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Mega Financial Holding Co., Ltd.

Annual Report 2016

Website：http://www.megaholdings.com.tw

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Annual Report 2016

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Letter to Shareholders

Letter to Shareholders


Chao-Shun Chang, Chairman of the Board

Affected by the slowing global demand and the slide in raw material prices, the global economic performance of 2016 remained undesirable. With advanced countries such as the United States continuing to suffer from sluggish exports and weakened investment momentum for the first half of the year, the economy recovery pace continued to slow down. For the second half of the year, on the other hand, the global economy gradually improved in the midst of stabilizing energy prices and growing global demand. According to the announcement of International Monetary Fund (IMF) in April 2017, the global economic growth rate of 2016 was 3.1%, below that of 2015. The global economy will gradually recover in 2017. The estimated global economic growth rate is 3.4%. There are, however, risk variables facing the global economy at present that are worth paying attention to continuously, including the economic and trade policy as well as rate hike pace of the new US administration, the growth momentums of Mainland China and some emerging economies, the anti-establishment wave in Europe, geopolitical risks, changes in prices of international raw materials, and surging trade protectionism. All of these have an effect on the global economic prospect.

Domestically, the economy did not show any significant improvements for the first half of 2016, either. For the second half of the year, however, stimulated by the demand for smart products, exports grew somewhat, which gradually drove investment plans of the domestic manufacturing sector. The annual economic growth rate of 2016 announced by the Directorate General of Budget, Accounting and Statistics, Executive Yuan in February 2017 was 1.50%. Looking into 2017, given the facts that foreign demand has gained momentum and that the government is pro-actively implementing measures to boost the economy, it is expected that the domestic demand will climb gradually and hence the economic growth rate of 2017 is estimated to be 1.92%.

Besides the persistent sluggish economy, internally, an US$180 million penalty in August 2016 was imposed to the subsidiary, Mega International Commercial Bank, by the New York Department of Financial Services (DFS) for violation of the State's anti-money laundering laws. Under the two unfavorable external and internal factors, the consolidated after-tax net profits of the Company for 2016 totaled NT$ 22,443 million, a year-on-year decline of NT$ 6,830 million or 23.33% from 2015, while EPS was NT$1.65. The operation results of the Company in 2016 are shown below.

Letter to Shareholders

1.1 Review of Business Operations in 2016

1.1.1 Global and Domestic Financial Environment

In early 2016, the US Dollar Index (USDX) was weakened as a result of the decision of the Federal Reserve to defer raising interest rates. However, the heating up of the US economy, the raise of interest rates by the Fed in December and three time rate hike expectation in 2017 have led to a continued capital flow back to the US. The USDX has been rising rapidly and major currencies such as the Japanese Yen, Euro and RMB have depreciated against the US dollar.


Li-Yen Yang, President

In 2017, major economic entities such as Japan and the Eurozone adjusted or revised their easing monetary policies, while China actively implemented structural reforms through induced RMB depreciation and relevant reform policies including supply-side reforms and expansion of free-trade zones. The pace of interest rate hikes imposed by the Fed will be determined by the growth momentum of the US economy. The policy goals of the newly elected US president Donald Trump focus on the expansion of basic infrastructure and fisal policies. It is expected that the aforementioned factors will have a significant impact on the global economy and overall policy directions.

As for the domestic financial environment, the New Taiwan Dollar appreciated against the US dollar in mid-2016 due to the weak US dollar in the international market, the sell-off of US dollars by domestic exporters and continued influx of foreign capital. The closing rate reached a maximum of 31.225. Upon the election of US President Trump in late 2016, US dollars flowed back into the US. At the end of 2016, the closing rate of USD to NTD dropped to 32.279, which represents a 2.38% appreciation of New Taiwan Dollar compared to the closing rate 33.066 at the end of 2015. As far as interest rates are concerned, the board meeting of the central bank resolved to cut interest rates by 0.125% in March and June 2016, respectively, to stimulate the economy. Due to the slowing down of global economic growth, the economic stabilization in Taiwan, and the moderate inflation outlook in 2017, the central bank kept the policy rates unchanged in the second half of the year. It aimed to stabilize prices and financial market, as well as to boost economic growth through easy monetary policy.

1.1.2 Change in Organization Structure

As of the end of 2016, the number of subsidiary companies, in which the Company has direct controlling interest, remains the same as that of in 2015. 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.

1.1.3 Operating Results in 2016

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). In 2016, the subsidiaries of the Company continued to strengthen their business operations upon the current achievement. The operation results of our subsidiary companies are summarized as follows:

Mega International Commercial Bank

Units: NT$ million, except foreign exchange in US$ million

Item / Year	2016	2015	Change (%)
Deposits	2,189,718	2,080,552	5.25
Bills discounted and loans	1,739,548	1,765,178	(1.45)
Corporate financing	1,356,748	1,377,601	(1.51)
Consumer financing	382,800	387,577	(1.23)
Foreign exchange business	805,160	842,207	(4.40)
Securities purchased	435,646	380,305	14.55
Long-term equity investments	22,208	23,472	(5.39)
Credit card loans outstanding	1,155	1,230	(6.10)

Note : 1.All figures above are average monthly balance, except foreign exchange business, which is accumulated amount.
2.Consumer financing excludes credit card loans.
3.The non-performing loans outstanding at the end of 2016 amounted to NT$1,631 million, representing a non-performing loan ratio of 0.09%. The Bank’s bad debt coverage ratio was 1,614.16%.

Mega Securities Co., Ltd. (MSC)

Item		2016	2015	Change (%)
Securities brokerge	Market share	2.79% (rank 9)	2.87% (rank 9)	(2.79)
Equity underwriting	Number of initial public offering lead managed by MSC	4 (rank 6)	5 (rank 4)	(20.00)
	Number of subsequent public offering lead managed by MSC	5 (rank 7)	7 (rank 5)	(28.57)
Bond underwriting	Number of issues lead managed by MSC	2 (rank 4)	3 (rank 4)	(33.33)
	Amount of issues lead managed by MSC (NT$ billion)	2.9 (rank 6)	5.0 (rank 5)	(42.00)
New financial products	Number of warrants issued	1,688 (rank 6)	2,154 (rank 6)	(21.63)
	Amount of warrants issued (NT$ billion)	11.9 (rank 8)	20.9 (rank 6)	(43.06)

Note : The ranking is among the top 20 local securities firms.

Mega Bills Finance Co., Ltd.

Units: NT$ million

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

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

Chung Kuo Insurance Co., Ltd.

Unit: NT$ million

Item	2016	2015	Change (%)
Direct written premiums	6,415	6,205	3.38
Inward reinsurance premiums	590	689	(14.37)
Total	7,004	6,894	1.60

Mega International Investment Trust Co., Ltd.

Unit: NT$ million

Item	2016	2015	Change (%)
Public funds under management	96,858	97,566	(0.73)
Private placement funds under management (Note)	19,573	73	26,712.33
Discretionary account	1,041	766	35.90
Total	117,472	98,405	19.38

Note : The company launched a private placement fund, Mega Prosperity Private Placement Fund, in 2016, the size of which amounted to NT$19,498 million by the end of 2016.

Mega Asset Management Co., Ltd.

Unit: NT$ million

Item	2016	2015	Change (%)
Gain from disposal of NPL and the underlying collateral	177	571	(69.00)
Leasehold income	0	37	(100.00)
Interest income	120	154	(22.08)
Service income	419	258	62.40
Total	715	986	(27.48)

Mega Venture Capital Co., Ltd.

Unit: NT$ million

Item	2016	2015	Change (%)
Drawdown of long term equity investment	140	337	(58.46)
Original cost of long term equity investment	916	945	(3.07)

Mega Life Insurance Agency Company Co., Ltd.

Unit: NT$ million

Item	2016	2015	Change (%)
Commission income	1,944	1,562	24.46

1.1.4 Budget Implementation

The Company

Unit: NT$1,000, except EPS in NT$

Item	Final accounting figure, 2016	Budget figure, 2016	Achievement Rate (%)
Revenues	23,298,911	28,424,664	81.97
Expenses and losses	432,532	485,201	89.14
Net income before tax from continuing operations	22,866,379	27,939,463	81.84
Net income	22,456,183	27,201,607	82.55
Earnings per share	1.65	2.00	82.50

The Company's Subsidiary

Unit: NT$1,000

Name of subsidiary	Net income before tax - actual	Net income before tax - budget	Achievement Rate (%)
Mega International Commercial Bank Co., Ltd.	23,057,927	28,003,089	82.34
Mega Securities Co., Ltd.	87,582	707,100	12.39
Mega Bills Finance Co., Ltd.	3,571,045	3,151,767	113.30
Chung Kuo Insurance Co., Ltd.	188,667	596,612	31.62
Mega Asset Management Co., Ltd.	476,239	301,205	158.11
Mega Life Insurance Agency Co., Ltd.	613,847	439,793	139.58
Mega Venture Capital Co., Ltd.	25,932	37,305	69.51
Mega International Investment Trust Co., Ltd.	113,776	126,677	89.82

The budget achievement rate of Mega International Commercial Bank reached 82.34% largely due to a fine imposed by the New York State Department of Financial Services and the increase in provisions for bad debts expense to enhance asset quality.

The budget achievement rate of Mega Securities Company reached 12.39% mainly due to losses incurred from proprietary trading and securities underwriting. In addition, securities brokerage income declined as the market trading volume, brokerage market shares and the average outstanding balance of margin loans fell short of the budget.

Chung Kuo Insurance Company achieved only 31.62% of the budgeted net income before tax, mainly due to the decrease in the underwriting profits as a result of natural disasters and commercial insurance claim. In addition, financial income fell short of expectations because of foreign exchange losses and decreased interest income resulting from domestic interest rates cut.

Mega Venture Capital Company's budget achievement rate is 69.51%, mainly due to the impairment loss recognized on equity investments.

Mega International Investment Trust Company's achieved 89.82% of the budgeted net income before tax, mainly due to foreign exchange losses.

1.1.5 Financial Results

The Company's consolidated net profit before tax in 2016 was NT$ 27,917,213 thousand, a drop of NT$7,191,769 thousand or 20.48% compared to 2015. The decline in consolidated net profit before tax is mainly due to the reduction in revenue other than interest of NT$5,168,645 thousand, which offset the increase in net interest income of NT$4,459 thousand, while the operating expenses decreased by NT$2,116,251 thousand and provisions for bad debts expense and guarantee liability increased by NT$ 4,143,834 thousand. The decline in revenues other than interest is mainly due to the penalty imposed by New York State Department of Financial Services, the decrease in service fee revenue and commissions, indemnity income, and gain from disposal of investment property, which offset the increase in gains on financial operations. The consolidated net profit after tax of the Company and its subsidiaries reached NT$22,442,895 thousand, decreasing NT$6,830,374 thousand or 23.33% from the year 2015. Its consolidated return on assets was 0.67% while the consolidated return on equity reached 7.67%. A breakdown of the financial results of the Company and its subsidiaries in 2016 are shown in the table below:

Unit: NT$ thousand, 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	27,917,213	22,442,895	1.65	0.67	7.67
Mega FHC (Unconsolidated)	22,866,379	22,456,183	1.65	6.94	7.67
Mega International Commercial Bank Co., Ltd.	23,057,927	19,009,961	2.23	0.63	7.44
Mega Securities Co., Ltd.	87,582	33,650	0.03	0.07	0.23
Mega Bills Finance Co., Ltd.	3,571,045	2,980,126	2.27	1.22	8.74
Chung Kuo Insurance Co., Ltd.	188,667	101,175	0.34	0.64	1.68
Mega Asset Management Co., Ltd.	476,239	394,951	1.97	2.75	13.76
Mega Life Insurance Agency Co., Ltd.	613,847	509,493	254.75	71.13	102.77
Mega Venture Capital Co., Ltd.	25,932	23,369	0.23	3.29	3.31
Mega International Investment Trust Co., Ltd.	113,776	80,125	1.52	8.95	9.77

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

1.1.6 Research and Development

The Company and its subsidiaries' research and development progress in 2016 are summarized as follows:

1. The Company promoted CSR in the Group to comply with the international best practice. It also established VaR (Value at risk) management system for financial products. A self-evaluation mechanism for the Group's operational risk is also established.
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. It also submitted periodical and non-periodical research reports on the development of the global economic and financial situations.
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. In response to the competent authority's Finance 3.0 policy, it has pro-actively developed e-commerce with respective features of its information system reinforced/enhanced or newly established.
4. Mega Bills Finance Company studied the feasibility of undertaking RP transaction of US dollar bonds with life insurance companies. The Basel III system framework and introduction practice, and enhanced implementation and risk monitoring of AML/CFT, were also planned. The company also applied to the competent authority for relaxing derivatives transaction scope of bills finance companies.
5. Chung Kuo Insurance Company developed a total of 207 new insurance products in 2016, including 101 products filed with the competent authority on a "Use and File" basis, and 106 products filed with the competent authority on a "Simple Use and File" basis.
6. Mega International Investment Trust Company introduced multiple currencies products to develop the foreign currency investor base. It issued a foreign market funds namely Mega USD Money Market Fund.

1.2 Business Plan for 2017

1.2.1 Operating 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. Enhancing the Group's risk management and fortifying warning system
4. Strengthening the information security management and furthering digital processing capability
5. Reinforcing corporate governance and building up a culture of compliance
6. Promoting relationships with institutional investors and increasing information transparency

1.2.2 Business Objectives

We strive to maintain stable profitability and leadership in the market so as to consolidate the Group's position as a leading financial institution in Taiwan. Our business objectives for 2017 are as follows:

Unit: millions of NT dollars, except foreign exchange-in millions of US dollars

Business	Item	Budget for 2017
Banking	Average outstanding deposits	2,278,400
	Average outstanding loans	1,780,500
	Undertaking of foreign exchange business	808,100
Bills Finance	Underwriting and purchasing of bills	2,207,630
	Trading volume of bills and bonds	11,899,056
	Guaranteed issues of CP2 average outstanding balance	152,000
Securities	Market share of brokerage	3.10%
P&C Insurance	Premium income	7,294

1.2.3 Major Operational Policies

Based on its solid foundation, the Group will evolve into a regional financial institution in Asia.

1.3 Future Development Strategies

- Envisioning the world with a focus on the Asia Pacific region
- Expanding the competitive advantage of corporate banking and foreign exchange business
- Reinforcing consumer banking and wealth management business
- Revolutionizing the distribution network, configuring and integrating digital platforms
- Strengthening the integration of business among subsidiaries to enhance synergy of the Group
- Developing international talent and special professionals locally
- Increasing capital with effective capital allocation to increase capital efficiency
- Enhancing global operation and risk management practices and systems

1.4 Impact from External Competition, Rules and Regulations, and the Overall Operation Environment

(1) The competition from technology service providers that are setting foot in the financial industry makes the banking industry alert that their own traditional financial operating model needs to be quickly changed. The banking industry has, therefore, been proactively updating their software and hardware equipment and enhancing training in the past two years. These moves will contribute to bank transformation and growth in FinTech services.

(2) Multiple risk management deficiencies occurred in the financial industry throughout 2016, including fake greenbacks, ineffective anti-money launderng effort, Ting Sing fraudulent loans, ATM thefts, TRF sales negligence, among others. As a result, the Financial Supervisory Commission engaged in a series of regulatory amendments in response. Banks are required to reinforce their compliance with anti-money laundering laws and regulations, internal control system, and strengthened their management system.

1.5 Credit Ratings

Company	Credit Rating Agency	Long-Term	Short-Term	Outlook	Date of Issuance
Mega Financial Holding Company	Taiwan Ratings Corp.	twAA-	twA-1+	Stable	Oct. 13, 2016
	Moody’s	A3	-	Stable	Oct. 18, 2016
Mega International Commercial Bank	Taiwan Ratings Corp.	twAA+	twA-1+	Stable	Oct. 13, 2016
	Moody’s	A1	P-1	Stable	Dec. 9, 2016
	S & P	A	A-1	Stable	Oct. 12, 2016
Mega Bills Finance Co., Ltd.	Taiwan Ratings Corp.	twAA	twA-1+	Stable	Oct. 13, 2016
Mega Securities Co., Ltd.	Taiwan Ratings Corp.	twAA-	twA-1+	Stable	Oct. 27, 2016
Chung Kuo Insurance Co., Ltd.	Taiwan Ratings Corp.	twAA-	-	Stable	Oct. 18, 2016
	Moody’s	A3	-	Stable	Feb. 8, 2017
	S & P	BBB+	-	Stable	Oct. 17, 2016

Since early 2016, global stock markets have remained volatile and economic recovery has been sluggish under the impact of RMB depreciation, the Brexit referendum and the election of US president Trump. Upon his inauguration, US president Trump signed an executive order to withdraw from Trans-Pacific Partnership negotiations early this year. His protectionist measures are likely to become a major factor affecting global economic trends, or even impacting the weak economic recovery momentum. Taiwanese economy will be inevitably greatly affected by these measures. In other words, the year 2017 will be full of uncertainties and challenges. Facing these conditions, the Company will not only constantly monitor developments and respond accordingly but will also continue to strengthen internal control mechanisms and legal compliance. Our IT system will be upgraded in line with tightening international supervision and legal standards. Quite honestly, this is a serious challenge for the Group, but we are full of confidence. We are firmly committed and fully dedicated to achieving the goals entrusted to us by our shareholders. We fully expect that Mega Holdings will be able to turn crises into opportunities and restore the former glory.

Chao-Shun Chang
Chairman of the Board

Li-Yen Yang
President

Company Profile

2.1 Date of Incorporation: February 4, 2002

2.2 Company History

Date	Milestones
February 4, 2002	Founded by Chiao Tung Bank Co., Ltd. ("CTB") and International Securities Co., Ltd. ("IS") through the exchange of shares, and simultaneously listed on the Taiwan Stock Exchange with the name of CTB Financial Holding Company (Code 2886)
August 22, 2002	Acquired a 100% equity stake in Chung Hsing Bills Finance Corporation (now renamed as Mega Bills Finance Co., Ltd.) and Barits Securities Corp. ("BS") through a share swap
December 31, 2002	Acquired a 100% equity stake in both ICBC and Chung Kuo Insurance Co., Ltd. ("CKI") through a share swap, and change the Company's name from CTB Financial Holding Co., Ltd. to Mega Financial Holding Co., Ltd.
January 31, 2003	IS merged with BS and Chung Hsing Securities Corp., a subsidiary of Chung Hsing Bills Finance Corp., and renaming Barits International Securities Co., Ltd. (now known as Mega Securities Co., Ltd. (MSC))
May 29, 2003	Upgraded the Central Securities Investment Trust Corporation (CSITC), originally an investee of MSC, to become the Company's direct subsidiary through cash purchase of controlling shares, and changed CSITC's name into Mega Investment Trust Corp. ("MITC")
December 5, 2003	Set up a wholly owned subsidiary - Mega Asset Management Co., Ltd., with an issued capital of NT$2,000 million
September 23, 2005	Upgraded Chung Yin Insurance Agency Company, originally a wholly-owned subsidiary of ICBC, to the Company's direct subsidiary by acquiring its 100% shares in cash and renamed it as Mega Life Insurance Agency Co., Ltd.
December 13, 2005	Established a wholly owned subsidiary - Mega CTB Venture Capital Co., Ltd., (now renamed as Mega Venture Capital Co., Ltd.,) with an issued capital of NT$1,000 million
December 16, 2005	The Board of Directors resolved to acquire 5% to 26% stake in the Taiwan Business Bank.
May 23, 2006	Subscribed new shares of International Investment Trust Co., Ltd. (IIT) in which ICBC originally owned 59.13% equity interest, and achieved a combined equity interest of 97.76% with ICBC
July – August 2006	All direct subsidiaries were renamed "Mega", except the English name of insurance subsidiary - Chung Kuo Insurance Co., Ltd.
August 21, 2006	The two banking units, the International Commercial Bank of China ("ICBC") and Chiao Tung Bank ("CTB"), were merged, with ICBC as the surviving company renamed Mega International Commercial Bank
September 17, 2007	The two security investment trust subsidiaries, IIT and MITC, were merged, with IIT as the surviving company renamed Mega International Investment Trust Co., Ltd.
December 30, 2008	Mega International Investment Trust Co., Ltd. (MIIT) becomes a wholly owned subsidiary of the Company, after the reduction and increase of capital by MIIT to offset loss
April 7, 2009	Mega CTB Venture Capital Co., Ltd. was renamed as Mega Venture Capital Co., Ltd.
April 28, 2009	The Board of Directors resolved to dispose of the stakes in Taiwan Business Bank.
April 26, 2011	The Board of Directors resolved to issue exchangeable bonds to dispose of the shareholding of Taiwan Business Bank.
August 28, 2012	The Board of Directors resolved to entrust the stakes in Taiwan Business Bank to Hua Na Commercial Bank.
September 5, 2012	Subscribed all 300 million shares of private placement offered by subsidiary Mega International Commercial Bank to improve its capital structure.

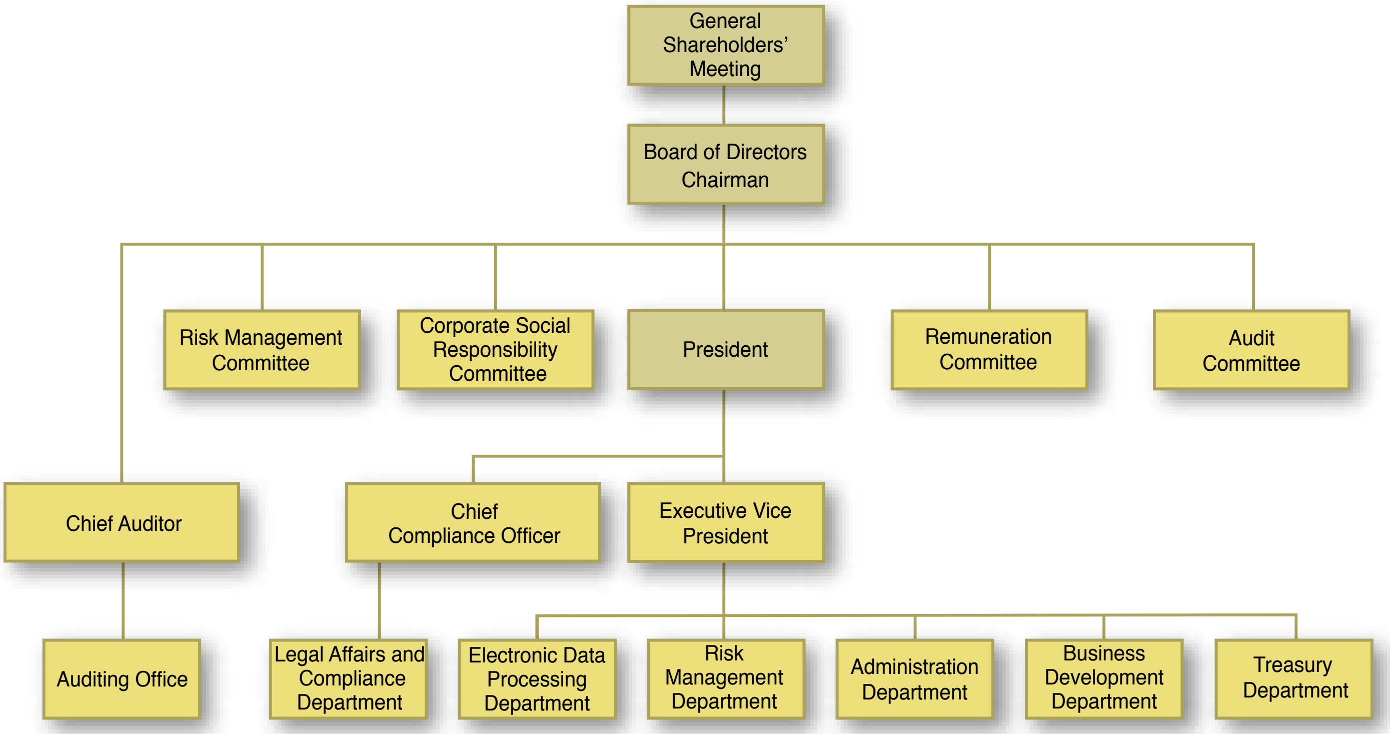
Date	Milestones
December 18, 2013	Subscribed all 600 million shares of private placement offered by subsidiary Mega International Commercial Bank to improve its capital structure.
May 26, 2015	The Board of Directors resolved to issue the second domestic unsecured exchangeable bonds to dispose of the stakes in Taiwan Business Bank.
June 11, 2015	Subscribed all 300 million shares of private placement offered by subsidiary Mega International Commercial Bank to improve its capital structure.
December 30, 2015	Subscribed all 536 million shares of private placement offered by subsidiary Mega International Commercial Bank to improve its capital structure.

Corporate Governance Report

Corporate Governance Report

3.1 Organization

3.1.1 Organization Chart



Major Corporate Functions

Business Development Department

- Corporate planning, strategic investment
- Business strategy and development
- Institutional investor relations

Legal affairs and Compliance Department

- Legal affairs
- Legal compliance affairs

Risk Management Department

- Risk management

Electronic Data Processing Department

- IT development and operation

Administration Department

- Human resources management and staff training
- Corporate documentation, procurement and public relations

Treasury Department

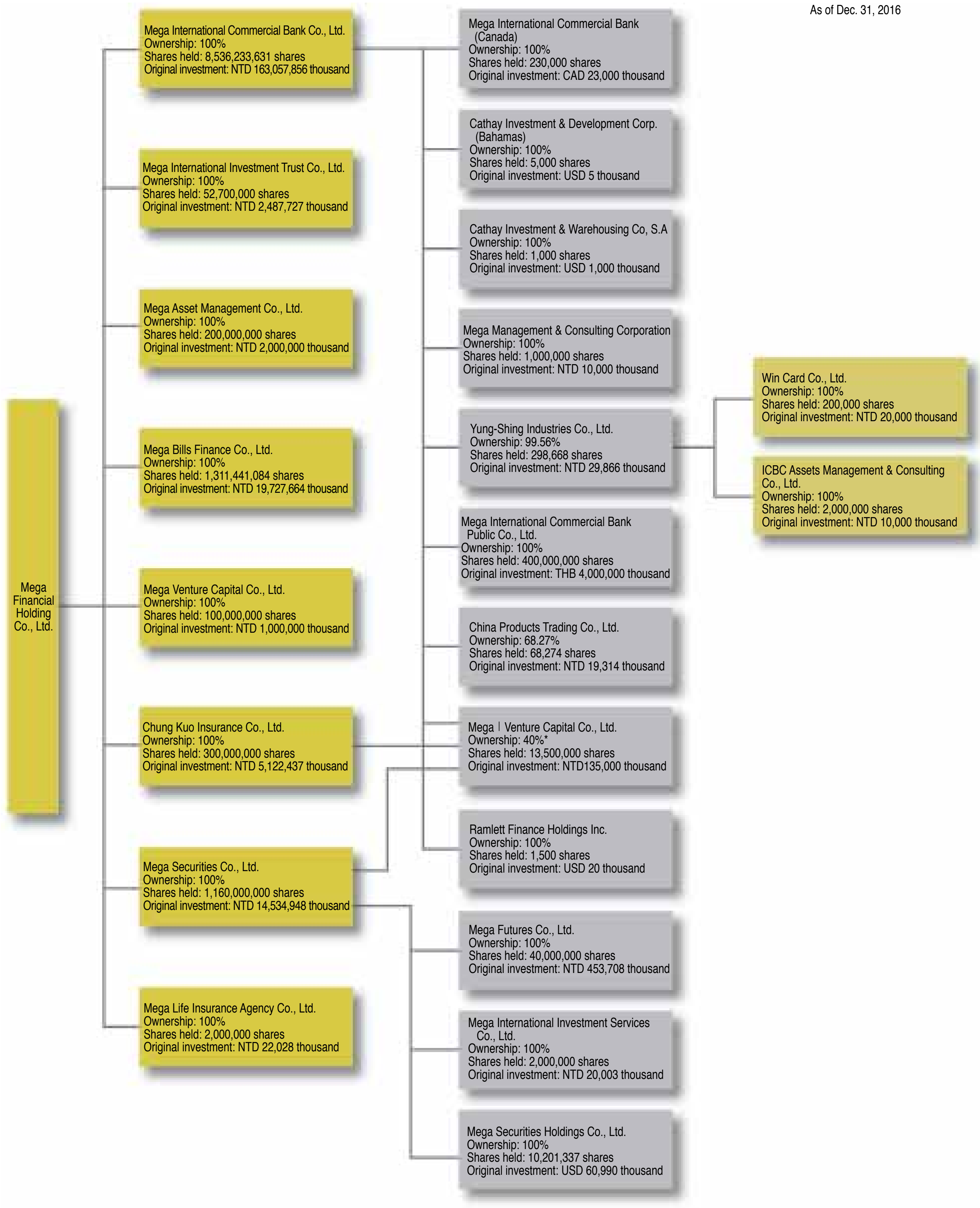
- Finance and accounting services including treasury, tax, financial and accounting management

Auditing Office

- Internal audit and process compliance

3.1.2 Affiliated Companies Chart

As of Dec. 31, 2016



*Mega International Commercial Bank, Mega Securities Co., Ltd. and Chung Kuo Insurance Co., Ltd. held 25%, 10% and 5% stake, respectively, in Mega I Venture Capital Co., Ltd.

3.2 Directors and Management Team

3.2.1 Directors

Title	Nationality or place of incorporation	Name	Gender	Date elected	Term (Years)	Date first elected	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding by nominee arrangement	
							Shares	%	Shares	%	Shares	%	Shares	%
Chairman	R.O.C.	Chao-Shun Chang (Representative of the Ministry of Finance, R.O.C.)	Male	09/02/2016	1.83	09/02/2016	1,143,043,883	9.18	1,143,043,883	8.40	287,713	0.002	0	0
Director	R.O.C.	Li-Yen Yang (Representative of the Ministry of Finance, R.O.C.)	Male	09/09/2016	1.81	09/09/2016	1,143,043,883	9.18	1,143,043,883	8.40	0	0	0	0
Director	R.O.C.	Chia-Chi Hsiao (Representative of the Ministry of Finance, R.O.C.)	Male	07/01/2015	3	09/26/2014	1,143,043,883	9.18	1,143,043,883	8.40	3,624 3,000	0.00002 0.00002	0	0
Director	R.O.C.	Tzong-Yau Lin (Representative of the Ministry of Finance, R.O.C.)	Male	07/01/2015	3	02/20/2012	1,143,043,883	9.18	1,143,043,883	8.40	10,811	0.00008	0	0
Director	R.O.C.	Cheng-Te Liang (Representative of the Ministry of Finance, R.O.C.)	Male	09/09/2016	1.81	09/09/2016	1,143,043,883	9.18	1,143,043,883	8.40	0	0	0	0
Director	R.O.C.	Chun-Lan Yen (Representative of the Ministry of Finance, R.O.C.)	Female	09/09/2016	1.81	09/09/2016	1,143,043,883	9.18	1,143,043,883	8.40	3,402	0.00002	0	0
Director	R.O.C.	Shiow-Huey Yeh (Representative of the Ministry of Finance, R.O.C.)	Female	09/09/2016	1.81	09/09/2016	1,143,043,883	9.18	1,143,043,883	8.40	0	0	0	0
Director	R.O.C.	Wen-Ling Hung (Representative of the Ministry of Finance, R.O.C.)	Female	09/09/2016	1.81	09/09/2016	1,143,043,883	9.18	1,143,043,883	8.40	0	0	0	0

April 30, 2017

Experience & education	Other position	Executives, directors or supervisors who are spouses or within two degrees of kinship		
		Title	Name	Relation
Vice Chairman of Polaris Financial Group, Chairman of Overseas-Chinese Banking Corporation Limited, Chairman of Franklin Templeton SinoAm Securities Investment Management Inc., Chairman of Taiwan Business Bank, Supervisor of First Financial Holding Co., Ltd., Resident Supervisor of First Commercial Bank, Chairman of First Financial Holding Co., Ltd.& First Commercial Bank, CPA M.A. in Public Finance, National Chengchi University	Chairman of Mega International Commercial Bank, Chairman of Mega Charity Foundation, Chairman of The Int'l Commercial Bank of China Cultural and Educational Foundation, Director of National Credit Card Center of R.O.C. Director of Taiwan Stock Exchange Corporation	None	None	None
Executive Vice President of Bank of Taiwan, Supervisor of Hua Nan Commercial Bank, Director of Hua Nan Financial Holding Co., Ltd., Director and President of Hua Nan Commercial Bank B.A., National Taiwan University	Managing Director & President of Mega Int'l Commercial Bank Co., Ltd., Vice Chairman of The Int'l Commercial Bank of China Cultural and Educational Foundation, Supervisor of National Credit Card Center of R.O.C. Director of Financial Information Service Co., Ltd. Vice Chairman of Mega Charity Foundation	None	None	None
Director-General, Department for General Administration, Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. Director-General, Department of Accounting, Ministry of Finance, R.O.C. Deputy Director-General, National Treasury Agency, Ministry of Finance, R.O.C. M.A. in Management Science, National Chiao Tung University	Supervisor of Mega International Commercial Bank, Director-General, Department of Fiscal, Statistical and Financial Affairs, Executive Yuan, R.O.C.	None	None	None
Representative of New York Representative Office, Central Bank of the R.O.C., Deputy Director General, Department of Economic Research, Central Bank of the R.O.C. Associate Professor of Economics Department, Soochow University Ph. D. in Economics, University of Southern California, U.S.A.	Director General, Department of Economic Research, Central Bank of the R.O.C. Director of Taiwan Academy of Banking and Finance	None	None	None
Director of Research Department, Taiwan Insurance Institute, Vice President/Executive Vice President of Taiwan Insurance Institute President of Taiwan Insurance Institute M.A. in Finance, National Cheng-Chi University M.S. in Actuarial Science, University of Wisconsin-Madison Ph.D. in Social Welfare, National Chung Cheng University	Chairman of Chung Kuo Insurance Co., Ltd. Executive Director of Insurance Society of the Republic of China Board Director of Risk Management Society of Taiwan, R.O.C.	None	None	None
Supervisor, National Treasury Administration, Ministry of Finance, R.O.C. M.A. in Agricultural Economics, National Taiwan University	Deputy Director-General, National Treasury Administration, Ministry of Finance, R.O.C. Director of Taiwan Resident Earthquake Insurance Fund	None	None	None
Vice President, Fubon Securities Co., Ltd. Supervisor, Department of Planning of Fubon Financial Holding Co., Ltd. Vice President, Capital Securities Corporation President of Concord Securities Co., Ltd. Ph.D. in Business Management, Remnin University of China	President of E-turn Management Consulting Inc. Independent Director of Shin Shin Co., Ltd.	None	None	None
Director of Police Policy Research Institute & Director of Administrative Police Department, Central Police University Adjunct Professor, Department of Law, National Chengchi University Ph.D. in Law, National Chengchi University	Director of Mega International Commercial Bank Professor, Department of Administration Police, Central Police University	None	None	None

Title	Nationality or place of incorporation	Name	Gender	Date elected	Term (Years)	Date first elected	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding by nominee arrangement	
							Shares	%	Shares	%	Shares	%	Shares	%
Director	R.O.C.	Wen-Chyi Ong (Representative of Chunghwa Post Co., Ltd.)	Male	07/01/2015	3	11/13/2013	358,438,634	2.89	479,894,910	3.52	0	0	0	0
Director	R.O.C.	Ming-Hsin Kung (Representative of National Development Fund, Executive Yuan, R.O.C.)	Male	05/25/2016	2.10	05/25/2016	759,771,091	6.10	830,973,202	6.11	0	0	0	0
Director	R.O.C.	Ye-Chin Chiou (Representative of Bank of Taiwan)	Female	08/30/2016	1.83	08/30/2016	262,273,049	2.11	334,951,379	2.46	785	0	0	0
Director	R.O.C.	Chiu-Fa Tsai (Representative of the Ministry of Finance, R.O.C.)	Male	08/18/2015	2.92	08/18/2015	1,143,043,883	9.18	1,143,043,883	8.40	133,791 62,037	0.0000 0.0000	0	0
Independent Director	R.O.C.	Tsun-Siou Li	Male	07/01/2015	3	06/15/2012	0	0	0	0	0	0	0	0
Independent Director	R.O.C.	Keh-Nan Sun	Male	07/01/2015	3	07/01/2015	0	0	0	0	5 ,923	0	0	0
Independent Director	R.O.C.	Chi-Hung Lin	Male	07/01/2015	3	06/15/2012	0	0	0	0	0	0	0	0

April 30, 2017

Experience & education	Other position	Executives, directors or supervisors who are spouses or within two degrees of kinship		
		Title	Name	Relation
Director, International Banking Division, Bureau of Monetary Affairs, Ministry of Finance, R.O.C., Counselor, Permanent Mission of Taiwan to the WTO (Geneva), Director, Taiwan's Financial Supervisory Commission, Office in New York, Representative (Ambassadorial ranking), Taipei Economic and Cultural Center in India MSc, Investment and Risk Management, Cass Business School, City University (London)	Chairman, Chunghwa Post Co., Ltd.	None	None	None
Committee Member, National Stabilization Fund Management Committee, Executive Yuan, R.O.C. Research Fellow, Taiwan Institute of Economic Research Advisor, Ministry of Economic Affairs Vice President, Taiwan Institute of Economic Research Ph.D. in Economics, National Chung Hsing University	Deputy Minister of National Development Council Director of Taiwan Aerospace Corp.	None	None	None
Member of Credit Card Business Development Advisory Committee, Financial Information Service Co., Ltd. Director of United Taiwan Bank S.A. B.A. in Economics, National Taiwan University	Executive Vice President, Bank of Taiwan Director of Taipei Forex Inc.	None	None	None
Chairman of The Labor Union of Mega International Commercial Bank Co., Ltd., Member of the Arbitration Committee of Labor-management Dispute of Ministry of Labor B.A., National Taipei University of Business	Assistant Vice President of Mega International Commercial Bank Co., Ltd. Director of China Investment Limited Company	None	None	None
Visiting Professor, Hitotsubashi University, Japan Chairman, Department of Finance of National Taiwan University, Director of Securities and Futures Institute, Independent Director of First Financial Holding Co., Ltd. Ph.D. in Finance, University of California , Berkeley, U.S.A.	Professor, Department of Finance, National Taiwan University, Director, Taiwan Futures Exchange Corporation Independent Director of Supreme Electronics Co., Ltd.	None	None	None
Research Fellow/Economic Policy Advisor of Chung-Hua Institution of Economic Research Chairman, Department of Public Finance and Tax Administration, National Taipei University of Business Member of Fiscal Reform/Tax Reform Commission, Executive Yuan Director/Supervisor of Chunghua Association of Public Finance Associate Professor, Department of Public Finance and Tax Administration, National Taipei University of Business Ph.D. in Economics, National Taiwan University	None	None	None	None
Associate Professor, Department of Laws, Soochow University, Legal Counsel of the Bankers Association of the Republic of China, Member of Advisory Board, Central Deposit Insurance Corporation Ph.D. in Juridical Science, National Chengchi University	Managing Partner of Lin & Partners Attorneys at Law	None	None	None

Major shareholders of the institutional shareholders

Dec. 31, 2016

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Ministry of Finance, ROC	N.A.
National Development Fund, Executive Yuan, ROC	N.A.
Chunghwa Post Co., Ltd.	Ministry of Transportation and Communications, R.O.C. (100%)
Bank of Taiwan Co., Ltd.	Taiwan Financial Holding Co., Ltd. (100%)

Major shareholders of the above major shareholders that are juridical persons

Dec. 31, 2016

Name of Juridical Persons	Major Shareholders of the Juridical Persons
Taiwan Financial Holding Co., Ltd.	Ministry of Finance, R.O.C. (100%)

Professional Qualifications and Independence Analysis of Directors

Dec. 31, 2016

Criteria / Name	Meet one of the following professional qualification requirements, together with at least five years work experience			Independence criteria (Note)										Number of other public companies in which the Individual is concurrently serving as an Independent Director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	9	10	
Chao-Shun Chang	✓	✓	✓	✓		✓	✓	✓		✓	✓	✓		0
Li-Yen Yang			✓	✓		✓	✓			✓	✓	✓		0
Chia-Chi Hsiao	✓		✓	✓		✓		✓		✓	✓	✓		0
Tzong-Yau Lin	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Cheng-Te Liang			✓			✓	✓	✓	✓	✓	✓	✓		0
Chun-Lan Yen			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Shiow-Huey Yeh	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		1
Wen-Ling Hung	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓		0
Wen-Chyi Ong			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Ming-Hsin Kung			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Ye-Chin Chiou			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Chiu-Fa Tsai			✓		✓	✓		✓	✓	✓	✓	✓		0
Tsun-Siou Li	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Keh-Nan Sun	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chi-Hung Lin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note : Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company's affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchange Act of Taiwan or with the laws of the country of the parent company or subsidiary.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. However Remuneration Committee members who exercise their powers as defined in Article 7 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Exchange or Traded Over the Counter" are not limited therein.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Act.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

Diversification of the Board of Directors

Name	Diversification Items							
	Gender	Ability to make operational judgments	Ability to lead and make policy decisions	Knowledge of finance	International industry and economics	Accounting and finance	Public finance and taxation	Knowledge of law
Chao-Shun Chang	Male	V	V	V	V	V	V	
Li-Yen Yang	Male	V	V	V	V	V		V
Chia-Chi Hsiao	Male	V	V	V	V	V	V	
Tzong-Yau Lin	Male	V	V	V	V		V	
Cheng-Te Liang	Male	V	V	V		V	V	
Chun-Lan Yen	Female	V	V	V	V	V	V	V
Shiow-Huey Yeh	Female	V	V	V	V	V	V	
Wen-Ling Hung	Female						V	V
Wen-Chyi Ong	Male	V	V	V	V	V	V	V
Ming-Hsin Kung	Male			V	V			
Ye-Chin Chiou	Female	V	V	V	V	V		
Chiu-Fa Tsai	Male	V	V	V				
Tsun-Siou Li	Male	V	V	V	V	V		
Keh-Nan Sun	Male	V		V	V	V	V	
Chi-Hung Lin	Male			V	V			V

3.2.2 Management Team

Title	Nationality	Name	Gender	Date effective	Shareholding		Spouse & minor shareholding		Shareholding by nominee arrangement	
					Shares	%	Shares	%	Shares	%
President	R.O.C.	Li-Yen Yang	Male	10/05/2016	0	0.00	0	0.00	0	0.00
Executive Vice President	R.O.C.	Jui-Yun Lin	Female	09/08/2006	208,762	0.00	0	0.00	0	0.00
Executive Vice President	R.O.C.	Yu-Mei Hsiao	Female	02/21/2017	50,000	0.00	0	0.00	0	0.00
Chief Auditor	R.O.C.	Tzong-Chi Hsu	Male	04/28/2015	119,632	0.00	0	0.00	0	0.00
Chief Compliance Officer	R.O.C.	Hui-Lin Wu	Female	01/26/2017	20,000	0.00	0	0.00	0	0.00

April 30, 2017

Experience & education	Other position	Managers who are spouses or within two degrees of kinship		
		Title	Name	Relation
Executive Vice President of Bank of Taiwan Supervisor of Hua Nan Commercial Bank Director of Hua Nan Financial Holding Co., Ltd. Director and President of Hua Nan Commercial Bank B.A., National Taiwan University	Managing Director & President of Mega Int'l Commercial Bank Co., Ltd. Vice Chairman of The Int'l Commercial Bank of China Cultural and Educational Foundation Supervisor of National Credit Card Center of R.O.C. Director of Financial Information Service Co., Ltd. Vice Chairman of Mega Charity Foundation	None	None	None
Senior Vice President & General Manager of Chiao Tung Bank Senior Vice President of Mega Financial Holding Co., Ltd. Chairman of Chung Kuo Insurance Co., Ltd. M.A. in Public Finance, National Chengchi University	Director of Mega Bills Finance Co., Ltd. Chairman and President of Mega Venture Capital Co., Ltd. Director of Taipei Financial Center Corp. Director of Mega Charity Foundation	None	None	None
Assistant Manager, London/New York Branch of First Commercial Bank Senior Vice President & General Manager, Gongguan/Brisbane Branch of First Commercial Bank Chief Secretary of Mega Int'l Commercial Bank Co., Ltd. & Mega Financial Holding Co., Ltd. M.A. in Finance, University of Illinois at Urbana-Champaign, U.S.A.	Director of Mega Asset Management Co., Ltd. Director of Taiwan Financial Asset Service Corporation Senior Executive Vice President of Mega Int'l Commercial Bank Co., Ltd.	None	None	None
Chief Auditor of Chung Kuo Insurance Co., Ltd. M.A. in Public Finance, National Chengchi University	Supervisor of Mega Securities Co., Ltd. Supervisor of Mega Asset Management Co., Ltd.	None	None	None
Senior Vice President & General Manager, Shih-Mao Branch of First Commercial Bank Senior Vice President & Head of Compliance & Legal Division of First Commercial Bank B.A. in Laws, National Taiwan University	None	None	None	None

3.2.3 Remuneration of Directors, President, and Executive Vice Presidents

Remuneration of Directors

Title	Name	Compensations								Ratio of total remuneration (a+b+c+d) to net income (%)	
		Base compensation (a)		Severance pay (b)		Director's remuneration (c)		Allowances (d)			
		The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities
Chairman	Ministry of Finance										
	Chao-Shun Chang										
	Kuang-Si Shiu										
	Hann-Ching Wu (Acting)										
	Yeou-Tsair Tsai										
Director (Representative of Ministry of Finance)	Li-Yen Yang										
	Hann-Ching Wu										
	Chia-Chi Hsiao										
	Tzong-Yau Lin										
	Wen-Ling Hung										
	Yaw-Chung Liao										
	Cheng-Te Liang										
	I-Min Chen										
	Chun-Lan Yen										
	Po-Cheng Chen										
	Shiow-Huey Yeh										
	Ta-Pei Liu										
	Chiu-Fa Tsai										
Director	National Development Fund										
	Ming-Hsin Kung										
	Huan Lin										
Director	Chunghwa Post Co., Ltd.										
	Wen-Chyi Ong										
Director	Bank of Taiwan										
	Ye-Chin Chiou										
	Jan-Lin Wei										
Independent Director	Keh-Nan Sun										
	Tsun-Siou Li										
	Chi-Hung Lin										
	Total	2,134	8,720	0	572	114,649	114,649	3,098	5,725	0.53	0.58

Note: 1. Mr. Yeou-Tsair Tsai resigned as Chairman of the Company effective April 1, 2016. Mr. Kuang-Si Shiu served as Chairman effective August 16, 2016 and resigned on August 31, 2016. Mr. Hann-Ching Wu served as Acting Chairman from April 1, 2016 to August 15, 2016 and the day of September 1, 2016. Mr. Chao-Shun Chang takes the position as Chairman effective September 2, 2016. Mr. Hann-Ching Wu was replaced by Mr. Li-Yen Yang effective September 9, 2016. Mr. Yaw-Chung Liao was replaced by Mr. Wen-Ling Hung effective September 9, 2016. Mr. Po-Cheng Chen was replaced by Ms. Chun-Lan Yen effective September 9, 2016. Mr. I-Min Chen was replaced by Mr. Cheng-Te Liang effective September 9, 2016. Mr. Ta-Pei Liu resigned on June 21, 2016. Ms. Shiow-Huey Yeh takes his position as Director effective September 9, 2016. Mr. Huan Lin resigned on May 20, 2016 and Mr. Ming-Hsin Kung takes his position as Director effective May 25, 2016. Mr. Jan-Lin Wei was replaced by Ms. Ye-Chin Chiou effective August 30, 2016.

2. Compensation paid to company drivers by all consolidated entities for NT$1,190 thousand is not included in Allowances (d). "Salary, bonuses, and allowances (e)" does not include compensation paid to company drivers for NT$979 thousand.

3. Directors' remuneration (c) and Employee remuneration (g) have been approved by the Board of Directors.

4. The Company does not issue any employee stock options or new restricted employee shares.

Unit: NT$ thousands

Relevant remuneration received by directors who are also employees								Ratio of total compensation (a+b+c+d+e+f+g) to Net Income (%)		Compensation paid to directors from an invested company other than the company's subsidiary
Salary, bonuses, and allowances (e)		Severance pay (f)		Employee remuneration (g)						
The company	All consolidated entities	The company	All consolidated entities	The company		All consolidated entities		The company	All consolidated entities	
				Cash	Stock	Cash	Stock			
0	8,500	0	407	0	0	411	0	0.53	0.62	1,186

Directors' Compensations and Remuneration

Bracket	Name of Directors			
	Total of (a+b+c+d)		Total of (a+b+c+d+e+f+g)	
	The company	All Investee Companies	The company	All Investee Companies
Under NT$ 2,000,000	Chao-Shun Chang, Kuang-Si Shiu, Yeou-Tsair Tsai, Li-Yen Yang, Hann-Ching Wu, Chia-Chi Hsiao, Tzong-Yau Lin, Wen-Ling Hung, Yaw-Chung Liao, Cheng-Te Liang, I-Min Chen, Chun-Lan Yen, Po-Cheng Chen, Shiow-Huey Yeh, Ta-Pei Liu, Chiu-Fa Tsai, Ming-Hsin Kung, Huan Lin, Wen-Chyi Ong, Ye-Chin Chiou, Jan-Lin Wei, Keh-Nan Sun, Tsun-Siou Li, Chi-Hung Lin	Kuang-Si Shiu, Li-Yen Yang, Hann-Ching Wu, Chia-Chi Hsiao, Tzong-Yau Lin, Wen-Ling Hung, Yaw-Chung Liao, Cheng-Te Liang, I-Min Chen, Chun-Lan Yen, Po-Cheng Chen, Shiow-Huey Yeh, Chiu-Fa Tsai, Ming-Hsin Kung, Huan Lin, Wen-Chyi Ong, Ye-Chin Chiou, Jan-Lin Wei, Keh-Nan Sun, Tsun-Siou Li, Chi-Hung Lin	Chao-Shun Chang, Kuang-Si Shiu, Yeou-Tsair Tsai, Li-Yen Yang, Hann-Ching Wu, Chia-Chi Hsiao, Tzong-Yau Lin, Wen-Ling Hung, Yaw-Chung Liao, Cheng-Te Liang, I-Min Chen, Chun-Lan Yen, Po-Cheng Chen, Shiow-Huey Yeh, Ta-Pei Liu, Chiu-Fa Tsai, Ming-Hsin Kung, Huan Lin, Wen-Chyi Ong, Ye-Chin Chiou, Jan-Lin Wei, Keh-Nan Sun, Tsun-Siou Li, Chi-Hung Lin	Kuang-Si Shiu, Chia-Chi Hsiao, Tzong-Yau Lin, Wen-Ling Hung, Yaw-Chung Liao, Cheng-Te Liang, I-Min Chen, Chun-Lan Yen, Po-Cheng Chen, Shiow-Huey Yeh, Ming-Hsin Kung, Huan Lin, Wen-Chyi Ong, Ye-Chin Chiou, Jan-Lin Wei, Keh-Nan Sun, Tsun-Siou Li, Chi-Hung Lin
NT$2,000,000 ~ NT$5,000,000		Chao-Shun Chang, Yeou-Tsair Tsai, Ta-Pei Liu		Chao-Shun Chang, Yeou-Tsair Tsai, Hann-Ching Wu, Chiu-Fa Tsai, Li-Yen Yang, Ta-Pei Liu
NT$5,000,000 ~ NT$10,000,000	National Development Fund Chunghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.	National Development Fund Chunghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.	National Development Fund Chunghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.	National Development Fund Chunghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.
NT$10,000,000 ~ NT$15,000,000				
NT$15,000,000 ~ NT$30,000,000				
NT$30,000,000 ~ NT$50,000,000				
NT$50,000,000 ~ NT$100,000,000	Ministry of Finance	Ministry of Finance	Ministry of Finance	Ministry of Finance
Over NT$100,000,000				
Total	28	28	28	28

Compensation of President and Executive Vice Presidents

Unit: NT$ thousands

Title	Name	Salary (a)		Severance pay (b)		Bonuses and allowances (c)		Employee remuneration (d)				Ratio of total compensation (a+b+c+d) to net income (%)		Compensation paid to President and Executive Vice President from an invested company other than the company's subsidiary
		The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company		All consolidated entities		The company	All consolidated entities	
								Cash	Stock	Cash	Stock			
President	Li-Yen Yang													
	Hann-Ching Wu													
Executive Vice President	Jui-Yun Lin													
	Chung-Hsing Chen													
	Bie-Ling Lee													
	Ching-Ming Chen													
	Mei-Chi Liang													
	Chuang-Hsin Chiu													
	Ming-Jye Chang													
Chief Secretary	Chii-Bang Wang													
Chief Auditor	Tzong-Chi Hsu													
Chief Compliance Officer	Hsien-Tzu Hsing													
	Tien-Lu Chen													
Total		8,881	25,535	588	1,490	4,112	18,004	1,009	0	2,404	0	0.06	0.21	872

Note: 1. Mr. Hann-Ching Wu was replaced by Mr. Li-Yen Yang effective September 9, 2016. Ms. Mei-Chi Liang and Mr. Chuang-Hsin Chiu resigned on September 27, 2016. Ms. Bie-Ling Lee, Mr. Ching-Ming Chen and Mr. Ming-Jye Chang resigned on December 27, 2016. Mr. Chii-Bang Wang resigned as Chief Secretary effective April 1, 2016. Mr. Tien-Lu Chen was replaced by Ms. Hsien-Tzu Hsing as Chief Compliance Officer effective December 27, 2016.

2. Compensation paid to company drivers by all consolidated entities for NT$7,085 thousand is not included in "Bonuses and allowances (c)".

3. Employees' remuneration (d) has been approved by Board of Directors.

4. The Company does not issue any employee stock options or new restricted employee shares.

Compensation Paid to President and Executive Vice Presidents

Bracket	Name of President and Executive Vice Presidents	
	The company	Companies in the consolidated financial statements
Under NT$ 2,000,000	Li-Yen Yang, Hann-Ching Wu, Bie-Ling Lee, Ching-Ming Chen, Mei-Chi Liang, Chuang-Hsin Chiu, Ming-Jye Chang, Hsien-Tzu Hsing , Tien-Lu Chen, Chii-Bang Wang	Hsien-Tzu Hsing, Chii-Bang Wang
NT$ 2,000,000 ~ NT$ 5,000,000	Jui-Yun Lin, Chung-Hsing Chen, Tzong-Chi Hsu	Li-Yen Yang, Hann-Ching Wu, Chung-Hsing Chen, Tzong-Chi Hsu Bie-Ling Lee, Ching-Ming Chen Mei-Chi Liang, Chuang-Hsin Chiu Ming-Jye Chang, Tien-Lu Chen
NT$ 5,000,000 ~ NT$ 10,000,000		Jui-Yun Lin
NT$10,000,000 ~ NT$ 15,000,000		
NT$15,000,000 ~ NT$ 30,000,000		
NT$30,000,000 ~ NT$ 50,000,000		
NT$50,000,000 ~ NT$100,000,000		
Over NT$ 100,000,000		
Total	13	13

Employee Remuneration to Executive Vice Presidents

Unit: NT$ thousands

Title	Name	Employee remuneration - in stock (Fair Market Value)	Employee remuneration - in cash	Total	Ratio of total amount to net income (%)
Executive Vice President	Jui-Yun Lin				
Executive Vice President	Chung-Hsing Chen				
Chief Auditor	Tzong-Chi Hsu				
Total		0	1,009	1,009	0.0045

Note: Chung-Hsing Chen is appointed to serve as senior consultant effective February 21, 2017.

