

# **Mega Financial Holding Company**

## **Minutes of the 2018 Annual General Shareholders' Meeting**

Date and Time: 9:00 a.m., June 15, 2018

Venue: 13/F, Jilin Bldg. of Mega International Commercial Bank, No. 100, Jilin Road, Taipei, Taiwan, R.O.C.

Attendance: The number of shares in attendance is 10,265,909,753 shares (including 7,496,786,404 shares attended through electronic means). This constitutes 84.15% of the total 12,198,692,252 shares issued, excluding 1,401,131,731 shares retained in China.

Attending directors: (10 directors, exceeding one-half of the number of Directors)

### Directors

Chao-Shun Chang, Kuang-Hua Hu, Cheng-Te Liang, Chun-Lan Yen, Jui-Chi Chou, Ye-Chin Chiou, Wen-Ling Hung, Chiu-Fa Tsai

### Independent Directors

Tsun-Siou Li (Chair of the Audit Committee), Keh-Nan Sun

Observers:

Hwa-Inn Kai, Attorney-at-Law, Lotus International Law Office

Joseph Lin, Attorney-at-Law, Lin & Shih Law Office

Ivy Yan, Attorney-at-Law, Lin & Shih Law Office

King-Tse Huang, CPA, PricewaterhouseCoopers, Taiwan

Chairman: Chao-Shun Chang, Chairman of the Board of Directors

Minutes taken down by Chia-Min Hong

### **1. Announce a quorum is present and call the meeting to order**

### **2. Chairman's Remarks (omitted)**

### **3. Company Reports**

(1) 2017 Business Report (Refer to Attachment 1 for the 2017 Business Report)

(Noted)

(2) Audit Committee's Review Report on the 2017 Business Report and Financial Statements

(Refer to Attachment 2 for the Audit Committee's Review Report)

(Noted)

(3) Report on the Distribution of Employees' and Directors' Compensation for 2017

(Noted)

#### 4. Matters for Recognition

**Proposal 1:** 2017 Business Report and Financial Statements. (Proposed by the Board of Directors)

Explanation: The Company's financial statements were audited by CPA, King-Tse Huang and Chung-Hsi Lai of PricewaterhouseCoopers. The Financial Statements described above and the 2017 Business Report have been authorized by the Board and examined by the Audit Committee. The 2017 Business Report and Financial Statements are attached as Attachments 1 and 3.

**RESOLVED:** Approved as proposed, voting results are as follows:

Total votes	Approval votes	Disapproval votes	Abstention votes	Invalid votes
10,265,879,847	9,163,455,941	1,885,457	1,100,538,449	0
100%	89.26%	0.02%	10.72%	0%

**Proposal 2:** Proposal for Distribution of 2017 Earnings. (Proposed by the Board of Directors)

Explanation: The Board of Directors proposed to distribute a dividend of NT\$1.5 per share in cash with aggregate cash dividends of NT\$20,399,735,975. If the number of shares outstanding is changed due to share buyback, transfer, conversion, cancellation of treasury shares or other circumstances, the Board is authorized to adjust the dividend per share based on the cash dividend resolved to be distributed and the number of shares outstanding on the ex-dividend record date. The 2017 Profit Distribution Proposal is attached as Attachment 4.

Statement Summary:

1. Shareholder Account No. 1176130 raised questions about the penalties imposed against Mega International Commercial Bank by the U.S. regulators in 2016 and early this year.
2. Shareholder Account No. 0837354 proposed to establish an Employee Stock Ownership Plan.
3. Shareholder Account No. 0837311 proposed to raise the appropriation rate of the new labor pension system.
4. Shareholder Account No. 6003367 expressed support and recognition for the management team.
5. The statements made by the above shareholders were all addressed in detail by the Chairman. As for the remarks made by Shareholder Account No. 1176130, the response by the Chairman was summarized as follows:

- (1) Mega International Commercial Bank was penalized in 2016 by the New York State Department of Financial Services (NYDFS) based on the examination report issued by NYDFS in February 2016 for the Bank's New York Branch failure to adopt the Risk Based Approach (RBA) in anti-money laundering and compliance system as required by the U.S. and the Financial Action Task Force on Money Laundering (FATF). With slow progress in improvement, the Bank was imposed a heavy penalty so as to bring about remediation of the system.
- (2) In the U.S., banking is regulated at both the federal and state levels. After Mega Bank was fined by NYDFS in August 2016, the U.S. Federal Reserve Board and the Illinois Department of Financial Services and Professional Regulation each would punish the Bank in October of the same year. With much effort made by the Bank, the two regulators agreed to jointly handle the case. However, the authorities did not consent to the exemption of a penalty. Therefore, the penalty in January 2018 is imposed on same kind of deficiencies during the same period, but not imposed again on the same case. To avoid public misunderstandings, the Federal Reserve especially pointed out in the Cease and Desist Order that the penalty was based on the examination conducted in 2016, and gave words of affirmation for the Bank's improvement efforts.
- (3) The fine from the Federal and State government are classified as civil penalty, due to deficiency of compliance not because the bank was actually conducting money laundering or assisting clients engaging in money laundering. If Mega Bank was actually involved with money laundering, it would be penalized by the US Department of Justice; however, Mega Bank was never fined or enforced by US Department of Justice.
- (4) To comply with the anti-money laundering international standards, the Bank spent huge amount of money on establishment and implementation of anti-money laundering system, including engaging external consultants to assist in providing guidance on models design, methodologies, and recruiting AML expertise personnel. More than 4,500 foreign exchange transactions are processed by the Bank's New York Branch on a daily basis, which need to be scanned and processed if any anomaly is detected, bringing about a high demand for the workforce. As an USD Clearing Bank in Taiwan, the Bank processes about 4,500 ~ 5,500 foreign exchange transactions per day. All of those transactions are required to monitor the cash flow to check if any sanctioned country or blacklisted entity has been involved, and even logistics verification if necessary. This also requires a large number of dedicated staff to handle the workload.

- (5) The Bank is required to reform by the US competent authority. The first phase of the reform is to enhance oversight on overseas branches by the headquarters. The Bank has reorganized the Board of Directors and conducted reorganization, by establishing the Overseas Branches Administration Department and Anti-money Laundering Department, and increasing the workforce of the Compliance Department. This is aimed to assist the branches in the U.S in handling all policies and procedures and developing a global anti-money laundering policy and standards, to be implemented accordingly. Not only was the fine of \$180 million imposed, an independent compliance consultant was also engaged to examine the deficiencies of the Bank under the Consent Order with the NYDFS. In addition, the Bank is required to submit a remediation plan to NYDFS. To avoid deviations from the implementation of the remediation plan, NYDFS designated an on-site independent monitor at the Bank's New York Branch, who may also come to Taiwan for review if necessary.
- (6) With regard to the responsibility investigation, when the first penalty was imposed on the Bank in 2016, there were six senior executives discharged, and more than 20 staff were given a demerit or reprimand.

**RESOLVED:** Approved as proposed, voting results are as follows:

Total votes	Approval votes	Disapproval votes	Abstention votes	Invalid votes
10, 265, 879, 847	9, 230, 446, 730	653, 218	1, 034, 779, 899	0
100%	89. 91%	0. 01%	10. 08%	0%

## 5. Matters for Election and Discussion

**Proposal 1:** The Election of the 7th Term Board of Directors. (Proposed by the Board of Directors)

Explanation: 1. The tenure of the Company's 6th term Board of Directors will expire on June 30, 2018. According to the Company Act, the Company proposes to elect board members at this annual meeting of shareholders.

2. According to Article 19 of the Company's Articles of Incorporation, the Company shall have 15 to 21 directors, of which the number of independent directors shall not be less than three and shall not be less than 1/5 of the board seats. Directors shall be elected by means of the candidate nomination system.

3. As approved by the board meeting, the Company will elect 15 directors (including 3 independent directors) for the 7th term Board of Directors. The tenure of the 7th term Board of Directors shall be 3 years, commencing from July 1, 2018 to June 30, 2021. The director candidates nominated have been reviewed and approved by

the 43rd meeting of the 6th term Board of Directors on April 24, 2018.

