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

2017

■ Spokesman and Deputy Spokesman for the Corporation

Spokesman: Yi-Sheng Wang
Job title: Senior Executive Vice President
Tel. No.: (02)2389-3399
Email: wang0421@megabills.com.tw
Deputy spokesman: Chih-Hsiung Chiu
Job title: 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: B3F., No.210, Sec. 3, Chengde Rd., Taipei
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 Zong-Xi Lai, CPA,
Firm Name: PricewaterhouseCoopers, Certified Public Accountants
Address: 27F, No. 333, Sec. 1, Keelung Road, Taipei City
Website: http://www.pwc.com/tw/
Tel. No.: (02)2729-6666

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

Table of Contents

Message to Shareholders

Message to Shareholders

One. Business Report 2017

I. Global and Local Financial Environment, 2017

Mei-Chu Liao, Chairman of the Board

The global economy underwent moderate recovery throughout 2017 with the US economy exhibiting the strongest performance of all. Private investments had been the primary contributor of the growth momentum, and owing to a number of factors including the central bank's monetary policy, subsiding political risk, and increasing trade, the economic outlook for the Eurozone remains optimistic in the near future. Meanwhile, Japan exhibited a significant increase in exports and capital expenditure with decreased inflationary pressure, whereas growth in China recovered as imports and exports overcame their declining states. Looking into 2018, the International Monetary Fund (IMF) expects that both investment and consumption in advanced economies will steadily grow to moderately drive the economy toward expansion; therefore, in January 2018, it increased the expected global economic growth to 3.9%. Uncertainty factors, however, remain, such as the Fed announcing the Great Balance Sheet Unwind program, the European Central Bank cutting the level of bonds it purchased, and geopolitical conflicts and will add variables to the global economic outlook.

In terms of the overall domestic economy, benefit from the better-than-expected global economic outlook, the annual growth rate of the industrial production index in December 2017 was 1.20 and also to active export trade, the annual export and import growth rates in December 2017 were 12.2% and 14.8%, respectively, and consumer confidence increased. The CPI in December 2017 showed a year-on-year increase of 1.21%. The forecast CPI in 2018 will be 0.96%. The commodity price is fairly stable. The total score of monitoring indicators in December 2017 was 22. The light turned from green to yellow blue. The leading indicator, however, keeps climbing, showing that the domestic economy is still recovering. The Directorate General of Budget, Accounting and Statistics estimated in February 2018 that the economic growth rate was 2.86% in 2017 and the estimated economic growth rate in 2018 will be 2.42%.

As for domestic monetary policy, the Central bank announced the rediscount rate, the rate on accommodations with collateral, and the interest rate for short-term accommodations will remain unchanged at 1.375%, 1.75%, and 3.625%. Fed, however, will raise the interest rate again in 2018. If the domestic economy keeps turning better and the stress for a commodity price surge increases, it is not impossible that the Central bank will start a policy that raises the interest rate.

II. Organizational changes: None.

III. Results of Implementation of Business Plan and Strategy

Unit: NT$ million

Item	Final Accounting Figure, 2017	Final Accounting Figure, 2016	Increase/ Decrease (%)
Underwriting and purchasing bills	2,632,704	2,457,301	7.14
CP2 issued amounts	2,237,849	2,165,844	3.32
Trading volume of bills	8,661,278	8,427,016	2.78
Trading volume of bonds	5,116,324	5,646,907	-9.40
Guaranteed issued of CP2 average outstanding balance	152,652	152,160	0.32
Overdue credit amounts	0	0	-
Percetage of overdue credit (%)	0	0	-

IV. Budget Implementation

Unit: NT$ million

Item	Final Accounting Figure, 2017	Budget Figure, 2017	Achievement rate (%)
Underwriting and purchasing bills	2,632,704	2,207,630	119.25
CP2 issued amounts	2,237,849	1,944,681	115.08
Trading volume of bills	8,661,278	7,398,596	117.07
Trading volume of bonds	5,116,324	4,500,460	113.68
RP outstanding balance of bills and bonds	208,415	208,129	100.14
Guaranteed issued of CP2 average outstanding balance	152,652	152,000	100.43
Overdue credit amounts	0	0	-
Percetage of overdue credit (%)	0	0	-
Net profit after tax	2,705	2,450	110.41

V. Financial Income and Expenditure, and Analysis of Profitability

Unit: NT$ million

Item	Final Accounting Figure, 2017	Item	Final Accounting Figure, 2017
Net revenue	3,966	EPS (NT$)	2.06
Income before tax	3,212	ROA (%)	0.99
Net profit after tax	2,705	ROE (%)	7.75

VI. Research and Development

(I) Management

1. Support the industry association in the issuance of non-physical short-term bills in the primary market and implement relevant information systems.
2. Continue perfecting the Company's paperless conference system and paperless report management system.
3. 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.

(III) Risk Control

1. Enhanced execution and risk monitoring on anti-money laundering and combating the financing of terrorism. (AML/CFT)
2. Continuously enhanced self-assessment system of operational risks and strengthened risk management regarding various business risk categories.

Chi-Fu Lin, President and CEO

3. Continued planning and adoption of Basel Ⅲ systems framework and introduction practices.

Two. Summary of Business Plan 2018

I. Operational guideline

(I) Strengthen organizational 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, 2018
Underwriting and purchasing bills	2,472,600
CP2 issued amounts	2,198,933
Trading volume of bills	7,601,450
Trading volume of bonds	4,603,700
RP outstanding balance of bills and bonds	200,251
Guaranteed issued of CP2 average outstanding balance	153,000

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

III. Major Business Policies

(I) 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 re-purchase agreements; reduce cost of capital and increase returns on holding positions without liquidity risks.

(II) High 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) Portfolio quality: Pay close attention to customers' business/financial performance, industry prospects, and funding capacity for more robust credit decisions.

(IV) Portfolio size and gains: Actively explore opportunities in syndicated lending, underwriting of non-guarantee commercial papers, NCD, acquisition of guaranteed or non-guarantee bills and securities 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) Market position: Secure leading position in the bills/bonds market through frequent transactions.

(VI) Portfolio risk management: 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) New technology: Continuously strengthen the Company's information systems and operating efficiency. Develop automated reporting and standardized accounting platforms that help raise efficiency of back-end operations such as credit investigation, credit extension, and credit review.

(VIII) Innovation: Expand business scope by exploring new service types; 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 re-purchase 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) Expectations towards further interest rate hikes in the U.S. should provide incentives for holding USD assets, which helps attract USD capital from customers and contribute to the Company's foreign currency bond position.

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

(III) Although the domestic economy exhibited a steady recovery in the last year, local industries have been challenged by the rise in the Chinese supply chain and China's foreign investor incentives for quite some time. The situation is worsened by the emerging trade protectionism in the United States. This makes borrowers' operations and financial strength more susceptible to volatility in the market and brings uncertainties to the competitiveness of local industries. Therefore, the credit risk is expected to rise in the future.

(IV) Recently, increasing variety of funding channels are being introduced into the financial market, meanwhile, banks continue to explore local lending opportunities by offering low-interest rate loans and competing in the underwriting of guarantee-waiver CPs in the primary market. All of these have the potential to undermine the business expansion efforts of bills financing companies.

(V) 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.

(VI) Interest rate hikes in the U.S. may prompt the Central Bank of R.O.C to change its interest rate policy, causing domestic long-term and short-term interest rates to rise. Rising interest rates do not favor the bills financing business, as it makes funding more difficult while increasing the cost of RP and the borrowing rate, which ultimately reduces revenue spread by a substantial extent.

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+	2017.10.16

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, local 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	President and CEO
Mei-Chu Liao	**Chi-Fu Lin**

Profile of the Corporation

Profile of the Corporation

I. Founded: May 3, 1976

II. Company History

(I.) May 20, 1976, started business, with a paid-in capital of NT$200 million.

(II.) January 5, 1981, relocated the head office to an acquired property at Section 2 Nanjing East Road, Taipei City.

(III.) June 26, 1990, completed an initial public offering that increased paid-in capital to NT$2.88 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 shares exchange arrangement. The exchange of shares took place on August 22 later in that year.

(VI.) December 31, 2002, Chiao Tung Financial Holdings 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 an 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 the “Best Bills Finance Company Award” at the

"6th Annual Taiwan Excellent Financial Elite Award" directed by the Financial Supervisory Commission and organized by the Taiwan Academy of Banking and Finance.

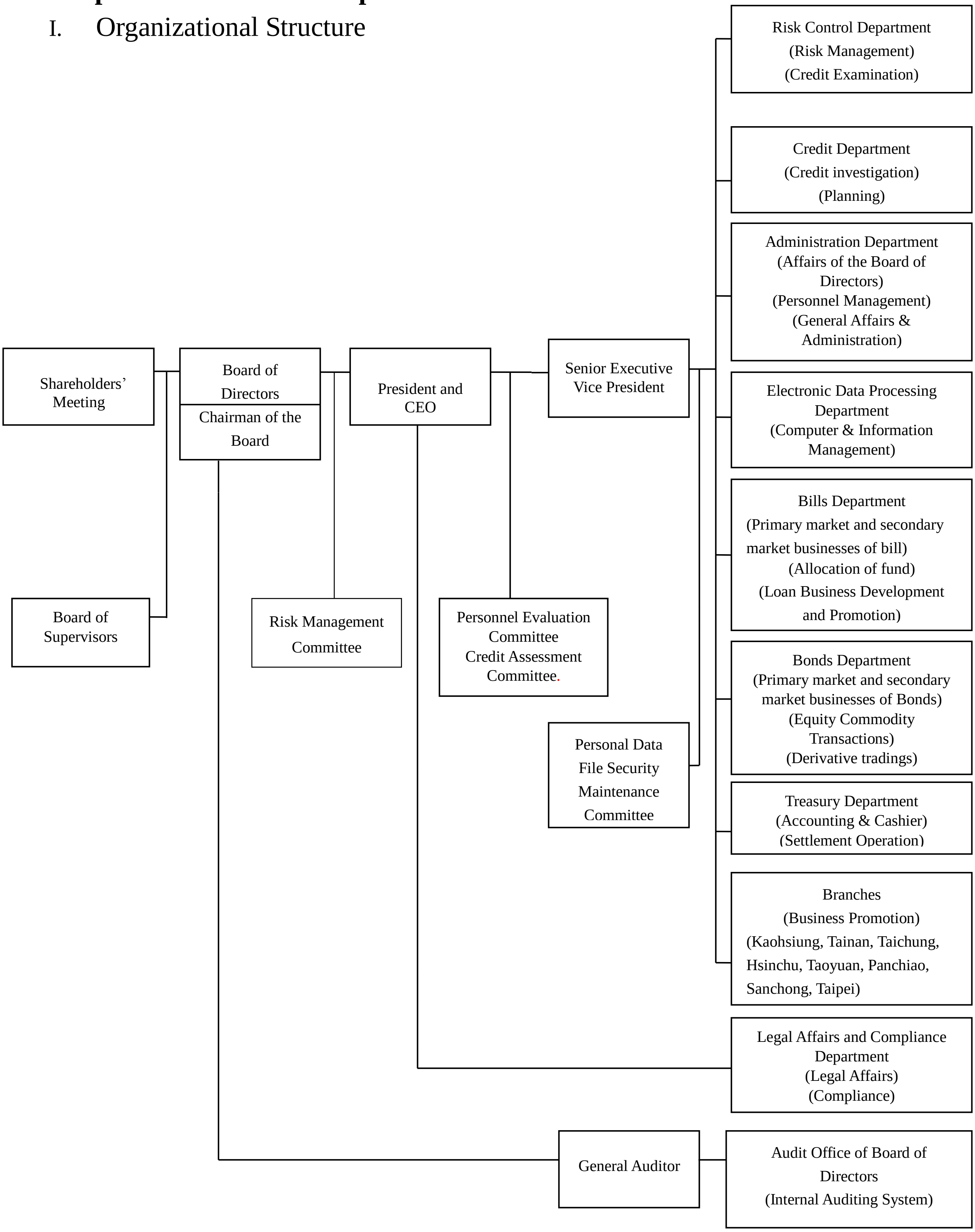
(XIV.) October 31, 2014, received "Best Bills Finance Company Award" at the "7th Annual Taiwan Excellent Financial Elite Award" directed by the Financial Supervisory Commission and organized by the Taiwan Academy of Banking and Finance.

(XV.) November 1, 2016, received Outstanding Prize of the "Best Bills Finance Company Award" at 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

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 Departments and Branches

(I) Directors and Supervisors

1. Information about directors and supervisors (1)

March 31, 2018

Job Title (Note 1)	Country or place of registration	Name	Gender	Date of Election (Appointment)	Term of Office (Note 2)	Date of First Election	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	Mei-Chu Liao (Note 3)	Female	2018.03.01	2021.02.28	2018.03.01	(Note 1)	Department of Banking, NCCU	First Financial Holding - Vice President; First Financial Holding and First Commercial Bank Board of directors– Secretary general; First Securities - Chairman; First Commercial Bank - Board of Directors' Special Assistant; FCB Leasing - Director; First Commercial Bank (USA) - Director; First Life Insurance - Supervisor; Financial Information Service Co., Ltd. - Supervisor; First Consulting and First Venture Capital - Director; FSITC - Director	Mega Bills Finance - Chairman	None
Director and President	Republic of China	Chi-Fu Lin (Note 3)	Male	2018.03.01	2021.02.28	2015.03.02		Department of Public Finance, National Chung Hsing University	Mega Bills Finance - Acting Chairman, Vice President, Assistant Vice President and Manager of Bills Department	Mega Bills Finance - Director and President; R.O.C. Bills Finance Association - Director; Mega Charity Foundation - Director	
Independent Director	Republic of China	Jian-Yu Chen	Male	2018.03.01	2021.02.28	2018.03.01		Master of National Development, National Taiwan University	Soochow University - Lecturer of Law; Shuang Bang Law Office – Partner; Lexcel Partners Attorneys at Law - Lawyer	Jian-Yu Chen Law Office - Person-in-charge and licensed attorney	

Independent Director	Republic of China	Yi-Jui Huang	Male	2018.03.01	2021.02.28	2016.10.26		Ph.D., Jinan University	Licensed CPA of Solomon & Co.; Chairman of Kaohsiung City CPA Association; Standing Director of Taiwan CPA Association; Director of Neoflex Technology Co., Ltd.; Supervisor of Huaku Development Co., Ltd	Owner of Solomon & Co.; Chairman of Taiwan Provincial CPA Association;Director 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	2018.03.01	2021.02.28	2006.04.06		Master, Graduate Institute of Public Finance, NCCU	Auditor of National Treasury Administration, Ministry of Finance; Section Chief of Taxation Administration; Head of Accounting Division, Bank of Communications; 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; Director of Mega Charity Foundation	Mega Holdings - Vice President; Mega Venture Capital - Chairman and President; Taipei Financial Center Corp. - Director; Non-Life Insurance Association of the Republic of Chin - Managing Director; Mega Holdings - Lead member of Employee Welfare Committee; Mega Holdings - Lead member of Employee Pension Fund Supervisory Committee	
Director	Republic of China	Ruey-Yuan Fu	Female	2018.03.01	2021.02.28	2017.03.29		EMBA, Chengchi University	Yonghe Branch Manager, Nanking East Road Branch Manager, and Central Manager of Mega Bank; Chairman of ICBC Assets Management & Consulting Co., Ltd.; Director of SmartVision Co., Ltd.	Senior Executive Vice President of Mega Bank; Director of EXCEL Chemical Corp; Director of Taiwan Asset Management Co., Ltd.; Director of Mega Bank Cultural & Educational Foundation; Director of Mitagri Co., Ltd.	

Director	Republic of China	Ya-Ting Chang	Female	2018.03.01	2021. 02.28	2018.03.01		Master of Accounting, University of Illinois Urbana-Champaign Bachelor of Accounting, National Taipei University	Elite & Co., CPAs - Licensed accountant; Deloitte Taiwan - Deputy Manager of Audit Department; Taiwan Academy of Banking and Finance - Lecturer; Taiwan Junior Chamber - Deputy head and CFO of Grand Songshan Branch; member of Phi Tau Phi Scholastic Honor Society	Elite & Co., CPAs - Licensed accountant	
Director	Republic of China	Yu-Mei Hsiao (Note 4)	Female	2018.03.28	2021. 02.28	2015.03.28		Master of Finance, University of Illinois Urbana-Champaign	Mega Holdings and Mega Bank - Secretariat; First Commercial Bank - Brisbane Branch Manager; First Commercial Bank - Gongguan Branch Manager; Hotung International Co., Ltd. - Director	Vice President of Mega Holdings and Mega Bank, Director of Mega Asset Management Corp., Director of TFASC Taiwan, Director of Hotung Investment Holdings Limited	
Supervisor	Republic of China	Fu-Jung Chen	Female	2018.03.01	2021. 02.28	2016.09.30		Department 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	Qi-He Chen	Male	2018.03.01	2021. 02.28	2018.03.01		Department of Banking, Chinese Culture University	Mega Bank - Deputy head of Credit Control Department, Mega Bank - Deputy head of Overdue Loan & Control Department	Mega Bank - Head of Overdue Loans & Control Department	

Supervisor	Republic of China	Jin-Cun Chen	Male	2018.03.01	2021.02.28	2015.09.01		Ph.D. of Engineering (Finance Major), National Taiwan University of Science and Technology	Member of Consultative Committee, Central Deposit Insurance Corporation; 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, Vice President, Acting President and Professor of National Central University	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. Mega Holdings had reappointed the Company's 15th board of directors and supervisors on 2018.3.1 to serve a term from 2018.3.1 until 2021.2.28. The names of the 15th board of directors (including independent directors) and supervisors are as follows: Chairman Mei-Chu Liao, Director and President Chi-Fu Lin, Independent Director Yi-Rui Huang, Independent Director Jian-Yu Chen, Director Jui-Yun Lin, Director Chun-Ho Li, Director Rui-Yuan Fu, Director Ya-Ting Chang, Supervisor Jin-Tsun Chen, Supervisor Fu-Rong Chen, and Supervisor Chi-Ho Chen.
3. During the 1st meeting of the 15th board of directors held on 2018.3.1, Mei-Chu Liao was elected Chairman while Chi-Fu Lin was appointed the position of President.
4. Mega Holdings appointed Madam Yu-Mei Hsiao to replace Director Chun-Hsiang Li on 2018.3.28.

2. Major shareholders of corporate shareholders

Book closure date: December 31, 2017

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.	3.56%
	Fubon Life Insurance Co., Ltd.	3.46%
	Cathay Life Insurance Co., Ltd.	2.63%
	Bank of Taiwan Co., Ltd.	2.46%
	China Life Insurance Company Limited	1.81%
	Nan Shan Life Insurance Company Ltd.	1.73%
	Pou Chen Corporation	1.40%
	Standard Chartered Bank in its capacity as Master Custodian for the Vanguard Emerging Stock Market Index Fund	1.36%

3. Major Shareholders of Major Corporate Shareholders

Shares transfers suspended on December 31, 2017

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	75.14%
	Ruen Chen Investment Holding	15.48%
	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	China Development Financial Holding Corp	25.33%
	KGI Securities Co., Ltd.	9.63%
	Videoland Inc.	2.35%
	J. P. Morgan Taiwan - Taipei Branch entrusted with the Saudi Arabia Central Bank Investment Account	1.64%
	Standard Chartered Bank in its capacity as Master Custodian for the Vanguard Emerging Stock Market Index Fund	1.50%
	Citibank entrusted with the Singapore Government Investment Account	1.43%
	New Labor Pension Fund account	1.34%
	Citibank Taiwan in its Capacity as Master Custodian for Investment account of the Central Bank of Norway	1.19%
	Ling-Lang Chan	1.18%
	Hi-Sun Investment Limited	1.17%
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.	4.47%
	Taishin International Bank in its Capacity as Trustee for Property Account of Chi-Jui Tsai	3.46%
	Fubon Life Insurance Co., Ltd.	2.97%
	Cathay Life Insurance Co., Ltd.	2.38%
	Standard Chartered Bank in its Capacity as Master Custodian for the Navigator Overseas Growth and Income Fund	2.12%
	Mega International Commercial Bank in its Capacity as Master Custodian for BeeVest Securities	1.86%
	JP Morgan Chase Bank in its Capacity as Master Custodian for Investment Account of the National Bank of Liechtenstein	1.70%

Note: Top 10 shareholders

4. Information about directors and supervisors (2)

March 31, 2018

Qualifications / Name	Having more than 5 years work experience and professional qualifications listed below			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 pass certificates for national examinations in other fields required by the company's businesses	Work experience required for business, law, finance, accounting or corporation business	1	2	3	4	5	6	7	8	9	10	
Mei-Chu Liao			V	V	V	V	V	V	V	V	V	V		0
Chi-Fu Lin			V		V	V	V	V	V	V	V	V		0
Jian-Yu Chen		V	V	V	V	V	V	V	V	V	V	V	V	0
Yi-Jui Huang		V	V	V	V	V	V	V		V	V	V	V	0
Jui-Yun Lin	V		V			V	V			V	V	V		0
Ruey-Yuan Fu			V			V	V	V		V	V	V		0
Ya-Ting Chang		V	V	V	V	V	V	V	V	V	V	V	V	0
Yu-Mei Hsiao			V			V	V			V	V	V		0
Fu-Jung Chen			V			V	V	V		V	V	V		0
Qi-He Chen			V			V	V	V		V	V	V		0
Jin-Cun Chen	V		V	V		V	V	V	V	V	V	V		0

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

1. Not employed by the Company or any of its affiliated companies.
2. Not a director or supervisor of the Company or any of its affiliated companies (unless he/she is an independent director of the Company or its parent company or any subsidiary companies in which the Company directly or indirectly holds more than 50% of the shares with voting right).
3. Neither 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.
4. 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.
5. Not a director, supervisor or employee of corporate shareholders directly holding more than five percent of issued shares of the Company or ranking among the first five corporate shareholders.
6. Not a director, supervisor, or manager of a specific company or organization with financial or business dealings with the Company, or a shareholder of such a specific company or organization holding more than five percent of the shares.
7. 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 bill financing 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.