3.2.4 Remuneration for Directors, Presidents and Executive Vice Presidents

A. The ratio of total remuneration paid by the company and by all companies included in the consolidated financial statements for the most recent two years to directors, president and executive vice presidents of the Company, to the net income

	2016	2015
The ratio of total remuneration paid to directors, president and executive vice presidents, relative to net income after tax, by the Company	0.599%	0.591%
The ratio of total remuneration paid to directors, president and executive vice presidents, relative to the consolidated net income after tax, by all companies in the consolidated financial statements	0.830%	0.811%

Total remuneration paid in 2016 by the Company to its directors and executives as a percentage of net income after tax was slightly higher than that of 2015.

B. Compensation policies, the procedures for determining compensation, and the correlation with business performance and future risks

(1) The policies, standards and composition of compensation

The compensation paid to directors, president and executive vice presidents of the Company are detailed below:

a. Director: Compensations paid to directors includes transportation allowance and directors' remuneration distributed according to the Articles of Incorporation.

b. Independent director: Compensations to independent directors includes monthly compensation and research expenditure. The monthly compensation is NT$60,000 per person. The research expenditure is paid to members of the Remuneration Committee and Audit Committee based on the number of meetings the independent directors attend in person. The chairman of the committee will be paid NT$12,000 per time, while other members of the committee will be paid NT$10,000 per time.

c. Chairman: Compensations to the Chairman of the Board includes salary, severance pay, bonuses and allowance including rent for housing, vehicles, and fuel expenses.

d. President and executive vice president: Compensations to the president and executive vice presidents includes salary, severance pay, bonuses, employees' remuneration, and allowance including rent for housing, vehicles, and fuel expenses.

(2) The procedures for determining compensation

The directors' and executives' compensation is appropriated according to the Articles of Incorporation and the relevant bonus distribution guidelines, while the market remuneration level, and future risks are taken into consideration. The compensation of directors, president and executive vice presidents are subject to the approval of Remuneration Committee and the Board of Directors.

(3) The correlation with business performance and future risks

The Company's non-consolidated net profit after tax for the year 2016 fell by 23.66% from the previous year. In consideration of the performance and future risks, the remuneration paid to directors, president and executive vice presidents reduced by 22.65% compared to 2015. The remuneration paid to directors, president and executive vice presidents by all companies in the consolidated financial statements also declined by 21.88% from the year 2015.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 18 (A) meetings of the board of directors were held in 2016. Director attendance was as follows:

Title	Name	Attendance in person (B)	By proxy	Attendance rate (%) (B/A)	Remarks
Chairman	Chao-Shun Chang (Representative of Ministry of Finance)	6	0	100.00	took office on Sep. 2, 2016 Number of Required Attendance: 6
Director	Li-Yen Yang (Representative of Ministry of Finance)	5	0	100.00	took office on Sep. 9, 2016 Number of Required Attendance: 5
Independent director	Tsun-Siou Li	18	0	100.00	
Independent director	Keh-Nan Sun	18	0	100.00	
Independent director	Chi-Hung Lin	17	1	94.44	
Director	Chia-Chi Hsiao (Representative of Ministry of Finance)	16	2	88.89	
Director	Cheng-Te Liang (Representative of Ministry of Finance)	4	1	80.00	took office on Sep. 9, 2016 Number of Required Attendance: 5
Director	Chun-Lan Yen (Representative of Ministry of Finance)	5	0	100.00	took office on Sep. 9, 2016 Number of Required Attendance: 5
Director	Tzong-Yau Lin (Representative of Ministry of Finance)	16	1	88.89	
Director	Wen-Ling Hung (Representative of Ministry of Finance)	4	0	80.00	took office on Sep. 9, 2016 Number of Required Attendance: 5
Director	Shiow-Huey Yeh (Representative of Ministry of Finance)	5	0	100.00	took office on Sep. 9, 2016 Number of Required Attendance: 5
Director	Chiu-Fa Tsai (Representative of Ministry of Finance)	18	0	100.00	
Director	Ming-Hsin Kung (Representative of Ministry of Finance)	8	3	61.54	took office on May 20, 2016 Number of Required Attendance: 13
Director	Wen-Chyi Ong (Representative of Chunghwa Post Co., Ltd.)	12	1	66.67	
Director	Ye-Chin Chiou (Representative of Bank of Taiwan)	6	0	85.71	took office on Aug. 30, 2016 Number of Required Attendance: 7
Director	Yeou-Tsair Tsai (Representative of Ministry of Finance)	3	0	100.00	left office on Apr. 1, 2016 Number of Required Attendance: 3
Director	Hann-Ching Wu (Representative of Ministry of Finance)	13	0	100.00	left office on Sep. 9, 2016 Number of Required Attendance: 13
Director	I-Min Chen (Representative of Ministry of Finance)	11	1	84.62	left office on Sep. 9, 2016 Number of Required Attendance: 13
Director	Po-Cheng Chen (Representative of Ministry of Finance)	11	2	84.62	left office on Sep. 9, 2016 Number of Required Attendance: 13
Director	Huan Lin (Representative of National Development Fund)	3	2	60.00	left office on May 20, 2016 Number of Required Attendance: 5
Director	Jan-Lin Wei (Representative of Bank of Taiwan)	10	1	90.91	left office on Aug. 30, 2016 Number of Required Attendance: 11
Director	Ta-Pei Liu (Representative of Ministry of Finance)	5	0	100.00	left office on June 21, 2016 Number of Required Attendance: 5
Director	Yaw-Chung Liao (Representative of Ministry of Finance)	12	1	92.31	left office on Sep. 9, 2016 Number of Required Attendance: 13
Director	Kuang-Si Shiu (Representative of Ministry of Finance)	2	1	66.67	took office on Aug. 16, 2016 left office on Aug. 30, 2015 Number of Required Attendance: 5

Note: Percentages (%) for individual attendance are based on the number of board meetings held while each respective board member holds a seat and the number of meetings he or she attended in person.

Other items:

1. Operation of the Board of Directors:
   (1) Resolutions related to Article 14-3 of the Securities and Exchange Act:
   - At the eighth meeting of the sixth term Board of Directors on January 26, 2016, the Board approved the proposal to reappoint the external auditor for 2016 financial statements.
   - At the tenth meeting of the sixth term Board of Directors on March 29, 2016, the Board approved 2015 employees and Directors' compensation, the principle for allocation of Director's compensation.

   (2) There was no resolution which was objected to by Independent Directors or subject to qualified opinion and recorded or declared in writing.
2. Recusals of Directors due to conflicts of interests in 2016:
   (1) At the sixteenth meeting of the sixth term Board of Directors on August 16, 2016, the Board discussed a proposal to appoint Kuang-Si Shiu as the director and chairman of Mega International Commercial Bank. Because Chairman Kuang-Si Shiu is an interested party, he recused himself from discussions and did not participate in the voting according to regulations.
   (2) At the eighteenth meeting of the sixth term Board of Directors on August 23, 2016, the Board discussed a proposal to donate NT$1.5 million to The University of Taiwan as required by the University because the Company has appointed Tsun-Siou Li as the Company's Independent Director. Tsun-Siou Li recused himself from discussions and did not participate in the voting according to regulations.
   (3) At the nineteenth meeting of the sixth term Board of Directors on September 1, 2016, the Board discussed the proposal to elect Hann-Ching Wu as the Acting Chairman. Hann-Ching Wu was an interested party in this matter, so he recused himself from discussions and did not participate in the voting according to regulations.
   (4) At the nineteenth meeting of the sixth term Board of Directors on September 1, 2016, the Board discussed the proposal to appoint Hann-Ching Wu as the Acting Chairman of Mega International Commercial Bank. Hann-Ching Wu was an interested party in this matter, so he recused himself from discussions and did not participate in the voting according to regulations.
   (5) At the twentieth meeting of the sixth term Board of Directors on September 2, 2016, the Board discussed the proposal to appoint Chao-Shun Chang as the Chairman of Mega International Commercial Bank. Since Chao-Shun Chang was an interested party in this matter, he recused himself from discussions and did not participate in the voting according to regulations.
   (6) At the twenty-first meeting of the sixth term Board of Directors on September 10, 2016, the Board discussed the proposal to engage Li-Yen Yang as President of this Company. Because Li-Yen Yang was an interested party in this matter, he recused himself from discussions and did not participate in the voting according to regulations.
   (7) At the twenty-first meeting of the sixth term Board of Directors on September 10, 2016, the Board discussed the proposal to reappoint 10 directors and 5 supervisors of the Mega International Commercial bank and appoint Li-Yen Yang as President of the Bank. Because Directors Li-Yen Yang and Chia-Chi Hsiao were interested parties in this matter, they recused themselves from discussions and did not participate in the voting according to regulations.
3. Measures taken to strengthen the function of the Board:
   (1) The Company has established an audit committee as required by the Securities and Exchange Act since June 15, 2012. The committee meets at least once a quarter. It may also meet whenever need arises. In addition to the tasks defined in Article 14-4, Securities and Exchange Act, the duties that should be discharged by supervisors according to the Securities and Exchange Act, Company Act, and other laws should be performed by the audit committee. The Audit Committee meets 15 times in 2016.
   (2) In order to strengthen the function of the Board, the Board of Directors approved on November 24, 2015 the "Guidelines Governing the Performance Evaluation of the Board" which stipulate that by the end of each year the Board must conduct a performance self-evaluation for the current year according to the evaluation procedures and performance indicators of these guidelines. The scope of evaluation includes the Board of Directors as a collective, individual board members, and board committees. The evaluation results of 2016, described below, were reported to the Board of Directors meeting of February 21, 2017:

      A. Board of Directors scored 97.5, increasing by 7.5 from 2015, in 5 dimensions, 40 self-evaluation indicators.

         a. One item failed to score: "33. Does the company have a training record of directors and a continuous professional development plan, so that directors can strengthen their knowledge and skills?"

         b. Performance analysis and status of improvement: The dimensions with good performance included: "Participation in the operations of the company", "Enhancing the quality of the decision-making", "Composition and structure of the board of directors" and "Internal control", which all received full marks. Non-scored indicator is under the dimension "Election and continuing education of the directors". To help all directors reinforce their knowledge and skills through professional development programs, the Company will provide directors with more diversified courses aside from the courses of training arranged by institutions approved by the competent authorities.

      B. Board members scored an average of 98.67, increasing by 0.8 compared to 2015, in 6 dimensions, 25 self-evaluation indicators.The directors' self-evaluation scores ranged from 92 to 100.

         a. Two items failed to score, including: indicator "18. Do directors and external auditors have good communication and interaction?", "22. Do directors continually attend diversified training courses to enhance their professionalism and expertise?"

         b. Performance analysis and improvement status: The dimensions with good performance included: "Familiarity with the goals and missions of the company", "Awareness of the duties of a director", "Participation in the operations of the company" and "Internal control", which all received full marks. Indicators failed to score are under the dimensions of "Management of internal relationship and communication" and "The directors' professionalism and continuing education". The Company will periodically hold meeting inviting directors and the external auditors to communicate with each other. To help all directors continually enhance their knowledge and skills through different channels, the Company will provide directors with more diversified courses.

      C. The Audit Committee and Remuneration Committee satisfied the 32 evaluation indicators, and scored full marks, which is the same as that of 2015.

3.3.2 Audit Committee Meeting

The Company's Audit Committee held 10 meetings (A) in 2016, with the following attendance:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Independent Director	Tsun-Siou Li	10	0	100%	
Independent Director	Chi-Hung Lin	8	2	80%	
Independent Director	Keh-Nan Sun	10	0	100%	

Annotations:
1. Operation of the Audit Committee
   (1) Resolutions related to Article 14-5 of the Securities and Exchange Act
   - At the fifth meeting of the second term Audit Committee on January 19, 2016, the committee approved the 2016 service fees to external auditors whereupon independent directors raised no objection.
   - At the sixth meeting of the second term Audit Committee on March 24, 2016, the committee approved 2015 Statement of Internal Control System whereupon independent directors raised no objection.
   - At the sixth meeting of the second term Audit Committee on March 24, 2016, the committee approved 2015 annual financial statement whereupon independent directors raised no objection.
   - At the tenth meeting of the second term Audit Committee on August 23, 2016, the committee approved 2016 second quarter financial statement whereupon independent directors raised no objection.
   - At the fourteenth meeting of the second term Audit Committee on December 27, 2016, the committee approved the engagement of 2016 external auditors whereupon independent directors raised no objection.

   (2) There was no resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2016.
2. There were no recusals of independent directors due to conflicts of interests in 2016.
3. Descriptions of the communications between the Independent Directors, the internal auditors, and the external auditors in 2016 (e.g. the channels, items and/or results of the audits on the corporate finance and/or operations, etc.):
   (1) Communications between Independent Directors and the internal auditors
   - The Company's auditing office submits its annual audit plans to the Audit Committee for review every year. Financial Supervisory Commission's examination reports and all internal audit reports are submitted to independent directors regularly or irregularly.
   - The deficiencies, mentioned in the reports of examination by domestic or foreign competent authority and in the internal audit reports, and the improvements thereof were submitted to the Audit Committee meeting. Deficienfies of internal control discussed in the Audit Committee meeting include acceptance of huge amount of counterfeit US dollar bills and those mentioned in the consent order signed between New York State Department of Financial Services and Mega International Commercial Bank.

   (2) Communications between Independent Directors and the external auditors
   - Aside from communicating auditing procedures with external auditors, independent directors also discussed the semi-annual and annual financial statements with external auditors in meetings of Audit Committee. The impact, on the financial statements, of the sanction of US$180 million imposed on Mega International Commercial Bank and change of audit report regarding disclosure of key audit matters, were discussed in Audit Committee meetings. Independent Directors' suggestions about wording of financial statement are followed by The Company.

   (3) For other communication details, please log on to our website at http://megaholdings.com.tw/contents_1024/co_goven/communicate.asp.

3.3.3 Corporate Governance Execution Status and Deviations from "Corporate Governance Best-Practice Principles for Financial Holding Companies"

As a financial holding company (FHC), the Company is increasing its commitment to Corporate Governance Best-Practice Principles for Financial Holding Companies. Set forth below are the implementation status of our corporate governance, compared with the Corporate Governance Best-Practice Principles for Financial Holding Companies, promulgated by the Bankers Association of The Republic of China, and reasons for non-implementation.

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
1. Shareholding structure and shareholders' rights				
(1) Does the Company have internal operation procedures for handling shareholders' suggestions, concerns, disputes and litigation matters? If yes, has these procedures been implemented accordingly?	V		The Company has enacted Procedures for Handling Shareholders' Suggestions, Concerns and Disputes, which prescribes the deadline to reply to shareholders and handling procedures.	None
(2) Does the Company possess a list of major shareholders and beneficial owners of these major shareholders?	V		The Company tracks the shareholdings of directors, managerial officers, and shareholders holding more than 1% of the outstanding shares of the Company and the beneficial owners of these major shareholders.	None
(3) Has the Company built and executed a risk management system and "firewall" between the company and its affiliates?	V		The Company clearly divides the right and responsibility between itself and the affiliated enterprise concerning the management of staff, assets and financial affairs. The Company does not provide any loans or guarantee to its affiliated enterprises. Transactions between the Company and its affiliates are conducted in accordance with "Related Parties Transactions Guidelines", and there are no non-arm's-length transactions between the Company and its affiliated enterprises. The "Rules for Monitoring Operations of the Subsidiaries" and "Group Policy and Guidelines on Risk Management" are in place to strengthen the management of subsidiaries, risk management and firewall mechanism between the Company and its Subsidiaries.	None
2. Composition and responsibilities of the Board of Directors				
(1) Other than the Remuneration Committee and Audit Committee which are required by law, does the Company plan to set up other Board committees?	V		Other than the Remuneration Committee and Audit Committee, the Company has set up a Risk Management Committee which monitors the Group's risk management. A Corporate Social Responsibility Committee is also set up to monitor the goals and implementation status of Corporate Social Responsibility.	None
(2) Does the Company regularly evaluate its external auditor's independence?	V		In addition to recognizing whether the CPA is the related party under the Article 45 of the Financial Holding Company Act, the Company assesses the independence of its external auditor at least once a year before submitting to the Audit Committee and Board for approval. The criteria of assessment is as follows: 1.No financial benefits between this Company and the external auditors. 2. No gifts given to the external auditors by this Company, its affiliated companies or directors. 3. External auditors not serving as directors, supervisors, or managerial officers of this Company or its affiliated entities. 4. Limitation on external auditors serving for this Company. 5. Limitation on previous employee serving for the external auditor's firm.	None
3. Does the Company establish a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors, handling matters relating to board meetings and shareholders' meetings according to laws, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders meetings, etc.)	V		The Company designated Administration Department to handle matters relating to corporate registration and amendment registration, shareholders' meetings. The secretary of the Board is in charge of furnishing information required for business execution by directors, handling matters relating to board meetings, while the Business Development Department is in charge of matters relating to investor relationships.	None

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
4. Has the Company established a means of communicating with its stakeholders (including but not limited to shareholders, employees, customers, etc.)?	V		The Company's subsidiaries operate a service hotline to answer enquiries from their customers and provide consulting services. To maintain channels of communication with stakeholders, the Company discloses the way to communicate with the Company on its website. Shareholders may put forward their suggestions or enquiry by telephone or e-mail, which will be handled by a dedicated person. Besides, the Company has designated a stakeholder subsection under the "Corporate Social Responsibility" section on its website, which provides stakeholders (investors, customers and suppliers) with report channels. Employees may communicate with their supervisors through direct contact, e-mail and telephone.	None
5. Information disclosure (1) Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status?	V		The Company has set up a website to disclose financial and business information, as well as corporate governance information. Dedicated personnel are designated to maintain and update the website.	None
(2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investor conference etc.?)	V		Other channels of disclosure include: setting up an English website, designation of dedicated personnel responsible for collection and disclosure of the Company's information, full implementation of the spokesperson system, proactively attending investor conference and disclosing IR calendar and information announced in investor conferences on the Company's website.	None
6. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk measurement criteria, the implementation of customer policy, and purchasing insurance for directors)?				
(1)Employee rights, employee wellness, investor relations, rights of stakeholders:	V		(1)Employee rights, employee wellness: Please refer to "Corporate Social Responsibilities" on page 41 and "Labor Relations" on page 80. (2)Investor relations: The Company has designated an investor section on its website to provide investors with relevant information. Aside from designating a spokesperson to communicate with investors, the Company attends investment conference held by securities firms from time to time. One-on-one meetings with investors are also held irregularly. (3)Rights of Stakeholders: The Company maintains smooth communication channels with customers, employees, suppliers, community and other stakeholders. Legal right of stakeholders is respected and maintained.	None
(2)Directors' training records	V		Please refer to page 38-39 of this annual report.	None
(3)Implementation of risk management policies and risk measurement criteria	V		In addition to fully compliance of government regulations, the Company aims to establish a risk management mechanism that conforms to international standards. Currently, the Company established the Group's Policy and Guidelines on Risk Management, which clearly described the guidelines on management of credit risk, market risk, operational risk, human resource risk, and emergency crisis. On credit risk, the Company set up the Group's Guidelines on Credit Risk Management to avoid over-concentration of risk. The Guidelines requires that the credit risk exposure of the Group be divided into different categories by clients, industries as well as country, and be reviewed and reported on a regular basis. So far, the credit risks are not over-concentrated. On market risk, the Company set up the Group's Guidelines on Market Risk Management in place and reviews risk control status of all subsidiaries on a regular basis. An integrated	None

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
			risk management system is also being established step by step in an effort to make the market risk management system more comprehensive. On operational risk, the Company set up the Group's Guidelines on Operational Risk Management and periodically monitors the operational risk management of every subsidiary. Subsidiaries are required to conduct self-evaluation every year and to record loss events so to gradually build up the data base for operational risks loss. On liquidity risk, the Company set up the Group's Guidelines on Liquidity Risk Management and periodically monitors liquidity risk of its subsidiaries. The status of the aforesaid risk management is reported to the Risk Management Committee and Board of Directors on a regular basis.	
(4)Implementation of consumer policy			Processing of personal information is managed according to requirements of the Personal Information Protection Act and Financial Holding Company Act. The Company's Guidelines for Client Data Protection and the Group's Firewall Policy are also followed. No disclosure, referral, or exchange of client data by the Company would be carried out without an agreement signed by or written consent from the client, in accordance with relevant statutory requirements in force. Besides, the subsidiaries set up client hotlines to handle customer complaints in a timely manner.	None
(5)Purchase of Liability Insurance for Directors and Supervisors			The Company has purchased Liability Insurance for directors, supervisors and senior officers of the Group with an insurance coverage of US$30 million.	None
(6)Donation to political parties, related parties and charity organizations			The Company does not make any donations to political parties. In 2016, the Mega International Commercial Bank donated NT$16 million to the Mega International Commercial Bank Cultural and Educational Foundation. The donation to Mega Charity Foundation, by Mega International Commercial Bank, Chung Kuo Insurance Company, Mega Bills Finance Company, Mega Securities Company, Mega Assets Management Company, and Mega International Investor Trust Company, amounted to NT$5 million in total. The Company and its subsidiaries donated totally NT$118,738,383 to government, charity organizations and other legal entities in 2016.	None

7. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange

With regard to the 3rd (2016) corporate governance evaluation systems evaluation results, those already improved and those pending improvement are as follows:

(1) Improved items:

A. Indicator 3.14 “Have all the board directors and supervisors of the company completed continuing education according to the hours specified in the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies?”: All the board of directors (including independent directors) of the Company have completed the required hours of continuing education.

B. Indicator 3.24 “Is the designation and dismissal of the internal audit supervisor/chief auditor subject to approval by the Board of Directors and reporting to the competent authority for reference/approval by the given deadline?”: The designation and dismissal of the chief auditor at the company are to be reported to the competent authority within 2 days following approval by the Board of Directors as required.

C. Indicator 4.22 “Are dividend policies disclosed in the company's annual report in substantial and clear terms?”: Dividend policies are already disclosed on page 47 of the 2015 Annual Report of the Company in substantial and clear terms.

D. Indicator 5.12 “Does the Company have a reporting system in place for reporting illegal (including corruptive) and immoral or unethical acts by internal and external whistleblowers and disclose on the Company's website?”: The Company has established “Procedures for Handling Reported Illegal and Immoral or Unethical Conduct” which are disclosed on the website of the Company.

(2) Unimproved items with prioritized reinforcement:

A. Indicator 1.13 “Is the number of directors from government agencies or a single listed company and subsidiaries below one-third of directors.”: We plan to suggest the Ministry of Finance to increase the number of independent director in re-election of Board directors for the next term.

B. Indicator 3.29 “No punishments by the competent authority or no request from the Taiwan Stock Exchange or Taipei Exchange to attend educational programs organized by units designated by the competent authority on internal control operations of the company.”: Subsidiaries Mega International Commercial Bank and Chung Kuo Insurance were fined by the competent authority because of internal control deficiencies in 2016. Both of the companies have already stipulated improvement measures (Please refer to Internal Control Weaknesses and Improvement Plans on page 48-51). The improvements have either been completed or been ongoing.

C. Indicator 4.14 “Voluntary disclosure of remunerations for individual directors and supervisors in the company's annual report”: Remunerations for individual directors will be disclosed in due course.

Directors' training records

Name	Date	Training Agency	Course	Training Hours
Chao-Shun Chang	03/25/2016	National Federation of Certified Public Accountant Associations of the Republic of China	Difference analysis of accounting principle and example analysis on the accompanying note of the financial statements of non-public company	7.0
	03/29/2016	National Federation of Certified Public Accountant Associations of the Republic of China	Analysis of the Political Donations Act and case study	2.0
	08/01/2016	Securities & Futures Institute	Regulations governing ownership competition of enterprises and case study	3.0
	10/26/2016	Training Institute, Ministry of Finance ,R.O.C.	The responsibility of Board of directors on internal control and internal audit	3.0
	11/14/2016	Training Institute, Ministry of Finance ,R.O.C.	Money Laundering Control Act and case study I	3.0
Li-Yen Yang	03/21/2016	Taiwan Academy of Banking and Finance	Innovation century-Fintech transformation summit forum	3.0
	05/13/2016	Taiwan Corporate Governance Association	Laws of mergers and acquisition	3.0
	10/26/2016	Training Institute, Ministry of Finance ,R.O.C.	The responsibility of Board of directors on internal control and internal audit	3.0
	11/14/2016	Training Institute, Ministry of Finance ,R.O.C.	Money Laundering Control Act and case study I	3.0
Tsun-Siou Li	06/15/2016	Securities & Futures Institute	The way to review the financial statements by directors with no financial and accounting background	3.0
	06/16/2016	Securities & Futures Institute	The awards ceremony of the 2nd corporate governance evaluation and lecture	3.0
Keh-Nan Sun	02/25/2016	Taiwan Academy of Banking and Finance	Taiwan financial forum series	3.2
	03/04/2016	Taiwan Academy of Banking and Finance	Vision of 2016 cross Strait financial development	8.0
	03/13/2016	Taiwan Academy of Banking and Finance	Detection and prevention of employee fraud in financial institutions by use of big data	6.0
	05/20/2016	Taiwan Corporate Governance Association	Function of board of directors and its performance evaluation	3.0
	07/29/2016	Taiwan Corporate Governance Association	Practice of independent directors and functionary committees	3.0
	08/09/2016	Securities & Futures Institute	Promulgation of laws and regulations on equity transaction by insiders of listed company	3.0
	09/06/2016	Securities & Futures Institute	How to fulfil the function of the board of directors and its functional committees	3.0
	10/06/2016	Taiwan Corporate Governance Association	The 12th international corporate governance summit forum	3.0
Tzong-Yau Lin	07/29/2016	Securities & Futures Institute	Promulgation of laws and regulations on equity transaction by insiders of listed company	3.0
	10/20/2016	Financial Supervisory Commission R.O.C.(Taiwan)	The 11th Taipei corporate governance forum	3.0
Chia-Chi Hsiao	11/14/2016	Training Institute, Ministry of Finance ,R.O.C.	Money Laundering Control Act and case study I	3.0
	11/23/2016	Training Institute, Ministry of Finance ,R.O.C.	Money Laundering Control Act and case study II	3.0
Cheng-Te Liang	10/04/2016	Securities & Futures Institute	Legal issues that directors and supervisors of public company should note	3.0
	10/04/2016	Securities & Futures Institute	Analysis and application for decision-making of financial information of enterprises	3.0
	10/18/2016	Securities & Futures Institute	Legal obligation of directors and supervisors for false financial statements	3.0
	11/07/2016	Securities & Futures Institute	Regulations for prevention of commercial bribery and case study	3.0

Name	Date	Training Agency	Course	Training Hours
Chun-Lan Yen	08/25/2016	Taiwan Academy of Banking and Finance	Operation practice of board of directors and corporate governance	3.0
	10/26/2016	Training Institute, Ministry of Finance ,R.O.C.	The responsibility of Board of directors on internal control and internal audit	3.0
Ming-Hsin Kung	09/22/2016	National Development Fund, Executive Yuan	How to fulfil the function of board of directors and its functional committees	3.0
	11/15/2016	Securities & Futures Institute	Reading the performance information of enterprises	3.0
Wen-Chyi Ong	01/15/2016	Taiwan Corporate Governance Association	Operation of board of directors and the effect of its resolution	3.0
	04/28/2016	Taiwan Institute for Sustainable Energy(TAISE)	Development of overseas market and implementation of CSR	2.0
	05/19/2016	Taiwan Corporate Governance Association	Political and economic environment as well as corporate governance in India	2.0
	01/24/2016	Taiwan Corporate Governance Association	Amendments to Company Act relating to corporate governance of listed company	1.0
Tzong-Yau Lin	05/03/2016	Securities & Futures Institute	How to fulfil the function of board of directors and its functional committees	3.0
	10/19/2016	Securities & Futures Institute	Regulating on ownership competition of corporation and case study	3.0
Ye-Chin Chiou	07/22/2016	Taiwan Academy of Banking and Finance	Operating Practice of board of directors and corporate governance	3.0
	10/20/2016	Financial Supervisory Commission R.O.C.(Taiwan)	The 11th Taipei corporate governance forum	6.0
	11/29/2016	Taiwan Academy of Banking and Finance	Corporate governance forum	3.0
Wen-Ling Hung	09/20/2016	Securities & Futures Institute	Development of IFRS and Business Entity Accounting Act	3.0
	10/26/2016	Training Institute, Ministry of Finance ,R.O.C.	The responsibility of Board of directors on internal control and internal audit	3.0
	11/08/2016	Securities & Futures Institute	Study of short swing trading and insider trading	3.0
	11/15/2016	Securities & Futures Institute	Reading the performance information of enterprises	3.0
Shiow-Huey Yeh	01/11/2016	Taiwan Corporate Governance Association	The role and function of institutional investors in corporate governance	1.0
	03/04/2016	Taiwan Corporate Governance Association	Responsibility of directors and supervisors for major disputes of financial statement	3.0
	04/27/2016	Taiwan Corporate Governance Association	Business management-- CSR, corporate governance and ethical corporate management principle	3.0
	07/28/2016	Taiwan Corporate Governance Association	The legal warfare between the acquiring company and the defender of a tender offer	3.0
	08/30/2016	Taiwan Corporate Governance Association	Demonstration on the new G20/OECD corporate governance	1.0
	10/06/2016	Taiwan Corporate Governance Association	The12th international corporate governance forum	3.0
Chiu-Fa Tsai	06/29/2016	Taiwan Corporate Governance Association	Risk management, internal control and information management practice	3.0
	07/12/2016	Securities & Futures Institute	Promulgation of laws and regulations on equity transaction by insiders of listed company	3.0
	09/12/2016-09/13/2016	Ministry of Labor	2016 training on professional knowledge of labor directors	9.5

3.3.4 Operation Status of the Remuneration Committee

A. Members of the Remuneration Committee

Title	Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)								Number of Other Public Companies where the Members Serve as Member of Remuneration Committee
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	
Chair	Chi-Hung Lin	V	V	V	V	V	V	V	V	V	V	V	0
Member	Tsun-Siou Li	V		V	V	V	V	V	V	V	V	V	1
Member	Keh-Nan Sun	V		V	V	V	V	V	V	V	V	V	0

Note: Please tick the corresponding boxes if members have been any of the following during the two years prior to being elected or during the term of office:

(1) Not an employee of the Company or any of its affiliates.
(2) Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchange Act of Taiwan or with the laws of the country of the parent company or subsidiary.
(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
(7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
(8) Not been a person of any conditions defined in Article 30 of the Company Act.

B. Remuneration Committee's Operation Status and Responsibility

(1) The Responsibility of Remuneration Committee is as follows:

(a)Prescribing and periodically reviewing the performance evaluation and remuneration system for directors and senior officers.

(b)Prescribing and periodically reviewing the salary and remuneration of directors and senior officers.

(2) The Company's Remuneration Committee has 3 members. The current Committee's term of office is from July 1, 2015 to June 30, 2018. In 2016, the Committee held 2meetings with the following attendance:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Chair	Chi-Hung Lin	2	0	100%	
Member	Tsun-Siou Li	2	0	100%	
Member	Keh-Nan Sun	2	0	100%	

Annotations:
1. There was no recommendation of the Remuneration Committee which was not adopted or was modified by the Board of Directors in 2016.
2. There were no written or otherwise recorded resolutions on which a member of the Remuneration Committee had a dissenting opinion or qualified opinion.

3.3.5 Corporate Social Responsibility

For the Company's corporate social responsibility implementation status, please refer to the Company's Corporate Social Responsibility Report on the company's website:

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
1. Exercising corporate governance (1) Does the Company declare its CSR policy, systems or relevant management guidelines and review the results?	V		The Company has enacted the "Corporate Social Responsibility Principles" and "Corporate Social Responsibility Policy" which are disclosed on its website. Corporate Social Responsibility Report was also published to disclose the action plan and a review of its implementation.	None
(2) Does the Company organize education and training on the implementation of CSR initiatives on a regular basis?	V		The Company periodically conducts training of social responsibilities and designates staff to attend relevant external trainings or seminars from time to time.	None
(3) Does the Company establish an exclusively (or concurrently) dedicated unit to be in charge of CSR and appoint executive-level positions by the board of directors with responsibility for CSR issues, and to report the status of the handling to the board of directors?	V		The Administration Department is appointed to be the concurrently dedicated unit in charge of CSR. A Corporate Social Responsibility Committee is also established. President is the chair of the committee, and Executive Vice Presidents of the Company and its subsidiaries are committee members. Five working groups in charge of the enactment of work plans are required to report to the committee and Board of Directors. Implementation status is reported annually to the Board of Directors.	None
(4) Does the Company adopt reasonable remuneration policies, combine the employee performance evaluation system with CSR policies, and establish a clear and effective incentive and discipline system?	V		The Company has enacted fair and rational compensation polices in order to recruit and retain talents, while the strategy target and stakeholder's interest are taken into account. The evaluation indicators of employees' performance include "jobs and capabilities", "moral behaviors" and "education and knowledge level". Violation of laws or relevant internal regulations such as Services Guidelines, Principles for Ethical Management, CSR Principles, will be taken into account in performance evaluations and punishments will be given according to the violation levels. On the contrary, those who contribute to the Company should also be rewarded according to their contribution levels.	None
2. Fostering a sustainable environment (1) Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have a low impact on the environment?	V		The Company improves energy efficiency by adjusting operational service procedure and using high efficient equipment, for example: 1. Reduced usage of paper: Promotion of e-forms (such as: leave applications and various application forms), the use of online announcements; implementation of paper free meetings, the set-up of waste paper recycling bins to facilitate recycling. 2. Conserving fuel: The use of hybrid cars for business, promotion of car pool for business trips. 3. Conserving electricity: Increase of outlet water temperature of the central air conditioner of the building by 2 degrees (the temperature of air conditioner is set between 26-28 degrees), the limit use of 90% of joint current; the replacement of energy saving lighting devices, the use of green building materials to save energy and reduce carbon emission in construction and renovation. 4. Conserving water: Reduction of water volume of faucets, re-using water for cleaning. 5. Promoting energy saving, carbon reduction and resource sorting.	None

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
(2) Does the Company establish proper environment management systems based on the characteristics of its industry?	V		As a financial service provider, the Company has taken management measures for the maintenance of workplace health and safety, drinking water, access control, and so on. The Group does not produce noise, sewage, exhaust emissions or toxic substances. The ISO 14001 will not apply to the Group. However, Mega International Commercial Bank proposes to introduce ISO 14001 in 2017 in its Jilin Building.	None
(3) Does the Company monitor the impact of climate change on their operations and establish Company strategies for energy conservation and carbon and greenhouse gas reduction?	V		The Company implements various energy saving measures including the use controls of elevators, lighting, air conditioning, gasoline and water. We review quarterly the effects in reductions of water, electricity, and fuels used by each company of the Group. We have started to quantify and manage our greenhouse gas emissions since 2013. ISO 14064-1 of greenhouse gas emission inventory verification was also introduced in 2015. The number of business units under verification will gradually increase.	None
3. Preserving Public Welfare (1) Does the Company comply with relevant laws and regulations, and the International Bill of Human Rights and adopt relevant management policies and procedure?	V		The Company treats its job seekers or employees fairly with no discrimination towards their races, classes, languages, philosophies, religions, political affiliations, native places, birth places, genders, sexual preference, ages, marital statuses, looks, figures, disabilities, or membership of labor unions. The Company does not force or require compulsory labor, hire child laborers, or impair the freedom of labors to organize unions. In compliance with the Labor Standards Act and other relevant rules and regulations, the Company enacts its human resources rules.	None
(2) Does the Company provide an employee grievance mechanism and respond to any employee's grievance in an appropriate manner?	V		The Company set up diverse communication channels for employees including direct contact or email. The communication channels with employee are smooth.	None
(3) Does the Company provide safe and healthful work environments for employees and organize training on safety and health for employees on a regular basis?	V		To provide safe and healthy work environments for its employees, the Company focuses on prevention of accident and keeping a sanitary environment. Labor safety training and fire drill are held on a regular basis. Regular health examinations are offered for employees.	None
(4) Does the Company establish a platform to facilitate regular communication between the management and the employees and inform employees of operation changes that might have material impacts?	V		The Company maintains good communications with its employees. Employees are encouraged to talk to their superiors directly about their rights or via emails or meetings. Employees will be informed via meetings or other reasonable methods within the required time for operational changes that may result in huge impacts on employees.	None
(5) Does the Company establish effective training programs to foster career skills?	V		In order to improve employees' career development abilities, the Company conducts on-the-job trainings for them and sends them to participate in various seminars and conferences. We encourage employees to engage in professional and inter-industry diverse learning as required by their own professional fields.	None
(6) Does the Company establish policies on consumer rights and interests and accept consumer complaints in the process of research and development, procurement, production, operations, and services?	V		Processing of personal information is managed according to requirements of the Financial Holding Company Act, the Personal Information Protection Act and Regulations Governing Cross Selling among Subsidiaries of Financial Holding Company. To protect the secret and safety of customer's personal information, the Company has adopted rigorous control mechanism. Measures for protection of clients' privacy are disclosed on the Company's website. Besides, its subsidiaries set up client hotlines to handle customer complaints in a timely manner.	None

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
(7) Does the Company follow relevant laws, regulations and international guidelines when marketing or labeling their products and services?	V		Marketing of financial products are conducted according to requirements of the Financial Consumer Protection Act and other relevant regulations.	None
(8) Does the Company assess whether there is any record of a supplier's impact on the environment and society prior to engaging in commercial dealings?	V		The Company avoids working with suppliers that have negative records of impact on the environment and society. Additionally, in order to encourage suppliers to fulfill their corporate social responsibilities, since 2014, the Company requests suppliers having transactions with us for amounts higher than NT$1 million to sign an agreement to fulfill social responsibilities related to the environment and society.	None
(9) Does the Company enter into a contract with any of their major suppliers including terms that the contract may be terminated or rescinded any time if the supplier has violated CSR policy and has caused significant negative impact on the environment and society?	V		Starting from 2015, the content of contract we enter into with any of our major suppliers include terms stipulating that the contract may be terminated or rescinded any time if the supplier has violated CSR policy and has caused significant negative impact on the environment and society of the community of the supply source.	None
4. Enhancing information disclosure Does the Company fully disclose relevant and reliable information relating to their CSR initiatives on Company's website and MOPS website?	V		The information relating to the Company's corporate social responsibility is disclosed in this annual report and corporate social report which are also disclosed on its website and the Market Observation Post System of the Taiwan Stock Exchange.	None
5. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation: The Company's Corporate Social Responsibility Principles, based on the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", is fully implemented with no discrepancy.				

6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices:

<u>Care for Community Development</u>

(1).Earthquake and Typhoon Donations

On February 06, 2016, an earthquake of magnitude 6.4 hit Kaohsiung early in the morning and resulted in collapse of multiple buildings in Yongkang District of Tainan City. The Company donated NT$ 5 million in order to help rebuild disaster-hit areas. On July 08, 2016, Typhoon Nepartak hit Taiwan and caused serious damages in Taitung and Pingtung. We felt the pain of local residents; the whole group, including the Mega International Commercial Bank, Mega Bill Finance, and Mega Securities, donated NT$2.5 million in total in order to help the victims rebuild their homes.

(2).Involvement in "Loving Financial Institutions – Food Bank" Charity Activities

The "Loving Financial Institutions – Food Bank" Charity Event features delivery of purchased food to disadvantaged families in order to substantially help poor disadvantaged populations in remote areas. This Group donated NT$2 million to the activities. It is our hope to draw public attention to the issue and to inspire collaborative efforts that help disadvantaged families in remote areas survive difficulties in life.

(3).Sponsoring "Financial Service Industry Educational Fund"

In order to care for poor and disadvantaged students, the Financial Supervisory Commission authorized the Taiwan Financial Services Roundtable to set up the "Financial Service Industry Educational Fund", to which Mega International Commercial Bank donated NT$2.5 million.

(4).Mega International Commercial Bank Organizes "Year-end Care with Mega Warmth"

At the end of the year and in the cold winter, in order to continue the practice of caring for the disadvantaged and letting those being cared for feel the warmth from enterprises and society, Mega International Commercial Bank organizes the "Year-end Care with Mega Warmth" event on a yearly basis. Care institutions for the poor and old without dependents, the young or disabled, and those with dementia are prioritized. We gave to a total of 5 charity institutions and the total amount of donations was NT$600 thousand.

Enriching Financial Knowledge

(1).Sponsoring "2016 Master Forum" of Economic Daily News

Augus Deaton, winner of the 2015 Nobel Prize in economics was invited to speak on global trends and Taiwan's prospect. He analyzed consumption, poverty, and inequality using Taiwan as an example. The speech is of high reference value for the economic development in Taiwan.

(2).Sponsoring the "13th Chinese Corporate Leadership Summit" of Global Views Monthly

In order to continue focusing on developmental opportunities for enterprises in the 21st century and to combine Chinese business management traits, the leadership summit served as the platform for exchange of opinions and for gaining insights of future commercial opportunities and industrial trends.

Promoting Mass Fitness Movement

(1).The Company and National Taxation Bureau of the Ministry of Finance jointly organized the MOF Unified Invoice Cup Road Run. It was the fifth year of the event in 2016. The event is meant mainly to encourage citizens to exercise and to answer to the government's promotion of obtaining a unified invoice for any purchase. The 358,588 unified invoices collected throughout the event were all donated to disadvantaged groups, fulfilling both sporting and charitable purposes.

(2).Mega International Commercial Bank Cultural and Educational Foundation sponsored the "2016 Grandpa and Grandma Color Walking – Wedding March" hiking event. Senior citizens were called upon to join the event and prove that they are still young and energetic. The event saw more than 3,000 participants. Among them, there were more than 2,900 senior citizens aged 65 and above, with the oldest being 98.

Green Hope of Environmental Protection

To love our Earth and to encourage energy-saving and call the public's attention to carbon reduction and environmental protection, the Company continued to take part in the "Light off Moon Shines" event of City Broadcasting Network. Outdoor billboard lights of all business operation sites of the Group were turned off for one hour between 8:00 pm and 9:00 pm on Mid-Autumn Festival to slow down global warming.

Helping the Disadvantaged

(1).In order to help disadvantaged groups to have basic personal protection, Chung Kuo Insurance offers "Micro Personal Injury Insurance", which can be purchased by township or district offices or legally registered social welfare institutions on the insured's behalf; it will help reduce the insurance premium for the insured.

(2).Each year, Chung Kuo Insurance purchases produce such as Roselle, mushrooms, and sulfur free daylilies grown by medium-to-low-income earners in Yuli Township every year to help disadvantaged people to earn their living.

(3).Mega Charity Fund mainly deals with child benefits, teenager benefits, geriatric benefits, benefits for the physically and mentally disabled, emergency aids, and medical assistance. A total of 127 subjects benefitted from the programs in 2016. The sponsorship totaled NT$6,155,907.

(4).Volunteers at Mega Charity Fund are employees of the Group. Every month they provide service at the Catholic Nursing Home in Bali District of New Taipei City. What they do is to sing old songs together with the senior tenants. They served up to 1350 people throughout 2016.

(5).Mega International Commercial Bank Cultural and Educational Foundation has been devoted to life, ecology, and arts education, culture and public interest for students in junior high, senior high, and elementary students over the long term. It sponsored junior high and elementary school student clubs, children's hometown story picture books, newspaper reading campaign in 139 classes of 24 schools, the teenager art camp, chorus, happy senior paintings exhibition in 2016. The sponsorship covered 20 arts and cultural groups with a total amount of about NT$20 million.

Others

Please refer to the 2016 Corporate Social Responsibility Report disclosed on the website (http://www.megaholdings.com.tw/contents_1024/responsibility/default.asp)

7. If the Company's corporate social responsibility reports have received assurance from external institutions, they should state so below: The Company's 2016 CSR report is assured by BSI according to the principle of GRI 4.

3.3.6 Ethical Corporate Management and Approach Adopted

Ethical Corporate Management Implementation

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
1.Establishing the policies and external rams of ethical corporate management				
(1) Does the Company clearly specify ethical corporate management policies, guidelines and the commitments of the board of directors and management team to implement the policies in its rules and external documents?	V		The Company's Ethical Management Principles clearly specify the ethical corporate management policies and guidelines. Ethical practice clauses are included in the contracts we enter into. The Board and management team often emphasize the importance of ethics in business operations and lead by example.	None
(2) Does the Company establish relevant policies, including operational procedures, guidelines, disciplinary rules for violations and complaint channel, for preventing any unethical conduct? Does the Company implement the policies?	V		The Company's Ethical Management Principles clearly state that the following unethical behavior is prohibited: taking and paying bribes, providing illegal political contributions, making inappropriate charity donations and providing or accepting unreasonable gifts, hospitality, or other benefits. Relevant operational procedures, guidelines, disciplinary rules for violations and complaint channel are also stated in the Ethical Management Principles.	None
(3) Does the Company adopt any prevention program for the items of the Article 7.2 of "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" or higher potential unethical conduct within other business activities?	V		In order to prevent unethical conduct, the Company requires that employees should not have unethical conduct as prohibited in the Ethical Management Principles. Besides, the Company conducts various preventative measures, including: training, discipline requirements, strict implementation of the internal control system, and encouragement to report violation behaviors.	None
2.Corporate conduct and ethics compliance practice (1) Does the Company assess ethical records of business counterparties? Does the Company include business conduct and ethics related clauses in the business contracts?	V		The Company takes into consideration ethical records of transaction counterparties and avoids transactions with companies tainted by unethical practices. Ethical practice clauses are included in the contracts we enter into.	None
(2) Does the Company set up dedicated unit under the board of directors in charge of promotion of the ethical corporate management and report the execution to the board of directors periodically?	V		The CSR committee under the board is responsible for establishment and promotion of the ethical corporate management ideas. Implementation status of Ethical Management Principles is submitted to the board meeting regularly.	None
(3) Does the Company establish policies to prevent conflicts of interest, provides appropriate communication channels and implement the policies?	V		The Company has set up the "Procedures for Board of Directors Meetings" which stipulates that if any director or a juristic person represented by a director is an interested party with respect to any agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interests of the company, the director may not participate in discussion or voting on that agenda item, and further, shall enter recusal during discussion and voting on that item and may not act as another director's proxy to exercise voting rights on that matter. This rule has been well enforced and practiced. The Company's Code of Ethical Conduct also stipulates that directors and managerial officers should not take advantage of their position in the Company to obtain improper benefits for themselves or their spouse, parents, children, or relatives within the second degree of kinship.	None

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
(4) Does the Company establish effective accounting systems and internal control systems for the implementation of policies? Does the Company audit such execution and compliance by internal audit unit or entrusted CPA?	V		In order to enforce ethical compliance practices, the Company has established and followed an effective accounting system and an internal control system. Additionally, to ensure adherence to the internal control system, aside from internal audits performed by the internal audit staff twice a year, each department performs a self review on the internal control system at least once a year. The external auditor also regularly conducts random examination on the implementation status of the company's internal control system.	None
(5) Does the Company periodically provide internal or external training courses of ethics corporate management?	V		The Company periodically provides training courses of ethics corporate management and promotes ethical concepts to the suppliers in suitable occasions. In 2016, a total of 8,058 employees attended the training of anti-corruption, accounting for 99% of the Group's employees.	None
3.The channels for reporting any ethical irregularities (1)Does the Company set up specific reporting and reward system, convenient reporting channel and assign appropriate and dedicated sponsor to handle the case?	V		The Company's Ethical Management Principles requires that violation of ethical business practices should be reported to the dedicated unit, which will assign appropriate sponsor to handle the case.	None
(2) Does the Company establish standard operation procedures for the investigation and security mechanism?	V		The Company's guidelines for reporting of unethical conduct clearly stipulate that whistleblowers' identity and report contents shall be kept confidential. Standard operating procedures for reporting of unethical conduct are in place, which include case acceptance, investigation, punishment and reward, retention period requirements of documents, etc.	None
(3) Does the Company adopt protection measures of non-retaliation?	V		The Company protects whistleblowers, including keeping their identity and report contents confidential. No punishment will be given due to the content of the reports given by whistleblowers.	None
4.Enhancing disclosure of ethical corporate management information Does the Company disclose the content and the implement status of the Ethical Corporate Management Principles on the Company's website and MOPS?	V		The Company discloses the content and the implementation status of its Ethical Management Principles on the Company's website and MOPS.	None
5. If the Company has established Ethical Corporate Management Standards principles based on "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation: The Company's Ethical Management Principles, based on the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", is fully implemented with no discrepancy.				
6. Other important information to facilitate better understanding of the Company's Ethical Corporate Management: (e.g. discussions in how the company can further revise its ethical corporate management principles): Prior to engaging in commercial dealings, the Company assesses, the legality and reputation, and avoids conducting transactions with those against corporate social responsibility policy. The Company's Ethical Management Principles will be reviewed and updated from time to time.				

3.3.7 The Way for Searching the Company's Corporate Governance Principles and Related Guidelines

For the Company's rules of corporate governance, please log on to the following website:

http://www. megaholdings.com.tw/contents_1024/co_govern/regulations.asp

3.3.8 Other Important Information: None.

3.3.9 Execution of Internal Control System

A. Internal control system statement

Mega Financial Holding Co., Ltd.

Internal Control System Statement

To: Financial Supervisory Commission, R.O.C.

On behalf of Mega Financial Holding Co., Ltd., we here state that from January 1, 2016 to December 31, 2016, the Company has duly complied with the "Regulations Governing the implementation of Internal Control and Audit Systems by Financial Holding Companies and Bank Enterprises" in establishing its internal control system, implementing risk management, designating an independent and objective department to conduct audits, and regularly reporting to the Board of Director and the Audit Committee. After prudent evaluation, except for items listed in the schedule, the internal control and legal compliance systems of each department have been in effect during the year, this Statement will be included as the main content of the Company's annual report and prospectus, and be published to the public. If there is any illegal activity such as fraud or concealment, liabilities under Articles 20, 32, 171, and 174 of the Securities and Exchange Act will be involved.

Chairman : Chao-Shun Chang

President : Li-Yen Yang

Chief Auditor : Tzong-Chi Hsu

Compliance Officer : Hui-Lin Yu

March 9, 2017

Internal Control Weaknesses and Improvement Plans

Record Date: December 31, 2016

Weakness to be Improved	Improvement Plans	Estimated Completion Date
Mega International Commercial Bank Co., Ltd.		
1.The Branch accepted a large amount of counterfeit US Dollar bills from a customer revealed that the bank failed to have in place internal control system and effectively implement the system.	1. The bank has strengthened training for staff by gradually adding training courses relating to identification of foreign currency notes, anti-money laundering and countering terrorism financing. 2. The bank has established a mechanism to control the exchange of foreign currency cash in large quantities. 3. The bank has enacted regulations on the management of money detector, conducted a comprehensive review and enhanced functions of the money detectors.	Improved
2.The bank had provided customer basic information to Chung Kuo Insurance to facilitate its telemarketing operations with no prior permission from the clients, which is in violation of the Personal Information Protection Act.	1. After the amendment to the Article 43 of the Financial Holding Company Act took effect on June 6, 2014, the bank no longer provided customer data to other subsidiaries of the Company for joint marketing. 2. Letters were issued to all other subsidiaries of the Company requesting them to stop using data provided by the bank prior to June 5, 2014 for joint marketing.	Improved
3.The Branch failed to perform due diligence on the authenticity of transaction documents and their consistency with foreign exchange income and expenditure as required for transit trade purchase and payment business, which is in violation of applicable laws and regulations governing foreign exchange of the competent authority in China.	1. The bank has formulated a transaction risk assessment mechanism and reinforced KYC operations. 2. The collection and review of the transaction documentation have been enhanced. The Bank has proactively inquired the procedure to file for record with the State Administration of Foreign Exchange and kept records of inquiries. 3. Staff training has been enhanced.	Improved
4.The New York Branch did not establish an effective compliance system, did not report suspicious transactions of money laundering that should be reported. The Branch's internal controls was poor and it had failed to conduct adequate customer due diligence. Additionally, the Branch did not have adequate risk assessment policies and procedures in place, and lack of oversight from its head office.	1. The New York Branch has established an independent, dedicated compliance department with an experienced BSA officer (anti-money laundering officer) hired to implement the anti-money laundering operations. 2. The branch has established a Compliance Committee which discusses compliance proposals on a monthly basis, with particular emphasis on issues concerning anti-money laundering such as suspicious activity reports. 3. Consultants were hired to improve practical procedures and to revise the manual. Training of staff is strengthened and the functions of the anti-money laundering system are reinforced. 4. The branch has acquired PRIME surveillance system to enhance the capability of monitoring suspicious transactions. The system is currently being established with assistance from an external consultant. 5. The head office's high-level management will periodically visit the competent authorities of the overseas branches to improve bilateral communication and to prevent violations in advance hopefully. 6. Compliance officers at overseas branches have been taken on by dedicated personnel, and will be adjusted towards localization and specialization. 7. The head office has established an anti-money laundering center and hired professionals to coordinate the anti-money laundering operations throughout the bank.	Expected to be completed by the end of March 2018.
5.The penalty imposed by the New York State Department of Financial Services revealed that the Bank failed to establish and implement an internal control system during the management and handling process of this case.	1. Reinforcing the supervisory and management features of the Board of Directors. (1) The bank has engaged compliance, anti-money laundering, and information experts as directors and appointed a chief secretary to take care of various agenda-related affairs of the Board of Directors. A separate responsible functional committee is established to reinforce the supervision over compliance and anti-money laundering operations of overseas branches.	Completed or ongoing according to the improvement measures.

Weakness to be Improved	Improvement Plans	Estimated Completion Date
	(2) A mechanism for reporting important information to the Board of Directors has been established. (3) The Board shall urge the management to enhance oversight of follow-up of the examinations performed by overseas regulatory authorities. 2. Improving oversight of overseas branches by the head office. (1) The bank has adjusted its organizational framework by establishing Overseas Branches Administration Department and an exclusive unit responsible for the anti-money laundering operations. It also expands the staff size and reinforces oversight over overseas branches. (2) The bank has reinforced follow-up on financial examinations performed by local regulatory authorities on overseas branches and reported on a quarterly basis progress on the remediation of deficiencies to the Board of Directors. (3) The head office will periodically analyze and review deficiencies found during examinations by the local regulatory authorities on overseas branches and review the revisions of operations manuals. 3. Improving the regulatory compliance system of overseas branches. (1) The legal compliance officers of overseas branches are all changed to be full-time staff and the adjustment will be made toward hiring qualified local professionals. (2) The bank has enhanced regulatory training for legal compliance officers and staff overseas. (3) The contents to be reported and to be discussed during meetings of compliance committees of overseas branches have been strengthened. The overseas branches will periodically analyze and review deficiencies found during anti-money laundering and compliance audits, and regulatory compliance deficiencies for which a penalty is imposed by the competent authority, and report them to the Board of Directors. 4. Reinforcing internal audit features. (1) The bank will increase screening factors and take advantage of computer audit software to screen abnormal items. (2) The bank will irregularly organize horizontal communication meetings among respective departments to reinforce discussion on control points of operating procedures and internal control, and draw up improvement measures. (3) An external professional agency is engaged to perform independent test on the anti-money laundering operations at overseas branches.	
6. The bank is found with deficiencies in anti-money laundering and oversight over regulatory compliance of overseas branches.	1. The bank has established a mechanism to evaluate customers' money laundering risk. Periodical updates on customer's information and risk assessment will be carried out according to customers' risk level. 2. The bank is continuing to reinforce the review and promotion of risk assessment factors. Customers' transaction counterparty, transaction means, transaction amount, shareholder structure, high-risk sectors, and transaction patterns have been included in risk indicators of money laundering in order to reinforce anti-money laundering operations. 3. The bank has planned an upgrade project for information systems and pursued an external consultant to help establish a bank-wide anti-money laundering operating system with a goal to create a high-standard information system and database. 4. To reinforce oversight of overseas branches, the bank has established an exclusive management mechanism for regulatory compliance of overseas branches and a mechanism for periodic bilateral communication.	Except for Item 3, which is expected to be completed by the end of June 2018, the remainders have been completed or are ongoing according to the improvement measures.

