603,797 | 10,180,693 | 80,468,372 | 54,193,677 | 153,133,806 |
| Receivables | 60,529 | - | - | - | - | - | 60,529 |
| Held-to-maturity financial assets | 1,100 | - | - | 256,100 | 104,400 | - | 361,600 |
| Other financial assets | <u>76,203</u> | <u>281</u> | <u>200,295</u> | <u>200,464</u> | <u>-</u> | <u>-</u> | <u>477,243</u> |
| Total assets | <u>\$ 68,890,245</u> | <u>\$ 51,304,841</u> | <u>\$ 9,484,559</u> | <u>\$ 12,339,794</u> | <u>\$ 83,647,673</u> | <u>\$ 54,294,802</u> | <u>\$ 279,961,914</u> |
| <u>Liabilities</u> | | | | | | | |
| Interbank overdraft and call loans | (15,718,356) | - | - | - | - | - | (15,718,356) |
| Financial liabilities at fair value through profit or loss | | | | | | | |
| Non-derivative financial instruments | - | - | - | (746) | (21,797) | - | (22,543) |
| Bills and bonds payable under repurchase agreements | (175,059,205) | (33,416,803) | (2,375,081) | (72,677) | - | - | (210,923,766) |
| Payables | (257,996) | (4,411) | (148,182) | (131,851) | - | - | (542,440) |
| Other funds outflow upon maturity | (<u>252,923</u>) | (<u>112,224</u>) | <u>-</u> | <u>-</u> | (<u>19,596</u>) | <u>-</u> | (<u>384,743</u>) |
| Total liabilities | (<u>191,288,480</u>) | (<u>33,533,438</u>) | (<u>2,523,263</u>) | (<u>205,274</u>) | (<u>41,393</u>) | <u>-</u> | (<u>227,591,848</u>) |
| Net liquidity gap | (<u>\$ 122,398,235</u>) | <u>\$ 17,771,403</u> | <u>\$ 6,961,296</u> | <u>\$ 12,134,520</u> | <u>\$ 83,606,280</u> | <u>\$ 54,294,802</u> | <u>\$ 52,370,066</u> |

(Blank Below)

| | December 31, 2015 | | | | | | |
|--|--------------------------|----------------------|----------------------|---------------------|----------------------|----------------------|-----------------------|
| | 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 |
| <u>Assets</u> | | | | | | | |
| Cash and cash equivalents | \$ 309,366 | \$ 12,086 | \$ - | \$ - | \$ - | \$ - | \$ 321,452 |
| Financial assets at fair value through profit or loss | | | | | | | |
| Non-derivative financial instruments | 64,173,126 | 36,647,709 | 9,259,664 | 1,422,334 | 4,090,627 | - | 115,593,460 |
| Available-for-sale financial assets | 103,058 | 2,826,983 | 2,324,574 | 7,021,777 | 60,549,932 | 37,943,731 | 110,770,055 |
| Bills and bonds investment with resale agreements | 1,000,207 | - | - | - | - | - | 1,000,207 |
| Receivables | 8,970 | - | - | - | - | - | 8,970 |
| Held-to-maturity financial assets | 1,100 | 252,600 | - | 6,100 | 361,600 | - | 621,400 |
| Other financial assets | 74,470 | 460 | 200,451 | 200,661 | - | - | 476,042 |
| Total assets | <u>\$ 65,670,297</u> | <u>\$ 39,739,838</u> | <u>\$ 11,784,689</u> | <u>\$ 8,650,872</u> | <u>\$ 65,002,159</u> | <u>\$ 37,943,731</u> | <u>\$ 228,791,586</u> |
| <u>Liabilities</u> | | | | | | | |
| Interbank overdraft and call loans | (11,296,566) | - | - | - | - | - | (11,296,566) |
| Financial liabilities at fair value through profit or loss | | | | | | | |
| Non-derivative financial instruments | - | - | - | - | (6,149) | - | (6,149) |
| Bills and bonds payable under repurchase agreements | (153,558,797) | (17,025,646) | (2,589,078) | (645) | - | - | (173,174,166) |
| Payables | (123,073) | (123,902) | (163,800) | (63,740) | - | - | (474,515) |
| Other funds outflow upon maturity | (770,771) | (8,700) | - | (421) | (4,596) | - | (784,488) |
| Total liabilities | (165,749,207) | (17,158,248) | (2,752,878) | (64,806) | (10,745) | - | (185,735,884) |
| Net liquidity gap | <u>(\$ 100,078,910)</u> | <u>\$ 22,581,590</u> | <u>\$ 9,031,811</u> | <u>\$ 8,586,066</u> | <u>\$ 64,991,414</u> | <u>\$ 37,943,731</u> | <u>\$ 43,055,702</u> |

(C) Structure analysis for maturity of derivative financial assets and liabilities - gross basis

There were no derivatives that were settled on a gross basis as at December 31, 2016 and 2015.

(D) Structure analysis for maturity of derivative financial assets and liabilities-net basis

There were no derivatives that were settled on a net basis as at December 31, 2016 and 2015.