8. Not a spouse of, or related within the second degree of consanguinity to, any other director.
9. Free from any circumstances referred to in Article 30 of the Company Act.
10. Not have been elected by government, a juridical person or representatives thereof as stipulated by Article 27 of the Company Act.

(II)Information about President and CEO, Senior Executive Vice Presidents, Executive Vice Presidents, and Executives of each Department and Branch Office

March 31, 2018

Job Title	**Nationality**	Name	Gender	Date of Election (Appointment)	Shareholdings		Shareholdings of spouse and underage children		Shares held by proxy		Main Educational and Professional Background		Current post held concurrently in other companies	Other General Managers within two degrees of kinship of self or spouse		
					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	Yi-Sheng Wang	Male	2017.07.16	–	–	–	–	–	–	Dept. of Banking, Tamkang University	Mega Bills Finance - Chief Auditor	–	–	–	–
Senior Executive Vice President	Republic of China	Jung-Kun Wu	Male	2017.07.16	–	–	–	–	–	–	Department of Banking, NCCU	Executive Vice President and Tainan Branch Manager of the Company	–	–	–	–
General Auditor	Republic of China	Yao-Kuang Tsai	Male	2017.07.16	–	–	–	–	–	–	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	Chin-Sheng Huang	Male	2017.07.16	–	–	–	–	–	–	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	Executive Vice President , MBF and General Manager, Bills Dept., MBF	–	–	–	–
General Manager, Bills Department	Republic of China	Shih-Yi Chen	Male	2017.07.16	–	–	–	–	–	–	MBA, Katholieke Universiteit Leuven	Mega Bills Finance - Sanchung Branch manager	–	–	–	–
Executive Vice President and General Manager, Bonds Department	Republic of China	Chun-Chang Lee	Male	2015.02.02	–	–	–	–	–	–	Master of Commerce, National Taiwan University	Executive Vice President and General Manager, Administration	–	–	–	–

												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	–	–	–	–
Acting Manager, Credit Assessment Department	Republic of China	Chun-Hao Chen	Male	2017.09.01							Department of Cooperative Economy, National Chung Hsing University	Deputy General Manager, Credit Dept. MBF	Director, Core Pacific City Co., Ltd.	–	–	–
General Manager, Administration Department	Republic of China	Shih-Ming Wang	Male	2017.09.01	–	–	–	–	–	–	Master of Finance, Tamkang University	Manager, Credit Dept. 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	–	–	–	–
Acting manager, Legal Affairs and Compliance Department	Republic of China	Chih-Wu Lin	Male	2018.01.16	–	–	–	–	–	–	MBA, National Cheng Kung University	Mega Bills Finance - Senior Deputy Manager of Legal Affairs and Compliance Department	–	–	–	–
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	–	–	–	–
General Manager, Tainan Branch	Republic of China	Hui-Lung Chung	Male	2017.07.16							Master of Finance, National Cheng Kung University	Mega Bills Finance - Senior Officer of Tainan Branch	–	–	–	–
General Manager, Taichung Branch	Republic of China	Ming-Pao Wang	Male	2017.09.01	–	–	–	–	–	–	Master, Graduate Institute of Accounting and Taxation, Feng Chia University	Mega Bills Finance - Manager of Administration Department	–	–	–	–

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	Ching-Fa Chang	Male	2017.07.16							MBA, China University of Technology	Mega Bills Finance - Hsinchu Branch Senior Deputy Manager	—	—	—	—
General Manager, Sanchong Branch	Republic of China	Shuo-Cheng Lee	Male	2017.07.16	—	—	—	—	—	—	Master, Graduate Institute of Economics, National Taiwan University	Manager, Credit Dept. MBF	—	—	—	—
General Manager, Executive Vice President and Banqiao Branch	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	Chi-Ming Hsu	Male	2017.09.01	—	—	—	—	—	—	Department of Accounting, Chinese Culture University	Deputy General Manager, Treasury Dept. MBF	—	—	—	—

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, 2017; unit: NTD thousands

Job Title	Name	Remuneration to Director								Total of (A), (B), (C) and (D) in Post-Tax Profit Ratio		Remuneration Drawn by Employees Holding Concurrent Posts								Total of (A), (B), (C), (D), (E), (F) and (G) in Post-Tax Profit Ratio		Whether remuneration is also drawn from non-subsidiary companies in which the company has invested
		Remuneration (A)		Pension (B)		Remuneration (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	
																Amount paid in cash	Amount paid in shares	Amount paid in cash	Amount paid in shares			
Director	Chi-Fu Lin																					
Independent Director	Yi-Jui Huang																					
Director	Jui-Yun Lin																					
Director	Rui-Yuan Fu (Note 2)																					
Former Director	Zong-Ming Yen																					
Former Director	Chun-Hsiang Lee																					
Former Independent Director	Tsai-Chih Chen																					
Former Director	To-Ching Hu (Note 2)																					
Former Director	Chang-Jui Hsiao (Note 1)																					
Total		5,304	5,304	-	-	-	-	1,756	1,756	0.26	0.26	6,670	6,670	-	-	-	-	-	-	0.51	0.51	None

Note:

1. Former Chairman Chang-Rui Hsiao departed on 2017.12.27; Director/President Chi-Fu Lin has assumed acting duty since then.

2. On 2017.3.29, Mega Holdings appointed Madam Ruey-Yuan Fu to replace Director To-Ching Hu.
3. Mega Holdings had reappointed the Company's 15th board of directors and supervisors on 2018.3.1 to serve a term from 2018.3.1 until 2021.2.28. The names of the 15th board of directors (including independent directors) and supervisors are as follows: Chairman Mei-Chu Liao, Director and President Chi-Fu Lin, Independent Director Yi-Rui Huang, Independent Director Jian-Yu Chen, Director Jui-Yun Lin, Director Chun-Ho Li, Director Rui-Yuan Fu, Director Ya-Ting Chang, Supervisor Jin-Tsun Chen, Supervisor Fu-Rong Chen, and Supervisor Chi-Ho Chen.
4. Mega Holdings reappointed Madam Yu-Mei Hsiao to replace Director Chun-Hsiang Li on 2018.3.28.
5. Directors' remuneration (including independent directors) was accurate as at 2017.12.31.
6. Housing and vehicle lease payments were included in “professional practice expenses (D)”. For relevant information, please refer to Schedules A and B on page 18.
7. Performance bonus to senior management and employees’ remuneration were estimated figures. The actual amount is subject to parent company's approval.

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, Zong-Ming Yen, Chun-Hsiang Li, Rui-Yuan Fu, To-Ching Hu, Tsai-Chih Chen, Yi-Rui Huang	Chi-Fu Lin, Jui-Yun Lin, Zong-Ming Yen, Chun-Hsiang Li, Rui-Yuan Fu, To-Ching Hu, Tsai-Chih Chen, Yi-Rui Huang	Jui-Yun Lin, Zong-Ming Yen, Chun-Hsiang Li, Rui-Yuan Fu, To-Ching Hu, Tsai-Chih Chen, Yi-Rui Huang	Jui-Yun Lin, Zong-Ming Yen, Chun-Hsiang Li, Rui-Yuan Fu, To-Ching Hu, Tsai-Chih Chen, Yi-Rui Huang
NT$2,000,000 ~ NT$5,000,000	Chang-Jui Hsiao	Chang-Jui Hsiao	Chang-Jui Hsiao	Chang-Jui Hsiao
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)	7,060	7,060	13,730	13,730

Note: this remuneration bracket table is accurate as at 2017.12.31

(II)Remuneration to Supervisors

December 31, 2017; unit: NTD thousands

Job 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)											
Former Supervisor	Chun-Ke Su (Note)											
Total		-	-	-	-	-	-	813	813	0.03	0.03	None

Note: Mega Holdings reappointed the Company's 15th board of supervisors on 2018.3.1; the newly appointed supervisors were: Jin-Tsun Chen, Fu-Rong Chen, and Chi-Ho Chen.

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	Jin-Cun Chen, Fu-Jung Chen, Chun-Ke Su
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)	813	813

Note: this remuneration bracket table is accurate as at 2017.12.31

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

December 31, 2017; unit: NTD thousands

Job 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	Amount paid in cash	Amount paid in shares	Amount paid in cash	Amount paid in shares	The Company	All companies included in the financial statements	
President and CEO	Chi-Fu Lin													
Senior Executive Vice President	Yi-Sheng Wang													
Senior Executive Vice President	Jung-Kun Wu													
General Auditor	Yao-Kuang Tsai													
Former Vice President	Chin-Tsan Wei (Note 1)													
Former Vice President	Ching-Wen Wu (Note 1)													
Total	Total	9,681	9,681	19,789	19,789-	8,102	8,102	2,347	-	2,347	-	1.48	1.48	None

Note:

1. Vice presidents Chin-Tsan Wei and Ching-Wen Wu both retired on 2017.7.16; their positions were filled by Chief Auditor Yi-Sheng Wang and Assistant Vice President Rong-Kun Wu, while Assistant Vice President Yao-Kuang Tsai was promoted Chief Auditor at the same time.
2. President and Senior Executive Vice Presidents' remuneration were accurate as at 2017.12.31.
3. Performance bonus and employees' remuneration were estimated figures. The actual amount is subject to parent company's approval.
4. Refer to Schedules A and B on page 18 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	Yi-Sheng Wang, Jung-Kun Wu, Yao-Kuang Tsai	Yi-Sheng Wang, Jung-Kun Wu, Yao-Kuang Tsai
NT$5,000,000 ~ NT$10,000,000	Chi-Fu Lin, Chin-Tsan Wei	Chi-Fu Lin, Chin-Tsan Wei
NT$10,000,000 ~ NT$15,000,000	Ching-Wen Wu	Ching-Wen Wu

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)	39,919	39,919

Note: Remuneration of former vice presidents Chin-Tsan Wei and Ching-Wen Wu included redundancy pay and pension.

Table A. Vehicles provided to Chairman, President and Senior Executive Vice Presidents, and imputed annual rent thereof in 2017

December 31, 2017; unit: NTD thousands

<table>
<tr><th>Job Title</th><th>User</th><th>Purchase of Vehicle</th><th>Imputed Annual Rent</th><th>Fuel Expense</th><th>Remarks</th></tr>
<tr><td>Chairman of the Board</td><td></td><td rowspan="7">-</td><td rowspan="7">1,903</td><td rowspan="7">97</td><td rowspan="7">Rental</td></tr>
<tr><td>President and CEO</td><td>Chi-Fu Lin</td></tr>
<tr><td>Former Vice President</td><td>Chin-Tsan Wei</td></tr>
<tr><td>Former Vice President</td><td>Ching-Wen Wu</td></tr>
<tr><td>Senior Executive Vice President</td><td>Yi-Sheng Wang</td></tr>
<tr><td>General Auditor</td><td>Yao-Kuang Tsai</td></tr>
<tr><td>Former Director</td><td>Chang-Jui Hsiao</td></tr>
</table>

Note:

Drivers' salary and overtime pay totaling NT$1,539,000 were paid in 2017 as compensation for the Chairman’s and President's services.

Table B. Housing allowance provided for the Chairman, the President, and Senior Executive Vice Presidents in 2017

December 31, 2017; unit: NTD thousands

<table>
<tr><th>Job Title</th><th>User</th><th>Cost</th><th>Imputed Annual Rent</th><th>Remarks</th></tr>
<tr><td>Chairman of the Board</td><td></td><td>-</td><td rowspan="5">1,239</td><td rowspan="5"></td></tr>
<tr><td>President and CEO</td><td>Chi-Fu Lin</td><td>-</td></tr>
<tr><td>Senior Executive Vice President</td><td>Jung-Kun Wu</td><td>-</td></tr>
<tr><td>General Auditor</td><td>Yao-Kuang Tsai</td><td>-</td></tr>
<tr><td>Former Chairman</td><td>Chang-Jui Hsiao</td><td>-</td></tr>
</table>

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

December 31, 2017; unit: NTD thousands

	Job Title	Name	Amount paid in shares	Amount paid in cash	Total	As a percentage of after-tax profit (%)
General Managers	Senior Executive Vice President	Yi-Sheng Wang				
	Senior Executive Vice President	Jung-Kun Wu				
	Former Vice President	Chin-Tsan Wei				
	Former Vice President	Ching-Wen Wu				
	General Auditor	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				
	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	Chun-Hao Chen				
	General Manager	Ching-Fa Chang				
	General Manager	Chi-Ming Hsu				
	General Manager	Hui-Lung Chung				
	Total		-	13,042	13,042	0.48

(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

2. The sum of remuneration paid to the Company's directors, supervisors, President and Senior Executive Vice Presidents represented 1.11% and 1.77% of after-tax profit in 2016 and 2017, respectively.

3. Remuneration policies, standards, packages and procedures and association with future risks and business performance: The Company's directors and supervisors are entirely appointed by the sole shareholder - Mega Financial Holding Co., Ltd. Chairman and the director who co-heads the Presidential 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, whereas all other directors and supervisors are only paid travel allowance. Vice Presidents are remunerated based on performance, subject to the Company's policies.

IV.Corporate governance:

(I)Functionality of the board of directors:

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

Job Title	Name	Attendance in Person (B)	Attendance by Proxy	Actual Attendance Rate (%) 【B/A】	Remarks
Director and President	Chi-Fu Lin	16	1	94	
Independent Director	Tsai-Chih Chen	16	0	100	
Independent Director	Yi-Jui Huang	16	2	88	
Director	Jui-Yun Lin	16	0	100	
Director	Ruey-Yuan Fu	13	1	92	Date attended 2017.3.29
Director	Zong-Ming Yen	16	1	94	
Director	Chun-Hsiang Lee	16	1	94	
Former Director	Chang-Jui Hsiao	15	1	93	Dismissed on 2017.12.27

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)At the 30th meeting of the 14th board held on January 24, 2017: 1. Proposal to donate to the projects of Mega Charity Foundation, for which Director Jui-Yun Lin had avoided all discussion and voting in relation to the agenda. 2. Underwrite non-guarantee commercial papers of Mega Financial Holding Co., Ltd.; Director Jui-Yun Lin had abstained from voting and the discussion.

(II) At the 31st meeting of the 14th board held on February 21, 2017: Proposal to grant guaranteed commercial paper limits to HannsTouch Solution Incorporated, for which Director Chun-Hsiang Li, Supervisor Fu-Rong Chen, and Supervisor Chun-Ke Su had avoided all discussion and voting in relation to the agenda.

(III) At the 32nd meeting of the 14th board held on March 21, 2017: Proposal to grant guaranteed commercial paper limits to Dong Yu Investment Co., Ltd., for which Director Chun-Hsiang Li, Supervisor Fu-Rong Chen, and Supervisor Chun-Ke Su had avoided all discussion and voting in relation to the agenda.

(IV)At the 33rd meeting of the 14th board held on April 25, 2017: Proposal to grant guaranteed commercial paper limits to Prince Housing & Development Corp., for which Director Chun-Hsiang Li, Director Rui-Yuan Fu, Supervisor Fu-Rong Chen, and Supervisor Chun-Ke Su had avoided all discussion and voting in relation to the agenda.

(V) At the 34th meeting of the 14th board held on May 23, 2017: Proposal to underwrite non-guarantee commercial paper limits of Mega Asset Management Corp., for which Supervisor Chun-Ke Su had avoided all discussion and voting in relation to the agenda.

(VI)At the 36th meeting of the 14th board held on June 27, 2017: 1. Proposal to establish industry-academia collaboration contract and pay academic compensation, for which Independent Director Tsai-Chih Chen had avoided all discussion and voting in relation to the agenda. 2. Proposal to grant guaranteed commercial paper limits to Hsin Yuan Enterprise Co., Ltd. and Hua Run Construction Co., Ltd., for which Director Chun-Hsiang Li (absent), Director Rui-Yuan Fu, Supervisor Fu-Rong Chen, and Supervisor Chun-Ke Su had avoided all discussion and voting in relation to the agenda.

(VII) T the 38th meeting of the 14th board held on August 22, 2017: Proposal involving YeaShin International Development, for which Director Chun-Hsiang Li, Director Rui-Yuan Fu, Supervisor Fu-Rong Chen, and Supervisor Chun-Ke Su had avoided all discussion and voting in relation to the agenda.

(VIII) At the 40th meeting of the 14th board held on October 24, 2017: 1. Proposal to grant guaranteed commercial paper limits to SinoPac Leasing Corporation, for which Director Chun-Hsiang Li, Director Rui-Yuan Fu, Supervisor Fu-Rong Chen, and Supervisor Chun-Ke Su had avoided all discussion and voting in relation to the agenda. 2. Proposal to underwrite non-guarantee commercial paper limits of Mega Securities Co., Ltd., for which Supervisor Jin-Tsun Chen had avoided all discussion and voting in relation to the agenda.

(IX)At the 42nd meeting of the 14th board held on November 28, 2017: Proposal to grant guaranteed commercial paper limits to Taiwan Tea Corporation, for which Director Chun-Hsiang Li, Director Rui-Yuan Fu, Supervisor Fu-Rong Chen, and Supervisor Chun-Ke Su had avoided all discussion and voting in relation to the agenda.

(X) At the 44th meeting of the 14th board held on December 26, 2017: Proposal to grant guaranteed commercial paper limits to Deng Rui Construction Co., Ltd., for which Director Chun-Hsiang Li, Director Rui-Yuan Fu, Supervisor Fu-Rong Chen, and Supervisor Chun-Ke Su had avoided all discussion and voting in relation to the 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:

A total of 16 (A) board of directors meetings were held of 2017; attendance records are shown below:

Job Title	Name	Attendance in Person (B)	Actual Attendance Rate (%) 【B/A】	Remarks
Supervisor	Fu-Jung Chen	15	94	
Supervisor	Chun-Ke Su	15	94	
Supervisor	Jin-Cun Chen	16	100	

Other notes to be specified:

Constitution and obligations of supervisors:

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.

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Supervisors' communication with Chief Auditor and external auditors (e.g. the details, means and outcomes of discussion regarding the Company's financial position and business performance): the Company's internal audit reports and financial statements are submitted regularly for review by the supervisors. Supervisors may also initiate communication with the Chief Auditor and external auditors via meetings, 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.