Weakness to be Improved	Improvement Plans	Estimated Completion Date
7.The branches in Panama did not have a risk profile descriptions or indicators to effectively identify risks in place, which made it impossible to immediately perceive potential risks and weigh them. It did not precisely conduct risk self-assessments or take effective measures to control risk. The effectiveness of the function of risk management units needs to be reinforced. Quality of information submitted to the Banking Regulatory Commission did not meet requirements.	1. The branch will revise internal control and operational risk manuals to clearly stipulate risk profiles descriptions and operational risk indicators. 2. The branch will implement operational risk self-assessment, reinforce the identification of various operational risk indicators and periodically follow up and control. 3. The branch will strengthen KYC operations and customer data collection. Customer due diligence (CDD) and subsequent data updates and enhanced due diligence (EDD) will be performed as well. 4. The branch will enhance data collection for warning message from blacklist check and reinforce the functions and effectiveness of transaction monitoring systems. 5. The branch will strengthen risk management system to include different major exposures, and report to the risk and compliance committee for follow-up control. 6. The branch will comprehensively review and correct archived data, modify programs so that related reports are generated by the system to enhance the quality of information submitted to the competent authority.	Expected to be completed by the end of 2017.
Mega Securities		
1. The anti-money laundering risk control mechanism is found "not having a thorough understanding of customers' occupations", "not using the same correspondence address as a screening criterion for the same person or the same group", and "not specifying the amount of large transactions", which is determined to have violated Paragraph 2 of Article 2 of the Regulations Governing Securities Firms.	1. The company has notified its branches to follow the account opening procedures. 2. A new program has been added to reinforce screening for patterns and signs of suspected money laundering. 3. The amount of large transactions has been defined.	Improved
2. The subsidiary Mega International Securities Investment Consulting Co., Ltd. provides consultation services on foreign securities without prior approval from FSC, which is determined to have violated Paragraph 1 of Article 21 of the Regulations Governing Securities Investment Consulting Enterprises.	The company has stopped providing information on stocks traded on foreign markets since June 2016 and provided relevant training to its employees.	Improved
3. The subsidiary was aware of the fact that its former associated person borrowed money from customers, but failed to report the case within 5 business days after it became aware of it, which is determined to have violated Paragraph 2 of Article 4 of the Regulations Governing Securities Firms.	The company has reinforced examination of recording records and staff training.	Improved
Chung Kuo Insurance		
1. The premiums charged on pubic accident liability insurance were not in accordance with premium rates submitted to FSC for approval.	The company has changed the premium rates and filed with FSC for reference. Premiums have been charged according to the new premium rates.	Improved
2. The premiums on automobile insurance were not calculated according to modification range of the premium rates as submitted to FSC. The rate modification factor for the premium of theft insurance was not filed with FSC for reference.	Premiums have been calculated according to the rate modification range filed with FSC. The rate modification factor for theft insurance has been submitted to FSC for reference.	Improved
3. The premium of group injury insurance was not charged in accordance with the rates filed with FSC and the commission rate exceeded the additional expense rate submitted to FSC for reference.	The company has followed the expense rates and commission rates submitted to FSC for reference in underwriting operations.	Improved
4. The company was found to have reimbursed drivers not in the coverage of the automobile insurance with additional named insured drivers. Besides, it was found failure to follow the operating handbook, failure to ask the proposer or the insured to provide an authorization letter before a sales representative from the car dealer signed the appraisal sheet (repairs form), and failure to ask for an appraisal sheet or repairs form signed in person by the proposer (or the insured) when processing claims in automobile insurance.	The company has reinforced control of the system program. Claims are handled according to the system data. The internal regulations for underwriting and handling claims in automobile insurance have been revised.	Improved

Weakness to be Improved	Improvement Plans	Estimated Completion Date
5. The company failed to inform the recipient at the beginning of a phone call that the conversation would be completely recorded and obtain his/her consent and failed to inform customers of the fact that the one-year personal health insurance is not guaranteed renewable when telemarketing.	The company has revised the talking points script for telemarketing and reinforced training for telemarketers.	Improved
6. The company mistakenly disclosed expenses rates as the actual retained loss ratio of its respective types of insurance in 2012 on its website under the "Operation Overview" section for information disclosure.	The information disclosed on the website has been updated immediately and a review mechanism was set up.	Improved
7. The company failed to precisely calculate the premium based on the actual monthly salary of the insured when handling commercial fire insurance with additional accident liability insurance to be afforded by employers and on-duty and off-duty responsibilities.	The company has established a mechanism for approval of premium rates and has organized training.	Improved
8. The company failed to consider additional charges when undertaking large commercial fire insurance with additional mechanical insurance rider (engineering insurance).	The additional charges have been included in the rate modification factor.	Improved
9. The company was found failure to assess the premium of additional charges when assessing the premium for its commercial fire insurance.	The company has revised the underwriting technical modification factor sheet; riders qualified for additional charges have to be precisely considered in rate assessment.	Improved
10. As for the oversight of Guam representative office, the company failed to establish a mechanism to oversee its operation by reviewing the business report and policy wordings. The staff in the office were found to have affixed their signatures to checks issued while they were off.	1.Oversight of the Guam representative office has been reinforced by the Foreign Department. The mechanism for review of business report and policy wordings is in place. 2.The Guam representative office has revised the internal operation manual and established a control mechanism to be followed.	Improved

B. Report of Independent Auditor appointed to conduct special audit on the company's internal control system: None.

3.3.10 Major Malfeasant Cases and Operational Improprieties and Remedial Measures Adopted in the Past Two Years

A. Legal action involving executives or employees:

The Taiwan Taipei Prosecutors Office prosecuted former Chairman Mr. Tsai and former chief secretary Mr. Wang of the Company for violating the Criminal Code and the Securities and Exchange Act on December 2, 2016.

B. Fines imposed by FSC as a punishment for violating laws and regulations:

(1) The Dun Hua Branch of Mega International Commercial Bank accepted a large amount of counterfeit US dollars bills from a customer revealed that the bank failed to have in place internal control system and effectively implement the system. It was fined NT$3 million by Financial Supervisory Commission (FSC) on June 21, 2016.

Improvements: Please refer to item 1 of Mega International Commercial Bank on the Internal Control Weaknesses and Improvement Plans.

(2) Mega International Commercial Bank provided customer basic information to Chung Kuo Insurance to facilitate its telemarketing operations with no prior permission from the clients, which is in violation of the Personal Information Protection Act. It was fined NT$50,000 by FSC on June 29, 2016.

Improvements: Please refer to item 2 of Mega International Commercial Bank on the Internal Control Weaknesses and Improvement Plans.

(3) The Ningbo Branch of Mega International Commercial Bank failed to perform due diligence on the authenticity of transaction documents and their consistency with foreign exchange income and expenditure as required for transit trade purchase and payment business. It was fined RMB 50,000 by the State Administration of Foreign Exchange in Ningbo on August 5, 2016 in China.

Improvements: Please refer to item 3 of Mega International Commercial Bank on the Internal Control Weaknesses and Improvement Plans.

(4) The New York Branch of Mega International Commercial Bank failed to establish an effective compliance system and violated the anti-money laundering laws. The bank has signed a consent order with New York State Department of Financial Services (NYDFS) to pay a fine of US$180 million.

Improvements: Please refer to item 4 of Mega International Commercial Bank on the Internal Control Weaknesses and Improvement Plans.

(5) The penalty of US$180 million imposed by the NYDFS revealed that Mega International Commercial Bank failed to establish or implement an internal control system during the management and handling process of this case, raising concerns about sound operation and was thus in violation of Paragraph 1 of Article 45-1 of the Banking Act. The bank was fined NT$10 million by FSC and also received a reprimand. It was also temporarily prohibited from applying to set up new overseas branches until the shortcomings in this case are corrected; 6 senior managerial officers were ordered to be removed from their positions.

Improvements: Please refer to item 5 of Mega International Commercial Bank on the Internal Control Weaknesses and Improvement Plans.

(6) When selling personal liability insurance with an accident insurance rider through its telemarketing channel, Chung Kuo Insurance Company did not verify the financial status of the proposer before underwriting, and the insured amounts exceeded the maximum insured sums specified by the competent authority. It was fined NT$1.8 million by FSC on March 3, 2015. In addition to a reprimand, it was ordered to amend the internal underwriting system and procedures within one month. The FSC also ordered the company to dismiss the underwriting officer and suspend handling telemarketing insurance applications from the following day after receipt of the penalty letter of the FSC, unless permitted by FSC to resume the said business.

Improvements: All the deficiencies have been improved and reported to the FSC, and the company has been approved to resume the business from the following day after receipt of the letter of FSC dated April 15, 2015.

(7) Chung Kuo Insurance Company failed to follow the premium rates of public accident liability insurance and automobile insurance submitted to FSC. The premium of group injury insurance was not charged in accordance with the rates filed with FSC. It was found to have reimbursed drivers not in the coverage of the automobile insurance with additional named insured drivers. Besides, it failed to ask the proposer or the insured to provide an authorization letter, and failed to follow the operating handbook of its Personal Insurance Claim Department when processing claims in automobile insurance. As a result, Chung Kuo Insurance Company was fined NT$ 3 million on May 5, 2016 by FSC.

Improvements: Please refer to items 1~4 of Chung Kuo Insurance on the Internal Control Weaknesses and Improvement Plans.

(8) Chung Kuo Insurance Company failed to calculate the premium based on the actual monthly salary of the insured when handling commercial fire insurance with additional accident liability insurance to be afforded by employers and on-duty and off-duty responsibilities. The additional expense of the engineering insurance was not included in the pricing when the company underwrote large commercial fire insurance with additional mechanical insurance rider (engineering insurance). It also failed to include items with additional charges when assessing the scale of charges for its commercial fire insurance business. Consequently, Chung Kuo Insurance Company was fine NT$600,000 by the FSC on September 30, 2016.

Improvements: Please refer to items 7~9 of Chung Kuo Insurance on the Internal Control Weaknesses and Improvement Plans.

(9) As for the management of Guam representative office, Chung Kuo Insurance Company failed to establish a mechanism to oversee its operation by reviewing the business report and policy wordings. The staffs in the office were found to have affixed their signatures to checks issued while they were off. FSC therefore impose a fine of NT$600,000 on the company on December 13, 2016.

Improvements: Please refer to item 10 of Chung Kuo Insurance on the Internal Control Weaknesses and Improvement Plans.

(10)When Mega Securities Company's Nanking Branch provided futures accounts opening services outside of business premises, its account handling personnel was not present, who still signed on the account documents. The company was therefore fined by FSC for NT$120,000 on May 19, 2015. The deficiencies have been improved.

C. Admonishments issued by the FSC for serious operational improprieties

(1) Mega International Commercial Bank required a customer to purchase mortgage life insurance products when he applied for mortgage loan, violating applicable letter No. 101100341680 dated November 30, 2012 issued by FSC. The bank was therefore given a correction order by the FSC on April 21, 2015. The deficiencies have been improved.

(2) Mega International Commercial Bank was recognized to have deficiencies in the anti-money laundering operation and in management of overseas branches. The bank was given a correction order by FSC on November 18, 2016.

Improvements: Please refer to item 6 of Mega International Commercial Bank on the Internal Control Weaknesses and Improvement Plans.

(3) When handling the procedures for deposits account opening, Mega International Commercial Bank's offshore-banking unit (OBU) failed to execute KYC procedures effectively. Transactions of the accounts were not fully monitored. This raised concerns about sound operation. The bank was therefore given a correction order by FSC on March 16, 2017, according to paragraph 1 of Article 61-1 of the Banking Act.

Improvements:

(a)The bank has re-conducted risk assessment of the relevant customers and checked whether the transactions of those account are in conformity with the purpose of securities investment defined by customers. Those accounts not for investment purpose have been closed.

(b)Rules governing account opening of customers introduced by offshore securities units have been amended.

(4) Chung Kuo Insurance Company was corrected on May 5, 2016 by the FSC for commissions of group injury insurance paid at a rate exceeding the additional charges submitted for filing, not obtaining recipient's consent to a complete recording of the conversation as soon as the recipient answers the phone when telemarketing, not informing clients of the fact that the one-year personal health insurance is not guaranteed renewable, and mistakenly disclose on the website the expense ratio of each type of insurance of 2012 instead of the actual retained loss rate.

Improvements: Please refer to items 5~6 of Chung Kuo Insurance on the Internal Control Weaknesses and Improvement Plans.

(5) As a securities firm recommending trading of TIGA Gamig Inc. (TIGA) on the emerging stock market, Mega Securities Company disposed of, on the first trading date, a significant amount of its subscribed shares of TIGA, not for the purpose of market marketing, without authorization according to its internal guidelines and quoted price not based on professional judgement. It was therefore given a disciplinary warning by the FSC according to Article 66, paragraph 1 of the Securities and Exchange Act, ordered to suspend operation of Mr. Wu for 3 months, Mr. Chen for 2 months, the rest of related personnel should be given disciplinary measures by the company and reported to the FSC, and suspend accepting the company's recommendation for listing of the emerging stock unless permitted by FSC to resume the said business.

Improvements: All the deficiencies have been improved, so the company is allowed to recommend emerging stock trading on the Gretai Securities market effective January 11, 2016.

(6) With no prior approval from the competent authority to provide consultation services on foreign securities, Mega International Securities Investment Consulting Co., Ltd. provided analysis of individual stocks trading in China. The company was issued a correction order by FSC on September 19, 2016.

Improvements: The deficiency has been improved.

D. Any item committing penalty pursuant to Article 54 of the Financial Holding Company Act: None.

E. Disclosures of financial losses caused by corruptions by employees, major incidental cases or major breaches of security regulations with losses exceeding NT$50 million in individual and /or combined cases: None.

F. Other mandatory disclosures as instructed by the FSC: None.

3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings

A. Important resolution of the annual shareholders' meeting held on June 24, 2016

(1) The meeting approved a cash dividend of $1.5 per share with an aggregate amount of NT$20,399,735,975. The dividend record date was set on August 21, 2016, and the dividend was paid on September 2, 2016.

(2) The meeting approved the amendment to the Articles of Incorporation to stipulate the dividend appropriation range and revise the employee bonus to employee compensation. The amended Articles of Incorporation were filed with and approved by the Financial Supervisory Commission. Amendment registration of the Articles of Incorporation with the Ministry of Economic Affairs was executed.

B. Important resolution of the Board meetings held in 2016

(1) The 8th meeting of the sixth term Board of Directors held on January 26, 2016 approved the budget of 2016 and engagement of the external auditor of 2016 financial statements.

(2) The 10th meeting of the sixth term Board of Directors held on March 29, 2016 approved the 2015 internal control system statement, 2015 consolidated financial statements, 2015 earnings distribution proposal, Principle for allocation of 2015 Directors' compensation and convening of the 2016 general shareholders' meeting.

(3) The 11th meeting of the sixth term Board of Directors held on April 26, 2016 approved the 2015 Business Report.

(4) The 16th meeting of the sixth term Board of Directors held on August 16, 2016 elected Chairman of the Board of Directors and reappointed the Chairman of Mega International Commercial Bank.

(5) The 20th meeting of the sixth term Board of Directors held on September 2, 2016 elected Chairman of the Board of Directors and reappointed the Chairman of Mega International Commercial Bank.

(6) The 21th meeting of the sixth term Board of Directors held on September 10, 2016 approved the appointment of President of the Company and Mega International Commercial Bank.

(7) The 25th meeting of the sixth term Board of Directors held on December 27, 2016 approved the change of the stock registration agent.

(8) The 27th meeting of the sixth term Board of Directors held on February 21, 2017 approved engagement of the external auditor of 2017 financial statements.

(9) The 28th meeting of the sixth term Board of Directors held on March 28, 2017 approved the 2016 internal control system statement, 2016 consolidated financial statements, 2016 earnings distribution proposal, Principle for allocation of 2016 Directors' compensation and convening of the 2017 general shareholders' meeting.

(10) The 29th meeting of the sixth term Board of Directors held on April 25, 2017 approved the 2016 Business Report.

3.3.12 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors: None.

3.3.13 Resignation or Dismissal of Personnel Involved in Preparation of Financial Reports:

April 30, 2017

Title	Name	Date of appointed	Date of termination	Reasons for resignation or dismissal
Chairman	Yeou-Tsair Tsai	July 1, 2010	April 1, 2016	Resignation
Chairman	Kuang-Si Shiu	August 16, 2016	August 31, 2016	Resignation
President	Hann-Ching Wu	July 1, 2015	September 9, 2016	(Note)

Note: New York State Department of Financial Services in August 2016 imposed a fine of US$180 million on New York Branch of Mega International Commercial Bank for failure to establish an adequate anti-money laundering compliance program and to effectively enforce the internal control system, among others. The Board of Directors resolved to dismiss the President Hann-Ching Wu.

3.3.14 Material Information Management Procedure

The Company has established Procedures for Material Information Management and Disclosure. All employees are required to comply with the procedures when they become aware of any potential material information and the disclosure thereof.

3.4 Information on External Auditor Fee

Accounting Firm	Name of CPAs	Audit period	Remarks
PricewaterhouseCoopers, Taiwan (PWC)	Chien-Hung Chou King-Tse Huang	January 1, 2016~December 31, 2016	

Unit: NT$

	Item / Bracket	Audit fee	Non-audit fee	Total
1	Under NT$2,000,000		V	
2	NT$2,000,000 (inclusive) ~ NT$ 4,000,000	V		V
3	NT$4,000,000 (inclusive) ~ NT$ 6,000,000			
4	NT$6,000,000 (inclusive) ~ NT$ 8,000,000			
5	NT$8,000,000 (inclusive) ~ NT$10,000,000			
6	Over NT$10,000,000			

A. The ratio of non-audit fee to audit fee is over one fourth, the accountant's fee shall be disclosed:

Unit: NT$

Accounting Firm	Name of CPA	Audit fee	Non-audit fee					Audit Period	Remarks
			System Design	Corporate Registration	Human Resources	Other	Subtotal		
PricewaterhouseCoopers, Taiwan	Chien-Hung Chou King-Tse Huang	2,484,000	0	0	0	570,000	570,000	1/1/2016 – 12/31/2016	1. IFRS consulting fee 2. Translation expenses of the financial statements

B. Change of accounting firm and the audit fee of the changing year is less than previous year, the amount of audit fee respectively and the reason of change shall be disclosed: None.

C. A decrease over 15% than previous year for audit fee, the amount, percentage and reason shall be disclosed: None.

3.5 Change of External Auditors

3.5.1 Information relating to the former CPA

Date of Reappointment	The Board of Directors approved on February 21, 2017			
Reason for reappointment	The external auditor of the 2017 financial statement Chien-Hung Chou will be replaced by Charles Lai because of internal job rotation in CPA firm			
Was the termination of audit services initiated by the principal or by the CPA	Counterparty / Situation		CPA	Principal
	Service terminated by		N.A.	N.A.
	Service no longer accepted (continued) by		N.A.	N.A.
Reasons for issuing opinions other than unqualified opinions in the recent 2 years	None			
Disagreements with the Company	Yes		Accounting policy or practice	
			Financial statement disclosure	
			Audit coverage or procedures	
			Others	
	None	V		
	Description			
Other disclosures (Disclosures deemed necessary under Section 10.6.1.4 of the Guidelines)	N.A.			

3.5.2 Information relating to the succeeding CPA

Name of accounting firm	PricewaterhouseCoopers, Taiwan
Name of external auditor	Charles Lai
Date of reappointment	The Board of Directors approved in February 21, 2017
Inquiries and replies relating to the accounting practices or accounting principles of certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment	None
Written disagreements from the succeeding auditor against the opinions made by the former CPA	None

3.6 The Company's Responsible Persons Hold a Position at the Accounting Firm or its Affiliated Enterprises in 2016: None.

3.7 Changes in Shareholding

3.7.1 Changes in Shareholding of Directors, Executives and Major Shareholders

Unit: Share

Title	Name	2016		As of April 30, 2017	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Director	Ministry of Finance, R.O.C.	-	-	-	-
	The National Development Fund, Executive Yuan, R.O.C.		-	-	-
	Bank of Taiwan Co., Ltd.	51,385,410	-	-	-
	Chunghwa Post Co., Ltd.	8,598,000	-	3,990,000	-
Chairman	Chao-Shun Chang	-	-	-	-
Director and President	Li-Yen Yang	-	-	-	-
Independent Director	Tsun-Siou Li	-	-	-	-
	Chi-Hung Lin	-	-	-	-
	Keh-Nan Sun	-	-	-	-
Chief Auditor	Tzong-Chi Hsu	-	-	-	-
Executive Vice President	Jui-Yun Lin	-	-	-	-
	Yu-Mei Hsiao	-	-	50,000	
Chief Compliance Officer	Hui-Lin Yu	-	-	20,000	
Senior consultant	Chung-Hsing Chen	(115,000)	-	-	-

3.7.2 Shares Trading with Related Parties: None.

3.7.3 Shares Pledge with Related Parties: None.

3.8 Information Disclosing the Relationship between Any of the Company's Top Ten Shareholders

As of April 18, 2017

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Ministry of Finance, R.O.C. (Representative: Yu-Jer Sheu)	1,143,043,883	8.40	0	0	0	0	Bank of Taiwan , a wholly-owned subsidiary of Taiwan Financial Holding Co., Ltd.	Taiwan Financial Holding Co., Ltd. is wholly-owned by Ministry of Finance	None
National Development Fund, Executive Yuan, R.O.C. (Representative: Tzu-Chia Lin)	830,973,202	6.11	0	0	0	0	None	None	None
Chunghwa Post Co., Ltd. (Representative: Wen-Chyi Ong)	477,304,910	3.51	0	0	0	0	None	None	None
Fubon Life Insurance Co., Ltd. (Representative: Richard Tsai)	471,858,168	3.47	0	0	0	0	None	None	None
Cathay Life Insurance Co., Ltd. (Representative: Hong-Tu Tsai)	418,672,114	3.08	0	0	0	0	None	None	None
Bank of Taiwan Co., Ltd. (Representative: Jye-Cherng Lyu)	334,951,379	2.46	0	0	0	0	Ministry of Finance	Taiwan Financial Holding Co., Ltd. is wholly owned by the Ministry of Finance	None
Nan Shan Life Insurance Co., Ltd. (Representative: Y. T. Du)	301,362,218	2.22	0	0	0	0	None	None	None
China Life Insurance Co., Ltd. (Representative: Alan Wang)	226,328,345	1.66	0	0	0	0	None	None	None
Pou Chen Corporation (Representative: L.U. Chan)	191,730,486	1.41	0	0	0	0	None	None	None
Government of Singapore--GOS-EFM C	181,037,004	1.33	0	0	0	0	None	None	None

3.9 Long-term Investment Ownership

As of December 31, 2016

Long-term Investment	Ownership by Mega FHC (1)		Direct/Indirect Ownership by Directors, Supervisors and Management (2)		Total Ownership (1) + (2)	
	Shares	%	Shares	%	Shares	%
Mega International Commercial Bank Co., Ltd.	8,536,233,631	100.00	0	0	8,536,233,631	100.00
Mega Securities Co., Ltd.	1,160,000,000	100.00	0	0	1,160,000,000	100.00
Mega Bills Finance Co., Ltd.	1,311,441,084	100.00	0	0	1,311,441,084	100.00
Chung Kuo Insurance Co., Ltd.	300,000,000	100.00	0	0	300,000,000	100.00
Mega International Investment Trust Co., Ltd.	52,700,000	100.00	0	0	52,700,000	100.00
Mega Asset Management Co., Ltd.	200,000,000	100.00	0	0	200,000,000	100.00
Mega Life Insurance Agency Co., Ltd.	2,000,000	100.00	0	0	2,000,000	100.00
Mega Venture Capital Co., Ltd.	100,000,000	100.00	0	0	100,000,000	100.00
Taiwan Depository & Clearing Corp.	1,462,514	0.41	4,235,570	1.21	5,698,084	1.62
Taipei Financial Center Corp.	73,500,000	5.00	50,375,227	3.43	123,875,227	8.43
Taiwan Business Bank	717,092,080	12.01	1,159,847,621	19.43	1,876,939,701	31.44
Mega International Commercial Bank (Canada)	0	0	230,000	100.00	230,000	100.00
Mega International Commercial Bank Public Co., Ltd.	0	0	400,000,000	100.00	400,000,000	100.00
Mega I Venture Capital Co., Ltd.	0	0	13,500,000	40.00	13,500,000	40.00
Mega International Investment Services Co., Ltd.	0	0	2,000,000	100.00	2,000,000	100.00
Mega Securities Holdings Co., Ltd.	0	0	10,201,337	100.00	10,201,337	100.00
Mega Futures Co., Ltd.	0	0	40,000,000	100.00	40,000,000	100.00
Cathay Investment & Development Corp. (Bahamas)	0	0	5,000	100.00	5,000	100.00
Cathay Investment & Warehousing Ltd.	0	0	1,000	100.00	1,000	100.00
Mega Management & Consulting Co., Ltd.	0	0	1,000,000	100.00	1,000,000	100.00
Yung-Shing Industries Company	0	0	298,668	99.56	298,668	99.56
China Products Trading Corp., Ltd.	0	0	68,274	68.27	68,274	68.27
Ramlett Finance Holdings Inc.	0	0	1,500	100.00	1,500	100.00
Win Card Co., Ltd.	0	0	200,000	100.00	200,000	100.00
ICBC Assets Management & Consulting Co., Ltd.	0	0	2,000,000	100.00	2,000,000	100.00
Mega Growth Venture Capital Co., Ltd.	0	0	25,500,000	20.08	25,500,000	20.08
An Fang Co., Ltd.	0	0	750,000	25.00	750,000	25.00
Taiwan Finance Corporation	0	0	126,713,700	24.55	126,713,700	24.55
Everstrong Iron Steel & Foundry & Mfg Corp.	0	0	1,760,000	22.22	1,760,000	22.22
China Real Estate Management Co., Ltd.	0	0	9,000,000	20.00	9,000,000	20.00
Universal Venture Capital Investment Corporation	0	0	51,000,000	42.36	51,000,000	42.36

Capital Overview

4.1 Capital and Shares

4.1.1 Issued Shares

As of Dec. 31, 2016

Month/ Year	Par value (NTD)	Authorized capital		Paid-in capital		Remark	
		Shares	Amount (NTD)	Shares	Amount (NTD)	Sources of capital	Others
Aug. 2012	10	12,000,000,000	120,000,000,000	11,449,823,983	114,498,239,830	Issuance of 169,209,221 shares through earnings capitalization	Note 1
Dec. 2013	10	14,000,000,000	140,000,000,000	12,449,823,983	124,498,239,830	Issuance of 1 billion shares of common stock for cash	Note 2
Dec. 2015	10	14,000,000,000	140,000,000,000	13,599,823,983	135,998,239,830	Issuance of 1.15 billion shares of common stock for cash	Note 3

Note: 1. The capital increase was approved by the letter No. 1010031536 dated July 23, 2012 issued by the Financial Supervisory Commission.
2. The capital increase was approved by the letter No. 1020040445 dated October 14, 2013 issued by the Financial Supervisory Commission.
3. The capital increase was approved by the letter No. 1040040375 dated October 16, 2015 issued by the Financial Supervisory Commission.

As of Dec. 31, 2016

Type of stock	Authorized capital			Remark
	Issued shares (Note)	Unissued shares	Total	
Common stock	13,599,823,983	400,176,017	14,000,000,000	Note

Note: All issued shares are listed on the Taiwan Stock Exchange.

4.1.2 Ownership and Distribution of Shares

As of April 18, 2017

Type of shareholders	Government agencies	Financial institutions	Other juridical persons	Domestic natural persons	Foreign institutions & natural persons	Total
Number of shareholders	12	32	727	256,672	882	258,325
Shareholding (shares)	2,439,826,642	2,783,577,691	1,212,741,586	1,785,453,113	5,378,224,951	13,599,823,983
Percentage (%)	17.94	20.47	8.92	13.12	39.55	100.00

4.1.3 Distribution Profile of Share Ownership

Par value per share: NT$10 As of April 18, 2017

Shareholder ownership (Unit: Share)	Number of shareholders	Shareholding (Shares)	Percentage (%)
1 ~ 999	97,841	28,207,730	0.21
1,000 ~ 5,000	97,819	224,797,233	1.65
5,001 ~ 10,000	27,044	195,377,838	1.44
10,001 ~ 15,000	11,913	143,579,784	1.06
15,001 ~ 20,000	5,710	100,836,879	0.74
20,001 ~ 30,000	6,259	152,399,316	1.12
30,001 ~ 40,000	3,068	106,243,258	0.78
40,001 ~ 50,000	1,913	86,598,904	0.64
50,001 ~ 100,000	3,525	246,357,944	1.81
100,001 ~ 200,000	1,595	218,260,381	1.60
200,001 ~ 400,000	686	185,336,917	1.36
400,001 ~ 600,000	209	103,674,288	0.76
600,001 ~ 800,000	121	84,298,644	0.62
800,001 ~ 1,000,000	80	71,686,758	0.53
Over 1,000,001	542	11,652,168,109	85.68
Total	258,325	13,599,823,983	100.00

Capital Overview

4.1.4 Major Shareholders

As of April 18, 2017

Name of shareholder	Number of common shares	Percentage of voting shares (%)
Ministry of Finance, R.O.C.	1,143,043,883	8.40
National Development Fund, Executive Yuan, R.O.C.	830,973,202	6.11
Chunghwa Post Co., Ltd.	477,304,910	3.51
Fubon Life Insurance Co., Ltd.	471,858,168	3.47
Cathay Life Insurance Co., Ltd.	418,672,114	3.08
Bank of Taiwan Co., Ltd.	334,951,379	2.46
Nan Shan Life Insurance Co., Ltd.	301,362,218	2.22
China Life Insurance Co., Ltd.	226,328,345	1.66
Pou Chen Corporation	191,730,486	1.41
Vanguard Emerging Markets Stock Index Fund	181,037,004	1.33

4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: NT$

Item \ Year			2016	2015
Market price per share (Note 1)	High		26.20	28.50
	Low		19.05	20.90
	Average		22.82	24.81
Net worth per share (Note 2)	Before distribution		21.47	21.57
	After distribution		(Note 6)	20.07
Earnings per share	The weighted average of outstanding shares (in thousands of shares)		13,599,824	12,517,011
	Earnings per share	Before adjustment	1.65	2.35
		After adjustment	1.65	2.35
Dividends per share	Cash dividends		1.42	1.50
	Stock dividends	Earnings	None	None
		Capital surplus	None	None
	Cumulative undistributed dividends		None	None
Investment return analysis	PE ratio (Note 3)		13.83	10.56
	Price-dividend ratio (Note 4)		16.07	16.54
	Cash dividend yield (%) (Note 5)		6.22%	6.05%

Note: 1. Average market price = trading value / trading volume
2. Net worth per share = net worth / total number of shares outstanding
3. PE ratio = average closing price / earnings per share
4. Price-dividend ratio = average closing price / cash dividends per share
5. Cash dividend yield = cash dividends per share / average closing price
6. The proposal for distribution of 2016 profits will be submitted to the annual shareholders' meeting on June 16, 2017.

4.1.6 Dividend Policy and Implementation Status

A. Dividend policy

After paying all taxes and covering its accumulated losses of prior years in accordance with the laws, the Company shall set aside a legal reserve in accordance with the laws. Aside from the aforesaid legal reserve, the Company may set aside special reserve, in accordance with laws or its actual needs. The remaining balance plus prior years' accumulated undistributed earnings are earnings available for distribution, for which the Company shall appropriate 30% to 100% as earnings distribution subject to the Board of Directors' decision to propose a distribution plan and to be submitted to the shareholders' meeting.

At least 50% of the shareholders' dividends in the above paragraph shall be paid in cash, and the rest paid by stock dividend. However, the percentage of cash dividend and stock dividend may be adjusted by resolution at a shareholders' meeting.

B. Proposed Distribution of 2016 Profits

It is proposed to submit to the Company's Annual Shareholders' Meeting, to be held on June 16, 2017, for its approval of the distribution of NT$19,311,750,056 cash dividends, which is NT$1.42 per share. The proposed cash dividends account for 35.58% of the 2016 distributable earnings for NT$54,272,197,024, or 95.55% of the net balance NT$20,210,565,003, which is income after tax minus 10% legal reserve.

4.1.7 Impact to 2016 Business Performance and EPS of Stock Dividend Distribution

The Company will not distribute any stock dividend for 2016 earnings.

4.1.8 Employee Profit Sharing and Remunerations for Directors

A. Employee and director remuneration prescribed by the Company's Articles of Incorporation

According to the Company's Articles of Incorporation, the current year earnings (pre-tax income before deducting employees' and directors' remuneration) of the Company shall first be used to cover the accumulated losses, and the remaining balance shall be appropriated 0.02% to 0.15% as employees' remuneration and not more than 0.5% as directors' remuneration. The aforesaid employees' remuneration shall be distributed in cash or stock. Employees of the affiliated companies meeting certain specific requirements may be entitled to the employees' stock remuneration, subject to the rules set forth by the Board of Directors.

B. The accounting estimates for employees' and directors' remuneration for 2016

The employees' and directors' remuneration are estimated and recognized as operating expenses, which after taking pre-tax income before deducting employees' and directors' remuneration and the accumulated loss into account, are based on the ratio stipulated in the Company's Articles of Incorporation.

C. Information on employees' and directors' remuneration approved by the Board

The employees' and directors' remuneration for 2016 approved by the Board amount to NT$10,705,074 and NT$114,648,956, respectively, which are the same as the expenses recognized in 2016. Both the foregoing employees' and directors' remuneration will be paid in cash.

D. Distribution of employees' and directors' remuneration for the year 2015

The employee remuneration for 2015 amounted to NT$10,418,445, decreasing NT$43,203 compared to the booking amount due to estimate difference. Remuneration to directors amounted to NT$150,125,440, decreasing NT$2,699 compared to the booking amount due to estimate difference. The differences have been treated as changes in accounting estimates and recognized in 2016 as profit or loss. Both employees' and directors' remuneration were distributed in cash.

4.1.9 Buyback of Company Shares

The Company did not buy back any treasury shares during last year and up to the date of publication of this annual report.

4.2 Issuance of Corporate Bonds

<table>
<tr><th colspan="2">Issue</th><th>2015-2 Domestic Unsecured Exchangeable Bonds</th></tr>
<tr><td colspan="2">Issue date</td><td>August 25, 2015</td></tr>
<tr><td colspan="2">Denomination</td><td>NT$100,000</td></tr>
<tr><td colspan="2">Issue/Transaction place</td><td>Taiwan</td></tr>
<tr><td colspan="2">Issue price</td><td>100.1%</td></tr>
<tr><td colspan="2">Issue size (Nominal amount)</td><td>NT$5,800,000,000</td></tr>
<tr><td colspan="2">Coupon rate</td><td>0% p.a.</td></tr>
<tr><td colspan="2">Maturity</td><td>3 years (due 8/25/2018)</td></tr>
<tr><td colspan="2">Repayment priority</td><td>Senior debts</td></tr>
<tr><td colspan="2">Guarantor</td><td>None</td></tr>
<tr><td colspan="2">Trustee</td><td>Taipei Fubon Commercial Bank</td></tr>
<tr><td colspan="2">Underwriter</td><td>Fubon Securities Co., Ltd.</td></tr>
<tr><td colspan="2">Certifying attorney</td><td>Chung-Chieh Wei Law Office</td></tr>
<tr><td colspan="2">Auditor</td><td>PricewaterhouseCoopers, Taiwan</td></tr>
<tr><td colspan="2">Repayment</td><td>Other than bondholders exchanging for Taiwan Business Bank's common shares or bonds redeemed in advance by the Company, or the buyback and cancellation of the Company's bonds through the sales office of security dealers, the principal of exchangeable bonds are paid in lump-sum upon maturity at 100% of par value.</td></tr>
<tr><td colspan="2">Outstanding principal</td><td>NT$5,800,000,000</td></tr>
<tr><td colspan="2">Redemption at the option of the issuer</td><td>1.For the period from the following day after one month of the issuance of the exchangeable bonds (September 26, 2015) to 40 days before its maturity (July 16, 2018), if the closing price of Taiwan Business Bank's common stock exceeds 30% (inclusive) of the exchange price for 30 consecutive business days, the Company may, pursuant to the exchange terms, redeem its exchangeable bonds at par value in cash.
2.For the period from the following day after one month of the issuance of the exchangeable bonds (September 26, 2015) to 40 days before its maturity (July 16, 2018), if the balance of outstanding exchangeable bonds is below 10% of the original issue size, the Company may at any time, pursuant to the exchange terms, redeem its exchangeable bonds at par value in cash.</td></tr>
<tr><td colspan="2">Restriction clause</td><td>None</td></tr>
<tr><td colspan="2">Whether included in eligible capital</td><td>No</td></tr>
<tr><td colspan="2">Credit rating</td><td>None</td></tr>
<tr><td rowspan="2">Other rights of bondholders</td><td>Amount of converted or exchanged common Shares, DRs or other securities</td><td>None</td></tr>
<tr><td>Terms of issuance and exchange (or conversion)</td><td>Please refer to the prospectus of this issue published on the Market Observation Post System of the Taiwan Stock Exchange</td></tr>
<tr><td colspan="2">Dilution effect and other adverse effects on existing shareholders</td><td>None</td></tr>
<tr><td colspan="2">Custodian of the underlying securities</td><td>Taiwan Depository & Clearing Corporation</td></tr>
</table>

Information of the Exchangeable Bonds

Unit: NT$

Bond category		2015-2 Domestic unsecured exchangeable bond			
Item \ Year		Issue date	2015 (8/25/2015-12/31/2015)	2016	As of March 31, 2017
Shareholding of underlying common shares		636,481,677 shares	682,944,839 shares	717,092,080 shares	717,092,080 shares
Exchange price		9.56	8.91	8.49	8.49
Market price of the exchangeable bonds	Highest	100.60	101.00	101.75	103.10
	Lowest	97.00	97.00	98.25	101.40
	Average	98.96	99.45	100.57	102.49
Issue date		August 25, 2015			
Underlying securities		Taiwan Business Bank Common Shares			

4.3 Preferred Stock: None.

4.4 Issuance of Depositary Receipts: None.

4.5 Employee Stock Options: None.

4.6 New Restricted Employee Shares: None.

4.7 Mergers with or Acquisitions of Other Financial Institutions: None.

4.8 Capital Utilization Plans and Execution Status

The Company’s previous plans for issuance of securities have already completed with anticipated benefits.

Operational Overview

5.1 Business Overview

5.1.1 Business Scope

Mega Financial Holding Company

According to Taiwan's Financial Holding Company Act, the business of a financial holding company shall be limited to investment in, and management of, its invested enterprise(s). Business scope of the Company's subsidiaries includes banking, securities, bills finance, property and casualty insurance, asset management, venture capital, securities investment trust, insurance agency. Nearly all of the Company's revenues are derived from subsidiaries.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2016		2015	
	Amount	%	Amount	%
Share of profit of associates and joint ventures accounted for under equity method	23,132,410	99.29	30,416,201	99.57
Other operating revenue	166,501	0.71	131,964	0.43
Total	23,298,911	100.00	30,548,165	100.00

Mega International Commercial Bank Co., Ltd.

The bank's business scope includes commercial banking, consumer banking, wealth management, investment banking and other services as approved by the competent authority. In 2016 its net revenue amounted to NT$45,180,643 thousand, a drop of 9.30% from the year before. Net interest income fell by 1.24% and the revenue other than interest income declined by 29.27%.

Revenue Breakdown

Unit: NTD thousand

Item \ Year	2016		2015	
	Amount	%	Amount	%
Net interest income	35,045,060	77.57	35,486,092	71.24
Revenue other than interest income, net	10,135,583	22.43	14,329,399	28.76
Fee income – net	7,840,059	17.35	8,532,374	17.13
Gains on financial assets and liabilities at fair value through profit or loss	3,009,229	6.66	(1,148,661)	(2.31)
Realized gain on available-for-sale financial assets	1,596,716	3.53	1,190,984	2.39
Realized gain on held-to-maturity financial assets	(189)	-	-	-
Foreign exchange gain – net	2,046,115	4.53	2,837,759	5.70
Loss on asset impairment	(334,397)	(0.74)	(487,652)	(0.98)
Share of profit of associates and joint ventures accounted for under equity method	451,001	1.00	458,238	0.92
Other revenue other than interest income	227,825	0.50	324,511	0.65
Gain on financial assets carried at cost	803,272	1.78	764,288	1.53
Indemnity income	-	-	1,717,260	3.45
Net other miscellaneous income (loss)	(5,504,048)	(12.18)	140,298	0.28
Net revenue	45,180,643	100.00	49,815,491	100.00

Mega Securities Co., Ltd. (MSC)

MSC is engaged in securities brokerage, underwriting, and proprietary trading. In 2016, the company's brokerage fee income amounted to NT$956,331 thousand, declining by 17.56% compared to the year before mainly due to the drop of trading volume in the stock market. Its total operating revenue amounted to NT$2,163,056 thousand, down by 24.62% compared to the year 2015.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2016		2015	
	Amount	%	Amount	%
Brokerage fee revenue	956,331	44.21	1,160,078	40.43
Fee income from margin loans	395	0.02	64	-
Commission income from securities financing	23,648	1.09	15,298	0.53
Revenue from underwriting business	91,035	4.21	123,872	4.32
Net income from wealth management business	16,242	0.75	17,947	0.63
Net gains (losses) on sale of securities held for operations	(227,467)	(10.52)	(209,373)	(7.30)
Income from providing stock registration services	41,966	1.94	39,678	1.38
Interest income	879,693	40.67	947,692	33.03
Dividend income	109,390	5.06	160,933	5.61
Valuation loss of trading securities at fair value through profit and loss	(63,522)	(2.94)	(155,890)	(5.43)
Gain (loss) on covering on securities borrowings and bond purchased under resale agreement	(74,931)	(3.46)	15,632	0.54
Gain (loss) on valuation for securities borrowings and bond purchased under resale agreement	(42,652)	(1.97)	42,173	1.47
Gain on issuance of stock warrants	286,173	13.23	659,860	22.99
Futures commission income	52,841	2.44	62,282	2.17
Loss on derivative financial instruments - Futures	(15,960)	(0.74)	(61,037)	(2.13)
Gain (loss) on derivative financial instruments - OTC	6,144	0.28	(46,375)	(1.62)
Other operating income	123,730	5.72	96,782	3.37
Total	2,163,056	100.00	2,869,616	100.00

Mega Bills Finance Co., Ltd.

The company is engaged in brokerage, dealing, underwriting and guaranteeing of short-term debt instruments. In 2016, the company's revenues from the bills business fell by 0.60%, while revenues from the bond business rose by 35.71%, from the previous year.

Revenue Breakdown

Unit: NT$1,000

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

Chung Kuo Insurance Co., Ltd.

The company is a property and casualty insurer. Total direct written premium income for 2016 amounted to NT$6,414,566 thousand, growing by 3.38% compared to 2015. Reinsurance premium income for 2016 reached NT$589,905 thousand, down by 14.35% from the year before.

Revenue Breakdown

Unit: NT$1,000

Item / Year	2016		2015	
	Amount	%	Amount	%
Fire insurance premium	1,592,953	24.83	1,508,600	24.31
Marine cargo insurance premium	244,294	3.81	252,278	4.07
Marine hull insurance premium	362,461	5.65	409,322	6.60
Automobile insurance premium	3,045,799	47.48	2,789,447	44.96
Aviation insurance premium	122,782	1.91	137,702	2.22
Engineering insurance premium	164,267	2.56	202,774	3.27
Injury insurance premium	197,528	3.08	232,647	3.75
Health insurance	22,575	0.35	15,693	0.25
Other insurance premium	661,907	10.32	656,507	10.58
Total direct written premium income	6,414,566	100.00	6,204,969	100.00
Inward reinsurance premium income	589,905	-	688,720	-
Total	7,004,471	-	6,893,689	-

Mega International Investment Trust Co., Ltd.

The company provides investment management services to institutions and individuals through issuing various Mega mutual funds. As of the end of 2016, the company's assets under management amounted to NT$117.48 billion, ranking 6th among the 38 securities investment trust companies. Its operating income amounted to NT$365,161 thousand in 2016, an increase of 11.25% compared to 2015.

Revenue Breakdown

Unit: NT$1,000

Item / Year	2016		2015	
	Amount	%	Amount	%
Public issued funds	347,218	95.09	325,793	99.26
Private equity funds	14,882	4.07	148	0.04
Discretionary account	3,061	0.84	2,292	0.70
Total	365,161	100.00	328,233	100.00

Mega Asset Management Co., Ltd.

The company is primarily engaged in purchases, evaluations, auctions and management of financial institutions' NPL. In 2016, the net proceeds from disposal of the purchased NPL and gain on sale of collaterals amounted to NT$176,838 thousand, a decrease of 69.05% compared with the previous year, while service income reached NT$418,641 thousand, growing by 62.21% from 2015 primarily due to its business transformation.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2016		2015	
	Amount	%	Amount	%
Net proceeds from disposal of purchased NPL and Gain on sale of collaterals	176,838	24.73	571,339	57.95
Rental income	0	0.00	3,061	0.31
Interest income	119,663	16.73	153,563	15.57
Service income	418,641	58.54	258,088	26.17
Total	715,142	100.00	986,051	100.00

Mega Life Insurance Agency Co., Ltd.

The company provides life insurance agency services through the network of Mega International Commercial Bank and Mega Securities Company. In 2016, the insurance commission income generated by the company amounted to NT$1,943,531 thousand, rising 24.45% from 2015.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2016		2015	
	Amount	%	Amount	%
Commission income - traditional policies	1,890,730	97.28	1,383,584	88.59
Commission income - investment policies	52,801	2.72	178,136	11.41
Total	1,943,531	100.00	1,561,720	100.00

Mega Venture Capital Co., Ltd.

The company is engaged in venture capital investment as well as providing operational, managerial and consulting services. In 2016, the company's operating revenue amounted to NT$212,853 thousand, down 33.35% from 2015.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2016		2015	
	Amount	%	Amount	%
Revenue from disposal of long-term securities investment	195,731	91.96	305,328	95.61
Dividend income	16,225	7.62	12,586	3.94
Other operating income	897	0.42	1,452	0.45
Total	212,853	100.00	319,365	100.00

5.1.2 Operating Policies in 2017

The Company

1. Cultivating customer relationships and creating synergy group synergy

(1) To maintain current client relations and enhance the quality of products and services

(2) To enhance resource integration and increase market penetration rate for the Group

2. Focusing on core business and maximizing shareholder value

(1) To continually evaluate the possibility of increasing our presence in South East Asia, and closely watch the development in China's market

(2) To maximize profits of the investment portfolio by efficient and strategic asset allocation

3. Strengthening risk management system and warning system

(1) To enhance the consolidation, analysis, monitoring, reporting and warning of the Group's risk profile

(2) To promote the risk management system, to facilitate consolidation of subsidiaries' risk management information

(3) To strengthen risk management training and cultivate the culture of risk awareness

(4) To fortify qualitative analysis on change of macro economy to respond to the market risk in the early stage

4. Strengthening the Group's information management and resources sharing to reduce operating cost

(1) To strengthen information security mechanism and talent cultivation in order to ensure information security

(2) To continually phase out information systems and enhance system security and stability

(3) To continually promote establishment of the Group's digitization in response to the digitization trend

5. Reinforcing corporate governance, environmental and social performance to fulfill our corporate social responsibility

(1) To expand the scope of report items of the board meeting, strengthen performance evaluation of board of directors to promote the function of board of directors

(2) To intensify employees training and develop financial talents to ensure talent continuity

(3) To ensure effectiveness of the internal control system by the rigorous implementation of risk management, legal compliance and internal audit

6. Fortifying relationships with institutional investors

(1) To strengthen ties with investors and establish a sound relationship based on mutual trust

(2) To respond to investors' suggestions in a timely manner and take investors' suggestions into consideration for strategy making

(3) To hold or participate in institutional investment conferences in order to enhance investor recognition and the Group's transparency

Banking Subsidiary

1. To establish a comprehensive anti-money laundering system, reinforce legal compliance and create a culture of legal compliance
2. To review the operation status of all overseas units and fortify the management mechanism

3. To consolidate the corporate finance niche and maintain our competitive position in the market
4. To step up engagement in business innovation and transformation in response to the advent of digital banking
5. To utilize our expertise in international finance and increase profits of financial operations
6. To expand wealth management business to increase risk-free fee income
7. To establish a comprehensive risk management system to ensure the balance between the short-term and long-term profits

5.1.3 Industry Overview

A. Global and Domestic Financial Environment

Global Financial Environment

The momentum for economic growth in major advanced economies slightly improved in 2016. Among them, the United States turned powerful; the growth in the Euro Zone remained steady; the pace of recovery continued to be slow in Japan; emerging economies were steadily growing; and the pace of growth continued to be steady yet slow in Mainland China. Looking into 2017, the fiscal incentives adopted in major economies to expedite the recovery path and the rebound in the price of international raw materials are expected to favor emerging economies and hence it is hopeful that the global economic growth will be better than that in 2016. Issues such as the rate rise cycle that the United States is about to begin in the future, the likelihood of the America First Policy of President Trump to give rise to global protectionism, the subsequent developments and the domino effect of Brexit, and economic rebalancing in Mainland China, however, have all added uncertainty to the global economy.

Domestic Financial Environment

(1) Exports have resumed the growth momentum recently and the industrial production continues to expand. Private sector consumption and investment are growing mildly. The economic growth rate for the second half of 2016 improved significantly from the first half and the economic growth rate throughout 2016 reached 1.50%, which is better than what was previously forecasted. As the economy starts to come back, unemployment rates have slowly dropped for the past few months. Improvements are gradually seen on the labor market. As far as 2017 is concerned, with the international economy mildly recovering and the growths in global trade volumes picking up, it is to the advantage of our national exports. In addition, the increased public investments from the government are likely to drive investments from the private sector although growths in salaries are limited and private consumption remains at a slow pace. It is hence estimated by the Directorate General of Budget, Accounting and Statistics that the economic growth rate for 2017 will climb to 1.92%.

(2) Impacted by the increase in the prices of fruits and vegetables and the international oil price, the annual CPI of 2016 announced by the Directorate General of Budget, Accounting and Statistics was 1.40%. Prices showed a slow increasing trend. Although the increase amplitude remains lower than that in Hong Kong and Mainland China, it is higher than that in the United States, South Korea, Japan, and Singapore. For 2017, as the global economy recovers; prices of raw materials bottom out; oil producing countries reach an agreement on reduced production; and the international oil price climbs, it is possible that the surge in prices throughout the world will be higher than that in 2016. Taiwan is no exception. According to the estimates of domestic institutions, the mean annual CPI increase rate will be between 0.99% and 1.45% for 2017 and it is being adjusted up gradually.

B. Industry Overview of the Company and its Subsidiary

Financial Holding Company Industry

1. Since the enactment of the Financial Holding Company Act in July 2001, there have been fifteen financial holding corporations listed on the Taiwan Stock Exchange Corporation or the Gre Tai Securities Market and one wholly state-owned financial holding corporation. However, the market shares of the banks under these financial holding corporations account for less than 10%. This shows local banks are still relatively small in size and lack of economies of scale. As a consequence, overbanking hinders the development of the industry.
2. Given the fact that the financial market in Taiwan is of a small scale and is highly decentralized and the high homogeneity of the numerous financial institutions under the financial holding companies as well as the relative inability to innovate on new financial instruments, we have to make the base of our own strengths and have creating a regional assessment management center as our primary goal.
3. Financial institutions under most financial holding companies lack practical experiences in international financing and have limited business operation sites overseas and relatively low business volumes, becoming relatively insufficiently internationalized. This can be improved relying on a profound link with the overseas market and constantly consolidated international financial policies. The New Southern Policy, a priority of the new government in Taiwan, in particular, will feature extensive exchange and collaboration with member states involved in the New Southern Policy in terms of technology, culture, economy, and trade. Financial institutions under financial holding companies in Taiwan will have to help Taiwanese businessmen fulfill their capital demand when they reach out to countries involved in the New Southern Policy, pro-actively set up their branch offices in the said countries, and get involved in the infrastructure constructions in the ASEAN and South Asian countries.
4. As technology advances, financial technology (FinTech) has broken through existing boundaries among financial markets. Governments and industries are pro-actively dealing with this issue. FinTech not only overturns the conventional financial ecology but also is sharing existing advantages and profits to accordingly impact the overall financial operating environment. Faced with the said impacts, besides transforming quickly in response, financial institutions under financial holding companies need to more particularly stress the importance of investing in infrastructure and protecting intellectual properties.

Banking Industry

1. The undesirable domestic and international economic environments and the reduction of interest rate by the central bank resulted in constantly shrinking spreads of domestic banks. In addition, allowance for bad debts such as TRF, increased provisions for bad dets of mortgages, and provisions for bad debts in the China market are affecting the overall profits of the banking industry. As a result, the pre-tax earnings of local banks throughout 2016 totaled NT$ 300.06 billion, a decrease of 6.11% from 2015 and a second year in a row of decrease. As far as asset quality is concerned, local banks' NPL ratio, by the end of 2016, rose slightly to 0.27% from 0.23% at the end of 2015. Coverage ratio of local banks declined to 502.93% from 555.43% of 2015.
2. Because of the capital slack on the domestic market, continued growth in in-coming foreign capital and foreign currency deposits, in addition to the conservative demand for capital from enterprises and the wait-and-see attitude of people in purchasing a home, local banks have borne for four years in a row higher growths in savings than in loans. Their pressure against capital utilization benefits is increasing. As such, they are proactively adjusting their business structure, expanding business of wealth management.