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 |
|----------------------------------|----------------|---------------|----------------|--------------------|--------------|----------------|
| <u>December 31, 2016</u> | | | | | | |
| <u>Off-balance sheet items</u> | | | | | | |
| Guarantees for commercial papers | \$ 99,230,200 | \$ 45,750,300 | \$ 2,993,000 | \$ - | \$ - | \$ 147,973,500 |
| <u>December 31, 2015</u> | | | | | | |
| <u>Off-balance sheet items</u> | | | | | | |
| Guarantees for commercial papers | \$ 115,559,100 | \$ 33,607,800 | \$ 1,801,700 | \$ - | \$ - | \$ 150,968,600 |

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.

| <u>December 31, 2016</u> | <u>Below 1 year</u> | <u>1 to 5 years</u> | <u>Over 5 years</u> | <u>Total</u> |
|----------------------------------|---------------------|---------------------|---------------------|-------------------|
| <u>Lease commitment</u> | | | | |
| Operating lease expense (lessee) | (\$ 39,047) | (\$ 41,162) | \$ - | (\$ 80,209) |
| Operating income (lessor) | 102,038 | 121,552 | - | 223,590 |
| Total | <u>\$ 62,991</u> | <u>\$ 80,390</u> | <u>\$ -</u> | <u>\$ 143,381</u> |
| <u>December 31, 2015</u> | | | | |
| <u>Lease commitment</u> | | | | |
| Operating lease expense (lessee) | (\$ 38,778) | (\$ 70,435) | \$ - | (\$ 109,213) |
| Operating income (lessor) | 104,958 | 221,726 | - | 326,684 |
| Total | <u>\$ 66,180</u> | <u>\$ 151,291</u> | <u>\$ -</u> | <u>\$ 217,471</u> |

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, 2016
(Expressed in Millions of NT Dollars)

| | 1 to 30 days | 31 to 90 days | 91 to 180 days | 181 days to 1 year | Over 1 year |
|---|--------------|---------------|----------------|-----------------------|-------------|
| Utilization of capital | | | | | |
| Bills | 67,358 | 48,241 | 4,412 | - | - |
| Bonds | 821 | 1,571 | 4,062 | 10,814 | 120,309 |
| Bank deposit | 334 | 12 | 200 | 200 | - |
| Loans extended | - | - | - | - | - |
| Bills and bonds investment with resale agreements | - | - | - | - | - |
| Total | 68,513 | 49,824 | 8,674 | 11,014 | 120,309 |
| Sources of capital | | | | | |
| Loans borrowed | 15,715 | - | - | - | - |
| Bills and bonds payable under repurchase agreements | 174,983 | 33,383 | 2,371 | 73 | - |
| Own capital | - | - | - | - | 33,779 |
| Total | 190,698 | 33,383 | 2,371 | 73 | 33,779 |
| Net capital | (122,185) | 16,441 | 6,303 | 10,941 | 86,530 |
| Accumulated net capital | (122,185) | (105,744) | (99,441) | (88,500) | (1,970) |

Sources and Utilization of Capital
as of December 31, 2015
(Expressed in Millions of NT Dollars)

| | 1 to 30 days | 31 to 90 days | 91 to 180 days | 181 days to 1 year | Over 1 year |
|---|--------------|---------------|----------------|-----------------------|-------------|
| Utilization of capital | | | | | |
| Bills | 63,838 | 36,411 | 8,838 | - | - |
| Bonds | 251 | 1,442 | 1,923 | 7,567 | 95,392 |
| Bank deposit | 309 | 12 | 200 | 200 | - |
| Loans extended | - | - | - | - | - |
| Bills and bonds investment with resale agreements | 1,000 | - | - | - | - |
| Total | 65,398 | 37,865 | 10,961 | 7,767 | 95,392 |
| Sources of capital | | | | | |
| Loans borrowed | 11,295 | - | - | - | - |
| Bills and bonds payable under repurchase agreements | 153,516 | 17,008 | 2,584 | 1 | - |
| Own capital | - | - | - | - | 34,453 |
| Total | 164,811 | 17,008 | 2,584 | 1 | 34,453 |
| Net capital | (99,413) | 20,857 | 8,377 | 7,766 | 60,939 |
| Accumulated net capital | (99,413) | (78,556) | (70,179) | (62,413) | (1,474) |

(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 recognized 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 $\pm 3\%$ exchange rate fluctuations; and reporting to the Risk Management Committee quarterly.
- (C) Company's foreign exchange risk exposure

| | (Expressed in Thousands of NT Dollars) | |
|---|--|-----------|
| | December 31, 2016 | |
| | USD | RMB |
| Cash and cash equivalents | \$ 13,791 | \$ 11,392 |
| Available-for-sale financial assets | 37,571,108 | - |
| Receivables - net | 437,702 | 31 |
| Total assets | 38,022,601 | 11,423 |
| Interbank overdraft and call loans | 1,030,592 | - |
| Bills and bonds sold under repurchased agreements | 37,046,495 | - |
| Payables | 24,313 | - |
| Total liabilities | 38,101,400 | - |
| On-balance sheet foreign exchange gap | (\$ 78,799) | \$ 11,423 |

| | | |
|----------------------------------|----------|----------|
| Off-balance sheet currency swaps | \$ - | \$ - |
| Exchange rate to NTD | 32.2060 | 4.6253 |
| Foreign exchange gain (loss) | \$ 3,450 | (\$ 906) |

(Expressed in Thousands of NT Dollars)

| | December 31, 2015 | |
|---|-------------------|-----------|
| | USD | RMB |
| Cash and cash equivalents | \$ 6,840 | \$ 11,994 |
| Available-for-sale financial assets | 9,560,675 | - |
| Receivables - net | 117,482 | 34 |
| Total assets | 9,684,997 | 12,028 |
| Interbank overdraft and call loans | 65,776 | - |
| Bills and bonds sold under repurchased agreements | 9,493,161 | - |
| Payables | 1,346 | - |
| Total liabilities | 9,560,283 | - |
| On-balance sheet foreign exchange gap | \$ 124,714 | \$ 12,028 |
| Off-balance sheet currency swaps | \$ - | \$ - |
| Exchange rate to NTD | 32.8880 | 4.9959 |
| Foreign exchange gain (loss) | \$ 3,457 | (\$ 254) |

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, 2016

| <u>Risks</u> | <u>Extent of Variation</u> | <u>Effect on Profit or Loss</u> | <u>Effect on Other Comprehensive Income</u> |
|------------------------|--|---------------------------------|---|
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%. | \$ 674 | \$ - |
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1% | (674) | - |
| Interest rate risk | Major increases in interest rates 1bp | (1,985) | (64,276) |
| Interest rate risk | Major decline in interest rates 1bp | 1,996 | 64,370 |
| Equity securities risk | TAIEX declined by 1%. | 33 | (6,128) |
| Equity securities risk | TAIEX increased by 1% | (33) | 6,128 |