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 Financing Companies

Item	Status			Non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance
	Yes	No	Summary description	
I. Shareholding structure and shareholders' interests (I) Are shareholders' suggestions, queries, disputes and litigations handled properly? (II) Is the company constantly informed of the identities of its major shareholders and the ultimate controller? (III) Has the company established and implemented risk management practices and firewalls for companies it is affiliated with?	V V V		I. The Company is a 100%-owned subsidiary of Mega Holdings. All above matters are handled according to the policies of Mega Holdings. II. Mega Holdings is the Company's sole shareholder; the identity of the Company's ultimate controller can be established via the parent company. III. The Company is entirely independent from affiliated entities in terms of personnel, assets, and financial decisions. The parent company's "Mega Group Risk Management Policy and Guidelines" and "Mega Holdings and Subsidiaries Firewall Policy" govern dealings with affiliated entities. (I) Information security: the Company has established the transaction authority and file access rights as means of control. (II) Confidentiality of customers' information: accesses to customers' information are subject to proper authorization before proceeding. Customers' consents are obtained before their information can be used and shared for joint marketing purposes. The Company has established confidentiality agreements with other subsidiaries of the group to ensure the secrecy of customers' information. (III) Related party transactions: the Company maintains a list of related parties and reports transactions regularly to the parent company - Mega Holdings, through which related party disclosures are made to the authority.	Compliant with "Corporate Governance Best-Practice Principles for Bills Financing Companies".
II. Constitution and obligations of the board of directors (I) Does the company have independent directors in place? Has the company assembled other functional committees? (II) Are external auditors' independence assessed on a regular basis?	V V		I. The Company has 8 directors, 2 of whom are independent directors. All directors are appointed by the parent company - Mega Holdings. II. 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. III. The Company evaluates independence of its external auditors at the time of appointment.	Compliant with "Corporate Governance Best-Practice Principles for Bills Financing Companies".
III. 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.)?	V		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.	Compliant with "Corporate Governance Best-Practice Principles for Bills Financing Companies".
IV. Does the company have means of communication with its stakeholders (including but not limited to shareholders, employees and customers)?	V		The Company has disclosed on its website the hotline and means of contact. By maintaining open channels of communication, the Company strives to protect the rightful interests of its stakeholders.	Compliant with "Corporate Governance Best-Practice Principles for Bills Financing Companies"

<table>
<tr><td>V. Information disclosure
(I) Has the company established a website that discloses financial, business, and corporate governance-related information?
(II) Has the company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)?</td><td>
V

V</td><td></td><td>I. The Company has made a Statutory Disclosures section on its website to disclose important information such as financial reports, business performance, interest rate quotations, corporate governance, and credit rating.
II. Other means of information disclosure
(I) The Company has published an English version of the annual report on its website.
(II) The Company has assigned dedicated personnel to gather, maintain and update information published in various sections of its website.
(III) The Company has “Spokesperson and Acting Spokesperson Policy” in place to prohibit employees from speaking for the Company, thereby making sure that information is disseminated according to proper procedures.
(IV) The Company is not listed on TWSE or GTSM; its information is disclosed via the parent company - Mega Holdings.</td><td>Compliant with “Corporate Governance Best-Practice Principles for Bills Financing Companies”</td></tr>
<tr><td colspan="5">VI. Other information relevant to corporate governance practices:
(I) Employee welfare: enforced in accordance with Labor Standards Act and the Company's work rules.
(II) Employee care: the Company has an Employee Welfare Committee in place to handle matters such as labor insurance, national health insurance, group insurance, workers' health and safety, health checks, wedding and funeral subsidies etc.
(III) Investor relations: the Company is a 100%-owned subsidiary of Mega Holdings, which is the sole investor.
(IV) 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.
(V) Directors' and supervisors' ongoing education: Some directors and supervisors had participated in the “Global Trend Analysis - Risks and Opportunities,” “Directors' Duty of Care,” “Board of Directors' Attention to Strategic, Competitiveness, Risk and Crisis Issues,” “Case Studies of Major Corporate Financial Crimes and Legal Responsibilities,” “Key Audit Issues and Fundamental Responses for the Board,” “Corporate Compliance and Directors'/Supervisors' Duties - The Mega Bank Experience,” “The 13th Corporate Governance Summit Forum,” “Independent Directors' Duties and Functions of the Audit Committee,” “Directors'/Supervisors' Responsibilities in Information Disclosure and Financial Misstatement,” “Directors'/Supervisors' Role in Corporate Risk and Crisis Management,” “Analysis of Key Financial Statement Information,” “Directors' Corporate Leadership in an Environment of Rapidly Evolving Technologies,” “Audit Report Reform - Key Audit Issues and Fundamental Responses for the Board,” and “Board Performance Assessment - Value Creation through Self-discipline of the Board” organized by the Taiwan Corporate Governance Association; “Corporate Governance Seminar - Identifying Opportunities in Changes” organized by Taiwan Academy of Banking and Finance; “AML and CTF Course” organized by Mega Bills Financing; “Internal Training on Anti-money Laundering, Personal Information, Anti-corruption and Business Integrity Laws” organized by Mega Holdings; “2017 AML and CTF Course,” “AML Remediation Process & Global Governance Framework (2~5),” “AML & Sanctions Remediation Global Policy Workshop (1-3, 5, 7, 8, 10),” “US AML & Sanctions Consolidated Program Information WS (1-3),” “AML & Sanctions Workshop (1-4),” and “Compliance, Anti-money Laundering and Operational Defects Workshop” organized by Mega Bank; “Advanced Conference for Directors and Supervisors - Impacts of New Money Laundering Control Act on Businesses” organized by Securities and Futures Institute; “Personal Information Protection Act (Financial Consumer Protection Act), Money Laundering Control Act and Common Violations for Securities Firms” organized by Taiwan Securities Association; “Public Hearing for Total Amendment of The Company Act” and “2017 Discipline Conference” organized by ROCCPA; “Implications of the New Work Day Policy” and “2017 Discipline Forum” organized by Taiwan CPA Association; “Anti-money Laundering Laws for CPAs” organized by Solomon & Co., CPAs; and “Case Studies and Implications of the Money Laundering Control Act” organized by Taipei CPA Association.
(VI) Meeting attendance by directors and supervisors: all directors and supervisors have attended board meetings as required by policy.
(VII) Risk management policies and risk assessment standards: the Company has been assessing business risks in accordance with the authority's instructions and rules of the parent company - Mega Holdings. It has set risk limits on the various types of activities it performs and monitors to ensure that necessary measures are taken for the safety and performance of the Company. Credit review meetings, Risk Management Committee meetings and various other meetings are held regularly to ensure the effectiveness of risk management policies and evaluate strengths and weaknesses of existing risk practices. This enables the Company to flexibly adjust its control measures in line with the changing circumstances.
(VIII) 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.
(IX) Directors and supervisors' liability insurance: coverage has been procured according to policies.
(X) Social responsibilities: refer to the section titled “Fulfillment of Social Responsibilities”.</td></tr>
<tr><td colspan="5">VII. Please explain the improvements made, based on the latest Corporate Governance Evaluation results published by TWSE Corporate Governance Center, and propose enhancement measures for any issues that are yet to be rectified. (Not required as the Company is not subject to evaluation)
The Company is not listed on TWSE or TPEx; it is not subject to evaluation and hence this does not apply.</td></tr>
</table>

(V) Fulfillment of Social Responsibilities

Item	Status		
	Yes	No	Summary description
I. Sound corporate governance (I) Does the company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis? (II) Does the company organize social responsibility training on a regular basis? (III) 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? (IV) 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?	 (I) (II) V (III) V (IV) V	 (I) V	I. 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. II. The Company organizes internal training programs each year as deemed necessary by law and business activities. These training programs cover a wide range of topics including: enhancement of professional skills, regulatory compliance, workplace health and safety, employer's and employees' rights, and corporate responsibilities. III. 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. IV. 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.
II. Fostering a sustainable environment (I) Is the company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment? (II) Has the company developed an appropriate environmental management system, given its distinctive characteristics? (III) 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?	 (I) V (II) V (III) V		I. 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. II. 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. III. 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 2017, the Company used 0.28% lesser water, 0.68% lesser power and 6.25% lesser fuel.
III. Enforcement of public welfare (IV) Has the company developed its policies and procedures in accordance with laws and International Bill of Human Rights? (V) Does the company have means through which employees may raise complaints? Are employee complaints being handled properly? (VI) Does the company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues? (VII) Does the company have means to communicate with employees on a regular basis, and inform them of	 (IV) V (V) V (VI) V (VII) V		I. Compliance with labor laws and internationally-recognized workers' rights; the measures and procedures adopted to protect employees' legal rights and to ensure equality in employment; and how these measures are implemented: (I) Reasonable compensation and bonus/remuneration scheme for employees. (II) Employee training programs. (III) Insurance and leave policy. (IV) Pension contributions. (V) The Company makes no gender distinctions when hiring staff, and is committed to ensuring equal employment opportunities for both genders. The Company hires disabled persons in compliance with the law and has implemented internal policies to facilitate sexual harassment complaints and investigations. II. The Company's "Bills on Employee Suggestions and Complaints" has

operational changes that may be of significant impact? (VIII) Has the company implemented an effective training program that helps employees develop skills over their career? (IX) Has the company implemented consumer protection and grievance policies concerning its research, development, procurement, production, operating and service activities? (X) Has the company complied with laws and international standards with regards to the marketing and labeling of products and services? (XI) Does the company evaluate suppliers' environmental and social conducts before commencing business relationships? (XII) 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 V V V V		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. III. The following initiatives have been taken to ensure workplace health and safety: (I) Annual employee health checks. (II) Implementation of “Bills on Prevention of Sexual Harassment” as a complaint channel and a means to maintain order in the workplace. (III) Accidental insurance and health insurance for employees and family members. (IV) Implementation of safety protocols and emergency responses, which are rehearsed on a yearly basis and revised in regular meetings. IV. 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: (I) 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 BILLS system to serve as reference for future decisions. (II) 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 BILLS system. (III) Furthermore, the Company has established “Bills on Employee Suggestions and Complaints” to introduce broader means of communication. V. 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. VI. 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. VII. 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. VIII. The Company requires all renovation works to be carried out using as many environmentally 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. IX. 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 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. For purchases amounting to NT$1 million and more, 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 violations 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." X. Involvements in community development and charitable activities: (I) The Company has collaborated with several universities to offer internships for students. (II) Financially sponsored ~~the~~ Mega Charity Foundation. (III) Sponsored Economic Daily News in hosting "2016 Masters Forum", and invited Angus Deaton, who won the Nobel Memorial Prize in Economic Sciences in 2015." (IV) Sponsored Mega Holdings and National Tax Bureau of the Central Area in hosting "2017 MOF Run- Tainan Session" in Tainan City. (V) Sponsored Taiwan Financial Services Roundtable in the organization of "2017 Financial Service Charity Carnival - Kaohsiung Session."
IV. 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.
V. 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			
VI. Other information relevant to the understanding of corporate social responsibilities: None			
VII. 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
I. Formulate integrity policies and solutions (I) 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? (II) Does the company have any policies against dishonest conducts? Are these policies enforced by proper procedures, behavioral guidelines, disciplinary actions and complaint systems? (III) 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 V V		I. The Company adopts a business philosophy of "integrity, pragmatism, service, efficiency, innovation and growth." In order to establish integrity as the Company's corporate culture and growth foundation, a set of "Integrity Code of Conduct" and "Integrity Procedures and Behavior Guidelines" have been developed and implemented within the organization. Together, they emphasize integrity as the priority and foundation to the Company's operational policy, corporate governance and risk management, and thereby ensure a sustainable business environment. II. 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 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. III. According to the Work Rules and "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 authorities for personal gains or gains of others, or to engage in private financial arrangements with customers or the Company.
II. Fulfillment of Ethical Corporate Management (I) Does the company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners? (II) 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? (III) Does the company have any policy that prevents conflict of interest, and channels that facilitate the reporting of conflicting interests? (IV) 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) Does the company organize internal or external training on a regular basis to maintain business integrity?	V V V V V		I. All daily business activities are carried out in a fair and transparent manner. The Company checks credit records such as returned cheque 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. II. 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. III. 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. IV. 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. V. Courses on regulatory compliance, internal controls and business integrity have been included as part of the training program.

Item	Actual governance		
	Yes	No	Summary description
III. Reporting malpractice (I) Does the company provide incentives and means for employees to report malpractices? Does the company assign dedicated personnel to investigate the reported malpractices? (II) Has the company implemented any standard procedures or confidentiality measures for handling reported malpractices? (III) Does the company assure malpractice reporters that they will not be mistreated for making such reports?	V V V		I. 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. II. 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 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. III.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.
IV. 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.
V. If the company has established business integrity policies in accordance with “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies”, please describe its current practices and any deviations from the Best Practice Principles: None			
VI. Other information relevant to understanding the company's business integrity (e.g. revision of business integrity principles): Yes			

(VII) Mandatory disclosures for 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

Acting Chairman of the Board: Chi-Fu Lin

President and CEO: Chi-Fu Lin

General Auditor: Yao-Kung Tsai

Legal Compliance Officer,
Head Office: Chih-Wu Lin

Date: January 23, 2018

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

Date: December 31, 2017

Required Improvement	Corrective Action	When Improvement Scheduled to be Completed
None		

ii. 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 32nd meeting of the 14th board held on March 21, 2017:
   Establishment of "Mega Bills Finance Co., Ltd. Integrity Principles".
2. Resolutions passed on behalf of shareholders during the 33th meeting of the 14th board held on April 25, 2017:
   (1) Year-end closure and earnings appropriation for 2016, which comprised dividends totaling NT$2,032,733,680 (NT$1.55 per share) to be

distributed entirely in cash. A resolution was made to set May 8, 2017 as the baseline date and May 9, 2017 as the payment date for the above dividends.

(2) 2016 employee remuneration totaling NT$63,706,883, to be paid in cash.

3. Resolutions passed on behalf of shareholders during the 35th meeting of the 14th board held on May 23, 2017:

   Amendments to "Mega Bills Finance Asset Acquisition and Disposal Procedures".

4. Resolutions passed on behalf of shareholders during the 28th meeting of the 39th board held on September 26, 2017:

   Abolished "Mega Bills Finance Directors'/Supervisors' Attendance Fee and Travel Allowance Payment Rules."

5. Resolutions passed on behalf of shareholders during the 40th meeting of the 14th board held on October 24, 2017:

   Amended "Mega Bills Finance Board of Directors Conference Rules."

6. Resolutions passed on behalf of shareholders during the 42nd meeting of the 14th board held on November 28, 2017:

   Amendments to "Mega Bills Finance Derivative Trading Procedures".

(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:

Job Title	Name	Date of Appointment	Date Discharged	Cause of Resignation or Discharge
Chairman of the Board	Chang-Jui Hsiao	2016.08.31	2017.12.27	Re-appointment by corporate shareholder

IV. Information about professional fees paid to CPA:

Name of accounting firm	CPA's Name	Audit period	Remarks

PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji	Zong-Xi Lai	2017/1/1-2017/12/31	

Amount Unit: NT$ thousands

Range \ Audit remuneration		Audit remuneration	Non-Audit Fees	Total
1	Below NT$ 2,000,000	1,347	613	1,960
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 remuneration to external auditors, accounting firms and related businesses that amount to one-quarter or higher of audit remuneration:

Name of accounting firm	CPA's Name	Audit remuneration	Non-Audit Fees					Audit period	Remarks
			System design	License registration	Human resources	Others	Sub-total		
PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji Zong-Xi Lai	1,347				613	613	2017/1/1-2017/12/31	Others include transfer pricing service fee of NT$180,000 and IFRS 9 - Financial Instruments consultation fee of NT$433,000.

(II) Any replacement of accounting firm and reduction in audit remuneration paid compared with the previous year: none.

(III) Any reduction in audit remuneration by more than 15% compared with the previous year: none.

V. Information about change of CPA:

(I) About former CPA:

Date of Change	Ratified at Board Meeting on February 21, 2017

<table>
<tr><td>Cause of Change and Explanation Thereof</td><td colspan="3">Following a reorganization within PriceWaterhouseCoopers Taiwan, the Company’s financial statements have been audited by CPA Shu-Mei Ji and CPA Zong-Xi Lai since 2017 third quarter, instead of CPA Shu-Mei Ji and CPA Chien-Hung Chou.</td></tr>
<tr><td rowspan="3">Was the termination of audit services initiated by the client or by the auditor</td><td>Parties
Situation</td><td>Auditor</td><td>Principal</td></tr>
<tr><td>Service terminated by</td><td>Shu-Mei Ji,
Chien-Hung Chou</td><td></td></tr>
<tr><td>Service no longer accepted (continued) by</td><td></td><td></td></tr>
<tr><td>Reasons for issuing opinions other than unqualified opinions in the recent 2 years</td><td colspan="3">None</td></tr>
</table>

<table>
<tr><td rowspan="7">Disagreements with the Company</td><td rowspan="5">Yes</td><td></td><td>Accounting policy or practice</td></tr>
<tr><td></td><td>Financial statement disclosure</td></tr>
<tr><td></td><td>Audit coverage or procedures</td></tr>
<tr><td></td><td>Others</td></tr>
<tr><td></td><td></td></tr>
<tr><td>None</td><td colspan="2">✓</td></tr>
<tr><td colspan="3">Description</td></tr>
<tr><td>Other disclosures (disclosures deemed necessary under Item 1-4, Subparagraph 6, Article 10 of the Guidelines)</td><td colspan="3">None</td></tr>
</table>

(II) About new CPA:

Firm Name	PricewaterhouseCoopers, Certified Public Accountants
CPA’s Name	Shu-Mei Ji, Zong-Xi Lai
Date of Appointment	Ratified at Board Meeting on February 21, 2017
Inquiries and replies relating to the accounting practices or accounting principles of certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment	N/A

Written disagreements from the succeeding auditor against opinions of the former auditor	N/A

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

VI. 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.

VII. 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.

VIII. Relationships characterized as spouse or second degree relatives or closer among top-ten shareholders: none.

IX. Investments jointly held by the company, the company's directors, supervisors, president, vice presidents, Executive Vice Presidents, department heads, branch managers, and directly/indirectly controlled entities:

December 31, 2017; 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	2.938	–	–	60,000,000	2.938
Taiwan Financial Asset Services Co., Ltd.	5,000,000	2.941	–	–	5,000,000	2.941
Taiwan Depository and Clearing Co., Ltd.	2,269,158	0.628	–	–	2,269,158	0.628
Taiwan Asset Management Co., Ltd.	7,500,000	0.568	–	–	7,500,000	0.568
Taiwan Futures Exchange Co., Ltd.	1,615,296	0.512	–	–	1,615,296	0.512
Agora Garden Co., Ltd.	21,090	0.030	–	–	21,090	0.030

Review of Raised Funds

Review of Raised Funds

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
2018.3	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, 2018

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
Shareholding	0	100%	0	0	0	100%

III. Diversification of Shareholdings

Face value: NT$10 per share; as March 31, 2018

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

IV. Major Shareholders

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

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

Item \ Year			2016	2017	Year-to-date March 31, 2018
Market price per share	Maximum		-	-	-
	Minimum		-	-	-
	Average		-	-	-
Net value per share	Before allocation		25.76	27.48	27.55
	After allocation		24.21	(Note)	-
EPS	Weighted average outstanding shares		1,311,441,084	1,311,441,084	1,311,441,084
	EPS		2.27	2.06	0.46
Dividends per share	Cash dividends		1.55	1.45 (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 2017 earnings appropriation 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 behalf. Resolved under vested authority.

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$1,901,589,572 or NT$1.45 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 2017 employee remuneration at NT$65,016,483. 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 2017.

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

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

(III) Remuneration passed by the board of directors

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

Pursuant to the Articles of Incorporation and resolution of the 2nd meeting of the 15th board of directors held on March 21, 2018, the 2017 employee remuneration was determined at NT$56,889,510, to be distributed in cash. The Company did not propose any share payment for employees'/directors'/supervisors' remuneration. The NT$56,889,510 cash payment of 2017 employee remuneration resolved by the board of directors was different from the NT$65,016,483 previously recognized in the 2017 financial statements, by a discrepancy of NT$8,126,973. This discrepancy was attributable to a change of employee remuneration percentage and has been adjusted into 2018 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 32th 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 actual cash payment of 2016 employee remuneration, NT$63,706,883, was different from the NT$86,459,341 previously recognized in 2016 financial statements, by a difference of NT$22,752,458. This difference was attributable to a change of employee remuneration percentage, and has been adjusted into 2017 profit and loss.