3. For the past few years, besides China, when setting up their overseas presence and seeing acquisitions, banks are reaching out to the Philippines, Indonesia, Japan, and Korea and have begun to close out overseas locations with ineffective operations in order to invest their capital in more efficient markets and to improve the overall overseas operational efficacy.
4. Faced with the competition from technology service providers that are setting foot in the financial industry and the awareness that their own traditional financial operating model needs to be quickly changed, the banking industry has been proactively updating their software and hardware equipment and training their people for the past two years that will help them transform and increase FinTech service load.
5. Multiple risk control deficiencies occurred in the financial industry throughout 2016, including fake greenbacks, ineffective anti-money laundering effort, Ting Sing fraudulent loans, ATM thefts, TRF negligence, among others. As a result, the Financial Supervisory Commission engaged in a series of regulatory amendments in response. Banks have also reinforced their compliance with anti-money laundering laws and regulations and internal control system and strengthened their audit system.

5.1.4 Research and Development

1. Research & Development Achievements in the Part Two Years

Mega Financial Holding Company

The Company's R&D expenses incurred in 2015 and 2016 are NT$560 thousand and NT$1,070 thousand, respectively. The expenses were incurred from project consulting, establishment and services as well as staff training. The achievements of R&D are as follows:

- Upgrade of the Group's web information system, shared data base and website data base
- Introduction of the corporate social responsibility systems to get in sync with international best practices
- Establishment of VaR (Value at risk) management systems for financial instruments
- Establishment of self-evaluation of the operational risk mechanism in the Group
- Development of an IFRS 7 financial risk reporting system
- Establishment of wireless network environment

Mega International Commercial Bank

The Bank's R&D expenses incurred in 2015 and 2016 are NT$1,376 thousand and NT$938 thousand, respectively. The expenses were incurred mainly from purchase of professional publications, electronic data base, and publishing of Mega Bank Monthly. The achievements of R&D are as follows:

- Publishing the Mega Bank Monthly, which includes monographs and articles covering the latest international and domestic economic and financial developments and is made public periodically on the bank's website
- Submitting periodical and non-periodical research reports on the development of the global and domestic economic and financial situations

2. R&D Projects for the Future

Mega Financial Holding Company

The estimated R&D expense in 2017, including personnel training and project service expenses, is NT$800 thousand. The R&D projects are as follows:

1. Upgrade of Microsoft domain system and the Company's web site
2. Continued adoption of corporate social responsibility systems
3. Continued establishment of VaR (Value at risk) management systems for financial products
4. Continued development of an IFRS 7 financial risk reporting system
5. Continued enhancement of credit risk ceiling control reporting systems

Mega International Commercial Bank

The bank will closely monitor ongoing development of the global and domestic economic and financial situations, and submit research reports for top management's reference or publishing on the bank's website. The estimated R&D expense in 2017 is NT$3,530 thousand.

3. Long-term and Short-term Business Development Plans

Mega Financial Holding Company

A. Short-term Business Development Plans

To facilitate sustainable operations of the Group as a whole, enhance a competitive edge in core businesses, integrate and develop the operations of subsidiaries, and strengthen resources sharing, the Company has set up short-term business development plans and long-term development plans of the Group. All subsidiaries are required to formulate execution plans in line with the long-term development strategies as a guide for the operations of all subsidiaries. A description of the short-term business development plans is the same as 2017 operating policies as shown on page 71 of this annual report.

B. Long-term Business Development Plans

The long-term development plans of the Company will be achieved through the enhancement of niche operations and the development of the Group's competitive advantage, an internal focus on a continued integration of the overlapping operations of subsidiaries, and an external focus on evaluation of suitable acquisition targets for expansion of business domain. In addition, the international operations will be strengthened. This encompasses the Group vision and medium- and long-term development strategies as specified below:

a. Our Group vision is to become an Asia regional financial group.

b. Medium- and long-term development strategy

- Envisioning the world with a focus on the Asia Pacific region
- Securing the competitive advantage of corporate banking and foreign exchange business
- Reinforcing consumer banking and wealth management business
- Revolutionizing the distribution network, configuring, and integrating digital platforms
- Strengthening the integration of business among subsidiaries to enhance synergy of the Group
- Developing international talent and special professionals locally
- Increasing capital with effective capital allocation to increase capital efficiency
- Enhancing global operation and risk management practices and systems

Mega International Commercial Bank

A. Short-term Business Development Plans

Wealth management business

(1)Customer workshops are organized periodically where wealth management House View and interest/foreign exchange rate trend analysis are included, to help customers adjust their portfolio and seek robust investment strategies.

(2)Mobile support is improved, with the mobile wealth management APP system established, with features such as reviewing portfolio performance together with customers, displaying respective wealth management products, and planning wealth management.

Credit business

(1)Efforts are made to take advantage of the quality marketing ability and pricing flexibility. Customers with outstanding credit ratings or desirable collateral are proactively sought for in order to encourage increased load credit utilization rate and to accordingly improve the overall quality of loans and increase income.

(2)Efforts are made to seek OBU and overseas quality customers. Taking advantage of the many years of connections with Taiwanese businessmen and the relatively more operation sites in ASEAN countries, New Zealand, and Australia, loans in foreign currencies are proactively sought for in order to improve overall profits.

Finance and financial market business

(1)In light of the comeback of global economy and the increased inflation, the rate rise cycle that Fed is to begin, and political uncertainty in Europe, among other major impacts, the balance between the risks and benefits of assets is to be reinforced.

(2)To increase profits of financial operations, arbitrage and trading of different financial products will be conducted by catching the trend of financial markets and short- term fluctuations.

Trust Business

(1)In order to fulfill the Elderly Care Trust Policy promoted by the government, we will continue to promote the elderly care trust business by providing special offers and holding a competition among business units.

(2)In response to the incentive measures of the government while it is promoting urban renewal, normalizing the housing market, and initiating major public constructions, we are proactively soliciting real estate-related trust cases and providing trust services that have to do with real property right and capital management

B. Long-term Business Development Plans

Wealth management business

(1)We will provide more diversified and more differential value-added customer service, strengthen our research team, and combine the planning of laws, taxes, and accounting arrangements, among others, to provide customers with all-around service solutions.

(2)We will continue to reinforce our wealth management system by combining big data analysis as it will help us keep track of customers' behavioral model and provide related intelligent wealth management services as a consultant.

Credit business

(1)We will explore internationalized business opportunities and expand overseas operation sites with development potential. We will join efforts from domestic business units that have abundant experience in helping Taiwanese businessmen expand their operations overseas to boost the competitive advantages of our loan business and to consolidate bank-wide operations.

(2)We will take advantage of branches and subsidiaries in Southeast Asia, which are forming a complete service network, while taking root in local markets in order to advance the "New Southern Policy" and to enrich our customer base for the loan business.

Finance and financial market business

(1)We will explore the long-term trends of the financial market, advance our financial instrument development operating system, and strengthen our ability of developing products in a bid to enhance competitive advantages of our TMU to serve customers.

(2)In line with the growing business scale of the bank, we will adequately discuss and advance internal operation management and risk control over asset portfolios in order to enhance the overall business performance and income.

Trust Business

To facilitate constant introduction of new financial instruments in the future, we will spontaneously keep track of related information, proactively improve the custodianship system, and train related professionals in order to boost the service efficiency, to provide differential quality services, and to accordingly enhance competitive advantages.

5.2 Effect of Cross Selling

1. In 2016, Chung Kuo Insurance Company achieved insurance premium revenues of NT$549 million through cross selling with other subsidiaries, up 2.97% from the NT$533 million posted in 2015. The premium revenues from cross selling accounted for 9.71% of the domestic written premiums, declining slightly from 9.74% in 2015.
2. In 2016, mutual funds under management by Mega International Investment Trust Company through cross selling by other subsidiaries reached NT$37.8 billion, representing a 0.5% gain from the NT$37.6 billion posted in 2015. This accounted for 39% of AUM, compared to 38.92% in 2015.
3. Mega International Commercial Bank served as a main settlement bank for securities transactions in 32 branches of Mega Securities Company. The deposits outstanding in securities transaction account amounted to NT$23.3 billion by the end of 2016.
4. In 2016, Mega Bills Finance Company acted as an underwriter for a total of NT$101.5 billion of commercial papers guaranteed by Mega International Commercial Bank.

5.3 Market Overview

As a financial holding company, the Company's business is limited to investment in, and management of, its invested enterprise(s). Nearly 85% of the Company's revenues are investment revenues derived from the bank subsidiary. Market condition of banking industry is set forth as follows:

A. Future Market Supply and Demand

- In loan business aspect, benefiting from the growth of domestic SME loans, consumer loans and increasing overseas loan portfolios that were driven by overseas market expansion, domestic banks' loans outstanding reached NT$23,459.6 billion by the end of 2016, growing by 3.78% compared with the end of the previous year. Among them, loans to private enterprise is NT$10,201.1 billion, an increase of 6.23% compared to the end of the previous year. Loans to state-owned enterprises declined dramatically by 15.65% compared to the end of the prior year due to the small interest margin and low funding demand. To improve earnings, domestic banks continued promoting loans to private enterprises with higher interest spread and overseas lending.
- In consumer loans aspect, as the domestic interest rates remain low, mortgage loans and construction loans outstanding are NT$6,365.2 billion and NT$1,648.3 billion by the end of 2016, up 3.80% and 2.50%, respectively, compared to the end of previous year. However, the real estate market remains sluggish and most people remain on the sideline. In consideration of the imbalance of supply and demand, domestic banks are cautious on mortgage loans. The growth in mortgage loans is expected to slow down.
- As of the end of 2016, the number of outstanding credit cards reached 40.70 million, growing by 5.67% from 38.52 million compared to the prior year. The revolving credit outstanding balance posted NT$109.1 billion, an increase of 1.05% from NT$108 billion recorded in 2015. This growth indicates that scale of consumer financing is getting steady. Domestic banks are expected to continually adjust their strategy to increase the ratio of effective cards and the amount of credit card transaction.

B. Positive and Negative Factors Influencing Banks' Future Operations

Positive Factors

- It is forecasted that the global economic growth rate of 2017 will be improved from that of 2016. The demand for capital of enterprises and the willingness to invest in the market will hopefully come back. This will drive growths in loans and wealth management business, which will help boost the profitability of banks.
- To comply with the "New Southern Policy" promoted by the government, domestic banks are increasing the proportion of overseas business and developing new market. As the competent authority continues to relax restrictions over domestic and international loans extended by local banks and encourage them to grant loans to prioritized new innovative industries, it will help local banks explore new cases of lending and accordingly improve their competitiveness and income.
- The Financial Supervisory Commission promoted the FinTech Development Plan – "Pilot Program" in September 2016, which allows banks to try various innovative FinTech products on the condition that they are not violating the law; this is conducive to banks as they expedite their developments on the FinTech market.

- In order to boost domestic economic growth, the government is proactively promoting the "Investment Expansion Program" and related regulations featuring "Five Plus Two" innovative industries, which will bring development opportunities for service providers in related fields to accordingly drive developments in the banking business.

Negative Factors

- As the real property market remains depressed, construction firms are conservative in launch of new construction projects. This will hinder loan growth. Disputes over the TRF transactions may result in a substancial increase in provisions for bad debts in many banks, which will also be unfavable to the growth of earnings.
- As far as FinTech is concerned, the associated information security risk and the constant threats from all kinds of hackers have resulted in increased losses and frequency of losses for the financial industry, impacting the confidence that people have in the FinTech business. Information security and consumer protection are big challanges for bank sector.
- As the uncertainty in global economy remains high, banks shall enhance risk management and legal compliance, when increasing their presence in overseas market and developing business.

5.4 Human Resources

Item	Year	2015	2016	Apr. 30, 2017
Number of Employees	Mega FHC	51	53	54
	Mega Int'l Commercial Bank	5,478	5,543	5,491
	Mega Bills Finance	187	189	187
	Mega Securities	1,532	1,456	1,380
	Chung Kuo Insurance	719	732	742
	Mega Int'l Investment Trust	98	98	100
	Mega Asset Management	29	29	27
	Mega Life Insurance Agency	22	22	23
	Total	8,116	8,122	8,004
Average Age	Mega FHC	50.03	50.04	49.99
	Mega Int'l Commercial Bank	42.91	42.65	42.51
	Mega Bills Finance	47.39	47.82	47.83
	Mega Securities	42.00	43.00	44.00
	Chung Kuo Insurance	41.50	41.40	41.20
	Mega Int'l Investment Trust	42.69	43.37	43.50
	Mega Asset Management	43.38	44.17	43.44
	Mega Life Insurance Agency	41.93	41.90	41.19
Average Years of Services	Mega FHC	11.69	11.92	11.89
	Mega Int'l Commercial Bank	17.01	16.69	16.56
	Mega Bills Finance	18.07	18.53	18.61
	Mega Securities	9.93	10.84	11.20
	Chung Kuo Insurance	11.20	11.20	11.00
	Mega Int'l Investment Trust	9.19	9.71	9.68
	Mega Asset Management	9.30	10.10	10.32
	Mega Life Insurance Agency	5.59	6.26	5.99

5.5 Annual Average Employee Benefit Expenses of Non-supervisors

	2015	2016	Growth rate
Number of non-supervisor employees	5,389	5,361	(0.52%)
Non-supervisor employees' annual average employee benefit expenses	1,079,874	1,166,288	8.00%

Note: Non-supervisor employees refer to employees who hold a position below division chief.

5.6 Labor Relations

5.6.1 Work Environments, Protection of Employee's Safety and Employee's Benefits

The Company not only insures its staff for labor insurance, national health insurance, and group insurance but has also established an Employee Welfare Committee in charge of employee welfare. The Company's employee welfare measures include marriage and funeral subsidies, baby-deliver subsides, retirement consolation, consolation payments for injuries, diseases, or hospital stays, scholarship, festival gifts, culture and recreation activities. Protective measures in respect of work environments and personal safety include visitor entry and exit registration and controls, daily cleaning of office environments by designated personnel. The Company also implements regular maintenance of fire extinguishers and monthly inspections of sprinkler systems, stairway lighting, and emergency escape equipment. Qualified fire protection companies are commissioned to report the state of fire equipment at year end. These reports are reviewed and approved by competent authorities. Fire drills for staff members are organized on a semiannual basis and work environments are sterilized in 2-month intervals.

5.6.2 Pension Scheme

To enable retirees to lead a stable life, staff retirement policies have been formulated in accordance with the Labor Standards Act and work rules and regulations. Staff pension contributions are paid on a monthly basis and a Supervisory Committee of Workers' Retirement Funds has been established. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. In line with the new labor pension system implemented in force since July 1, 2005, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The new labor pension system applies to employees who select the new system or have joined the Company after July 1, 2005.

5.6.3 Employee Training

As for staff training and on-the-job education organized by the group, a subsidy system for the acquisition of licenses has been established, and personnel are dispatched to training organizations to attend training programs every year. The Company also organizes its own training programs such as training for newly inducted staff, professional training, language and computer training.

The training expense of the Company and its subsidiaries amounted to NT$71,487 thousand in 2016, accounting for 0.48%, 0.31% and 0.13% of the Company's consolidated employee welfare expenses, operating expenses and net revenues, respectively. The number of trainee totaled 115,864 person-times.

5.6.4 Employee's Behavior and Ethical Principles

The Company has formulated work rules and a service code in accordance with the Labor Standards Act and relevant decrees. Employees must abide by all rules and regulations and work procedures specified by the Company, be faithful in the performance of their duties, and comply with the orders and instructions of their superiors. The superiors, on the other hand, are required to guide employees in a kind manner and evaluate them in a conscientious fashion. A clear distinction shall be made between public and private matters, and all staff member shall exercise restraint in words and actions, abide by high moral standards, protect the reputation of the Company, and discard bad habits. Interaction between coworkers should be characterized by harmony and mutual respect. All staff members shall abide by the Labor Safety and Health Act and relevant Company rules and regulations to maintain the safety and hygiene of office spaces and their surrounding environments as well as prevent theft, fires, and other natural disasters. Employees shall observe self discipline and the professional ethics of the Company.

5.6.5 Employer-employee negotiations

The subsidiary Mega International Commercial Bank and its labor union have signed collective agreements to regulate all labor conditions.

5.7 Important Contract

Contract type	Counterpart	Contract beginning and ending date	Major contents	Restrictive terms
Consent order	Mega International Commercial Bank and New York State Department of Financial Services (NYDFS)	Signed on August 19, 2016 Ending date of the contract: to be designated by NYDFS	NYDFS conducted an examination of the New York Branch of Mega International Commercial Bank in January to March of 2015 and provided its Report of Examination in February 2016. NYDFS signed a consent order with Mega International Commercial Bank under New York Banking Law § 39 and 44. In addition to paying a penalty to NTDFS in the amount of US$180,000,000, MICB and its New York Branch shall engage a Compliance Consultant and Independent Monitor of the NYDFS' choosing, to consult about, and oversee deficiencies in the New York Branch's AML compliance function.	None

Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Consolidated Balance Sheet

Unit: NT$1,000

Item \ Year		2016	2015	2014	2013	2012
Cash and cash equivalents, due from the Central Bank and call loans to banks		638,143,099	656,138,947	634,546,355	551,247,431	458,490,129
Financial assets at fair value through profit or loss		186,317,373	182,036,664	181,366,843	195,800,759	184,716,442
Available-for-sale financial assets, net		354,464,708	346,461,364	280,703,020	272,943,633	223,271,043
Derivative financial assets for hedge		0	0	0	0	0
Bills and bonds purchased under resale agreements		2,855,885	7,079,210	11,874,327	2,585,345	2,282,052
Receivables, net		86,825,802	175,747,221	201,540,361	184,587,941	122,685,220
Current income tax assets		577,485	2,307,563	1,534,999	921,969	953,192
Non-current assets held for sale, net		0	0	2,739	2,576	0
Bills discounted and loans, net		1,715,278,766	1,773,269,054	1,733,994,271	1,654,577,193	1,502,700,861
Reinsurance contract assets, net		4,261,668	3,308,814	3,217,685	3,293,937	3,301,550
Held-to-maturity financial assets, net		280,997,362	201,233,939	163,708,076	184,411,233	161,253,982
Equity investments accounted for by the equity method, net		3,108,470	2,976,409	2,761,637	2,697,551	2,966,843
Restricted assets		0	0	0	0	0
Other financial assets, net		14,955,209	17,189,576	20,626,729	23,430,204	27,629,411
Property and equipment, net		21,787,452	21,834,486	22,125,875	22,150,245	22,331,091
Investment property, net		1,711,561	1,368,553	1,976,764	2,059,428	2,101,127
Intangible assets, net		270,438	299,644	307,693	318,046	303,612
Deferred income tax assets		5,463,227	4,716,552	4,030,528	3,785,582	3,098,020
Other assets, net		2,772,911	2,550,310	6,320,035	8,815,345	8,884,722
Total assets		3,319,791,416	3,398,518,306	3,270,637,937	3,113,628,418	2,726,969,297
Due to the Central Bank and financial institutions		401,731,599	428,405,839	474,623,325	490,935,730	328,810,493
Funds borrowed from the Central Bank and other banks		39,974,427	45,459,094	53,906,541	32,330,245	84,826,943
Financial liabilities at fair value through profit or loss		12,105,231	22,980,692	29,582,637	14,856,685	14,676,886
Derivative financial liability for hedge		0	0	0	0	0
Bills and bonds sold under repurchase agreements		231,191,763	192,936,650	221,809,530	219,651,334	187,481,840
Commercial paper payable, net		11,701,649	19,945,870	15,363,080	4,393,653	1,880,597
Payables		59,001,999	63,623,826	60,564,578	66,105,983	59,583,525
Current income tax liability		8,589,599	10,517,577	9,123,049	5,522,518	5,993,633
Liability directly related to assets held for sale		0	0	0	0	0
Deposits and remittances		2,171,287,924	2,230,143,429	2,036,403,864	1,933,722,541	1,717,989,498
Bonds payable		41,924,088	41,878,505	56,200,000	55,898,677	62,449,668
Other loans		5,954,030	2,280,000	5,926,763	5,509,213	6,541,000
Preferred stock liabilities		0	0	0	0	0
Other financial liabilities		10,849,706	10,720,861	10,778,269	10,094,610	11,728,176
Provisions for liabilities		25,047,224	22,917,606	21,647,077	22,419,391	22,045,319
Deferred income tax liability		2,201,659	2,195,423	2,169,411	2,051,201	1,694,706
Other liabilities		6,203,075	11,057,626	11,640,531	8,544,561	10,786,252
Total liabilities	Before distribution	3,027,763,973	3,105,062,998	3,009,738,655	2,872,036,342	2,516,488,536
	After distribution	Note	3,125,462,734	3,027,168,409	2,885,855,647	2,529,083,342
Equity attributable to owners of parent		291,985,353	293,404,079	260,737,349	241,405,536	210,199,694
Capital stock		135,998,240	135,998,240	124,498,240	124,498,240	114,498,240
Capital surplus		68,194,233	68,194,233	55,270,198	55,271,623	43,425,270
Retained earnings	Before distribution	89,958,846	88,373,007	77,606,654	61,534,835	52,097,039
	After distribution	Note	67,973,271	60,176,900	47,715,530	39,502,233
Other equity interest		(2,165,966)	838,599	3,362,257	100,838	179,145
Treasury stock		0	0	0	0	0
Non-controlling interest		42,090	51,229	161,933	186,540	281,067
Total Equity	Before distribution	292,027,443	293,455,308	260,899,282	241,592,076	210,480,761
	After distribution	Note	273,055,572	243,469,528	227,772,771	197,885,955

Note: The earnings distribution for 2016 has not been resolved by the shareholders' meeting.

6.1.2 Condensed Unconsolidated Balance Sheet

Unit: NT$1,000

Item / Year		2016	2015	2014	2013	2012
Cash and cash equivalents		83,306	2,292,712	27,368	1,044,333	77,292
Financial assets at fair value through profit or loss		0	0	0	0	0
Available-for-sale financial assets, net		5,844,300	5,586,489	5,849,267	5,550,855	5,143,167
Receivables, net		0	0	463	0	158
Current income tax assets		225,605	0	630,319	630,319	857,313
Held-to-maturity financial assets		0	0	0	0	0
Equity investments accounted for by the equity method, net		316,539,845	313,143,661	276,353,146	256,786,037	231,773,613
Other financial assets, net		758,293	758,293	758,293	758,293	758,293
Property and equipment, net		603,350	750,459	757,220	771,442	783,919
Investment property, net		137,126	0	0	0	0
Intangible assets, net		0	0	0	0	0
Deferred income tax assets		8,092	8,092	8,092	7,737	7,737
Other assets, net		5,704	5,944	5,826	8,507	8,012
Total assets		324,205,621	322,545,650	284,389,994	265,557,523	239,409,504
Financial liabilities at fair value through profit or loss		156,600	155,440	0	0	1,200
Bills and bonds sold under repurchase agreements		0	0	0	0	0
Commercial paper payable, net		6,398,631	6,198,832	2,549,078	0	881,079
Payables		16,481,538	14,835,817	13,264,258	11,975,327	10,841,536
Current income tax liability		1,789,244	1,912,617	1,385,649	121,298	1,376,534
Bonds payable		5,724,088	5,678,505	6,000,000	11,998,677	16,049,668
Preferred stock liabilities		0	0	0	0	0
Other loans		1,600,000	300,000	400,000	0	0
Provisions for liabilities		57,935	56,339	48,021	52,431	56,510
Deferred income tax liability		1,124	1,436	3,500	2,168	1,026
Other liabilities		11,108	2,585	2,139	2,086	2,257
Total liabilities	Before distribution	32,220,268	29,141,571	23,652,645	24,151,987	29,209,810
	After distribution	Note	49,541,307	41,082,399	37,971,292	41,804,616
Common stock		135,998,240	135,998,240	124,498,240	124,498,240	114,498,240
Capital surplus		68,194,233	68,194,233	55,270,198	55,271,623	43,425,270
Retained earnings	Before distribution	89,958,846	88,373,007	77,606,654	61,534,835	52,097,039
	After distribution	Note	67,973,271	60,176,900	47,715,530	39,502,233
Other equity interest		(2,165,966)	838,599	3,362,257	100,838	179,145
Treasury stock		0	0	0	0	0
Total Equity	Before distribution	291,985,353	293,404,079	260,737,349	241,405,536	210,199,694
	After distribution	Note	273,004,343	243,307,595	227,586,231	197,604,888

Note: The earnings distribution for 2016 has not been resolved by the shareholders' meeting.

6.1.3 Condensed Consolidated Income Statement

Unit: NT$1,000 (except EPS in NT$)

Item / Year	2016	2015	2014	2013	2012
Interest income	54,113,662	56,852,736	56,213,248	46,533,690	43,400,003
Less: interest expenses	(16,420,610)	(19,164,143)	(19,539,068)	(15,257,563)	(13,827,930)
Interest income, net	37,693,052	37,688,593	36,674,180	31,276,127	29,572,073
Revenues other than interest, net	17,371,068	22,539,713	23,830,787	23,732,341	22,242,644
Net revenue	55,064,120	60,228,306	60,504,967	55,008,468	51,814,717
Bad debts expense on loans and provisions for guarantee liabilities	(3,613,467)	426,459	(1,588,465)	(5,276,424)	(4,341,908)
Reversal of (provisions for) insurance reserve	(116,264)	(12,356)	207,527	183,695	(48,919)
Operating expenses	(23,417,176)	(25,533,427)	(23,771,195)	(22,915,657)	(22,149,694)
Income from continuing operations - before tax	27,917,213	35,108,982	35,352,834	27,000,082	25,274,196
Income tax expense	(5,474,318)	(5,835,713)	(5,093,190)	(4,505,513)	(4,479,088)
Net income from continuing operations – after tax	22,442,895	29,273,269	30,259,644	22,494,569	20,795,108
Income from discontinued departments	0	0	0	0	0
Profit for the year	22,442,895	29,273,269	30,259,644	22,494,569	20,795,108
Total other comprehensive income (after income tax)	(3,471,024)	(3,644,024)	3,176,516	(535,261)	(2,084,775)
Total comprehensive income	18,971,871	25,629,245	33,436,160	21,959,308	18,710,333
Profit attributable to owners of parent	22,456,183	29,417,211	30,278,591	22,489,232	20,784,648
Profit attributable to non-controlling interests	(13,288)	(143,942)	(18,947)	5,337	10,460
Comprehensive income attributable to owners of parent	18,981,010	25,672,449	33,455,988	21,954,295	18,713,009
Comprehensive income attributable to non-controlling interests	(9,139)	(43,204)	(19,828)	5,013	(2,676)
Earnings per share	1.65	2.35	2.43	1.96	1.82

6.1.4 Condensed Unconsolidated Income Statement

Unit: NT$1,000 (except EPS in NT$)

Item \ Year	2016	2015	2014	2013	2012
Share of profit of associates and joint ventures accounted for under equity method	23,132,410	30,416,201	30,871,359	23,768,937	21,911,931
Other revenues	166,501	131,964	68,761	12,827	60,376
Operating expenses	(365,275)	(441,434)	(404,463)	(336,698)	(348,438)
Other expenses and losses	(67,257)	(242,233)	(216,571)	(290,185)	(363,294)
Income before income tax from continuing operations	22,866,379	29,864,498	30,319,086	23,154,881	21,260,575
Income tax expense	(410,196)	(447,287)	(40,495)	(665,649)	(475,927)
Net income	22,456,183	29,417,211	30,278,591	22,489,232	20,784,648
Other comprehensive loss for the period, net of tax	(3,475,173)	(3,744,762)	3,177,397	(534,937)	(2,071,639)
Total comprehensive income for the period	18,981,010	25,672,449	33,455,988	21,954,295	18,713,009
Earnings per share	1.65	2.35	2.43	1.96	1.82

6.1.5 Independent Auditors' Name and Opinion

Year	CPA Firm	CPA's Name	Auditing Opinion
2016	PricewaterhouseCoopers, Taiwan	Chien-Hung Chou, King-Tse Huang	Unqualified Opinion
2015	PricewaterhouseCoopers, Taiwan	Chien-Hung Chou, King-Tse Huang	Unqualified Opinion
2014	PricewaterhouseCoopers, Taiwan	Chien-Hung Chou, King-Tse Huang	Unqualified Opinion
2013	PricewaterhouseCoopers, Taiwan	Chien-Hung Chou, King-Tse Huang	Unqualified Opinion
2012	PricewaterhouseCoopers, Taiwan	Chien-Hung Chou, Hsiu-Ling Lee	Unqualified Opinion

6.2 Five-Year Financial Analysis

Consolidated

Unit: NT$1,000; %

Item	Year	2016	2015	2014	2013	2012
Operating ability	Total assets turnover	0.02	0.02	0.02	0.02	0.02
	Loans to deposits ratio of bank subsidiary (%)	80.38	80.71	86.34	86.87	89.23
	NPL ratio of bank subsidiary (%)	0.11	0.09	0.07	0.18	0.18
	NPL ratio of bills finance subsidiary (%)	0.00	0.00	0.00	0.00	0.00
	Average operating revenue per employee of the Group	6,546	7,155	7,210	6,410	6,192
	Average profit per employee	2,668	3,477	3,603	2,621	2,485
Profit ability	Return on total assets (%)	1.07	1.35	1.46	1.20	1.21
	Return on equity (%)	7.67	10.56	12.03	9.95	10.10
	Net income margin (%)	40.76	48.60	49.98	40.89	40.13
	Earnings per share (NT$)	1.65	2.35	2.43	1.96	1.82
Financial structure (%)	Ratio of liabilities to assets	91.20	91.37	92.01	92.24	92.28
	Ratio of liabilities to net worth	1,036.81	1,058.10	1,152.22	1,188.79	1,195.59
	FHC's double leverage ratio	110.67	108.89	108.51	108.98	113.07
Leverage ratio (%)	Operating leverage ratio	1.16	1.01	1.06	1.22	1.20
	FHC's financial leverage ratio	1.00	1.01	1.01	1.01	1.02
Growth rates (%)	Growth rate of assets	(2.32)	3.91	5.04	14.18	3.74
	Growth rate of profit	(20.48)	(0.69)	30.85	6.83	22.35
Cash flow (%)	Cash flow ratio	2.94	8.02	15.62	14.60	(1.57)
	Cash flow adequacy ratio	336.01	385.78	273.10	277.03	130.12
	Cash flow for operating to cash flow from investing	NA	7,598.82	NA	NA	472.08
Operating scale (%)	Market share of assets	6.91	7.47	7.83	8.08	7.67
	Market share of net worth	8.69	9.37	8.81	9.22	8.67
	Market share of deposits of bank subsidiary	-	-	-	-	-
	Market Share of loans of bank subsidiary	-	-	-	-	-
Capital adequacy ratio (%)	Mega International Commercial Bank	14.32	13.16	11.76	11.07	11.77
	Mega Securities Co., Ltd.	574.67	468.16	481.69	492.62	527.70
	Mega Bills Finance Co., Ltd.	13.53	13.88	13.84	13.57	13.49
	Chung Kuo Insurance Co., Ltd.	739.35	730.37	698.10	574.82	496.83
	Group Capital Adequacy Ratio	146.91	145.00	132.33	126.88	125.23

Analysis of deviation of 2016 vs. 2015 over 20% :

1. The NPL ratio of the bank subsidiary increased by 22% compared to 2015, mainly due to the increase in NPL and the decline in loans outstanding.
2. The 23% decline in average profit per employee, 21% decline in return on assets, 27% decline in return on equity, and 30% decline in earnings per share are primarily due to the decrease in profit for the year.
3. The growth rate of assets declined by 159% largely due to the reduction in cash and cash equivalent, receivables, bills discounted and loans, which offset the increase in held-to-maturity financial seeets.
4. The growth rate of profit declined by 2,868% as the decline rate of net income after tax in 2016 is higher than that of 2015 .
5. Cash flow ratio fell by 63% compared to 2015, primarily due to the decrease in net cash flow provided by operating acitivities.
6. The capital adequacy ratio of the securities subsidiary rose by 23% compared to 2015, mainly due to the decrease in legal capital requirement.

Unconsolidated

Unit: NT$1,000; %

Item		2016	2015	2014	2013	2012
Operating ability	Total assets turnover	0.07	0.10	0.11	0.09	0.09
	Loans to deposits ratio of bank subsidiary (%)	80.16	80.42	85.91	86.50	88.80
	NPL ratio of bank subsidiary (%)	0.09	0.08	0.06	0.16	0.17
	NPL ratio of bills finance subsidiary (%)	0.00	0.00	0.00	0.00	0.00
	Average operating revenue per employee	439,602	598,984	606,284	466,309	422,544
	Average profit per employee	423,702	576,808	593,307	440,965	399,705
Profit ability	Return on assets (%)	6.96	9.76	11.06	9.00	9.02
	Return on equity (%)	7.67	10.62	12.05	9.96	10.11
	Net profit margin (%)	96.38	96.30	97.86	94.57	94.59
	Earnings per share (NT$)	1.65	2.35	2.43	1.96	1.82
Financial structure (%)	Ratio of liabilities to assets	9.94	9.03	8.31	9.09	12.20
	Ratio of liabilities to net worth	11.03	9.93	9.06	10.00	13.90
	FHC's double leverage ratio	110.67	108.89	108.51	108.98	113.07
Leverage ratio (%)	Operating leverage ratio	0.99	1.00	1.00	1.00	1.00
	FHC's financial leverage ratio	1.00	1.01	1.01	1.01	1.02
Growth rates (%)	Growth rate of assets	0.51	13.42	7.20	10.92	4.90
	Growth rate of profit	(23.43)	(1.50)	30.85	8.91	24.46
Cash flow (%)	Cash flow ratio	176.33	170.50	353.05	3,865.15	441.67
	Cash flow adequacy ratio	98.16	106.00	113.69	113.70	112.53
	Cash flow coverage ratio	NA	NA	NA	NA	NA
Operating scale (%)	Market share of assets	8.67	9.28	8.70	9.41	9.20
	Market share of net worth	8.83	9.54	8.98	9.67	9.12
	Market share of deposits of bank subsidiary	5.50	5.89	5.73	5.78	5.41
	Market Share of loans of bank subsidiary	5.99	6.34	6.34	6.43	6.17

Analysis of deviation of 2016 vs. 2015 over 20% :

1. The 30% reduction in total assets turnover and 27% decline in average operating revenue per employee are primarily due to the reduction of net revenue.
2. The 27% decline in average profit per employee, 29% decline in return on assets, 28% decline in return on equity, and 30% decline in earnings per share are primarily due to decrease in net income after tax.
3. The growth rate of assets declined by 96%, largely due to the reduction in growth rate of equity investments accounted for by the equity method compared to 2015.
4. The growth rate of profit declined by 1,462% as the decline rate of net income after tax in 2016 is higher than that of 2015.

Formulas of the above financial analysis are as follows:

1. Operating ability

(1) Total assets turnover = Net revenue / Average total assets

(2) Loans to deposits ratio of bank subsidiary = Total loans outstanding of bank subsidiary / Total deposits outstanding of bank subsidiary

(3) NPL ratio of bank subsidiary = Non-performing loans of bank subsidiary / Total loans outstanding of bank subsidiary

(4) Average operating revenue per employee = Net revenue / Total number of employee

(5) Average profit per employee = Net income / Total number of employee

2. Profitability

(1) Return on assets = [Net income + Interest expense × (1 - Tax Rate)] / Average total assets

(2) Return on equity = Net income / Average equity

(3) Net profit margin = Net income / Net revenue

(4) Earnings per share = (Net income attributable to equity of parent company - Preferred stock dividend) / Weighted average number of shares outstanding

3. Financial structure

(1) Ratio of liabilities to assets = Total liabilities / Total assets

(2) Ratio of liabilities to net worth = Total liabilities / Total equity

(3) Double leverage ratio financial holding company = Equity investment made under Paragraph 2 of Article 36 and Article 37 of financial holding company Act / New worth

4. Leverage

(1) Operating leverage ratio = (Net revenue - Variable cost) / Net income before tax

(2) Financial leverage ratio of financial holding company = (Net income before tax + Interest expense) / Net income before tax

5. Growth rates

(1) Growth rate of assets = (Total assets - Total assets of previous year) / Total assets of previous year

(2) Growth rate of profit = (Net income before tax - Net income before tax of previous year) / Net income before tax of previous year

6. Cash Flow

(1) Cash flow ratio = Net cash provided by operating activities /(Due to other banks and overdrafts + Commercial paper payable + Financial liabilities at fair value through profit or loss + Bills and bonds sold under repurchase agreements + Payables with maturity within one year)

(2) Cash flow adequacy ratio = Five-year sum of net cash provided by operating activities / Five-year sum of capital expenditures and cash dividend

(3) Cash flow coverage ratio = Net cash provided by operating activities / Net cash provided by investing activities

7. Operating scale

(1) Market share of assets = Total assets / Total assets of all financial holding companies

(2) Market share of new worth = New worth / Total net worth of all financial holding Companies

(3) Market share of deposits of bank subsidiary = Total deposits outstanding / Total deposits of all financial institutions

(4) Market share of loans of bank subsidiary = Total loans outstanding / Total loans of all financial institutions

8. BIS ratio

(1) Subsidiary's capital adequacy ratio = Capital base / Risk weighted assets

(2) Group capital adequacy ratio = Group's net eligible capital / Group's statutory capital requirement

6.2.3

According to Article 46 of Financial Holding Company Act, disclosures of the sum of amounts of endorsements and guarantees provided by all subsidiaries of Financial Holding Company to the same natural person, same related natural person, or same related company for loans or other transactions:

(Please refer to p.134-141 of the Consolidated Financial Statements.)

6.3 Consolidated Financial Statements

Report of Independent Accountants

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, 2016 and 2015, 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, 2016 and 2015, 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 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, 2016 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, 2016, was $1,741,972,998 thousand and $26,694,232 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.

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 52% 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.

<u>How our audit addressed the matter</u>

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

1.Understood and assessed the 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.

(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

<u>Description</u>

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, 2016, was $12,861,411 thousand and $1,449,648 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.

<u>How our audit addressed the matter</u>

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

1. Understood and assessed the 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

<u>Description</u>

For the accounting policy for claims reserve (including those prior to and after reinsurance), please refer to Note 4(16)4. of the financial statements; for critical accounting estimates and key sources of assumption uncertainty of claims reserve (included ceded reserves), please refer to Note 5(5) of the financial statements; for detail of claims reserve (and ceded reserves), please refer to Note 6(23) and (6) of the financial statements. On December 31, 2016, the Group's claims reserve and ceded claims reserve was $4,419,457 thousand and $2,400,073 thousand, respectively.

The subsidiary, Chung Kuo Insurance Co., Ltd (CKI),'s claims reserve (including ceded reserves) uses the loss development triangle 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.

<u>How our audit addressed the matter</u>

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarized 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 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 tested the reasonableness of assumptions used in calculating claims reserve;

(3)Sampled and tested actual calculation processes in order to confirm the accuracy of claims reserve calculations;

(4)Conducted variance analysis and ratio analysis according to insurance type in order to assess the reasonableness of calculation results for claims reserve.

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.

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.

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 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.

Chou, Chien-Hung   Huang, King-Tse

For and on behalf of PricewaterhouseCoopers, Taiwan

March 28, 2017

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

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

Financial Information

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2016 Amount	%	December 31, 2015 Amount	%	January 1, 2015 Amount	%
Assets							
Cash and cash equivalents	6(1)	$ 98,131,357	3	$ 152,871,868	5	$ 171,560,274	5
Due from the Central Bank and call loans to banks	6(2) and 11	540,011,742	16	503,267,079	15	466,483,866	14
Financial assets at fair value through profit or loss, net	6(3) and 12	186,317,373	6	182,036,664	5	181,366,843	6
Available-for-sale financial assets, net	6(7) and 12	354,464,708	11	346,461,364	10	280,703,020	9
Bills and bonds purchased under resale agreements		2,855,885	-	7,079,210	-	11,874,327	-
Receivables, net	6(4)(5)	86,825,802	3	175,747,221	5	201,540,361	6
Current income tax assets		577,485	-	2,307,563	-	1,534,999	-
Non-current assets held for sale, net		-	-	-	-	2,739	-
Bills discounted and loans, net	6(5) and 11	1,715,278,766	52	1,773,269,054	52	1,733,994,271	53
Reinsurance contract assets, net	6(6)(23)	4,261,668	-	3,308,814	-	3,217,685	-
Held-to-maturity financial assets, net	6(8) and 12	280,997,362	8	201,233,939	6	163,708,076	5
Equity investments accounted for under the equity method, net	6(9)	3,108,470	-	2,976,409	-	2,761,637	-
Other financial assets, net	6(5)(10) and 12	14,955,209	-	17,189,576	1	20,626,729	1
Investment property, net	6(11) and 12	1,711,561	-	1,368,553	-	1,976,764	-
Property and equipment, net	6(12) and 12	21,787,452	1	21,834,486	1	22,125,875	1
Intangible assets, net		270,438	-	299,644	-	307,693	-
Deferred income tax assets	6(40)	5,463,227	-	4,716,552	-	4,030,528	-
Other assets, net	6(13),11 and 12	2,772,911	-	2,550,310	-	2,822,250	-
Total Assets		$ 3,319,791,416	100	$ 3,398,518,306	100	$ 3,270,637,937	100

(Continued)

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Expressed in Thousands of New Taiwan Dollars)

Liabilities and equity	Notes	December 31, 2016 Amount	%	December 31, 2015 Amount	%	January 1, 2015 Amount	%
Liabilities							
Due to the Central Bank and financial institutions	6(14) and 11	$ 401,731,599	12	$ 428,405,839	13	$ 474,623,325	15
Funds borrowed from the Central Bank and other banks	6(15)	39,974,427	1	45,459,094	1	53,906,541	2
Financial liabilities at fair value through profit or loss	6(16) and 11	12,105,231	1	22,980,692	1	29,582,637	1
Bills and bonds sold under repurchase agreements	6(17) and 11	231,191,763	7	192,936,650	6	221,809,530	7
Commercial paper payable, net	6(18) and 11	11,701,649	-	19,945,870	-	15,363,080	-
Payables	6(19)	59,001,999	2	63,623,826	2	60,564,578	2
Current income tax liabilities		8,589,599	-	10,517,577	-	9,123,049	-
Deposits and remittances	6(20) and 11	2,171,287,924	66	2,230,143,429	66	2,036,403,864	62
Bonds payable	6(21)	41,924,088	1	41,878,505	1	56,200,000	2
Other loans	6(22)	5,954,030	-	2,280,000	-	5,926,763	-
Provisions for liabilities	6(23)	25,047,224	1	22,917,606	1	21,647,077	1
Other financial liabilities	6(24)	10,849,706	-	10,720,861	-	10,778,269	-
Deferred income tax liabilities	6(40)	2,201,659	-	2,195,423	-	2,169,411	-
Other liabilities	6(25)	6,203,075	-	11,057,626	-	11,640,531	-
Total liabilities		3,027,763,973	91	3,105,062,998	91	3,009,738,655	92
Equity							
Equity attributable to owners of parent							
Share capital							
Common stock	6(26)	135,998,240	4	135,998,240	4	124,498,240	4
Capital surplus	6(26)	68,194,233	2	68,194,233	2	55,270,198	2
Retained earnings							
Legal reserve	6(26)	30,436,714	1	27,494,993	1	24,469,127	1
Special reserve	6(26)	2,545,158	-	2,545,158	-	2,547,719	-
Unappropriated retained earnings	6(27)	56,976,974	2	58,332,856	2	50,589,808	1
Other equity interest	6(28)						
Other equity interest		(2,165,966)	-	838,599	-	3,362,257	-
Non-controlling interests		42,090	-	51,229	-	161,933	-
Total equity		292,027,443	9	293,455,308	9	260,899,282	8
Total liabilities and equity		$ 3,319,791,416	100	$ 3,398,518,306	100	$ 3,270,637,937	100

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

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share Amounts)

	Notes	For the year ended December 31, 2016 Amount	%	For the year ended December 31, 2015 Amount	%	Change percentage (%)
Interest income	6(29) and 11	$ 54,113,662	98	$ 56,852,736	95	(5)
Less: interest expense	6(29) and 11	(16,420,610)	(30)	(19,164,143)	(32)	(14)
Interest income, net		37,693,052	68	37,688,593	63	-
Revenues other than interest, net						
Service fee revenue and commissions, net	6(30)	10,237,640	19	10,974,878	18	(7)
Insurance revenue, net		1,682,081	3	1,871,145	3	(10)
Financial assets and liabilities at fair value through profit or loss	6(31) and 11	4,596,354	8	1,072,505	2	329
Gain on investment property		18,578	-	518,772	1	(96)
Realized gain on available-for-sale financial assets, net	6(32) and 11	1,988,048	4	1,534,229	2	30
Realized loss on held-to-maturity financial assets, net		(189)	-	-	-	-
Foreign exchange gain		2,089,104	4	2,973,694	5	(30)
Share of profit of associates and joint ventures accounted for under equity method	6(9)	229,098	-	244,963	-	(6)
Other revenue other than interest income	6(34)	2,058,557	4	1,729,708	3	19
Revenue on disposal of non-performing loans	6(35)	-	-	1,717,260	3	(100)
Indemnity income	6(36)	(5,147,557)	(9)	392,623	1	(1411)
Loss on asset impairment	6(33)	(380,646)	(1)	(490,064)	(1)	(22)
Net revenue		55,064,120	100	60,228,306	100	(9)
Bad debts expense and guarantee liability (provisions) reserve	6(4)(5)(6)(10)(23)	(3,613,467)	(7)	426,459	1	(947)
Net change in provisions for insurance liabilities	6(23)	(116,264)	-	(12,356)	-	841
Operating expenses						
Employee benefit expense	6(37)	(14,953,836)	(27)	(16,626,475)	(28)	(10)
Depreciation and amortization	6(38)	(711,525)	(1)	(691,496)	(1)	3
Other business and administrative expenses	6(39)	(7,751,815)	(14)	(8,215,456)	(14)	(6)
Income before income tax		27,917,213	51	35,108,982	58	(20)
Income tax expense	6(40)	(5,474,318)	(10)	(5,835,713)	(9)	(6)
Profit for the year		22,442,895	41	29,273,269	49	(23)
Other comprehensive income (after tax)						
Non-reclassifiable to profit or loss subsequently						
Remeasurement of defined benefit plan	6(23)	(566,997)	(1)	(1,471,209)	(2)	(61)
Income tax related to the components of other comprehensive income that will not be classified subsequently	6(40)	96,389	-	250,105	-	(61)
Potentially reclassifiable to profit or loss subsequently						
Cumulative translation differences of foreign operations	6(28)	(1,278,555)	(3)	(180,357)	-	609
Unrealized loss on valuation of available-for-sale financial assets	6(28)	(1,658,397)	(3)	(2,222,285)	(4)	(25)
Share of other comprehensive (loss) income of associates and joint ventures accounted for under equity method	6(28)	(63,464)	-	(20,278)	-	213
Total other comprehensive loss (after income tax)		(3,471,024)	(7)	(3,644,024)	(6)	(5)
Total comprehensive income (after tax)		$ 18,971,871	34	$ 25,629,245	43	(26)
Profit (loss) attributable to:						
Owners of parent		$ 22,456,183	41	$ 29,417,211	49	(24)
Non-controlling interests		(13,288)	-	(143,942)	-	(91)
		$ 22,442,895	41	$ 29,273,269	49	(23)
Comprehensive income (loss) attributable to:						
Owners of parent		$ 18,981,010	34	$ 25,672,449	43	(26)
Non-controlling interests		(9,139)	-	(43,204)	-	(79)
		$ 18,971,871	34	$ 25,629,245	43	(26)
Earnings per share	6(41)					
Basic and diluted earnings per share (in dollars)		$ 1.65		$ 2.35		

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

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Thousands of New Taiwan Dollars)

	Share capital-common stock	Capital Surplus
For the year ended December 31, 2015		
Balance at January 1, 2015	$ 124,498,240	$ 55,270,198
Earnings distribution for 2014		
Legal reserve	-	-
Reversal of special reserve	-	-
Cash dividends	-	-
Changes in capital surplus of associates and joint ventures accounted for under equity method	-	(631)
Profit (loss) for the year	-	-
Other comprehensive (loss) income for the year	-	-
Issuance of common stock	11,500,000	12,661,500
Share based payment transaction	-	263,166
Change in non-controlling interest by capital reduction of subsidiary	-	-
Balance at December 31, 2015	$ 135,998,240	$ 68,194,233
For the year ended December 31, 2016		
Balance at January 1, 2016	$ 135,998,240	$ 68,194,233
Earnings distribution for 2015		
Legal reserve	-	-
Cash dividends	-	-
Profit (loss) for the year	-	-
Other comprehensive (loss) income for the year	-	-
Balance at December 31, 2016	$ 135,998,240	$ 68,194,233

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

Equity attributable to owners of the parent							
Retained Earnings			Other equity interest				
Legal Reserve	Special Reserve	Unappropriated Retained Earnings	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Total	Non-controlling interest	Total
$ 24,469,127	$ 2,547,719	$ 50,589,808	$ 605,482	$ 2,756,775	$ 260,737,349	$ 161,933	$ 260,899,282
3,025,866	-	(3,025,866)	-	-	-	-	-
-	(2,561)	2,561	-	-	-	-	-
-	-	(17,429,754)	-	-	(17,429,754)	-	(17,429,754)
-	-	-	-	-	(631)	-	(631)
-	-	29,417,211	-	-	29,417,211	(143,942)	29,273,269
-	-	(1,221,104)	(177,718)	(2,345,940)	(3,744,762)	100,738	(3,644,024)
-	-	-	-	-	24,161,500	-	24,161,500
-	-	-	-	-	263,166	-	263,166
-	-	-	-	-	-	(67,500)	(67,500)
$ 27,494,993	$ 2,545,158	$ 58,332,856	$ 427,764	$ 410,835	$ 293,404,079	$ 51,229	$ 293,455,308
$ 27,494,993	$ 2,545,158	$ 58,332,856	$ 427,764	$ 410,835	$ 293,404,079	$ 51,229	$ 293,455,308
2,941,721	-	(2,941,721)	-	-	-	-	-
-	-	(20,399,736)	-	-	(20,399,736)	-	(20,399,736)
-	-	22,456,183	-	-	22,456,183	(13,288)	22,442,895
-	-	(470,608)	(1,281,146)	(1,723,419)	(3,475,173)	4,149	(3,471,024)
$ 30,436,714	$ 2,545,158	$ 56,976,974	($ 853,382)	($ 1,312,584)	$ 291,985,353	$ 42,090	$ 292,027,443

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31, 2016	2015
Cash flows from operating activities		
Profit before tax	$ 27,917,213	$ 35,108,982
Income and expenses having no effect on cash flows		
Depreciation	649,559	641,638
Amortization	61,966	49,858
Bad debts expense and guarantee liability reserve (provisions)	3,613,467	(426,459)
Interest expense	17,075,355	19,876,136
Interest income	(56,336,478)	(58,908,288)
Dividend income	(1,480,289)	(1,511,628)
Net change in provisions for insurance liabilities	116,264	12,356
Share based payment transactions	-	263,166
Loss on asset impairment	380,646	490,065
(Gain) loss on disposal of property and equipment	1,323	(4,057)
Gain on disposal of investment property	1,075	(497,851)
Share of profit of associates accounted for under equity method	(229,098)	(244,963)
Changes in assets/liabilities relating to operating activities		
Changes in assets relating to operating activities		
Decrease in due from Central Bank and call loans to other banks	6,827,796	17,511,630
Increase in financial assets at fair value through profit or loss	(4,280,709)	(669,821)
Increase in available-for-sale financial assets	(9,765,082)	(68,333,923)
Decrease in receivables	89,851,276	56,879,340
Decrease in non-current assets held-to-sale	-	2,739
Decrease (increase) in bills discounted and loans	54,310,193	(39,272,959)
Increase in reinsurance contract assets	(952,854)	(91,129)
Increase in held-to-maturity financial assets	(79,763,423)	(37,525,863)
Decrease in other financial assets	1,383,351	3,233,079
Increase in other assets	(168,328)	(153,642)
Changes in liabilities relating to operating activities		
Decrease in due to the Central Bank and financial institutions	(26,674,240)	(46,217,486)
Decrease in financial liabilities at fair value through profit or loss	(10,875,461)	(6,601,945)
Increase (decrease) in bills and bonds purchased under resale agreements	38,255,113	(28,872,880)
Decrease in payables	(7,909,521)	(68,243)
(Decrease) increase in deposits and remittances	(58,855,505)	193,739,565
Increase (decrease) in other financial liabilities	128,845	(57,408)
Increase (decrease) in liabilities reserve	1,062,654	(157,424)
(Decrease) increase in other liabilities	(3,312,125)	1,308,510
Cash provided by operations	(18,967,017)	39,501,095
Interest received	54,950,261	26,581,318
Cash dividend received	1,639,225	1,684,209
Interest paid	(17,211,322)	(20,063,520)
Income tax paid	(4,527,024)	(3,997,323)
Net cash provided by operating activities	15,884,123	43,705,779
Cash flows from investing activities		
Acquisition of investments under the equity method	-	(255,000)
Proceeds from disposal of investments under the equity method	2,747	21,924
Proceeds from capital reduction of equity investments accounted for under the equity method	-	69,752
Proceeds from capital reduction of investments measured at cost	69,384	-
Acquisition of property and equipment	(542,060)	(499,191)
Proceeds from disposal of property and equipment	5,422	4,993
Acquisition of intangible assets	(13,893)	(63,376)
Acquisition of investment property	(91,825)	-
Proceeds from disposal of investment property	12,175	1,296,063
Net cash provided by (used in) investing activities	558,050)	575,165
Cash flows from financing activities		
Decrease in due to the Central Bank and financial institutions	(5,484,667)	(8,447,446)
(Decrease) increase in commercial papers payable	(8,245,579)	4,580,579
Proceeds from issuance of bonds	-	5,800,000
Redemption in bonds	-	(6,000,000)
Redemption of financial bonds	-	(14,000,000)
Increase (decrease) in other loans	3,674,030	(3,646,763)
Decrease in guarantee deposits received	(677,718)	(1,031,994)
Payment in cash dividends	(18,718,378)	(15,860,486)
Issuance of common stock	-	24,161,500
Change in non-controlling interest by capital reduction of subsidiary	-	(67,500)
Net cash used in financing activities	(29,452,312)	(14,512,110)
Effect of exchange rate changes on cash and cash equivalents	(1,265,138)	(180,261)
Net (decrease) increase in cash and cash equivalents	(15,391,377)	29,588,573
Cash and cash equivalents at beginning of the year	444,732,697	415,144,124
Cash and cash equivalents, end of the year	$ 429,341,320	$ 444,732,697
Cash and cash equivalents composition :		
Cash and cash equivalents shown in the balance sheet	$ 98,131,357	$ 152,871,868
Due from the Central Bank and call loans to banks meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	328,354,078	284,781,619
Investments in bills and bonds under resale agreements meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	2,855,885	7,079,210
Cash and cash equivalents at end of the year	$ 429,341,320	$ 444,732,697

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

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Indicated)

1. ORGANIZATION AND OPERATIONS

(1)CTB Financial Holding Co., Ltd. was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.), and was formed by Chiao Tung Bank Co., Ltd. ("CTB") and International Securities Co., Ltd. ("IS") through a share swap on February 4, 2002 pursuant to the Financial Holding Company Act and other related laws. The Company's shares have been publicly traded on the Taiwan Stock Exchange since February 4, 2002. On August 22, 2002, the Company further acquired Chung Hsing Bills Finance Corporation and Barits Securities Co., Ltd. ("BS") (which later merged with IS on January 31, 2003, with IS being the surviving entity and was later renamed Barits International Securities Co., Ltd. ("BIS") as one of the subsidiaries of the Company through a second share swap. On December 31, 2002, the Company also acquired 100% equity stock in both International Commercial Bank of China ("ICBC"), an investee of the Company originally accounted for by the equity method with a 28% equity interest, and Chung Kuo Insurance Co., Ltd. ("CKI") through a further share swap and changed its name from CTB Financial Holding Co., Ltd. to Mega Financial Holding Co., Ltd. (the "Company"). During the period from 2003 to 2005, the Company had made investments in Mega Asset Management Co., Ltd. ("MAM"), Mega Investment Trust Co., Ltd. ("MITC"), Mega Life Insurance Agency Co., Ltd. ("MLIAC") and Mega CTB Venture Capital Co., Ltd. ("Mega CTB Venture Capital"). On May 23, 2006, International Investment Trust Co., Ltd. ("IIT") was acquired by the Company and ICBC through cash injection of capital.