December 31, 2015

| <u>Risks</u> | <u>Extent of Variation</u> | <u>Effect on Profit or Loss</u> | <u>Effect on Other Comprehensive Income</u> |
|------------------------|--|---------------------------------|---|
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%. | (\$ 1,368) | \$ - |
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1% | 1,368 | - |
| Interest rate risk | Major increases in interest rates 1bp | (1,770) | (42,564) |
| Interest rate risk | Major decline in interest rates 1bp | 1,771 | 42,600 |
| Equity securities risk | TAIEX declined by 1%. | - | (7,179) |
| Equity securities risk | TAIEX increased by 1% | - | 7,179 |

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, 2016

Unit: In thousands of NT Dollars, %

| Items | 1 to 90 days | 91 to 180 days | 181 days to 1 year | Over 1 year | Total |
|--|----------------|----------------|--------------------|-------------|-------------|
| Interest rate sensitive assets | 118,335,955 | 8,674,652 | 11,013,602 | 120,309,532 | 258,333,741 |
| Interest rate sensitive liabilities | 224,080,796 | 2,371,087 | 72,516 | - | 226,524,399 |
| Interest rate sensitive gap | (105,744,841) | 6,303,565 | 10,941,086 | 120,309,532 | 31,809,342 |
| Net worth | | | | | 33,779,058 |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%) | | | | | 114.04 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | 94.17 |

December 31, 2015

Unit: In thousands of NT Dollars, %

| Items | 1 to 90 days | 91 to 180 days | 181 days to 1 year | Over 1 year | Total |
|--|---------------|----------------|--------------------|-------------|-------------|
| Interest rate sensitive assets | 103,263,453 | 10,960,681 | 7,766,461 | 95,392,432 | 217,383,027 |
| Interest rate sensitive liabilities | 181,819,763 | 2,583,619 | 642 | - | 184,404,024 |
| Interest rate sensitive gap | (78,556,310) | 8,377,062 | 7,765,819 | 95,392,432 | 32,979,003 |
| Net worth | | | | | 34,453,252 |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%) | | | | | 117.88 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | 95.72 |

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

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

| <u>For the year ended December 31, 2016</u> | | |
|---|-----------------------|----------------------------------|
| | <u>Average Amount</u> | <u>Average Interest Rate (%)</u> |
| Assets | | |
| Cash and cash equivalents (Note) | \$ 895,741 | 0.30 |
| Financial assets at fair value through profit or loss | 124,034,245 | 0.94 |
| Bills and bonds investment with resale agreements | 880,683 | 0.36 |
| Available-for-sale financial assets | 122,382,562 | 1.74 |
| Held-to-maturity financial assets | 395,082 | 2.06 |
| Liabilities | | |
| Interbank overdraft and call loans | 23,405,510 | 0.41 |
| Bills and bonds payable under repurchase agreements | 193,977,205 | 0.41 |
| <u>For the year ended December 31, 2015</u> | | |
| | <u>Average Amount</u> | <u>Average Interest Rate (%)</u> |
| Assets | | |
| Cash and cash equivalents (Note) | \$ 899,501 | 0.50 |
| Financial assets at fair value through profit or loss | 113,448,200 | 1.08 |
| Bills and bonds investment with resale agreements | 2,855,538 | 0.56 |
| Available-for-sale financial assets | 88,626,072 | 1.74 |
| Held-to-maturity financial assets | 607,534 | 2.06 |
| Liabilities | | |
| Interbank overdraft and call loans | 22,314,315 | 0.45 |
| Bills and bonds payable under repurchase agreements | 154,021,273 | 0.52 |

Note: Cash and cash equivalents include certificate of deposit pledged and designated account for allowance to pay back short-term bills.

(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, 2015

| | 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) The objectives of capital management

- 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) Policies and procedures of capital management

- 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) Capital adequacy ratio

| Year | | December 31, 2016 | December 31, 2015 |
|---|-----------------------------|----------------------|----------------------|
| Items | | | |
| Eligible capital | Tier 1 Capital, net | 33,248,864 | 30,545,923 |
| | Tier 2 Capital, net | - | - |
| | Tier 3 Capital, net | - | 742,820 |
| | Eligible capital, net | 33,248,864 | 31,288,743 |
| Risk-weighted assets, total | Credit risk | 152,319,549 | 150,648,275 |
| | Operation risk | 7,045,250 | 6,520,755 |
| | Market risk | 86,309,950 | 68,198,800 |
| | Risk-weighted assets, total | 245,674,749 | 225,367,830 |
| Capital adequacy ratio (%) | | 13.53 | 13.88 |
| Ratio of Tier I capital to risk - weighted assets (%) | | 13.53 | 13.55 |
| Ratio of Tier II capital to risk - weighted assets (%) | | - | - |
| Ratio of Tier III capital to risk - weighted assets (%) | | - | 0.33 |
| Ratio of common stocks to total assets (%) | | 4.96 | 5.88 |

- A. Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets
- B. The total amount of assets equals the total assets presented in the balance sheet.
- C. The ratio is calculated for the end of June and December which were also disclosed in the first and third quarter financial statements.
- D. The above eligible capital and risk-weighted assets are calculated and recorded in accordance with “Regulations Governing Capital Adequacy of Bills Finance Companies” and “Calculation and Forms of Own Capital and Risk Assets of Bills Finance Companies”.

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 businesses. 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 branches 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. There is no material change in the basis for formation of entities and division of segments in the Company or in the measurement basis for segment information during this period.

