Stock Code: 2820

Taiwan Stock Exchange Market Observation Post System: http://mops.com.tw/

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中華票券 CBF

CHINA BILLS FINANCE CORPORATION

2014 ANNUAL REPORT

2014 ANNUAL REPORT

Printed on March 25 ,2015

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I. Message to Shareholders

One. Performance Report

I. Year 2014 Global and Taiwan Economy

In 2014 the global economic situation was still struggling and diverging. The US economic recovery was bullish with a good chance for Fed to increase interest rates, while Europe and China did not perform as well as expected. The quantitative easing monetary policy was upheld and Global Insight, Inc. (GI) expected the global economic growth rate to reach 2.7% in 2014, which was a slight increase of 0.1% over the previous year.

The economy of Taiwan was stabilizing and recovering. The employment rate grew continuously with the average annual unemployment rate expected to fall below 4%. Also, the monitoring indicator showed 8 consecutive months of green light. In the presence of the global economic recovery, the economic outlook was cautiously optimistic and the Directorate-General of Budget, Accounting and Statistics, Executive Yuan predicted the economic growth would reach 3.43% in 2014.

II. Change of the Organizational Structure

In accordance with the Regulations Governing Internal Control and Audit System by Financial Holdings and Banks, the Company has had the "Legal and Compliance Department" setup on February 1, 2015, responsible for planning, managing, and implementing the regulatory compliance system. Also, the Compliance Chief of the headquarters will not assume any other job duties internally.

III. Performance Report

(I) Primary Market Transactions

1. Commercial Paper Certification and Underwriting

The Company(China Bills Finance corporation, abbr. CBF) had 8,627 commercial papers certified and underwritten in 2014, representing an increase of 485 issuances (or 5.96%) over the year 2013. The grand total amounted to NT$1,299,105 million representing an increase of NT$173,247 million (or 15.39%) in the same period. The outstanding balance of certified and underwritten commercial papers warehoused by the Company amounted to NT$166,837 million by the end of 2014.

2. Outstanding Balance of Guarantee

The outstanding balance of commercial papers guaranteed by the Company amounted to NT$86,493 million as of December 31, 2014, representing an increase of NT$8,749 million (or 11.25%) over the year 2013.

3. The initial Purchase of Bills

In addition to the certifications and underwritings of commercial papers, the bills other than commercial papers (CP2) purchased from initial offering by the Company amounted to NT$255,989 million in 2014, representing an increase of NT$39,447 million (or 18.22%) over the year 2013.

4. USD Commercial Papers

The total commercial papers in USD certified and underwritten in 2014 amounted to US$11,500 thousand, representing a decrease of US$20,500 thousand (or -64.06%) over the year 2013.

In terms of the primary bills market, due to the continuing global economic recovery in 2014 and the Company's active development in bills underwriting and loan syndication, the trading volumes of commercial paper certification and underwriting had gone up. Also, due to relatively low funding costs in the market, the Company increased the purchase of bank negotiable certificates of deposit in order to reap profit from low cost of carry.

Unit: NT$ million	2014		2013		Comparison with 2013	
	Amount	%	Amount	%	Increase (decrease)	%
Commercial papers (CP2)	1,299,105	83.54	1,125,858	83.87	173,247	15.39
Commercial papers (CP1)	209	0.01	240	0.02	(31)	(12.92)
Bankers' acceptances	0	-	2	-	(2)	(100.00)
Bank negotiable certificates of deposit	255,480	16.43	216,300	16.11	39,180	18.11
Municipal Treasury Bills	300	0.02	0	-	300	100.00
Total	1,555,094	100.00	1,342,400	100.00	212,694	15.84

(II) Secondary Market Transactions

The bills traded in the secondary market amounted to NT$4,348,147 million in 2014, representing an increase of NT$221,200 million (or 5.36%) over the year 2013.

In terms of bills traded in the secondary market, due to the continuing global economic recovery in 2014 and the Company's active development in bills underwriting and loan syndication, the trading volumes of bills in the secondary market had therefore increased.

Unit: NT$ million	2014		2013		Comparison with 2013	
	Amount	%	Amount	%	Increase (decrease)	%
Commercial papers	4,009,641	92.22	3,874,116	93.87	135,525	3.50
Bank negotiable certificates of deposit	338,436	7.78	242,103	5.87	96,333	39.79
Bankers' acceptances	0	-	8	-	(8)	(100.00)
Treasury Bills	0	-	10,720	0.26	(10,720)	(100.00)
Municipal Treasury Bills	70	-	0	-	70	100.00
Total	4,348,147	100.00	4,126,947	100.00	221,200	5.36

(III) Government Bonds

Government bonds trading by the Company was totaled NT$1,163,909 million in 2014, representing a decrease of NT$21,820 million (or -1.84%) over the year 2013. In terms of trading patterns, Repo trading amounted to NT$1,043,149 million, accounting for 89.62% and representing a decrease of NT$47,480 million (or -4.35%) over the year 2013. The Outright purchases/sales in total was NT$120,760 million, accounting for 10.38% and representing an increase of NT$25,660 million (or 26.98%) over the year of 2013.