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

IX. Re-purchase 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

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 ~~or~~ 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 ~~or~~ proprietary trader with respect to bank debentures

(3) Proprietary trading of corporate bonds

(4) Proprietary trading and investment of fixed income securities

(5) Proprietary trading and investment of foreign bonds

3. Equity investment business

4. Others

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

1. Assets Unit: NT$ thousands

Item \ Year	2017		2016	
	Amount	As a proportion of total assets (%)	Amount	As a proportion of total assets (%)
Bills Business	132,729,168	47.48	120,027,368	45.41
Bonds Business	138,900,103	49.69	137,576,623	52.05
Equity investment business	1,414,346	0.51	910,683	0.35

Others	6,478,232	2.32	5,787,527	2.19
Total assets	279,521,849	100.00	264,302,201	100.00

2. Revenues Unit: NT$ thousands

Year / Item	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Bills Business	2,522,561	47.93	2,660,680	49.97
Bonds Business	2,497,190	47.44	2,377,473	44.65
Equity investment business	123,150	2.34	134,026	2.52
Others	120,641	2.29	152,358	2.86
Total Revenues	5,263,542	100.00	5,324,537	100.00

II. Business plan of the year

(I) Bills Business

1. Pay attention to customers' operational/financial performance, industry prospects and funding capability for making decision of credit extension.
2. Endeavor to look for opportunities to lead-arrange syndicated loans and syndicated underwriting of non-guarantee commercial papers; hence stabilize CP source 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. The company will aim to maintain long-term, mutually beneficial relationship with financial institutions in order to secure funding sources and market information. Meanwhile, the company will actively develop bilateral business relationship with customers, and explore stable, low-interest sources of capital from general businesses for lower funding cost and more diversified funding.

5. Monitor the Central Bank’s monetary policy and movements of the financial market to enable flexible adjustment of primary and secondary deal rates; manage and expand bills portfolio at increased margin to maintain a leading position in the market.

(II) Bonds Business

1. Improve trade performance by executing outright purchases and 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 impact.
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 compromising liquidity risks.
4. Buy convertible bonds issued and CBAS 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 of 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) Amendment of the Money Laundering Control Act: On December 28, 2016, the Ministry of Justice amended the "Money Laundering Control Act" that requires enhanced due diligence to be carried out for suspected money laundering activities, politically exposed persons as well as family members and persons of close relationships. The amendment also outlined the legal basis for customer due diligence and penalties for violations, which are consistent with international practices and are intended to improve the effectiveness of anti-money laundering efforts within the nation. Related operational costs will be increased for the Company in order to implement the anti-money laundering laws and regulations and operational requirements.

2) Issuance of non-physical commercial papers (CP2): Taiwan Depository and Clearing Corporation has been working with the Financial Supervisory Committee to implement registration for the issuance of CP2 commercial papers. According to the amended Article 26 of "Act Governing Bills Finance Business," except treasury bills, all short-term bills and bonds must be placed under the custody of a central depository or issued to registered owners. Issuance of CP2 commercial paper was officially issued in non-physical form on September 18, 2017, which helped reduce operational risks involved in bill issuance.

3) The Financial Supervisory Committee has given bills financing

companies the permission to trade a broader range of derivatives: On September 20, 2017, the Financial Supervisory Commission announced Letter No. Jin-Guan-Yin-Piao-10640003360 to amend Article 3 of "Regulations Governing the Trading of Financial Derivatives by Bills Finance Companies." Following the amendment, bills financing companies are allowed to trade exchange rate derivatives as customers for purposes other than hedging; furthermore, without the limitation of TWD, bills financing companies are permitted to trade interest rate derivatives with customers and businesses.

(2) Market conditions

1) Bills market

The global economy underwent moderate recovery in 2017 due to expansionary monetary policies introduced by the world's major economies. This recovery of growth momentum prompted the U.S. FED to raise interest rates three times in 2017 and begin shrinking its balance sheet since October. Meanwhile, the European and Japanese central banks announced that they will begin reducing bonds purchased from 2018 onwards. Although the Central Bank of R.O.C has maintained the policy interest unchanged at the moment, the market generally expects domestic interest rates to move in sync with those of the United States, and the rate of short-term bills has increased slightly as a result. In 2017, the value of CP2 underwritten by all bills financing companies in the primary market amounted to NT$8,288.03 billion, increased NT$689.72 billion (or 9.08%) from 2016, in which the Company occupied a market share of 27%. The value of transactions completed by all bills financing companies in the secondary market amounted to NT$26,333.65 billion in 2017, increased NT$1,512.16 billion (or 4.16%) from 2016, in which the Company represented a market share of 32.89%. The Company has secured its position as the top performer in the bills financing industry. The global economy would expand steadily throughout 2018 as the world's advance economies including USA, Europe and Japan continue to normalize monetary policies. Given the ongoing recovery of employment in the U.S., the FED is likely to raise interest rates further in the future, causing the Central Bank of R.O.C to follow and the short-term bills rate to increase rather than decrease. However, the Central Bank is expected to remain neutral about its loose money supply, given the current state of the local economy.

2) Bonds market

According to Taipei Exchange, the average interest rate of TWD RPs in the secondary market was 0.3402% for the year 2017 and ranged between 0.3207% and 0.3569% from month to month. The interest rate of TWD RPs undertaken by the Company in 2017 averaged 0.3250%, which was lower than the market average and lesser than the 0.336% in 2016. In the secondary foreign currency bond market, the interest rate of USD RPs undertaken by the Company in 2017 averaged 1.4928%, which was 64.28 bps higher than the 0.85% in 2016. Overall, the interest rate spread from foreign currency bond holding had narrowed. The yield of Taiwan's 10-year government bonds fluctuated between 0.94% to 1.24% in 2017, whereas the yield of U.S. 10-year government bonds ranged between 2.04% to 2.61% during the year.

Interest rate spread of foreign currency bond positions would continue to narrow as long-term and short-term U.S. government bond yields converge to reflect rising interest rates, balance sheet shrinkage and increasing short-term LIBOR. In terms of TWD bonds, the Company had been able to maintain its spread on TWD bond holdings in 2017 due to the strengthening of TWD currency and 5 consecutive years of excess savings above 10%. However, the Company is presented with re-investment risks and risk of lower yields on purchased bonds in the future.

Overall, the Company managed to keep the funding cost of TWD bonds low and therefore maintain the spread of its holding position throughout 2017. The funding cost of foreign currency bonds (RP and interbank borrowing), however, had risen substantially in line with the LIBOR Rate, which significantly narrowed the spread on holding position.

The global economy is apparently on a path to recovery in the near future. Given the FED's expectation to raise interest rate three times in 2018 and the likelihood of the Central Bank of R.O.C to follow such a decision, the yield rates of TWD and foreign currency bonds should rise in line with U.S. bonds. Meanwhile, the substantial increase in TWD and foreign currency short-term interest rate will escalate funding costs, causing the trading spread of TWD and foreign currency bonds to fall below 2017 levels in 2018.

3) Equity investment business

With regards to the domestic stock market, TAIEX gained a total of 1389 points in 2017 and closed at 10642.86 due to the inflow of capital combined with a slowdown in the FED's interest rate hike, abundant liquidity worldwide, and strong performance of the U.S. stock market and currency. In terms of fundamentals, the global economy should be able to continue its growth momentum in 2018, which is beneficial to Taiwan's export-driven economy. In terms of liquidity, there has been a broad diversity of monetary policies in the world from the United States' normalized interest rates to the ongoing expansionary money supply in the Eurozone, Japan and the emerging nations. Subsequent inflationary development is likely to affect the FED's interest rate decisions and ultimately affect the performance of Taiwan's stock market in 2018.

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

1. Opportunities

(1) Expectations towards further interest rate hikes in the U.S. should provide incentives for holding USD assets, which helps attract USD capital from customers and contribute to the Company's foreign currency bond position.

(2) The authority has allowed bill financing companies to trade interest rate and

exchange rate derivatives as customers, which opens the Company to highly liquid instruments such as U.S. government bond futures and USD interest rate swaps.

2. Threats

(1) In light of potential interest rate hikes, short-term interest rates would rise substantially for the TWD and foreign currencies, thereby increase the capital cost and narrow the trading spread further of TWD and foreign currency bonds.

(2) Although the domestic economy exhibited a steady recovery in the last year, local industries have been challenged by the rise in the Chinese supply chain and China's foreign investor incentives for quite some time. The situation is worsened by the emerging trade protectionism in the United States. This makes the operations and finance of credit customers more susceptible to volatility in the market and brings uncertainties to the competitiveness of local industries. Credit risk is therefore expected to rise in the future.

(3) There is an increasing variety of funding channels in the financial market, meanwhile, banks continue to explore local lending opportunities by offering low-interest loans rate and competing in the underwriting of non-guarantee CPs in the primary market. All of these have the potential impacts for the business expansion of bills financing companies.

(4) Due to impacts of 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.

(5) Interest rate cycles hikes in the U.S. may prompt the Central Bank of R.O.C to change its interest rate policy, causing domestic long-term and short-term interest rates to rise. Rising interest rates do not favor the bills financing business, as it makes funding more difficult while increasing the cost of RP

and the borrowing rate, which ultimately reduces revenue spread by a substantial extent.

3. Responsive strategies

(1) Maintain long-term relationships with financial institutions for more diverse funding source. Negotiate for lower capital cost and maintain contact to gain the latest market insights that would enable the Company to react to the changing environment.

(2) The Company will take the initiative in sourcing NCDs above a certain spread, purchasing/underwriting guaranteed and non-guarantee bills and lead-arrange or participate in syndicated loan/underwriting projects. Therefore, the Company will be able to expand the source of non-self guaranteed bills while the Company secure its market position and increase revenues from bills.

(3) 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.

(4) Build position in foreign currency bonds and explore diverse foreign currency funding channels. Enhance foreign currency funding capabilities and spread.

(5) In order to respond the interest rate and exchange rate risks presented by foreign currency bonds, the Company will aim to reduce overall exposure by undertaking USD bond futures, USD interest rate swaps and foreign currency derivatives at the appropriate times.

(6) 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	
	2017	2016
Costs of employee participation in various research and training programs	1,673	602

2. R&D results

(1) 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) Enhanced execution and risk monitoring of anti-money laundry and combating the financing of terrorism. (AML/CFT)

(2) 2017

1) Study the feasibility of undertaking RP transaction of US dollar bonds with life insurance companies.

2) Apply to the competent authority for relaxing derivatives transaction scope of bills finance companies.

3) Adopt new accounting policies and information systems to accommodate the implementation of IFRS9.

4) Continuously develop personal information risk analysis system.

5) Enhanced execution and risk monitoring on AML/CFT.

(3) Future R&D plans

1) Continued enhanced execution and risk monitoring on the Company's anti-money laundering and counter terrorism financing efforts.

2) Seek the authority's approval for engaging life insurance companies in

USD RP deals.

3) 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).
4) Apply to the competent authority for relaxing derivatives transaction scope of bills finance companies.
5) Introduction of visual analysis tools, online learning platform and enhanced information security management.

IV. 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. Keep close attention on local and foreign political, economic and interest rate developments, and flexibly adjust TWD and foreign currency bond holding positions. In view of rising interest rates, the Company will strive to explore sources of low-interest and stable capital in TWD and foreign currency, and thereby maximize the spread of its bond holding position.
6. Build position of shares that offer good credibility and yield to replace corporate bonds of relatively low interest. Search for quality CB and CBAS while build up equity trading positions that are suitable given TAIEX's relatively high level.
7. 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.

8. Promote the use of paperless conference system and paperless report management system as a mean to cut back resource usage and fulfill cooperate social responsibilities.
9. Enhance the information security protection system and training course as means to reduce security threats.
10. Continued enforcement of AML/CFT. Improved operators' professional capacity and developed effective monitoring systems and corporate cultures.

(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 re-purchase 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		2016	2017	Up till March 31, 2018
Numbers of Employee	Staff	189	193	196
	Total	189	193	196
Average age		47.82	46.99	46.16
Average length of service		18.53	17.98	16.88
Distribution of academic background	PhD	2	1	1
	Master	86	90	93
	Bachelor	96	97	97
	Senior high school	5	5	5
	Below senior high school	0	0	0
Professional certificates held by employees	Bill Finance Specialist	184	189	187
	Securities Investment Analyst	8	9	9
	Senior Securities Specialist	144	146	144
	Securities Specialist	71	75	72
	Securities Investment Trust and Consulting Professional	86	87	85
	Trust Operations Personnel	113	116	114
	Futures Specialist	76	77	75
	Life Insurance Specialist	126	126	119
	Property Insurance Specialist	121	118	112
	Bank Internal Control Specialist	100	102	101
	Financial Planning Personnel	71	71	71

	Basic Foreign Exchange Personnel	10	12	13
	Basic Bank Lending Personnel	38	41	42
	Advanced Bank Lending Personnel	6	6	5

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)
2016	130	2,160
2017	135	2,060

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) Amendment to the IFRS 9 credit assessment system.

(II) Enhance anti-money laundering information system.

(III) Replace redundant PCs.

(IV) Enhanced information security management system.

(V) Planning of online learning platform.

(VI) Introduction of visual analysis tools.

Six. Labor Relations

I. Employee welfare measures:

Welfare Committee, employee remuneration, health checkup, incentive trip and childbirth subsidy.

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 Statement

Financial Statement

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

I. Condensed balance sheets and income statements

Condensed balance sheets Unit: NT$ thousands

Item \ Year		Financial information for the last five years				
		2017	2016	2015	2014	2013
Cash, cash equivalents, central bank deposits, interbank call loan		793,634	346,391	321,356	444,266	544,617
Financial assets at fair value through profit and loss		136,554,017	125,297,488	115,285,106	117,026,616	133,085,711
Available-for-sale financial assets		135,888,342	132,867,186	100,816,225	83,333,880	80,127,802
Bills and bonds purchased under resale agreements		501,259	-	1,000,000	9,805,054	1,966,157
Receivables - net		1,651,477	1,531,891	1,185,047	1,004,365	1,072,383
Held-to-maturity financial assets		100,000	350,000	600,000	850,000	500,000
Other financial assets - net		875,137	820,362	818,540	802,252	1,303,700
Property, plant and equipment - net		363,606	370,177	375,457	370,378	362,205
Investment properties - net		2,517,760	2,528,424	2,539,088	2,549,752	2,560,415
Intangible assets - net		4,920	3,310	2,427	2,886	3,303
Deferred income tax assets - net		222,666	152,104	106,254	95,088	89,030
Other assets		49,031	34,868	48,225	25,511	27,647
Total assets		279,521,849	264,302,201	223,097,725	216,310,048	221,642,970
Interbank call loans and overdraft		31,124,272	15,714,592	11,294,776	15,926,613	21,259,000
Financial liabilities at fair value through profit and loss		632	22,543	6,149	411	1,352
Bills and bonds payable under repurchase agreements		208,414,735	210,809,807	173,109,248	163,777,891	163,869,633
Payables		947,769	602,808	504,042	502,801	809,067
Current income tax liabilities		40,412	191,490	131,256	74,713	124,310
Liabilities reserve		2,759,489	2,728,105	2,757,420	2,774,969	3,282,308
Deferred income tax liabilities		45,675	22,700	12,647	790	62
Other liabilities		151,008	431,098	828,935	116,541	179,726
Total liabilities	Before allocation	243,483,992	230,523,143	188,644,473	183,174,729	189,525,458
	After allocation	Note	232,555,877	190,721,796	185,248,117	191,277,543

Equity attributable to parent company shareholders		36,037,857	33,779,058	34,453,252	33,135,319	32,117,512
Capital stock	Before allocation	13,114,411	13,114,411	13,114,411	13,114,411	13,114,411
	After allocation	Note	13,114,411	13,114,411	13,114,411	13,114,411
Capital surplus		320,929	320,929	320,929	320,929	320,929
Retained earnings	Before allocation	21,013,426	20,375,867	19,490,920	18,597,142	17,386,645
	After allocation	Note	18,343,133	17,413,597	16,523,754	15,634,560
Other equity		1,589,091	-32,149	1,526,992	1,102,837	1,295,527
Treasury stock		-	-	-	-	-
Non-controlling interest		-	-	-	-	-
Total equity	Before allocation	36,037,857	33,779,058	34,453,252	33,135,319	32,117,512
	After allocation	Note	31,746,324	32,375,929	31,061,931	30,365,427

Note: As of the publication date of this annual report, the 2017 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

Year / Item	Financial information for the last five years				
	2017	2016	2015	2014	2013
Interest Income	3,382,516	3,322,888	2,930,965	2,791,448	2,837,819
Less: Interest Expense	(1,209,251)	(899,280)	(901,456)	(980,992)	(1,058,294)
Interest income, net	2,173,265	2,423,608	2,029,509	1,810,456	1,779,525
Revenues other than interest income, net	1,792,655	1,898,101	2,134,405	1,736,249	1,872,669
Net income	3,965,920	4,321,709	4,163,914	3,546,705	3,652,194
Provisions	11,068	45,896	134,508	660,965	177,739
Operating expenses	(765,467)	(796,560)	(792,612)	(780,358)	(775,732)
Income before Tax from Operating Unit	3,211,521	3,571,045	3,505,810	3,427,312	3,054,201
Income tax (expense) gain	(506,292)	(590,919)	(495,374)	(426,465)	(423,718)
Net Income from Operating Unit	2,705,229	2,980,126	3,010,436	3,000,847	2,630,483
Income (loss) from discontinued operations	-	-	-	-	-
Net Income (loss)	2,705,229	2,980,126	3,010,436	3,000,847	2,630,483
Other comprehensive income for the current period (net of tax expense)	1,586,304	(1,576,997)	385,439	(230,955)	(1,220,140)
Comprehensive Income for the current period	4,291,533	1,403,129	3,395,875	2,769,892	1,410,343
Net income attributable to parent company shareholders	2,705,229	2,980,126	3,010,436	3,000,847	2,630,483
Net income attributable to non-controlling shareholders	-	-	-	-	-
Comprehensive income attributable to parent company shareholders	4,291,533	1,403,129	3,395,875	2,769,892	1,410,343
Comprehensive income attributable to non-controlling shareholders	-	-	-	-	-
EPS (NT$)	2.06	2.27	2.30	2.29	2.01

II. Independent Auditor’s Names and Opinion

Year	CPA firm	CPA’s Name	Audit opinion
2017	PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji, Zong-Xi Lai	Unqualified opinion
2016	PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji, Chien-Hung Chou	Unqualified opinion
2015	PricewaterhouseCoopers, Certified Public Accountants	Chien-Hung Chou, Shu-Mei Ji,	Unqualified opinion
2014	PricewaterhouseCoopers, Certified Public Accountants	Chien-Hung Chou, Po-Ju Kuo	Unqualified opinion
2013	PricewaterhouseCoopers, Certified Public Accountants	Chien-Hung Chou, Po-Ju Kuo,	Unqualified opinion

Two. Financial analysis for the last five years

Unit: NT$ thousands; %

Item	Year	Financial information for the recent five years				
		2017	2016	2015	2014	2013
Managerial ability	Average number of days of bill and bond holding	6.64	6.12	5.12	4.92	5.54
	NPL ratio	0	0	0	0	0
	Total assets turnover rate	0.01	0.02	0.02	0.02	0.02
	Average yield per employee	16,876	18,709	18,183	15,905	16,304
	Average profit per employee	11,512	12,901	13,146	13,457	11,743
Profitability	ROA (%)	0.99	1.22	1.37	1.37	1.20
	ROE (%)	7.75	8.74	8.91	9.20	8.11
	Net profit margin (%)	68.21	68.96	72.30	84.61	72.02
	EPS (NT$)	2.06	2.27	2.30	2.29	2.01
Financial structure	Liability to total assets ratio (%)	86.29	86.37	83.52	83.57	84.17
	Property and equipment to stockholder equity ratio (%)	1.01	1.10	1.09	1.12	1.13
Growth rate	Asset growth rate (%)	5.76	18.47	3.14	-2.41	1.89
	Profit growth rate (%)	-10.07	1.86	2.21	12.22	-9.02
Cash flow	Cash flow ratio (%)	N/A	N/A	3.57	3.89	0.96
	Cash flow adequacy ratio (%)	153.75	156.13	182.30	154.37	156.92
Credit extended to stakeholders		97,000	97,000	97,000	520,000	0
Percentage of credits extended to stakeholders (%)		0.06	0.07	0.06	0.36	0
Scale of operations	Asset market share (%)	27.08	26.83	23.83	26.48	26.77
	Net value market share (%)	29.44	28.83	29.44	29.60	29.58
	Market share for guaranteed CP2(%)	29.74	29.23	31.54	31.42	32.91
	Market share for each type of bill and bond issue and first time purchase (%)	26.21	27.46	29.65	29.05	30.38
	Market share for each type of bill and bond transaction (%)	30.80	31.85	33.18	35.07	33.57
Capital adequacy ratio	Capital adequacy ratio (%)	13.64	13.53	13.88	13.84	13.57
	Eligible capital	35,146,019	33,248,864	31,288,743	28,548,890	28,705,412
	Total value of risk assets	257,742,056	245,674,749	225,367,830	206,332,882	211,584,531
	Tier 1 capital as a % of total risk-weighted assets	13.33	13.53	13.55	13.59	13.29

	Significant variations in the last 2 years: (for variations above 20%) 1. Total asset turnover rate decreased mainly due to lower asset yields, which reduced net revenues. 2. Asset growth rate decreased mainly due to slower buildup of note and bond positions compared to the previous year. 3. Profit growth rate decreased mainly due to lower net revenues and recognition exchange losses on note/bond portfolio in the current period, which reduced pre-tax profits. 4. Cash flow from operating activities resulted in a net outflow, hence cash flow ratio was not applicable.