Reconciliation for segment

Segmental information provided to CODM :

| Items | For the year ended December 31, 2016 | | | | |
|---|--------------------------------------|------------------|-------------------|-------------|--------------|
| | Bills Segment | Bonds Segment | Branch Segment | Adjustments | Total |
| Net revenues (Note) | \$ 923,346 | \$ 1,586,717 | \$ 1,613,826 | \$ 197,820 | \$ 4,321,709 |
| Net revenues from external clients | 1,838,188 | 1,635,594 | 833,780 | 14,147 | 4,321,709 |
| Net bills revenues | 1,816,232 | - | 512,630 | - | 2,328,862 |
| Net bond revenues | - | 1,530,194 | 315,185 | - | 1,845,379 |
| Net equity investment revenues | - | 110,082 | - | - | 110,082 |
| Other net revenues | 21,956 (| 4,682) | 5,965 | 14,147 | 37,386 |
| Net inter-segment revenues | (914,842) | (48,877) | 780,046 | 183,673 | - |
| Net bills revenues | (914,842) | - | 779,696 | 135,146 | - |
| Net bond revenues | - (| 48,877) (| 5,413) | 54,290 | - |
| Other net revenues | - | - | 5,763 (| 5,763) | - |
| Interest income | 888,116 | 1,426,567 | 201,054 (| 92,129) | 2,423,608 |
| Gains (losses) from reportable segments | 923,346 | 1,586,717 | 1,298,086 (| 237,104) | 3,571,045 |
| Reportable segment assets | 75,709,562 | 114,527,255 | 72,501,224 | 1,564,160 | 264,302,201 |
| Reportable segment liabilities | 45,059,052 | 97,374,758 | 71,040,606 | 17,048,727 | 230,523,143 |

(Blank Below)

| For the year ended December 31, 2015 | | | | | |
|---|------------------|------------------|-------------------|-------------|--------------|
| Items | Bills Segment | Bonds Segment | Branch Segment | Adjustments | Total |
| Net revenues (Note) | \$ 1,093,141 | \$ 1,376,257 | \$ 1,430,650 | \$ 263,866 | \$ 4,163,914 |
| Net revenues from external clients | 1,954,003 | 1,469,881 | 717,673 | 22,357 | 4,163,914 |
| Net bills revenues | 1,818,313 | - | 438,290 | - | 2,256,603 |
| Net bond revenues | - | 1,086,794 | 277,160 | - | 1,363,954 |
| Net equity investment revenues | - | 382,005 | - | - | 382,005 |
| Other net revenues | 135,690 | 1,082 | 2,223 | 22,357 | 161,352 |
| Net inter-segment revenues | (860,862) | (93,624) | 712,977 | 241,509 | - |
| Net bills revenues | (860,862) | - | 700,560 | 160,302 | - |
| Net bond revenues | - | (93,624) | 717 | 92,907 | - |
| Other net revenues | - | - | 11,700 | (11,700) | - |
| Interest income | 889,620 | 998,745 | 109,874 | 31,270 | 2,029,509 |
| Gains (losses) from reportable segments | 1,093,141 | 1,376,257 | 1,089,042 | (52,630) | 3,505,810 |
| Reportable segment assets | 60,040,710 | 82,630,397 | 77,326,295 | 3,100,323 | 223,097,725 |
| Reportable segment liabilities | 39,375,792 | 60,168,432 | 75,863,446 | 13,236,803 | 188,644,473 |
| Note: Net revenues include net interest income and net non-interest income. Additionally, net bills revenues and net bond revenues of the net revenues include net interest income. | | | | | |

Five. Latest audited standalone financial reports: None.

Six. Financial distress encountered by the company or any of its affiliated companies in the recent year, up until the publication date of this annual report, and impacts on the company's financial position: None.

Analysis of Financial Condition and Financial Performance, and Risk Management

One. Financial Condition

Unit: NT\$ thousands

| Item \ Year | 2016 | 2015 | Variation | |
|---|-------------|-------------|-------------|----------|
| | | | Amount | % |
| Cash and cash equivalents | 346,391 | 321,356 | 25,035 | 7.79 |
| Financial assets at fair value through profit and loss | 125,297,488 | 115,285,106 | 10,012,382 | 8.68 |
| Available-for-sale financial assets | 132,867,186 | 100,816,225 | 32,050,961 | 31.79 |
| Bills and bonds purchased under resale agreements | - | 1,000,000 | (1,000,000) | (100.00) |
| Receivables - net | 1,531,891 | 1,185,047 | 346,844 | 29.27 |
| Held-to-maturity financial assets | 350,000 | 600,000 | (250,000) | (41.67) |
| Other financial assets - net | 820,362 | 818,540 | 1,822 | 0.22 |
| Property and equipment - net | 370,177 | 375,457 | (5,280) | (1.41) |
| Investment property– net | 2,528,424 | 2,539,088 | (10,664) | (0.42) |
| Intangible assets - net | 3,310 | 2,427 | 883 | 36.38 |
| Deferred income tax assets-net | 152,104 | 106,254 | 45,850 | 43.15 |
| Other assets - net | 34,868 | 48,225 | (13,357) | (27.70) |
| Total assets | 264,302,201 | 223,097,725 | 41,204,476 | 18.47 |
| Interbank overdraft and call loans | 15,714,592 | 11,294,776 | 4,419,816 | 39.13 |
| Financial liabilities at fair value through profit and loss | 22,543 | 6,149 | 16,394 | 266.61 |
| Bills and bonds payable under repurchase agreements | 210,809,807 | 173,109,248 | 37,700,559 | 21.78 |
| Payables | 602,808 | 504,042 | 98,766 | 19.59 |
| Current income tax liabilities | 191,490 | 131,256 | 60,234 | 45.89 |
| Liabilities reserve | 2,728,105 | 2,757,420 | (29,315) | (1.06) |
| Deferred income tax liabilities | 22,700 | 12,647 | 10,053 | 79.49 |
| Other liabilities | 431,098 | 828,935 | (397,837) | (47.99) |
| Total liabilities | 230,523,143 | 188,644,473 | 41,878,670 | 22.20 |
| Capital stocks | 13,114,411 | 13,114,411 | - | - |
| Capital surplus | 320,929 | 320,929 | - | - |
| Retained earnings | 20,375,867 | 19,490,920 | 884,947 | 4.54 |

| | | | | |
|--------------|------------|------------|-------------|----------|
| Other equity | (32,149) | 1,526,992 | (1,559,141) | (102.11) |
| Total equity | 33,779,058 | 34,453,252 | (674,194) | (1.96) |