No.	Position	Name	Representative of Legal Entity
1	Director	Chao-Shun Chang	Ministry of Finance, R.O.C.
2		Kuang-Hua Hu	Ministry of Finance, R.O.C.
3		Chia-Chi Hsiao	Ministry of Finance, R.O.C.
4		Cheng-Te Liang	Ministry of Finance, R.O.C.
5		Chun-Lan Yen	Ministry of Finance, R.O.C.
6		Tzong-Yau Lin	Ministry of Finance, R.O.C.
7		Pei-Chun Chen	Ministry of Finance, R.O.C.
8		Wen-Ling Hung	Ministry of Finance, R.O.C.
9		Chi-Hsu Lin	Ministry of Finance, R.O.C.
10		Jiunn-Rong Chiou	National Development Fund, Executive Yuan, R.O.C.
11		Jui-Chi Chou	Chunghwa Post Co., Ltd.
12		Ye-Chin Chiou	Bank of Taiwan Co., Ltd
13	Independent Director	Jiun-Wei Lu	—
14		Ying-ko Lin	—
15		Chang-Ching Lin	—

4. For candidates' profiles, please refer to Attachment 5.

#### Voting Results:

No.	Category	Shareholder or ID No.	Name of Elected Directors	Shares in Favor
1	Director	100001	Chao-Shun Chang (Representative of Ministry of Finance, R.O.C.)	11, 373, 446, 559
2	Director	100001	Kuang-Hua Hu (Representative of Ministry of Finance, R.O.C.)	8, 916, 847, 526
3	Director	100001	Chia-Chi Hsiao (Representative of Ministry of Finance, R.O.C.)	8, 749, 065, 421
4	Director	100001	Chun-Lan Yen (Representative of Ministry of Finance, R.O.C.)	8, 486, 213, 182
5	Director	837938	Jui-Chi Chou (Representative of Chunghwa Post Co., Ltd.)	8, 378, 112, 162

6	Director	300237	Jiunn-Rong Chiou (Representative of National Development Fund, Executive Yuan, R.O.C.)	8, 358, 703, 221
7	Director	637985	Ye-Chin Chiou (Representative of Bank of Taiwan Co., Ltd.)	8, 261, 389, 564
8	Director	100001	Tzong-Yau Lin (Representative of Ministry of Finance, R.O.C.)	8, 100, 131, 590
9	Director	100001	Wen-Ling Hung (Representative of Ministry of Finance, R.O.C.)	7, 843, 787, 050
10	Director	100001	Cheng-Te Liang (Representative of Ministry of Finance, R.O.C.)	7, 639, 806, 471
11	Director	100001	Pei-Chun Chen (Representative of Ministry of Finance, R.O.C.)	7, 397, 358, 077
12	Director	100001	Chi-Hsu Lin (Representative of Ministry of Finance, R.O.C.)	7, 314, 785, 649
13	Independent Director	L12217XXXX	Jiun-Wei Lu	3, 118, 093, 166
14	Independent Director	T12168XXXX	Ying-ko Lin	3, 102, 630, 238
15	Independent Director	D12095XXXX	Chang-Ching Lin	3, 101, 877, 939

**Proposal 2:** Proposal of Releasing the Prohibition on the 7th Term Board of Directors from Participation in Competitive Business (Proposed by the Board of Directors)

Explanation: 1. In accordance with Article 209 of the Company Act, a director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the shareholders' meeting the essential contents of such an act and secure its approval.

2. The Company's 7th term Board of Directors, including juristic person and its representative, participate in the operations, or appoint representative to serve as Director, Supervisor or Executive Vice President, of another company that is engaged in the same or similar business as the Company. It is proposed that the shareholders' meeting release the prohibition on the following directors from participation in competitive business according to the Article 209 of the Company Act.

Position	Name of Director	Concurrent Position	Position Held
Juristic Person shareholder	Ministry of Finance, R.O.C.	Taiwan Financial Holding Co., Ltd.	Director
		Land Bank of Taiwan Co., Ltd.	Director
		The Export-Import Bank of the Republic of China	Director
		Taiwan Cooperative Holding Co., Ltd.	Director
		First Financial Holding Co., Ltd.	Director
		Hua Nan Financial Holdings Co., Ltd.	Director
		Chang Hwa Commercial Bank, Ltd.	Director
		Taiwan Business Bank, Ltd.	Director
Juristic Person shareholder	National Development Fund, Executive Yuan, R.O.C.	iPASS Corporation	Director
		Chang Hwa Commercial Bank, Ltd.	Director
Juristic Person shareholder	Bank of Taiwan Co., Ltd.	First Financial Holding Co., Ltd.	Director
		Hua Nan Financial Holdings Co., Ltd.	Director
		China Development Financial Holding Corporation	Director
		Taiwan Business Bank, Ltd.	Director
		Taiwan Fire & Marine Insurance Company	Director
		United Taiwan Bank S.A.	Director
		Taiwan Stock Exchange Corporation	Director
		Taipei Forex Inc.	Director
		Taiwan Futures Exchange Corporation	Director
		Taiwan Insurance Brokers Co., Ltd.	Director
		Financial eSolution Co., Ltd.	Director
Chairman	Chao-Shun Chang	Financial Information Service Co., Ltd.	Director
		Taiwania Capital Buffalo Fund Co., Ltd.	Supervisor
Director	Jui-Chi Chou	Chunghwa Post Co., Ltd.	Executive Vice President
Director	Ye-Chin Chiou	Taipei Forex Inc.	Director
		Bank of Taiwan Co., Ltd.	Executive Vice President

**Statement Summary:**

1. Shareholder Account No. 1176130 expressed its opinion about the nomination of Independent Directors.
2. Shareholder Account No. 1176130 asked about the significance and influence of releasing the prohibition on Directors from participation in competitive business.
3. The foregoing statements made by the shareholder were addressed in detail by the Chairman.

**RESOLVED:** Proposal was approved as proposed, voting results are as follows:

Name of director	Shares voted *	Votes in favor (%)	Votes against (%)	Votes abstained (%)	Votes invalid
Ministry of Finance	9, 122, 865, 870	7, 543, 669, 407 (82. 68%)	200, 269, 620 (2. 20%)	1, 378, 926, 843 (15. 12%)	0
National Development Fund, Executive Yuan, R.O.C.	9, 434, 936, 551	7, 855, 750, 591 (83. 26%)	200, 262, 034 (2. 12%)	1, 378, 923, 926 (14. 62%)	0
Bank of Taiwan Co., Ltd	9, 930, 958, 374	8, 351, 515, 731 (84. 09%)	200, 485, 088 (2. 02%)	1, 378, 957, 555 (13. 89%)	0
Chao-Shun Chang	9, 122, 578, 157	7, 542, 433, 724 (82. 67%)	201, 195, 620 (2. 21%)	1, 378, 948, 813 (15. 12%)	0
Jui-Chi Chou	9, 778, 424, 843	8, 198, 733, 471 (83. 84%)	200, 751, 038 (2. 06%)	1, 378, 940, 334 (14. 10%)	0
Ye-Chin Chiou	9, 930, 958, 374	8, 351, 199, 721 (84. 09%)	200, 722, 695 (2. 02%)	1, 379, 035, 958 (13. 89%)	0

\* Shareholders having conflicts of interest recuse themselves from voting.

## 6. Special Motions

1. Shareholder Account No. 1176130 asked whether the wealthy Chinese businessman Mr. Xiao has made an investment in this Company, and Mega International Commercial Bank's future credit policy for China.
2. The foregoing statements made by the shareholder were addressed in detail by the Chairman.
3. After inquiring all participating shareholders by the Chairman, no other shareholder raised provisional motions.

## 7. Meeting adjournment: 11:53 a.m.

### Attachments

**Attachment 1.** 2017 Business Report

**Attachment 2.** Audit Committee's Review Report

**Attachment 3.** 2017 Financial Statements

**Attachment 4.** 2017 Profit Distribution Proposal

**Attachment 5.** Profiles of Director & Independent Director Candidates



Note 1: The Meeting Minutes extract only the keynote of shareholder statements. Details are subject to live recordings and videos.

Note2: The two proposals in Matters for Recognition were put to the vote at the same time after discussion, and the voting results were recorded separately in the resolution of each proposal.

## **Attachment 1**

### **Mega Financial Holding Co., Ltd. 2017 Business Report**

The trend of simultaneous strengthening among the economies of developed and emerging markets appeared for the first time in late 2016 which continues in 2017. The leading international economic forecast institutions raised their global economic growth predictions many times in 2017. Economic recovery is robust with the highest growth rates since 2011. The US economy performed exceptionally well with private investments providing the main growth impetus. The Eurozone benefited from diminishing political risks and recovering trade momentum. The overall economic outlook is bright. In Japan, exports and capital expenditures increased significantly and the deflation pressures decreased. The Chinese economy is staging a comeback, and imports and exports are picking up steam. Looking ahead to 2018, the International Monetary Fund (IMF) forecasts the stable growth of investments and consumption in advanced economies, which will spur economic expansion. On April 17, 2018, the IMF forecasted the global economic growth rate of 3.9% for 2018. The IMF believes that the US tax reform will stimulate the US economy and provide a boost for the main trading partners of the US. This will also strengthen the global economy.

Despite the global economic recovery, the global markets still face numerous risks and challenges that are worth constant monitoring. Current challenges include the looming US-Chinese trade war, the attitude of the newly appointed Federal Reserve, Chair Jerome Powell, toward interest rate hikes and balance sheet reduction, debt problems of Chinese enterprises, industry structural adjustments, promotion of monetary policy normalization, geopolitical conflicts and international price fluctuations of crude oil and bulk commodities. These challenges will result in cost fluctuations for global industry chains and generate significant impacts on the global economic outlook.

The domestic economy rebounded in the second half of 2017. In the first half of the year, the economy was sluggish because capital formation failed to meet the expectations. In the second half, the economy benefited from better-than-expected exports and private consumption. The economic growth rate in Q3 and Q4 reached 3.18% and 3.28%, respectively. Exports grew by 13.2% YoY in 2017, which represents the widest margin over the last seven years. The annual economic growth rate was therefore adjusted to 2.86%, which marks a three-year high. Looking into the future, the Directorate General of Budget, Accounting and Statistics forecasts an economic growth rate of 2.42% for 2018. The stable growth momentum is benefiting from the continued growth of global trade and new business opportunities arising from innovative application such as high-performance computing, automotive electronics, the internet of things (IoT) and smart technologies.

Export momentum is likely to remain steady. As far as domestic demand is concerned, the overall investment outlook is rosy due to the active promotion of forward-looking infrastructure projects by the government and continued investment in advanced process technologies by semiconductor manufacturers.