Note: Equations for analysis items:

1. Managerial ability

(1) Average number of days of bills and bonds holdings = 365/bills and bonds turnover rate (Bills/bonds turnover rate = Amount of each type of bill or bond transaction/average balance of each installment of bills or bonds).

(2) NPL ratio = NPL (including non-accrual loans)/total loans (including non-accrual loans).

(3) Total assets turnover rate = Income/average total assets.

(4) Average yield per employee = Income/total number of employees.

(5) Average profit per employee = Income after tax/total number of employees.

2. Profitability

(1) ROA =I income after tax/average total assets.

(2) ROE = Income after tax/average equity, net.

(3) Net profit margin = Income after tax/income. (Income = interest income + revenues other than interest income).

(4) Earnings per share = (income and loss attributed to owners of parent company – dividends of the preferred stocks)/weighted average numbers of outstanding shares.

3. Financial structure

(1) Liability to total assets ratio = Total liabilities/total assets.

(2) Property and equipment to stockholders' equity ratio = Property and equipment net/total stockholders' equity.

(3) Total liabilities should exclude allowances for the guarantee liability.

4. Growth rate

(1) Asset growth rate = (Total assets in current period-total assets for the previous period)/total assets for the previous year.

(2) Profit growth rate = (Income before tax in current period -income before tax for the previous year)/income before tax for the previous year.

5. Cash flow

(1) Cash flow ratio = Net cash flow from operating activities/(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 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 financial companies.
(5) Market share for each type of bill and bond transaction = Amount of each type of bill and bond transaction/total amount of each type of bill and bond transaction by all bills 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 2017 business reports, financial statements, property registries, and earnings appropriation proposal prepared by the board of directors. The abovementioned financial statements were audited and certified by CPA Shu-Mei Ji and CPA Zong-Xi Lai of PriceWaterhouseCoopers Taiwan. The supervisors found no misstatements in the business reports, financial statements, property registries or earnings appropriation proposals above, and have issued this review report in accordance with Article 219 of the Company Act and Article 36 of the Securities and Exchange Act.

To

General Shareholders' Meeting 2018 of Mega Bills Finance Corporation

Supervisor: Jin-Cun Chen

Supervisor: Fu-Jung Chen

Supervisor: Qi-He Chen

March 21, 2018

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

PWCR 17002724

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017, Mega Bills Finance Co., Ltd's estimated reserve for guarantee liabilities for the financial guarantee contracts entered with debtors was NT$2,289,701 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 in 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 the key audit matter 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 reports 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 the matter that was of most significance in the audit of the financial statements of the current period and is therefore the key audit matter. We describe the matter 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.

Chi, Shu-Mei Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 21, 2018

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, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Assets	Notes	December 31, 2017 AMOUNT	December 31, 2016 AMOUNT
11000	Cash and cash equivalents	6(1) and 7	$ 793,634	$ 346,391
12000	Financial assets at fair value through profit or loss	6(2)(6), 7 and 8	136,554,017	125,297,488
14000	Available-for-sale financial assets	6(3)(6), 7 and 8	135,888,342	132,867,186
12500	Bills and bonds investment with resale agreements	6(4)	501,259	-
13000	Receivables – net	6(5)	1,651,477	1,531,891
14500	Held-to-maturity financial assets	6(8)	100,000	350,000
15500	Other financial assets – net	6(9) and 8	875,137	820,362
18500	Property and equipment - net	6(10)	363,606	370,177
18700	Investment property - net	6(11)	2,517,760	2,528,424
19000	Intangible assets - net		4,920	3,310
19300	Deferred income tax assets - net	6(29)	222,666	152,104
19500	Other assets – net	6(12) and 7	49,031	34,868
	TOTAL ASSETS		$ 279,521,849	$ 264,302,201
	Liabilities and equity			
21000	Interbank overdraft and call loans	6(13), 7 and 8	$ 31,124,272	$ 15,714,592
22000	Financial liabilities at fair value through profit or loss	6(7)(14)	632	22,543
22500	Bills and bonds payable under repurchase agreements	6(2)(3)(4) and 7	208,414,735	210,809,807
23000	Payables	6(15)	947,769	602,808
23200	Current income tax liabilities	6(29)	40,412	191,490
25600	Provisions for liabilities	6(16)(17) and 7	2,759,489	2,728,105
29300	Deferred income tax liabilities	6(29)	45,675	22,700
29500	Other liabilities	7	151,008	431,098
	TOTAL LIABILITIES		243,483,992	230,523,143
31100	**Stockholders' Equity**			
31101	Common stocks	6(18)	13,114,411	13,114,411
31500	**Capital surplus**	6(19)	320,929	320,929
32000	**Retained earnings**	6(20)		
32001	Legal reserve		18,098,666	17,209,762
32003	Special reserve		235,239	203,090
32005	Unappropriated retained earnings		2,679,521	2,963,015
32500	**Other equity interest**			
32500	Other equity interest		1,589,091	(32,149)
	TOTAL EQUITY		36,037,857	33,779,058
	Significant contingent liabilities and unrecognized contract commitments	9		
	TOTAL LIABILITIES AND EQUITY		$ 279,521,849	$ 264,302,201

MEGA BILLS FINANCE CO., LTD.
STATEMENTS OF INCOME
ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

	Items	Notes	Year ended December 31 2017 AMOUNT	2016 AMOUNT
41000	Interest income	6(21)	$ 3,382,516	$ 3,322,888
51000	Less：interest expense	6(21) and 7	(1,209,251)	(899,280)
	Interest income, net		2,173,265	2,423,608
	Non-interest income, net			
49100	Service fee and commission income, net	6(22) and 7	954,340	1,021,838
49200	Gain or loss from financial assets and liabilities at fair value through profit or loss	6(2)(14)(23) and 7	554,321	508,425
49300	Realized gain or loss on available-for-sale financial assets	6(24)	236,419	225,269
49600	Foreign exchange gain or loss, net		(69,904)	2,544
49800	**Other non-interest income or loss, net**			
49851	Leasehold income	7	103,911	106,167
49899	Others		13,568	33,858
	Net revenues		3,965,920	4,321,709
58200	Reversals (provisions)	6(25)	11,068	45,896
	Operating expenses			
58500	Employee benefit expense	6(17)(26)	(531,788)	(565,372)
59000	Depreciation and amortization	6(10)(11)(27)	(25,010)	(24,660)
59500	Other business and administrative expenses	6(28) and 7	(208,669)	(206,528)
	Total operating expenses		(765,467)	(796,560)
61001	**Income before income tax from operating unit**		3,211,521	3,571,045
61003	Income tax expense	6(29)	(506,292)	(590,919)
64000	**Net income**		$ 2,705,229	$ 2,980,126
	Other comprehensive income			
	Not reclassifiable to profit or loss:			
65201	Remeasurement of defined benefit plans	6(17)	($ 42,091)	($ 21,513)
65220	Income tax relating to items that are not reclassifiable to profit or loss	6(29)	7,155	3,657
	Potentially reclassifiable to profit or loss subsequently:			
65302	Unrealized profit or loss on valuation of available-for-sale financials assets		1,621,240	(1,559,141)
65000	**Total other comprehensive income(loss) (after income tax)**		$ 1,586,304	($ 1,576,997)
66000	**Total comprehensive income**		$ 4,291,533	$ 1,403,129
67500	**Earnings per share**			
	Basic and diluted earnings per share	6(30)	$ 2.06	$ 2.27

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

			Retained Earnings			Other equity interest	
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealised valuation gain or loss of available-for-sale financial assets	Total equity
For the year ended December 31,2016							
Balance at 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 at December 31, 2016	$ 13,114,411	$ 320,929	$ 17,209,762	$ 203,090	$ 2,963,015	($ 32,149)	$ 33,779,058
For the year ended December 31,2017							
Balance at January 1, 2017	$ 13,114,411	$ 320,929	$ 17,209,762	$ 203,090	$ 2,963,015	($ 32,149)	$ 33,779,058
Appropriation of 2016 earnings (Note)							
Legal reserve	-	-	888,904	-	(888,904)	-	-
Special reserve	-	-	-	32,149	(32,149)	-	-
Cash dividends	-	-	-	-	(2,032,734)	-	(2,032,734)
Total comprehensive income							
Net income for 2017	-	-	-	-	2,705,229	-	2,705,229
Total other comprehensive (loss) income for 2017	-	-	-	-	(34,936)	1,621,240	1,586,304
Total comprehensive income for 2017	-	-	-	-	2,670,293	1,621,240	4,291,533
Balance at December 31, 2017	$ 13,114,411	$ 320,929	$ 18,098,666	$ 235,239	$ 2,679,521	$ 1,589,091	$ 36,037,857

MEGA BILLS FINANCE CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 3,211,521	$ 3,571,045
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(27)	21,329	20,660
Amortization	6(27)	3,681	4,000
Reversal for bad debts and various reserves	6(16)	40,063	(41,865)
Interest income	6(21)	(3,382,516)	(3,322,888)
Dividend income		(64,849)	(49,064)
Interest expense	6(21)	1,209,251	899,280
Gains on disposal of property and equipment		(62)	(53)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss		(11,256,529)	(10,012,382)
Bills and bonds investment with resale agreements		(501,259)	1,000,000
Increase in receivables		14,487	(52,191)
Increase in available-for-sale financial assets		(1,399,916)	(33,610,102)
Held-to-maturity financial assets		250,000	250,000
Increase in other financial assets		(54,775)	(27,625)
Decrease (increase)in other assets		(16,473)	18,122
Increase in financial liabilities at fair value through profit or loss		(21,911)	16,394
Bills and bonds payable under repurchase agreements		(2,395,072)	37,700,559
Increase in payables		349,909	67,925
Increasein provisions for liabilities		(50,707)	17,472
Other liabilities		(280,090)	(397,837)
Cash outflow generated from operations		(14,323,918)	(3,948,550)
Interest paid		(1,214,199)	(868,439)
Interest received		3,248,380	3,027,603
Dividend received		64,849	49,064
Income tax paid		(697,802)	(562,825)
Net cash flows used in operating activities		(12,922,690)	(2,303,147)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	6(10)	(4,095)	(4,723)
Increase in intangible assets		(2,376)	(1,627)
Increase in other assets		(605)	(8,021)
Proceeds from disposal of property and equipment		63	60
Net cash flows used in investing activities		(7,013)	(14,311)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in interbank overdraft and call loans		15,409,680	4,419,816
Payments of cash dividends		(2,032,734)	(2,077,323)
Net cash flows from financing activities		13,376,946	2,342,493
Net increase in cash and cash equivalents		447,243	25,035
Cash and cash equivalents at beginning of year	6(1)	346,391	321,356
Cash and cash equivalents at end of year	6(1)	$ 793,634	$ 346,391

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

MEGA BILLS FINANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(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 235 and 231 as of December 31, 2017 and 2016, respectively.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE FINANCIALSTATEMENTS AND PROCEDURES FOR AUTHORISATION

These financial statements were authorized for issuance by the Board of Directors on March 21, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

The above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment.

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

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from contracts with customers’	January 1, 2018

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	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 financial performance based on the Company's assessment.

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.

When adopting the new standards endorsed by the FSC effective from 2018, the Company will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the new standards as of January 1, 2018 are summarised below:

Affected items	2017 version IFRSs amount	Effect of adoption of new standards	2018 version IFRSs amount	Remark
January 1, 2018				
Available-for-sale financial assets	$135,888,342	($135,888,342)	$ -	A、B
Financial assets at fair value through other comprehensive income	-	136,654,515	136,654,515	A、B、C
Held-to-maturity financial assets	100,000	(100,000)	-	C
Accounts receivable	1,651,477	(495)	1,650,982	E
Other financial assets-net	875,137	(344,300)	530,837	A
Total affected assets	$138,514,956	$ 321,378	$138,836,334	
Unappropriated retained earnings	$ 2,679,521	$ 346,880	$ 3,026,401	A、D、E
Other equity interest	1,589,091	(25,502)	1,563,589	A、C、D
Total affected equity	4,268,612	321,378	4,589,990	
Total affected liabilities and equity	$ 4,268,612	$ 321,378	$ 4,589,990	

A. In accordance with IFRS 9, the Company expects to reclassify available-for-sale financial assets in equity instruments and financial assets at cost in the amounts of $1,397,463 thousand and $344,300 thousand, respectively, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing unappropriated retained earnings and decreasing other equity interest in the amounts of $2,062,004 thousand, $398,700 thousand and $78,459 thousand, respectively.

B. In accordance with IFRS 9, the Company expects to reclassify available-for-sale financial assets in debt instruments in the amounts of $134,490,879 thousand, driven by the entity's business model and the contractual cash flow characteristics, by increasing financial assets at fair value through other comprehensive income in the amounts of $134,490,879 thousand.

C. In accordance with IFRS 9, the Company expects to reclassify held-to-maturity financial assets $100,000 thousand, by increasing financial assets at fair value through other comprehensive income and increasing other equity interest in the amounts of $101,632 thousand and $1,632 thousand, respectively.

D. In line with the regulations under IFRS 9 on provision for impairment of financial assets at fair value through other comprehensive income in debt instruments, other equity interest will have to be increased by $51,325 thousand and unappropriated retained earnings decreased by $51,325 thousand.

E. In line with the regulations of IFRS 9 on provision for impairment, accounts receivable will have to be reduced by $495 thousand and unappropriated retained earnings decreased by $495 thousand.

(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 as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 16, ‘Leases’	January 1, 2019
IFRS 17, ‘Insurance contracts’	January 1, 2021
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

A. IFRS 16, ‘Leases’

IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

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 in 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) <u>Employee benefits</u>

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

	December 31, 2017	December 31, 2016
Checking deposits	$ 253,382	$ 205,250
Demand deposits	539,552	129,050
Time deposits	-	11,391
Petty cash	700	700
Total	$ 793,634	$ 346,391

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

B. Time deposits mature within three months. As of December 31, 2017,there was no balance of the CNY time deposit.The CNY time deposit rate at December 31, 2016 was 3.30%.

C. As of December 31, 2017 and 2016, demand deposits in USD amounted to US$1,225 thousand and US$428 thousand, respectively, and the exchange rate of USD to NTD was 1:29.648 and 1 : 32.206, respectively. (Exchange rates of USD to NTD shown below are all the same).

D. As of December 31, 2017 and 2016, CNY denominated time deposits amounted to CNY$0 thousand and CNY $2,463 thousand, respectively, and the exchange rate of CNY to NTD was 1：4.5382 and 1：4.6253, respectively. (Exchange rates of CNY to NTD shown below are all the same).

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

	December 31, 2017	December 31, 2016
Financial assets held for trading		
Commercial paper	$ 103,716,816	$ 96,861,866
Fixed rate commercial paper purchased	30,597	15,941
Bankers’ acceptance	-	700,074
Negotiable certificates of time deposit	28,981,755	22,449,487
Convertible corporate bonds	286,234	339,222
Government bonds	-	248,076
Funds	16,883	3,222
Subtotal	133,032,285	120,617,888
Financial assets designated as at fair value through profit or loss on initial recognition		
Convertible corporate bond asset swaps	3,521,732	4,679,600
Subtotal	3,521,732	4,679,600
Total	$ 136,554,017	$ 125,297,488

A. The Company recognized net gain (loss) of $543,454 thousand and $557,569 thousand on financial assets held for trading for the years ended December 31, 2017 and 2016, respectively, and recognized net gain (loss) of ($10,568) thousand and ($24,781) thousand on financial assets designated as at fair value through profit or loss on initial recognition for the years ended December 31, 2017 and 2016, respectively.

B. As of December 31, 2017 and 2016, the transaction carrying amount of bills with repurchase agreement of above financial assets held for trading were $86,259,956 thousand and $87,273,962 thousand, respectively.

C. As of December 31, 2017 and 2016, 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

	December 31, 2017	December 31, 2016
Government bonds	$ 65,902,154	$ 61,809,630
Foreign currency government bonds	306,779	328,950
Financial bonds	9,797,306	7,337,356
Foreign currency financial bonds	25,538,098	30,889,338
Corporate bonds	23,857,245	24,728,512
Foreign currency corporate bonds	8,861,362	6,352,820
Beneficiary or asset-backed securities	227,935	513,119
Stocks	1,397,463	894,809
Funds	-	12,652
Total	$ 135,888,342	$ 132,867,186

A. As of December 31, 2017 and 2016, the transaction carrying amount of bonds and beneficiary or asset-backed securities with repurchase agreement of above available-for-sale bonds were $120,662,360 thousand and $121,081,530 thousand, respectively.

B. The government bonds and corporate bonds were provided as collaterals for bank overdrafts as of December 31, 2017 and 2016. Please refer to Notes 7 and 8 for details.

C. As of December 31, 2017 and 2016, 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 $848,614 thousand and $835,273 thousand, respectively.

D. As of December 31, 2017 and 2016, the fair values of government bonds denominated in USD were US$10,347 thousand and US$10,214 thousand, respectively; as of December 31, 2017 and 2016, the fair values of financial bonds denominated in USD were US$861,377 thousand and US$959,118 thousand, respectively; as of December 31, 2017 and 2016, the fair values of corporate bonds denominated in USD were US$298,886 thousand and US$197,256 thousand, respectively.

E. In consideration of increasing interest revenue, the Company holds a securitized SPT beneficial security, which was issued in 2014 by the Land Bank of Taiwan on behalf of Chailease Finance Co., Ltd.'s commission. The legal maturity date of the asset-backed security investment was July 24, 2021. However, investments are subject to an early termination according to the underlying's status of principal repayments.

F. As of December 31, 2017 and 2016, the maximum credit risk of the Company's investment in the above-mentioned structured entities was $227,935 thousand and $513,119 thousand, respectively. In addition, for the years ended December 31, 2017 and 2016, interest revenue from investing in the structured entities was $8,210 thousand and $9,276 thousand, respectively.

(4) Bills and bonds under repurchase or resale agreements

	December 31, 2017	December 31, 2016
Bills and bonds investment with resale agreements	$ 501,259	-
Bills and bonds payable under repurchase agreements	$ 208,414,735	$ 210,809,807

A. As of December 31, 2017, the interest rate of bills and bonds investment with resale agreements was 0.39%. The fair value of collaterals (bonds) obtained by transaction amounted to $557,215 thousand. As of December 31, 2016, there was no balance of bills and bonds investment with resale agreements.

B. As of December 31, 2017 and 2016, the interest rate of bills and bonds payable under repurchase agreements in NTD were 0.23%~0.82% and 0.18%~0.75%, respectively.

C. As of December 31, 2017 and 2016, please refer to Note 7 for the balances of repo trades with related parties.

D. As of December 31, 2017 and 2016, the interest rate of bills and bonds payable under repurchase agreements in USD were 1.20%~2.78% and 0.60%~2.00%, and recognized amount of USD denominated bills and bonds payable under repurchase agreements were US$1,125,496 thousand and US$1,150,298 thousand, respectively.

(5) Receivables – net

	December 31, 2017	December 31, 2016
Interest receivable	$ 1,605,498	$ 1,471,362
Trade receivables on bond investment and stocks	27,569	20,000
Retractable rights of convertible bonds receivables	18,400	30,225
Other receivables – others	705	10,936
Subtotal	1,652,172	1,532,523
Less: Allowance for doubtful accounts	(695)	(632)
Receivables, net	$ 1,651,477	$ 1,531,891

(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:

December 31, 2017				
Financial assets category		Carrying amount of transferred financial assets		Carrying amount of related financial liabilities
Financial assets at fair value through profit or loss				
Repurchase agreements	$	86,259,956	$	86,282,941
Available-for-sale financial assets				
Repurchase agreements	$	52,846,559	$	50,215,834

December 31, 2016				
Financial assets category		Carrying amount of transferred financial assets		Carrying amount of related financial liabilities
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

(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, 2017 and 2016 were both $0.