(2)In order to expand the economic scale of its business operations, two of the Company's subsidiaries, CTB and ICBC, entered into a merger agreement, effective from August 21, 2006, which is to be implemented by way of "absorption", with CTB being the dissolving bank and ICBC, later renamed Mega International Commercial Bank Co., Ltd. being the surviving bank. In addition, IIT and MITC entered into a merger agreement, with MITC as the dissolving company and IIT simultaneously renamed Mega International Investment Trust Co., Ltd., being the surviving company, effective from September 17, 2007.

(3)The number of employees of the Company and its subsidiaries (collectively referred herein as the "Group ") was 8,447 and 8,453 as of December 31, 2016 and 2015, respectively.

(4)The Company is mainly engaged in investment activities approved by the governing authorities and management of the investee companies.

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

These consolidated financial statements were reported to the Board of Directors and issued on March 28, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

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

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

As of the date the consolidated financial statements were issued, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment.

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealized losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the application of the above-mentioned new standards, interpretations and amendments is not likely to result in a material change in the accounting policy of the Group:

A. Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts' To address the concerns about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new standard IFRS 4, 'Insurance contract', which may result in different bases for measuring assets and liabilities, this amendment allows insurers who meet specific requirements as set out in IFRS 4, 'Insurance contract' to adopt temporary exemption from IFRS 9, 'Financial instruments', or to use overlay approach under IFRS 9, 'Financial instruments' alternatively.

B. IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss 'approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses ('ECL') or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).

C. IFRS 15 "Revenue from contracts with customers"

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

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

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

D. IFRS 16, 'Leases'

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The accompanying consolidated financial statements of the Group are prepared in conformity 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 Publicly 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 FSC (collectively referred herein as the "IFRSs").

(2) Basis for preparation

A. The consolidated financial statements consist of the consolidated balance sheet, consolidated statement of comprehensive income (showing components of profit or loss and components of other comprehensive income.), consolidated statement of changes in equity, consolidated statement of cash flows and the related notes.

B. Except for financial assets and financial liabilities (including derivative instruments) recognized at fair value, defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation, and insurance liabilities and reinsurance reserve assets measured based on the laws and regulations of the insurance industry, and these consolidated financial statements have been prepared under the historical cost convention.

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

(3) Basis for preparation of consolidated financial statements

A. The Group prepares the consolidated financial statements by aggregating the Company's and its subsidiaries' assets, liabilities, revenues and gains, and expenses and losses accounts, which have been eliminated versus owners' equity during the consolidation. In addition, the Group's financial statements are prepared in the same reporting period. The accounts on the accompanying consolidated financial statements are not categorized into current and non-current items. The related accounts are properly categorized according to the nature of each accounts, and sequenced by their liquidity.

B. The names of the subsidiaries that are included in the consolidated financial statements and the percentage of Company's ownership in each subsidiary are set forth below:

Investor	Subsidiary	Ownership (%) December 31, 2016	Ownership (%) December 31, 2015	Remark
The Company	Mega International Commercial Bank Co., Ltd ("MICB")	100.00	100.00	Note(1)
The Company	Mega Securities Co., Ltd ("MS")	100.00	100.00	Note(2)
The Company	Mega Bills Finance Co., Ltd ("MBF")	100.00	100.00	Note(3)
The Company	Mega International Investment Trust Co., Ltd ("MITC")	100.00	100.00	Note(4)
The Company	Chung Kuo Insurance Co., Ltd ("CKI")	100.00	100.00	Note(5)
The Company	Mega Asset Management Co., Ltd ("MAM")	100.00	100.00	Note(6)
The Company	Mega Venture Capital	100.00	100.00	Note(7)
The Company	Mega Life Insurance Agency Co., Ltd.	100.00	100.00	Note(8)
MICB	Mega International Commercial Bank (Canada) ("MICB Canada")	100.00	100.00	Note(9)
MICB	Mega International Commercial Bank Public Co., Ltd ("MICBPC")	100.00	100.00	Note(10)
MS	Mega Securities Holding Co., Ltd ("MHL")	100.00	100.00	Note(11)
MS	Mega Futures Co., Ltd ("MF")	100.00	100.00	Note(12)
MS	Mega International Securities Investment Consulting Co.Ltd.	100.00	100.00	Note(13)
MHL	Mega Securities (Hong Kong) Co., Ltd.	-	100.00	Note(14)
MHL	Mega Capital (Asia) Co., Ltd.	-	100.00	Note(15)
MICB, MS and CKI	Mega I Venture Capital	40.00	40.00	Note(16)

(1) MICB is mainly engaged in extending medium-term and long-term loans, equity and venture capital investments, international banking and trust related business. In line with the government's economic policy and economic development programs, MICB also assists major industries in developing strategies for improving the industrial infrastructure and promotes industrial development of ROC.

(2) Principal activities of MS include underwriting, brokerage and proprietary trading of securities, margin trading of securities and bills, issuance of stock warrants, brokerage of overseas securities, and proprietary trading of futures.

(3) MBF is mainly engaged in proprietary trading, brokerage and underwriting of short-term notes and bills and financial bonds, provision of guarantees for short-term notes and bills, arrangement of inter-bank call loans, corporate financial consulting and proprietary trading of government bonds and corporate bonds.

(4) MITC is primarily engaged in investment trust related businesses.

(5) CKI is primarily engaged in general insurance business.

(6) MAM is primarily engaged in purchases, evaluations, auctions, and management of financial institutions' loan assets.

(7) Mega Venture Capital is primarily engaged in venture capital investments as well as providing operational, managerial and consulting services.

(8) Mega Life Insurance Agency Co., Ltd. is primarily engaged in the business of life insurance agency.

(9) MICB Canada is mainly engaged in accepting deposits, extension of credits, negotiation of import/export bills, collections and foreign exchange related businesses.

(10) MICBPC is mainly engaged in accepting deposits, negotiation of import/export bills, collections and exchange of foreign currencies and extension of credits.

(11) MHL is mainly involved in asset management and venture capital activities.

(12) Mega Futures Co., Ltd. ("MF") is mainly engaged in brokerage of domestic and foreign futures trading, and settlement and consulting services for domestic futures trading.

(13) Mega International Securities Investment Consulting Co., Ltd. is 100% owned by MS, and is mainly engaged in investment consulting services.

(14) On March 7, 2016, the Board of Directors resolved the subsidiary,MS and the sub-subsidiary,MHL to sell all shares of Mega Securities (Hong Kong) Co., Ltd. The disposal has been approved by FSC on March 24, 2016 and has received the approval letter from Securities & Futures Commission of Hong Kong on July 14, 2016. The settlement has been completed on August 10, 2016.

(15) Mega Capital (Asia) Co., Ltd., registered in Hong Kong, is 100% owned by Mega Securities Holding Co., an indirect subsidiary, and is mainly engaged investment consulting services. On August 31, 2015, Mega Capital (Asia) Co., Ltd.'s stockholders' meeting resolved to liquidate. As of March 30, 2016, the liquidation process has been completed.

(16) Mega I Venture Capital is 40% owned jointly by MICB, MS and CKI with a total investment amount of $135 million. Mega I Venture Capital is primarily engaged in venture capital activities and it is regarded as a subsidiary in which the Company has control due to the Company's significant influence over its financial, operational and personnel policies.

C. Details of the Company's subsidiaries that are not included in the consolidated financial statements are set forth below:

Investor	Subsidiary	Ownership (%) December 31, 2016	Ownership (%) December 31, 2015	Business Activities
MICB	Cathay Investment & Development Corporation (Bahamas)	100.00	100.00	International investment and development activities
MICB	Mega Management Consulting Corporation	100.00	100.00	Management consulting
MICB	Cathay Investment & Warehousing Ltd.	100.00	100.00	1. Warehousing 2. Manage and make the investment for the business in foreign trade business
MICB	Ramlett Finance Holdings Inc.	100.00	100.00	Real estate investments
MICB	Yung Shing Industries Co.	99.56	99.56	Agency services for industrial and mining related businesses, import and export related businesses, services requested by customers
MICB	China Products Trading Company	68.27	68.27	Transportation and storage of farming products and by-products, and investments in the related businesses
Yung Shing Industries Co.	Win Card Co., Ltd.	100.00	100.00	Business administration consulting, advertising, and management of past due accounts receivables
Yung Shing Industries Co.	ICBC Asset Management & Consulting Co., Ltd.	100.00	100.00	Investment consulting,corporate management consulting and venture investment management consulting

As the individual total assets or operating revenue amounts of the above subsidiaries are immaterial, the accounts of these subsidiaries are not included in the Company's consolidated financial statements although the Company holds more than 50% equity interest in these subsidiaries. The investments of certain subsidiaries are accounted for under equity method.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

F. All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

G. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

H. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

I. When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

(4) Foreign currency translations

A. Functional and presentation currency

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

B. Transactions and balances

The transactions denominated in foreign currency or to be settled in foreign currency are translated into a functional currency at the spot exchange rate between the functional currency and the underlying foreign currency on the date of the transaction.

Foreign currency monetary items should be reported using the closing rate (market exchange rate) at the date of each balance sheet. When multiple exchange rates are available for use, they should be reported using the rate that would be used to settle the future cash flows of the foreign currency transactions or balances at the measurement date. Foreign currency non-monetary items measured at historical cost should be reported using the exchange rate at the date of the transaction. Foreign currency non-monetary items measured at fair value should be reported at the rate that existed when the fair values were determined.

Exchange differences arising when foreign currency transactions are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period, with one exception. The exception is that exchange differences associated with the gains or losses of the parts of effective hedges of cash flow hedges or hedges of net investments in foreign operations are recognized in other comprehensive income.

If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income. Conversely, if a gain or loss on a non-monetary item is recognized in profit or loss, any foreign exchange component of that gain or loss is also recognized in profit or loss.

C. Entities in consolidated financial statements

The operating results and financial position of all the Group's entities in the consolidated financial statements that have a functional currency (which is not the currency of a hyperinflationary economy) different from the presentation currency are translated into the presentation currency as follows:

(A) Assets and liabilities presented are translated at the Group's closing exchange rate at the date of that balance sheet;

(B) The profit and loss presented is translated by the average exchange rate in the period (except for the situation that the exchange rate on the trade date shall be adopted when the exchange rate fluctuate rapidly); and

(C) All resulting exchange differences are recognized in other comprehensive income.

The translation differences arising from above processes are recognized as 'Exchange differences arising on translation of foreign operations' under equity items.

(5) Cash and cash equivalents

"Cash and cash equivalents" in the consolidated balance sheet includes cash on hand, due from other banks, short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. In respect of the consolidated statements of cash flows, cash include cash and cash equivalents shown in the consolidated balance sheet, investments in bills and bonds under resale agreements satisfying the definition of cash and cash equivalents in IAS 7 as approved by FSC.

(6) Bills and bonds under repurchase or resale agreements

The transactions of bills and bonds with a condition of repurchase agreement or resell agreement are accounted for under the financing method. The interest expense and interest income are recognized as incurred at the date of sale and purchase and the agreed period of sale and purchase. The repo trade liabilities, bond liabilities, reverse repo trade bills and bond investments are recognized at the date of sale or purchase.

(7) Financial assets or liabilities

The financial assets and liabilities of the Group including derivatives are recognized in the consolidated balance sheet and are properly classified in accordance with IFRSs as endorsed by FSC.

A. Financial assets

IFRSs applies to the entire Group's financial assets, which are classified into four categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets.

(A) A regular way purchase or sale

Financial assets that are purchased or sold on a regular way purchase or sale basis should be recognized and derecognized using trade date accounting or settlement date accounting. The uniform accounting principles should be applied in the accounting for purchase and sale of financial assets of the same type. All the Group's financial assets are accounted for using trade date accounting.

(B) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

There are two types of loans and receivables: one is originated by the Group; the other is not originated by the Group. Loans and receivables originated by the entity refer to the direct provision by the Group of money, merchandise or services to debtors, and loans and receivables not originated by the Group are loans and receivables other than those originated by the Group.

Loans and receivables are initially recognized at fair value, which includes the price of transaction, significant costs of transaction, significant handling fees paid or received, discount and premium, etc., and subsequently measured using the effective interest method. However if the effect of discount is insignificant, following the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and "Regulations Governing the Preparation of Financial Reports by Public Banks", loans and receivables can be measured at initial amount.

Interest accruing on loans and receivables is recognized as 'interest revenue'. An impairment loss is recognized when there is an objective evidence of impairment on loans and receivables. Allowance for impairment is a deduction to carrying amount of loans and receivables, which is under the 'allowance for bad debts and reserve for guarantee liabilities' account.

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

Financial assets are classified as financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling or repurchasing or gaining profit in the short-term, or if they are derivative instruments. These financial assets are initially recognized at fair value.

Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

a. They eliminate or significantly reduce a measurement or recognition inconsistency such as measurement of financial assets or liabilities or recognition of related gain or loss on different bases; or

b. Their performance is evaluated on a fair value basis; or

c. Hybrid (combined) instruments including embedded derivative instruments.

Any changes in fair value of financial assets at fair value through profit or loss and financial assets designated as at fair value through profit or loss on initial recognition are recognized under the 'gain/loss on financial assets and liabilities at fair value through profit or loss' account in the consolidated statement of comprehensive income.

(D) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables, designated as available-for-sale financial assets and those that are designated as at fair value through profit or loss on initial recognition by subsidiaries. Interest accruing on held-to-maturity financial assets is recognized as 'interest revenue'. An impairment loss is recognized when there is an objective evidence of impairment on financial assets. Impairment loss is a deduction to carrying amount of financial assets, which is recognized under the 'impairment loss on financial assets' account.

(E) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are not classified in held-to-maturity financial assets, financial assets at fair value through profit or loss and loans and receivables. Financial assets and liabilities that are attributed to equity and debt investments on initial recognition are assessed at fair value. Transaction costs which are attributable to the acquisition should be capitalized.

An impairment loss is recognized when there is an objective evidence of impairment. If financial assets have not been derecognized, accumulated impairment loss related to the financial assets that was previously recognized in other comprehensive income shall be reclassified to profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Any subsequent increases in fair value of an investment in an equity instrument are recognized in other comprehensive income. If the impairment loss of bond investments decreases with objective evidence indicating that an impairment loss has been incurred after the impairment is recognized, the impairment amount is reversed and recognized in current profit and loss.

Equity instruments with no quoted price in an active market are initially recognized at fair value plus acquisition or issuance cost. The fair value can be reasonably estimated when the following criteria are met at the balance sheet date: (A) the variability in the range of reasonable fair value estimate is not significant for that equity instrument; or (B) probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

(F) Other financial assets

Other financial assets include investments in debt instruments without active market, overdue receivables not from lending, bill of exchange negotiated and financial assets measured at cost.

a. Debt investments with no active market

Investments in debt instruments without active market are initially recognized at fair value on the trade date plus transaction costs of acquisition or issuance. Disposal gain or loss is recognized when derecognized. Bond investments without active market are measured at amortized cost using the effective interest method.

b. Financial assets carried at cost

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

c. Purchase of obligor receivable

Purchase of obligor receivable refers to the cost of acquisition of creditor's right that is non-performing loan of financial institutions acquired by the Group but not collected yet less total price and other expenses paid for the acquisition. Related gain or loss on obligor receivable is recognized based on relevant regulations. Purchase of claim receivable is measured at amortized cost using effective interest rate based on intention of holding or at fair value through profit or loss.

(G) Margin loans, short sale stock loans and securities borrowed

For handling margin trading of securities business, margin loans extended to stock investors are recorded as "marginal receivables" under the "Receivables, net" account and the stocks purchased by the borrowers are held by the Company as collateral. The collateral is recorded in the memorandum account and is returned to the borrowers when the loans are repaid.

Guarantee deposits received from stock investors on short sales are recorded as "margin deposits on short sales" under the "Payables" account. The proceeds from short sales (less the securities transaction tax, consignment trading service charges, and financing commission) are held as guarantee deposits which are recorded as "payables" on proceeds from short sales" under the "Payables" account. The stocks lent to the customers are recorded in the memorandum account. When the stocks are returned to the Company, the margin deposits and proceeds from the short sales are returned to the customers accordingly.

Loans borrowed by the Company from other securities lenders when the Company has insufficient fund to conduct margin trading are recorded as "margin loans from other securities lenders" under the "Payables" account, and the stocks purchased by the borrowers are held as collateral.

When the Company has insufficient stocks to conduct short selling, the guarantee deposits and collateral paid for the stocks borrowed from other securities lenders are recorded as "deposits paid to other securities lenders" under the "Receivables, net" account. The proceeds from short sales are then paid to the securities lenders as additional guarantees and are respectively recorded as "payables on proceeds from short sales" under the "Payables" account and "refinancing guarantees receivable" under the "Receivables, net" account.

B. Financial liabilities

Financial liabilities held by the Group comprise financial liabilities at fair value through profit or loss (including financial liabilities designated as at fair value through profit or loss on initial recognition) and financial liabilities measured at amortized cost.

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

This category includes financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition.

A financial liability shall be classified as held for trading, if it is incurred principally for the purpose of repurchasing it in the near term; or on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A derivative is also classified as held for trading, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument. Financial liability held for trading also includes the obligations of delivery of financial assets borrowed by the seller. Above financial liability is shown as "financial liability at fair value through profit or loss" in the consolidated balance sheet.

In relation to financial liabilities at fair value through profit and loss and those designated as financial liabilities at fair value through profit and loss at initial recognition, any change in fair value is recognized as "gain and loss on financial assets and liabilities at fair value through profit and loss" in the statement of comprehensive income.

(B) Financial liabilities measured at amortized cost

Liabilities not classified as financial liabilities at fair value through profit or loss and financial guarantee contracts are all included in financial liabilities carried at amortized cost.

C. Derecognition of financial assets

The Group derecognizes a financial asset when one of the following conditions is met:

(A) The contractual rights to receive cash flows from the financial asset expire;

(B) The contractual rights to receive cash flows from the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset;

(C) The contractual rights to receive cash flows from the financial asset have been transferred.

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

In case of securities lending or borrowing by the Group or provision of bonds or stocks as security for Repo trading, the Group does not derecognize the financial asset, because substantially all risks and rewards of ownership of the financial asset are still retained in the Group.

(8) Offsetting financial instruments

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

(9) Loans and receivables-evaluation, provision and reversal of impairment losses

A. The Group would presume that a financial asset or a group of financial assets is impaired and recognize the impairment losses only if there is objective evidence that a financial asset or a group of financial assets is impaired as a result of a loss event that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

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

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

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

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

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

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

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

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

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

(I) Cases that meet the self-made evaluation items of the Group.

C. The assessment methods of impairment on loans and receivables are based on two categories: individual and collective assessments. Individual assessments are classified as different groups based on whether there is objective evidence of significant impairment of the asset or whether the individual asset has to be specially supervised. If no objective evidence of impairment exists for an individually assessed financial asset, the asset will be classified into a group of financial assets with similar credit risk characteristics for collective assessments.

D. After assessed impairment of loans and receivables, the Group recognizes' impairment loss measured as the difference between the asset's carrying amount and the present value of estimated future cash flows of credit enhancement factors discounted at the asset's original effective interest rate. The credit enhancement factors include financial guarantee and net of collateral. If, in a subsequent period, the amount of the impairment loss decreased and such decrease is objectively related to an event occurred after the impairment was recognized, the amount of impairment loss recognized previously shall be reserved by adjusting allowance for doubtful debts. The reversal shall not cause a carrying amount of the financial asset exceeds the amortized cost of the period before recognition of the impairment loss. The amount of the reversal shall be recognized in profit or loss.

E. Above-mentioned assessments on loans and receivables are performed in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" as issued by the FSC, as well as "Financial-Supervisory-Banks Letter No. 10410001840" issued on April 23, 2015 relating to the strengthening of domestic banks' risk endurance to management of exposures in China.

F. Equity investments carried at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset directly.

(10) Derivatives

Derivatives are initially recognized at fair value at the contract date and subsequently measured by fair value. The fair value includes the public quotation in an active market or the latest trade price (e.g., Exchange-traded options), and evaluation techniques such as cash flow discounting model or option pricing model (e.g., Swap contract and foreign exchange contracts). All derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

Hybrid contract refers to financial instruments of the embedded derivatives. Economic characteristics and risks of the embedded derivatives and the economic characteristics of the main contract should be examined for the embedded derivatives. If the two are not closely correlated and the main contract is not a financial asset or liability at fair value through profit and loss, the main contract and embedded derivatives should be respectively recognized unless the overall hybrid contract is designated as assets or liabilities at fair value through profit and loss. The embedded derivatives are the financial assets or liabilities at fair value through profit and loss.

(11) Equity investments accounted for under the equity method

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

D. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.

E. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(12) Property and equipment

The property and equipment of the Group are recognized on the basis of the historical cost less accumulated depreciation. Historical cost includes all costs directly attributable to the acquisition of the assets. Such assets are subsequently measured using the cost model.

If the future economic benefit generated from subsequent expenses of the asset can be measured reliably and is very likely to flow into the Group, the subsequent expenses of property and equipment may be individually recognized as an asset or included in the carrying amount of the asset. The carrying amount of the replaced part is derecognized.

Land is not affected by depreciation. Depreciation for other assets is provided on a straight-line basis over the estimated useful lives of the assets till residual value.

Item	Years
Buildings and structures	1~60
Equipment	1~20
Leasehold improvements	1~10

(13) Investment property

The properties held by the Group, with an intention to obtain long-term rental profit or capital increase or both and not being used by any other enterprises of the consolidated entities, are classified as investment property. Investment property includes the office building and land leased out in a form of operating lease.

Part of the property may be held by the Group and the remaining will be used to generate rental income or capital appreciation. If the property held by the Group can be sold individually, then the accounting treatment should be made respectively. IAS 16 as endorsed by the FSC applies to the self-use property, and property used to generate rental income or capital appreciation or both is applicable for investment property set out in IAS 40 as endorsed by the FSC. If each part of the property cannot be sold individually and the self-use proportion is not material, then the property is deemed as investment property in its entirety.

When the future economic benefit related to the investment property is highly likely to flow into the Group and the costs can be reliably measured, the investment property shall be recognized as assets. When the future economic benefit generated from subsequent costs is highly likely to flow into the entity and the costs can be reliably measured, the subsequent expenses of the assets shall be capitalized. All maintenance cost are recognized as incurred in the consolidated statement of comprehensive income.

Investment property is subsequently measured using the cost model. Depreciated cost is used to calculate depreciation expense after initial measurement. The depreciation method, remaining useful life and residual value should apply the same rules as applicable for property and equipment.

(14) Foreclosed properties

Foreclosed properties are stated at the lower of its carrying amount or fair value less costs to sell at the end of period.

(15) Impairment of non-financial assets

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

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

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

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

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

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

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

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

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

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

D. Valuation basis for various insurance liabilities

Insurance liabilities of subsidiaries are dealt with following the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", "Regulations Governing Reserve for Compulsory Automobile Liability Insurance and Related Administration", "Regulations Governing Various Reserves for Nuclear Power Insurance", "Regulations Governing Risk Dispersing Mechanism for Residential Earthquake Insurance", "Regulations Governing Reserves for the Members of the Enhance Residential Earthquake Insurance Joint Institute", "Regulations Governing Various Reserves for Commercial Earthquake Insurance and Typhoon/flood Insurance" and "Regulations Governing Reserve for Natural Disaster by Property Insurance Industry" of regulatory authorities, and shall be certified by actuary authorized by the Financial Supervisory Commission. Except for special reserve, the provisions for reserves could also apply to assumed reinsurance and ceded reinsurance.

Except for the provision of reserves for one-year group life accident insurance which is the higher of actual insurance premium or insurance premium calculated based on the Tai-Cai-Bao Letter No. 852367814, other insurance liabilities are provided based on the following bases:

(A) Unearned premium reserve

Unearned premium reserve is provided based on various risk calculation for effective contracts yet to mature or covered risks yet to terminate in the coverage period, unless otherwise provided by laws or regulations, it is determined by actuary according to various risk characteristics.

(B) Claims reserve

Claims reserves are provided based on claim experience and expenses of various insurance types and are calculated with methods based on actuarial principles. Reserves are provided for Claims Reported but Not Paid and Claims Incurred but Not Reported. For Reported but Not Paid Claims, a reserve has been provided on a per-policy-claim-report basis for each type of insurance.

(C) Special reserve

Special reserves for retained businesses include "Significant Peril Special Reserve" and "Risk Variation Special Reserve". Except for compulsory automobile liability insurance, nuclear power insurance, residential earthquake insurance and commercial earthquake insurance and typhoon/flood insurance that have another regulations requiring reserves for them to be recognized in 'liabilities', the additional special reserve provision for each year calculated less income tax is listed as special reserve under equity. The deficiency less income tax for each year shall be written off or recovered using special reserves under equity.

(D) Deficiency reserve

Potential claims and expenses are estimated for effective contracts yet to mature or covered risks yet to terminate in the coverage period. The estimated amount, including the premium deficiency reserve based on the difference between claim reserves/expenses, and unearned premium reserve and the expected premium income shall be recognized.

(E)Liability adequacy reserve

In accordance with IFRS 4, 'Insurance Contracts' and the regulations of The Actuarial Institute Of The Republic Of China, liability adequacy test is performed using the gross premium valuation based on all contracts of the Company as a whole. At the end of the reporting period, liability adequacy reserve is provided for all deficiency in net carrying amount and recognized in profit or loss, through comparison between the net carrying amounts of insurance liabilities less deferred acquisition cost and related intangible assets and the present value of estimated future cash flows of insurance contracts.

(F) Unqualified reinsurance reserve

Unqualified reinsurance reserves of received and ceded reinsurance business under ceded reinsurance and other risk assumption mechanism on the ceded date or balance sheet date shall be reserved and disclosed in the notes to the financial statements.

Among the reserves above, except for unearned premium reserve for long-term fire insurance which was calculated and provided based on the coefficient table of unearned premium reserve for long-term fire insurance, the other reserves were not calculated by discounting.

(17) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

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

A.The amount determined in accordance with IAS 37; and

B.The amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18, “Revenue”.

The best estimate of the liability amount of a financial guarantee contract requires management to exercise their judgment combined with historical loss data based on the similar transaction experiences.

The increase in liabilities due to financial guarantee contract is recognized in “bad debt expenses and reserve for guarantee liabilities”.

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

(18) Employee benefits

A. Short-term employee benefits

The Group should recognize the undiscounted amount of the short-term benefits expected to be paid in the future as expenses in the period when the employees render service.

B. Employee preferential savings

The Group provides preferential interest rate for employees, including flat referential savings for current employees and flat preferential saving for retired employees and current employees. The difference gap compared to market interest rate is deemed as employee benefits.

According to “Regulation Governing the Preparation of Financial Statements by Public Banks”, the preferential monthly interest paid to current employees is calculated based on accrual basis, and the difference between the preferential interest rate and the market interest rate is recognized under “employee benefit expense”. According to Article 30 of “Regulation Governing the Preparation of Financial Statements by Public Banks”, the excess interest arising from the interest rate upon retirement agreed with the employees in excess of general market interest rate should be recognized in accordance with IAS 19, Defined Benefit Plan, as endorsed by FSC. Relevant past service costs will be recognized immediately in the period incurred. However, various parameters should be in compliance with the competent authority if indicated otherwise. Any resulting actuarial gains and losses should be recognized in other comprehensive income in the period incurred. Please refer to Note 6 (23) 2 for more information.

C. Termination benefits

Termination benefit is paid to the employees who are eligible for retirement and terminated or voluntarily dismiss in exchange of termination benefit. The Group has made promises in the formal detailed employment termination plan which is irrevocable, and shall recognize liabilities when providing termination benefit to employees who voluntarily resign as a result of encouragement. Termination benefit paid 12 months after the financial reporting date should be discounted.

D. Post-employment benefit

The pension plan of the Group includes both Defined Benefit Plan and Defined Contribution Plan. In addition, defined contribution plan is adopted for employees working overseas according to the local regulations.

(A) Defined contribution plans

The contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid pension assets are recognized to the extent of a cash refund or a reduction in the future payments.

(B) Defined benefit plans

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

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

c. Past service costs are recognized immediately in profit or loss if vested immediately.

E. Employees' compensation and directors' and supervisors' remuneration

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

(19) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

(20) Revenue and expense

Income and expense of the Group are recognized as incurred. Expense consists of employee benefit expense, depreciation and amortization expense and other business and administration expenses. Dividend revenues are recognized within 'Revenues other than interest, net' in the consolidated statement of comprehensive income when the right to receive dividends is assured.

A. Other than those classified as financial assets and liabilities at fair value through profit and loss, all the interest income and interest expenses generated from interest-bearing financial assets are calculated by effective interest rate according to relevant regulations and recognized as "interest income" and "interest expense" in the consolidated statement of comprehensive income.

B. Service fee income and expense are recognized upon the completion of services of loans or other services; service fee earned from performing significant items shall be recognized upon the completion of the service, such as syndication loan service fee received from sponsor, service fee income and expense of subsequent services of loans are amortized or included in the calculation of effective interest rate of loans and receivables during the service period. When determining whether the agreed rate of interest should be adjusted to effective interest rate for interest-earning loans and receivables, the loans and receivables may be measured by the initial amounts if the effects on discount are insignificant according to the "Regulation Governing the Preparation of Financial Reports by Public Banks" and "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies".

C. Income and expense of insurance business

The premiums income derived from underwriting business is recognized in the period when the respective policies are issued. The associated expenses such as commissions, agency cost and service charges are recognized accordingly. Claims of direct coverage are recognized based on claims (including claim expenses) applied and paid during the period. Please refer to Note 4 (23) for related details of provision for liabilities.

(21) Classification of insurance contracts

A. In accordance with IFRS 4, 'Insurance Contracts', subsidiaries classify insurance products issued. An insurance contract is a "contract" under which one party (the insurer) accepts significant insurance risk transferred from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance contract defined above can be applied to original insurance contract and reinsurance contract. For the Group, significant insurance risk refers to the risk that the Group has to pay significant additional compensation when any insured event occurs.

B. All direct insurance contracts issued or reinsurance contracts taken by subsidiaries during the financial statement period are insurance contracts.

(22) Reinsurance contracts

A. Revenues and expenses of inward and outward reinsurance business are recognized on the date the bills are received. Appropriate methods should be adopted in estimating payments and income arising from unrecognized reinsurance expense, such as revenues and expenses of reinsurance commission, revenues or expenses of reinsurance surcharge fee, and amortized claim and payment of reinsurance, etc., should all be recognized. Other relevant profit and loss of reinsurance are not deferrable.

B. With the classification of reinsurance contract, the Group assesses the agreements under the deposit accounting given that the objective insurance risks of reinsurance agreements are not transferred to the reinsured.

C. The Group evaluates whether privilege of reinsured is impaired or non-collectable on a regular basis and offers specifically the alternatives such as reinsurance reserve assets, reinsurance claims and payment receivables, reinsurance transaction receivables and outward insurance responsibility reserve fund. When objective evidence indicates that such option being exercised after the initial recognition will possibly lead to the Group being unable to collect all receivables on the contract, and the impact of the receivables from reinsured can be reliably measured with regard to the aforementioned event, a provision for accumulated loss will be recognized if the receivables do not exceed reinsurance reserve asset at book value. Recognition should be appropriately made according to the amount for amortizable claim, payment of reinsurance, reinsurance transaction receivables and non-collectable outward reinsurance reserve fund.

(23) Income tax

A. Current income tax

Income tax payable (refundable) is calculated on the basis of the tax laws enacted in the countries where the Group operates and generates taxable income. Except that the transactions or other matters are directly recognized in other comprehensive income or equity, and that related income taxes in the period are recognized in other comprehensive income or directly derecognized from equity, all the others should be recognized as income or expense as recorded as gain and loss in the period.

B. Deferred income tax

Deferred income tax assets and liabilities are measured based on the tax rate of the anticipated period that the future assets realization or the liabilities settlement requires, which is based on the effective or existing tax rate at the consolidated balance sheet date. The carrying amount and temporary differences of assets and liabilities included in the consolidated balance sheet are calculated through liability method and recognized as deferred income tax. The temporary difference of the Group mainly occurs due to the setting aside and transferring of depreciation of property and equipment, valuation of certain financial instruments (including derivatives), and reserve for pension and other post-employment benefits. Deductible temporary difference within the scope that is probable to offset taxable income is recognized as deferred income tax.

Temporary difference related to investment in the subsidiaries, branches and affiliated entities are recognized as deferred income tax liabilities. However, when the Group is capable of controlling the time length required to reverse the temporary difference and the temporary difference is unlikely to reverse in the foreseeable future, the temporary difference is not recognized.

The land revaluation appraisal occurring due to the revaluation assessment in line with relevant regulations, deemed as taxable temporary difference, is recognized as deferred income tax liabilities.

If the future taxable income is probable to provide as unused loss carry forwards or deferred income tax credit which can be realized in the future, the proportion of realization is deemed as deferred income tax assets.

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

D. Certain transactions of the Group are recognized in other comprehensive income, such as change in unrealized gain and loss of available-for-sale financial assets and hedging transaction of cash flow. The tax effects on these kinds of transactions are also recognized in other comprehensive income.

(24) Share capital and dividends

Net of incremental costs directly attributable to the issuance of new shares will be removed from equity after related income tax expenses is eliminated. Dividends on ordinary shares are recognized in equity in the period in which they are approved by the stockholders. Cash dividends are recorded as liabilities. Stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance. They are not recognized and only disclosed as subsequent event in the notes if the dividend declaration date is later than the consolidated balance sheet date.

(25) Operating segments

Information of operating segments of the Group is reported in the same method as the internal management report provided to the Chief Operating Decision-Maker (CODM). The CODM is in charge of allocating resources to operating segments and evaluating their performance.

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. These judgements affect the results of the financial reporting.

The assumptions and estimates made by the Group are the best assumptions and estimates under the IFRSs. Assumptions and estimates are continually evaluated and adjusted based on historical experience and other factors including projections of the future. Management's critical judgements in applying the Group's accounting policies that have significant impact on the consolidated financial statements are outlined below:

A. Financial instruments (including derivative instruments) valuation

If there is no quoted market price available in an active market for financial instruments, a valuation technique will be adopted to measure the fair value. If there are observable data of similar financial instruments in the market, then the fair value of the underlying financial instruments is estimated by reference to the observable data; otherwise, the fair value is estimated using the appropriate pricing models which are commonly used in the market. The assumptions used in the pricing models should refer to the observable data in the market. However, when those data are not observable from the market and/or the assumptions used in the pricing models are more subjective, the fair value of the financial instruments may be estimated based on historical data or other information. The pricing models used by the Group are all evaluated and tested periodically to ensure the outputs may reflect the actual data and market prices.The primary assumptions used in determining the fair values of financial instruments are provided in Note 7. The management believes the pricing models and assumptions used have appropriately determined the fair values of financial instruments.

B. Loan loss impairment

The Group's impairment evaluations are in compliance with the regulations of regulatory authorities. The Group evaluates cash flows and impairment amounts, through model analysis and individual case assessment, on a monthly basis based on several factors, such as nature of client risk and security coverage. The Group recognizes impairment loss whenever there is observable evidence showing that impairment has occurred. This evidence includes repayment status of debtor, event that would cause delinquency in payments, and any significantly unfavorable changes in national or local economic circumstance. Future cash flows are estimated primarily based on the length of overdue time, the status of debtors, security coverage, guarantee of external institution and historical experiences. The incidence of impairment and subsequent collectability rate used in impairment evaluations are estimated based on the types of products and historical data. The Group reviews the assumptions and inputs used in impairment evaluations periodically to ensure they are all reasonable.

C. Financial assets—impairment of equity investments

The Group follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the decline of the fair value of an individual equity investment below cost was considered significant or prolonged, the Group would suffer a loss in its financial statements, being the transfer of the accumulated fair value adjustments recognised in other comprehensive income on the impaired available-for-sale financial assets to profit or loss or being the recognition of the impairment loss on the impaired financial assets measured at cost in profit or loss.

D. Post-employment benefit

The present value of post-employment benefit obligations are estimated based on several assumptions. Any changes in those assumptions will affect the carrying amounts of post-employment benefit obligations.

The assumptions used to determine net pension cost (revenue) comprise the discount rate. The Group determines the appropriate discount rate at the end of each year, and uses the discount rate in calculating the present value of future cash out of post-employment benefit obligations. The discount rate is chosen by reference to the rate of high-quality corporate bonds where the currency and maturity date of high-quality corporate bonds are in agreement with those of post-employment benefit obligations.

E. Insurance liabilities

The critical accounting estimates and assumptions used for subsidiaries' primary insurance contracts comprise liabilities of reserve for claims and assets of reserve for claims transferred to reinsurer.

Reserve for claims is estimated based on the nature and extent of insurance risks, claim development mode, historical data, etc. and using the actuarial method used worldwide. The actuarial method is included in the insurance specification. The reserve for claims that are reported but not paid is estimated based on each case and the remaining is the reserve for claims not reported.

Among the assets of reserve for claims transferred to reinsurer, the refund of claims that are reported but not paid is estimated based on individual reinsurance terms, and the refund of claims that are not reported is estimated based on the difference between the reserve for unpaid claims for original insurance and reinsurance and the reserve for unpaid claims for retained insurance business.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand and petty cash	$ 15,421,486	$ 16,757,750
Bank deposits	6,451,399	6,146,007
Cash equivalents	1,221,411	1,669,325
Checks for clearance	763,191	1,234,149
Due from banks	74,276,076	127,066,878
Subtotal	98,133,563	152,874,109
Less: allowance for doubtful accounts – due from banks	(2,206)	(2,241)
Total	$ 98,131,357	$ 152,871,868

(2) Due from the Central Bank and call loans to banks

	December 31, 2016	December 31, 2015	January 1, 2015
Reserve for deposits-category A	$ 25,765,381	$ 22,045,377	$ 21,885,736
Reserve for deposits-category B	37,590,523	37,720,741	36,566,092
Reserve for deposits- general	305	312	5,700,300
Reserve for deposits- foreign currency	585,654	729,572	431,340
Deposits of overseas branches with foreign Central Banks	275,864,933	255,814,519	239,979,957
Interbank settlement fund of Fund Center (Note)	4,895,305	3,970,161	3,497,785
Call loans to banks and bank overdrafts	188,357,264	174,084,623	84,926,666
Import and export loans from banks	140,799	3,121,533	71,463,911
Participate in interbank financing with risk	6,811,578	5,780,241	2,782,450
Total	540,011,742	503,267,079	467,234,237
Less: allowance for doubtful accounts – import and export loans from banks	-	-	(750,371)
Total	$ 540,011,742	$ 503,267,079	$ 466,483,866

Note:In accordance with the Bank Law, financial holding companies are required to appropriate an interbank settlement fund and deposit it in the Central Bank for clearing purpose in the financial industry. The interbank settlement fund deposited in a special account in the Central Bank has been reclassified from 'other prepayments' to 'due from the Central Bank and call loans to banks'. As of December 31, 2016 and 2015, the amount has been adjusted from $3,970,161and $3,497,785, respectively.

A. As required by relevant laws, the reserves for deposits are calculated at required reserve ratios based on the monthly average balances of various deposit accounts. Reserve for deposits - category B cannot be used except upon the monthly adjustment of the reserve.

B. On December 31, 2016 and 2015, reserve for deposits and call loans to banks of the Group that were in accordance to the definition of cash and cash equivalents under IAS 7, which included the total of the above-listed Reserve for deposit-category A, Reserve for deposit-general, Call loans to banks and bank overdrafts, Reserve for deposit-foreign currency and a portion of Deposit of overseas branches with foreign Central Banks that are highly liquid and readily convertible to cash, was $328,354,078 and $284,781,619, respectively.

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

	December 31, 2016	December 31, 2015
Financial assets held for trading		
Stocks	$ 4,557,071	$ 5,129,811
Commercial papers	96,877,807	87,580,052
Beneficiary certificates	54,147	678,015
Bank's acceptance bill	700,074	665,637
Negotiable certificate of deposit	22,449,487	19,787,238
Bonds	52,763,031	56,868,377
Derivative instruments	4,027,243	5,239,111
Other securities	203,488	303,842
Subtotal	181,632,348	176,252,083
Financial assets designated as at fair value through profit or loss		
Convertible corporate bond asset swaps	4,685,025	5,784,581
Total	$ 186,317,373	$ 182,036,664

A. Gain or loss on financial assets and liabilities held for trading and financial assets and liabilities designated as at fair value through profit or loss for the years ended December 31, 2016 and 2015 are provided in Note 6(31).

B. Please refer to Note 12 for details of the aforementioned financial assets provided as collaterals as of December 31, 2016 and 2015.

C. As of December 31, 2016 and 2015, the above financial assets used as underlying assets for repurchase agreements held by the Group were $99,978,257 and $101,793,323, respectively.

(4) Receivables, net

	December 31, 2016	December 31, 2015
Accounts receivable	$ 14,353,025	$ 16,427,072
Factoring receivable	36,988,054	37,366,842
Notes receivable	152,712	121,320
Accrued income and interest	7,540,723	8,586,605
Acceptances receivable	8,240,037	8,884,055
Accounts receivable factoring-D/A	-	2,321,722
Insurance receivable	474,635	506,352
Margin loans and securities business money lending receivable	9,162,663	10,069,557
Recovery of accounts receivable	8,000	2,284,490
Purchase of obligor receivable for acting as assignee	93,879	57,539
Credit card receivables	4,452,488	4,392,227
Usance outright receivable	1,879,409	75,146,660
Call loans to the Central Bank receivable	-	3,617,684
Receivables for usance letter of credit payable at sight	9,008	566,463
Receivable accounts for settlement	4,014,210	4,455,351
Other receivables	1,373,037	3,358,805
Total	88,741,880	178,162,744
Less: allowance for bad debts	(1,916,078)	(2,415,523)
Receivables, net	$ 86,825,802	$ 175,747,221

(5) Bills discounted and loans, net

	December 31, 2016	December 31, 2015
Bills and notes discounted	$ 14,859	$ 5,297
Overdrafts	1,977,856	3,275,060
Short-term loans	389,317,574	414,857,588
Medium-term loans	773,175,872	799,129,828
Long-term loans	563,521,555	566,026,842
Import/export bills negotiated	12,512,002	12,257,141
Loans transferred to non-accrual loans	1,453,280	1,183,527
Total	1,741,972,998	1,796,735,283
Less: allowance for bad debts	(26,694,232)	(23,466,229)
Loans, net	$ 1,715,278,766	$ 1,773,269,054

A. As of December 31, 2016 and 2015, the amounts of reclassified non-performing to overdue loans amount $1,453,280 and $1,183,527,included interest receivable of $7,916, and $8,453, respectively.

B. Movements in allowance for credit losses

Information as to the evaluations of impairment of the Group's loans and receivables as of December 31, 2016 and 2015 was as follows:

(A) Loans:

Item		Loans December 31, 2016	Allowance for credit losses December 31, 2016
With existing objective evidence of individual impairment	Individual assessment	$ 12,627,826	$ 2,938,804
	Group assessment	751,171	105,651
Without existing objective evidence of individual impairment	Group assessment	1,728,594,001	23,649,777

Item		December 31, 2015	December 31, 2015
With existing objective evidence of individual impairment	Individual assessment	$ 10,360,021	$ 2,662,517
	Group assessment	785,745	117,172
Without existing objective evidence of individual impairment	Group assessment	1,785,589,517	20,686,540

(B) Receivables:

Item		Receivables December 31, 2016	Allowance for credit losses December 31, 2016
With existing objective evidence of individual impairment	Individual assessment	$ 932,328	$ 686,484
	Group assessment	257,952	26,784
Without existing objective evidence of individual impairment	Group assessment	87,551,600	1,202,810

Item		December 31, 2015	December 31, 2015
With existing objective evidence of individual impairment	Individual assessment	$ 118,293	$ 81,723
	Group assessment	268,100	26,795
Without existing objective evidence of individual impairment	Group assessment	177,776,351	2,307,005

The Group considers asset quality in respect of bills discounted and loans, accounts receivable, non-accrual loans transferred from purchase, and import and export loans from banks in the period in order to set aside appropriate allowance for bad debts. For the years ended December 31, 2016 and 2015, details of recognized allowance for bad debts and relevant movement are as follows:

	For the year ended December 31, 2016					
	Accounts receivable	Bills discounted and loans	Non-accrual loans transferred from other accounts	Remittance acquired	Import and export loans from bank	Total
Balance, January 1	$ 2,415,523	$ 23,466,229	$ 18,143	$ 113	$ -	$ 25,900,008
Provision (Reversal)	(442,830)	3,680,095	(7,543)	42	-	3,229,764
Write-off-net	(129,640)	(1,749,761)	9,576	-	-	(1,869,825)
Recovery of written-off credits	86,834	1,263,580	331	-	-	1,350,083
Effects of exchange rate changes and others	(13,809)	34,089	(1,489)	-	-	18,791
Balance, December 31	$ 1,916,078	$ 26,694,232	$ 18,356	$ 155	$ -	$ 28,628,821

	For the year ended December 31, 2015					
	Accounts receivable	Bills discounted and loans	Non-accrual loans transferred from other accounts	Remittance acquired	Import and export loans from bank	Total
Balance, January 1	$ 1,810,741	$ 21,920,032	$ 22,900	$ 74	$ 750,371	$ 24,504,118
Provision (Reversal)	644,716	(1,824)	(189,606)	39	(750,371)	(297,046)
Write-off-net	(66,106)	(817,433)	(2,429)	-	-	(885,968)
Recovery of written-off credits	101,074	2,347,007	187,278	-	-	2,635,359
Effects of exchange rate changes and others	(74,902)	18,447	-	-	-	(56,455)
Balance, December 31	$ 2,415,523	$ 23,466,229	$ 18,143	$ 113	$ -	$ 25,900,008

(6) Reinsurance contract assets-net

A. Details are as follows:

	December 31, 2016	December 31, 2015
Reinsurance claims and payment receivables	$ 382,882	$ 190,886
Reinsurance transaction receivables	190,418	534,837
Overdue reinsurance		
-Claims and payment receivables	687	1,436
-Transaction receivables	37,552	17,583
Less: allowance for bad debts	(19,384)	(9,808)
Subtotal	592,155	734,934
Reinsurance reserve assets		
Ceded unearned premium reserve	1,229,560	1,232,785
Ceded claim reserve	2,400,073	1,341,095
Ceded premium deficiency reserve	39,880	-
Subtotal	3,669,513	2,573,880
Total	$ 4,261,668	$ 3,308,814

B. Changes in allowance for bad debts of reinsurance contract assets are as follows:

	For the year ended December 31,	
	2016	2015
Balance at January 1,	$ 9,808	$ 13,138
Provision	15,084	6,624
Write-off-net	(5,495)	(9,977)
Foreign currency translation adjustments	(13)	23
Balance at December 31,	$ 19,384	$ 9,808

(7) Available-for-sale financial assets, net

	December 31, 2016	December 31, 2015
Stocks	$ 15,455,885	$ 16,371,157
Commercial papers	24,623,320	76,109,103
Bonds	308,944,643	240,448,727
Beneficiary certificates	647,622	977,553
Beneficiary securities	1,028,194	987,951
Certificate of deposit	3,658,802	12,409,144
Treasury securities	997,756	-
Subtotal	355,356,222	347,303,635
Less: accumulated impairment	(891,514)	(842,271)
Total	$ 354,464,708	$ 346,461,364

A. The Group has available-for-sale financial assets which consist of bonds and bills sold under repurchase agreements amounting to $129,613,204 and $88,784,146 as of December 31, 2016 and 2015, respectively.

B. The Company issued a second issue of domestic unsecured exchangeable bonds to obtain Taiwan Business Bank Co., Ltd.'s (herein referred to as "Taiwan Business Bank") common shares. On April 16, 2013, all shares of the aforementioned Taiwan Business Bank common shares were entrusted to Hua Nan Commercial Bank, Ltd. by entering into a trust contract. For information regarding the Company's issued bonds, please refer to the explanations in Note 6(21).

C. Please refer to Note 12 for details of the aforementioned financial assets provided as collateral as of December 31, 2016 and 2015.

(8) Held-to-maturity financial assets, net

	December 31, 2016	December 31, 2015
Central Bank's certificates of deposits	$ 246,125,000	$ 171,370,000
Bank's certificates of deposits	12,937,145	-
Financial bonds	14,858,432	21,420,762
Government bonds	3,532,276	4,081,696
Corporate bonds	3,544,509	4,361,481
Total	$ 280,997,362	$ 201,233,939

A. Please refer to Note 12 for details of the aforementioned financial assets pledged as collateral as of December 31, 2016 and 2015.

B. For subsidiary-MICB held to maturity financial assets, as the credit rating of issuer had been downgraded, the face value of disposed assets amounted to USD $2,000 and the loss on disposal amounted to $189. The disposal of investment amount constituted 0.02% of total investment balance on balance sheet date.

(9) Equity investments accaounted for under the equity method, net

A. Details of the investments accounted for under the equity method:

	December 31, 2016		December 31, 2015	
Individually Immatarial Associates	Amount	Percentage of Shareholding	Amount	Percentage of Shareholding
Mega Management Consulting Corporation	$ 66,316	100.00	$ 62,367	100.00
Cathay Investment & Development Corporation (Bahamas)	60,195	100.00	58,935	100.00
Cathay Investment & Warehousing Ltd.	55,941	100.00	59,950	100.00
Ramlett Finance Holdings Inc.	6,931	100.00	5,902	100.00
Yung Shing Industries Co.	690,960	99.56	668,539	99.56
China Products Trading Company	27,661	68.27	27,517	68.27
An Feng Enterprise Co., Ltd.	11,844	25.00	11,911	25.00
Taiwan Bills Finance Corporation	1,574,082	24.55	1,593,538	24.55
Ever Strong Iron & Foundry & Mfg. Corporation	43,457	22.22	43,379	22.22
Mega Growth Venture Capital Co., Ltd.	249,449	20.08	252,811	20.08
China Real Estate Management Co., Ltd.	183,507	20.00	190,196	20.00
Universal Venture Capital Investment Corporation	138,127	11.84	-	-
IP Funds Even Limited (Note)	-	-	1,364	25.00
Total	$ 3,108,470		$ 2,976,409	

Note : The company had been incurring operating losses for a long period of time. As a result, the stockholders at their meeting resolved to liquidate the company and scheduled the liquidation registration in year 2015. The liquidation process had been completed on August 18, 2016.

B. The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarized below:

	For the year ended December 31,	
	2016	2015
Profit for the year	$ 229,098	$ 244,963
Other comprehensive loss (after income tax)	(63,464)	(20,278)
Total comprehensive income	$ 165,634	$ 224,685

C. The shares of individually immaterial associates and joint ventures the Group owns have no quoted market price available in an active market. There is no significant restriction on fund transfers from the associates to their stockholders, i.e. distribution of cash dividends, repayment of loans or money advanced.

D. The ownership percentage of MICB's investment in Universal Venture Capital Investment Corporation is 11.84%. However, due to MICB occupying 2 board seats of Universal Venture Capital Investment Corporation's total 11 board seats, and MICB being elected as the chairman of the board, MICB has influence over decision-making. Therefore, valuations are accounted for under the equity method.

E. The Company's and its subsidiaries' investments under the equity method at December 31, 2016 and 2015 have not been pledged or provided as collateral.

(10) Other financial assets, net

	December 31, 2016	December 31, 2015
Remittance purchased	$ 16,908	$ 11,047
Purchase of obligor receivable	32,666	282,010
Debt investments with no active market	667,663	999,877
Equity investments carried at cost	12,861,411	13,111,725
Non-accrual loans transferred from accounts other than loans	36,226	35,973
Pledged time deposits	419,198	474,240
Customer margin account	1,720,026	1,893,325
Securities lending guarantee deposits	156,178	237,434
Securities lending refundable deposits	465,731	512,946
Others	47,361	977,401
Subtotal	16,423,368	18,535,978
Less: Allowance for bad debts-remittance purchased	(155)	(113)
Allowance for bad debts-non-accrual loans transferred from accounts other than loans	(18,356)	(18,143)
Accumulated impairment-equity investments carried at cost	(1,449,648)	(1,328,146)
Total	$ 14,955,209	$ 17,189,576

A. As unlisted shares the Group owns have no quoted market price available in an active market and cannot be measured reliably, they are measured at cost.

B. The methods and assumptions used to estimate the fair value of debt instruments with no active market are provided in Note 7(3).

C. As of December 31, 2016 and 2015, for the aforesaid financial assets pledged as collaterals, please refer to Note 12.

D. The company and its subsidiary's investees have been incurring operating losses for many years. Thus, the group recognized impairment loss for the years ended December 31, 2016 and 2015, respectively.Please refer to Note 6(33) for details.

E. For information regarding the Group's profit or loss related to the disposal of their investee or dividend income, for the years ended December 31, 2016 and 2015, please refer to the explanation in Note 6(34).

(11) Investment property, net

For the years ended December 31, 2016 and 2015, the movement of the Group's investment property is as follows:

January 1, 2016	Land and land improvements	Buildings and structures	Total
Cost	$ 1,024,842	$ 510,800	$ 1,535,642
Accumulated depreciation and impairment	(2,167)	(164,922)	(167,089)
	1,022,675	345,878	1,368,553
For the year ended December 31, 2016			
Disposals	220,817	196,111	416,928
Transfers	(5,396)	(7,854)	(13,250)
Loss on impairment	(26,334)	(22,950)	(49,284)
Depreciation	-	(11,251)	(11,251)
Foreign exchange differences	-	(135)	(135)
December 31, 2016	$ 1,211,762	$ 499,799	$ 1,711,561
December 31, 2016			
Cost	$ 1,240,263	$ 697,932	$ 1,938,195
Accumulated depreciation and impairment	(28,501)	(198,133)	(226,634)
	$ 1,211,762	$ 499,799	$ 1,711,561

January 1, 2015	Land and land improvements	Buildings and structures	Total
Cost	$ 1,367,445	$ 796,779	$ 2,164,224
Accumulated depreciation and impairment	(18,311)	(169,149)	(187,460)
	1,349,134	627,630	1,976,764
For the year ended December 31, 2015			
Disposals	(519,044)	(279,168)	(798,212)
Transfers	193,627	8,315	201,942
Loss on impairment	(1,042)	(1,622)	(2,664)
Depreciation	-	(9,275)	(9,275)
Foreign exchange differences	-	(2)	(2)
December 31, 2015	$ 1,022,675	$ 345,878	$ 1,368,553
December 31, 2015			
Cost	$ 1,024,842	$ 510,800	$ 1,535,642
Accumulated depreciation and impairment	(2,167)	(164,922)	(167,089)
	$ 1,022,675	$ 345,878	$ 1,368,553

A. The fair values of the investment property held by the Group as of December 31, 2016 and 2015 were $5,370,181 and $3,814,670, respectively, according to the result of valuation by an independent valuation expert using comprehensive consideration of comparison method, income approach, and cost approach. In addition, a portion of investment property was valued according to the result of internal valuation, which was made by choosing investments in neighboring regions shown in the public website of Department of Land Administration, M.O.I. and calculating the average actual transaction price of the investments at the end of each financial reporting period last year. As of December 31, 2016 and 2015, Level 2 within the fair value hierarchy was $3,781,772 and $2,790,450, respectively, and Level 3 within the fair value hierarchy was $1,588,409 and $1,024,220, respectively.