The Company's profits were affected by a fine of US\$180 million imposed on the subsidiary Mega International Commercial Bank by the New York State Department of Financial Services (NYDFS) in 2016 for a violation of the US anti-money laundering regulations, and another fine of US\$29 million imposed by the Board of Governors of the Federal Reserve System and the Illinois Department of Financial and Professional Regulation, Division of Banking on January 17, 2018 for the past deficiencies during the same period as the sanction in 2016. After reduction of the fine of US\$29 million, the Company's consolidated net income after tax reached NT\$25,729 million in 2017, which represents an increase by NT\$3,286 million or 14.64% compared to 2016, while after-tax EPS was NT\$1.89. The Company's operation guidelines, implementation overview, implementation of business plans, implementation of budget, financial results and profitability analysis, and R&D in 2017 are shown below.

## **I. Operation Guidelines**

- (1) Cultivating customer relationships and creating group synergy
- (2) Concentrating and focusing on our core business to create the greatest value for shareholders
- (3) Shaping a culture of risk management and enhancing risk management
- (4) Strengthening the information security management and promoting digital processing capability
- (5) Reinforcing corporate governance and fulfilling corporate social responsibility
- (6) Promoting relationships with institutional investors and increasing information transparency

## **II. Implementation Overview**

- (1) Continue to enhance the subsidiary's business

The subsidiaries of the Company had continued to enhance their business operations in 2017 based on the existing foundation. In terms of corporate finance business, Mega International Commercial Bank's syndicated loan business had a market share of 8.54% in 2017, ranked 2nd in the syndicated loan market in Taiwan. By the end of 2017, its credit business captured the third position among local banks, with a market share of 7.06%. The loan business captured the fourth position among local banks, with a market share of 6.56%. The corporate loan business had a market share of 7.06%, ranking on the third place. The SME loan business had a market share of 7.49%, ranking on the 5th place among the local

banks. In terms of consumer finance and wealth management business, the Bank had a consumer loan outstanding of NT\$407.9 billion by the end of 2017, increasing by 3.60% from the previous year. However, the business momentum of wealth management business slowed down in 2017, largely because the experienced employees are transferred to be in charge on operations of anti-money laundering and compliance, leading to frequent rotation of bank tellers. The Group's total wealth management profit in 2017 declined by 17.71% to NT\$3 billion from the previous year. The CP2 issued amounts of Mega Bills had a market share of 27.00% in 2017. The bills trading in the secondary market had a market share of 32.89%; the bond trading had a market share of 28.50% and the bills guarantee business had a market share of 29.74%, all ranking on the first place in the market. Mega Securities' securities brokerage market share grew to 3.06% in 2017, ranking on the 9th place in the market. Chung Kuo Insurance's aviation insurance business had a market share of 12.13%, ranking on the 2nd place in market. The marine insurance business had a market share of 8.35% in 2017, ranking in the 5th place in the market.

(2) Strengthened regulatory compliance and risk control

After signing the consent order with NYDFS, Mega International Commercial Bank, in 2017, continues to be proactively dedicated to implementation of corrective measures, promoting legal compliance culture, strengthening corporate governance and reinforcing employee training. More than NT\$1 billion has been spent on the improvement measures. Its concrete corrective measures are as follows:

a. Reinforcing the supervisory functions of the board of directors

The bank's board of director was completely re-organized. Newly appointed directors and supervisors include certified public accountants, lawyers, finance and economics scholars and anti-money laundering experts. The supervisory functions of board of directors are enhanced.

b. Shaping a culture of compliance

Instead of "business first" that was followed in the past, the Bank has been "taking care of both regulatory compliance and business expansion at the same time". In accordance with the improvement plans submitted by the compliance consultant designated by NYDFS, the Bank has taken actions to enhance regulatory compliance such as organizational adjustment, modification to policies and procedures, employment of full-time compliance staff, system upgrade, increased employee's training and modification to performance evaluation criteria, etc.

c. Comprehensive upgrade of the anti-money laundering standards

To promote the Bank's overall professional competence of anti-money laundering, the Bank has conducted a comprehensive review of its anti-money laundering and legal compliance operations, and carried out organizational reforms. The management framework of the head office has been adjusted and a dedicated management unit has been established. Manpower for legal compliance and anti-money laundering has been

increased. In addition to reinforcement of employee's training, an anti-money laundering system has been established to promote their capabilities of monitoring suspicious activities. These endeavors aim at set-up of a sound legal compliance system to keep pace with international anti-money laundering standards and meet the requirements of the US competent authority.

d. Continued strengthening of effective risk management

The Bank keeps an eye on the regional market dynamics and industrial economy, and adjusts its operating strategies in due course. The internal control and internal audit system, and risk management are reinforced to accomplish sustainable development.

### III 、Implementation of Business Plans

According to the Financial Holding Company Act, the business scope of a Financial Holding Company shall be limited to investment in, and management of, its invested enterprise(s). As of the end of 2017, the number of subsidiary companies, in which the Company has direct controlling interest, remains the same as they were in 2016. The subsidiary companies are Mega International Commercial Bank Co., Ltd., Mega Securities Co., Ltd., Mega Bills Finance Co., Ltd., Chung Kuo Insurance Co., Ltd., Mega International Investment Trust Co., Ltd., Mega Asset Management Co., Ltd., Mega Life Insurance Agency Co., Ltd. and Mega Venture Capital Co., Ltd. The operation results of our subsidiary companies are summarized as follows:

(1) Mega International Commercial Bank Co., Ltd.

Units: NT\$ million, except otherwise indicated

Item	Year	2017	2016	Change (%)
Deposits (including due to Chunghwa Post Co.)		2,261,201	2,189,718	3.26
Bills discounted, import/export bills negotiated and loans		1,701,601	1,739,548	-2.18
Corporate financing		1,309,372	1,356,748	-3.49
Consumers financing (excluding credit card loans)		392,229	382,800	2.46
Foreign exchange business undertaken (in US\$ million)		845,753	805,160	5.04
Securities purchased		502,291	435,646	15.30
Long-term equity investments		20,497	22,208	-7.70
Credit card loans outstanding		1,131	1,155	-2.08

Note: 1. All figures above are average monthly balance, except foreign exchange business which is the amount undertaken.

2. The non-performing loans at the end of 2017 amounted to NT\$2,099 million, representing a non-performing loan ratio of 0.12%, while its bad debt coverage ratio was 1,334.92%.

**(2) Mega Securities Co., Ltd. (MSC)**

Item		2017	2016	Change (%)
Securities brokerage	Market share	3.06% (rank 9)	2.79% (rank 9)	0.27
Equity underwriting	Number of initial public offering lead managed by MSC	2 (rank 7)	4 (rank 6)	-50.00
	Number of subsequent public offering lead managed by MSC	8 (rank 8)	5 (rank 7)	60.00
Bond underwriting	Number of issues lead managed by MSC	2 (rank 6)	2 (rank 4)	-
	Amount of issues lead managed by MSC (NT\$ billion)	2.6 (rank 9)	2.9 (rank 6)	-10.34
New financial products	Number of warrants issued	1,434 (rank 9)	1,688 (rank 6)	-15.05
	Amount of warrants issued (NT\$ billion)	11.6 (rank 10)	11.9 (rank 8)	-2.52

Note: The above ranking is ranked among the top 20 local securities firms with highest brokerage market share.

**(3) Mega Bills Finance Co., Ltd.**

Units: NT\$ million

Item	2017	2016	Change (%)
Underwriting and purchasing of 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 issues of CP2 outstanding balance	152,652	152,160	0.32
Overdue credit amounts	0	0	-
Percentage of overdue credits (%)	0	0	-

Note: CP2 stands for commercial paper issued for funding purpose without underlying transaction.

**(4) Chung Kuo Insurance Co., Ltd.**

Unit: NT\$ million

Item	2017	2016	Change (%)
Direct written premiums	6,498	6,415	1.29
Inward reinsurance premiums	688	590	16.61
Total	7,186	7,004	2.60

**(5) Mega International Investment Trust Co., Ltd.**

Unit: NT\$ million

Item	2017	2016	Change (%)
Public funds under management	88,766	96,858	-8.35
Private funds under management	18,380	19,573	-6.09
Discretionary investment account	1,190	1,041	14.31
Total	108,337	117,472	-7.78

**(6) Mega Asset Management Co., Ltd**

Unit: NT\$ million

Item	2017	2016	Change (%)
Gains on disposal of NPL and the underlying collateral	106	177	-40.11
Rental revenues	0	0	0
Interest income	4	120	-96.67
Service income	370	419	-11.69
Total	481	715	-32.73

Note : Interest income for NT\$120 million in 2016 was generated from account receivable resulting from disposal of NT\$3,500 million non-performing loans, which was received in 2017.

**(7) Mega Venture Capital Co., Ltd.**

Unit: NT\$ million

Item	2017	2016	Change (%)
Drawdown of long term equity investment	399	140	185.00
Original cost of long term equity investment	997	916	8.84

Note: In 2017, the company actively participated in the case of IPO through book building or competitive auction, so the drawdown of long term equity investment grew dramatically.