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

1. Available-for-sale financial assets increased mainly because of higher holding position in bonds.
2. Decrease in resale bill and resale bond investments was mainly due to the absence of resale bond transactions at the end of 2016.
3. Net receivables increased mainly because of the higher bond positions held on hand, which generated accrued interest receivables.
4. Held-to-maturity financial assets decreased mainly because of bonds maturing.
5. Net deferred income tax assets increased mainly because the Company had recognized deferred income tax assets that were subject to review.
6. Net other assets decreased mainly due to a reduction in suspense payment.
7. The increase in interbank overdraft and call loans, repurchase bills and bond liabilities was mostly the result of additional interbank borrowing and repurchase agreements undertaken to fund the increase in bills and bonds position.
8. Increase in financial liabilities at fair value through profit and loss was mainly due to unrealized losses on valuation of fixed-rate commercial papers acquired.
9. Increase in current income tax liabilities was mainly caused by an increase in income tax payable.
10. Increase in deferred income tax liabilities was mainly attributed to the recognition of deferred income tax liabilities on unrealized bond interest income.
11. Decrease in other liabilities was mainly attributed to the reduction of credit customers' bill repayment in temporary credits.
12. Decrease in other equity items was caused by a decrease of unrealized gain on available-for-sale financial assets.

Two. Financial performance

Unit: NT\$ thousands

| Item | 2016 | 2015 | Increase (Decrease) amount | Ratio Change (%) |
|---|-------------|-----------|----------------------------------|------------------------|
| Interest income, net | 2,423,608 | 2,029,509 | 394,099 | 19.42 |
| Revenues other than interest income, net | 1,898,101 | 2,134,405 | (236,304) | (11.07) |
| Net income | 4,321,709 | 4,163,914 | 157,795 | 3.79 |
| Provisions | 45,896 | 134,508 | (88,612) | (65.88) |
| Operating expenses | (796,560) | (792,612) | (3,948) | 0.50 |
| Income before Tax from Operating Unit | 3,571,045 | 3,505,810 | 65,235 | 1.86 |
| Income tax (expense) gain | (590,919) | (495,374) | (95,545) | 19.29 |
| Net Income | 2,980,126 | 3,010,436 | (30,310) | (1.01) |
| Other comprehensive income for the current period (net of tax expense) | (1,576,997) | 385,439 | (1,962,436) | (509.14) |
| Comprehensive Income for the current period | 1,403,129 | 3,395,875 | (1,992,746) | (58.68) |
| Explanation of analysis of changes: (Ratio change over 20%) 1. Decrease in provision reversals was mainly due to lesser bad debt recovery. 2. Decrease in other comprehensive income for the current period was mainly attributable to lesser unrealized gain on available-for-sale financial assets. | | | | |

Three. Cash flow

I. Liquidity analysis for the last two years

| Item \ Year | 2016 | 2015 | Increase/Decrease (%) |
|--|--------|--------|-----------------------|
| Cash flow ratio (%) | N/A | 3.57 | - |
| Cash flow adequacy ratio (%) | 156.13 | 182.30 | (14.36) |
| Explanation of analysis of changes: (Ratio change over 20%) None. | | | |

II. Liquidity analysis for the next year

Unit: NT\$ thousands

| Opening cash balance① | Projected net cash flow from operating activities ② | Projected cash outflow③ | Projected cash surplus (deficit) ① + ② - ③ | Remedial measures for estimated cash deficit | |
|--|---|-------------------------|---|--|----------------|
| | | | | Investment Plan | Financial Plan |
| 346,391 | (3,297,253) | 17,787,898 | (20,738,760) | - | 21,079,366 |
| <p>1. Current cash flow analysis:</p> <p>(1) Operating activities: Net cash outflow from operating activities is mainly due to expected increase of holding position in available-for-sale financial assets.</p> <p>(2) Investing activities: No major increase in investment is expected.</p> <p>(3) Financing activities: mainly comprise of cash dividend payments and repayment of interbank overdraft and call loans.</p> <p>2. Liquidity analysis and financing of projected cash deficits: deficits are expected to be supported by interbank overdraft and call loans.</p> | | | | | |

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

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

I. Investment policy and investment plan for the next year

The Company's investment policy has been established in accordance with the Regulations Governing Investments by Bills Finance Companies in Other Enterprises,

which requires the Company seek the parent company's and the authority's approval before investing in new businesses, except for investments that had already been approved prior to the implementation of The Act Governing Bills Finance Business. The Company does not have any new investments planned in the next year.

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

In 2016, the Company received cash dividends totaling NT\$12.555 million from invested businesses, and stock dividends totaling 53,995 shares from Taiwan Depository and Clearing Corporation and 45,677 shares from Taiwan Futures Exchange Corporation.

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 takes 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 Control Department is responsible for enacting the risk management-related regulations, enforcing the plans under the risk management mechanism 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.