B. Rental income from the lease of the investment property for the years ended December 31, 2016 and 2015 was $63,697 and $69,914, respectively.

C. As of December 31, 2016 and 2015, for the aforesaid investment property pledged as collaterals, please refer to Note 12.

(12) Property and equipment, net

Details of property and equipment are as follows:

January 1, 2016	Land and land improvements	Buildings	Equipment	Leasehold improvements	Prepayments for equipment	Total
Cost	$ 14,830,271	$ 12,777,321	$ 6,281,316	$ 270,529	$ 23,937	$ 34,183,374
Accumulated depreciation and impairment	(254,991)	(6,576,704)	(5,289,690)	(227,503)	-	(12,348,888)
Total	$ 14,575,280	$ 6,200,617	$ 991,626	$ 43,026	$ 23,937	$ 21,834,486

For the year ended December 31, 2016	Land and land improvements	Buildings	Equipment	Leasehold improvements	Prepayments for equipment	Total
At January 1, 2016	$14,575,280	$ 6,200,617	$ 991,626	$ 43,026	$ 23,937	$ 21,834,486
Additions	10,635	123,808	388,567	288	18,762	542,060
Disposals	-	-	(4,469)	(2,275)	-	(6,744)
Transfers	(1,710)	(320)	23,832	-	(30,357)	(8,555)
Depreciation	-	(251,156)	(372,620)	(14,532)	-	(638,308)
Reversal of impairment	70,091	(12,309)	-	-	-	82,400
Foreign exchange differences	(1,367)	(12,504)	(4,016)	-	-	17,887
December 31, 2016	$14,652,929	$ 6,072,754	$ 1,022,920	$ 26,507	$ 12,342	$ 21,787,452
December 31, 2016						
Cost	$14,837,829	$12,791,790	$ 6,236,552	$ 250,953	$ 12,342	$ 34,129,466
Accumulated depreciation and impairment	(184,900)	(6,719,036)	(5,213,632)	(224,446)	-	(12,342,014)
Total	$14,652,929	$ 6,072,754	$ 1,022,920	$ 26,507	$ 12,342	$ 21,787,452

January 1, 2015	Land and land improvements	Buildings	Equipment	Leasehold improvements	Prepayments for equipment	Total
Cost	$15,024,224	$ 12,751,042	$ 6,335,379	$ 266,677	$ 27,844	$ 34,405,166
Accumulated depreciation and impairment	(312,843)	(6,350,052)	(5,405,572)	(210,824)	-	(12,279,291)
Total	$ 14,711,381	$ 6,400,990	$ 929,807	$ 55,853	$ 27,844	$ 22,125,875
For the year ended December 31, 2015						
At January 1, 2015	$14,711,381	$ 6,400,990	$ 929,807	$ 55,853	$ 27,844	$ 22,125,875
Additions	-	43,322	405,092	2,721	48,056	499,191
Disposals	-	-	(758)	(178)	-	(936)
Transfers	(193,627)	(8,316)	24,773	1,083	(51,963)	(228,050)
Depreciation	-	(250,537)	(365,322)	(16,494)	-	(632,363)
Reversal of impairment	57,853	12,854	-	-	-	70,707
Foreign exchange differences	(327)	2,304	(1,956)	41	-	62
December 31, 2015	$14,575,280	$ 6,200,617	$ 991,626	$ 43,026	$ 23,937	$ 21,834,486
December 31, 2015						
Cost	$14,830,271	$12,777,231	$ 6,281,316	$ 270,529	$ 23,937	$ 34,183,374
Accumulated depreciation and impairment	(254,991)	(6,576,704)	(5,289,690)	(227,503)	-	(12,348,888)
Total	$14,575,280	$ 6,200,617	$ 991,626	$ 43,026	$ 23,937	$ 21,834,486

Please refer to Note 12 for details of the property and equipment pledged as collateral as of December 31, 2016 and 2015.

(13) Other assets, net

	December 31, 2016	December 31, 2015	January 1, 2015
Prepayments (Note)	$ 183,849	$ 257,088	$ 146,966
Refundable deposits	632,677	569,873	763,051
Guarantee deposits held for operation and funds for security settlements	937,240	970,100	1,213,583
Temporary payments	788,608	620,967	504,663
Others	230,537	132,282	193,987
Total	$ 2,772,911	$ 2,550,310	$ 2,822,250

Note: Please refer to Note 6(2) for detail of the reclassification of " other prepayment " to " due from the Central Bank and call loans to banks ".

As of December 31, 2016 and 2015, for details of the other assets pledged as collaterals, please refer to Note 12.

(14) Due to the Central Bank and financial institutions

	December 31, 2016	December 31, 2015
Call loans from banks	$ 232,381,140	$ 248,709,075
Due to Chunghwa Post	2,818,812	2,804,643
Overdrafts on banks	6,781,442	6,903,116
Due to the financial institutions	44,551,667	40,166,749
Due to the Central Bank	115,198,538	129,822,256
Total	$ 401,731,599	$ 428,405,839

(15) Funds borrowed from the Central Bank and other banks

	December 31, 2016	December 31, 2015
Funds borrowed from the Central Bank	$ 5,909,170	$ 6,528,240
Other funds borrowed from the Central Bank	4,283,398	5,031,864
Call loan from other banks	29,781,859	33,898,990
Total	$ 39,974,427	$ 45,459,094

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

	December 31, 2016	December 31, 2015
Financial liabilities held for trading		
Derivative instruments	$ 3,489,154	$ 5,094,388
Liabilities on sale of borrowed securities	295,143	433,888
Issuance of call (put) warrants	121,690	264,838
Others	22,544	6,149
	3,928,531	5,799,263
Financial liabilities designated as at fair value through profit or loss		
Financial bonds	8,176,700	17,181,429
Total	$ 12,105,231	$ 22,980,692

A.For information regarding the Group's recognized profit or loss of financial assets and liabilities held for trading and measured at fair value through profit or loss for the years ended December 31, 2016 and 2015, please refer to the explanations in Note 6(31).

B. Financial bonds issued as follows:

Unit:In thousands of US Dollars

Name of bond (Note 1)	Issuing period	Interest rate	Total issued amount	December 31, 2016	December 31, 2015
103-3 Development Financial bond	2014.11.19-2034.11.19	0.00%	$ 90,000	$ -	$ 90,000
103-4 Development Financial bond	2014.11.19-2034.11.19	0.00%	30,000	30,000	30,000
103-5 Development Financial bond	2014.11.19-2034.11.19	0.00%	130,000	130,000	130,000
103-6 Development Financial bond	2014.11.19-2044.11.19	0.00%	175,000	-	175,000
103-7 Development Financial bond	2014.11.19-2044.11.19	0.00%	75,000	75,000	75,000
				$ 235,000	$ 500,000

Note 1: The principals of the bonds were repaid at maturity.
Note 2: Financial liabilities designated at fair value through profit or loss is for the purpose of eliminating recognition inconsistency.

(17) Bills and bonds sold under repurchase agreements

	December 31, 2016	December 31, 2015
Short-term bills	$ 86,699,426	$ 85,685,567
Bonds	144,297,980	106,912,640
Others	194,357	338,443
Total	$ 231,191,763	$ 192,936,650

(18) Commercial papers payable, net

	December 31, 2016	December 31, 2015
Domestic commercial papers	$ 11,705,000	$ 19,950,579
Less: unamortized discount	(3,351)	(4,709)
Net	$ 11,701,649	$ 19,945,870

As of December 31, 2016 and 2015, none of the aforementioned commercial papers payable was provided for guarantees, and the interest rate ranged from 0.45% to 0.85% and 0.35% to 0.77%, respectively.

(19) Payables

	December 31, 2016	December 31, 2015
Notes and accounts payable	$ 8,565,683	$ 11,067,596
Settlement amounts payable	3,725,090	5,631,745
Accrued expenses	4,342,991	5,883,242
Interest payable	2,441,104	2,624,012
Dividends payable	22,077,713	20,398,768
Acceptances	8,932,976	8,952,015
Collections for others	1,200,111	1,033,602
Commissions payable	105,470	122,761
Due from other insurers	814,146	839,498
Securities financing refundable deposits	1,123,121	1,475,847
Deposits payable for securities financing	1,254,159	1,599,863
Other payables	4,419,435	3,994,877
Total	$ 59,001,999	$ 63,623,826

(20) Deposits and remittances

	December 31, 2016	December 31, 2015
Checking account deposits	$ 37,879,956	$ 33,702,490
Demand deposits	677,561,855	671,846,480
Time deposits	749,748,743	837,497,995
Demand savings deposits	429,888,906	408,492,456
Time savings deposits	268,289,551	267,626,294
Negotiable certificates of deposits	1,544,100	1,870,100
Remittances	6,374,813	9,107,614
Total	$ 2,171,287,924	$ 2,230,143,429

(21) Bonds payable

	December 31, 2016	December 31, 2015
Unsecured exchangeable corporate bonds	$ 5,800,000	$ 5,800,000
Less: exchangeable corporate bond discount	(75,912)	(121,495)
Subtotal	5,724,088	5,678,505
Financial bonds, net	36,200,000	36,200,000
Total	$ 41,924,088	$ 41,878,505

A. Issuance terms of unsecured exchangeable bonds

The Company:

Name of bond	Issuing period	Interest rate	Total issued amount	December 31, 2016	December 31, 2015
Second issue of domestic unsecured exchangeable bonds	2015.8.25-2018.8.25	0%	$ 5,800,000	$ 5,724,088	$ 5,678,505

Note: the primary terms for the bond issuance and the method for the swap arrangement are as follows:

(A)Collateralisation status:

The exchangeable bonds are unsecured bonds. However, after the issuance of the exchangeable bonds, if the Company reissues or privately issues secured bonds with an identical underlying (Taiwan Business Bank) for exchange in the future, the exchangeable bonds will apply mutatis mutandis to the secured exchangeable bonds' terms, assigning a commensurate level of claim or commensurate priority of security interest.

(B)Term and date of principal payment:

Other than bondholders exchanging for Taiwan Business Bank Co., Ltd.'s (herein referred to as "Taiwan Business Bank") common shares or bonds redeemed in advance by the Company, or the buyback and cancellation of the Company's bonds through the sales office of security dealers, the principal of exchangeable bonds are paid in lump-sum upon maturity at 100% of par value.

(C)Underlying of swap arrangement:

For explanations on Taiwan Business Bank common stocks held by the Company, please refer to Note 6(7).

(D)Exchange period:

From the following day (September 26, 2015) of the issuance date to the maturity date (August 25, 2018) of the exchangeable bonds, other than Taiwan Business Bank's book closure date of stock dividends, book closure date of cash dividends, the period between the date that is 15 business days before the book closure date of a capital increase to the ex-right date, the period between the record date of a capital reduction and the prior day before the commencement of stock trading after stocks are repurchased, and Taiwan Business Bank's book closures dates of common stocks pursuant to regulations, the bondholder may at any time request to exchange for Taiwan Business Bank's common stocks.

(E)Exchange price and adjustments:

he record date for the exchange price of the exchangeable bonds was on August 17, 2015. The basis of the exchange price is determined by one of the simple arithmetic averages of Taiwan Business Bank's common stock closing price for the one, three or five business days before the record date (non-inclusive), multiplied by 104.94% (rounding the decimals to the nearest tenths or hundredths using the round half up method). If an ex-right or ex-dividend date is encountered before the record date, the sampled closing price for calculating the exchange price should be adjusted to the price of the following day after the ex-right or ex-dividend date; if Taiwan Business Bank encounters an ex-right or ex-dividend date after the exchange price is determined and before the actual issuance date, the exchange price should be adjusted according to the price adjustment formula. According to the aforementioned method, the simple arithmetic average of Taiwan Business Bank's closing price for the prior business day before the record date is $9.11 per share, and thus the exchange price is $9.56 per share. The exchange price for December 31, 2016 is $8.49.

(F)The Company's right to redeem the exchangeable bonds

For the period from the following day after one month of the issuance of the exchangeable bonds (September 26, 2015) to 40 days before its maturity (July 16, 2018), if the closing price of Taiwan Business Bank's common stock exceeds 30% (inclusive) of the exchange price for 30 consecutive business days, the Company may, pursuant to the exchange terms, redeem its exchangeable bonds at par value in cash. For the period from the following day after one month of the issuance of the exchangeable bonds (September 26, 2015) to 40 days before its maturity (July 16, 2018), if the balance of outstanding exchangeable bonds is below 10% of the original gross issue price, the Company may at any time, pursuant to the exchange terms, redeem its exchangeable bonds at par value in cash.

(G)As of December 31, 2016, the Company has not redeemed any of its exchangeable bonds from the Taipei Exchange, nor has any bondholder exercised their exchange right.

B. Financial bonds issued by MICB were as follows:

Name of bond (Note)	Issuing period	Interest rate	Total issued amount	December 31, 2016	December 31, 2015
99-1 Development Financial bond	2010.12.24-2017.12.24	1.53%	10,300,000	10,300,000	10,300,000
100-1 Development Financial bond	2011.04.15-2018.04.15	1.65%	4,700,000	4,700,000	4,700,000
100-2 Development Financial bond	2011.11.24-2018.11.24	1.62%	7,900,000	7,900,000	7,900,000
101-1 Development Financial bond	2012.05.18-2019.05.18	1.48%	1,300,000	1,300,000	1,300,000
103-1 Development Financial bond	2014.03.28-2021.03.28	1.70%	4,900,000	4,900,000	4,900,000
103-2 Development Financial bond	2014.06.24-2021.06.24	1.65%	7,100,000	7,100,000	7,100,000
Total				$ 36,200,000	$ 36,200,000

Note :The interests of the bonds were paid yearly, the principals were repaid at maturity.

As of December 31, 2016 and 2015, the unpaid balance of financial bonds issued by the subsidiary, amounted to US$235,000 and US$500,000, NT$36,200,000 and NT$36,200,000, respectively. The financial bonds are senior bonds of US$235,000 and US$500,000, respectively. The interest rate swaps which are used to hedge the interest rate risk are measured at fair value, and changes in fair value are recognized in profit or loss. In order to eliminate the inconsistency in accounting, the above financial bonds are also designated as financial liabilities at fair value through profit or loss.

(22) Other loans

	December 31, 2016	December 31, 2015
Credit loans	$ 5,954,030	$ 2,280,000

As of December 31, 2016 and 2015, the interest rates ranged from 0.69% to 1.65% and 0.80% to 1.00%, respectively.

(23) Reserves for liabilities

	December 31, 2016	December 31, 2015
Insurance liabilities	$ 8,964,715	$ 7,772,662
Liabilities reserve for employee benefits	10,135,730	9,580,055
Reserve for guarantee liabilities	5,946,779	5,564,889
Total	$ 25,047,224	$ 22,917,606

A. Details of reserves for insurance liabilities as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Reserve for unearned premiums	$ 3,250,510	$ 3,273,580
Reserve for outstanding losses	4,419,457	3,026,523
Reserve for catastrophic losses	1,251,358	1,470,569
Deficiency reserve	43,390	1,990
Total	$ 8,964,715	$ 7,772,662

(A) Changes in unearned premium reserve and ceded unearned premium reserve are as follows:

	For the year ended December 31, 2016		
	Total	Ceded	Net
Balance at January 1	$ 3,273,580	$ 1,232,785	$ 2,040,795
Provision	3,250,510	1,229,560	2,020,950
Recovery	(3,273,580)	(1,232,785)	(2,040,795)
Balance at December 31	$ 3,250,510	$ 1,229,560	$ 2,020,950

	For the year ended December 31, 2015		
	Total	Ceded	Net
Balance at January 1	$ 3,272,395	$ 1,268,400	$ 2,003,995
Provision	3,273,580	1,232,785	2,040,795
Recovery	(3,272,395)	(1,268,400)	(2,003,995)
Balance at December 31	$ 3,273,580	$ 1,232,785	$ 2,040,795

(B) Details of claims reserve, as well as changes in claims reserve and ceded claims reserve are as follows:

a. Details of claims reserve:

	December 31, 2016	December 31, 2015
Claims reported but not paid	$ 3,656,131	$ 2,279,331
Claims incurred but not reported	763,326	747,192
	$ 4,419,457	$ 3,026,523

b. Detail of ceded claim reserve:

	December 31, 2016	December 31, 2015
Reported but not paid ceded	$ 2,115,377	$ 1,075,272
Claims incurred but not reported	284,696	265,823
	$ 2,400,073	$ 1,341,095

c. Changes in claims reserve and ceded claims reserve are as follows:

	For the year ended December 31, 2016		
	Compulsory insurance	Others	Total
Balance at January 1	$ 3,026,523	$ 1,341,095	$ 1,685,428
Provision	4,419,457	2,400,073	2,019,384
Recovery	(3,026,523)	(1,341,095)	(1,685,428)
Balance at December 31	$ 4,419,457	$ 2,400,073	$ 2,019,384

	For the year ended December 31, 2015		
	Compulsory insurance	Others	Total
Balance at January 1	$ 3,194,308	$ 1,549,059	$ 1,645,249
Provision	3,026,523	1,341,095	1,685,428
Recovery	(3,194,308)	(1,549,059)	(1,645,249)
Balance at December 31	$ 3,026,523	$ 1,341,095	$ 1,685,428

(C) Changes in special reserve are as follows:

	For the year ended December 31, 2016		
	Compulsory insurance	Others	Total
Balance at January 1	$ 168,748	$ 1,301,821	$ 1,470,569
Recovery	8,609	(227,820)	(219,211)
Balance at December 31	$ 177,357	$ 1,074,001	$ 1,251,358

	For the year ended December 31, 2015		
	Compulsory insurance	Others	Total
Balance at January 1	$ 174,624	$ 1,325,418	$ 1,500,042
Recovery	(5,876)	(23,597)	(29,473)
Balance at December 31	$ 168,748	$ 1,301,821	$ 1,470,569

a. n accordance with "Regulations Governing Reserve for Natural Disaster by Property Insurance Industry", "Regulations Governing Reserves for the Members of the Enhance Residential Earthquake Insurance Joint Institute" and "Regulations Governing Various Reserves for Nuclear Power Insurance", commencing from January 1, 2013, CKI's special reserves provisioned under liabilities prior to December 31, 2012 shall cover, in full, the deficiencies of special reserve for catastrophes and special reserves for fluctuation of risks provisioned for commercial earthquake insurances and typhoon/flood insurances. The remainder, after deducting income taxes, in accordance with the requirements in IAS 19, shall be provisioned as special reserve under equity.

b. The impact of the disaster reserve strengthening mechanism, residential earthquake reserve and nuclear insurance reserve applicable or non-applicable to CKI is as follows:

	For the year ended December 31, 2016			
	Net income	Earnings per share	Total liability	Equity
Applicable amount	$ 101,175	$ 0.34	$ 10,414,861	$ 6,043,646
Non-applicable amount	(87,916)	(0.29)	9,523,440	6,935,067
Affected amount	$ 189,091	$ 0.63	$ 891,421	($ 891,421)

	For the year ended December 31, 2015			
	Net income	Earnings per share	Total liability	Equity
Applicable amount	$ 413,013	$ 1.38	$ 9,351,050	$ 6,006,363
Non-applicable amount	393,428	1.31	8,270,537	7,086,876
Affected amount	$ 19,585	$ 0.07	$ 1,080,513	($ 1,080,513)

(D) Changes in deficiency reserve and ceded premium deficiency reserve:

	For the year ended December 31, 2016		
	Total	Ceded	Net
Balance at January 1	$ 1,990	$ -	$ 1,990
Provision	43,390	39,880	3,510
Recovery	(1,990)	(-)	(1,990)
Balance at December 31	$ 43,390	$ 39,880	$ 3,510

	For the year ended December 31, 2015		
	Total	Ceded	Net
Balance at January 1	$ 720	$ 380	$ 340
Provision	1,990	-	1,990
Recovery	(720)	(380)	(340)
Balance at December 31	$ 1,990	$ -	$ 1,990

B. Liabilities reserve for employee benefits are as follows:

	December 31, 2016	December 31, 2015
Recognized in consolidated balance sheet:		
- Defined benefit plans	$ 6,591,684	$ 6,477,234
- Employee preferential savings plans	3,544,046	3,102,821
Total	$ 10,135,730	$ 9,580,055

(A) Defined contribution plans

Effective July 1, 2005, the Group has established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"). Employees have the option to be covered under the New Plan. Under the New Plan, the Group contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The payment of pension benefits is based on the employees' individual pension fund accounts and the cumulative profit in such accounts, and the employees can choose to receive such pension benefits monthly or in lump sum. The pension costs under the defined contribution pension plan for the three-month and years ended December 31, 2016 and 2015 were $183,099 and $179,400, respectively.

Pursuant to relevant government regulations in the country where the entity operates, local staff of the Group's overseas subsidiaries, recognized pension expenses of $23,639 and $21,827 applying defined contribution plans for the three-month and years ended December 31, 2016 and 2015, respectively.

(B) Defined benefit plans

a. The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 10% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. The pension costs under the defined contribution pension plans of the Group for the three-month and years ended December 31, 2016 and 2015 were $571,731 and $540,240, respectively.

b. The amounts recognized in the balance sheet are determined as follows:

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	$ 17,184,726	$ 17,325,639
Fair value of plan assets	(10,604,140)	(10,859,535)
Net defined benefit liability	$ 6,580,586	$ 6,466,104

c. Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
For the year ended December 31, 2016						
Balance at January 1	$	17,325,639	($	10,859,535)	$	6,466,104
Current service cost		488,680		-		488,680
Interest expense (income)		211,484	(	134,208)		77,276
Past service cost		-	(	124)	(	124)
		18,025,803	(	10,993,867)		7,031,936
Remeasurements:						
Return on plan assets (excluding amounts included in interest income or expense)		-		58,489		58,489
Change in demographic assumptions		1,032		-		1,032
Change in financial assumptions		394,952		-		394,952
Experience adjustments		112,524		-		112,524
		508,508	(	58,489)		566,997
Pension fund contribution		-	(	1,013,454)	(	1,013,454)
Paid pension	(	1,349,585)		1,344,692	(	4,893)
Balance at December 31	$	17,184,726	($	10,604,140)	$	6,580,586

	Present value of defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
For the year ended December 31, 2015						
Balance at January 1	$	15,966,849	($	10,740,358)	$	5,226,491
Current service cost		448,433		-		448,433
Interest expense (income)		272,493	(	186,431)		86,062
Past service cost		4,352		-		4,352
		16,692,127	(	10,926,789)		5,765,338
Remeasurements:						
Return on plan assets (excluding amounts included in interest income or expense)		-	(	97,936)	(	97,936)
Change in demographic assumptions		418		-		418
Change in financial assumptions		1,122,171		-		1,122,171
Experience adjustments		447,518	(	962)		446,556
		1,570,107	(	98,898)		1,471,209
Pension fund contribution		-	(	759,601)	(	759,601)
Paid pension	(	936,595)		925,753	(	10,842)
Balance at December 31	$	17,325,639	($	10,859,535)	$	6,466,104

d. The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2015 and 2014 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

e. The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2016	2015
Discount rate	1%~1.75%	1.10%~1.70%
Future salary increases	1.16%~2.25%	1.16%~2.25%

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

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2016				
Effect on present value of defined benefit obligation	($ 437,523)	$ 413,184	$ 405,767	($ 392,743)
December 31, 2015				
Effect on present value of defined benefit obligation	($ 406,062)	$ 422,168	$ 415,491	($ 401,813)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once.

The method of analyzing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

f. The Group expects to contribute $454,064 for defined benefit plan in 2017.

(C) Subsidiary-MICB's payment obligations of fixed-amount preferential savings for retired employees and current employees after retirement are based on the internal policy, "Rules Governing Pension Preferential Savings of Staff of Mega International Commercial Banks". The excess interest arising from the preferential savings interest rate upon retirement agreed with the employees in excess of general market interest rate should be recognized in accordance with IAS 19, 'Employee benefits' on employees' retirement.

a. Adjustment of assets and liabilities recognized in the consolidated balance sheets, present value of defined benefit obligations, and fair value of plan assets:

	For the years ended December 31,	
	2016	2015
Present value of defined benefit obligation	$ 3,544,046	$ 3,102,821
Less: fair value of plan asset	-	-
	$ 3,544,046	$ 3,102,821

b. Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	$ 3,102,821	$ -	$ 3,102,821
Interest cost	118,458	-	118,458
	3,221,279	-	3,221,279
Remeasurements:			
Change in demographic assumptions	584,751	-	584,751
Experience adjustments	365,420	-	365,420
	950,171	-	950,171
Pension fund contribution	-	(627,404)	(627,404)
Paid pension	(627,404)	627,404	-
Balance at December 31	$ 3,544,046	$ -	$ 3,544,046

	Present value of defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
Year ended December 31, 2015						
Balance at January 1	$	2,832,960	$	-	$	2,832,960
Interest cost		108,208		-		108,208
		2,941,168		-		2,941,168
Remeasurements:						
Change in demographic assumptions		347,480		-		347,480
Experience adjustments		366,829		-		366,829
		714,309		-		714,309
Pension fund contribution		-	(	552,656)	(	552,656)
Paid pension	(	552,656)		552,656		-
Balance at December 31	$	3,102,821	$	-	$	3,102,821

c. Actuarial assumptions are as follows:

	For the years ended December 31,	
	2016	2015
Discount rate for employee preferential interest savings	4.00%	4.00%
Return rate on capital deposited	2.00%	2.00%
Annual decreasing ratio for account balance	1.00%	1.00%
Probability of change in preferential savings system in the future	50.00%	50.00%

Because the main actuarial assumption changed, the present value of employee preferential interest savings obligation is affected. The analysis was as follows:

	Discount rate				Future salary increases			
	Increase 0.25%		Decrease 0.25%		Increase 0.25%		Decrease 0.25%	
December 31, 2016								
Effect on present value of defined benefit obligation	($	72,311)	$	75,075	($	17,003)	$	17,003
December 31, 2015								
Effect on present value of defined benefit obligation	($	63,938)	$	66,406	($	15,190)	$	15,190

Subsidiary – MICB recognized employee benefit expenses of $1,245,291 and $980,746 for the years ended December 31, 2016 and 2015, respectively.

C. Reserve for guarantee liabilities

The Group sets aside appropriate reserve for guarantee liabilities based on the guarantee reserve assessed. Changes in provided (reversed) guarantee reserve for the years ended December 31, 2016 and 2015 are as follows:

	For the years ended December 31,			
	2016		2015	
Balance at January 1,	$	5,564,889	$	5,616,412
Provision (reversal)		383,703	(	55,612)
Effects of exchange rate changes and others	(	1,813)		4,089
Balance at December 31,	$	5,946,779	$	5,564,889

(24) Other financial liabilities

	December 31, 2016		December 31, 2015	
Structured instruments	$	7,607,768	$	7,303,211
Appropriated loan fund		1,529,903		1,548,053
Futures traders' equity		1,712,035		1,869,597
Total	$	10,849,706	$	10,720,861

(25) Other liabilities

	December 31, 2016	December 31, 2015
Deposits received	$ 1,581,823	$ 2,259,541
Advance receipt	1,831,877	2,971,571
Receipts under custody from customers' security subscription	123,692	899,615
Other liabilities to be settled	431,815	437,355
Temporary receipts and suspense accounts	1,546,031	3,806,234
Others	687,837	683,310
Total	$ 6,203,075	$ 11,057,625

(26) Equity

A. Common stock

(A) As of December 31, 2016 and 2015, the Company's authorized capital were all $140 billion. The Company's issued capital were all $135,998,240, and consisting of all 13,599,824 thousand shares, respectively, with a par value of $10 per share.

(B) On September 22, 2015, the Company's Board of Directors resolved for a capital increment by issuing 1,150,000 thousand shares of common stock with a face value of $10 per share, issued at $21.01 per share, raising a total $24,161,500. The capital increase was filed with the FSC and effective as of October 16, 2015, pursuant to Financial-Supervisory-Securities-Corporate No. 1040040375, and the capital change was approved and deemed effective by the Ministry of Economic Affairs on December 25, 2015.

	For the years ended December 31,	
	2016	2015
January 1	$ 13,599,824	$ 12,449,824
Capital increase by cash	-	1,150,000
December 31	$ 13,599,824	$ 13,599,824

B. Capital surplus

(A) The sources and details of capital surplus of the Company are as follows:

	December 31, 2016	December 31, 2015
Consolidation surplus arising from share conversion	$ 43,047,306	$ 43,047,306
Changes in additional paid-in capital of investees accounted for under the equity method	375,908	375,908
Capital increase by cash – additional paid-in capital	24,161,500	24,161,500
Share-based payment (Note)	609,519	609,519
	$ 68,194,233	$ 68,194,233

Note: All the subsidiaries' share-based payments were included.

(B) As of December 31, 2016, the capital reserve of the Company provided by undistributed earnings of MICB (formerly CTB and ICBC) before conversion has amounted to $3,265,237, and the portion was not used for cash dividends, capital increase or any other purposes.

(C) Share-based payment:

The Company increased cash capital in 2015. Pursuant to Article 267-1 of the R.O.C. Company Act, the Company shall reserve 12% of the total new shares issued for cash capital increment for the Group's employee pre-emption.

a. The Group's share-based payment was as follows:

Type of agreement	Grant date	Grant quantity (thousand shares)	Vesting conditions
Shares from capital increment by cash reserved for employees	November 6, 2015	138,000	Vesting immediately

b. The capital surplus from share-based payment was $263,166.

C. Legal reserve and special reserve

(A) Legal reserve

The legal reserve is to be used exclusively to offset any deficit or to increase capital by issuing new shares or to distribute cash dividends to original stockholders in proportion to the number of shares being held by each of them and is not to be used for any other purposes. For the legal reserve to be used for issuing new shares or distributing cash dividends, only the portion of the legal reserve exceeding 25% of paid-in capital may be capitalized or released.

(B) Special reserve

Under Article 41-1 of the Securities and Exchange Act, special reserve can be used to recover accumulated deficit and under Article 239 of the R.O.C. Company Act, a company shall not use the capital reserve to recover its capital loss, unless the surplus reserve is insufficient to recover such loss. However, the annual net income after income taxes should first be used to recover accumulated deficits, and the remaining amount should then be set aside as special reserve. The remaining earnings are then distributed to stockholders.

In accordance with Gin-Guan-Zheng-Fa letter No. 1010012865 of FSC dated on April 6, 2012, upon the first-time adoption for IFRSs, equivalent amounts of special reserve with regard to the unrealized revaluation increment under the equity and cumulative translation adjustment (gains) transferred to retained earnings should be set aside. For the said special reserve, reversal of distributed earnings shall be based on the proportion of the original ratio of special reserve provision in the subsequent use, disposal or reclassification for the related assets. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land. If the assets are investment property other than land, the amounts are reversed over the use period and should be reversed by amortized balance upon disposal.

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

(27) Appropriation of earnings and dividend policy

A. According to the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating loss, and the remaining amount should then be set aside as legal reserve and special reserve in accordance with provisions under the applicable laws and regulations. The remaining earnings plus prior year's accumulated unappropriated earnings are subject to the Board of Directors' decision to propose a distribution plan and to be submitted for approval of the stockholders at the stockholders' meeting. For distribution of dividend, cash dividends shall account for at least 50% of the total dividends distributed and the remainder will be accounted for as stock dividends.

B. The Company's earning distributions for 2016 and 2015 were resolved at the Board meeting dated March 28, 2016 and March 29, 2015, respectively, and the Company's earning distributions for 2016 will be resolved in the stockholders' meeting in 2017. The Company's earnings distributions for 2016 was approved by the stockholders at the stockholders' meeting dated June 24, 2016. Details of the earnings appropriation for 2016 and 2015 are set forth below:

	Appropriated Amount		Dividend Per Share (in dollars)	
	2016	2015	2016	2015
Dividends – cash	$ 19,311,750	$ 20,399,736	$ 1.42	$ 1.50

(28) Other equity items

	Exchange differences on translation of foreign financial statements	Unrealized gain on available-for-sale financial assets	Total
At January 1, 2016	$ 427,764	$ 410,835	$ 838,599
Available-for-sale financial assets			
Evaluation adjustment in the period	-	(63,373)	(63,373)
Realized gain and loss in the period	-	(1,599,173)	(1,599,173)
Translation gain and loss on the financial statements of foreign operating entities in the period	(1,278,555)	-	(1,278,555)
Share of the other comprehensive income of associates accounted for under the equity method in the period	(2,591)	(60,873)	(63,464)
At December 31, 2016	($ 853,382)	($ 1,312,584)	($ 2,165,966)

	Exchange differences on translation of foreign financial statements	Unrealized gain on available-for-sale financial assets	Total
At January 1, 2015	$ 605,482	$ 2,756,775	$ 3,362,257
Available-for-sale financial assets			
Evaluation adjustment in the period	-	(1,211,287)	(1,211,287)
Realized gain and loss in the period	-	(1,111,736)	(1,111,736)
Translation gain and loss on the financial statements of foreign operating entities in the period	(180,357)	-	(180,357)
Share of the other comprehensive income of associates accounted for under the equity method in the period	2,639	(22,917)	(20,278)
At December 31, 2015	$ 427,764	$ 410,835	$ 838,599

(29) Interest income, net

	For the years ended December 31, 2016	2015
Interest income		
Interest income of bills discounted and loans	$ 38,730,900	$ 38,421,717
Interest income of deposits and call loans from the other banks	5,015,209	5,000,034
Interest income of securities investment	8,110,985	7,253,495
Interest income of bills and bonds purchased under resale agreements	31,049	39,533
Interest income of usance outright receivable	869,183	3,647,452
Credit card interest income	174,441	202,501
Interest income of securities purchased under resale agreements income	550,254	700,343
Interest income of accounts receivable	277,965	290,015
Interest income from buyout of documents against acceptance	15,749	519,504
Other interest income	337,927	778,142
Subtotal	54,113,662	56,852,736
Interest expense		
Interest expense of deposits	(12,071,930)	(13,804,589)
Interest expense of interbank overdraft and call loans	(2,622,437)	(2,852,127)
Interest expense of issuance of bills and bonds	(651,174)	(1,121,793)
Interest expense of bonds payable under repurchase agreements	(922,101)	(1,226,460)
Other interest expense	(152,968)	(159,174)
Subtotal	(16,420,610)	(19,164,143)
Total	$ 37,693,052	$ 37,688,593

(30) Service fee and commission income, net

	For the years ended December 31, 2016	2015
Service fee income and commission income		
Service fee income from export and import business	$ 607,319	$ 656,531
T/T service fee income	975,766	1,010,671
Loans service fee income	1,843,727	1,999,025
Guarantee service fee income	1,551,926	1,510,322
Brokerage fee income	1,320,523	1,575,823
Service fee income of trust and ancillary business	1,650,802	2,079,739
Agency service fee income	831,043	815,270
Reinsurance commission income	483,167	512,977

Insurance agency commission revenue	1,943,531	1,561,720
Underwriting fee income	384,279	412,383
Other service fee income	1,076,454	1,305,728
Subtotal	12,668,537	13,440,189
Service fee expense and commission expense		
Insurance commission expense	(918,498)	(916,623)
Agency service fee expense	(641,953)	(621,527)
Brokerage handling fee expense	(115,224)	(134,729)
Other commission expense	(351,404)	(365,715)
Other service fee expense	(403,818)	(426,717)
Subtotal	(2,430,897)	(2,465,311)
Service fee and commission income, net	$ 10,237,640	$ 10,974,878

Subsidiary-MICB provides custody, trust, and investment management and consultation service to the third party, and therefore subsidiary-MICB is involved with the exercise of planning, managing and trading decision of financial instruments. In relation to the management and exercise of trust fund and portfolio for brokerage, subsidiary-MICB records and prepares the financial statements independently for internal management purposes, which are not included in the financial statements of subsidiary-MICB.

(31) Financial assets or financial liabilities at fair value through profit or loss

	For the years ended December 31,	
	2016	2015
Gain and loss from disposal of financial assets and liabilities at fair value through profit or loss		
Short-term notes and bills	$ 562,751	$ 516,836
Bonds	37,185	2,701,500
Stocks	(167,795)	(462,421)
Derivative instruments	1,694,630	(2,812,633)
Negotiable certificate of deposits	4,370	9,664
Beneficiary certificates	(21,889)	45,248
Warrant	340,918	891,754
Subtotal	2,450,170	889,948
Valuation gains and losses on financial assets and liabilities at fair value through profit or loss		
Short-term notes and bills	(39,019)	36,908
Bonds	(113,652)	(3,025,400)
Stocks	158,369	(508,579)
Derivative instruments	389,341	2,350,325
Negotiable certificate of deposits	(151)	(523)
Beneficiary certificates	5,426	(35,294)
Warrant	-	(231,895)
Others	(54,745)	-
Subtotal	345,569	(1,414,458)
Interest income on financial assets at fair value through profit or loss	2,222,816	2,055,552
Interest expense on financial liabilities at fair value through profit or loss	(654,745)	(711,994)
Dividend and bonus from financial assets at fair value through profit or loss	232,544	253,457
Total	$ 4,596,354	$ 1,072,505

(32) Realized gain on available-for-sale financial assets, net

	For the years ended December 31,	
	2016	2015
Income from dividend and bonus	$ 388,875	$ 422,493
Bonds	478,839	120,753
Stocks	1,114,013	889,031
Beneficiary certificates	(1,487)	-
Others	7,808	101,952
Total	$ 1,988,048	$ 1,534,229

(33) Impairment of assets

	For the years ended December 31,	
	2016	2015
Impairment loss on financial assets measured at cost	$ 308,670	$ 204,074
Reversal gain of loss impairment on property and equipment	(82,400)	(70,707)
Impairment loss on available-for sale financial assets	103,340	353,293
Impairment loss on investment property	51,036	2,664
Impairment loss on non-current assets held-for-sale	-	740
Total	$ 380,646	$ 490,064

After the subsidiary-MICB assessment, the above-mentioned financial assets have provisioned impairment losses due to objective evidences indicating impairment. For the year ended December 31, 2016, relatively significant impairments were for Residential Mortage Backed Security (accounted for as available-for-sale), Kuang Ming Shipping Corp., NexPower Technology Corp. and Everest Display Inc. (the latter three were accounted for as those measured at cost), which provisioned impairment amounts of NT$97,871 thousand, NT$78,540 thousand, NT$42,300 thousand and NT$27,511, respectively.

(34) Revenues other than interest, net

	For the years ended December 31,	
	2016	2015
Gain on financial assets measured at cost, net	$ 798,876	$ 723,756
Gain on rental, net	207,982	202,780
Advisory income	783,322	584,902
Gain on sales of property and equipment	(1,322)	4,056
Gain on sales of non-performing loans	269,699	214,214
Total	$ 2,058,557	$ 1,729,708

(35) Compensation income

	For the years ended December 31,	
	2016	2015
Compensation income	$ -	$ 1,717,260

Taiwan High Speed Rail Corporation ("THSRC") was in arrears with preferred stock dividends from January 5, 2007 to August 6, 2015 for "Class A convertible bearer preferred stock" held by the subsidiary-MICB, totaling NT$1,717,260 thousand. In order to execute the supporting measures of the "Taiwan High Speed Rail Corporation's Financial Solution Plan", pursuant to the resolution by THSRC's special stockholders' meetings on September 10, 2015, unpaid preferred stock dividends will be satisfied in the form of compensation. The above-mentioned amount has been received as the compensation for the unpaid preferred stock dividends from THSRC on January 20, 2016.

(36)Net other miscellaneous income (loss)

	For the years ended December 31,	
	2016	2015
Penalty paid to New York State Department of Financial Services (Note)	($ 5,797,854)	$ -
Others	650,297	392,623
Total	($ 5,147,557)	$ 392,623

Note:Mega International Commercial Bank (MICB), the subsidiary, and MICB New York Branch (MICB NY Branch) entered into a Consent Order with New York State Department of Financial Services (NYDFS) on August 19, 2016. As per the consent order, NYDFS fined the MICB New York Branch for failure to establish an adequate anti-money laundering compliance program and non-compliance with BSA (Bank Secrecy Act)/AML (Anti-Money Laundering laws) and paid a penalty of US$180 million (approximately NT$5,797,854). In addition, under the Consent Order issued by NYDFS, MICB engaged a compliance consultant selected by NYDFS, to enhance the compliance of the AML and will retain an independent monitor to be selected by NYDFS to review the New York Branch's U.S dollar clearing transaction activity from January 1, 2012 to December 31, 2014 for determining whether any transactions were in violation of BSA/AML and OFAC (Office of Foreign Assets Control of United States Department of Treasury) Regulations.

As of the report date of this financial report, NYDFS has yet to designate an independent monitor. Thus, there are no examination results for the above-mentioned transaction.

(37) Employee benefit expense

	For the years ended December 31,	
	2016	2015
Wages and salaries	$ 11,072,239	$ 12,890,164
Labor and health insurance fees	837,029	835,488
Pension costs	2,023,760	1,722,452
Other personnel expenses	1,020,808	1,178,371
Total	$ 14,953,836	$ 16,626,475

A. According to the Articles of Incorporation of the Company, employees' compensation shall account for 0.02%~0.15% of the amount of current year's profit less accumulated deficit. Directors' remuneration shall not exceed 0.5% of the amount of current year's profit less accumulated deficit.

B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at $10,705 and $10,462, respectively; directors' remuneration was accrued at $114,649 and $150,128, respectively. The aforementioned amounts were recognized in wages and salaries.

For the years ended December 31, 2016 and 2015, employees' compensation accounted for 0.02%~0.15% of the amount of current year's profit less accumulated deficit. Directors' remuneration appropriated did not exceed 0.5% of the amount of current year's profit less accumulated deficit.

The difference between employees' bonus and directors' remuneration as resolved by the stockholders at the stockholders' meeting and the amount recognized in the 2015 financial statements by $43 and $3, respectively, had been adjusted in the profit or loss of 2015. Employees' compensation and directors' remuneration for 2016 have yet to be actually distributed.

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

(38) Depreciation and amortization

	For the years ended December 31,	
	2016	2015
Depreciation	$ 649,559	$ 641,638
Amortization	61,966	49,858
Total	$ 711,525	$ 691,496

(39) Other business and administrative expenses

	For the years ended December 31,	
	2016	2015
Rental expenses	$ 793,817	$ 853,167
Information technology expenses	590,900	542,744
Tax and official fee	2,729,680	3,029,130
Donations	111,533	346,487
Insurance	420,883	402,562
Office supplies and printing expenses	2,240,710	2,084,882
Other operating expenses	864,292	956,484
Total	$ 7,751,815	$ 8,215,456

(40) Income taxes

A. The income taxes comprise the following:

(A)The income taxes comprise the following:

	For the years ended December 31,	
	2016	2015
Current tax		
Current tax on profits for the year	$ 5,226,434	$ 5,193,558
Income tax of adjustments for over provisions of prior years' income tax	747	(624,777)
Separate income tax	282	392
Additional 10% tax on distributed earnings	888,663	1,679,390
Total current tax	6,116,126	6,248,563
Deferred income tax:		
Origination and reversal of temporary differences	(641,808)	(412,850)
Income tax expense	$ 5,474,318	$ 5,835,713

(B)Income tax charge relating to components of other comprehensive income:

	For the years ended December 31,	
	2016	2015
Remeasurement of defined benefit plan	($ 96,389)	($ 250,105)

B. Differences between accounting income and taxable income are reconciled as follows:

	For the years ended December 31,	
	2016	2015
Income tax from pre-tax income calculated at statutory tax rate	$ 6,461,761	$ 6,524,325
Effects of items not recognized under relevant regulations	(800,351)	(436,052)
Additional 10% tax levied on undistributed earnings	888,663	1,679,390
Effect of alternative minimum tax	957,082	1,025,922
Income tax of adjustments for over (under) provisions of prior years' income tax	747	(624,777)
Effects of income tax exemption and adjustment of other income	(2,033,584)	(2,333,095)
Income tax expense	$ 5,474,318	$ 5,835,713

C. As of December 31, 2016 and 2015, the balances of the imputation tax credit account were $4,972,685 and $3,600,273, respectively. The creditable tax rates was estimated to be 8.61% for 2016 and the actual rate was 13.86% for 2015.

D. Unappropriated retained earnings:

	For the years ended December 31,	
	2016	2015
Earnings generated in and after 1998	$ 56,976,974	$ 58,332,856

E. Amounts of deferred tax assets or liabilities as a result of temporary difference, loss carryforward and investment tax credit are as follows:

	For the years ended December 31, 2016			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax assets				
Reserve for bad debts expense in excess of limit	$ 1,859,817	$ 805,897	$ -	$ 2,665,714
Reserve for guarantee liabilities in excess of limit	199,597	-	-	199,597
Unpaid liabilities reserve for employee benefits	1,567,397	(243,846)	96,389	1,419,940
Unrealized loss on impairment	605,064	123,470	-	728,534
Others	484,677	(33,801)	(1,434)	449,442
	$ 4,716,552	$ 651,720	$ 94,955	$ 5,463,227

	For the years ended December 31, 2015			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax assets				
Reserve for bad debts expense in excess of limit	$ 1,555,205	$ 304,612	$ -	$ 1,859,817
Reserve for guarantee liabilities in excess of limit	167,008	32,589	-	199,597
Unpaid liabilities reserve for employee benefits	1,299,084	20,181	250,105	1,569,370
Unrealized loss on impairment	587,774	17,290	-	605,064
Others	421,457	61,154	93	482,704
	$ 4,030,528	$ 435,826	$ 250,198	$ 4,716,552

	For the years ended December 31, 2016			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax liabilities				
Land revaluation increment tax	($ 1,053,300)	$ -	$ -	($ 1,053,300)
Unrealized exchange gain	(468,551)	1,404	-	(467,147)
Share of profit of associates and joint ventures accounted for under equity method	(562,166)	(38,218)	-	(600,384)
Others	(111,406)	26,902	3,676	(80,828)
	($ 2,195,423)	($ 9,912)	$ 3,676	($ 2,201,659)

	For the years ended December 31, 2015			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax liabilities				
Land revaluation increment tax	($ 1,053,300)	$ -	$ -	($ 1,053,300)
Unrealized exchange gain	(458,672)	(9,789)	-	(468,551)
Share of profit of associates and joint ventures accounted for under equity method	(515,914)	(46,252)	-	(562,166)
Others	(141,435)	33,065	($ 3,036)	(110,406)
	($ 2,169,411)	($ 22,976)	($ 3,036)	($ 2,195,423)

F. Assessment of income tax returns

(A) The Company's profit-seeking enterprise income tax return through 2011 was assessed by the Tax Authority.

(B) MICB's income tax returns up to 2011 have been assessed by the Tax Authority. MICB does not agree with the assessment for 2009 and the Company has filed an appeal for reinvestigation of 2009 income tax returns on behalf of MICB.

(C) MS's income tax returns up to 2011 have been assessed by the Tax Authority. MS does not agree with the assessment for 2005, 2010 and 2011 and has filed for an administrative remedy to relevant regulations.

(D) As of December 31, 2016, CKI, MITC, Mega Life Insurance Agency Co., Ltd. and MAMs' income tax returns through 2011 have been examined by the Tax Authorities.

(E) MBF and Mega Venture Capital's income tax returns through 2011 were assessed by the Tax Authority. MBF and Mega Venture Capital did not agree with the assessment of 2009, 2010 and 2011 and the Company has filed an appeal for reinvestigation of 2009, 2010 and 2011 income tax returns on behalf of MBF and Mega Venture Capital.

(41) Earnings per share

Basic earnings per share

Basic earnings per share was calculated by dividing the profit attributable to ordinary stockholders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the years ended December 31,	
	2016	2015
Profit attributable to ordinary stockholders of the Company	$ 22,456,183	$ 29,417,211
Weighted-average number of shares outstanding(In thousands of shares)	13,599,824	12,517,011
Basic earnings per share (In dollars)	$ 1.65	$ 2.35

7. Fair value and level information of financial instruments

(1) Overview

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments are initially recognized by fair value, which is transaction price in most cases. Subsequent recognitions are measured by fair value except that certain financial instruments are recognized by amortized cost or cost. If the quoted market price of a financial instrument is available in an active market, the quoted price is the fair value. If the market in which financial instruments traded is not active, the Group then adopts valuation technique or takes reference to Bloomberg or the fair value of financial instrument from counterparties.

(2) Fair value information of financial instruments

Except for those listed in the table below, the carrying amount of some of the Group's financial instruments (e.g. cash and cash equivalents, due from Central Bank and call loans to other banks, bills and bonds purchased under resale agreement, receivables, loans discounted, refundable deposits, deposits from the Central Bank and banks, due to Central Bank and other banks, bills and bonds sold under repurchase agreements, payables, deposits and remittances, bonds payable, other financial liabilities and guarantee deposits) is approximate to their fair value (please refer to Note 7 (5)). The fair value information of financial instruments measured at fair value is provided in Note 7(6).

	December 31, 2016	
	Carrying Value	Fair Value
Held-to-maturity financial assets, net	$ 21,935,217	$ 21,922,772
Debt instruments without active market-CKI	$ 492,825	$ 495,905

	December 31, 2015	
	Carrying Value	Fair Value
Held-to-maturity financial assets, net	$ 29,863,939	$ 29,825,508
Debt instruments without active market-CKI	$ 650,643	$ 656,272

For the above-mentioned held to maturity financial assets-bond investment are considered Level 1 and Level 2 within the fair value hierarchy; investments in debt instruments without an active market are considered Level 2 within the fair value hierarchy.

(3) Financial instruments at fair value through profit or loss

If the market quotation from a stock exchange, brokers, underwriters, Industrial Trade Unions, pricing service agencies or competent authorities can be frequently obtained on time, and the price represents the actual and frequent transactions at arm's length, then a financial instrument is deemed to have an active market. If financial instruments do not satisfy the criteria above, they are regarded as not having active market. In general, significant price variance between the purchase price and selling price, or extremely low trading volume are all indicators of an inactive market.

If the quoted market price of a financial instrument is available in an active market, the quoted price is the fair value. Usually the fair value is measured using the market price, interest rate, foreign exchange central parity rate shown in Reuters quotation system, partially using the quoted prices from Bloomberg, Taipei Exchange, or counterparties, and the basis for valuation is maintained consistently. If there is no quoted market price for reference, a valuation technique or quoted price offer by the counterparties will be adopted to measure the fair value. Fair value measured by a valuation technique is usually estimated by reference to the fair values of other financial instruments with similar terms and characteristics, or by using cash flows discounting method, or using model calculation based on the market information (such as yield rate curves from the Taipei Exchange, average interest rate of commercial papers from Reuters) available on the balance sheet date.

When assessing non-standardized financial instruments with lower complexity, derivative financial instruments such as debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts, options, the Group uses valuation techniques and models which are extensively used by the market to estimate their fair value. The parameters used in the valuation model for these kinds of financial instruments usually use the observable information as the input.

For more complicated financial instruments, such as debt instruments with embedded derivative instruments or securitization products, the Group develops its own valuation models to estimate fair value by reference to the valuation techniques and methods which are extensively used by the same trade. Parts of parameters used in these valuation models are not observable from the market; they must be estimated by using some assumptions.

The Group uses its own credit spread to measure the fair value of derivative financial liabilities and financial liabilities designated at fair value through profit or loss. When the Group's credit spread increases and value of liabilities declines, gain is recognized; when the Group's credit spread declines and value of liabilities increases, loss is recognized.

A. NTD Central Government Bond: the yield rates across different contract length and one-hundred price bulletined by Over-The-Counter (hereinafter Taipei Exchange) are used.

B. NTD corporate bonds, financial debentures, government bonds, bond-type beneficiary securities and designated financial debentures issued by the Group: the present value of future estimated cash flows is calculated by using the yield rate curve from Taipei Exchange.

C. Short-term bills and bill-type beneficiary securities: the present value of future estimated cash flows of NTD and USD short-term bills is calculated by using average interest rate of commercial papers and TAIFX3 central parity rate from Reuters, respectively.

D. Foreign securities: quoted prices from Bloomberg or counterparties are adopted.

E. Listed stock:The closing price being listed in TSE is adopted.

F. Unlisted stock and domestic/foreign partnership-type fund: If the object recently has representative trading, its trading price might be the best estimate of its fair value. If the object has comparable listed trades, its fair value can be estimated by using appropriate market method, such as P/E method, P/B method, EV/EBIT method or EBITDA×EV method, taking into account the operation condition of the comparable listed companies, most recent one month trading information and its liquidity. And if the object has no comparable instruments or its fair value cannot be estimated using market method, other valuation technique, such as net assets method or income approach, is used to estimate its fair value.

G. Funds: Net fund value is adopted.

H. Derivative financial instruments:

(A) Foreign exchange forward contract, currency swaps, forward rate agreement, interest rate swaps and cross currency swaps: the discounting future cash flow is adopted.

(B) Options: Black-Scholes model is mainly adopted for valuation.

(C) Some structured derivative financial instruments are valued by using BGM model.

(D) Some foreign-currency derivatives are valued by using the quoted prices from Bloomberg or counterparties.

(4) Credit risk value adjustment

A. Credit risk value adjustments can be primarily classified as either credit value adjustments or debit value adjustments. The definitions are as follows:

(A) Credit value adjustments refer to adjustments through fair value, which reflect the possibility that a counterparty may default on repayments and that an entity may not be able to recover, in full, the market value, for transactions in non-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).

(B) Debit value adjustments refer to adjustments through fair value, which reflect the possibility that an entity may default on repayments and that an entity may not be able to pay, in full, the market value, for transactions in non-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).

B. The Consolidated Company has incorporated credit risk value adjustments in the considerations for calculating the fair value of financial instruments in order to respectively reflect the counterparty's credit risk and the Consolidated Company's credit quality.

(5) Fair value of financial instruments not measured at fair value through profit or loss

A. In relation to cash and cash equivalents, bills and bonds purchased under resale agreements, due from the Central Bank and call loans to banks, receivables, restricted assets, refundable deposits, due to the Central Bank and financial institutions, funds borrowed from the Central Bank and other banks, bills and bonds sold under repurchase agreements, payables and refundable deposits, the book value of the financial instruments which have a short maturity period will be considered as their fair value. While the maturities are quite close or the future payment or receipt is close to the carrying amount, the carrying amount at the consolidated balance sheet date is used to estimate the fair value.