**(8) Mega Life Insurance Agency Company Co., Ltd.**

Unit: NT\$ million

Item	2017	2016	Change (%)
Commission income	1,344	1,944	-30.86

## IV 、Implementation of Budget

(1) The Company's 2017 budget and its implementation are as follows:

Unit: NT\$ million, except EPS in NT\$

Item	Final accounting figure, 2017	Budget figure, 2017	Implemented (%)
Revenues	26,120.19	25,027.53	104.37
Expenses and losses	483.47	456.08	106.01
Net income before tax from continuing operations	25,636.72	24,571.45	104.34
Net income	25,734.72	24,246.57	106.14
Earnings per share	1.89	1.78	106.18

(2) The Company's Subsidiaries' 2017 budget and its implementation are as follows:

Unit: NT\$ million

Name of subsidiary	Net income before tax - actual	Net income before tax - budget	Implemented (%)
Mega International Commercial Bank Co., Ltd.	24,237.49	24,126.13	100.46
Mega Securities Co., Ltd.	692.68	562.54	123.13
Mega Bills Finance Co., Ltd.	3,211.52	2,945.84	109.02
Chung Kuo Insurance Co., Ltd.	456.60	469.88	99.09
Mega Asset Management Co., Ltd.	327.99	325.30	100.83
Mega Life Insurance Agency Co., Ltd.	458.87	355.13	129.21
Mega Venture Capital Co., Ltd.	19.21	17.01	112.93
Mega International Investment Trust Co., Ltd.	92.10	144.95	80.12

Mega International Investment Trust Company's budget achievement rate is 80.12%, mainly due to the decline in size of the money markets fund and its management fee rates, which is under its management.

## V 、Financial Results and Profitability Analysis

The Company's consolidated net profit before tax in 2017 amounts to NT\$29,280.73 million, an increase of NT\$1,363.51 million or 4.88% compared to 2016. The increase in consolidated net profit before tax is mainly due to the increase in revenue other than interest of NT\$6,409.80 million, which offsets the decrease in net interest income of NT\$1,813.53 million, while the operating expenses increased by NT\$2,778.43 million and provisions for



bad debts expense and guarantee liability increased by NT\$454.32 million. The increase in revenues other than interest is mainly due to the increase in financial assets and liabilities at fair value through profit or loss and reduction in penalty imposed by US government, which offsets the decrease in service fee revenue and commissions and foreign exchange gain. The consolidated net profit after tax of the Company and its subsidiaries reached NT\$25,729.10 million, an increase of NT\$3,286.20 million or 14.64%. Its consolidated return on assets was 0.75% while the consolidated return on equity reached 8.72%. A breakdown of the financial results of the Company and its subsidiaries in 2017 are shown in the table below:

Unit: NT\$ million, except EPS in NT\$					
Company	Net Income Before Tax	Net Income After Tax	Earnings Per Share	Return on Assets (%)	Return on Equity (%)
Mega FHC & Its Subsidiaries	29,280.73	25,729.10	1.89	0.75	8.72
Mega FHC (Unconsolidated)	25,636.72	25,734.52	1.89	7.81	8.72
Mega International Commercial Bank Co., Ltd.	24,237.49	21,523.41	2.52	0.70	8.26
Mega Securities Co., Ltd.	692.68	596.83	0.51	1.10	4.07
Mega Bills Finance Co., Ltd.	3,211.52	2,705.23	2.06	0.99	7.75
Chung Kuo Insurance Co., Ltd.	465.60	350.64	1.17	2.17	5.66
Mega Asset Management Co., Ltd.	327.99	272.30	1.36	2.27	9.67
Mega Life Insurance Agency Co., Ltd.	458.87	380.86	190.43	55.68	75.25
Mega Venture Capital Co., Ltd.	19.21	19.00	0.19	2.44	2.47
Mega International Investment Trust Co., Ltd.	92.10	78.46	1.49	8.40	9.39

Note: Return on assets = Net income after tax / Average assets; Return on equity = Net income after tax / Average equity

## VI. Research and Development

The Company and its subsidiaries' research and development progress in 2017 are summarized as follows:

1. The Company assessed the feasibility of mergers with and acquisitions of domestic and international financial institutions, established application functions of the VaR management system for financial products, developed credit risk limit control reports and application functions of the operational risk database systems, revised consolidated financial statements and financial risk reporting system in accordance with IFRS 9. An equity evaluation system for the Group is also developed.

2. Mega International Commercial Bank published the Mega Bank Monthly, which includes monographs and articles covering the latest international and domestic economic and financial news and is made public periodically on the bank's website. The bank finished creating the ATM white list mechanism, reinforcing various necessary security measures according to the Customer Security Programme (CSP) of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the network traffic management system and the X86 cloud platforms. In terms of digital financial innovations, as of the end of 2017, a total of 96 financial patents were applied for and 46 of them were approved in 2017. In addition, continuous efforts have been made to optimize the big data core system, to explore customer demands, to develop and optimize digital savings accounts in New Taiwan Dollars and in foreign currencies, mobile ATM cards and robotic services, among other digital financial services. By working together with external consultants, the bank's capabilities in analyzing data have been effectively enhanced and so has its digital marketing efficiency.
3. Mega Securities Company continued to reinforce its front office and back office system configuration, optimize the comprehensive e-commerce platform and its customer service features. It has also deployed the Channel Sales service model for wealth management business, offered central depository e-passbook services, Line@ "Mega wealth management secretary", AI voice recognition and security online services, and "e-radar" with individual stock price and quantity real-time alert services. Efforts in enhancement/upgrade or establishment of the functions of its information system will also be continued.
4. Mega Bills Finance Company studied the feasibility of undertaking RP transaction of US dollar bonds with life insurance companies. It has been planning the Basel III system framework and practice, and strengthening AML/CFT and related risk monitoring. Besides, it called for the competent authority to relax the scope of derivatives transactions of bills finance companies. It also promoted book-entry system for issuance of short-term bills in primary market and the establishment of relevant information systems.
5. Chung Kuo Insurance Company developed a total of 316 new insurance products in 2017, including 2 products filed with the competent authority on a "prior approval" basis, 245 products on "file for recordation" basis and 69 products on "simple file for recordation" basis.
6. Mega International Investment Trust Company introduced multiple currencies products to develop the foreign currency investor base. It issued three funds namely Mega Taiwan Blue Chip 30 Umbrella ETF, Mega 3-Year Emerging Market Bond Fund, Mega 3-Year Emerging Asia Bond Fund. The Mega Taiwan Blue Chip 30 Umbrella ETF is

composed of two sub-funds, Mega Taiwan Blue Chip 30 ETF and Mega Taiwan Blue Chip 30 Daily Inverse ETF.

Chairman: Chao-Shun Chang    President: Kuang-Hua Hu    Chief-Accountant: Jui-Ying Tsai

## **Attachment 2**

### **Mega Financial Holding Co., Ltd. Audit Committee's Review Report**

The Board of Directors has compiled and delivered the Company's 2017 consolidated financial statements audited by CPA Huang, King-Tse and Lai, Chung-Hsi of PricewaterhouseCoopers, business report and earning distribution proposal. The above reports and statements have been examined by the Audit Committee and considered in compliance with relevant rules and regulations. We hereby prepare this report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act for your ratification.

To:

2018 General Shareholders' Meeting

Mega Financial Holding Co., Ltd.

Chairman of the Audit Committee: Tsun-Siou Lee

Date : May 8, 2018

**MEGA FINANCIAL HOLDING CO., LTD.  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND  
2016**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR17000299

To the Board of Directors and Stockholders

Mega Financial Holding Co., Ltd.

*Opinion*

We have audited the accompanying consolidated balance sheets of Mega Financial Holding Co., Ltd. and its subsidiaries (collectively the “Mega Group”) as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Mega Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, “Regulations Governing the Preparation of Financial Reports by Public Banks”, “Regulations Governing the Preparation of Financial Reports by Public Held Bills Finance Companies”, “Regulations Governing the Preparation of Financial Reports by Securities Firms”, “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants”, “Regulations Governing the Preparation of Financial Reports by Enterprises Engaging in Insurance” 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 “Rules Governing the Audit of Financial Statements of Financial Institutions 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 Consolidated Financial Statements* section of our report. We are independent of the Mega Group 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



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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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Mega Group's key audit matters for the year ended December 31, 2017 are addressed as follows:

### **Impairment assessment of bills discounted and loans**

#### **Description**

For the accounting policy for the impairment assessment of bills discounted and loans, please refer to Note 4(9) of the consolidated financial statements; for critical accounting judgments, estimates, and key sources of assumption uncertainty of impairment assessment of bills discounted and loans, please refer to Note 5(2) of the consolidated financial statements; for the details of bills discounted and loans, please refer to Note 6(5) of the consolidated financial statements. Gross bills discounted and loans and allowance for bad debts as at December 31, 2017, was \$1,790,516,261 thousand and \$28,355,505 thousand, respectively.

The credit services provided by the subsidiary, Mega International Commercial Bank Co., Ltd (MICB), which are their main business activity, are primarily corporate credit facilitations. Impairment losses on bills discounted and loans are losses as a result of existing objective evidence of impairment that estimated future cash flows of loans may not be recovered. MICBs' impairment assessment on bills discounted and loans is conducted in accordance with related regulations of IAS 39, 'Financial Instruments: Recognition and Measurement' and meet the related requirements of the competent authority. If there is existing objective evidence of impairment loss for significant credit facilitations which exceed a certain amount, then such facilitations are individually assessed. Impairment loss is primarily provisioned according to the future cash flows and collateral value of the borrower; if there is no existing objective evidence of impairment or if there is existing objective evidence of impairment but the credit facilitation does not exceed a certain amount, then assessment is conducted on a collective basis and impairment losses are estimated according to impairment parameters such as the impairment probability, recovery rate, and effective interest rate under each industry group.