B. Financial liabilities

December 31, 2017						
				Not set off in the balance sheet		
Description	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial liabilities set off	Net amounts of financial assets presented in the balance sheet	Financial instruments	Cash collateral pledged	Net amount
Repurchase agreement	$16,634,074	$ -	$16,634,074	$16,634,074	$ -	$ -

The balance as of December 31, 2016 was $0.

(8) Held-to-maturity financial assets

	December 31, 2017	December 31, 2016
Corporate bonds	$ 100,000	$ 350,000
Less: Accumulated impairment	-	-
Net	$ 100,000	$ 350,000

(9) Other financial assets – net

	December 31, 2017	December 31, 2016
Certificate of deposit pledged	$ 400,000	$ 400,000
Financial assets carried at cost-net	344,300	344,300
Guarantee deposits held for trading the foreign currency bonds under repurchase agreements	80,811	-
Designated account for allowance to pay back short–term bills	50,026	76,062
Net	$ 875,137	$ 820,362

A. The above certificate of deposit pledged were provided as collaterals for bank overdrafts as of December 31, 2017 and 2016. Please refer to Note 8 for details.

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

	December 31, 2017		December 31, 2016	
	Amount	% of Shareholding	Amount	% of Shareholding
Unlisted stock investments				
Core Pacific City Co., Ltd.	$600,000	2.938	$600,000	3.130
Taiwan Asset Management Co., Ltd.	75,000	0.568	75,000	0.568
Taiwan Financial Asset Services Co., Ltd.	50,000	2.941	50,000	2.941
Taiwan Futures Exchange Co., Ltd.	10,250	0.512	10,250	0.512
Taiwan Depository & Clearing Co., Ltd.	6,850	0.628	6,850	0.628
Agora Garden Co., Ltd.	900	0.030	900	0.030
Subtotal	743,000		743,000	
Less: Accumulated impairment	(398,700)		(398,700)	
Net	$344,300		$344,300	

As of December 31, 2017 and 2016, the Company had recognized impairment loss for the above listed investees as follows:

	December 31, 2017	December 31, 2016
Core Pacific City Co., Ltd.	$ 397,800	$ 397,800
Agora Garden Co., Ltd.	900	900
	$ 398,700	$ 398,700

(10) Property, plant and equipment

	Land		Buildings		Machinery and computer equipment		Miscellaneous equipment		Equipment prepayment		Total
January 1, 2017											
Cost	$	227,347	$	166,118	$	80,407	$	56,422	$	-	$ 530,294
Accumulated depreciation		-	(	68,459)	(	46,286)	(	45,372)		-	($ 160,117)
Net Book Value		227,347		97,659		34,121		11,050		-	370,177
Additions-Cost		-		-		3,131		964		-	4,095
Disposals-Cost		-		-	(	3,369)	(	389)		-	(3,758)
Disposals-Accumulated depreciation		-		-		3,368		389		-	3,757
Depreciation		-	(	2,721)	(	6,413)	(	1,531)		-	(10,665)
December 31, 2017	$	227,347	$	94,938	$	30,838	$	10,483	$	-	$ 363,606
December 31, 2017											
Cost	$	227,347	$	166,118	$	80,169	$	56,997	$	-	$ 530,631
Accumulated depreciation		-	(	71,180)	(	49,331)	(	46,514)		-	(167,025)
Net Book Value	$	227,347	$	94,938	$	30,838	$	10,483	$	-	$ 363,606

	Land	Buildings	Machinery and computer equipment	Miscellaneous equipment	Equipment prepayment	Total
January 1, 2016						
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	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	-	(2,721)	(5,689)	(1,586)	-	(9,996)
December 31, 2016	$ 227,347	$ 97,659	$ 34,121	$ 11,050	$ -	$ 370,177
December 31, 2016						
Cost	$ 227,347	$ 166,118	$ 80,407	$ 56,422	$ -	$ 530,294
Accumulated depreciation	-	(68,459)	(46,286)	(45,372)	-	(160,117)
Net Book Value	$ 227,347	$ 97,659	$ 34,121	$ 11,050	$ -	$ 370,177

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

(11) Investment property – net

	Land	Buildings	Total
January 1, 2017			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(188,338)	(188,338)
Net Book Value	2,204,894	323,530	2,528,424
Depreciation	-	(10,664)	(10,664)
December 31, 2017	$ 2,204,894	$ 312,866	$ 2,517,760
December 31, 2017			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(199,002)	(199,002)
Net Book Value	$ 2,204,894	$ 312,866	$ 2,517,760
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	$ 2,204,894	$ 323,530	$ 2,528,424
December 31, 2016			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(188,338)	(188,338)
Net Book Value	$ 2,204,894	$ 323,530	$ 2,528,424

A. No investment property was provided as collateral.

B. Rental income from the lease of the investment property for the years ended December 31, 2017 and 2016 were $101,737 thousand and $104,107 thousand, respectively.

C. The fair value of the investment property held by the Company as at December 31, 2017 and 2016 were $3,812,943 thousand and $3,801,532 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 1.96%~2.17%. The fair value of investment property held by the Company is classified as Level 2.

(12) Other assets – net

	December 31, 2017	December 31, 2016
Prepaid salaries	$ 18,382	$ -
Refundable deposits	10,989	10,970
Other deferred assets	9,703	12,013
Guarantee deposits held for operation and funds for security settlements	5,997	5,955
Others	3,960	5,930
Total	$ 49,031	$ 34,868

(13) Interbank overdraft and call loans

	December 31, 2017	Period	Interest Rate (%)
Bank overdrafts	$ 268,000	Nov.23.2017-Nov.23.2018(Note)	1.38
Call loans-NTD	29,700,000	Dec.15.2017-Jan.22.2018	0.42~0.44
Call loans-USD	1,156,272	Dec.27.2017-Jan.05.2018	2.20~3.10
Total	$ 31,124,272		

	December 31, 2016	Period	Interest Rate (%)
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	$ 15,714,592		

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, 2017 and 2016.

C. As of December 31, 2017 and 2016, call loans in USD amounted to US$39,000 thousand and US$32,000 thousand, respectively.

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

	December 31, 2017	December 31, 2016
Fixed rate commercial paper sold	$ 471	$ 2,495
Fixed rate commercial paper purchased	161	20,048
Total	$ 632	$ 22,543

The Company recognized net gain (loss) of $21,435 thousand and ($24,363) thousand on financial liabilities held for trading for the years ended December 31, 2017 and 2016, respectively.

(15) Payables

	December 31, 2017	December 31, 2016
Payables of transactions under repurchase agreements on maturity	$ 500,081	$ 110,710
Bonus payable	178,248	196,476
Receipts under custody payable (Note)	107,850	110,498
Employees' remuneration payable	65,016	86,459
Interest payable	55,420	60,368
Others	41,154	38,297
Total	$ 947,769	$ 602,808

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

(16) Provisions for liabilities

	December 31, 2017	December 31, 2016
Reserve for guarantee liabilities	$ 2,289,701	$ 2,255,703
Net defined benefit liability	469,788	472,402
Total	$ 2,759,489	$ 2,728,105

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

	Allowance for accounts receivable and overdue loans	Reserve for guarantee liabilities	Total
January 1, 2016	$ -	$ 2,324,003	$ 2,324,003
Prorision (Reversal)	635	(42,500)	(41,865)
Write-off	(25,803)	-	(25,803)
Transfer	25,800	(25,800)	-
December 31, 2016	$ 632	$ 2,255,703	$ 2,256,335
January 1, 2017	$ 632	$ 2,255,703	$ 2,256,335
Provision	63	40,000	40,063
Write-off	(6,002)	-	(6,002)
Transfer	6,002	(6,002)	-
December 31, 2017	$ 695	$ 2,289,701	$ 2,290,396

(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:

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	$ 763,168	$ 760,948
Fair value of plan assets	(293,380)	(288,546)
Net defined benefit liability	$ 469,788	$ 472,402

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

	Present value of defined benefit Obligation	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	$ 760,948	($ 288,546)	$ 472,402
Current service cost	23,018	-	23,018
Interest expense (income)	9,038	(3,428)	5,610
	793,004	(291,974)	501,030
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	591	591
Change in financial assumptions	26,700	-	26,700
Experience adjustments	14,800	-	14,800
	41,500	591	42,091
Pension fund contribution	-	(24,885)	(24,885)
Paid pension	(71,336)	22,888	(48,448)
Balance at December 31	$ 763,168	($ 293,380)	$ 469,788

	Present value of defined benefit Obligation	Fair value of plan assets	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
	750,978	(289,751)	461,227
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	14,033	-	14,033
	20,390	1,123	21,513
Pension fund contribution	-	(10,338)	(10,338)
Paid pension	(10,420)	10,420	-
Balance at December 31	$ 760,948	($ 288,546)	$ 472,402

(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, 2017 and 2016 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,	
	2017	2016
Discount rate	1.00%	1.20%
Future salary increases	2.10%	1.90%

Assumptions regarding future mortality rate for 2017 and 2016 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, 2017				
Effect on present value of defined benefit obligation	($ 17,301)	$ 17,923	$ 16,883	($ 16,395)
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, 2017 amounts to $9,232 thousand.

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company 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, 2017 and 2016 were $4,557 thousand and $4,388 thousand, respectively.

(18) Common stock

As of December 31, 2017 and 2016, 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, 2017 and 2016, the details of the Company's capital surplus is as follows:

	December 31, 2017	December 31, 2016
Share premium	$ 312,823	$ 312,823
Share-based payment transactions(Note)	8,106	8,106
	$ 320,929	$ 320,929

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

	For the years ended December 31,	
	2017	2016
January 1	$ 20,375,867	$ 19,490,920
Profit for the period	2,705,229	2,980,126
Appropriation of earnings	(2,032,734)	(2,077,323)
Remeasurement on post employment benefit obligations, net of tax	(34,936)	(17,856)
December 31	$ 21,013,426	$ 20,375,867

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 2016 and 2015 earnings as resolved by the Board of Directors on behalf of the stockholders on April 25, 2017 and April 26, 2016, respectively, were as follows:

	2016				2015			
	Amount		Dividends per share (in dollars)		Amount		Dividends per share (in dollars)	
Legal reserve	$	888,904			$	890,601		
Special reserve		32,149				-		
Cash dividends of stockholders		2,032,734	$	1.550		2,077,323	$	1.584

(B)The appropriation of 2017 earnings resolved by the Board of Directors on March 21, 2018 is set forth follows:

	2017		
	Amount		Dividends per share (in dollars)
Legal reserve	$	803,856	
Cash dividends of stockholders		1,901,590	1.450

(C)The Company in accordance with Order No.Financial-Supervisory-Securities-Firms-1010012865 by the Financial Supervisory Commission, accrued a special reserve from current years' profit or loss and prior years' unappropriated earnings commensurate to the net deduction of other equity recognized in the current year. Special reserves accrued in the prior year from unappropriated earnings, which were commensurate to prior year accumulated net deduction of other equity, should not be distributed; however, entities that accrue special reserve under the aforementioned regulation should accrue special reserve based on the difference between the accrued amount and net deduction of other equity. Subsequently, the reversed amount could be included in the distributable earnings. Thus, in accordance with the above regulation, the Company accrued special reserve of $32,149 thousand when distributing earnings for 2016; the Company reserved accrued special reserve of $32,149 thousand when distributing earning for 2017 because of the unrealized profit on valuation of available for-sale financial assets.

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

(21) Interest income, net

	For the years ended December 31,	
	2017	2016
Interest income		
Interest income from bills	$ 1,028,592	$ 1,063,852
Interest income from bonds (Note)	2,351,462	2,252,638
Others	2,462	6,398
Subtotal	3,382,516	3,322,888
Interest expense		
Interest expense of bills payable under repurchase agreements	(311,522)	(292,522)
Interest expense of bonds payable under repurchase agreements	(774,595)	(510,888)
Interest expense of overdraft and call loans	(122,930)	(95,624)
Others	(204)	(246)
Subtotal	(1,209,251)	(899,280)
Net	$ 2,173,265	$ 2,423,608

Note: Including interest income of $74,107 thousand and $106,853 thousand from convertible bond asset swap recognized for the years ended December 31, 2017 and 2016, respectively.

(22) Service fee and commission income, net

	For the years ended December 31,	
	2017	2016
Service fee income from guarantee service	$ 609,832	$ 638,802
Service fee income from certification service	44,905	61,513
Service fee income from underwriting service	287,744	295,253
Others	20,288	37,403
Subtotal	962,769	1,032,971
Service fee expense	(8,429)	(11,133)
Net	$ 954,340	$ 1,021,838

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

	For the years ended December 31, 2017	2016
Realized (Loss) Gain		
Bills	$ 509,401	$ 567,121
Bonds	22,735	9,812
Derivatives	(477)	(7,968)
Subtotal	531,659	568,965
Valuation (Loss) Gain		
Bills	22,461	(39,170)
Bonds(Note)	1,459	(21,206)
Funds	(1,258)	(164)
Subtotal	22,662	(60,540)
Total	$ 554,321	$ 508,425

Note: Including gain (loss) of ($10,568) thousand and ($24,781) thousand on convertible bond asset swap recognized for the years ended December 31, 2017 and 2016, respectively.

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

	For the years ended December 31, 2017	2016
Dividends income	$ 51,958	$ 36,509
Stocks	65,633	73,738
Bonds	118,828	115,022
Total	$ 236,419	$ 225,269

(25) Provisions (Reversal)

	For the years ended December 31, 2017	2016
Bad debt recovery	($ 51,131)	($ 4,031)
(Reversal) provision for guarantee reserve	40,063	(41,865)
Total	($ 11,068)	($ 45,896)

(26) Employee benefit

	For the years ended December 31, 2017	2016
Wages and salaries	$ 452,171	$ 486,362
Labor and health insurance fees	24,146	23,235
Pension costs	33,185	32,198
Other employee benefits	22,286	23,577
Total	$ 531,788	$ 565,372

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, 2017 and 2016, employees' remuneration was accrued at $65,016 thousand and $86,459 thousand, respectively. The aforementioned amounts were recognized in salary expenses. The employees' compensation was estimated and accrued based on 2% and 2.375% of distributable profit of current year for the year ended December 31, 2017 and 2016, respectively. The employees' compensation resolved by the Board of Directors in 2018 was $56,890 thousand of 2017 and the employees' compensation will be distributed in the form of cash.

C. The Company distributed employees' cash remuneration were $63,707 thousand and $62,175 thousand for the year ended December 31, 2016 and 2015, respectively, and recognized in employees' compensation expense on financial statements were $86,459 thousand and $88,822 thousand for the year ended December 31, 2016 and 2015, respectively. Because the ratios of employee's compensation changed, the differences $22,752 thousand and $26,647 thousand, had been adjusted the income for the years ended December 31, 2017 and 2016, respectively.

D. Information about employees' 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,	
	2017	2016
Depreciation	$ 21,329	$ 20,660
Amortization	3,681	4,000
Total	$ 25,010	$ 24,660

(28) Other business and administrative expenses

	For the years ended December 31,	
	2017	2016
Tax and official fee	$ 68,886	$ 73,019
Rental expense	45,006	45,038
Professional expense	8,981	7,706
Repairs and maintenance	5,662	5,479
Insurance expense	3,481	3,370
Others	76,653	71,916
Total	$ 208,669	$ 206,528

(29) Income taxes

A. Components of income tax expense:

(A) Components of income tax expense:

	For the years ended December 31,	
	2017	2016
Current tax:		
Current tax on profits for the period	$ 482,550	$ 582,312
Tax on undistributed surplus earnings	848	74
Prior year income tax underestimation	63,326	40,673
Total current tax	546,724	623,059
Deferred tax:		
Origination and reversal of temporary differences	(40,432)	(32,140)
Total deferred tax	(40,432)	(32,140)
Income tax expense	$ 506,292	$ 590,919

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

	For the years ended December 31,	
	2017	2016
Remeasurement of defined benefit obligations	$ 7,155	$ 3,657

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate	$ 545,959	$ 607,077
Effects from items disallowed by tax regulation	(84,657)	(32,615)
Effects from tax exempt income	(19,184)	(24,290)
Prior year income tax underestimation	63,326	40,673
Tax on undistributed surplus earnings	848	74
Income tax expense	$ 506,292	$ 590,919

C. Temporary differences resulting in deferred income tax assets or liabilities as of December 31, 2017 and 2016:

	For the year ended December 31, 2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Pension unfunded	$ 109,964	($ 7,599)	$ 7,155	$ 109,520
Others	42,140	71,006	-	113,146
Subtotal	152,104	63,407	7,155	222,666
- Deferred tax liabilities:				
Others	(22,700)	(22,975)	-	(45,675)
Total	$ 129,404	$ 40,432	$ 7,155	$ 176,991

	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

D. As of December 31, 2017, the Company’s income tax returns through 2011 had been assessed by the Tax Authorities. The Company disagreed with the assessment for 2009, 2010 and 2011, and has filed for a reassessment and recognized the related adjustment of tax.

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, 2017 and 2016, current income tax liabilities on the joint filing of income tax returns amounted to $40,412 thousand and $191,490 thousand, respectively.

F. Unappropriated retained earnings

As of December 31, 2017 and 2016, unappropriated retained earnings were both originated after 1998.

G. With the abolishment of the imputation tax system under the amendments to the Income Tax Act Promulgated by the president of the Republic of China in February, 2018, the information on unappropriated retained earnings and balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

Unappropriated retained earnings on December 31, 2016:

		December 31, 2016
Earnings generated in and after 1998	$	2,963,015

H. As of December 31, 2016, the balance of the imputation tax credit account was $8,965 thousand. The creditable tax rate was 0.30% for 2016.

I. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. On the Company's assessment, there will have no significant impact to the Company's deferred tax assets and deferred tax liabilities, which will be adjusted in 2018.

(30) Earnings per share

	2017			
	Amount after tax	Weighted-average number of shares outstanding (share in thousands)	Basic and diluted earnings per share (In dollars)	
Net income	$ 2,705,229	1,311,441	$	2.06

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

(Blank Below)

7. RELATED PARTY TRANSACTIONS

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

Names of related parties	Relationship with the Company
Mega Financial Holding Co., Ltd. (Mega 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, 2017			
	Demand deposits	Checking deposits	Time deposits	Total
Management of the parent				
BOT	$ 20,834	$ 48,636	$ -	$ 69,470
Fellow subsidiary				
MICB	493,458	59,006	-	552,464
Total	$ 514,292	$ 107,642	$ -	$ 621,934

	December 31, 2016			
	Demand deposits	Checking deposits	Time deposits	Total
Management of the parent				
BOT	$ 21,346	$ 47,687	$ -	$ 69,033
Fellow subsidiary				
MICB	105,347	66,907	11,391	183,645
Total	$ 126,693	$ 114,594	$ 11,391	$ 252,678

B. Other financial assets

	December 31, 2017	December 31, 2016
Management of the parent		
BOT	$ 11,934	$ 8,549
Fellow subsidiary		
MICB	31,420	56,864
Total	$ 43,354	$ 65,413

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, 2017			
	Highest balance	Ending balance	Interest rate(%)	Interest expense
Bank overdrafts				
Management of the parent				
BOT	$ 1,357,000	$ 268,000	1.38	$ 7,812
Call loans				
Management of the parent				
BOT	15,500,000	12,900,000	0.33~0.57	28,752
Chunghwa Post	9,900,000	2,300,000	0.36~0.45	5,074
Fellow subsidiary				
MICB	5,761,713	1,566,832	0.33~3.10(Note1)	25,128
Total		$ 17,034,832		$ 66,766

(Note 1)Interest rates for call loans denominated in NTD and foreign currency were 0.33% ~0.43% and 1.05%~3.10%, respectively.