B. Interest rates of subsidiaries' bills discounted and loans (including non-performing loans) are generally based on the benchmark interest rate plus or minus certain adjustment to reflect the market interest rate. Thus, their fair values are based on the book value after adjustments of estimated recoverability. Fair values for long-term loans with fixed interest rates shall be estimated using their discounted values of expected future cash flows. However, as such loans account for only a small portion of all loans, book value was used to estimate the fair value.

C. When there is a quoted market price available in an active market, the fair value of held-to-maturity financial assets is determined using the market price. If there is no quoted market price for reference, a valuation technique or quoted price offer by the counterparties will be adopted to measure the fair value.

D. The fair values of deposits and remittances are represented by their book values.

E. The coupon rate of convertible bonds and financial bonds issued by the Group is equivalent to market interest rate; therefore, fair value estimated based on the present value of future cash flows is equivalent to book value.

F. Other financial assets-other than public pricing information from the Taipei Exchange being the fair value for part of the debt instruments without an active market, governmental bonds refer to the bond fair values of each period, while the remaining bonds refer to the yield/price conversion table of sales offices for bonds. These fair values are considered Level 2. For related disclosures, please refer to Note 7(2). For the remaining investments in debt instruments without an active market and financial assets measured at cost, due to the absence of active market quotes and the differences of evaluating prices being substantial, the fair value cannot be reasonably measured and is thus not disclosed.

(6) Level information of financial instruments at fair value

A. Three definitions of the Group's financial instruments at fair value

(A) Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities that are deemed as level 1. A market is regarded as active when all of the following conditions are met: commodities in the market have identical characteristics; buyers and sellers in the market are readily available for transaction and pricing information is publicly available. The Group's investments in listed stocks, OTC stocks, beneficiary certificates, active central government bonds and derivatives with quoted prices in an active market are all deemed as Level 1.

(B) Level 2

Observable prices other than the quoted prices in an active market comprise direct (e.g. prices) or indirect (e.g. derived from prices) observable inputs obtained from an active market. The Group's investments in non-popular government bonds, corporate bonds, financial bonds, convertible bonds and most derivative instruments and corporate bonds issued by the Group belong to this category.

(C) Level 3

Inputs for assets or liabilities that are not based on observable inputs through the market are deemed as Level 3. A portion of the Group's derivatives and equity instruments without an active market are deemed as Level 3.

B. Information of fair value hierarchy of financial instruments

Recurring fair value measurements	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets held for trading				
Investment in bills	$ 120,027,368	$ -	$ 120,027,368	$ -
Investment in stocks	4,557,071	4,175,257	341,215	40,599
Investment in bonds	52,763,031	1,044,000	51,719,031	-
Others	257,635	257,635	-	-

Financial assets designated as at fair value through profit or loss	4,685,025	5,425	4,679,600	-
Available-for-sale financial assets				
Available-for-sale financial assets				
Investment in bills	29,279,878	-	29,279,878	-
Investment in stocks	15,019,274	14,156,470	862,804	-
Investment in bonds	308,944,643	23,992,846	284,951,797	-
Others	1,220,913	647,622	573,291	-
Liabilities				
Financial liabilities held for trading	(439,377)	(416,833)	(22,544)	-
Financial liabilities designated as at fair value through profit or loss	(8,176,700)	-	(8,176,700)	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	4,027,243	127,227	3,899,221	795
Liabilities				
Financial liabilities at fair value through profit or loss	(3,489,154)	-	(3,488,973)	(181)

	December 31, 2015			
Recurring fair value measurements	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets held for trading				
Investment in bills	$ 108,032,927	$ -	$ 108,032,927	$ -
Investment in stocks	5,129,811	4,662,979	443,032	23,800
Investment in bonds	56,868,377	4,710,476	52,157,901	-
Others	981,857	981,857	-	-
Financial assets designated as at fair value through profit or loss	5,784,581	-	5,784,581	-
Available-for-sale financial assets				
Investment in bills	88,518,247	-	88,518,247	-
Investment in stocks	15,893,491	14,025,275	1,868,216	-
Investment in bonds	240,448,727	28,906,007	211,542,720	-
Others	1,600,899	977,553	623,346	-
Liabilities				
Financial liabilities held for trading	(704,875)	(698,726)	(6,149)	-
Financial liabilities designated as at fair value through profit or loss	(17,181,429)	-	(17,181,429)	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	5,239,111	203,289	5,035,305	517
Liabilities				
Financial liabilities at fair value through profit or loss	(5,094,388)	-	(5,094,217)	(171)

C. Movements of financial assets and liabilities classified into Level 3 of fair value are as follows:

(A) Movements of financial assets classified into Level 3 of fair value are as follows:

For the year ended December 31, 2016

		Valuation gain or loss		Addition		Reduction		
Item	January 1, 2016	Recognized as gain (loss)	Recognized as other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	December 31, 2016
Non-derivative financial instruments								
Financial assets at fair value through profit or loss								
Financial assets held for trading	$ 23,800	$ 6,163	$ -	$ 55,653	$ 79,175	($ 61,547)	($ 62,645)	$ 40,599
Derivative financial instruments								
Financial assets at fair value through profit or loss	517	138	-	3,327	-	(3,187)	-	795
Total	$ 24,317	$ 6,301	$ -	$ 58,980	$ 79,175	($ 64,734)	($ 62,645)	$ 41,394

For the year ended December 31, 2015

Item	January 1, 2015	Valuation gain or loss: Recognized as gain	Valuation gain or loss: Recognized as other comprehensive income	Addition: Purchased or issued	Addition: Transferred to Level 3	Reduction: Sold, disposed or settled	Reduction: Transferred from Level 3	December 31, 2015
Non-derivative financial instruments								
Financial assets at fair value through profit or loss								
Financial assets held for trading	$ 48,967	($ 3,006)	$ -	$ 11,874	$ 26,500	($ 24,915)	($ 35,620)	$ 23,800
Derivative financial instruments								
Financial assets at fair value through profit or loss	215,528	105,835	-	26,306	-	(12,694)	(334,458)	517
Total	$ 264,495	$ 102,829	$ -	$ 38,180	$ 26,500	($ 37,609)	($ 370,078)	$ 24,317

(B)Movements of financial liabilities classified into Level 3 of fair value are as follows:

For the year ended December 31, 2016

Item	January 1, 2016	Valuation gain or loss: Recognized as gain	Valuation gain or loss: Recognized as other comprehensive income	Addition: Purchased or issued	Addition: Transferred to Level 3	Reduction: Sold, disposed or settled	Reduction: Transferred from Level 3	December 31, 2016
Liabilities								
Financial liabilities at fair value through profit or loss	($ 171)	($ 26)	$ -	($ 2,493)	$ -	$ 2,457	$ -	($ 181)

For the year ended December 31, 2015

Item	January 1, 2015	Valuation gain or loss: Recognized as gain	Valuation gain or loss: Recognized as other comprehensive income	Addition: Purchased or issued	Addition: Transferred to Level 3	Reduction: Sold, disposed or settled	Reduction: Transferred from Level 3	December 31, 2015
Liabilities								
Financial liabilities at fair value through profit or loss	($ 214,281)	($ 106,210)	$ -	($ 15,505)	$ -	$ 1,367	$ 334,458	($ 171)

Transfers into or out from level 3 (for example, transfers resulted from changes in the observability of market data) and the reasons for those transfers: significant transfers out from level 3 mainly resulted from certain emerging stocks whose trading volume of current month did not meet the definition of active market and being transferred from level 2. Significant transfers out from level 3 mainly resulted from certain emerging stocks whose trading volume of current month meets the definition of active market and being transferred into level 2.

(C) The transfer between Level 1 and Level 2:

On December 31, 2016, the balance of MICB's held 2015 Fiscal Year Order 12 and Order 13 Category 1 Central Government Construction Bonds was $797,688 and $608,634, respectively. Due to the bonds becoming inactive securities in the Index, the bonds were transferred from Level 1 to Level 2.

On December 31, 2015, the balance of MICB's held 2014 Fiscal Year Order 13 and Order 15 Category 1 Central Government Construction Bonds was $105,180 and $153,912, respectively. Due to the bonds becoming inactive securities in the Index, the bonds were transferred from Level 1 to Level 2.

Reason for MS's transfers between Level 1 and Level 2: Transfers to Level 2 were primarily due to decreases in the volume of transactions, reducing the information of public quotes available in active markets; transfers to Level 1 were primarily due to increases in the volume of transactions, enlarging the information of public quotes available in active markets.

(D) The measure of fair value for Level 3, the sensitivity analysis for the reasonable alternative hypothesis of the fair value

The Group's fair value measurement of financial instruments was reasonable, if valued using different model or parameters, it would obtain different results. For Level 3, if the parameters of valuation varied up or down by 10%, the effect on profit or loss would be shown as follows:

December 31, 2016	Changing in the fair value recognized in the current profit or loss: Favorable changes	Changing in the fair value recognized in the current profit or loss: Unfavorable changes
The level 3 of financial instruments	$ 4,151	($ 4,147)

December 31, 2015	Changing in the fair value recognized in the current profit or loss	
	Favorable changes	Unfavorable changes
The level 3 of financial instruments	$ 2,441	($ 2,444)

The favorable changes and unfavorable changes meant the fluctuation of fair value, and the fair value was calculated by the unobservable parameters in different levels, if the fair value of financial instrument was affected by one of the above parameters, the favorable changes and unfavorable changes would not consider the correlation and variability in the table.

(E)Quantitative information of fair value measurement of significant unobservable inputs (level 3)

Fair value of the subsidiary–MS belongs to level 3 because of the financial assets–emerging stocks that are measured at fair value through profit or loss and derivative instruments – structured products.

Fair value of the subsidiary–MS belongs to emerging stocks of level 3 because there is only single significant unobservable input. Derivative instruments–structured products have several significant unobservable inputs. As significant unobservable inputs of derivative instruments – structured products are independent from each other, the inputs have no relation.

Table below summarizes quantitative information of significant unobservable inputs:

December 31, 2016	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Items measured at fair value on a recurring basis					
Non-derivative financial assets					
Financial assets measured at fair value through profit or loss					
Financial assets held for trading					
Equity investment	$ 40,599	Determined using the Multiple Pricing Model	Lack of liquidity discount	20%~30%	The higher of lack of liquidity discount, the lower the fair value is.
Derivative financial assets					
Structured products	795	Determined using the Option Pricing Model verified by the subsidiary – MS	Price volatility	13%~31%	The higher the price volatility, the higher the value of options is. Issuance of ELN was for the purchase of options, thus the higher the price volatility, the lower the fair value is.
Derivative financial liabilities					
Structured products	(181)	Determined using the Option Pricing Model verified by the subsidiary – MS	Price volatility	20%	The higher the price volatility, the higher the value of options is. Issuance of PGN was for the sale of options, thus the higher the price volatility, the higher the fair valve is.

December 31, 2015	Fair value at December 31, 2015	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Items measured at fair value on a recurring basis					
Non-derivative financial assets					
Financial assets measured at fair value through profit or loss					
Financial assets held for trading					
Equity investment	$ 23,800	Determined using the Multiple Pricing Model	Lack of liquidity discount	20%~30%	The higher of lack of liquidity discount, the lower the fair value is.
Derivative financial assets					
Structured products	517	Determined using the Option Pricing Model verified by the subsidiary – MS	Price volatility	17%~45%	The higher the price volatility, the higher the value of options is. Issuance of ELN was for the purchase of options, thus the higher the price volatility, the lower the fair value is.
Derivative financial liabilities					
Structured products	(171)	Determined using the Option Pricing Model verified by the subsidiary – MS	Price volatility	20%	The higher the price volatility, the higher the value of options is. Issuance of PGN was for the sale of options, thus the higher the price volatility, the higher the fair valve is.

(F)Fair value measurement process for instruments classified in Level 3

The financial instrument assessment team is in charge of valuation procedures for fair value measurements, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

8. The management objectives and policies of financial risks

(1) Overview

The Group earns profits mainly from lending, financial instruments trading, investments, brokerage, financial planning, assets management and insurance businesses. The Group is supposed to bear and manage any risks from these business activities. These risks include credit risk, market risk, operating risk, liquidity risk and insurance risk. Among those risks, credit risk, market risk and liquidity risk have greatest impact.

The Group regards any potential factors that might negatively affect earnings and reputation as risks. To maintain steady profits and good reputation and avoid losses from incidental events, the Group's risk management policies focus on prevention and reduction of anticipated business risks and increase of capital in response to future anticipated risks. In order to meet the solid operating requirements by the competent authorities, depositors and other stakeholders for management objectives for risks, business risks are controlled within the tolerable scope.

(2) The organization framework of risk management

The Group has established risk management policies and guidelines and whole risk tolerance of the Group. Subsidiaries therefore follow the Company's instructions in setting risk management organization, policies, objectives, regulations, internal control procedures, risk monitor mechanism and risk limits, and report to the Company on risk management issues. Therefore, overall risk management structure and reporting systems of the Group is completely established.

The Board of Directors is the highest decision-making unit of the Group's risk management and is responsible for establishment and effective operation of the risk management system. The system includes risk management policies, standards and guidelines, organization structure, risk preference, internal control system and management of significant business cases. Under the Board of Directors, the risk management committee is established. The risk management committee is responsible for examination and monitor of risk management. The Company and significant subsidiaries all have risk management unit, being a part of the risk management committee and responsible for supervising the establishment of risk management mechanism, risk limits allocation, risk monitor and reporting.

Under the management, several committees and other administrative units are established. They are responsible for risk review and control of credits, investments, trading and assets/liabilities management businesses.

Administrative unit of each subsidiary is responsible for identifying the possible risks of businesses, establishing internal control procedures and regulations, measuring risk degrees regularly and adopting responding measures for any negative effects.

Business units follow operating guidance and report to the management units directly. Risk management unit is responsible for monitoring of overall risk positions and concentration, and summarizing relevant details before reporting to the management or Board of Directors.

Auditing office examines the operations of business and administration units regularly or irregularly to ensure the three risk management defense lines operate normally.

The Company has assigned personnel to sit on the Board of Directors of each subsidiary to monitor the governance of each subsidiary.

(3) Credit risk

A. The source and definition of credit risk

Credit risk pertains to the risk of loss that the borrowers, issuers or counterparties might default on contracts due to deterioration in their financial position or other factors.

The Group is exposed to credit risk mainly on businesses of corporate and individual loans, guarantees, trade financing, interbank deposits and call loans and securities investments.

Credit risk is the primary risk of the Group's capital expenditure.

B. Credit risk management policies

The objectives of the Group's credit risk management are to maintain stable assets allocation strategy, careful lending policy and excellent assets quality to secure assets and earnings. The Group's risk management department is responsible for supervision of the Group's credit risk and regularly submits summary report to the Board of Directors and the management.

The management mechanism of subsidiaries for credit risk includes:

(A)The establishment of assets/liabilities, risk management, lending and investment committees which adopt responding measures to market environment, changes in industry, and capital limits, and review relevant regulations and cases of significant lending and investments.

(B)Classifying credit ratings based on clients' probability of default or behavior scoring with management put in practice.

(C)Controlling concentration of credit risk by setting credit limits for individuals, corporate groups, industries, areas, and different types of collaterals.

(D)Setting credit risk limits by reference to external ratings and prospects with attention to changes in market credit spread and risk concentration of counterparties.

(E) Establishing the pre-warning list of credit and reporting system.

(F) Assessing assets quality regularly and setting aside sufficient reserve for losses.

(G)Setting the management unit and the audit committee of the creditor's right for accelerating collection of non-performing loans.

a. Credit extensions

Classification of credit assets and internal risk ratings are as follows:

(a) Classification of credit assets

Corporate credit risk is measured by using the borrower's default probability model with logistic regression analysis in which financial and non-financial factors are incorporated, which predicts the default probability of borrower within the next year. Besides, the extent of risk is measured by using credit rating table and taking into account the characteristics and scale of business. Lending examination and post management are dealt with based on clients' credit rating. Individual borrowers are grouped into different risk levels and managed by using application scoring and behavior scoring cards. Back-testing is conducted on internal models regularly; those models are subject to adjustments when necessary. Clients' credit ratings are reviewed annually and subject to adjustments when there is significant change in their credit ratings.

(b) Internal risk rating:

The internal rating for lending is classified as excellent, satisfactory, fair and weaker, which corresponds to the Standard & Poor rating as follows:

Internal risk rating	Excellent	Satisfactory	Fair	Weaker	No rating
Corresponding to S&P	AAA~BBB-	BB+~ BB-	B+	B and below	NA

b. Interbank deposits and call loans

Before trading with other banks, the Group assesses their credit by reference to their ratings offered by external rating agencies, their assets and scales of owners' equity and their country risks, and therefore set credit risk limits for each of them. The Group monitors changes in market prices of the financial instruments issued by those banks and CDS quoted prices daily to keep attention to their risk.

c. Bonds and derivative instruments

The limits of bonds purchased by the Group are set by considering the credit rating of bond issuers or guarantors (ex. S&P, Moody's, Fitch, Taiwan ratings or Fitch Taiwan), which needs to meet the minimum rating set by the Board of Directors, and country risk at the application, share price of issuers, changes in CDS quoted prices, earnings, market condition, and capital utilization status of the applying unit.

Subsidiaries have set trading units and overall total risk limit for non-hedging derivative instruments, and use positive trading contract evaluation plus future potenial exposure amount as the basis for calculating credit risk and add the limit to the total credit risk limit for monitoring.

d. Asset quality

The Group has set the minimum requirements and examination procedures for the quality of financial assets of each type, and controls risk concentration of assets portfolios of each type based on the risk limit of each type. The Group also monitors the changes in assets quality regularly during the duration of the assets and takes measures to maintain their quality. According to the policies and regulations, reserve for losses is provided adequately for those assets to actually reflect and safeguard the value of owners' equity.

e. Impairment of financial assets and provision for reserves

(a) Impairment policy:

Each subsidiary assesses at each balance sheet date whether a financial asset is impaired. If there is objective evidence that an event that occurred after the initial recognition of the asset has an impact on the future cash flows of the financial asset, the impairment loss on the financial asset should be recognized.

(b) The objective evidence of an impairment loss is as follows:

I. Significant financial difficulty of the issuer or debtor;

II. The issuer or debtor has breached the contract;

III. The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession;

IV. It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

V. The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including::

(I) Adverse changes in the payment status of borrowers in the group; or

(II) Adverse changes in national or local economic conditions that correlate with defaults on the assets in the group.

Financial assets that are not impaired are included in the group of financial assets sharing similar credit risk characteristics for group assessment. Financial assets that are assessed individually with impairment recognized need not be included in the group assessment.

The amount of the impairment loss is the difference between the financial assets' book value and the estimated future cash flow discounted using the original effective interest rate. The present value of estimated future cash flows must reflect the cash flows that might be generated from collaterals less acquisition or selling cost regarding the collateral.

Financial assets through group assessment are grouped based on similar credit risk characteristics, such as types of assets, industry and collaterals. Such credit risk characteristics represent the ability of the debtors to pay all the amounts at maturities according to the contract term, which is related to future cash flows of group of financial assets. The future cash flows of group of financial assets for group assessment are estimated based on historical impairment experience, reflecting the change in observable data for each period, and the estimation of the future cash flows should move in the same direction. The Group reviews the assumptions and methods for estimation of the future cash flows regularly.

(c) Policies of loan loss provision and guarantee reserve

For loan loss provision and guarantee reserve, the subsidiaries have established the regulations for assets assessment and loss reserve. According to the regulations of the Financial Supervisory Commission for banks, bills companies and insurance companies, all assets in balance sheets and off balance sheets are classified as five categories. For credit assets on balance sheets and off balance sheets, in addition to normal credit assets which shall be classified as "Category One", the remaining unsound credit assets that required special attention shall be evaluated based on the status of the creditor's right, loan collaterals and the length of time overdue, and classified as "Category Two". Assets that are substandard shall be classified as "Category Three". Assets that are doubtful shall be classified as "Category Four", and assets for which there is loss shall be classified as "Category Five". "Category Two" to "Category Five" shall be assessed individually for possible loss and set aside sufficient loss provision. And loss provision shall be also set aside for "Category One" proportionately in accordance with regulations by competent authorities.

C. Policies of hedging and mitigation of credit risk

To reduce credit risk, the Group adopts the following policies:

(A) Obtaining collaterals and guarantors

Subsidiaries have established regulations on collateral management, mortgage loan line setting, scope of collaterals, collateral valuation, collateral management and disposal. Besides, protection of creditor's right, collateral terms and offsetting terms are all addressed in the credit extension contract in case of any occurrence of credit event, of which the amount may be deductible, loan repayment schedule may be shortened or deemed as matured, or the debtor's deposits can be used to offset its liabilities to mitigate credit risks.

(B) Loan limit control

To avoid extreme credit risk concentration, subsidiaries established policies for control of credit risk concentration and set up credit extension limit for a single individual, a single group, a single industry, a single area/country, and single collateral.

(C) Net settlement agreement

The Group has net settlement agreements with some counterparties. If the counterparty defaults, all transactions with the counterparty will be terminated and be settled by net amount to further reduce credit risk.

(D) Other credit enhancements

The Group upon formulation of the credit agreement included an offsetting clause, which clearly stipulated that upon the occurrence of a credit incident, deposits to the Group by the debtor may be offset with the debtor's liabilities and guarantees from third-parties or financial institutions may be acquired to mitigate the credit risk.

D. The maximum exposure to credit risk

The maximum exposure to credit risk of financial asset was presented by book amount in the balance sheet, and the guarantee and letters of credit and irrevocable commitments off balance sheet calculated the maximum exposure to credit risk by the credit limit.

	Off-balance-sheet guarantees and commitments	
	December 31, 2016	December 31, 2015
Government organization	$ 84,705,196	$ 81,658,932
Finance, investment and insurance	56,519,710	65,877,715
Corporate and commerce	381,845,072	383,141,052
Personal	56,710,159	58,965,383
Others	1,646,707	1,643,985
Total	$ 581,426,844	$ 591,287,067

(A) Relevant financial information on effect of the Group's assets exposed to credit risk, net settlement master netting arrangements and other credit improvements is as follows:

December 31, 2016	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
On-Balance-Sheet Items				
Cash and cash equivalents	$ 1,221,411	$ -	$ -	$ 1,221,411
Financial assets at fair value through profit or loss				
- debt instrument	-	-	17,304,432	17,304,432
- derivative instrument	908,272	1,210,607	-	2,118,879
Available-for-sale financial assets - debt instrument	-	-	12,351,956	12,351,956
Bills and bonds purchased under resale agreements	2,828,603	-	-	2,828,603
Receivables	20,474,854	-	-	20,474,854
Bills discounted and loans	1,107,932,816	-	54,229,707	1,162,162,523
Held-to-maturity financial assets - debt instrument	-	-	3,702,803	3,702,803
Other assets	188,844	-	-	188,844
Subtotal	1,133,554,800	1,210,607	87,588,898	1,222,354,305
Off-Balance-Sheet Items				
Irrevocable commitments	84,165,391	-	1,206,122	85,371,513
Guarantees	141,935,209	-	1,301,032	143,236,241
Letters of credit	15,488,082	-	551,205	16,039,287
Subtotal	241,588,682	-	3,058,359	244,647,041
Total	$ 1,375,143,482	$ 1,210,607	$ 90,647,257	$ 1,467,001,346

December 31, 2015	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
On-Balance-Sheet Items				
Cash and cash equivalents	$ 1,659,334	$ -	$ -	$ 1,659,334
Financial assets at fair value through profit or loss				
- debt instrument	-	-	14,845,042	14,845,042
- derivative instrument	1,441,783	733,045	-	2,174,828
Available-for-sale financial assets - debt instrument	-	-	28,945,651	28,945,651
Bills and bonds purchased under resale agreements	7,079,210	-	-	7,079,210

Receivables	25,784,105	-	-	25,784,105
Bills discounted and loans	1,108,013,324	-	51,337,539	1,159,350,863
Held-to-maturity financial assets - debt instrument	-	-	3,420,671	3,420,671
Other assets	340,602	-	-	340,602
Subtotal	1,144,318,358	733,045	98,548,903	1,243,600,306
Off-Balance-Sheet Items				
Irrevocable commitments	77,613,244	-	328,366	77,941,610
Guarantees	141,111,675	-	1,549,525	142,661,200
Letters of credit	12,066,916	-	881,317	12,948,233
Subtotal	230,791,835	-	2,759,208	233,551,043
Total	$ 1,375,110,193	$ 733,045	$ 101,308,111	$ 1,477,151,349

Note 1: Collaterals include property, movable property, certification of authorization, securities, certificates of deposits, notes receivable and rights in property.

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

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

Note 2: Details of improvement to net settlement master netting arrangements and other credits are provided in Note 8(3) C. (C) and C. (D).

(B) Transfer of financial assets

a. Transferred financial assets that are not derecognized in their entirety

The Group's transferred financial assets that do not meet derecognition conditions are mainly debt instruments with purchase agreements or equity securities lent out based on security lending agreements. The financial assets have been transferred when collecting the cash flow of the contract, and related liabilities of transferred financial assets that will be repurchased at a fixed price in the future have been reflected. The Group may not use, sell or pledge the transferred financial assets during the valid period of the transaction. The financial assets were not derecognized as the consolidated company is still exposed to interest rate risk and credit risk. Financial assets that do not meet the derecognition conditions and related financial liabilities are analyzed as below:

	December 31, 2016	
Financial assets category	Carrying amount of financial assets transferred	Carrying amount of associated financial liabilities
Bills and bonds purchased under resale agreements Repurchase agreement	$ -	$ -
Financial assets measured at fair value through profit or loss Repurchase agreement	88,313,358	88,328,143
Available-for-sale financial assets, net Repurchase agreement	42,546,689	39,665,854

	December 31, 2015	
Financial assets category	Carrying amount of financial assets transferred	Carrying amount of associated financial liabilities
Bills and bonds purchased under resale agreements Repurchase agreement	$ -	$ -
Financial assets measured at fair value through profit or loss Repurchase agreement	88,307,636	88,327,168
Available-for-sale financial assets, net Repurchase agreement	24,513,817	24,201,197

b. Transferred financial assets that are derecognized in their entirety

The Group does not have any financial asset securitization transaction and do not have any derecognized and transferred financial asset.

(C) Offsetting financial assets and financial liabilities

The Group has financial instruments that meet the offsetting criteria in paragraph 42 of IAS 32, the gross financial liability is set off against the gross financial asset, resulting in the presentation of a net amount presented in the balance sheet.

The Group's financial assets and financial liabilities do not meet the offsetting criteria. However, as net settled master netting arrangements or similar agreements are signed with counterparties, transactions are settled on a net basis after offsetting financial assets with financial liabilities if both parties of the transaction choose to use net settlement; otherwise, transactions are settled on a gross basis. However, if one party breaches the contract, the counterparty can choose to use net settlement.

The offsetting of financial assets and financial liabilities are set as below:

December 31, 2016						
Financial assets that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements						
Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities offset in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative instruments	$ 4,027,464	$ 221	$ 4,027,243	$ 1,252,153	$ 866,726	$ 1,908,364
Financial liabilities that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements						
Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets offset in the balance sheet (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral pledged	
Derivative instruments	$ 3,489,375	$ 221	$ 3,489,154	$ 1,210,607	$ 9,250	$ 2,269,297
Repurchase agreement	1,994,313	-	1,994,313	1,994,313	-	-
Total	$ 5,483,688	$ 221	$ 5,483,467	$ 3,204,920	$ 9,250	$ 2,269,297

December 31, 2015						
Financial assets that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements						
Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities offset in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative instruments	$ 5,239,445	$ 334	$ 5,239,111	$ 733,045	$ 1,441,783	$ 3,064,283
Financial liabilities that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements						
Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets offset in the balance sheet (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral pledged	
Derivative instruments	$ 5,094,722	$ 334	$ 5,094,388	$ 733,045	$ 11,634	$ 4,349,709
Repurchase agreement	267,948	-	267,948	267,948	-	-
Total	$ 5,362,670	$ 334	$ 5,362,336	$ 1,000,993	$ 11,634	$ 4,349,709

Note : Including net settlement master netting arrangements and non-cash collaterals.

E. Credit risk concentration

Extreme credit risk concentration will enhance risk degree, such as large amount of risk exposure concentrated on one credit product, one client, or minor clients, or a group of clients in same industry or with similar business or in same area or with same risk characteristics. When adverse economic changes occur, a financial institution may incur a significant loss.

To avoid extreme credit risk concentration, the Group has regulated credit limit and management rules for single client, single business group and large amount of risk exposure. Subsidiaries have to monitor and control the credit risk concentration within the limit. Status of credit risk concentration must be shown in the regular risk report by industry, area/country, collateral and other forms.

Except for overdue receivables, the property insurance CKI's reinsurance contracts assets that are neither past due nor impaired all have credit ratings ranged between twAA ~ twBBB-, so it expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at the end of the reporting period is the carrying amount of all reinsurance contracts assets.

(A) Loans and credit commitments of the Group are shown below by industry:

		Loans and credit commitments			
		December 31, 2016		December 31, 2015	
		Amount	Percentage (%)	Amount	Percentage (%)
Individuals	Individuals	$ 451,344,091	19.43%	$ 450,277,202	18.86%
Corporation	Government institution	93,173,084	4.01%	92,368,844	3.87%
	Finance, investment and insurance	218,409,633	9.40%	238,891,902	10.00%
	Enterprise and commerce	1,548,718,266	66.66%	1,594,400,017	66.77%
	- Manufacturing	558,688,565	24.05%	585,457,618	24.52%
	- Electricity and gas supply	99,400,752	4.28%	110,502,565	4.63%
	- Wholesale and retail	171,495,535	7.38%	185,979,163	7.79%
	- Transportation and storage	174,256,727	7.50%	182,196,048	7.63%
	- Real estate	330,584,046	14.23%	319,099,221	13.36%
	- Others	214,292,641	9.22%	211,165,402	8.84%
	Others	11,754,768	0.51%	12,084,385	0.50%
	Total	$ 2,323,399,842	100.00%	$ 2,388,022,350	100.00%

(B) Loans and credit commitments of the Group are shown below by location:

	Loans and credit commitments			
	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
ROC	$ 1,806,051,546	77.73%	$ 1,838,497,103	76.99%
Asia	296,208,761	12.75%	329,921,179	13.82%
North America	105,347,987	4.53%	113,011,992	4.73%
Others	115,791,548	4.98%	106,592,076	4.46%
Total	$ 2,323,399,842	100.00%	$ 2,388,022,350	100.00%

(C) Loans and credit commitments of the Group are shown below by collaterals:

	Loans and credit commitments			
	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Unsecured	$ 916,590,277	39.45%	$ 995,120,445	41.67%
Secured				
- Secured by stocks	158,915,232	6.84%	163,934,936	6.86%
- Secured by bonds	56,237,114	2.42%	130,426,209	5.46%
- Secured by real estate	893,363,113	38.45%	851,816,303	35.67%
- Secured by movable property	109,674,057	4.72%	108,735,241	4.55%
- Letter of guarantee	57,288,066	2.47%	54,096,746	2.27%
- Others	131,331,983	5.65%	83,892,470	3.51%
Total	$ 2,323,399,842	100.00%	$ 2,388,022,350	100.00%

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

(A)The Group's financial assets credit quality and analysis of past due and impairment

(Please refer to p.90-91 of the Consolidate Financial Statements.)

(B)The Group's ageing analysis of financial assets that were past due but not impaired

Financial assets might be past due but not impaired due to borrower's processing delay or other administrative reasons. According to subsidiaries' internal management rules for assets assessment, financial assets which are past due within 90 days are not regarded as impaired unless there is objective evidence that the financial assets are impaired. There are very few conditions where financial assets are past due over 90 days but not impaired.

	December 31, 2016				
	Overdue for less than 1 month	Overdue for 1~3 months	Overdue for 3~6 months	Overdue for more than 6 months	Total
Receivables	$ 20,126	$ 8,093	$ 81	$ 308	$ 28,608
Bills discounted and loans					
- Enterprise and commerce	$ 314,767	$ 45,004	$ -	$ -	$ 359,771
- Individuals	1,150,070	771	-	-	1,150,841
Total	$ 1,464,837	$ 45,775	$ -	$ -	$ 1,510,612

	December 31, 2015				
	Overdue for less than 1 month	Overdue for 1~3 months	Overdue for 3~6 months	Overdue for more than 6 months	Total
Receivables	$ 25,074	$ 10,490	$ 588	$ -	$ 36,152
Bills discounted and loans					
- Government	$ 655,052	$ -	$ -	$ -	$ 655,052
- Enterprise and commerce	251,474	92,925	-	-	344,399
- Individuals	1,065,990	11,661	-	-	1,077,651
Total	$ 1,972,516	$ 104,586	$ -	$ -	$ 2,077,102

(C)The Group's provisions for doubtful accounts analysis of impaired loans

	December 31, 2016								
	Loans					Provisions for doubtful accounts			
	Not impaired		Impaired						
	Individual assessment	Group assessment	Individual assessment	Group assessment	Total	Individual assessment	Group assessment	Total	Loans net amount
ROC	$ -	$ 1,261,478,161	$ 10,588,311	$ 728,542	$ 1,272,795,014	$ 2,383,636	$ 17,338,574	$ 19,722,210	$ 1,253,072,805
Asia	-	275,312,574	900,184	8,259	276,221,017	295,756	3,781,923	4,077,679	272,143,338
North America	-	85,663,604	45,974	-	85,709,578	13,276	1,176,723	1,189,999	84,519,579
Others	-	106,139,662	1,093,357	14,370	107,247,389	246,136	1,458,208	1,704,344	105,543,044
Total	$ -	$ 1,728,594,001	$ 12,627,826	$ 751,171	$ 1,741,972,998	$ 2,938,804	$ 23,755,428	$ 26,694,232	$ 1,715,278,766

	December 31, 2015								
	Loans					Provisions for doubtful accounts			
	Not impaired		Impaired						
	Individual assessment	Group assessment	Individual assessment	Group assessment	Total	Individual assessment	Group assessment	Total	Loans net amount
ROC	$ -	$ 1,283,853,287	$ 8,735,573	$ 783,070	$ 1,293,371,930	$ 2,204,145	$ 14,928,530	$ 17,132,675	$ 1,276,239,255
Asia	-	308,581,116	658,159	1,893	309,241,168	209,620	3,623,156	3,832,776	305,408,392
North America	-	92,893,489	436,768	-	93,330,257	110,650	1,087,023	1,197,673	92,132,584
Others	-	100,261,625	529,521	782	100,791,928	138,102	1,165,003	1,303,105	99,488,823
Total	$ -	$ 1,785,589,517	$ 10,360,021	$ 785,745	$ 1,796,735,283	$ 2,662,517	$ 20,803,712	$ 23,466,229	$ 1,773,269,054

G. Foreclosed properties management policy

As of December 31, 2016 and 2015, other assets in the consolidated balance sheet include foreclosed properties' book value of MICB totaling $0. Foreclosed properties consist of both land and buildings. According to the regulations of competent authorities, foreclosed properties of the bank shall be sold within four years.

H. Supplementary information in accordance with "Regulations Governing the Preparation of Financial Reports by Public Banks"

(A) MICB's asset quality of non-performing loans and overdue accounts

Month / Year			December 31, 2016				
Business / Items			Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate banking	Secured loans		$ 653,250	$ 662,796,704	0.10%	$ 9,911,426	1517.25%
	Unsecured loans		741,285	684,542,363	0.11%	11,256,953	1518.57%
Consumer banking	Residential mortgage loans (Note 4)		360,832	301,248,288	0.12%	4,232,784	1173.06%
	Cash card services		-	-	-	-	-
	Small amount of credit loans (Note 5)		453	9,683,356	0.00%	133,531	29477.04%
	Others (Note 6)	Secured loans	93,991	83,537,591	0.11%	1,157,260	1231.25%
		Unsecured loans	553	164,696	0.34%	2,278	411.93%
Gross loan business			$ 1,850,364	$ 1,741,972,998	0.11%	$ 26,694,232	1442.65%
			Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services			$ 8,354	$ 4,431,609	0.19%	$ 47,486	568.42%
Without recourse factoring (Note 7)			$ -	$ 36,988,054	-	$ 555,759	-

Month / Year			December 31, 2015				
Business / Items			Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate banking	Secured loans		$ 473,008	$ 651,622,322	0.07%	$ 8,173,030	1727.88%
	Unsecured loans		629,388	753,801,141	0.08%	10,615,113	1686.58%
Consumer banking	Residential mortgage loans (Note 4)		478,119	296,699,744	0.16%	3,552,218	742.96%
	Cash card services		-	-	-	-	-
	Small amount of credit loans (Note 5)		750	5,477,886	0.01%	64,880	8650.67%
	Others (Note 6)	Secured loans	18,308	88,931,480	0.02%	1,058,568	5782.00%
		Unsecured loans	735	202,710	0.36%	2,420	329.25%
Gross loan business			$ 1,600,308	$ 1,796,735,283	0.09%	$ 23,466,229	1466.36%
			Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services			$ 8,746	$ 4,377,178	0.20%	$ 49,579	566.88%
Without recourse factoring (Note 7)			$ -	$ 37,366,842	-	$ 560,562	-

Note 1: The amount recognized as non-performing loans is in accordance with the "Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The amount included in overdue accounts for credit cards is in accordance with the Banking Bureau (4) Letter No.0944000378 dated July 6, 2005.

Note 2: Non-performing loan ratio=non-performing loans/gross loans. Overdue account ratio for credit cards=overdue accounts/balance of accounts receivable.

Note 3: Coverage ratio for loans=allowance for doubtful accounts of loans/non-performing loans. Coverage ratio for accounts receivable of credit cards=allowance for doubtful accounts for accounts receivable of credit cards/overdue accounts.

Note 4: For residential mortgage loans, the borrower provides his/her (or spouses) house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to a house.

Note 5: Small amount of credit loans apply to the norms of the Banking Bureau (4) Letter No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.

Note 6: Other consumer banking is specified as secured or unsecured consumer loans other than residential mortgage loan, cash card services and small amount of credit loans, and excluding credit card services.

Note 7: Pursuant to the Banking Bureau (5) Letter No. 094000494 dated July 19, 2005, the amount of without recourse factoring will be recognized as overdue accounts within nine-month after the factor or insurance company resolves not to compensate the loss.

(B) Total amount of non-performing loans or overdue receivables exempted from reporting to the competent authority of MICB

	December 31, 2016	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	$ -	$ -
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	377	3,017
Total	$ 377	$ 3,017

	December 31, 2015	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	$ 16	$ -
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	402	3,383
Total	$ 418	$ 3,383

Note 1: The Bank disclosed the total amount of non- performing loans and overdue receivables exempted from reporting to the competent authority as debt negotiation in accordance with the Explanatory Letter Jin-Guan-Yin (1) No. 09510001270 of the FSC dated April 25, 2006.

Note 2: The Bank disclosed the total amount of non- performing loans and overdue receivables exempted from reporting to the competent authority as debt liquidation program and restructuring program in accordance with the Explanatory Letter Jin-Guan-Yin (1) No. 09700318940 of the FSC dated September 15, 2008.

(C)Contract amounts of significant credit risk concentration of MICB

Year	December 31, 2016		
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the current period (%)
1	A Company–Transport via Railways	$ 59,062,727	22.93%
2	B Group –Manufacture of Petroleum and Coal Products	43,746,385	16.98%
3	C Group –Air Transport	21,405,880	8.31%
4	D Group –Other Financial Service Activities Not Elsewhere Classified	20,626,772	8.01%
5	E Group –Rolling and Extruding of Iron and Steel	19,074,465	7.41%
6	F Group –Other Financial Service Activities Not Elsewhere Classified	17,930,597	6.96%
7	G Group –Other Retail Sale in Non-specialized Stores	17,355,326	6.74%
8	H Group –Investment Advisory Services	17,296,179	6.72%
9	I Group –Real Estate Development Activities	15,888,845	6.17%
10	J Group –Ocean Freight Transportation Forwarding Services	15,184,618	5.90%

Year	December 31, 2015		
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the current period (%)
1	A Company–Transport via Railways	$ 64,823,200	25.57%
2	B Group –Manufacture of Petroleum and Coal Products	41,111,940	16.22%
3	C Group –Ocean Transportation	24,892,462	9.82%
4	D Group –Other Financial Service Activities Not Elsewhere Classified	23,417,329	9.24%
5	E Group –Smelting and Refining of Iron and Steel	18,565,116	7.32%
6	F Group –Other Financial Service Activities Not Elsewhere Classified	18,510,217	7.30%
7	G Group –Rolling and Extruding of Iron and Steel	16,456,579	6.49%
8	H Group –Manufacture of Liquid Crystal Panel and Components	15,298,070	6.03%
9	I Group –Other Retail Sale in Non-specialized Stores	15,267,842	6.02%
10	J Group –Real Estate Development Activities	14,143,100	5.58%

Note: (1) Ranking the top ten enterprise groups other than government and government enterprise according to their total amounts of outstanding loans. If an outstanding loan belongs to an enterprise group, the outstanding loan of the enterprise group should be categorized and listed in total, and disclosed by “code” plus “industry type” (for example, company (or group) A – Liquid Crystal Panel and Components Manufacturing). If it is an enterprise group, industry type of maximum exposure of the enterprise group would be disclosed. Industry type should be filled in accordance with “Standard Industrial Classification System” of Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

(2) Definition of enterprise group is based on Article 6 of Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.

(3) Total outstanding loan amount is the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loan, short-term secured loan, margin loans receivable, medium-term unsecured loan, medium-term secured loan, long-term unsecured loan, long-term secured loan and overdue loan), bills purchased, without recourse factoring, acceptance receivable and guarantees.

(D) Supplementary information in accordance with the "Regulations Governing the Procedures for Bills Finance Companies."

(a) The quality of assets

Item	December 31, 2016	December 31, 2015
Guarantees in arrear and guaranteed credits overdue for longer than three months	$ -	$ -
Overdue credits (non-accrual loans are inclusive)	-	-
Loans under surveillance	-	-
Overdue receivables	-	-
Ratio of overdue credits (%)	-	-
Ratio of overdue credits plus ratio of loans under surveillance (%)	-	-
Provision for bad debts and guarantees as required by regulations	2,130,454	2,292,234
Provision for bad debts and guarantees actually reserved	2,255,703	2,324,003

Note: Items follow "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt".

(b) Overview of main business

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

(c) Credit risk concentration

Item	December 31, 2016		December 31, 2015	
Amount of credit extensions to interested parties	$ 97,000		$ 97,000	
Ratio of credit extensions to interested parties (%)(Note 1)	0.07		0.06	
Ratio of credit extensions secured by stocks (%)(Note 2)	17.49		19.00	
Industry concentration (%) (Top 3 industries with highest ratio of credit extension amount) (Note 3)	Industry	Ratio (%)	Industry	Ratio (%)
	Real estate	29.36	Financial & Insurance	30.60
	Financial & Insurance	26.81	Manufacturing	25.42
	Manufacturing	22.03	Real estate	22.75

Note 1: The ratio of credit extensions to interested parties = the amount of credit extensions to interested parties / the total amount of all credit extensions.
Note 2: The ratio of credit extensions secured by stocks = the amount of credit extensions secured by stocks / the total amounts of all credit extensions.
Note 3: Total amount of credit extensions include loans, bills discounted, acceptances receivable, guarantees receivable, and advance accounts for factoring receivable.

(4) Liquidity risk

A. Definition and sources of liquidity risk

The Group defines liquidity risk as the risk of financial loss to the Group arising from default on the payment obligations from financial instruments. For example, the Group may default on payment obligations, such as withdrawals paid to depositors and loans repayment. Or, the Group is unable to obtain funds within a certain period at reasonable cost in response to increased demand for assets.

B. Procedures for liquidity risk management and measurement of liquidity risk

The Group is mainly engaged in industry related to finance. Therefore, the management for capital liquidity is very important to the Group. The objectives for liquidity risk management are to maintain reasonable liquidity based on business development plans, ensure capability of daily payment obligations and meet business growth requirements with adequate high-liquid assets and capability of raising funds from others in case of emergency.

The financial department of the Group is responsible for daily capital liquidity management. According to the limits authorized by the Board of Directors, the Group monitors the indexes of liquidity risk, executes capital procurement trading and reports the conditions of capital liquidity to the management. The Group also reports the liquidity risk control to the capital review committee, risk management committee and Board of Directors regularly, and performs regular liquidity stress-testing to ensure sufficient capital to meet the funding requirements for increase in assets and payment obligations.

The Group daily performs intensive control over capital sources and the period for fund gaps and liquidity risk management. Future cash flows are estimated based on the financial liability contracts due date and expected cash collection date of financial assets. The Group also takes into account the extent of practical utilization of capital in contingent liabilities such as use of loan limits, guarantees and commitments.

Assets to be used to pay obligations and loan commitments include cash, due from Central Bank and call loans to other banks, bank deposits, and collection of loans. The Group can also use repo trade and sale of bonds and bills in response of unexpected cash outflows.

The liquidity management policies of the Group include:

(A) Maintain the ability to perform all payment obligations immediately.

(B) Maintain solid assets/liabilities structure to ensure medium and long-term liquidity safety.

(C) Diversify capital sources and absorb stable core depositors to avoid depending on certain large-sum depositors or minor borrowers.

(D) Avoid potential unknown loss risk which will increase capital cost and capital procurement pressure.

(E) Conduct due date management to ensure that cash inflow is greater than cash outflow in short term.

(F) Keep liquidity ratio regulated by the supervision authority.

(G) Keep legal ratio for high-quality, high-liquidity assets.

(H) Awareness of the liquidity, safety and diversity of financial instruments.

(I) The Group has capital emergency plans, which are reviewed regularly.

(J) The overseas branches of the Group must comply with the regulations of ROC and the local supervisory authorities. They may be penalized for violation of these regulations.

C. Financial assets and financial liabilities held for liquidity risk management maturity analysis

The table below lists analysis for cash inflow and outflow of the non-derivative and derivative financial assets and liabilities held by the Group for liquidity risk management of primary currency based on the remaining period at the financial reporting date to the contractual maturity date.

(A) The Group's maturity analysis for non-derivative liabilities (Please refer to p.101-102 of the Consolidated Financial Statements.)

(B) Structure analysis for maturity of derivative financial assets and liabilities (settled by gross amount)

The Group's derivatives cleared and settled by gross amount include:

a. Foreign exchange derivatives: foreign exchange forward contracts.

b. Interest derivatives: foreign exchange and interest rate swaps, currency swaps.

(Please refer to p.103 of the Consolidated Financial Statements.)

(C)Structure analysis for maturity of derivative financial assets and liabilities (settled by net amount)

The Group derivatives cleared and settled by net amount include:

a. Foreign exchange derivatives: foreign exchange options, non-delivery foreign exchange forwards.

b. Interest derivatives: forward rate agreements, interest rate swaps, asset swaps, interest rate options, bond options, interest rate futures.

c. Credit derivatives: credit default swaps (CDS).

d. Equity derivatives: stock options.

e. Others : combined commodity.

(Please refer to p.104-105 of the Consolidated Financial Statements.)

(D) Analysis for maturity leasing contractual commitments (Please refer to p.105 of the Consolidated Financial Statements.)

D. Disclosure requirements in the "Regulations Governing the Preparation of Financial Reports by Public Banks"

(A) Maturity analysis of NTD of subsidiary-MICB (Please refer to p.106 of the Consolidated Financial Statements)

(B) Maturity analysis of USD of subsidiary-MICB

(Please refer to p.106 of the Consolidated Financial Statements)

(C) Maturity analysis of USD of MICB's-overseas branches

(Please refer to p.107 of the Consolidated Financial Statements)

E. Disclosure requirements in the “Regulations Governing the Procedures for Bills Finance Companies.”

(Please refer to p.107 of the Consolidated Financial Statements)

(5) Market risk

A. Definition of market risk

The Group has market risk on changes in fair value and estimated cash flows of financial instruments arising from fluctuations in interest rate, foreign exchange rate, credit spread, stock price, bond price and financial product price. Trading book and non-trading book both generate market risk.

The Group’s trading book operation is mainly for the requirement of its own trading or for supporting clients’ investment and hedge, which are accounted for interest rate, foreign exchange rate, equity and credit instruments, including positions of derivative and non-derivative instruments. Non-trading book operation is mainly for assets/liabilities management requirement, such as stock, bond and bill investments.

B. Objective of market risk management

The objective of the Group’s market risk management is to confine the risks to the tolerable scopes to avoid the impact of fluctuations of interest rate, foreign exchange rate and financial instrument price on values of future profit and assets/liabilities.

C. Market risk management policies and procedures

The Board of Directors decided the risk tolerant limits and then allocates position limits, Value-at-Risk limits, sensitivity limits, loss limits to each business unit and product line based on budgets and utilization of capital. Market risk management comprises trading book control and non-trading book control. Trading book operation mainly pertains to the positions held by bills and securities firms due to market making. Policies for financial instrument trading of bank are based on back-to-back operation principle. Non-trading book is based on held-to-maturity principle and adopts hedging measures.

D. Procedures for market risk management

Each entity of the Group manages finance independently. Each subsidiary has set organization structure and rules on market risk management based on the Company’s guiding principle and each subsidiary’s own business nature. The Board of Directors is the highest decision unit for market risk tolerant limits and authorizes certain committee/management to be in charge of obeying the policies and put into operation. The certain committee/management sets trading strategies within total risk limits, trading scopes and limits of money market, capital market, foreign exchange market and derivatives and sets business goals based on business policies, domestic and foreign economic situations, future market interest rates, foreign exchange rates and prices trends. The management monitors the positions of bills and bonds, stocks and derivatives, VaR, sensitivity limits and loss limits, performs sensitivity analysis and valuation test, gives reports to the Risk Management Committee and Board of Directors regularly about the risk management operations and daily reports the financial positions to the Finance Control Department. The Risk Management Department of the Company reviews market risk management operations of subsidiaries regularly.

E. Methods of risk measurement (market risk valuation technique)

Each business unit is responsible for identifying the risk factors of each product and the Risk Management Department is responsible for verification of those factors. The Group adopts sensitivity analysis (PV01、Delta、Vega、Gamma) and VaR method to measure market risk and conducts stress test monthly.

The Company with subsidiaries-MIBC, MS, MB and CKI adopt VaR models to assess the risk of investment portfolios (including financial assets and liabilities designated at fair value through profit or loss) and assess the market risk of holding positions based on the assumptions of several changes in market conditions and maximum expected loss.

Value at risk estimates possible losses of the existing positions resulted from the unfavorable market changes based on statistical method. Subsidiaries calculate their tolerable “Maximum potential loss” by using 99% confidence interval; therefore, there is still 1% probability that actual loss might be greater than VaR estimation. Assuming the least holding duration is ten days, they assess the VaR of their own positions through historical simulation method and based on the fluctuations in foreign exchange rates, interest rates, prices or indexes for the past one year. The actual calculation results are used to monitor and test regularly the accuracy of parameters and assumptions used in the calculation. The evaluation method above cannot prevent the losses caused by excessive market fluctuations.

The Group currently monitors market risk using sensitivity analysis.

F. Policies and procedures of trading-book risk management

Subsidiaries daily monitor trading-book positions, changes in risk exposures, and various risk limits, including trading rooms, traders and product line risk limits.

If trading-book financial instruments have market price, the valuation of those instruments is conducted at least one time daily using the independent source and available information. If using model valuation, the assumptions and parameters used in the model are reviewed regularly.

Risk measurement methods include VaR and sensitivity analysis.

The Group conducts stress test on the positions of its interest rate, stock and foreign exchange rate products on the assumptions of the monthly change in interest rate, securities market index and foreign exchange rate by 1%, 15% and 3%, respectively, and reports to the risk control meeting.

G. Trading-book interest rate risk management

Trading-book interest rate risk refers to the financial loss of the decline in values of interest rate products held due to unfavorable changes in interest rates, including securities and derivatives with interest.

The trading group screens the credits and financial positions of issuers and selects investment objectives by judging interest rate trend and a variety of country risks and based on the authorized minimum investment criteria. Subsidiaries set trading-book trading limits and stop-loss limits (including trading rooms, traders, trading products, and counterparties, daily and overnight limits) based on business strategies and market conditions, and measure monthly the extent of impact of interest rate risk on investment portfolios using DV01 value.

H. Non-trading-book interest rate risk management

Non-trading book interest rate risk mainly comes from the unmatched maturity dates of assets and liabilities or price resetting dates, and inconsistent changes in base interest rates for assets and liabilities. The Group's interest rate risk mainly comes from the unmatched periods of interest-rate sensitive assets and liabilities of bank subsidiaries.

As the Group has interest-rate sensitive gaps, market interest rate fluctuations have good or bad impacts on the Group's earnings and cash flows.

The Group manages non-trading book interest rate risk by using reprising gap analysis. The interest-rate reprising gap analysis is to estimate the difference between the assets and liabilities with interest bearing that are to be due near or reprised within a certain period and measure the impact of interest rate change on net interest revenue. The analysis assumes assets and liabilities structure remain unchanged and there are parallel movements of interest rate curves, and excludes the customer behavior, basis risk, option characteristics of early repayment of bonds. The Group calculates the change in net interest revenue for this year and also monitors the percentage of change in net interest revenue to the projection of net interest revenue for this year.

The Group monthly analyzes and monitors interest rate risk positions limits and various interest rate risk management indexes. If any risk management index exceeds limit, the Group will adopt responding measures and report the analysis and monitoring results to the Risk Management Committee.

I. Foreign exchange risk management

Foreign exchange risk refers to the losses caused by the exchange of two different currencies at different times. The Group's foreign exchange risk mainly comes from its derivative instruments business such as spot foreign exchange, forward foreign exchange and foreign exchange options. The foreign exchange trading of the bank subsidiaries is mainly for offsetting customers' positions on the same day; therefore, foreign exchange risk is relatively low.

To control trading-book foreign exchange risk, subsidiaries have set trading limits and stop-loss limits for trading rooms and traders and also set the annual maximum loss limits to control the losses within the tolerable scopes.