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The aforementioned provision of impairment loss for bills discounted and loans includes the determination of future cash flows of individual assessment and impairment parameters for collective assessment. Because this involves subjective judgment and numerous assumptions and estimates, the method of determining assumptions and estimates will directly affect the related recognized amounts. Also, considering that loans account for approximately 50% of total assets, we have thus included the individual and collective impairment assessment of MICBs' bills discounted and loans as one of the key audit matters in our audit.

#### How our audit addressed the matter

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

1. Understood and assessed the related policies, internal control system, and operation procedures of assumptions and estimates (including the impairment probability, recovery rate, future cash flows, and collateral value) used by MICB in provisioning impairment losses for bills discounted and loans.
2. Sampled and tested internal controls related to the provision of impairment loss, including the identification of objective evidence for impairment loss, annual reviews, management of collateral and their value assessment, value assessment of collateral, controls for changing impairment parameters, and approval for provisioning of impairment loss.
3. Collective assessment
  - (1) Evaluated the model parameter assumptions of MICBs' collective assessments; understood the calculation logic of different group parameters (e.g. the impairment probability, recovery rate, and effective interest rate), as well as the status of periodic updates.
  - (2) Sampled and tested the accuracy of impairment loss balances.
  - (3) Filtered loan portfolio amounts of corporate facilitations under loans accounts using the system logic which incorporated the Group's policy to sample and test the accuracy of their respective impairment probability, recovery rate, and effective interest rates, as well as to examine their consistency with the financial statements.
4. Individual assessment (for credit facilitations with existing objective evidence of impairment loss that exceeded a certain amount)
  - (1) Assessed the completeness of the watch list for credit facilitations for which objective evidence is existed.





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- (2) Sampled and compared the consistency of the system's judgment with samples which had been judged to have objective evidence of impairment.
- (3) Assessed the reasonableness of parameter assumptions (including the borrower's time of past due, financial and operational status, and historical experience) for estimated future cash flows and the accuracy of calculation results for estimated future cash flows.

## **Impairment assessment of equity investments carried at cost**

### Description

For the accounting policy for the impairment assessment of equity investment carried at cost (accounted under other financial assets), please refer to Note 4(9) of the consolidated financial statements; for critical accounting judgments, estimates, and key sources of assumption uncertainty of equity investments carried at cost, please refer to Note 5(3) of the consolidated financial statements; for details of other financial assets-equity investments carried at cost, please refer to Note 6(10) of the consolidated financial statements. Other financial assets-equity investments carried at cost and its accumulated impairment as at December 31, 2017, was \$12,461,719 thousand and \$1,293,532 thousand, respectively.

For the provision of impairment for other financial assets-equity investments carried at cost accounted for by the Mega Group, in accordance with the Mega Group's accounting policy, upon the end of each reporting period, the Mega Group shall estimate impairment losses when it is assessed that there is objective evidence of impairment. When individual equity investments have existing objective evidence of impairment loss, provision of impairment loss is determined by the recoverable amount of cash flows based on the financial and operating status.

Because the aforementioned determination on whether there is existing objective evidence of impairment for equity investments carried at cost and the provision of impairment (including the determination of recoverable cash flows) involve subjective judgment and numerous assumptions and estimates, the method of determining assumptions and estimates will directly affect recognized amounts. Thus, we have included the impairment assessment of Mega Group's equity investments carried at cost as one of the key audit matters in our audit.

### How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit

matter are summarised as follows:

1. Understood and assessed the Mega Group's related policies, stop-loss and exception management controls, and handling procedures for determining impairment evidence and the provision of impairment for equity investments measured at cost.
2. Sampled and tested the evaluations provided by management to determine whether there are documents that support the existence of impairment evidence.
3. Sampled and tested the appropriateness of management's estimate future cash flows (e.g. documents related expected recoverable cash flows of investees) and recalculated the accuracy of provisioned impairment amounts.

## **Claims reserve and ceded claims reserve**

### Description

For the accounting policy for claims reserve (including those prior to and after reinsurance), please refer to Note 4(18)4. of the financial statements; for critical accounting estimates and key sources of assumption uncertainty of claims reserve (including ceded reserves), please refer to Note 5(5) of the financial statements; for detail of claims reserve (including ceded reserves), please refer to Note 6(23) and (6) of the financial statements. On December 31, 2017, the Group's claims reserve and ceded claims reserve was \$3,512,496 thousand and \$1,670,558 thousand, respectively.

The subsidiary, Chung Kuo Insurance Co., Ltd (CKI)'s claims reserve (including ceded reserves) uses the loss development triangle method to estimate the reasonable amount of ultimate claims according to the Actuarial Department's historical claim experience and expenses by insurance type. Because the calculation method and assumptions for claims reserve involve the professional judgment of management, and because claims reserve is material, we have thus included the estimation of claims reserve and ceded claims reserve as one of the key audit matters in our audit.

### How our audit addressed the matter

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

1. Checked the accuracy and completeness of historical values used in the loss development triangle for calculating claims reserve.
2. Elected the work of actuarial specialists to assists us in assessing the reasonableness of the



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calculation method and assumptions used in calculating claims reserve (including those prior to and after reinsurance). This included the following procedures:

- (1) Checked whether the elected actuarial method agreed with generally accepted actuarial methods;
- (2) Sampled and inspected the reasonableness of method used in the estimation of claims reserve;
- (3) Established the interval estimation for claims reserve. On an sampling basis, compared the interval estimation and the account balances of the reserves for any significant differences in order to confirm the reasonableness of the reserves.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, “Regulations Governing the Preparation of Financial Reports by Public Banks”, “Regulations Governing the Preparation of Financial Reports by Public Held Bills Finance Companies”, “Regulations Governing the Preparation of Financial Reports by Securities Firms”, “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants”, “Regulations Governing the Preparation of Financial Reports by Enterprises Engaging in Insurance” 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Mega Group’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 the Mega Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing Mega Financial Holding Company’s financial reporting process.



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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 the Mega Group'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 the Mega Group'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 consolidated 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 the Mega Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Mega Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Mega Group audit. We remain solely responsible for our audit opinion.

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

*Huang King Tse*

Huang, King-Tse

*Lai Chung-Hsi*

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 27, 2018

The accompanying consolidated 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 consolidated 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 FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Assets						
11000	Cash and cash equivalents	6(1)	\$ 143,864,749	4	\$ 98,131,357	3
11500	Due from the Central Bank and	6(2) and 11				
	call loans to banks		567,201,934	16	540,011,742	16
12000	Financial assets at fair value	6(3), 11 and 12				
	through profit or loss, net		191,581,454	5	186,317,373	6
12100	Available-for-sale financial	6(7), 11 and 12				
	assets, net		442,557,049	13	354,464,708	11
12500	Bills and bonds purchased under					
	resale agreements		2,553,228	-	2,855,885	-
13000	Receivables, net	6(4)(5)	96,055,863	3	86,825,802	3
13200	Current income tax assets		786,198	-	577,485	-
13500	Bills discounted and loans, net	6(5) and 11	1,762,160,756	50	1,715,278,766	52
13700	Reinsurance contract assets, net	6(6)(23)	3,555,454	-	4,261,668	-
14500	Held-to-maturity financial assets,	6(8) and 12				
	net		284,687,657	8	280,997,362	8
15000	Equity investments accounted for	6(9)				
	under the equity method, net		3,184,501	-	3,108,470	-
15500	Other financial assets, net	6(5)(10)	15,089,381	-	14,955,209	-
18000	Investment property, net	6(11) and 12	1,696,863	-	1,711,561	-
18500	Property and equipment, net	6(12) and 12	21,981,154	1	21,787,452	1
19000	Intangible assets, net		382,728	-	270,438	-
19300	Deferred income tax assets	6(39)	6,018,307	-	5,463,227	-
19500	Other assets, net	6(13) and 12	3,964,038	-	2,772,911	-
Total Assets			\$ 3,547,321,314	100	\$ 3,319,791,416	100

(Continued)

**MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Stockholders' equity		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Liabilities						
21000	Due to the Central Bank and financial institutions	6(14) and 11	\$ 400,547,065	11	\$ 401,731,599	12
21500	Funds borrowed from the Central Bank and other banks	6(15)	33,457,560	1	39,974,427	1
22000	Financial liabilities at fair value through profit or loss	6(16)	9,966,779	-	12,105,231	1
22500	Bills and bonds sold under repurchase agreements	6(17)	237,706,429	7	231,191,763	7
22600	Commercial paper payable, net	6(18) and 11	20,165,421	1	11,701,649	-
23000	Payables	6(19)	71,839,997	2	59,001,999	2
23200	Current income tax liabilities		7,525,373	-	8,589,599	-
23500	Deposits and remittances	6(20)	2,386,555,016	67	2,171,287,924	66
24000	Bonds payable	6(21)	31,670,036	1	41,924,088	1
24400	Other loans	6(22)	1,325,368	-	5,954,030	-
24600	Provisions for liabilities	6(23)	26,182,764	1	25,047,224	1
25500	Other financial liabilities	6(24)	12,698,470	1	10,849,706	-
29300	Deferred income tax liabilities	6(39)	2,266,455	-	2,201,659	-
29500	Other liabilities	6(25)	7,319,019	-	6,203,075	-
Total Liabilities			3,249,225,752	92	3,027,763,973	91
Equity						
Equity attributable to owners of parent						
Share capital						
31101	Common stock	6(26)	135,998,240	4	135,998,240	4
31500	Capital surplus	6(26)	68,194,233	2	68,194,233	2
Retained earnings						
32001	Legal reserve	6(26)	32,682,332	1	30,436,714	1
32003	Special reserve	6(26)	3,004,318	-	2,545,158	-
32011	Unappropriated retained earnings	6(27)	59,182,128	1	56,976,974	2
Other equity interest						
32500	Other equity interest		( 1,007,118)	-	( 2,165,966)	-
39500	Non-controlling interests		41,429	-	42,090	-
Total Stockholders' Equity			298,095,562	8	292,027,443	9
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY						
			\$ 3,547,321,314	100	\$ 3,319,791,416	100