	For the year ended December 31, 2016			
	Highest balance	Ending balance	Interest rate(%)	Interest expense
Bank overdrafts				
Management of the parent				
BOT	$ 1,130,000	$ 184,000	1.38~1.755	$ 8,424
Call loans				
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(Note2)	14,914
Total		$ 7,184,000		$ 46,643

(Note 2)Interest rates for call loans denominated in NTD and foreign currency were 0.28% ~ 0.50% and 0.70% ~1.40%, 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

	For the years ended December 31,	
	2017	2016
Ultimate parent		
Mega Holding	$ 16,488,478	$ 20,191,016
Fellow subsidiary		
MAM	14,174,213	23,610,718
MS	1,242,042	759,002
Total	$ 31,904,733	$ 44,560,736

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

E. Sale of bills and bonds

	For the year ended December 31, 2017	
	Amount	Gain from financial assets and liabilities at fair value through profit or loss
Management of the parent		
Chunghwa Post	$ 251,333,419	$ 62,718
BOT	41,836,723	1,864
Fellow subsidiary		
MICB	102,044,015	29,940
MS	49,773	5
Other related parties		
Mega Diamond Money Market Fund	45,706,845	10,903
Total	$ 440,970,775	$ 105,430

	For the year ended December 31, 2016		
	Amount	Gain from financial assets and liabilities at fair value through profit or loss	Realized gain on available-for-sale financial assets
Management of the parent			
Chunghwa Post	$ 181,181,742	$ 58,269	$ 51,427
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	$ 394,295,792	$ 122,321	$ 51,427

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, 2017					
	Type of instrument	Issuance date	Maturity date	Interest rate (%)	Face value	Cost
Fellow subsidiary						
MAM	Commercial Paper	2017.12.08	2018.01.05	0.49	$ 1,065,000	$ 1,064,600

December 31, 2016: None.

G. Bills and bonds under repurchase agreements

	For the Year ended December 31, 2017		
	Amount	Ending balance	Interest expense
Fellow subsidiary			
CKI	$ 3,904,199	$ 149,808	$ 947
MICB	3,393,024	-	808
MS	899,753	-	13
Other related parties			
Mega Diamond Money Market Fund	1,348,997	-	81
Mega Prosperity Private Placement Fund	9,061,336	-	9,461
Mega USD Money Market Fund	1,246,734	-	748
Others	19,555	-	3
Total	$ 19,873,598	$ 149,808	$ 12,061

	For the year ended December 31, 2016		
	Amount	Ending balance	Interest expense
Management of the 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	1,479,491	66,022	748
Total	$ 185,812,438	$ 1,600,810	$ 27,270

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

H. Financial derivative transactions

As of December 31, 2017 and 2016, the realized loss of financial derivative transactions were $176 thousand and $7,003 thousand, respectively.

As of December 31, 2017 and 2016 uncovered positions: None.

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

	For the year ended December 31, 2017			
	Highest Balance	Ending Balance	Rates (%)	Fees income
Ultimate parent				
Mega Holding	$ 4,000,000	$ 3,500,000	0.46~0.63	$ 226
Fellow subsidiary				
MAM	1,310,000	1,310,000	0.47~0.62	121
MS	500,000	-	0.47	10
		$ 4,810,000		$ 357

	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
		$ 2,100,000		$ 520

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

J. Collaterals provided to related parties for bank overdrafts

	Pledged Asset	December 31, 2017	2016
Management of the parent			
BOT	Financial assets at fair value through profit or loss - negotiable certificates of time deposit	$ 700,263	$ 700,802
	Available-for-sale financial assets - government bonds	303,902	304,092
	Available-for-sale financial assets – corporate bonds	1,711,144	1,707,660
Fellow subsidiary			
MICB	Financial assets at fair value through profit or loss - negotiable certificates of time deposit	2,800,416	3,000,852
	Available-for-sale financial assets - government bonds	2,304,077	2,250,067
		$ 7,819,802	$ 7,963,473

K. Assets provided as operating deposits for securities firm:

	Pledged Asset	December 31, 2017	2016
Management of the parent			
BOT	Available-for-sale financial assets - government bonds	$ 51,131	$ 50,049

L. Leasehold income

Lessee	Leased Property	Period	For the years ended December 31, 2017	2016
Fellow subsidiary				
MICB	Office and parking lots	Jan. 1, 2016- Dec. 31, 2018	$ 79,779	$ 79,779
CKI	Office	Dec. 1, 2016- Nov. 30, 2021	1,169	1,054
			$ 80,948	$ 80,833

(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.

M. Rental expenses

Lessor	Rental Property	Period	For the years ended December 31, 2017	2016
Fellow subsidiary				
MICB	Office	Jan. 1, 2016-Dec. 31, 2018	$ 34,183	$ 34,183
MICB	Office	-	45	25
CKI	Warehouse	Dec. 1, 2016-Nov. 30, 2021	474	331
			$ 34,702	$ 34,539

(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.

N. Insurance expenses

	For the years ended December 31, 2017	2016
Fellow subsidiary		
CKI	$ 3,811	$ 3,352

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

	For the years ended December 31, 2017	2016
Salaries and other short-term employee benefits	$ 26,526	$ 29,313
Post-employment benefits	690	700
	$ 27,216	$ 30,013

8. PLEDGED ASSETS

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

	For the years ended December 31,		
	2017	2016	Secured for
Financial asset at fair value through profit or loss - negotiable certificates of time deposit	$ 9,003,333	$ 10,503,132	Collateral for Central bank and other banks' overdraft
Available-for-sale financial assets - government bonds	6,759,221	6,595,349	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	1,711,144	1,707,660	Bank overdraft
Other financial assets-certificate of deposit pledged	400,000	400,000	Bank overdraft
Total	$ 17,873,698	$ 19,206,141	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

As of December 31, 2017 and 2016, the commitments and contingencies arising from the Company's normal course of business were as follows:

	For the years ended December 31,	
	2017	2016
Securities bills and bonds investment with resale agreements	$ 501,259	$ -
Securities bills and bonds payable under repurchase agreements	208,414,735	210,809,807
Guarantees on commercial papers	156,971,100	147,973,500
Fixed rate commercial paper purchased	17,050,000	14,170,000
Fixed rate commercial paper sold	500,000	500,000
Index rate commercial paper purchased	33,310,000	29,310,000
Index rate commercial paper sold	4,500,000	4,000,000

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. FINANCIAL INSTRUMENTS

(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.

	December 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held-to-maturity financial assets	$ 100,000	$ 101,632	$ 350,000	$ 354,948

(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

	December 31, 2017			
Recurring fair value measurement	Total	Level 1	Level 2	Level 3
Non-derivative Financial Instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Investment in bills	$ 132,729,168	$ -	$ 132,729,168	$ -
Investment in bonds	286,234	-	286,234	-
Other	16,883	16,883	-	-
Financial assets designated as at fair value through profit or loss on initial recognition	3,521,732	-	3,521,732	-
Available-for-sale financial assets				
Investment in stock	1,397,463	1,397,463	-	-
Investment in bonds	134,262,944	3,516,866	130,746,078	-
Beneficiary or asset-backed securities	227,935	-	227,935	-
Liabilities				
Financial liabilities at fair value through profit or loss	632	-	632	-

Recurring fair value measurement	December 31, 2016 Total	Level 1	Level 2	Level 3
Non-derivative Financial Instruments				
Assets				
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	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	22,543	-	22,543	-

(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 TAIBIR secondary market fixed rate; 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, 2017 and 2016.

(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 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 to Evaluate Credit Assets and Deal with Non-performing/Non-accrual Credit Loans" 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, 2017		
Off-balance-sheet guarantees	$ -	$ 156,971,100
December 31, 2016		
Off balance sheet guarantees	-	147,973,500

(B) As of December 31, 2017 and 2016, the off balance sheet contract amount for the guarantees of commercial papers subject to potential credit risks is $298,932 million and $300,440 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, 2017 and 2016, the percentage of guarantees with collaterals is 67.92% and 72.60%, 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, 2017	Collateral	Other credit enhancements	Total
Financial assets measured at fair value through profit or loss-debt instruments	$ -	$ 4,911,200	$ 4,911,200
Available-for-sale financial assets-debt instruments	-	9,029,395	9,029,395
Bills and bonds investment with resale agreements	501,259	-	501,259
Off balance sheet guarantees	106,607,001	-	106,607,001

December 31, 2016	Collateral	Other credit enhancements	Total
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

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, 2017		December 31, 2016	
	Amount	Ratio(%)	Amount	Ratio(%)
Financial & insurance	$ 45,163,000	28.77	$ 39,665,700	26.81
Real estate	41,845,500	26.66	43,451,100	29.36
Manufacturing	35,782,400	22.80	32,604,000	22.03
Wholesale & retail	10,559,100	6.73	9,255,600	6.26
Accommodation and Food	8,399,900	5.35	8,302,900	5.61
Others – less than 5% of balance of guarantees at period end	15,221,200	9.69	14,694,200	9.93
Total	$156,971,100	100.00	$147,973,500	100.00

(B) Collateral (guarantee service)

	December 31, 2017		December 31, 2016	
	Amount	Ratio(%)	Amount	Ratio(%)
Unsecured	$ 50,364,099	32.08	$ 40,550,834	27.40
Secured				
Secured by stocks	28,222,229	17.98	25,880,261	17.49
Secured by bonds	4,293,453	2.74	5,674,315	3.84
Secured by real estate	72,648,562	46.28	72,822,154	49.21
Others	1,442,757	0.92	3,045,936	2.06
Total	$156,971,100	100.00	$147,973,500	100.00

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

Financial assets held by the Company mainly comprise financial assets at fair value through profit or loss, 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)

Credit quality analysis on securities investment

	December 31, 2017									
	Neither past due nor impaired									
Financial assets	Excellent	Satisfactory	Fair	Weaker	No rating(note)	Past due but not impaired	Impaired	Total	Reserve for losses	Net amount
Financial assets at fair value through profit or loss										
Investment in bills	$62,632,867	$48,303,600	$17,724,354	$ 3,696,786	$ 371,561	$ -	$ -	$ 132,729,168	$ -	$ 132,729,168
Investment in bonds	2,012,596	98,745	-	-	1,696,625	-	-	3,807,966	-	3,807,966
Available-for-sale financial assets										
Investment in bonds	130,732,218	911,541	-	-	2,619,185	-	-	134,262,944	-	134,262,944
Beneficiary or asset-backed securities	227,935	-	-	-	-	-	-	227,935	-	227,935
Bill and bonds investment with resale agreements	-	501,259	-	-	-	-	-	501,259	-	501,259
Held-to-maturity financial assets	-	100,000	-	-	-	-	-	100,000	-	100,000
Financial assets carried at cost	-	-	-	-	-	-	600,900	600,900	398,700	202,200

	December 31, 2016									
	Neither past due nor impaired									
Financial assets	Excellent	Satisfactory	Fair	Weaker	No rating(note)	Past due but not impaired	Impaired	Total	Reserve for losses	Net amount
Financial assets at fair value through profit or loss										
Investment in bills	$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

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.

(A)Credit quality analysis on credit business

There were no accounts receivable as of December 31, 2017 and 2016.

G.Analysis of impaired financial assets of the Company

Financial assets	Carrying amount prior to recognition of impairment loss	Amount of the impairment loss	Carrying amount after recognition of impairment loss	Available collateral and other credit strengthening collateral
December 31, 2017				
On-balance sheet accounts				
Financial assets carried at cost	$ 600,900	$ 398,700	$ 202,200	None
Other receivables	695	695	-	None
December 31, 2016				
On-balance sheet accounts				
Financial assets carried at cost	$ 600,900	$ 398,700	$ 202,200	None
Other receivables	632	632	-	None

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, 2017	December 31, 2016
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	2,152,284	2,130,454
Provision for bad debts and guarantees actually reserved	2,289,701	2,255,703

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, 2017	December 31, 2016
Total guarantees and endorsement for short-term bills	$ 156,971,100	$ 147,973,500
Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment)	5.06	4.68
Total bills and bonds payable under repurchase agreements	208,414,735	210,809,807
Bills and bonds payable under repurchase agreements / Net amount (after deducting final accounts allotment)	6.72	6.66

(C)Concentration of credit risk

Items	December 31, 2017		December 31, 2016	
Credits extended to related parties	$ 97,000		$ 97,000	
Percentage of credits extended to related parties (%) (Note 1)	0.06		0.07	
Percentage of credits extended secured by equity (%) (Note 2)	17.98		17.49	
Industry concentration (Top 3 industries with maximum industry credit ratio)	Industry	Ratio(%)	Industry	Ratio(%)
	Financial and insurance	28.77	Real estate	29.36
	Real estate	26.66	Financial and insurance	26.81
	Manufacturing	22.80	Manufacturing	22.03

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, bills and bonds segments are responsible for daily operation of domestic and foreign currency and control over fund liquidity gap; and finance segment is responsible for reporting liquidity risk mentioned.

(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, 2017 and 2016, the carrying amounts of financial assets and financial liabilities are classified according to their time-to-maturity as follows:

	December 31, 2017						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	$ 793,634	$ -	$ -	$ -	$ -	$ -	$ 793,634
Financial assets at fair value through profit or loss - non-derivative financial instruments	66,043,128	56,805,859	10,372,248	844,048	2,745,931	-	136,811,214
Available-for-sale financial assets	956,366	1,243,295	1,262,068	8,925,306	75,887,865	67,595,314	155,870,214
Bills and bonds investment with resale agreements	501,585	-	-	-	-	-	501,585
Receivables	45,979	-	-	-	-	-	45,979
Held-to-maturity financial assets	1,100	-	-	1,100	102,200	-	104,400
Other financial assets	131,005	335	200,336	200,505	-	-	532,181
Total assets	$ 68,472,797	$ 58,049,489	$ 11,834,652	$ 9,970,959	$ 78,735,996	$ 67,595,314	$ 294,659,207
Liabilities							
Interbank overdraft and call loans	(31,130,341)	-	-	-	-	-	(31,130,341)
Financial liabilities at fair value through profit or loss - non-derivative financial instruments	-	-	(471)	-	(161)	-	(632)
Bills and bonds payable under repurchase agreements	(181,754,128)	(25,011,126)	(1,722,338)	(35,248)	-	-	(208,522,840)
Payables	(153,242)	(111,886)	(108,730)	(518,491)	-	-	(892,349)
Other funds outflow upon maturity	(85,826)	-	-	(14,041)	(6,459)	-	(106,326)
Total liabilities	(213,123,537)	(25,123,012)	(1,831,539)	(567,780)	(6,620)	-	(240,652,488)
Net liquidity gap	($ 144,650,740)	$ 32,926,477	$ 10,003,113	$ 9,403,179	$ 78,729,376	$ 67,595,314	$ 54,006,719

	December 31, 2016						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	$ 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	76,203	281	200,295	200,464	-	-	477,243
Total assets	$ 68,890,245	$ 51,304,841	$ 9,484,559	$ 12,339,794	$ 83,647,673	$ 54,294,802	$ 279,961,914
Liabilities							
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	(252,923)	(112,224)	-	-	(19,596)	-	(384,743)
Total liabilities	(191,288,480)	(33,533,438)	(2,523,263)	(205,274)	(41,393)	-	(227,591,848)
Net liquidity gap	($ 122,398,235)	$ 17,771,403	$ 6,961,296	$ 12,134,520	$ 83,606,280	$ 54,294,802	$ 52,370,066

(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, 2017 and 2016.

(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, 2017 and 2016.

D. Analysis on maturity value of off balance sheet accounts

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

	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Total
December 31, 2017						
Off-balance sheet items						
Guarantees for commercial papers	$ 110,069,100	$ 45,268,000	$ 1,519,000	$ 115,000	$ -	$ 156,971,100
December 31, 2016						
Off-balance sheet items						
Guarantees for commercial papers	$ 99,230,200	$ 45,750,300	$ 2,993,000	$ -	$ -	$ 147,973,500

E.Maturity analysis for lease contract and capital expense commitment

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

December 31, 2017	Below 1 year	1 to 5 years	Over 5 years	Total
Lease commitment				
Operating lease expense (lessee)	($ 40,024)	($ 10,569)	$ -	($ 50,593)
Operating income (lessor)	102,038	19,514	-	121,552
Total	$ 62,014	$ 8,945	$ -	$ 70,959
December 31, 2016				
Lease commitment				
Operating lease expense (lessee)	($ 39,047)	($ 41,162)	$ -	($ 80,209)
Operating income (lessor)	102,038	121,552	-	223,590
Total	$ 62,991	$ 80,390	$ -	$ 143,381

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

Sources and Utilization of Capital
as of December 31, 2017
(Expressed in Millions of NT Dollars)

Utilization of capital	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year
Bills	65,813	56,606	9,966	314	-
Bonds	1,002	390	863	8,115	128,029
Bank deposit	793	-	200	200	-
Loans extended	-	-	-	-	-
Bills and bonds investment with resale agreements	501	-	-	-	-
Total	68,109	56,996	11,029	8,629	128,029
Sources of capital					
Loans borrowed	31,124	-	-	-	-
Bills and bonds payable under repurchase agreements	181,672	24,988	1,720	35	-
Own capital	-	-	-	-	36,038
Total	212,796	24,988	1,720	35	36,038
Net capital	(144,687)	32,008	9,309	8,594	91,991
Accumulated net capital	(144,687)	(112,679)	(103,370)	(94,776)	(2,785)

Sources and Utilization of Capital
as of December 31, 2016
(Expressed in Millions of NT Dollars)

Utilization of capital	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year
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)

(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 in 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 ±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, 2017	
	USD	RMB
Cash and cash equivalents	$ 36,316	$ -
Available-for-sale financial assets	34,706,239	-
Receivables - net	526,568	-
Other financial assets-net	80,811	-
Total assets	35,349,934	-
Interbank overdraft and call loans	1,156,272	-
Bills and bonds sold under repurchased agreements	33,368,709	-
Payables	21,939	-
Total liabilities	34,546,920	-
On-balance sheet foreign exchange gap	$ 803,014	$ -
Off-balance sheet currency swaps	$ -	$ -
Exchange rate to NTD	29.6480	4.5382
Foreign exchange gain (loss)	($ 69,436)	($ 468)

(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)

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, 2017

Risks	Extent of variation	Effect on profit or loss	Effect on other comprehensive income
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%.	($ 8,030)	$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	8,030	-
Interest rate risk	Major increases in interest rates 1bp	(2,149)	(72,719)
Interest rate risk	Major decline in interest rates 1bp	2,150	72,774
Equity securities risk	TAIEX declined by 1%.	156	(9,399)
Equity securities risk	TAIEX increased by 1%	(156)	9,399

December 31, 2016

Risks	Extent of variation	Effect on profit or loss	Effect on other comprehensive income
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

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

(A) The information of interest rate sensitivity

Interest rate sensitivity analysis on assets and liabilities

December 31, 2017

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	125,105,204	11,029,492	8,628,403	128,028,508	272,791,607
Interest rate sensitive liabilities	237,784,226	1,719,638	35,143	-	239,539,007
Interest rate sensitive gap	(112,679,022)	9,309,854	8,593,260	128,028,508	33,252,600
Net worth					36,037,857
Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%)					113.88
Ratio of interest rate sensitivity gap to net worth (%)					92.27

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

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

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

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

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

	For the year ended December 31, 2017	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	$ 1,193,105	0.19
Financial assets at fair value through profit or loss	124,499,079	0.89
Bills and bonds investment with resale agreements	734,151	0.38
Available-for-sale financial assets	131,296,912	1.73
Held-to-maturity financial assets	312,329	2.06
Liabilities		
Interbank overdraft and call loans	24,015,388	0.51
Bills and bonds payable under repurchase agreements	202,675,048	0.54

	For the year ended December 31, 2016	
	Average amount	Average interest rate (%)
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

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 major contingencies 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, 2017

	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 reviewed by the risk management committee of the Company and submitted to the risk control department of Mega Financial Holding Co., Ltd. for deliberation and then the risk management committee of Mega Financial Holding Co., Ltd. for reference after approval by the Company's Board of Directors. 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

Items \ Year		December 31, 2017	December 31, 2016
Eligible capital	Tier 1 Capital, net	34,353,797	33,248,864
	Tier 2 Capital, net	66,367	-
	Tier 3 Capital, net	725,855	-
	Eligible capital, net	35,146,019	33,248,864
Risk-weighted assets, total	Credit risk	161,985,831	152,319,549
	Operation risk	7,476,775	7,045,250
	Market risk	88,279,450	86,309,950
	Risk-weighted assets, total	257,742,056	245,674,749
Capital adequacy ratio (%)		13.64	13.53
Ratio of Tier I capital to risk - weighted assets (%)		13.33	13.53
Ratio of Tier II capital to risk - weighted assets (%)		0.03	-
Ratio of Tier III capital to risk - weighted assets (%)		0.28	-
Ratio of common stocks to total assets (%)		4.69	4.96

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. Transactions between the Company and its subsidiaries

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.

D. Apportionment of revenues, costs, expenses, gains and losses

When the company conducts cross-selling of products with the parent company and other subsidiaries, it shall agree the method of apportionment based on details, returns, expenses, responsibilities, payment methods of cross-selling of products.

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.