(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

| Aspects | Contents |
|---|--|
| (1) Strategy, objective, policy and procedure | <p>For the establishment of the credit risk management mechanism and ensuring credit risk control within the tolerance of management objectives, the “Credit Risk Management Guidelines” is stipulated to control default loss risk resulted from the non-performance of borrowers or counterparties due to business deterioration or other factors. The relevant risk control measures include:</p> <p>(1) Define the credit limit ratio by type of business and specific security terms, and define credit risk limit management in accordance with the “Credit Risk Management Guidelines.”</p> <p>(2) Define the risk concentration ratio, set up alert standard, and control mechanism for preventing excessive risk concentration by customers (including one individual, one related party, and one affiliated enterprise), businesses, and nations in accordance with the “Regulations Governing Credit Risk Concentration.”</p> |
| (2) Organization and framework of credit risk management system | <p>With respect to the credit risk in the Company’s granting of loans and various financial instruments, the Loan Review team and Risk Management Committee are responsible for supervising and reviewing various management regulations, granting of loans and business risk management objectives. Meanwhile, the Bills Department, Bonds Department and all branches are the main operational units for credit risk control.</p> |
| (3) Scope and characteristics of credit risk reporting and the measurement system | <p>The Company has set up the Risk Management Committee to monitor operational risks. All business supervision units in the head office are to present the business risk report by Department to the Risk Management Committee on a quarterly basis. The Risk Management Department is to report the risk management profile to the board of directors periodically. The credit risk report covers the total credit risk exposures by customer, industry and country, and 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.</p> |
| (4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging | <p>The Company grants loans in accordance with a defined credit investigation procedure, and considers the requirement of collaterals and guarantor based on the customer’s financial and credit status. Meanwhile, the Company defined the “Notes to Loan Review Operation” to enhance the post-credit extension management. The financial instruments are primarily managed in accordance with the credit ratings for issuers and trading counterparties, and reviewed, followed up and evaluated periodically, in order to enhance the ability to bear the credit risk.</p> |

| Aspects | Contents |
|--|-----------------|
| (5) Approach to require the authorized capital | Standard Method |

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

March 31, 2017

Unit: NT\$ thousands

| Exposure type | Capital requirement | Risk-weighted assets |
|--|---------------------|----------------------|
| Sovereign state | 0 | 0 |
| Non-central government public sectors | 8,610 | 107,621 |
| Bank (including multilateral development banks) | 189,884 | 2,373,544 |
| Corporate (including securities and insurance company) | 12,303,088 | 153,788,603 |
| Retail creditor's right | 53,455 | 688,194 |
| Investments 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 | 254,431 | 3,180,389 |
| Total | 12,874,172 | 160,927,151 |

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

1. Risk management system of asset securitization

2016

| Aspects | Contents |
|---|--|
| (1) Asset securitization management strategy and procedure | <p>A. In order to manage the transaction of asset securitization products, the Company defined its “SOP and License Guidelines for Fixed-Income Securities Underwritten and Traded for Its Own Account for Customers”, “SOP for Investment in Beneficiary Securities, Asset-Based Securities and Related Fund”. Meanwhile, in order to underwrite or buy in guarantee-free short-term bills, it also defined the “SOP for Underwriting or Buy-in of Guarantee-Free Short-Term Bills” and “Instructions to Certify Underwriting and Trading of Beneficiary Securities and Asset-Based Securities”, which provide that buy-in of asset securitization products and asset securitization short-term bills shall take into consideration the issuing terms and conditions, yield, issuer (or guarantor) or credit relating to specific debts, and relevant limit management, limit review, risk control and business management operations.</p> <p>B. The relevant control measures include daily monitoring of single beneficiary security bought in, evaluation on market value of asset-based securities, limit of tolerable market risk (value of change per basic point or per market transaction); underwriting and buy-in of guarantee-free short-term bills positions; reporting the beneficiary securities invested by the Company, balance of asset-based securities and income thereof to the Board of Director on a quarterly basis.</p> |
| (2) Organization and framework of asset securitization management | <p>Under the Company’s asset securitization product risk management framework, the Company’s Board of Directors has defined the limit of various securitization products or limit of position and limit of loss. Bonds Dept. is responsible for the management of beneficiary securities and asset-based securities. Bills Dept. is responsible for the business management of securitization short-term bills, dedicated to reviewing the changes of credit rating related to asset securitization products and researching and defines the relevant countermeasures when the limit of loss is met. The Risk Control Department is responsible for controlling the change in the entire risk of asset securitization products</p> |
| (3) Scope and characteristics of asset securitization risk | <p>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</p> |

| Aspects | Contents |
|---|--|
| reporting and the measurement system | 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, 2017

Unit: NT\$ thousands

| Type of Exposure Company/Book Role | | Category of asset | Traditional | | Portfolio | | Total | | |
|--|--------------|---------------------------|----------------------------|---------------------|----------------------------|---------------------|-----------------|---------------------|---|
| | | | Exposure | Capital Requirement | Exposure | Capital Requirement | Exposure | Capital Requirement | Capital Requirement Before Asset Securitization |
| | | | Retention or Buy-in (1) | (2) | Retention or Buy-in (3) | (4) | (5)= (1)+(3) | (6)= (2)+(4) | |
| Non-founding institution | Bank book | | | | | | | | |
| | | | | | | | | | |
| | Trading book | | | | | | | | |
| | | Creditor's right to lease | | | 512,108 | 29,454 | 512,108 | 29,454 | |
| | Subtotal | | | | 512,108 | 29,454 | 512,108 | 29,454 | |
| Founding institution | Bank book | | | | | | | | |
| | | | | | | | | | |
| | Trading book | | | | | | | | |
| | | | | | | | | | |
| | Subtotal | | | | | | | | |
| Total | | | | | 512,108 | 29,454 | 512,108 | 29,454 | |

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

(1) Be an assets securitization founding institution: None.