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

**MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

		Year ended December 31				Changes Percentage (%)	
Items	Notes	2017		2016			
		AMOUNT	%	AMOUNT	%		
41000	Interest income	6(29) and 11	\$ 57,094,672	96	\$ 54,113,662	98	6
51000	Less: interest expense	6(29) and 11	( 21,215,148)	( 36)	( 16,420,610)	( 30)	29
	Interest income, net		35,879,524	60	37,693,052	68	( 5)
	Revenues other than interest, net						
49800	Service fee revenue and commissions, net	6(30)	9,430,560	16	10,237,640	19	( 8)
49810	Insurance revenue, net		1,773,954	3	1,682,081	3	5
49820	Financial assets and liabilities at fair value through profit or loss	6(31) and 11	7,588,210	13	4,596,354	8	65
49825	Gain on investment property		18,462	-	18,578	-	( 1)
49830	Realized gain on available- for-sale financial assets, net	6(32) and 11	1,918,710	3	1,988,048	4	( 3)
49840	Realized loss on held-to- maturity on financial assets		-	-	( 189)	-	( 100)
49870	Foreign exchange gain		1,705,046	3	2,089,104	4	( 18)
49890	Share of profit of associates and joint ventures accounted for under equity method	6(9)	212,015	-	229,098	-	( 7)
49900	Other revenue other than interest income	6(34)	1,751,776	3	2,058,557	4	( 15)
49999	Net other miscellaneous loss	6(35)	( 414,866)	( 1)	( 5,147,557)	( 9)	( 92)
55000	Loss on asset impairment	6(33)	( 203,003)	-	( 380,646)	( 1)	( 47)
	Net revenue		59,660,388	100	55,064,120	100	8
58100	Bad debts expense and guarantee liability provisions	6(4)(5)(6)( 10)(23)	( 4,336,814)	( 7)	( 3,613,467)	( 7)	20
58300	Net change in provisions for insurance liabilities	6(23)	152,758	-	116,264	-	( 231)
	Operating expenses						
58501	Employee benefit expenses	6(36)	( 16,933,655)	( 29)	( 14,953,836)	( 27)	13
58503	Depreciation and amortization	6(37)	( 761,012)	( 1)	( 711,525)	( 1)	7
58599	Other business and administrative expenses	6(38)	( 8,500,938)	( 14)	( 7,751,815)	( 14)	10
61000	Income before income tax		29,280,727	49	27,917,213	51	5
61003	Income tax expense	6(39)	( 3,551,632)	( 6)	( 5,474,318)	( 10)	( 35)
69000	Profit for the year		\$ 25,729,095	43	\$ 22,442,895	41	15

(Continued)



**MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

		Year ended December 31				Changes Percentage (%)
		2017		2016		
Items	Notes	AMOUNT	%	AMOUNT	%	
<b>Other comprehensive income (after income tax)</b>						
69561	Remeasurement of defined benefit plan	( \$ 1,822,689 )	( 3 )	( \$ 566,997 )	( 1 )	221
69569	Income tax related to the components of other comprehensive income that will not be classified subsequently	309,856	1	96,389	-	221
<b>Potentially reclassifiable to profit or loss subsequently</b>						
69571	Cumulative translation differences of foreign operations	( 1,890,094 )	( 3 )	( 1,278,555 )	( 3 )	48
69572	Unrealized gain on valuation of available-for-sale financial assets	3,037,736	5	( 1,658,397 )	( 3 )	( 283 )
69575	Share of other comprehensive income (loss) of associates and joint ventures accounted for under equity method	15,965	-	( 63,464 )	-	( 125 )
69500	<b>Total other comprehensive income (after income tax)</b>	( \$ 349,226 )	-	( \$ 3,471,024 )	( 7 )	( 90 )
69700	<b>Total comprehensive income</b>	<u>\$ 25,379,869</u>	<u>43</u>	<u>\$ 18,971,871</u>	<u>34</u>	34
<b>Profit attributable to:</b>						
69901	Owners of parent	\$ 25,734,515	43	\$ 22,456,183	41	15
69903	Non-controlling interests	( 5,420 )	-	( 13,288 )	-	( 59 )
		<u>\$ 25,729,095</u>	<u>43</u>	<u>\$ 22,442,895</u>	<u>41</u>	15
<b>Comprehensive income (loss) attributable to:</b>						
69951	Owners of parent	\$ 25,380,530	43	\$ 18,981,010	34	34
69953	Non-controlling interests	( 661 )	-	( 9,139 )	-	( 93 )
		<u>\$ 25,379,869</u>	<u>43</u>	<u>\$ 18,971,871</u>	<u>34</u>	34
<b>Earnings per share</b>						
70000	<b>Basic and diluted earnings per share (in dollars)</b>	\$ 1.89		\$ 1.65		

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

**MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of the parent							Non-controlling interests	Total equity	
	Retained Earnings			Other equity interest						
	Share capital – common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets			
<b>For the year ended December 31, 2016</b>										
Balance at January 1, 2016	\$ 135,998,240	\$ 68,194,233	\$ 27,494,993	\$ 2,545,158	\$ 58,332,856	\$ 427,764	\$ 410,835	\$ 293,404,079	\$ 51,229	\$ 293,455,308
Earnings distribution for 2015	-	-	2,941,721	-	( 2,941,721 )	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	( 20,399,736 )	-	-	( 20,399,736 )	-	( 20,399,736 )
Profit (loss) for the year	-	-	-	-	22,456,183	-	-	22,456,183	( 13,288 )	22,442,895
Other comprehensive (loss) income for the year	-	-	-	-	( 470,608 )	( 1,281,146 )	( 1,723,419 )	( 3,475,173 )	4,149	( 3,471,024 )
Balance at December 31, 2016	<u>\$ 135,998,240</u>	<u>\$ 68,194,233</u>	<u>\$ 30,436,714</u>	<u>\$ 2,545,158</u>	<u>\$ 56,976,974</u>	<u>\$ 853,382</u>	<u>\$ 1,312,584</u>	<u>\$ 291,985,353</u>	<u>\$ 42,090</u>	<u>\$ 292,027,443</u>
<b>For the year ended December 31, 2017</b>										
Balance at January 1, 2017	\$ 135,998,240	\$ 68,194,233	\$ 30,436,714	\$ 2,545,158	\$ 56,976,974	( \$ 853,382 )	( \$ 1,312,584 )	\$ 291,985,353	\$ 42,090	\$ 292,027,443
Earnings distribution for 2016	-	-	2,245,618	-	( 2,245,618 )	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	( 19,311,750 )	-	-	( 19,311,750 )	-	( 19,311,750 )
Special reserve	-	-	-	459,160	( 459,160 )	-	-	-	-	-
Profit (loss) for the year	-	-	-	-	25,734,515	-	-	25,734,515	( 5,420 )	25,729,095
Other comprehensive (loss) income for the year	-	-	-	-	( 1,512,833 )	( 1,899,975 )	3,058,823	( 353,985 )	4,759	( 349,226 )
Balance at December 31, 2017	<u>\$ 135,998,240</u>	<u>\$ 68,194,233</u>	<u>\$ 32,682,332</u>	<u>\$ 3,004,318</u>	<u>\$ 59,182,128</u>	<u>( \$ 2,753,357 )</u>	<u>\$ 1,746,239</u>	<u>\$ 298,054,133</u>	<u>\$ 41,429</u>	<u>\$ 298,095,562</u>

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

**MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of New Taiwan dollars)

	Years ended December 31,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 29,280,727	\$ 27,917,213
Adjustments		
Adjustments to reconcile profit (loss)		
Depreciation	696,276	649,559
Amortization	64,736	61,966
Bad debts expense and guarantee liability provision	4,336,814	3,613,467
Interest expense	21,525,218	17,075,355
Interest income	( 59,200,791 )	( 56,336,478 )
Dividend income	( 1,459,735 )	( 1,480,289 )
Net change in provisions for insurance liabilities	( 152,759 )	116,264
Loss on asset impairment	203,003	380,646
(Gain) loss on disposal of property and equipment	( 1,266 )	1,323
(Gain) loss on disposal of investment property	( 221 )	1,075
Share of profit of associates accounted for under equity method	( 212,015 )	( 229,098 )
Changes in operating assets and liabilities		
Changes in operating assets		
Decrease in due from Central Bank and call loans to other banks	34,914,999	6,827,796
Increase in financial assets at fair value through profit or loss	( 5,264,081 )	( 4,280,709 )
Increase in available-for-sale financial assets	( 85,192,365 )	( 9,765,082 )
(Increase) decrease in receivables	( 8,516,076 )	89,851,276
(Increase) decrease in bills discounted and loans	( 50,940,398 )	54,310,193
Decrease (increase) in reinsurance contract assets	706,214	( 952,854 )
Increase in held-to-maturity financial assets	( 3,690,295 )	( 79,763,423 )
(Increase) decrease in other financial assets	( 637,457 )	1,383,351
Increase in other assets	( 1,152,259 )	( 168,328 )
Changes in operating liabilities		
Decrease in due to the Central Bank and financial institutions	( 1,184,534 )	( 26,674,240 )
Decrease in financial liabilities at fair value through profit or loss	( 2,138,452 )	( 10,875,461 )
Increase in bills and bonds purchased under resale agreements	6,514,666	38,255,113
Increase (decrease) in payables	8,909,720	( 7,909,521 )
Increase (decrease) in deposits and remittances	215,267,092	( 58,855,505 )
Increase in other financial liabilities	1,848,764	128,845
(Decrease) increase in liabilities reserve	( 542,200 )	1,062,654
Decrease in other liabilities	( 79,220 )	( 3,312,125 )
Cash inflow (outflow) generated from operations	103,904,105	( 18,967,017 )
Interest received	58,218,582	54,950,261
Cash dividend received	1,614,856	1,639,225
Interest paid	( 20,864,314 )	( 17,211,322 )
Income tax paid	( 3,284,750 )	( 4,527,024 )
Net cash flows from operating activities	139,588,479	15,884,123