Unit: NT$ million	2014		2013		Comparison with 2013	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	1,043,149	89.62	1,090,629	91.98	(47,480)	(4.35)
Outright purchases/sales	120,760	10.38	95,100	8.02	25,660	26.98
Total	1,163,909	100.00	1,185,729	100.00	(21,820)	(1.84)

(IV) Bank Debentures

Bank debentures trading in total was NT$241,323 million in 2014, representing an increase of NT$8,698 million (or 3.74%) over the year 2013. In terms of trading patterns, the Repo trading amount was NT$238,973 million, accounting for 99.03% and representing an increase of NT$11,198 million (or 4.92%) over the year 2013. The Outright purchases/sales in total was NT$2,350 million, accounting for 0.97% and representing a decrease of NT$2,500 million (or -51.55%) over the year of 2013.

Unit: NT$ million	2014		2013		Comparison with 2013	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	238,973	99.03	227,775	97.92	11,198	4.92
Outright purchases/sales	2,350	0.97	4,850	2.08	(2,500)	(51.55)
Total	241,323	100.00	232,625	100.00	8,698	3.74

(V) Corporate Bonds

Total corporate bonds trading was NT$1,621,884 million in 2014, representing a decrease of NT$389,998 million (or -19.38%) over the year 2013. In terms of trading patterns, the Repo trading amount was NT$1,585,624 million, accounting for 97.76% and representing a decrease of NT$389,548 million (or -19.72%) over the year 2013. The total outright purchases/sales amount was NT$36,260 million, accounting for 2.24% and representing a decrease of NT$450 million (or -1.23%) over the year 2013.

Unit: NT$ million	2014		2013		Comparison with 2013	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	1,585,624	97.76	1,975,172	98.18	(389,548)	(19.72)
Outright purchases/sales	36,260	2.24	36,710	1.82	(450)	(1.23)
Total	1,621,884	100.00	2,011,882	100.00	(389,998)	(19.38)

(VI) Foreign Bonds

Foreign bonds trading in total was US$4 million and RMB 90 million in 2014, of which, RMB bonds increased RM B80 million over the year of 2013.

A.RMB bonds

Unit: RMB thousand	2014		2013		Comparison with 2013	
	Amount	%	Amount	%	Increase (decrease)	%
Underwriting in primary market	0	-	0	-	0	-
Trading in secondary market	90,000	100.00	10,000	100.00	80,000	800.00
Total	90,000	100.00	10,000	100.00	80,000	800.00

B.USD bonds

Unit: USD thousand	2014		2013		Comparison with 2013	
	Amount	%	Amount	%	Increase (decrease)	%
Underwriting in primary market	0	-	0	-	0	-
Trading in secondary market	4,000	100.00	0	-	4,000	100.00
Total	4,000	100.00	0	-	4,000	100.00

IV. Budget Implementation, Financial Income and Expenditures, and Profitability Analysis

In terms of income, the 2014 net revenues totaled NT$1,875,209 thousand, representing 114.44% of the budget, of which, net interest income was NT$967,673 thousand, representing 127.33% of the budget. Net commissions and fee revenues was NT$664,712 thousand, representing 112.54% of the budget. Gain on financial assets and liabilities at fair value was NT$151,921 thousand, accounting for 103.39% of the budget. Realized gain on available-for-sale financial assets was $63,143 thousand, accounting for 48.57% of the budget. Other net non-interest gain was NT$27,760 thousand, accounting for 252.36% of the budget. The net revenues had exceeded the budget target mainly due to the Company's active development in bills underwriting business that increased commissions and fee revenues. Also, the relatively low funding cost in the market lowered cost of carry and raised net increase income. However, trading in bonds and equity-related products were under the budget target due to the global economic recovery falling behind expectations.

Operating expenses were NT$451,916 thousand, accounting for 93.72% of the budget. Due to a reverse in 2014 of NT$234,907 thousand, the provision was 251.70% of the budget, resultant from bad debt covery.

Net income before tax amounted to NT$1,658,200 thousand in 2014, accounting for 132.69% of the budget. Net income after provisions and allocations was NT$1,385,343 thousand that was converted to NT$1.03 earnings per share, accounting for 130.11% of the budget.

V. Research and Development

In terms of new types of businesses, the Company got actively involved in the first "New Taipei City Municipal Treasury Bills" underwriting case. The Company was one of the few underwriting financial institutions.