(2) Securitized instruments information:

A. Summary of investment in securitized instruments

| March 31, 2017 | | | | Unit: NT\$ thousands | |
|--|-------------------------------------|--------------|--|-----------------------|------------|
| Item | Accounting category | Initial Cost | Cumulative valuation gains/losses | Cumulative impairment | Book value |
| Land Bank of Taiwan in its capacity as a master custodian of Chailease Finance 2014 Securitized Senior Special Purpose Beneficiary Security Tranche A. | Available-for-sale financial assets | 500,000 | 12,108 (valued at market price using corporate bond benchmark yield curves (of four ratings: twAAA, twAA, twA, and twBBB) published by Taipei Exchange; straight-line compensation was applied to derive yield rates applicable for the remaining tenor) | 0 | 512,108 |

B. For the investment of any securitized instrument that amounts to more than 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, 2017 | | | | | | | | | | Unit: NT\$ thousands | | | | |
|--|-------------------------------------|----------|----------------------------------|------------------|-------------------------------|-------------|----------------------|--|--------------|--|-----------------------|------------|----------------|--|
| Securities | Accounting category | Currency | Issuer and business location | Date of purchase | Maturity date | Coupon rate | Credit rating | Payment for interest and principal | Initial Cost | Cumulative valuation gains/losses | Cumulative impairment | Book value | Point of claim | Assets pool capacity |
| Land Bank of Taiwan in its capacity as a master custodian of Chailease Finance 2014 Securitized Senior Special Purpose Beneficiary Security Tranche A. | Available-for-sale financial assets | NTD | Land Bank of Taiwan, Taipei City | July 24, 2014 | Expected maturity - 2019/7/24 | 1.85% | Taiwan Ratings twAAA | Interest is paid on the 18th business day after the closing date. From 2017/7/24 onwards, any rental income, instalment payments, and principals received from resale agreements in the asset pool will no longer be spent on purchasing assets but will instead be used first to repay tranche A of the beneficiary security. | 500,000 | 12,108 (valued at market price using corporate bond benchmark yield curves (of four ratings: twAAA, twAA, twA, and twBBB) published by Taipei Exchange; straight-line compensation was applied to derive yield rates applicable for the remaining tenor) | 0 | 512,108 | 21.87% | Chailease Finance's entitlement over customers' leases, instalments, and resale agreements |

- C. Bills Finance Company serves as a founding institution of securitization holding position for the purpose of credit enhancement: None.
- D. Bills finance company serves as a buyer of credit-impaired assets or buyer of liquidated assets in a securitization arrangement: None.
- E. Bills Finance Company serves as a securitized instruments assurance agency or providing liquidity financing credit line: None.

(III) Operational risk management system and capital requirement

1. Operational risk management system

2016

| 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 Control Department shall design and introduce the operational risk management framework approved by the Board of Directors. The various units shall comply with the internal controls, laws, and the requirements about operating risk self-assessment system, fulfill the self-assessment periodically. The auditing unit shall review the effective |

| Item | Contents |
|--|--|
| | implementation of risk management mechanisms independently and objectively to promote the Company's well-founded operation. |
| (3) Scope and characteristics of operational risk reporting and the measurement system | The business management units of the Head Office report the corrective actions against important operational risk loss events, operating procedures and operating systems to Risk Management Committee on a quarterly basis by functions; Risk Control Department reports the annual operational risk map to Risk Management Committee periodically, analyze the operational risk event loss data and other information, and report to the Board of Directors the development of qualitative risk management objectives (various projects); the audit unit shall report the audit result to the Board of Directors and follow up and control required improvements periodically. |
| (4) Hedging policies, strategy and process of monitoring the continuing effectiveness of hedging | It is mainly to assess the probability of risk losses and the size of potential losses. The choices of counter-measures include avoidance, control and the transfer of offset. Establish business surveillance reports and daily cross-examine the balance of business operations, risk management objectives, and limits set by external regulations. Check whether the risk exposures exceed the limit and make an alert when it reaches the vigilance level so as not to exceed the limits set by law or the Company. |
| (5) Approach to require the authorized capital | Basic Indicator Method |

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

March 31, 2017

Unit: NT\$ thousands

| Year | Gross profits | Capital requirement | Risk assets amount |
|-------|---------------|---------------------|--------------------|
| 2016 | 4,287,851 | | |
| 2015 | 4,143,037 | | |
| 2014 | 3,531,959 | | |
| Total | 11,962,847 | 598,142 | 7,476,775 |

(IV) Market risk management system and capital requirement

1. Market risk management system

2016

| 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, Bonds Department, and all branches are the main operational units for market risk control. |
| (3) Scope and characteristics of market risk reporting and the measurement | The business management units of the Head Office shall submit 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 |

| Item | Contents |
|---|--|
| system | Management Committee on a quarterly basis by functions; Risk Control Department 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 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, 2017

Unit: NT\$ thousands

| Type | Capital requirement | Risk assets amount |
|---|---------------------|--------------------|
| Interest rate risk | 7,199,065 | 89,988,313 |
| Equity security risk | 220,685 | 2,758,563 |
| Foreign exchange risk | 34,068 | 425,850 |
| Product risk | 0 | 0 |
| Stock option processed with simplified method | 0 | 0 |
| Total | 7,453,818 | 93,172,725 |

(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, 2017

Unit: NT\$ millions

| | Total | Amount of the remaining period to maturity date | | | | |
|---------------------|---------|---|--------------|---------------|-------------------|-------------|
| | | 0 – 30 Days | 31 – 90 Days | 91 – 180 Days | 181 Days – 1 Year | Over 1 Year |
| Assets | 268,268 | 61,949 | 65,831 | 9,070 | 8,831 | 122,587 |
| Liabilities | 235,148 | 211,346 | 22,108 | 1,241 | 284 | 169 |
| Deficit | 33,120 | -149,397 | 43,723 | 7,829 | 8,547 | 122,418 |
| Accumulated deficit | | -149,397 | -105,674 | -97,845 | -89,298 | 33,120 |

III. Impact on the Company's financial standing due to changes in domestic or foreign policies and laws, and corresponding countermeasures