(Continued)

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Expressed in thousands of New Taiwan dollars)

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from disposal of investments accounted for under the equity method	\$ -	\$ 2,747
Proceeds from capital reduction of investments measured at cost	410,894	69,384
Acquisition of property and equipment	( 912,318 )	( 542,060 )
Proceeds from disposal of property and equipment	30,150	5,422
Acquisition of intangible assets	( 283,478 )	( 13,893 )
Acquisition of investment property	( 825 )	( 91,825 )
Proceeds from disposal of investment property	<u>1,209</u>	<u>12,175</u>
Net cash flows used in investing activities	( <u>754,368</u> )	( <u>558,050</u> )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Decrease in due to the Central Bank and financial institutions	( 6,516,867 )	( 5,484,667 )
Increase (decrease) in commercial papers payable	8,465,000	( 8,245,579 )
Redemption of financial bonds	( 10,300,000 )	-
(Decrease) increase in other loans	( 4,628,662 )	3,674,030
Increase (decrease) in guarantee deposits received	1,192,790	( 677,718 )
Cash dividends paid	( <u>17,719,905</u> )	( <u>18,718,378</u> )
Net cash flows used in financing activities	( <u>29,507,644</u> )	( <u>29,452,312</u> )
Effect of exchange rate changes on cash and cash equivalents	( <u>1,790,543</u> )	( <u>1,265,138</u> )
Net increase (decrease) in cash and cash equivalents	107,535,924	( 15,391,377 )
Cash and cash equivalents at beginning of year	<u>429,341,320</u>	<u>444,732,697</u>
Cash and cash equivalents at end of year	<u>\$ 536,877,244</u>	<u>\$ 429,341,320</u>
The components of cash and cash equivalents		
Cash and cash equivalents reported in the statement of financial position	\$ 143,864,749	\$ 98,131,357
Due from central bank and call loans to other banks qualified as cash and cash equivalents as defined by IAS 7	390,459,267	328,354,078
Investments in bills and bonds under resale agreements qualified as cash and cash equivalents as defined by IAS 7	<u>2,553,228</u>	<u>2,855,885</u>
Cash and cash equivalents at end of reporting period	<u>\$ 536,877,244</u>	<u>\$ 429,341,320</u>

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

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

ASSETS	December 31, 2017	December 31, 2016	%	LIABILITIES AND EQUITY	December 31, 2017	December 31, 2016	%
Assets				Liabilities			
Cash and cash equivalents	\$ 307,833	\$ 83,306	269.52	Financial liabilities at fair value			
Current income tax assets	505,311	225,605	123.98	through profit or loss	\$ 183,860	\$ 156,600	17.41
Receivables, net	389	-	100.00	Commercial paper payable, net	10,397,276	6,398,631	62.49
Available-for-sale financial assets, net	6,196,895	5,844,300	6.03	Payables	18,093,250	16,481,538	9.78
Equity investments accounted for under the equity method, net	325,981,280	316,539,845	2.98	Current income tax liabilities	1,720,249	1,789,244	( 3.86)
Other financial assets, net	758,293	758,293	-	Bonds payable	5,770,036	5,724,088	0.80
Investment property	135,615	137,126	( 1.10)	Other loans	-	1,600,000	( 100.00)
Property and equipment, net	595,029	603,350	( 1.38)	Provisions for liabilities	62,523	57,935	7.92
Deferred tax assets	8,092	8,092	-	Deferred tax liabilities	205	1,124	( 81.76)
Other assets, net	8,667	5,704	51.95	Other liabilities	215,872	11,108	1,843.39
				Total liabilities	36,443,271	32,220,268	
				Equity			
				Common stock	135,998,240	135,998,240	-
				Capital surplus	68,194,233	68,194,233	-
				Retained earnings			
				Legal reserve	32,682,332	30,436,714	7.38
				Special reserve	3,004,318	2,545,158	18.04
				Unappropriated retained earnings	59,182,128	56,976,974	3.87
				Other equity interest	( 1,007,118)	( 2,165,966)	( 53.50)
				Total equity	298,054,133	291,985,353	
TOTAL ASSETS	\$ 334,497,404	\$ 324,205,621	3.17	TOTAL LIABILITIES AND EQUITY	\$ 334,497,404	\$ 324,205,621	3.17

MEGA FINANCIAL HOLDING CO., LTD.  
STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenues		
Interest income	\$ 11,307	\$ 2,173
Share of profit of associates and joint ventures accounted for under equity method	25,926,293	23,132,410
Other revenue except for interest income	182,583	164,328
Foreign exchange gain	5	-
Total revenue	<u>26,120,188</u>	<u>23,298,911</u>
Expenses and losses		
Interest expense	( 78,968)	( 66,094)
Financial assets and liability at fair value through profit or loss	( 27,260)	( 1,160)
Foreign exchange loss	-	( 3)
Employee benefit expense	( 288,562)	( 265,501)
Depreciation and amortization	( 13,353)	( 14,619)
Other business and administrative expenses	( 75,325)	( 85,155)
Total expenses and losses	<u>( 483,468)</u>	<u>( 432,532)</u>
Income before income tax	25,636,720	22,866,379
Income tax benefit (expense)	<u>97,795</u>	<u>( 410,196)</u>
Profit for the year	<u>25,734,515</u>	<u>22,456,183</u>
Other comprehensive income		
Non-reclassifiable to profit or loss subsequently		
Remeasurement of defined benefit plans	( 5,402)	( 1,837)
Share of other comprehensive income of associates and joint ventures accounted for under the equity method	( 1,508,349)	( 469,083)
Income tax relating to components of other comprehensive income	918	312
Potentially reclassifiable to profit or loss subsequently		
Unrealized gain on valuation of available-for -sale financial assets	352,594	257,812
Share of other comprehensive income of associates and joint ventures accounted for under the equity method	<u>806,254</u>	<u>( 3,262,377)</u>
Other comprehensive income for the year, (after income tax)	<u>( 353,985)</u>	<u>( 3,475,173)</u>
Total comprehensive income (after income tax)	<u>\$ 25,380,530</u>	<u>\$ 18,981,010</u>
Earnings Per Share (in dollars)		
Basic and Diluted Earnings Per Share (in dollars)	<u>\$ 1.89</u>	<u>\$ 1.65</u>

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

	Retained earnings				Other equity interest		
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statement	
						Unrealized gain or loss on available-for-sale financial assets	Total
For the year ended December 31, 2016							
Balance at January 1, 2016	\$ 135,998,240	\$ 68,194,233	\$ 27,494,993	\$ 2,545,158	\$ 58,332,856	\$ 427,764	\$ 293,404,079
Earnings distribution for 2015	-	-	-	-	-	-	-
Legal reserve	-	-	2,941,721	-	( 2,941,721)	-	-
Cash dividends	-	-	-	-	( 20,399,736)	-	( 20,399,736)
Profit for the year	-	-	-	-	22,456,183	-	22,456,183
Other comprehensive loss for the year	-	-	-	-	( 470,608)	( 1,723,419)	( 3,475,173)
Balance, December 31, 2016	\$ 135,998,240	\$ 68,194,233	\$ 30,436,714	\$ 2,545,158	\$ 56,976,974	\$ 853,382	\$ 291,985,353
For the year ended December 31, 2017							
Balance at January 1, 2017	\$ 135,998,240	\$ 68,194,233	\$ 30,436,714	\$ 2,545,158	\$ 56,976,974	\$ 853,382	\$ 291,985,353
Earnings distribution for 2016	-	-	-	-	-	-	-
Legal reserve	-	-	2,245,618	-	( 2,245,618)	-	-
Cash dividends	-	-	-	-	( 19,311,750)	-	( 19,311,750)
Special reserve	-	-	-	459,160	( 459,160)	-	-
Profit for the year	-	-	-	-	25,734,515	-	25,734,515
Other comprehensive (loss) income for the year	-	-	-	-	( 1,512,833)	3,058,823	( 353,985)
Balance, December 31, 2017	\$ 135,998,240	\$ 68,194,233	\$ 32,682,332	\$ 3,004,318	\$ 59,182,128	\$ 1,746,239	\$ 298,054,133