Regarding in-house training for employees, in addition to regular guests' lectures related to on-job subjects, Money Laundering Control Act courses were also compulsory on semi-annual basis. Employees were encouraged to obtain certified financial qualifications by attending courses from government and civil institutions, such as Taiwan Academy of Banking and Finance (TABF) in order to improve essential professional skills as well as job efficiency. The total workforce of CBF was 139 employees on payroll at the end of 2014, of which 7,161 training hours were given, representing an average of 51.5 hours per employee annually.

Two. The 2015 Business Plan Outline

I. Business policy

- Increase the market share of third-party-guarantee and guarantee-free underwriting.
- Enhance daily average outstanding balance on the self-guarantee.
- Control duration and scale of bonds position.
- Strengthen bills trading and liquidity
- Strengthen the promoting of the secondary transaction of individual account and corporate accounts.
- Increase foreign currency access channels and promote the secondary transaction of foreign bonds.
- Strengthen the credit risk control of assets.

II. Business target

Operating targets of the main businesses in 2015 are based on domestic and foreign economic situation and industrial environment estimates:

- Daily average outstanding of guaranteed commercial papers issuance amounted to NT$850 million.
- Annual average short-term bills underwriting and initial purchase amounted to NT$201.3 billion.
- Annual average balance of repo bills and bonds amounted to NT$137.4 billion.
- Capital adequacy ratio was 12.5%.

III. Important operating policies and strategies for future development

Please refer to Page 15~16 of this annual report for the long-term and short-term business development plan.

Three.The Impact from Competition, Regulation, and Macro-economics Environments.

Taiwan economy improved in 2014 and had finally overcome the predicament of “falling short of expectations” which had been bothering investors for three consecutive years. The prospects for 2015, according to the forecast of international think-tanks, are that both the domestic and international economies are expected to continue growing in 2015; however there remain some uncertainties that may affect the development of macro-economics, of which, the timing and scale of interest rate increases by FED is the most crucial. Besides, international energy prices, geopolitical conflict and the Ebola epidemic outbreak are likely to affect both the global and the Taiwanese economies. The progress of the China-South Korea FTA and the red supply chain in China will also fundamentally impact Taiwan’s import and export business. To sum up, the Company will continue focusing on business development in the financial industry, strengthening risk control and making the most efficient use of company capital, reducing the negative impact of external economic environments, enhancing competitiveness and profitability. Please refer Page 13~15 of this annual report for the assessment of such impacts.

Four. The Updated Rating

Fitch Ratings, Ltd., Taiwan Branch affirmed on March 5, 2015 the Company's rating as follows: National long-term rating "A+(twn)", National short-term rating "F1(twn)," and the long-term outlook "Stable."

Last but not least, we look forward to your continued support and encouragement for CBF and its employees.

Sincerely yours,

Cheng-Ching Wu
Chairman

Vance Y.C. Chin
President

II. Company and Business Profile

A. Company Profile

In accordance with the Corporation Law and the Regulations Governing Short Term Bills Dealers as promulgated by the Ministry of Finance (MOF), the company was duly incorporated in December of 1978 in order to assist the government in building a sound money market, so as to help businesses with short-term financing needs and to facilitate the movement of bills and bonds in the economy.

The company shares have been listed on Taiwan Stock Exchange (TSE) since October 1994. Its Head Office is located in Taipei; In addition, there are 5 branches in major cities around the island to extend business scope.

China Bills Finance Corporation has been dedicating to corporate finance and fixed income products trading for over 30 years. Being a loyal business partner to our clients, CBF will continue exerting itself to serve and create the utmost benefits for clients, shareholders and employees.

CBF's management beliefs and core values are as follows:

Appreciate customers and business with gratitude

Cherish what we have

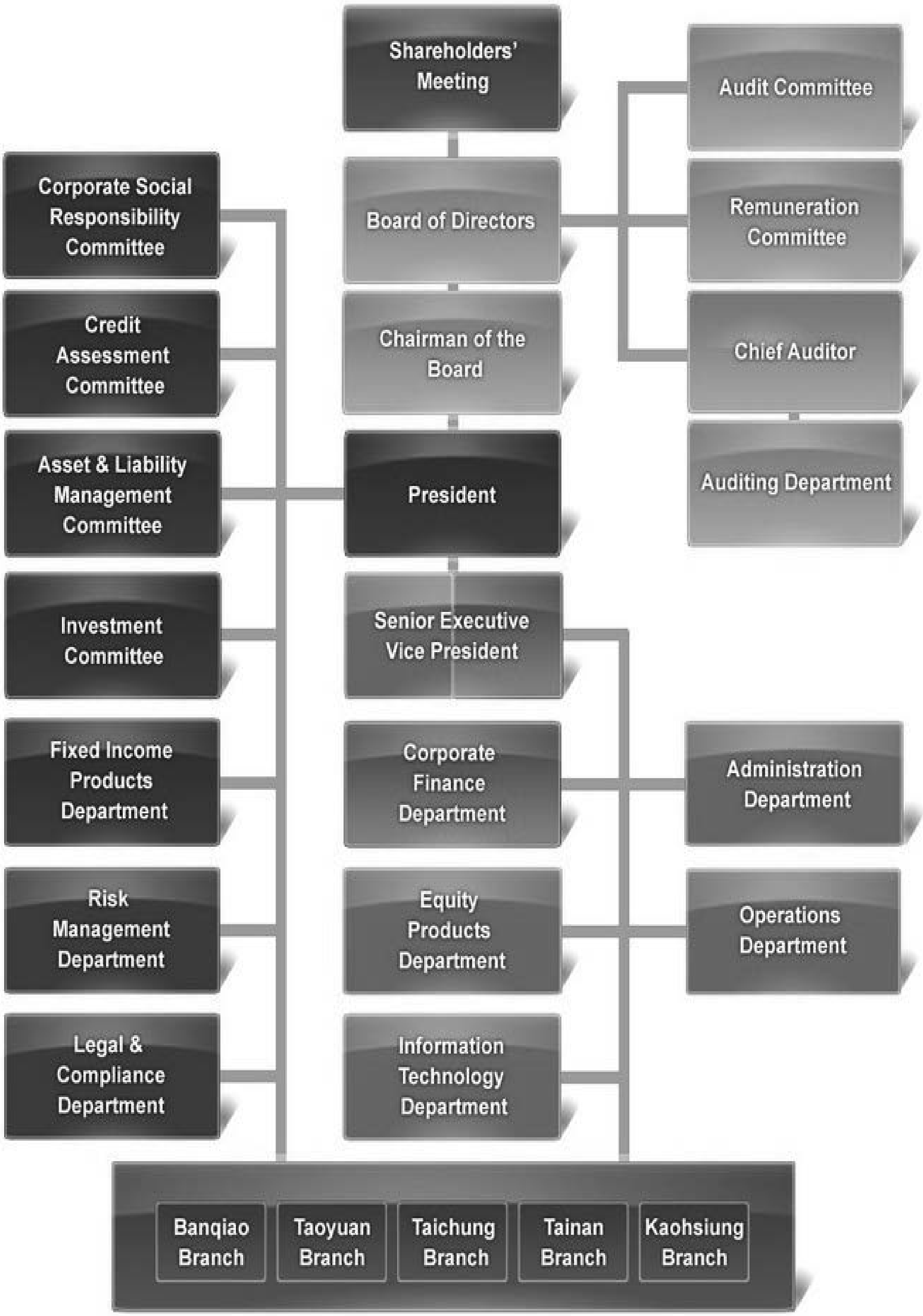
Excel through initiating innovation

We will strengthen knowledge management, increase business efficiency, create profitable value for customers, shareholders, and staff with the aims to create long-term leadership and market niche.

B. Principal Activities

1.Certifying and underwriting Short-Term Bills;
2.Certifying and underwriting Bank Debentures;
3.Brokering and trading Short-Term Bills;
4.Brokering and trading Bank Debentures;
5.Brokering and trading Government Bonds;
6.Guaranteeing and endorsing Short-Term bills;
7.Providing financial consulting services to enterprises;
8.Dealing Inter-bank call loan;
9.Proprietary trading of corporate bonds;
10.Equity investment;
11.Fixed income securities trading;
12.Proprietary trading service of foreign bonds;
13.Certifying and underwriting Foreign Currency Bills;
14.Brokering and trading Foreign Currency Bills;
15.Other business as authorized by the Competent Authority

C. Organizational structure



D. Board of Directors

Title	Name	Job Responsibilities
Chairman	Cheng-Ching Wu	Chairman of the Board, China Bills Finance Co., Ltd.
Directors	Vance Y.C. Chin	President, China Bills Finance Co., Ltd.
	David C.C. Chang	Deputy President & Chief Administration Officer , Industrial Bank of Taiwan
	Jonathan C.H. Wei	Senior Executive Vice President & Chief Strategy Officer , Industrial Bank of Taiwan
	Tessie Y.H. Chen	Senior Executive Vice President & Chief Financial Markets Officer , Industrial Bank of Taiwan
	Roger Y.F. Lin	Senior Executive Vice President & Chief Corporate Banking Officer , Industrial Bank of Taiwan
	MONA I-RU LO	Director, Ming Shan Investment Co., Ltd.
	Sekin Chen	Nil
Independent Directors	Herbert Chung	Independent Director, Fuburg Industrial Co., Ltd.
	Hung-Mao Tien	President and Chairman of the Board, Institute for National Policy Research
	Hou-Sheng Chan	National Policy Advisors to the President