(I) Financial impacts in the event of changes in local and foreign regulations

1. Permission for banks to issue AUD-denominated NCDs: On September 20, 2016, the Central Bank amended "Notes on Issuance of Foreign Currency-denominated Negotiable Certificate of Deposit by Banks" and allow banks to issue AUD-denominated NCDs. Enhanced system has gone live since the end of December 2016, thereby enabling the Company to trade NCDs and make DVP settlement over the foreign currency clearing platform.
2. A securities dealer that trades any 5-year and 10-year central government bond announced by the TPEx may not have a cumulative net trading position in that bond

exceeding one-third of the total issued amount in the quarterly plan: On November 16, 2015, Taipei Exchange amended its “Taipei Exchange Rules Governing Securities Trading on the TPEX” to introduce a new rule that, starting from 2016, no single securities dealer may hold more than one-third of any of the 5-year and 10-year central government bonds announced by the TPEX at any time between the period from the date of its when-issued trading to 6 months after the bond issuance or reopening. This restriction will help eliminate monopolistic competition in bonds market and bring trade activities to stimulate market interest rate movements.

3. Starting from January 1, 2016, banks are required to maintain liquidity coverage ratio above 70%, and this minimum requirement will be raised progressively to 100% by January 1, 2019: On December 29, 2014, the Financial Supervisory Commission announced the “Liquidity Coverage Ratio (LCR) Implementation Standards” (referred to as the Implementation Standards below) and implemented from January 1, 2015. From January 1, 2016 onwards, banks are required to maintain LCR above 70%, and the minimum LCR requirement will be raised progressively to 100% by January 1, 2019. Under the Implementation Standards, some large banks will have to adjust asset quality, and bills finance companies may encounter some difficulties with funding.

(II) Responsive measures

1. Maintain long-term relationships with financial institutions for more diverse funding sources. Negotiate for lower cost of funding and maintain contacts with peers to gain the latest market insights that would enable the Company to react to the changing environment.
2. Expand source of capital in the secondary market by exploring customers that are characterized by stability and low funding costs. Reduce the position of bills and bonds held on hand.

IV. Impact on the Company’s financial standing due to technological or industrial changes, and corresponding countermeasures

(I) Impact of technological 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 operation scales. However, uncertainties remain with regards to the prospects of the world's major economies, which may complicate trading decisions.

(II) Responsive measures

1. Outsource systems and develop systems in-house to support transactions and risk control.
2. Actively explore new services for higher income. In the meantime, the Company will pay attention to changes in the economic and financial environment, and take actions to minimize risks and negative impacts.

V. Impact of changes of the Company's corporate image, and corresponding countermeasures: None.

VI. Expected benefits, possible risks and response actions of merger and acquisitions: None.

VII. Expected effect and possible risk of expanding business locations and the countermeasures: None.

VIII. Risks generated by business concentration and response measures

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

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

X. Impact or risk associated with large transfers or changes in shareholdings by directors or major shareholders holding over 1%: None.

XI. Lawsuit and non-lawsuit: None.

XII. Other significant risks and response actions

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

Seven. Crisis Management and Emergency Response

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 mechanisms and external reporting systems 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 are established to help minimize the impact 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: None.

II. Consolidated financial statements of affiliated enterprises: None.

III. Affiliation report

(I) Declaration of Mega Bills Finance Co., Ltd.

Declaration

The Company's 2016 Affiliation Report (from January 1 to December 31, 2016) has been prepared in accordance with "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises." There was no material discrepancy between information disclosed in the Affiliation Report and information disclosed in footnotes of financial statements for the corresponding period.

Sincerely yours,

Company: Mega Bills Finance Co., Ltd.

Chairman of the Board: **Chang-Ruey Shiau**

March 21, 2017

(II) Independent Auditor's Report

Mega Bills Finance Co., Ltd.

Affiliation Report - Independent Auditor's Report

Tze-Huei-Tsung-Tze No. 16008422

To Mega Bills Finance Co., Ltd.

The 2016 Affiliation Report dated March 21, 2017, was claimed to have been prepared in accordance with "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" with no material discrepancy between information disclosed in the above report and notes to financial statements for the corresponding period.

We, the auditors, have compared the Company's Affiliation Report against footnote disclosures presented in the 2016 financial statements based on "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises", and found no material contradiction to the above claims.

PriceWaterhouseCoopers, Taiwan

Shu-Mei Ji, CPA

March 21, 2017

(III) Relationship between subsidiary and parent company

Unit: shares; %

| Parent Company | Cause of Control | Shareholding and pledge by parent company | | | Directors, Supervisors and Managers appointed by parent company | |
|----------------------------------|------------------|---|------------|----------------|---|--|
| | | Quantity of Shares Held | Percentage | Pledged shares | Title | Name |
| Mega Financial Holding Co., Ltd. | Wholly owned | 1,311,441,084 | 100% | 0 | Chairman of the Board Director and President Independent Director Independent Director Director Director Director Director Supervisor Supervisor Supervisor | Chang-Ruey Shiau Chi-Fu Lin Tsai-Chih Chen Yi-Jui Huang Jui-Yun Lin To-Ching Hu Zong-Ming Yen Chun-Hsiang Lee Fu-Jung Chen Chun-Ke Su Jin-Cun Chen |

(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 bonds trade

Unit: NT\$ thousands

| Transactions conducted with parent company | | Trade terms and conditions with parent company | Remarks |
|--|------------|---|-----------------|
| Item | Amount | | |
| Purchase of bills and bonds | 20,191,016 | Terms of transactions are same as non-related parties'. | None |
| The highest balance of guarantee-free commercial paper issued. | 4,000,000 | Terms of trade transactions are same as non-related parties'. | Fee income: 232 |
| The ending balance of guarantee-free commercial paper issued. | 2,100,000 | | |

(V) 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 the Board: Chang-Ruey Shiau

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