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

	For the year ended December 31, 2017	For the year ended December 31, 2016
<u>Cash Flows from Operating Activities</u>		
Profit before tax	\$ 25,636,720	\$ 22,866,379
Income and expenses having no effect on cash flows		
Income and expenses		
Depreciation	11,566	12,642
Amortization	1,787	1,977
Interest expense	78,968	66,094
Interest revenue	( 11,308)	( 2,173)
Dividend income	( 171,475)	( 162,310)
Share of profit of associates accounted for under equity method	( 25,926,293)	( 23,132,410)
Changes in assets/liabilities relating to operating activities		
Changes in assets relating to operating activities:		
Increase in receivables	( 389)	-
(Increase) decrease in other assets	( 4,750)	42
Changes in liabilities relating to operating activities:		
Decrease in financial liabilities at fair value through profit or loss	27,260	1,160
Increase (decrease) in payables	20,165	( 35,935)
Increase in provisions for liabilities	104	71
Increase in other liabilities	204,764	8,523
Cash used in operations	( 132,881)	( 375,940)
Interest received	11,308	2,173
Cash dividend received	15,954,237	16,167,077
Interest paid	( 34,673)	( 20,414)
Income tax paid	( 251,825)	( 759,486)
Net cash provided by operating activities	15,546,166	15,013,410
<u>Cash Flows from Investing Activities</u>		
Acquisition of property and equipment	( 1,734)	( 2,659)
Acquisition of intangible assets	-	( 1,779)
Net cash used in investing activities	( 1,734)	( 4,438)
<u>Cash Flows from Financing Activities</u>		
Increase in commercial papers payable	4,000,000	200,000
(Decrease) increase in other loans	( 1,600,000)	1,300,000
Cash dividends paid	( 17,719,905)	( 18,718,378)
Net cash used in financing activities	( 15,319,905)	( 17,218,378)
Net increase (decrease) in cash and cash equivalents	224,527	( 2,209,406)
Cash and cash equivalents at beginning of year	83,306	2,292,712
Cash and cash equivalents at end of year	\$ 307,833	\$ 83,306



**Attachment 4****Mega Financial Holding Co., Ltd.  
2017 Profit Distribution Proposal**

Unit : NT\$

Items	Amount
Beginning undistributed retained earnings in 2017	34,960,446,968
Add : Reverse of special reserve for first-time adoption of TIFRS	6,506
Add : Reverse of special reserve for other equity interest loss	459,159,787
Less : Retained earnings due to re-measurements of defined benefit plans	(1,512,832,859)
Adjusted retained earnings	33,906,780,402
Add : Net income of 2017	25,734,514,381
Less : 10% legal reserve	(2,573,451,438)
Total distributable earnings	57,067,843,345
Less : Distribution item	
Cash dividend to shareholders(NT\$1.5 per share)	(20,399,735,975)
Unappropriated retained earnings	36,668,107,370
Note1 : The 2017 earnings shall be distributed as a priority.	
Note2 : The amount of cash dividends per share shall be calculated and truncated to NT\$1. The sum of all cash dividends less than NT\$1 shall be allocated in line with a progressive decrease in decimal numbers and a progressive increase in shareholders' ID number so that the total dividend distribution is fully paid.	

## Attachment 5

### Profiles of Director & Independent Director Candidates

Position	Name of Director (Representative of Legal Entity)	Concurrent Position	Experience (Education)	Shareholding
Director	Chao-Shun Chang (Ministry of Finance, R.O.C)	Chairman of Mega Financial Holding Co., Ltd. & Mega Int'l Commercial Bank Co., Ltd.	Chairman of Franklin Templeton SinoAm Securities Investment Management Inc.; Chairman of Oversea-Chinese Banking Corporation Limited; Chairman of Taiwan Business Bank; Chairman of First Financial Holding Co., Ltd. & First Commercial Bank  (M.A. in Public Finance, National Chengchi University)	1,143,043,883
Director	Kuang-Hua Hu (Ministry of Finance, R.O.C)	President of Mega Financial Holding Co., Ltd.	Chief Secretary, Secretariat, Board of Directors, and Executive Vice President of Taiwan Cooperative Bank; Chairman of Taiwan Cooperative Bills Finance Corporation Ltd.; Executive Vice President of Taiwan Cooperative Financial Holding Co., Ltd. & Taiwan Cooperative Bank  (MBA, College of Business, Iowa State University, USA)	1,143,043,883
Director	Chia-Chi Hsiao (Ministry of Finance, R.O.C)	Director-General, Department of Fiscal, Statistical and Financial Affairs, Executive Yuan, R.O.C.	Director-General, Department of Accounting, Ministry of Finance, R.O.C; Deputy Director-General, National Treasury Administration, Ministry of Finance, R.O.C.  (M.A. in Management Science, National Chiao Tung University)	1,143,043,883
Director	Cheng-Te Liang (Ministry of Finance, R.O.C)	Chairman of Chung Kuo Insurance Co., Ltd.	Manager of Research Department, Vice President, Executive Vice President, President of Taiwan Insurance Institute  (Ph.D. in Social Welfare, National Chung Cheng University)	1,143,043,883

Director	Chun-Lan Yen (Ministry of Finance, R.O.C)	Deputy Director-General, National Treasury Administration, Ministry of Finance, R.O.C.	Senior Executive Officer, Deputy Director, Director National Treasury Administration, Ministry of Finance, R.O.C.; Supervisor, BankTaiwan Securities Co., Ltd.; Director, First Financial Holding Co., Ltd.; Managing Director, Land Bank of Taiwan Co., Ltd.  (Master in Agricultural Economics, National Taiwan University)	1,143,043,883
Director	Tzong-Yau Lin (Ministry of Finance, R.O.C)	Director General, Dept. of Economic Research, Central Bank of the R.O.C.	Assistant Director General, Department of Banking, Central Bank of the R.O.C.; Representative, New York Representative Office, Central Bank of the R.O.C.; Advisor, Central Bank of the R.O.C.; Deputy Director General, Department of Economic Research, Central Bank of the R.O.C.  (Ph. D in Economics, University of Southern California, U. S. A.)	1,143,043,883
Director	Pei-Chun Chen (Ministry of Finance, R.O.C)	President of Mega Securities Co., Ltd.	Manager of Yuanta Core Pacific Securities Co., Ltd.; Vice President of PineBridge Investments Management Taiwan Ltd.; Legal Director of Prestige Law Firm, Chief Auditor of Mega Securities Co., Ltd.  (LLM, Boston University)	1,143,043,883
Director	Wen-Ling Hung (Ministry of Finance, R.O.C)	Professor, Department of Administration Police of Central Police University	Director, Department of Administration Police, Director, Graduate Institute of Police Policy, Central Police University; Adjunct Professor, Department of Law, National Chengchi University  (Ph.D. in Law, National Chengchi University)	1,143,043,883

Director	Chi-Hsu Lin (Ministry of Finance, R.O.C)	Assistant Vice President of Mega Int'l Commercial Bank Co., Ltd. (Mega ICBC)	Assistant Vice President, Corporate Finance Division & Credit Management Division of Mega ICBC; Vice President of Mega ICBC Labor Union; Deputy Chairman of Mega ICBC Staff Welfare Committee  (MBA, Graduate School of Business Management, National Taichung University of Science and Technology)	1,143,043,883
Director	Jiunn-Rong Chiou (National Development Fund, Executive Yuan, R.O.C.)	Deputy Minister of National Development Council, Executive Yuan, R.O.C.	President, Takming University of Science and Technology; Vice Dean, College of Management, National Central University; Vice President, Taiwan Institute of Economic Research  (Ph.D. in Economics, National Taiwan University)	830,973,202
Director	Jui-Chi Chou (Chunghwa Post Co., Ltd.)	Executive Vice President of Chunghwa Post Co., Ltd.	Manager of Banqiao Post Office, Vice Chairperson of Strategic Planning Committee of Chunghwa Post Co., Ltd.  (B.A. in Journalism & Communication, Chinese Culture University)	487,484,910
Director	Ye-Chin Chiou (Bank of Taiwan Co., Ltd.)	Executive Vice President, Bank of Taiwan Co., Ltd.	Executive Vice President & General Manager, Bank of Taiwan; Senior Executive Vice President & Acting President, Bank of Taiwan  (B.A. in Economics, National Taiwan University)	334,951,379
Independent Director	Jiun-Wei Lu	Associate Research Fellow, Research Division II in Taiwan Institute of Economic Research	Associate Research Fellow, Research Division II in Taiwan Institute of Economic Research; Committee Member, National Financial Stabilization Fund; Independent Director, Taiwan Finance Corporation  (Ph.D. in Political Science, National Taiwan University)	0

Independent Director	Ying-ko Lin	Professor, Department of Finance, National Chung Hsing University	Assistant Professor, Associate Professor, Professor and Chairperson, Department of Finance, National Chung Hsing University  (Ph.D. in Finance, Department of Finance and Real Estate at the University of Texas at Arlington)	0
Independent Director	Chang-Ching Lin	Associate Professor, Department of Economics & Graduate Institute of Political Economy, National Cheng Kung University	Assistant Research Fellow, Institute of Economics, Academia Sinica; Adjunct Assistant Professor, Department of Economics, National Central University; Adjunct Assistant Professor, Department of Economics, National Taiwan University; Associate Dean, College of Social Sciences, National Cheng Kung University  (Ph.D. in Economics, University of Michigan - Ann Arbor)	0