E. The Management Team

Title	Name	Full-time or Part-time
President	Vance Y.C. Chin	Full-time
Executive Vice President & Chief, Corporate Finance Department	Alex Tu	Full-time
Executive Vice President	Chang-Jung Hsiao	Full-time
Chief Auditor	Hsing-Pang Wang	Full-time
Vice President, Fixed Income Products Department	Yi-Tien Chen	Full-time
Vice President, Equity Products Department	I-Chih Chou	Full-time
Vice President, Risk Management Department	Hsiung-Jung Chen	Full-time
Vice President, Operation Department	Chao-Ku Wang	Full-time
Vice President, Information Technology Department	Su-Tzu Hsu	Full-time
Manager, Administration Department	Hou-Sheng YU	Full-time
Acting Vice President, Legal & Compliance Department	Chen-Cheng Hsieh	Full-time
Senior Vice President & Chief, Kaohsiung Branch	Li-Fei Chiu	Full-time
Vice President, Tainan Branch	Cheng-Sheng Hsu	Full-time
Vice President, Taichung Branch	Joe Chen	Full-time
Vice President, Taoyuan Branch	Jen-Chien Chen	Full-time
Senior Vice President & Chief, Banqiao Branch	Wen-Hao Liao	Full-time

III. Operations Overview

I. Each business assets and income as a proportion of total assets and income, and development and changes

1. Assets

Unit: NT$ Thousand	12/31/2014		12/31/2013		Comparison with 12/31/2013	
	Amount	As a proportion of total assets(%)	Amount	As a proportion of total assets(%)	Increase (Decrease)	%
Commerical papers	82,840,273	48.75	102,760,998	54.56	(19,920,725)	(19.39)
Bonds	84,072,274	49.48	82,186,226	43.64	1,886,048	2.29
Equity investment	974,379	0.57	946,968	0.50	27,411	2.89
Derivative financial products	29,136	0.02	22,791	0.01	6,345	27.84
Others	2,000,957	1.18	2,421,831	1.29	(420,874)	(17.38)
Total Assets	169,917,019	100.00	188,338,814	100.00	(18,421,795)	(9.78)

2. Revenue

Unit: NT$ Thousand	2014		2013		Comparison with 2013	
	Amount	As a proportion of total revenue(%)	Amount	As a proportion of total revenue(%)	Increase (Decrease)	%
Commercial papers	1,127,344	60.12	930,181	57.56	197,163	21.20
Bonds	707,946	37.75	619,427	38.33	88,519	14.29
Equity investment	73,498	3.92	58,942	3.65	14,556	24.70
Derivative financial products	13,114	0.69	58,216	3.60	(45,102)	(77.47)
Others	(46,693)	(2.48)	(50,647)	(3.14)	3,954	7.81
Total Revenue	1,875,209	100.00	1,616,119	100.00	259,090	16.03

II. The 2014 Operating plan

(I) Commercial papers

1. Actively seek to underwrite reputable private and public non-guaranteed bills, bank bills guaranteed by reputable banks, and purchase bank NCDs in order to expand the source of bills underwriting and to maintain a leading market share.
2. Strengthen the sales channels of the bills secondary market, adopt bills circulation-and-inventory(flow and stock) parallel operating strategy, secure the yielding of bills, and lower capital costs timely in order to maximize the profit of bills.
3. Develop bills sales channels for non-financial institutions to diversify risk and acquire stable funds.
4. Strengthen the general mid-term and long-term commercial papers (FRCP) business and seek the non-guarantee commercial papers FRCP syndicated

underwriting business to increase the source of bills and establish the leading position of the Company in the bills industry.

5. Actively participate in the new bills products business to increase the profitability of bills.

(II) Bonds

1. Strengthen the fundamental analysis on the economic climate and price level and enhance operating performance.
2. Grasp the principal movements of the central banks worldwide and analyze the impact of monetary policies on financing costs.
3. Seek to combine trade of long-term and short-term bills and increase trading instruments and operating profits.
4. Adjust and increase the structure of customers for repurchase bond in order to reduce financing costs and diversify sources of funds.
5. Continue to implement staff education and training and strengthen research and technical analysis and other professional capabilities.
6. Continue to deal foreign bonds and other new kinds of businesses; also, increase business diversity and expand sources of profits.

(III) Equity investment

1. Grasp industry movement, focus on individual stock selection, and conduct equity investment based on respective value.
2. Continue to strengthen the discussion of market trend and movement.
3. Strengthen the interaction with major domestic securities firms and seek CBAS targets.
4. Pay attention to credit risk and carefully select CBAS targets.
5. Carefully select CBAS targets. and enhance to acquire IPO CB

(IV) Guarantee business

1. Strictly control credit risk and ensure that claims are the top priority for guarantee business.
2. Control guarantee business for real estate
3. Encourage quality customers to actively use the granted credit line of guarantee and secure the sources of guaranteed fees income.
4. Replace low-yielding existing clients by offering new programs and improve outstanding guarantee balance and credit spread.
5. Actively participate in syndicated loans.
6. Continue to optimize information system integration and simplification and strengthen credit management efficiency.