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(3)Reconciliation for segment

Segmental information provided to CODM :

Items	For the year ended December 31, 2017 Bills segment	Bonds segment	Branch segment	Adjustments	Total
Net revenues (Note)	$ 858,526	$ 1,488,421	$ 1,511,781	$ 107,192	$ 3,965,920
Net revenues from external clients	1,687,155	1,527,681	844,440	(93,356)	3,965,920
Net bills revenues	1,687,155	-	523,846	-	2,211,001
Net bond revenues	-	1,411,125	308,764	-	1,719,889
Net equity investment revenues	-	116,332	-	-	116,332
Other net revenues	-	224	11,830	(93,356)	(81,302)
Net inter-segment revenues	(828,629)	(39,260)	667,341	200,548	-
Net bills revenues	(828,629)	-	681,361	147,268	-
Net bond revenues	-	(39,260)	(10,535)	49,795	-
Other net revenues	-	-	(3,485)	3,485	-
Interest income	827,584	1,270,075	196,547	(120,941)	2,173,265
Gains (losses) from reportable segments	858,526	1,488,421	1,202,165	(337,591)	3,211,521
Reportable segment assets	87,392,313	118,946,956	68,055,978	5,126,602	279,521,849
Reportable segment liabilities	44,965,805	99,208,544	66,448,494	32,861,149	243,483,992

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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

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

Analysis of Financial Condition and Financial Performance

One. Financial Condition

Unit: NT$ thousands

Item \ Year	2017	2016	Variation	
			Amount	%
Cash and cash equivalents	793,634	346,391	447,243	129.12
Financial assets at fair value through profit and loss	136,554,017	125,297,488	11,256,529	8.98
Available-for-sale financial assets	135,888,342	132,867,186	3,021,156	2.27
Bills and bonds purchased under resale agreements	501,259	-	501,259	-
Receivables - net	1,651,477	1,531,891	119,586	7.81
Held-to-maturity financial assets	100,000	350,000	(250,000)	(71.43)
Other financial assets - net	875,137	820,362	54,775	6.68
Property and equipment - net	363,606	370,177	(6,571)	(1.78)
Investment property– net	2,517,760	2,528,424	(10,664)	(0.42)
Intangible assets - net	4,920	3,310	1,610	48.64
Deferred income tax assets- net	222,666	152,104	70,562	46.39
Other assets - net	49,031	34,868	14,163	40.62
Total assets	279,521,849	264,302,201	15,219,648	5.76
Interbank overdraft and call loans	31,124,272	15,714,592	15,409,680	98.06
Financial liabilities at fair value through profit and loss	632	22,543	(21,911)	(97.20)
Bills and bonds payable under repurchase agreements	208,414,735	210,809,807	(2,395,072)	(1.14)
Payables	947,769	602,808	344,961	57.23

Current income tax liabilities	40,412	191,490	(151,078)	(78.90)
Liabilities reserve	2,759,489	2,728,105	31,384	1.15
Deferred income tax liabilities	45,675	22,700	22,975	101.21
Other liabilities	151,008	431,098	(280,090)	(64.97)
Total liabilities	243,483,992	230,523,143	12,960,849	5.62
Capital stocks	13,114,411	13,114,411	-	-
Capital surplus	320,929	320,929	-	-
Retained earnings	21,013,426	20,375,867	637,559	3.13
Other equity	1,589,091	(32,149)	1,621,240	(5,042.89)
Total equity	36,037,857	33,779,058	2,258,799	6.69

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

1. Cash, cash equivalents and payables increased mainly due to the decease of an RP customer. The transaction is temporarily recorded under demand deposits and RP maturity proceeds payable until the inheritance process is properly completed by the inheritors.
2. The increase in resale bill and resale bond investment was mainly due to additional transactions undertaken at the end of 2017.
3. Held-to-maturity financial assets decreased mainly because of bonds maturing.
4. Net deferred income tax assets increased mainly due to the recognition of additional deferred income tax assets from tax reassessments.
5. Increase in Other assets - net was mainly due to recognition of pre-paid salaries.
6. Interbank borrowing and overdraft increased mostly in line with the increase of note and bond holding positions.
7. Decrease in financial liabilities at fair value through profit and loss was mainly due to lesser unrealized losses on valuation of fixed-rate commercial paper contracts purchased by the Company
8. Decrease in current income tax liabilities was mainly caused by an decrease in income tax payable.
9. Increase in deferred income tax liabilities was mainly attributed to the recognition of deferred income tax liabilities on unrealized bond interest income.
10. Decrease in other liabilities was mainly attributed to the reduction of credit customers' bill repayment in temporary credits.
11. Increase in other equity items was mainly due to unrealized gains from available-for-sale financial assets.

Two.Financial performance

Unit: NT$ thousands

Accounts	2017	2016	Increase (Decrease) amount	Ratio Change (%)
Interest income, net	2,173,265	2,423,608	(250,343)	(10.33)
Revenues other than interest income, net	1,792,655	1,898,101	(105,446)	(5.56)
Net income	3,965,920	4,321,709	(355,789)	(8.23)
Provisions	11,068	45,896	(34,828)	(75.88)
Operating expenses	(765,467)	(796,560)	31,093	(3.90)
Income before Income Tax from Operating Unit	3,211,521	3,571,045	(359,524)	(10.07)
Income tax (expense) gain	(506,292)	(590,919)	84,627	(14.32)
Net Income	2,705,229	2,980,126	(274,897)	(9.22)
Other comprehensive income for the current period (net of tax expense)	1,586,304	(1,576,997)	3,163,301	(200.59)
Comprehensive Income for the current period	4,291,533	1,403,129	2,888,404	205.85

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

1. Provision reversals had decreased mainly due to increased provisioning of guarantee liabilities.
2. Increase in other comprehensive income was mainly attributable to increase in unrealized gains on available-for-sale financial assets.

Three. Cash flow

I. Liquidity analysis for the last two years

Item \ Year	2017	2016	Increase/Decrease (%)
Cash flow ratio (%)	N/A	N/A	-
Cash flow adequacy ratio (%)	153.75	156.13	(1.52)
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 outflow ③	Projected cash surplus (deficit) ①＋②－③	Remedial measures for estimated cash deficit	
				Investment Plan	Financial Plan
793,634	8,179,225	33,075,734	(24,102,875)	-	24,829,000

1. Current cash flow analysis:
   (1) Operating activities: The Company expects cash inflow from operating activities due to an expected reduction in notes holding position accounted as financial assets at fair value through profit and loss.
   (2) Investing activities: no major increase in investment has been expected.
   (3) Financing activities: mainly comprise of cash dividend payments and repayment of interbank overdraft and call loans.
2. Liquidity analysis and financing of projected cash deficits: deficits are expected to be supported by interbank overdraft and call loans.

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 ~~that~~ 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 2017, the Company received cash dividends totaling NT$12,891 million from invested businesses, and stock dividends totaling 55,345 shares from Taiwan Depository and Clearing Corporation and 47,047 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

2017

Aspects	Contents
(1) Strategy, objective, policy and procedure	For the establishment of the credit risk management mechanism and ensuring credit risk control within the tolerance of management objectives, the "Credit Risk Management Guidelines" is stipulated to control default loss risk resulted from the non-performance of borrowers or counterparties due to business deterioration or other factors. The relevant risk control measures include: (1) Define the credit limit ratio by type of business and specific security terms, and define credit risk limit management in accordance with the "Credit Risk Management Guidelines". (2) Define the risk concentration ratio, set up alert standard, and control mechanism for preventing excessive risk concentration by customers (including one individual, one related party, and one affiliated enterprise), businesses, and nations in accordance with the "Regulations Governing Credit Risk Concentration".
(2) Organization and framework of credit risk management system	With respect to the credit risk in the Company's granting of loans and various financial instruments, the Loan Review team and Risk Management Committee are responsible for supervising and reviewing various management regulations, granting of loans and business risk management objectives. Meanwhile, the Bills Department, Bond Department and all branches are the main operational units for credit risk control.

Aspects	Contents
(3) Scope and characteristics of credit risk reporting and the measurement system	The Company has set up the Risk Management Committee to monitor operational risks. All business supervision units in the head office are to present the business risk report by Department to the Risk Management Committee on a quarterly basis. The Risk Management 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.
(4) Credit risk avoidance or mitigation policies, and strategies and procedures for monitoring the effectiveness of risk mitigation tools	The Company grants loans in accordance with a defined credit investigation procedure, and considers the requirement of collaterals and guarantor based on the customer’s financial and credit status. Meanwhile, the Company defined the “Notes to Loan Review Operation” to enhance the post-credit extension management. The financial instruments are primarily managed in accordance with the credit ratings for issuers and trading counterparts, and reviewed, followed up and evaluated periodically, in order to enhance the ability to bear the credit risk.
(5) Approach to require the authorized capital	Standard Method

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

March 31, 2018 Unit: NT$ thousands

Exposure type	Capital requirement	Risk-weighted assets
Sovereign state	28	358
Non-central government public sectors	6,387	79,838
Bank (including multilateral development banks)	297,838	3,722,972
Corporate (including securities and insurance company)	12,320,419	154,005,236
Retail creditor’s right	103,476	1,293,447
Investments in equity securities	74,162	927,024
Credit extended to parent company or subsidiary and credit secured by marketable securities issued by parent company or subsidiary	0	0
Other assets	274,668	3,433,352
Total	13,076,978	163,462,226

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

1. Risk management system of asset securitization

2017

Aspects	Contents
(1) Asset securitization management strategy and procedure	(1) The Company has "TWD Fixed Income Securities Brokerage and Trading Guidelines" and "Investment Principles for TWD Beneficiary Securities, Asset-backed Securities and Funds" in place to regulate trading of securitized instruments, and "Underwriting and Trading Principles for Guarantee-waiver of Short-term Notes" and "Notes on Underwriting and Trading of Beneficiary Securities and Asset-backed Securities" available to

Aspects	Contents
	regulate underwriting and purchasing of guarantee-waiver short-term notes. All the above mentioned policies require employees to approve and review limits and exercise risk/business management based on the terms of issue, revenue potentials, issuer's (or guarantor's) credit rating, or credit rating pertaining to a specific debt issue. (2) The relevant control measures include daily monitoring of single beneficiary security bought in, evaluation on market value of asset-based securities, limit of tolerable market risk (value of change per basic point or per market transaction); underwriting and buy-in of guarantee-free short-term bills positions; reporting the beneficiary securities invested by the Company, balance of asset-based securities and income thereof to the Board of Director on a quarterly basis.
(2) Organization and framework of asset securitization management	Under the Company’s asset securitization product risk management framework, the Company’s Board of Directors has defined the limit of various securitization products or limit of position and limit of loss. Bonds Dept. is responsible for the management of beneficiary securities and asset-based securities. Bills Dept. is responsible for the business management of securitization short-term bills, dedicated to reviewing the changes of credit rating related to asset securitization products and researching and defines the relevant countermeasures when the limit of loss is met. The Risk Control Department is responsible for controlling the change in the entire risk of asset securitization products
(3) Scope and characteristics of asset securitization risk reporting and the measurement system	The business management units of the Head Office submit the asset securitization product risk report to Risk Management Committee on a quarterly basis by functions in order to explain the changes of credit relating related to various asset securitization products, asset portfolio and analysis about position income. The measurement system and

Aspects	Contents
	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) Risk avoidance or mitigation policies relating to asset securitization, and strategies and procedures for monitoring the effectiveness of risk mitigation tools	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, 2018 Unit: NT$ thousands

Type of Exposure / Company/Book / Role		Category of asset	Traditional		Portfolio		Total		
			Exposure: Retention or Buy-in (1)	Capital Requirement (2)	Exposure: Retention or Buy-in (3)	Capital Requirement (4)	Exposure (5)=(1)+(3)	Capital Requirement (6)=(2)+(4)	Capital Requirement Before Asset Securitization
Non-founding institution	Bank book								
	Trading book								
		Creditor's right to lease			107,246	5,632	107,246	5,632	
	Subtotal				107,246	5,632	107,246	5,632	
Founding institution	Bank book								
	Trading book								
	Subtotal								
Total					107,246	5,632	107,246	5,632	

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

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

(2) Securitized instruments information:

A. List of securitized instruments held

March 31, 2018 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.	Financial assets at fair value through other comprehensive income	105,541	1,705 (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	107,246

B. Investments in securitized instruments that amounted to more than NT$300 million in cost in a single transaction (excluding those that are held as a credit enhancement to the Company's role as an originator):

March 31, 2018 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.	Financial assets at fair value through other comprehensive income	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.	105,541	1,705 (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	107,246	21.87%	Chailease Finance's entitlement over customers' leases, instalments, and re-sale agreements

C. The Bills Finance Company as a founding institution of securitization holding position for the purpose of credit enhancement: None.

D. The Bills Finance Company as securitized instruments credit impaired assets buying institution or settlement buying institution: None.

E. Securitized instruments where the bill financing company serves as a guarantor or liquidity provider: None.

(III) Operational risk management system and capital requirement

1. Operational risk management system

2017

Aspects	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

Aspects	Contents
	Board of Directors. The various units shall comply with the internal controls, laws, and the requirements about operating risk self-assessment system, fulfill the self-assessment periodically. The auditing unit shall review the effective implementation of risk management mechanisms independently and objectively to promote the Company's well-founded operation.
(3) Scope and characteristics of operational risk reporting and the measurement system	The business management units of the Head Office report the corrective actions against important operational risk loss events, operating procedures and operating systems to Risk Management Committee on a quarterly basis by functions; Risk Control Department reports the annual operational risk map to Risk Management Committee periodically, analyze the operational risk event loss data and other information, and report to the Board of Directors the development of qualitative risk management objectives (various projects); the audit unit shall report the audit result to the Board of Directors and follow up and control required improvements periodically.
(4) Operational risk avoidance or mitigation policies, and strategies and procedures for monitoring the effectiveness of risk mitigation tools	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, 2018 Unit: NT$ thousands

Year	Gross Profits	Capital requirement	Risk assets amount
2017	3,952,352		
2016	4,287,851		
2015	4,143,037		
Total	12,383,240	619,162	7,739,525

(IV) Market risk management system and capital requirement

1. Market risk management system

2017

Aspects	Contents
(1) Strategy and procedure of market risk management	The "Market Risk Management Guidelines" are stipulated for the managing of market risk of financial instrument position. Control adverse movement resulted from market price causing possible losses inside and outside the Balance Sheet as guidelines for business operation. Based on domestic and foreign economic data, measure economic status, predict interest rate, and draft up operating strategies to plan control measures. The measures include daily 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	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

Aspects	Contents
management system	financial instruments. The Bills Department, Bond Department, and all branches are the main operational units for market risk control.
(3) Scope and characteristics of market risk reporting and the measurement system	The business management units of the Head Office shall submit the report on the economic situation and interest rate analysis, operation of bills, bonds, equities, and derivatives position, capital cost and deployment, and hedging strategies and implementation to Risk Management Committee on a quarterly basis by functions; Risk Control 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) Market risk avoidance or mitigation policies, and strategies and procedures for monitoring the effectiveness of risk mitigation tools	The Company’s trade hedging strategy is to avoid price risk, implement derivatives as operating tools, and periodically assess profit and loss.
(5) Approach to require the authorized capital	Standard Method

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

March 31, 2018 Unit: NT$ thousands

Type	Capital requirement	Risk assets amount
Interest rate risk	6,414,657	80,183,213
Equity security risk	257,735	3,221,688
Foreign exchange risk	3,634	45,425
Product risk	0	0
Stock option processed with simplified method	0	0
Total	6,676,026	83,450,326

(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. Liquidity risks are supervised by the Risk Management Department while the Bills Department and the Bonds Department are responsible for day-to-day trading. TWD and foreign currency liquidity gaps are managed using a system that constantly keeps track of cash flow shortages in each maturity interval. The

Treasury Department is responsible for reporting total liabilities and any irregularities relating to liquidity risks.

Analysis on Maturity of Assets and Liabilities

March 31, 2018 Unit: NT$ thousands

	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	268,472	59,414	60,125	11,178	9,403	128,352
Liabilities	234,971	205,325	27,879	1,020	639	108
Deficit	33,501	-145,911	32,246	10,158	8,764	128,244
Accumulated deficit		-145,911	-113,665	-103,507	-94,743	33,501

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. Amendment of the Money Laundering Control Act: On December 28, 2016, the Ministry of Justice amended the "Money Laundering Control Act" that requires enhanced due diligence to be carried out for suspected money laundering activities, politically exposed persons as well as family members and persons of close relations. The amendment also outlined the legal basis for customer due diligence and penalties for violations, which are consistent with international practices and are intended to improve the effectiveness of anti-money laundering efforts within the nation. Related operational costs will be increased for the Company in order to fulfill the applicable anti-money laundering laws and regulations and operational requirements.
2. Issuance of non-physical commercial papers (CP2): Taiwan Depository and Clearing Corporation has been working with the Financial Supervisory Committee to implement registration for the issuance of CP2 commercial papers. According to the amended Article 26 of "Act Governing Bills Finance Business," all short-term bills issued in physical and non-physical form, except treasury bills, must be placed under the custody of a central depository or issued

to registered owners. Issuance of CP2 commercial paper was officially dematerialized on September 18, 2017, which helped reduce operational risks involved in bill issuance.

3. The Financial Supervisory Committee has given bills financing companies the permission to trade a broader range of derivatives: On September 20, 2017, the Financial Supervisory Commission issued Letter No. Jin-Guan-Yin-Piao-10640003360 to amend Article 3 of "Regulations Governing the Trading of Financial Derivatives by Bills Finance Companies." Following the amendment, bills financing companies are allowed to trade exchange rate derivatives as customers for purposes other than hedging. Furthermore, bills financing companies are permitted to trade interest rate derivatives as customers or businesses in currencies other than TWD.

(II) The Company’s counter-measures

1. The Company has amended internal policies in line with regulations and rules of the financial holding parent, and developed robust systems for reporting exceptions, anti-money laundering and counter terrorism financing. All of which are compliant with internal and external requirements and offer the benefit of enhancing compliance and risk management practices within the Company.
2. As a support to the issuance of non-physical notes, all credit units have been actively assisting customers with the opening of central depository accounts, whereas the head office and branches are participating in the application of guarantee services. Relevant policies have been amended during this time.

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

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

1. The transactions and risk control financial engineering and system are increasingly sophisticated to the advantage of bills finance company’s financial and business operation.
2. The competent authorities open up new businesses (foreign currency bills and bonds, and treasury bills) that help diverse business operations and increase operating spaces to the advantage of enhancing the scale of operations. However, uncertainties remain with regards to the prospects of the world’s major

economies, which may complicate trading decisions.

(II) The Company's counter-measures

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

V. The impact of change of the Company's corporate identity, and the countermeasures: None.

VI. Expected effect of acquisition and the possible risk: None.

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

VIII. Risk of business concentration and countermeasures

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

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

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

XI. Litigious or non-litigious matters: None.

XII. Other significant risks and counter-measures

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 contingency measures

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. A crisis management and reporting system has been implemented in line with the group's risk management policies and will be activated should any exceptional event occur.

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 on and damage to business operation, office equipment, document archives, and employee safety.

Eight. Other important issues: None.

Special Recorded Items

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 2017 Affiliation Report (from January 1 to December 31, 2017) 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: Mei-Chu Liao

March 21, 2018

(II) Independent Auditor’s Report

Mega Bills Finance Co., Ltd.
Affiliation Report - Independent Auditor’s Report

Tze-Huei-Tsung-Tze No. 17008002

To Mega Bills Finance Co., Ltd.

The 2017 Affiliation Report dated March 21, 2018, 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 2017 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 21,2018

(III) Relationship between subsidiary and parent company

Unit: shares; %

Parent Company	Cause of Control	Shareholdings and pledge by parent company			Directors, Supervisors and Managers appointed by parent company	
		Quantity of Shares Held	Shareholding	Pledged shares	Job Title	Name
Mega Financial Holding Co., Ltd.	Wholly owned	1,311,441,084	100%	0	Chairman of the Board	Mei-Chu Liao
					Director and President	Chi-Fu Lin
					Independent Director	Jian-Yu Chen
					Independent Director	Yi-Jui Huang
					Director	Jui-Yun Lin
					Director	Ya-Ting Chang
					Director	Ruey-Yuan Fu
					Director	Chun-Hsiang Lee
					Supervisor	Fu-Jung Chen
					Supervisor	Qi-He Chen
					Supervisor	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	16,488,478	Terms of trade 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: NT$226,000
The ending balance of guarantee-free commercial paper issued.	3,500,000		

(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.