III. Market analysis

(I) Business area

As of the end of 2014, the Company, headquartered in Taipei, had branches located in Banqiao, Taoyuan, Taichung, Tainan, and Kaohsiung to serve customers throughout the entire domestic market.

(II) Future market supply and demand

1. Commercial papers

The money market provides enterprises with much needed short-term liquidity. In recent years, due to the stable short-term interest rates in the money market that have helped reduce financing costs, the trade volume of bills primary market has continued to grow. Since Taiwan's economy has continues to grow, driving by the needs of enterprises for working capital, the market scale will continue to grow.

In terms of the bills secondary market, money market products provide stable earnings and good liquidity. In addition to attracting private and corporate customers to consume short-term idle funds, they have also fulfilled the asset allocation need of the banks, insurance, investment trust funds, and other financial institutions. The trade volume of bills is expected to grow along with the growing primary market scale.

2. Bonds

Domestic central government bonds and the corporate bond issuance balance have continued to grow in recent years. In 2015, the prospects are that government bond issuance volume and the amount of corporate bond issuance will continue to uphold the trends of recent years. In terms of bond demand, domestic bonds are mainly purchased by life insurance companies, Chunghwa Post, and banks. The purpose of their purchasing bonds is primarily for the consideration of asset allocation. The securities and bills companies hold bills mainly for the purpose of trade and yielding.

According to observation of supply and demand, domestic financial institutions have ample funds. However, due to the Government's opening of the RMB business, encouraging foreign companies to raise funds in Taiwan, allowing securities firms to trade in foreign securities, permitting the life insurance industry to invest in real estate business conditionally, and excluding the life insurance company's investment in international bonds from the offshore investment limit, investment targets have increased and the pipeline for fund consumption is diversified.

3. Equity Investment

Due to the expanding quantitative easing monetary policy worldwide, doubt of the timing of US interest rates increases, and the uncertain economic outlook, the capital market looks to be the most important of all in the year coming. Under the circumstance, stock market prospects in 2015 are that market volatility will worsen and operations will become significantly more difficult. Therefore, it is crucial to be cautious and to pay attention to risks.

4. Guarantee business

Although economic recovery is not yet visible in 2015, the Company has been conducting risk control for over a year with credit quality becoming stable. The NPL ratio was zero at the end of December 2014 with excessive reserves appropriated to shield future business development. As for the price competition that has troubled the financial industry, since the competent authorities have made a reasonable price a specific policy, the damaging price competition faced by the entire industry can be resolved. Overall, the credit policy will be still based on the core strategies of stability and sustainability in 2015. In addition, the Company will replace low-yielding existing clients by offering new programs in order to secure stable sources of profits and improve outstanding guarantee balance and credit spread.

IV. Long-term and short-term business development plan

(I) Short-term business development plan

1. Commerical papers

(1) Adjust the bills portfolio and duration in accordance with the market fund status in order to reduce liquidity risk and increase the profits of bills.
(2) Increase the trade ratio of non-financial institution clients in the secondary market, adjust the structure of the underwriting customers, reduce financing costs, and expand sources of funds.
(3) Actively develop the primary market and seek thirty-party-guaranteed and non-guaranteed bills underwriting business in order to expand the sources of bills and improve the profits of bills.

2. Bonds

(1) Control the portfolio of bond yielding and DV01 and avoid assuming too much interest rate risk while interest rates are relatively low.
(2) Continue to seek quality corporate bond and bank debentures with relatively high margins.
(3) Grasp the foreign bond market development progress and expand foreign bonds investment and proprietary business.

3. Equity investment

(1) Examine individual stocks in-depth and carefully select stocks.
(2) Grasp the trend of each industry, track individual stocks, and exercise teamwork.

4. Guarantee business

(1) Improve self-guaranteed credit renewal ratio and stabilize the sources of handling fees income.
(2) Develop new clients and grant additional credit line of guarantee to existing quality clients simultaneously.
(3) Timely reflect financing costs and cooperate with the competent authorities to raise the spread.
(4) Carefully select the liquidity of collateral and take account of both income and quality of collateral.
(5) Lead the arrangement of syndicated loans through the advantage of interest rate.

(II) Long-term business development plan

1. Commercial papers and bonds

(1) Strictly control risk and flexibly adjust financial assets and liabilities operational direction and hedging strategies in response to the significant changes in the economy.
(2) Study new kinds of interest rate related businesses and actively seek opportunities to participate in the market in response to the open policy of the competent authorities.
(3) Strengthen the fixed income trading in-depth and in-breath and become a professional trader in the fixed-income products market.

2. Equity investment

(1) Continue to help researchers enhance stock selection capabilities and enhance the grasp of individual stock movement in order to pick ideal stocks recommended adequately and timely.
(2) Strengthen the integration of research and practical operations so as to help the equity investment team retain long-term stable profitability.

3. Guarantee business

(1) Continue to improve the quality of credit assets, exercise the “survival of the fittest” principle, and ensure a stable source of self-guaranteed bills.
(2) Segment target customers and improve marketing efficiency.
(3) Develop major customers and potential customers; also, actively participate in syndicated loan business to expand the sources of customers.
(4) Reduce non-productive management costs and improve ROA through customer restructuring.
(5) Continue to optimize computer decision-making support and credit operation system; also, improve operational efficiency.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Bills Finance Corporation

We have audited the accompanying balance sheets of China Bills Finance Corporation (the "Company") as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of China Bills Finance Corporation as of December 31, 2014 and 2013 and its financial performance and cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Bills Finance Firms and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed by the Financial Supervisory Commission of the Republic of China.

Deloitte & Touche

February 16, 2015

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

CHINA BILLS FINANCE CORPORATION

BALANCE SHEETS
DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	2014		2013	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS	$ 292,419	-	$ 286,036	-
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS	-	-	82,362	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	93,589,437	55	111,604,771	59
SECURITIES PURCHASED UNDER RESELL AGREEMENTS	1,750,739	1	1,358,800	1
AVAILABLE-FOR-SALE FINANCIAL ASSETS	71,347,272	42	70,195,578	37
RECEIVABLES, NET	1,012,275	1	1,511,909	1
CURRENT TAX ASSETS	176,543	-	88,107	-
HELD-TO-MATURITY FINANCIAL ASSETS	385,208	-	1,844,679	1
OTHER FINANCIAL ASSETS, NET	178,798	-	178,792	-
PROPERTY AND EQUIPMENT, NET	163,367	-	166,064	-
DEFERRED TAX ASSETS	108,664	-	100,354	-
OTHER ASSETS, NET	912,297	1	921,362	1
TOTAL	$ 169,917,019	100	$ 188,338,814	100
LIABILITIES AND EQUITY				
CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS	$ 12,240,000	7	$ 14,220,000	7
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	153,196	-	4,315	-
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	134,133,003	79	150,704,136	80

(Continued)

CHINA BILLS FINANCE CORPORATION

BALANCE SHEETS
DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	2014		2013	
	Amount	%	Amount	%
ACCOUNTS PAYABLE	385,646	-	1,047,266	1
PROVISIONS	1,448,181	1	1,303,496	1
DEFERRED TAX LIABILITIES	6,027	-	-	-
OTHER LIABILITIES	83,935	-	111,275	-
Total liabilities	148,449,988	87	167,390,488	89
EQUITY				
Ordinary share capital	13,429,600	8	13,429,600	7
Capital surplus	2,474	-	2,474	-
Retained earnings				
Legal reserve	5,492,712	3	5,088,317	3
Special reserve	769,120	1	769,120	-
Unappropriated earnings	1,385,718	1	1,347,983	1
Total retained earnings	7,647,550	5	7,205,420	4
Other equity	387,407	-	310,832	-
Total equity	21,467,031	13	20,948,326	11
TOTAL	$ 169,917,019	100	$ 188,338,814	100

(Concluded)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2014		2013	
	Amount	%	Amount	%
NET INTEREST				
Interest revenues	$ 1,914,862	102	$ 1,967,764	122
Deduct: Interest expenses	(947,189)	(50)	(1,056,777)	(66)
Net interest	967,673	52	910,987	56
NET REVENUES OTHER THAN INTEREST				
Commissions and fee revenues, net	664,712	35	523,370	33
Gain on financial assets and liabilities at fair value through profit or loss	151,921	8	151,636	9
Realized gain on available-for-sale financial assets	63,143	3	11,969	1
Foreign exchange gain, net	14,993	1	3,642	-
Other non-interest gain, net	12,767	1	14,515	1
TOTAL NET REVENUES	1,875,209	100	1,616,119	100
PROVISIONS	234,907	12	543,319	34
OPERATING EXPENSES				
Personnel expenses	(293,898)	(16)	(302,532)	(19)
Depreciation and amortization	(12,488)	-	(10,392)	(1)
Others	(145,530)	(8)	(162,627)	(10)
Total operating expenses	(451,916)	(24)	(475,551)	(30)
INCOME BEFORE INCOME TAX	1,658,200	88	1,683,887	104
INCOME TAX EXPENSE	(272,857)	(14)	(283,026)	(17)
NET INCOME FOR THE YEAR	1,385,343	74	1,400,861	87

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2014		2013	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain (loss) on available-for-sale financial assets	$ 76,575	4	$ (173,541)	(11)
Actuarial gain and loss arising from defined benefit plans	(3,785)	-	5,499	-
Income tax relating to the components of other comprehensive income	644	-	(936)	-
Other comprehensive income (loss) for the year, net of income tax	73,434	4	(168,978)	(11)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,458,777	78	$ 1,231,883	76
EARNINGS PER SHARE				
Basic	$1.03		$1.04	

(Concluded)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	Ordinary Share Capital	Capital Surplus	Retained Earning: Legal Reserve	Retained Earning: Special Reserve	Retained Earning: Unappropriated Earnings	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total Equity
BALANCE AT JANUARY 1, 2013	$13,429,600	$ 2,474	$ 4,739,522	$ 1,029,634	$ 1,105,208	$ 484,373	$20,790,811
Legal reserve	-	-	348,795	-	(348,795)	-	-
Special reserve	-	-	-	(260,514)	260,514	-	-
Cash dividends distributed	-	-	-	-	(1,074,368)	-	(1,074,368)
Net income for the year ended December 31, 2013	-	-	-	-	1,400,861	-	1,400,861
Other comprehensive income (loss) for the year ended December 31, 2013	-	-	-	-	4,563	(173,541)	(168,978)
Total comprehensive income (loss) for the year ended December 31, 2013	-	-	-	-	1,405,424	(173,541)	1,231,883
BALANCE AT DECEMBER 31, 2013	13,429,600	2,474	5,088,317	769,120	1,347,983	310,832	20,948,326
Legal reserve	-	-	404,395	-	(404,395)	-	-
Cash dividends distributed	-	-	-	-	(940,072)	-	(940,072)
Net income for the year ended December 31, 2014	-	-	-	-	1,385,343	-	1,385,343
Other comprehensive income (loss) for the year ended December 31, 2014	-	-	-	-	(3,141)	76,575	73,434
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	1,382,202	76,575	1,458,777
BALANCE AT DECEMBER 31, 2014	$13,429,600	$ 2,474	$ 5,492,712	$ 769,120	$ 1,385,718	$ 387,407	$21,467,031

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,658,200	$ 1,683,887
Adjustments for:		
Recognition of provisions and bad debt expenses	140,900	198,403
Net loss (gain) on valuation of financial assets and liabilities at fair value through profit or loss	(35,824)	30,598
Depreciation expenses	8,256	7,429
Amortization expenses	4,232	2,963
Interest revenues	(1,914,862)	(1,967,764)
Interest expenses	947,189	1,056,777
Loss on disposal of property and equipment	337	495
Changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	18,050,444	(27,814,428)
Decrease (increase) in securities purchased under resell agreements	(391,939)	763,174
Decrease (increase) in interest and bond receivables	429,874	(637,746)
Decrease (increase) in available-for-sale financial assets	(1,074,885)	5,663,384
Decrease in held-to-maturity financial assets	1,459,471	7,214,408
Decrease (increase) in other financial assets	(6)	295,334
Increase in other assets	(2,892)	(109)
Increase in financial liabilities at fair value through profit or loss	149,595	-
Increase (decrease) in securities sold under repurchase agreements	(16,571,133)	8,506,979
Increase (decrease) in accounts payable	(654,077)	582,264
Increase (decrease) in other liabilities	(27,340)	63,048
Interest received	1,984,622	2,345,675
Interest paid	(954,732)	(1,058,517)
Income tax paid	(362,932)	(318,314)
Net cash generated from (used in) operating activities	2,842,498	(3,382,060)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received on the capital reduction of financial assets measured at cost	-	25,000
Decrease (increase) in other assets	7,491	(16,206)
Payments for property and equipment	(6,190)	(7,354)
Proceeds from disposal of property and equipment	294	48
Net cash generated from investing activities	1,595	1,488
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in call loans from banks and overdrafts on banks	(1,980,000)	4,360,000
Dividends paid	(940,072)	(1,074,368)
Net cash generated from (used in) financing activities	(2,920,072)	3,285,632

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	2014	2013
NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (75,979)	$ (94,940)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	368,398	463,338
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 292,419	$ 368,398

Reconciliation of the amounts in the statements of cash flows with the equivalent items reported in the balance sheets at December 31, 2014 and 2013:

	For the Year Ended December 31	
	2014	2013
Cash and cash equivalents in balance sheets	$ 292,419	$ 286,036
Due from the Central Bank and call loans to banks that meet the definition of cash and cash equivalents in IAS 7	-	82,362
Cash and cash equivalents in statements of cash flow	$ 292,419	$ 368,398

(Concluded)

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