J. The Group's foreign exchange risk gaps

	December 31, 2016		
	USD	AUD	RMB
Assets			
Cash and cash equivalents	$ 51,951,026	$ 360,570	$ 10,947,379
Due from the Central Bank and call loans to banks	424,434,194	756,861	13,878,642
Financial assets at fair value through profit or loss	37,947,334	2,240,329	462,933
Available-for-sale financial assets	92,221,128	49,517,023	15,240,350
Receivables	33,556,696	5,151,369	1,318,895
Bills discounted and loans	485,835,591	40,866,161	12,683,762
Reinsurance contract asset	144,715	-	-
Held-to-maturity financial assets	22,064,690	1,527,971	4,109,819
Equity investments accounted for under the equity method	122,687	-	-
Other financial assets	384,023	28	103,704
Property and equipment	243,287	26,903	10,835
Intangible assets	2,904	-	8,537
Deferred income tax assets	308,152	-	2,215
Other assets	162,281	5,229	59,187
Total assets	$ 1,149,378,708	$ 100,452,444	$ 58,826,258
Liabilities			
Due to the Central Bank and financial institutions	$ 321,370,945	$ 3,462,822	$ 5,652,241
Funds borrowed from the Central Bank and other banks	39,974,427	-	-
Financial liabilities at fair value through profit or loss	10,363,477	13,022	428
Bills and bonds sold under repurchased agreements	39,040,808	-	159,987
Payables	13,976,999	242,784	788,147
Deposits and remittances	776,913,967	29,935,501	82,258,183
Other loans	161,030	-	-
Provisions for liabilities	533,595	14,721	-
Other financial liabilities	4,082,887	776,374	1,442,173
Deferred income tax liabilities	8,822	-	3,712
Other liabilities	1,993,135	434,301	(47,372)
Total liabilities	$ 1,208,420,092	$ 34,879,525	$ 90,257,499
On-balance sheet foreign exchange gap	($ 59,041,384)	$ 65,572,919	($ 31,431,241)
Off-balance sheet commitments	$ 75,718,179	$ 1,400,585	$ 2,278,564

	December 31, 2015		
	USD	AUD	RMB
Assets			
Cash and cash equivalents	$ 106,687,271	$ 461,881	$ 22,555,839
Due from the Central Bank and call loans to banks	395,731,182	466,070	12,389,212
Financial assets at fair value through profit or loss	37,988,535	2,306,919	1,245,973
Available-for-sale financial assets	56,956,388	43,187,174	29,883,571
Receivables	49,431,158	4,108,989	60,915,580
Current income tax assets	39,796	74,482	109,814
Bills discounted and loans	557,267,013	37,097,367	10,107,113
Reinsurance contract asset	164,092	-	-
Held-to-maturity financial assets	17,282,670	1,594,793	3,761,025
Equity investments accounted for under the equity method	124,470	-	-
Other financial assets	495,372	65	286,045
Property and equipment	282,094	30,264	19,498
Intangible assets	3,010	-	8,886
Deferred income tax assets	285,101	-	3,022
Other assets	14,363,795	9,512,756	14,170,804
Total assets	$ 1,237,101,947	$ 98,840,760	$ 155,456,382
Liabilities			
Due to the Central Bank and financial institutions	$ 358,437,329	$ 4,264,077	$ 13,516,750
Funds borrowed from the Central Bank and other banks	45,459,094	-	-
Financial liabilities at fair value through profit or loss	20,615,541	27,140	242
Bills and bonds sold under repurchased agreements	9,761,109	-	547,559
Payables	16,484,240	163,361	1,130,218
Current income tax liabilities	211,316	42,631	29,845
Deposits and remittances	807,812,448	32,311,316	104,223,969
Provisions for liabilities	516,337	15,724	-
Other financial liabilities	3,932,452	664,798	1,309,847
Deferred income tax liabilities	305	-	4,049
Other liabilities	4,765,786	443,194	848,549
Total liabilities	$ 1,267,995,957	$ 37,932,241	$ 121,611,028
On-balance sheet foreign exchange gap	($ 30,894,010)	$ 60,908,519	$ 33,845,354
Off-balance sheet commitments	$ 68,973,213	$ 1,342,322	$ 2,168,428

K. Equity securities risk management

(A) The market risk of the equity securities held by the Group include individual risks incident to market price fluctuations of individual equity securities and general market risks incident to the overall market price fluctuations.

(B) The Group's risk management for equity securities is primarily categorized into positions held for short-term selling to earn capital gains, positions primarily held for earning dividends, or positions primarily held for capital gains arising from stock prices that reflect good industry prospects or an increase in long-term profitability. The Group's trading strategy sets the annual loss limits of the annual risk management objective as the scope for tolerable risk.

(C) Related control measures include: daily market price valuation to control loss limits, monthly stress-testing to calculate possible losses on the Group's investment portfolios, measurement of the extent of the impact of systematic risk on investment portfolios using β value, and reporting to the Risk Management Committee quarterly.

L. Sensitivity Analysis

Sensitivity analysis of the Group's financial instruments (including trading book and non-trading book):

The following table indicates measurement positions of the Group's financial products on the report date that impact profit or loss when such positions experience a movement in value incident to relative market risk factors experiencing a movement by 1 unit. A 1 unit movement in a market risk factor refers to a 1bp (basis point) increase or decrease in the yield curve, 1% increase or decrease in the weighted stock index, or 1% appreciation or depreciation for foreign currency exchanges in New Taiwan Dollars. Foreign exchange risk is the Group's net position less equity investments of overseas subsidiaries plus the current year earnings test of overseas branches (subsidiaries). Interest rate risk is the positions of bond products, interest rate swaps, bond options and other interest rate derivatives, not including the PV01 tests of deposits and loans. Equity securities risk is the variation testing of the β value of purchased stocks, convertible bonds and the portfolio of subsidiary issued stock warrants in respect to the weighted stock index.

December 31, 2016 UNIT：In thousands of NT Dollars, %

Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%	($ 48,588)	($ 23,384)
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	48,588	23,384
Interest rate risk (not including deposits and loans)	Major increases in interest rates 1BP	(39,780)	(77,221)
Interest rate risk (not including deposits and loans)	Major decline in interest rates 1BP	46,240	89,141
Equity securities risk	TAIEX declined by 1%	(34,141)	(87,844)
Equity securities risk	TAIEX increased by 1%	30,560	82,637

December 31, 2015 UNIT：In thousands of NT Dollars, %

Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%	($ 211,311)	($ 2,295)
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	211,311	2,295
Interest rate risk (not including deposits and loans)	Major increases in interest rates 1BP	(16,155)	(68,851)
Interest rate risk (not including deposits and loans)	Major decline in interest rates 1BP	16,155	68,851
Equity securities risk	TAIEX declined by 1%	(27,537)	(82,555)
Equity securities risk	TAIEX increased by 1%	27,537	82,555

M. Value at Risk analysis of the Group's financial instruments

The following table indicates measurement positions of the Group's financial products on the report date, the maximum potential loss under a 99% confidence interval.

December 31, 2016

Value at risk of primary market	Average	Maximum	Minimum
Value at risk of equity securities	$ 242,550	$ 284,000	$ 201,100
Value at risk of interest products	1,098,000	1,396,000	800,000
Value at risk of foreign exchange products	164,500	169,000	160,000
Value at risk of credit products	232,650	258,000	207,300
Total VaR	$ 1,737,700	$ 2,107,000	$ 1,368,400

December 31, 2015

Value at risk of primary market	Average	Maximum	Minimum
Value at risk of equity securities	$ 343,500	$ 386,000	$ 301,000
Value at risk of interest products	973,500	1,175,000	772,000
Value at risk of foreign exchange products	289,500	298,000	281,000
Value at risk of credit products	238,500	276,000	201,000
Total VaR	$ 1,845,000	$ 2,135,000	$ 1,555,000

N. Disclosure requirements in the "Regulations Governing the Preparation of Financial Reports by Public Banks"

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)

December 31, 2016

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 481,743,022	$ 853,830,915	$ 61,943,233	$ 65,793,060	$ 1,463,310,230
Interest rate sensitive liabilities	441,612,902	647,580,419	92,376,140	36,414,974	1,217,984,435
Interest rate sensitive gap	$ 40,130,120	$ 206,250,496	($ 30,432,907)	($ 29,378,086)	$ 245,325,795
Net worth					$ 248,401,446
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					120.14%
Ratio of interest rate sensitivity gap to net worth					98.76%

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)

December 31, 2015

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 516,266,779	$ 828,046,861	$ 7,364,395	$ 44,195,492	$ 1,395,873,527
Interest rate sensitive liabilities	474,574,216	616,401,650	88,037,742	44,684,635	1,223,698,243
Interest rate sensitive gap	$ 41,692,563	$ 211,645,211	($ 80,673,347)	($ 489,143)	$ 172,175,284
Net worth					$ 239,592,215
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					114.07%
Ratio of interest rate sensitivity gap to net worth					71.86%

Notes: 1. The above amounts included only New Taiwan dollar amounts by the onshore branches of the Company (i.e. excluding foreign currency).

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

3. Interest rate sensitivity gap = Interest rate sensitive assets – Interest rate sensitive liabilities

4. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in New Taiwan dollars)

Interest rate sensitivity analysis on assets and liabilities (US Dollars)

December 31, 2016 UNIT：In thousands of US Dollars, %

Item	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 31,753,246	$ 917,397	$ 448,358	$ 347,507	$ 33,466,508
Interest rate sensitive liabilities	32,214,405	1,506,710	1,201,384	-	34,922,499
Interest rate sensitive gap	($ 461,159)	$ 589,313	($ 753,026)	$ 347,507	($ 1,455,991)
Net worth					$ 389,768
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					95.83%
Ratio of interest rate sensitivity gap to net worth					(373.55%)

Interest rate sensitivity analysis on assets and liabilities (US Dollars)

December 31, 2015 UNIT : In thousands of US Dollars, %

Item	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 32,285,909	$ 1,802,050	$ 393,155	$ 366,323	$ 34,847,437
Interest rate sensitive liabilities	33,693,738	1,497,285	1,141,957	535,953	36,868,933
Interest rate sensitive gap	($ 1,407,829)	$ 304,765	($ 748,802)	($ 169,630)	($ 2,021,496)
Net worth					$ 544,916
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					94.52%
Ratio of interest rate sensitivity gap to net worth					(370.97%)

Notes: 1. The above amounts included only US dollars denominated assets and liabilities of head office, domestic and foreign branches, and the OBU branch, contingent assets and liabilities are excluded.
2. Interest rate sensitivity gap = Interest rate sensitive assets – Interest rate sensitive liabilities.
3. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in US dollars).

O. Disclosure requirements in the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”

(A) The information of interest rate sensitivity

Interest rate sensitivity analysis on assets and liabilities of MBF

December 31, 2016

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

December 31, 2015

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

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

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

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

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

	For the year ended December 31, 2016	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	$ 895,741	0.30
Financial assets at fair value through profit or loss	124,034,245	0.94
Bills and bonds purchased under resale agreements	880,683	0.36
Available-for-sale financial assets	122,382,562	1.74
Held-to-maturity financial assets	395,082	2.06
Liabilities		
Interbank call loans and overdrafts	23,405,510	0.41
Bonds and bills sold under repurchase agreements	193,977,205	0.41

	For the year ended December 31, 2015	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	$ 899,501	0.50
Financial assets at fair value through profit or loss	113,448,200	1.08
Bills and bonds purchased under resale agreements	2,855,538	0.56
Available-for-sale financial assets	88,626,072	1.74
Held-to-maturity financial assets	607,534	2.06
Liabilities		
Interbank call loans and overdrafts	22,314,315	0.45
Bonds and bills sold under repurchase agreements	154,021,273	0.52

Note: Cash and cash equivalents comprise restricted assets-certificate of deposit.

9. Insurance risk management

In order to effectively recognize, measure and monitor the risks the subsidiary is exposed to and ensure that the risks are within a coverable range, to balance risks and rewards reasonably, to maximize the value of equity and to maintain the adequacy of self-owned capital and repayment ability to secure the company's operation, the subsidiary established a risk management committee under the Board of Directors and a risk control department independent from business units as well as risk control policy and procedures. Insurance risks and financial risks will be explained below.

(1) Insurance risk, measurement and corresponding risk management

Insurance risks are the risks to overpay expected claims due to insufficient estimate of the frequency, degree of impact and uncertainty of time of the insured incidents, and such uncertain elements including natural disaster, catastrophe risks, legal changes and litigation, which might occur randomly. The subsidiary primarily covers automobile insurance, fire insurance, accident insurance and flood insurance, and the risk management methods are stated as follows:

A. Automobile insurance

The automobile insurance mainly covers automobile insurance businesses, and the risks primarily resulting from accident losses due to the behavior of the insured; therefore, the subsidiary selects clients of good quality through careful underwriting standards and practice, the amount of each policy is small and covered insurance is spread all over the country; the insurance is not concentrated on a specific location or on people of certain age group or occupation. However, the accumulative risks as a whole are still large, the subsidiary signs reinsurance contracts for automobile insurance when claims of various insurance exceed retention amount.

B. Fire insurance

The fire insurance mainly covers commercial fire insurance businesses, and the targets include manufacturing factories, losses due to machines and operation interruption. The insurance primarily covers fire or explosion resulting from machine abandonment, machine damage or human behavior, and risks concentrate on industrial parks, and petrochemical or heavy industries. Also, the insurance additionally covers typhoon, flood and earthquake, which elevates the overall degree of risks covered; therefore, the subsidiary excludes high risk clients through strict underwriting policy. The subsidiary disperses risks through fire reinsurance contract, over-insurance per risk unit reinsurance contract, over-insurance for catastrophe losses reinsurance contract or coinsurance. Also, the subsidiary assesses the relation between the scope of insurance cases and premium consideration; those with lower risks are self-retained, and facultative reinsurance arrangement will be adopted for the rest.

C. Accident insurance

The accident insurance mainly covers engineering insurance businesses, targeting non-renewal contracts, including contractor's all risk insurance, installation all risk insurance and carrying forward various all risk insurance, including risks resulting from typhoons (due to Taiwan's geographic location), floods and earthquakes. The subsidiary disperses risks through reinsurance contract and coinsurance with the Engineering Insurance Association; if the subsidiary is unable to disperse risks through the abovementioned methods, the relations between actual risk and premium consideration is considered, and those with lower risks are self-retained, while facultative reinsurance arrangement are adopted for the rest. Also, the subsidiary examines business performance and accumulated value of natural disasters; observes if there is any abnormal situation from loss rates and performance results for the insurer as reference. The maximum self-retention amount is revised each year after assessing market situation, business characteristics and previous year's performance result. For large and concentrated losses from natural disasters such as typhoons or earthquakes, foreign department will transfer self-retained risk above certain amount to be covered by reinsurers, and control risk through setting claim limit of self-retained risks.

D. Marine insurance

Marine insurance includes cargo transportation, hull insurance and fishing vessel insurance, primarily covering risks resulting from hull or cargo damage from accidents, which does not generate risk concentration problems. However, the accumulative risks as a whole are still large, the subsidiary selects quality businesses through strict underwriting policy and makes facultative reinsurance arrangement when claims of various insurance exceed retention amount based on insurance types and targets, e.g. hull insurance contracts. For cargo transportation insurance, the subsidiary disperses risks through surplus reinsurance contract and quota share reinsurance. When there are businesses that cannot be covered by reinsurance contracts or special risks, facultative reinsurance arrangement or coinsurance are adopted.

(2) Insurance risk concentration

The over concentration of risks in locations and industries arising from CKI underwriting fire insurance and engineering insurance policies is primarily dispersed through reinsurance ceding. As of December 31, 2016 and 2015, the over concentration of insurance risk is displayed respectively as follows through CKI's fire insurance's and engineering insurance's premium income and self-retained premium:

Type	For the year ended December 31, 2016		For the year ended December 31, 2015	
	Premium Income	Self-retained Premium	Premium Income	Self-retained Premium
Earthquake insurance	$ 688,032	$ 164,997	$ 654,717	$ 201,920
Fire insurance	641,659	263,291	619,798	320,818
Engineering insurance	176,622	78,154	205,840	91,813

(3) Sensitivity analysis of insurance risk

CKI assesses claim reserves through the loss development model and the estimated loss rate for various insurance types. Due to elements of uncertainty, including changes in the environment (e.g. changes in regulations or legal rulings), changes in trends or payment methods, which may change the loss development model and the estimated loss rate, affecting the estimation of claim reserves, thus CKI's sensitivity test on the estimated loss rate for December 31, 2016 and 2015 is respectively as follows:

Type	December 31, 2016		December 31, 2015	
	Final loss rate increases 5%		Final loss rate increases 5%	
	Total increase of claim reserves held before reinsurance	Net increase of claim reserves held after reinsurance	Total decrease of claim reserves held before reinsurance	Net decrease of claim reserves held after reinsurance
Fire Insurance	$ 49,033	$ 16,235	$ 50,027	$ 18,920
Marine Insurance	31,548	9,212	34,713	9,074
Automobile Insurance	158,788	122,670	143,130	111,979
Accident Insurance	89,359	34,230	89,370	35,780
Injury Insurance	17,669	13,094	19,653	35,780
Offshore Branches	4,980	4,974	7,732	7,702

Sensitivity testing calculates the impact a 5% increase in the final loss rate has on the Company's profit or loss based on the retained earned premium within 1 year as of the financial report's year-end date. If the movement of the final loss rate is inversely, the above-mentioned claims reserve held is also inversed.

(4) As of December 31, 2016 and 2015, the subsidiary-CKI's claim development trend is as follows:

A. Accumulative claim amounts (Before reinsurance ceding)

December 31, 2016											
Year of Accident	2011.12.31	2012.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31	Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
2011 and before	22,285,223	22,289,718	22,155,918	22,026,507	21,990,324	21,930,229	21,930,229	21,746,388	183,841		
2012		2,281,266	2,591,799	2,512,009	2,479,720	2,485,318	2,485,318	2,364,252	121,066		
2013			1,973,722	2,347,007	2,296,331	2,290,391	2,290,391	2,098,585	191,806		
2014				2,404,641	2,535,901	2,514,147	2,514,147	2,363,246	150,901		
2015					2,714,989	2,889,178	2,889,178	2,562,105	327,073		
2016						4,145,650	4,145,650	1,886,190	2,259,460		
Total							36,254,913	33,020,766	3,234,147	1,185,310	4,419,457

December 31, 2015										
Year of Accident	2011.12.31	2012.12.31	2013.12.31	2014.12.31	2015.12.31	Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
2011 and before	22,285,223	22,289,718	22,155,918	22,026,507	21,990,324	21,990,324	21,569,417	420,907		
2012		2,281,266	2,591,799	2,512,009	2,479,720	2,479,720	2,330,726	148,994		
2013			1,973,722	2,347,007	2,296,331	2,296,331	2,061,927	234,404		
2014				2,404,641	2,535,901	2,535,901	2,174,194	361,707		
2015					2,714,989	2,714,989	1,821,167	893,822		
Total						32,017,265	29,957,431	2,059,834	966,689	3,026,523

Note: Claim reserves for credit insurance, nuclear energy insurance, government sponsored earthquake insurance and health insurance are provided in accordance with related regulations; therefore, the loss development triangle of direct businesses does not include the abovementioned insurance types. Claim reserves on account are estimated based on current available data; however, the final result might differ from initial estimation value due to subsequent developments.

B. Accumulative claim amounts (After reinsurance ceding)

December 31, 2016											
	Day of evaluation										
Year of Accident	2011.12.31	2012.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31	Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
2011 and before	14,058,029	14,468,291	14,471,511	14,375,805	14,371,532	14,366,659	14,366,659	14,270,789	95,870		
2012		1,346,822	1,664,766	1,682,419	1,673,841	1,676,737	1,676,737	1,615,364	61,373		
2013			1,322,491	1,654,907	1,679,800	1,685,737	1,685,737	1,555,357	130,380		
2014				1,411,247	1,634,777	1,673,889	1,673,889	1,563,644	110,245		
2015					1,487,394	1,728,447	1,728,447	1,521,826	206,621		
2016						1,971,815	1,971,815	1,138,327	833,488		
Total							23,103,284	21,665,307	1,437,977	581,407	2,019,384

December 31, 2015										
Year of Accident	2011.12.31	2012.12.31	2013.12.31	2014.12.31	2015.12.31	Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
2011 and before	14,058,029	14,468,291	14,471,512	14,375,805	14,371,532	14,371,532	14,229,666	141,866		
2012		1,346,822	1,664,766	1,682,419	1,673,841	1,673,841	1,601,620	72,221		
2013			1,322,491	1,654,907	1,679,800	1,679,800	1,516,848	162,952		
2014				1,411,247	1,634,777	1,634,777	1,448,676	186,101		
2015					1,487,394	1,487,394	956,570	530,824		
Total						20,847,344	19,753,380	1,093,964	591,464	1,685,428

Note: Claim reserves for credit insurance, nuclear energy insurance, government sponsored earthquake insurance and health insurance are provided in accordance with related regulations; therefore, the loss development triangle of direct businesses does not include the abovementioned insurance types. Claim reserves on account are estimated based on current available data; however, the final result might differ from initial estimation value due to subsequent developments.

(5) Credit risk, liquidity risk and market risk of insurance contracts

A. Credit risk

Credit risk mainly comes from the condition when the reinsurers of the Group's reinsurance business fail to fulfill their obligations and thus premiums, claims or other expenses may not be recovered from reinsurers. To control this risk, subsidiaries would consider diversifying reinsurers to eliminate credit risk concentration and would carefully select reinsurers according to the Group's reinsurance risk management policy. The reinsurance contracts would require using net payment way to pay reinsurance premiums, which have excluded receivables or recoverable amounts, to mitigate credit risk.

After the reinsurance business was classified, subsidiaries review the credit rating of reinsurers regularly according to the reinsurance risk management policy. If the credit rating of reinsurer is downgraded and this reinsurance has met the criteria of not qualifying for reinsurance as specified in the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms", subsidiaries shall disclose the amount of reserve for unqualified reinsurance according to relevant regulations.

B. Liquidity risk

Liquidity risk of insurance contract occurs when the Group is unable to realize assets immediately or acquires adequate capital and thus it fails to fulfill payment obligations for insurance. To control this risk, subsidiaries conduct maturity analysis of insurance contracts regularly and examine the matching of assets and liabilities. Future actual payment amounts will differ by the difference between actual experience and expected experience.

	December 31, 2016	December 31, 2015
Below 1 year	$ 4,225,529	$ 2,786,092
From 1 year to 5 year	193,928	240,431
Total	$ 4,419,457	$ 3,026,523

C. Market risk

Subsidiaries provide reserve for each type of insurance liability in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" and relevant laws. Except for the reserve for unearned premiums for long-term fire insurance that is provided based on the insurance reserve provision coefficient table published by the competent authority, other reserves are provided without discounting, which are therefore not affected by market interest rate fluctuations.

(6) Disclosures in "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises"

A. Details of calculation of gross premiums are as follows:

	For the year ended December 31, 2016			
Type	Premium income (1)	Reinsurance premium (2)	Reinsurance premiums ceded (3)	Retained insurance premiums(4)=(1)+(2)-(3)
Compulsory insurance	$ 419,171	$ 166,061	$ 176,204	$ 409,028
Non-compulsory insurance	5,995,395	423,844	2,839,812	3,579,427
Total	$ 6,414,566	$ 589,905	$ 3,016,016	$ 3,988,455

	For the year ended December 31, 2016	
Type	Net change in reserve for unearned premiums (5)	Gross premiums (6)=(4)+(5)
Compulsory insurance	($ 5,413)	$ 403,615
Non-compulsory insurance	25,258	3,604,685
Total	$ 19,845	$ 4,008,300

	For the year ended December 31, 2015			
Type	Premium income (1)	Reinsurance premium (2)	Reinsurance premiums ceded (3)	Retained insurance premiums(4)=(1)+(2)-(3)
Compulsory insurance	$ 407,763	$ 157,343	$ 170,985	$ 394,121
Non-compulsory insurance	5,797,206	531,377	2,741,175	3,587,408
Total	$ 6,204,969	$ 688,720	$ 2,912,160	$ 3,981,529

	For the year ended December 31, 2015	
Type	Net change in reserve for unearned premiums (5)	Gross premiums (6)=(4)+(5)
Compulsory insurance	$ 1,136	$ 395,257
Non-compulsory insurance	(37,936)	3,549,472
Total	($ 36,800)	$ 3,944,729

The subsidiaries had no premium income from compulsory insurance in Guam and $761,601 and $731,287 from non-compulsory insurance for the years ended December 31, 2016 and 2015, respectively.

B. Details of calculation of net claims are as follows:

Type	For the year ended December 31, 2016 Claims incurred (1)	Reinsurance claims incurred (2)	Claims recovered from reinsurers (3)	Net claims(4)=(1)+(2)-(3)
Compulsory insurance	$ 327,218	$ 109,193	$ 168,467	$ 267,944
Non-compulsory insurance	3,083,778	275,486	1,358,132	2,001,132
Total	$ 3,410,996	$ 384,679	$ 1,526,599	$ 2,269,076

Type	For the year ended December 31, 2015 Claims incurred (1)	Reinsurance claims incurred (2)	Claims recovered from reinsurers (3)	Net claims(4)=(1)+(2)-(3)
Compulsory insurance	$ 335,009	$ 102,378	$ 141,833	$ 295,554
Non-compulsory insurance	2,826,741	328,171	1,397,352	1,757,560
Total	$ 3,161,750	$ 430,549	$ 1,539,185	$ 2,053,114

C. Details of assets and liabilities for compulsory automobile liability insurance are as follows:

	December 31, 2016	December 31, 2015
Assets		
Cash and bank deposits	$ 548,076	$ 522,565
Premiums receivable	5,250	12,412
Claims recoverable from Reinsurers	20,006	23,988
Due from reinsurers and ceding companies	27,239	24,615
Ceded unearned premium reserve	96,485	93,023
Ceded claims reserve	148,832	117,801
Temporary payments	2,218	51
Total	$ 848,106	$ 794,455
Liabilities		
Due to reinsurers and ceding companies	$ 30,359	$ 29,532
Unearned premium reserve	254,780	245,905
Reserve for outstanding losses	384,486	350,060
Reserve for catastrophic losses	177,357	168,748
Temporary receipts	553	210
Other liabilities	571	-
Total	$ 848,106	$ 794,455

D. Details of costs and revenues relating to compulsory automobile liability insurance:

	For the years ended December 31, 2016	2015
Operating revenues		
Direct written premiums	$ 293,637	$ 284,012
Reinsurance premiums	166,061	157,343
Less: reinsurance premiums ceded	(176,204)	(170,985)
net change in reserve for unearned premiums	(5,413)	1,136
Net premiums written	278,081	271,506
Interest income	1,868	2,335
Total	$ 279,949	$ 273,841

	For the years ended December 31,	
	2016	2015
Operating costs		
Claims incurred	$ 327,218	$ 335,009
Reinsurance Claims incurred	109,193	102,378
Less: claims recovered from reinsurers	(168,467)	(141,833)
Net claims	267,944	295,554
Net change in reserve for claims	3,396	(15,837)
Net change in special reserve	8,609	(5,876)
Total	$ 279,949	$ 273,841

E. Net premiums

For the years ended December 31, 2016 and 2015, net premiums of the respective insurances are as follows:

Items	For the years ended December 31, 2016	2015
General fire insurance	$ 1,600,000	$ 1,400,000
Fire & allied perils insurance	1,600,000	1,400,000
Marine cargo insurance	200,000	200,000
Marine hull insurance	200,000	200,000
Fishing vessel insurance	50,000	50,000
Aviation insurance	USD 10,000 thousands	USD 10,000 thousands
Engineering insurance	1,600,000	1,500,000
Money insurance	600,000	600,000
Motor physical damage insurance	10,000	10,000
Motor third party liability insurance	100,000	100,000
Motor passengers liability insurance	100,000	100,000
Compulsory automobile liability insurance for motorcycle	3,000	3,000
Car driver injury insurance	30,000	30,000
Driver injury insurance	3,000	3,000
Liability insurance	300,000	300,000
Fidelity surety bond	50,000	50,000
Engineering surety bond	200,000	200,000
Bankers' surety bond	600,000	600,000
Other property insurance	200,000	200,000
Other credit and surety bond	120,000	120,000
Nuclear energy insurance	300,000	300,000
Group accident insurance	20,000	20,000
Personal accident insurance	20,000	20,000
Travel accident insurance	30,000	20,000

F. Unqualified reinsurance reserve

(A) The summarized content in respect of ineligible reinsurance contract and related explanation for each insurance type are as follows:

The subsidiary entered into outward reinsurance contracts with the following insurance companies and insurance agents. The scope of the reinsurance contracts is the same as the reinsurance contracts of the subsidiary.

Insurance company / insurance agent	Type of outward reinsurance contract
Walsun Insurance	Construction insurance
Reaal Schadeverzekeringen	Marine hull insurance
Lemma	Marine hull insurance
Best Re (L) Limited	Cargo insurance, marine hull insurance, liability insurance, construction insurance and fire insurance

(B) The unqualified reinsurance expense was $844 and $79,898 for the years ended December 31, 2016 and 2015, respectively.

(C) As of December 31, 2016 and 2015, the unqualified reinsurance reserves are unearned premium reserve. Details are set forth as below:

	December 31, 2016		December 31, 2015	
Unearned premium reserve	$	422	$	39,949
Reported but not paid ceded reserve		8,492		7,619
Claims recoverable from reinsurers		537		1,436

10. Capital management

(1) Objective of capital management

A. The Group's qualifying self-owned capital should meet the regulatory requirements and meet the minimum regulated capital adequacy ratio. This is the basic objective of capital management of the Group. The calculation and provision of qualifying self-owned capital and regulated capital shall follow the regulations of the competent authority.

B. In order to have adequate capital to take various risks, the Group shall assesses the required capital with consideration of the risk portfolio it faces and the risk characteristics, and manages risk through capital allocation to realize optimum utilization of capital allocation.

(2) Capital management procedures

A. Following the "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies" of the Financial Supervisory Commission, the Group calculates capital adequacy ratio on a consolidated basis and reports this information regularly.

B. The calculation of capital adequacy ratio of subsidiaries shall follow the regulations of regulatory authorities; if without regulations, capital adequacy ratio is computed as net of qualifying self-own capital divided by regulated capital.

(3) Capital adequacy ratio

A. Capital adequacy ratio of the Company and its subsidiaries

Mega Financial Holding Co., Ltd. and its Subsidiaries
Capital Adequacy Ratio

December 31, 2016

	Ownership percentage held by the Company		Eligible capital			Minimum capital	
The Company	100.00%		$	291,972,583		$	323,883,940
MICB	100.00%			281,087,158			169,355,378
MS	100.00%			12,154,901			3,172,652
MBF	100.00%			33,248,864			19,653,980
CKI	100.00%			6,581,472			1,780,334
MAM	100.00%			2,857,728			6,046,569
Mega Life Insurance Agency	100.00%			570,476			397,714
Mega Venture Capital	100.00%			734,690			370,710
MITC	100.00%			828,451			431,685
Deduction item			(	323,641,353)			316,539,845
Subtotal		(A)	$	306,394,970	(B)	$	208,553,117
Capital adequacy ratio of the Consolidated Company (C)=(A)÷(B)					(C)		146.91%

December 31, 2015

	Ownership percentage held by the Company		Eligible capital			Minimum capital	
The Company	100.00%		$	293,391,112		$	20,239,971
MICB	100.00%			283,117,215			172,111,231
MS	100.00%			12,357,542			3,959,397
MBF	100.00%			31,288,743			18,029,426
CKI	100.00%			6,655,210			1,822,432
MITC	100.00%			812,300			406,080
MAM	100.00%			2,884,898			8,312,887
Mega Life Insurance Agency	100.00%			421,028			318,567
Mega Venture Capital	100.00%			675,384			339,518
Deduction item			(	23,637,208)		(	313,143,661)
Subtotal		(A)	$	307,966,224	(B)	$	212,395,848
Capital adequacy ratio of the Consolidated Company (C)=(A)÷(B)					(C)		145.00%

B. As of December 31, 2016 and 2015, the financial holding's net eligible capital

Mega Financial Holding Co., Ltd. and its Subsidiaries
Financial Holding's Net Eligible Capital

Item	December 31, 2016	December 31, 2015
Common stocks	$ 135,998,240	$ 135,998,240
Unaccumulated preferred stocks which meet tier 1 capital requirement and unaccumulated subordinated debts with no maturity date	-	-
Other preferred stocks and subordinated debts	-	-
Capital collected in advance	-	-
Additional paid-in capital	68,194,233	68,194,233
Legal reserve	30,436,714	27,494,993
Special reserve	2,545,158	2,545,158
Accumulated earnings	56,976,974	58,332,856
Equity adjustment number	(2,165,966)	838,599
Less: goodwill and other intangible assets	4,356	4,258
deferred assets	8,414	8,709
treasury stocks	-	-
Total net eligible capital	$ 291,972,583	$ 293,391,112

11. RELATED PARTY TRANSACTIONS

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

Names of related parties	Short Names of related parties	Relationship with the Company
Chunghwa Post Co., Ltd.	Chunghwa Post	Director of the Company
Bank of Taiwan	BOT	Director of the Company
Yung Shing Industries Co.	Yung Shing Industries	Indirect subsidiary of the Company
Win Card Co., Ltd.	Win Card	Indirect subsidiary of the Company
Taiwan Bills Finance Corporation	TFC	MICB is the director of TFC
Other related parties		The Company's and subsidiary's directors, supervisors, managers, their relatives, associated companies and related parties in substance

(2) Significant transactions and balances with related parties

A. Deposits

Details of the related parties' deposits placed with MICB and recorded under "deposits and remittances" are as follows:

	December 31, 2016	December 31, 2015
Others (individual amounts accounting for less than 10% of the total amount)	$ 6,302,446	$ 11,904,477

B. Loans

Details of the credits extended to the related parties by MICB and recorded under "bills, discounts and loans" are as follows:

	December 31, 2016	December 31, 2015
Others (individual amounts accounting for less than 10% of the total amount)	$ 105,809	$ 178,191

C. Bank deposits

	December 31, 2016	December 31, 2015
Chunghwa Post	$ 5,831	$ 4,945
BOT	272,754	128,456
Total	$ 278,585	$ 133,401

D. Refundable deposits

Collaterals		December 31, 2016	December 31, 2015
BOT	Available-for-sale financial assets - bonds	$ 50,049	$ 50,758

E. Purchases of securities and bonds

	For the years ended December 31, 2016	2015
Chunghwa Post	$ -	$ 50,586

Terms and conditions on the above transactions are not materially different from those with non-related parties.

F. Sales of securities and bonds

	For the years ended December 31, 2016	2015
BOT	$ 181,181,742	$ 23,736,387
Chunghwa Post	21,955,635	63,926,278
Total	$ 203,137,377	$ 87,662,665

Terms and conditions on the above transactions are not materially different from those with non-related parties.

G. Transactions with other financial institutions

(A) Due from banks/call loans to banks

	December 31, 2016	December 31, 2015
BOT	$ 9,330,096	$ 11,296,147

(B) Overdraft on banks

	December 31, 2016	December 31, 2015
Chunghwa Post	$ 2,818,812	$ 4,456,059
BOT	7,383,788	3,510,407
Total	$ 10,202,600	$ 7,966,466

H. Commercial paper payable

Institutions of guarantee or acceptance	December 31, 2016	December 31, 2015
TFC	$ -	$ 220,000
BOT	-	150,000
Total	$ -	$ 370,000

I. Collaterals

	Collaterals	December 31, 2016	December 31, 2015
BOT	Financial assets at fair value through profit or loss - negotiable certificate of deposits	$ 700,802	$ 700,970
	Available-for-sale financial assets - bonds	2,011,752	2,001,850
	Total	$ 2,712,554	$ 2,702,820

J. Loans

December 31, 2016

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default status: Normal loans	Default status: Overdue accounts	Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
Consumer loans for employees	11	$ 11,383	$ 9,333	V		None	None
Home mortgage loans	77	564,202	509,838	V		Real estate	None
Other loans	2	95,211	55,716	V		Real estate	None

December 31, 2015

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default status: Normal loans	Default status: Overdue accounts	Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
Consumer loans for employees	18	$ 10,295	$ 9,334	V		None	None
Home mortgage loans	74	522,944	479,835	V		Real estate	None
Other loans	3	1,938,636	56,896	V		Real estate	None

K. Interest revenue

	For the years ended December 31,			
	2016		2015	
	NT$	% of the Account	NT$	% of the Account
BOT	$ 1,278	-	$ 1,852	-

L. Interest expense

	For the years ended December 31,			
	2016		2015	
	Amount	% of the Account	Amount	% of the Account
BOT	$ 38,447	0.23	$ 31,530	0.16
Chunghwa Post	31,038	0.19	43,996	0.23
Total	$ 69,485	0.42	$ 75,526	0.39

M. Income and losses of financial assets and liabilities measured at fair value through profit or loss (sales of securities and bonds and derivative transaction)

	For the years ended December 31,			
	2016		2015	
	Amount	% of the Account	Amount	% of the Account
BOT	($ 5,798)	(0.13)	$ 3,778	0.35
Chunghwa Post	58,269	1.27	19,795	1.85
Total	$ 52,471	1.14	$ 23,573	2.20

N. Income of available-for-sale financial assets (sales of securities and bonds)

	For the years ended December 31,			
	2016		2015	
	Amount	% of the Account	Amount	% of the Account
Chunghwa Post	$ 51,427	2.59	$ -	-

O. Information on remunerations to the Company's key management:

	For the years ended December 31,	
	2016	2015
Salaries and other short-term employee benefits	$ 334,666	$ 386,422
Post-employment benefits	5,301	13,007
Termination benefits	577	573
Total	$ 340,544	$ 400,002

P. Guarantees: None.

12. PLEDGED ASSETS

Asset	December 31, 2016		December 31, 2015	
Financial assets at fair value through profit or loss	$	10,503,131	$	10,405,233
Available-for-sale financial assets		18,972,746		22,870,671
Held-to-maturity financial assets		5,276,900		5,801,616
Other financial assets		402,100		492,090
Property and equipment		2,456,922		2,452,413
Investment property		457,373		463,063
Other assets		523,042		200,868
	$	38,592,214	$	42,685,954

13. COMMITMENTS AND CONTINGENT LIABILITIES

(1) The subsidiaries-MICB

As of December 31, 2016 and 2015, MICB and its subsidiaries' commitments and contingent liabilities were as follows:

	December 31, 2016		December 31, 2015	
Irrevocable arranged financing limit	$	115,408,871	$	107,490,342
Securities sold under repurchase agreement		444,888		548,152
Securities purchased under resale agreement		4,256,613		9,437,084
Credit card line commitments		56,378,442		58,618,656
Guarantees issued		195,512,459		217,349,493
Contra Guarantees		60,644		841
Letters of credit		61,515,435		55,498,669
Customers' securities under custody		193,861,943		208,886,695
Properties under custody		3,323,676		3,458,696
Guarantee received		136,273,654		142,259,758
Collections for customers		102,094,722		106,021,245
Agency loans payable		977,405		1,295,073
Travelers' checks consigned-in		1,525,830		1,877,590
Gold coins consigned-in		433		449
Payables on consignments-in		2,459		2,490
Agent for government bonds		144,109,400		159,934,200
Short-dated securities under custody		89,610,128		105,969,903
Trust liability		522,980,128		534,133,051
Certified notes paid		6,256,579		6,528,240
Exposures		322,060		440,243

(2) The subsidiaries-MBF

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

	December 31, 2016		December 31, 2015	
Bills and bonds bought under resale agreements	$	-	$	1,000,000
Bills and bonds sold under repurchase agreements		210,809,807		173,109,248
Guarantees for commercial papers		147,973,500		150,968,600
Buy fixed rate financial paper		14,170,000		8,870,000
Sell fixed rate financial paper		500,000		500,000
Buy index rate financial paper		29,310,000		29,710,000
Sell index rate financial paper		4,000,000		5,500,000

(3) The subsidiaries-MS

MS has entered into proxy delivery agreements with several securities firms. If MS is unable to fulfill its obligations to the Taiwan Stock Exchange, the proxies must act upon the said obligations. MS has reciprocated by agreeing to act as the proxy for the securities firms.

(4) The subsidiaries-CKI

As of December 31, 2016, except that reserve for claims had been provided, CKI still had several lawsuits regarding insurance claims. CKI had appointed attorneys to deal with the lawsuits.

14. SIGNIFICANT DISASTER LOSS: None.

15. SIGNIFICANT SUBSEQUENT EVENTS: None.

16. OTHERS

(1) According to Article 46 of Financial Holding Company Act, disclosures of the sum of amounts of endorsements and guarantees provided by all subsidiaries of Financial Holding Company to the same natural person, same related natural person, or same related company for loans or other transactions:

(Please refer to p.134-141 of the Consolidated Financial Statements.)

(2) Significant impact arising from changes in government laws and regulations: None.

(3) Information with respect to the subsidiary holding shares in parent company: None.

(4) Research and development plans sponsored by others: None.

(5) Information for discontinued operations: None.

(6) Major operating assets or liabilities transferred from (or to) other financial institutions: None.

(7) Information on the apportionment of the revenues, costs, expenses, gains and losses arising from business activities, transactions, joint promotion for businesses development, information sharing, and operating facilities or premises sharing between the Company and its subsidiaries.

A. Transactions between the Company and its subsidiaries

Please refer to Note 17(4) for details of transactions with related parties.

B. Joint promotion of businesses

In order to create economic synergy throughout the various subsidiaries and provide customers financial services in all aspects, the subsidiaries have continuously established specialized counters for other subsidiaries in different businesses (including counters of banking services, securities trading services, and insurance services) in the business locations of its subsidiaries and simultaneously promoted service business in banking, securities and insurance areas.

C. Information sharing or Operating facilities or premises sharing

Under the Financial Holding Company Act, Computer-Process Personal Data Protection Law and the related regulations stipulated by the Ministry of Finance, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the Company and its subsidiaries or exchanged between the subsidiaries for the purpose of cross-selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are bound to use the information for the specified purposes only. In addition, the Company is required to publish its "Measures for Protection of Customers' Information" at its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

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

For the year ended December 31, 2016:

The promotion bonus paid to other subsidiaries by MITC and MICB amounted to $28,860 and $630 respectively. As a result of cross-selling by other subsidiaries, the insurance premium income increased by $549,130 for CKI; $19,340 for MICB; and $136,320 for MITC.

For the year ended December 31, 2015:

The promotion bonus paid to other subsidiaries by MITC and MICB amounted to $27,970 and $1,670 respectively. As a result of cross-selling by other subsidiaries, the insurance premium income increased by $533,280 for CKI; $20,600 for MICB; $12,620 for MITC.

(8) Information for private placement securities: None.

(9) Financial information by business segments

Mega Financial Holding Co., Ltd. and its Subsidiaries
For the year ended December 31, 2016

Items	Bank division	Insurance division	Bills division	Securities division	Total other divisions	Consolidation
Interest income, net	$ 35,559,462	$ 79,740	$ 1,273,044	$ 781,275	($ 469)	$ 37,693,052
Revenues other than interest, net	9,013,672	1,164,602	2,989,411	1,434,194	2,769,189	17,371,068
Net revenue	44,573,134	1,244,342	4,262,455	2,215,469	2,768,720	55,064,120
Bad debts expense and guarantee liability (provisions) reserve	(3,619,823)	7,543	45,896	-	(47,083)	(3,613,467)
Net change in provisions for insurance liabilities	-	(116,264)	-	-	-	(116,264)
Operating expenses	(18,732,161)	(994,060)	(760,658)	(2,156,313)	(773,984)	(23,417,176)
Income before income tax from continuing operations	22,221,150	141,561	3,547,693	59,156	1,947,653	27,917,213
Income tax expense	(4,105,407)	(87,492)	(590,919)	(58,449)	(632,051)	(5,474,318)
Consolidated net income from continuing operations	$ 18,115,743	$ 54,069	$ 2,956,774	$ 707	$ 1,315,602	$ 22,442,895

Mega Financial Holding Co., Ltd. and its Subsidianies
For the year ended December 31, 2015

Items	Bank division	Insurance division	Bills division	Securities division	Total other divisions	Consolidation
Interest income, net	$ 36,033,942	$ 100,190	$ 808,378	$ 838,367	($ 92,284)	$ 37,688,593
Revenues other than interest, net	13,420,151	1,453,445	3,274,033	2,070,777	2,321,307	22,539,713
Net revenue	49,454,093	1,553,635	4,082,411	2,909,144	2,229,023	60,228,306
Bad debts expense and guarantee liability reserve (provisions)	543,892	-	134,508	-	(251,941)	426,459
Net change in provisions for insurance liabilities	-	(12,356)	-	-	-	(12,356)
Operating expenses	(20,323,337)	(1,049,168)	(755,959)	(2,509,094)	(895,869)	(25,533,427)
Income before income tax from continuing operations	29,674,648	492,111	3,460,960	400,050	1,081,213	35,108,982
Income tax expense	(4,611,764)	(85,043)	(495,374)	(70,242)	(573,290)	(5,835,713)
Consolidated net income from continuing operations	$ 25,062,884	$ 407,068	$ 2,965,586	$ 329,808	$ 507,923	$ 29,273,269

Note : The above amounts were eliminated the transactions that occurred between the Company and its subsidiaries.

(10) Financial statements of the Company and condensed financial statements of its subsidiaries:

MEGA FINANCIAL HOLDING CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

ASSETS	2016	2015	%	LIABILITIES AND EQUITY	2016	2015	%
Assets				Liabilities			
Cash and cash equivalents	$ 83,306	$ 2,292,712	(96.37)	Financial liabilities at fair value through profit or loss	$ 156,600	$ 155,440	0.75
Current income tax assets	225,605	-	-	Commercial paper payable, net	6,398,631	6,198,832	3.22
Available-for-sale financial assets, net	5,844,300	5,586,489	4.61	Payables	16,481,538	14,835,817	11.09
				Current income tax liabilities	1,789,244	1,912,617	(6.45)
Equity investments accounted for under the equity method, net	316,539,845	313,143,661	1.08	Bonds payable	5,724,088	5,678,505	0.80
Other financial assets, net	758,293	758,293	-	Other loans	1,600,000	300,000	433.33
Investment Property	137,126	-	-	Provisions for liabilities	57,935	56,339	2.83
Property and equipment, net	603,350	750,459	(19.60)	Deferred tax liabilities	1,124	1,436	(21.73)
Deferred tax assets	8,092	8,092	-	Other liabilities	11,108	2,585	329.71
Other assets, net	5,704	5,944	(4.04)	Total liabilities	32,220,268	29,141,571	10.56
				Equity			
				Common stock	135,998,240	135,998,240	-
				Capital surplus	68,194,233	68,194,233	-
				Retained earnings			
				Legal reserve	30,436,714	27,494,993	10.70
				Special reserve	2,545,158	2,545,158	-
				Unappropriated retained earnings	56,976,974	58,332,856	(2.32)
				Other equity interest	(2,165,966)	838,599	(358.28)
				Total equity	291,985,353	293,404,079	(0.48)
TOTAL ASSETS	$324,205,621	$322,545,65	0.51	TOTAL LIABILITIES AND EQUITY	$324,205,621	$322,545,650	0.51

MEGA FINANCIAL HOLDING CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	2016	2015
Revenues		
Interest income	$ 2,173	$ 47,325
Share of profit of associates and joint ventures accounted for under equity method	23,132,410	30,416,201
Other revenue except for interest income	164,328	84,639
Total revenue	23,298,911	30,548,165
Expenses and losses		
Interest expense	(66,094)	(230,043)
Financial assets and liability at fair value through profit or loss	(1,160)	(12,180)
Foreign exchange loss	(3)	(10)
Employee benefit expense	(265,501)	(308,317)
Depreciation and amortization	(14,619)	(14,898)
Other business and administrative expenses	(85,155)	(118,219)
Total expenses and losses	(432,532)	(683,667)
Income before income tax	22,866,379	29,864,498
Income tax expense	(410,196)	(447,287)
Profit for the year	22,456,183	29,417,211
Other comprehensive income		
Non-reclassifiable to profit or loss subsequently		
Remeasurement of defined benefit plans	(1,837)	(12,142)
Share of other comprehensive income of associates and joint ventures accounted for under the equity method	(469,083)	(1,211,026)
Income tax relating to components of other comprehensive income	312	2,064
Potentially reclassifiable to profit or loss subsequently		
Unrealized gain (loss) on valuation of available-for-sale financial assets	257,812	(262,778)
Share of other comprehensive income of associates and joint ventures accounted for under the equity method	(3,262,377)	(2,260,880)
Other comprehensive income (loss) for the year, (after income tax)	3,475,173	(3,744,762)
Total comprehensive income (after income tax)	$ 18,981,010	$ 25,672,449
Earnings Per Share (in dollars)		
Basic and Diluted Earnings Per Share (in dollars)	$ 1.65	$ 2.35

MEGA FINANCIAL HOLDING CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF 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, 2015								
Balance at January 1, 2015	$ 124,498,240	$ 55,270,198	$ 24,469,127	$ 2,547,719	$ 50,589,808	$ 605,482	$ 2,756,775	$ 260,737,349
Earnings distribution for 2014								
Legal reserve	-	-	3,025,866	-	(3,025,866)	-	-	-
Cash dividends	-	-	-	-	(17,429,754)	-	-	(17,429,754)
Reversal of special reserve	-	-	-	(2,561)	2,561	-	-	-
Changes in capital surplus of associates and joint ventures accounted for under equity method	-	(631)	-	-	-	-	-	(631)
Profit for the year	-	-	-	-	29,417,211	-	-	29,417,211
Other comprehensive loss for the year	-	-	-	-	(1,221,104)	(177,718)	(2,345,940)	(3,744,762)
Issuance of common stock	11,500,000	12,661,500	-	-	-	-	-	24,161,500
Share based payment transactions	-	263,166	-	-	-	-	-	263,166
Balance at December 31, 2015	$ 135,998,240	$ 68,194,233	$ 27,494,993	$ 2,545,158	$ 58,332,856	$ 427,764	$ 410,835	$ 293,404,079
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	$ 410,835	$ 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)	(1,281,146)	(1,723,419)	(3,475,173)
Balance at December 31, 2016	$ 135,998,240	$ 68,194,233	$ 30,436,714	$ 2,545,158	$ 56,976,974	$ 853,382	$ 1,312,584	$ 291,985,353

MEGA FINANCIAL HOLDING CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

	For the year ended December 31, 2016	For the year ended December 31, 2015
Cash Flows from Operating Activities		
Profit before tax	$ 22,866,379	$ 29,864,498
Income and expenses having no effect on cash flows		
Income and expenses		
Depreciation	12,642	12,695
Amortization	1,977	2,203
Interest expense	66,094	230,043
Interest revenue	(2,173)	(47,325)
Dividend income	(162,310)	(81,468)
Share of profit of associates accounted for under equity method	(23,132,410)	(30,416,201)
Share based payment transaction	-	1,510
Changes in assets/liabilities relating to operating activities		
Changes in assets relating to operating activities:		
Decrease in receivables	-	463
(Decrease) increase in other assets	42	(80)
Changes in liabilities relating to operating activities:		
Increase in financial liabilities at fair value through profit or loss	1,160	155,440
(Decrease) increase in payables	(35,935)	5,515
Increase decrease in provisions for liabilities	71	(1,760)
Increase in other liabilities	8,523	446
Cash used in operations	(375,940)	(274,021)
Interest received	2,173	47,325
Cash dividend received	16,167,077	14,319,116
Interest paid	(20,414)	(355,008)
Income tax (paid) refunded	(759,486)	707,936
Net cash provided by operating activities	15,013,410	14,445,348
Cash Flows from Investing Activities		
Acquisition of equity investments accounted for under the equity method	-	(24,084,500)
Acquisition of property and equipment	(2,659)	(5,934)
Acquisition of intangible assets	(1,779)	(2,240)
Net cash used in investing activities	(4,438)	(24,092,674)
Cash Flows from Financing Activities		
Increase in commercial papers payable	200,000	3,650,000
(Increase) decrease in other loans	1,300,000	(100,000)
Proceeds from issuance of bonds	-	5,800,000
Redemption of bonds payable	-	(6,000,000)
Payment in cash dividends	(18,718,378)	(15,860,486)
Proceeds from issuance of common stock	-	24,161,500
Execution of employee stock option	-	261,656
Net cash provided by (used in) financing activities	(17,218,378)	11,912,670
Net (decrease) increase in cash and cash equivalents	(2,209,406)	2,265,344
Cash and cash equivalents at beginning of year	2,292,712	27,368
Cash and cash equivalents at end of year	$ 83,306	$ 2,292,712

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	2016	2015	Liabilities	2016	2015
Cash and cash equivalents	$ 86,952,288	$ 141,794,023	Due to the Central Bank and financial institutions	$ 384,930,934	$ 417,682,508
Due from the Central Bank and call loans to banks	540,639,263	505,796,414	Funds borrowed from the Central Bank and other banks	39,974,427	44,733,966
Financial assets at fair value through profit or loss	45,311,254	47,024,122	Financial liabilities at fair value through profit or loss	11,393,071	21,936,493
Bills and bonds purchased under resale agreements	4,255,968	9,435,869	Bills and bonds sold under repurchase agreements	444,678	547,798
Receivables, net	59,342,642	142,291,246	Payables	32,010,867	35,683,943
Current income tax asset	122,108	589,811	Current income tax liabilities	8,106,031	8,313,012
Bills discounted and loans, net	1,699,285,739	1,756,514,539	Deposits and remittances	2,159,117,253	2,222,021,878
Available-for-sale financial assets, net	205,720,937	231,507,094	Financial bonds payable	36,200,000	36,200,000
Held-to-maturity financial assets, net	276,724,781	197,651,402	Other financial liabilities	8,583,989	8,673,223
Investments accounted for under equity method, net	8,851,388	8,794,633	Provisions for liabilities	12,952,174	11,922,046
Other financial assets, net	9,669,542	9,983,801	Deferred tax liabilities	2,161,652	2,153,957
Property and equipment, net	14,278,800	14,227,890	Other liabilities	5,244,438	8,864,152
Investment property, net	865,039	868,057	Total liabilities	2,701,119,514	2,818,732,975
Deferred tax assets	5,049,996	4,311,934	**Equity**		
Other assets, net	1,614,016	1,435,091	Common stock	85,362,336	85,362,336
			Capital surplus	62,219,540	62,219,540
			Retained earnings	111,444,170	105,682,058
			Other equity interest	(1,461,799)	229,016
			Total equity	257,564,247	253,492,951
TOTAL ASSETS	$ 2,958,683,761	$ 3,072,225,926	TOTAL LIABILITIES AND EQUITY	$ 2,958,683,761	$ 3,072,225,926

MEGA SECURITIES CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	2016	2015	Liabilities	2016	2015
Current assets	$ 39,543,327	$ 46,038,398	Current liabilities	$ 30,404,966	$ 36,784,989
Financial assets measured at cost - non-current	239,595	308,979	Provisions for liabilities - non-current	119,584	128,155
Investments accounted for under equity method	967,801	965,683	Deferred tax liabilities	2,482	9,963
Property and equipment	2,565,664	2,618,757	Other liabilities - non-current	11,295	11,295
Investment property	504,241	511,102	Total liabilities	30,538,327	36,934,402
Intangible assets	73,919	86,524			
Deferred tax assets	56,407	58,151	**Equity**		
Other assets - non-current	902,516	897,447	Common stock	11,600,000	11,600,000
			Capital surplus	971,161	971,161
			Retained earnings	1,837,677	2,059,183
			Other equity interest	(93,695)	(79,705)
			Total equity	14,315,143	14,550,639
TOTAL ASSETS	$ 44,853,470	$ 51,485,041	TOTAL LIABILITIES AND EQUITY	$ 44,853,470	$ 51,485,041

Financial Information

MEGA BILLS FINANCE CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	2016	2015	Liabilities	2016	2015
Cash and cash equivalents	$ 346,391	$ 321,356	Interbank overdraft and call loans	$ 15,714,592	$ 11,294,776
Financial assets at fair value through profit or loss	125,297,488	115,285,106	Financial liabilities at fair value through profit or loss	22,543	6,149
Available-for-sale financial assets, net	132,867,186	100,816,225	Bills and bonds sold under repurchase agreements	210,809,807	173,109,248
Bills and bonds purchased under resale agreements	-	1,000,000	Payables	602,808	504,042
Receivables, net	1,531,891	1,185,047	Current income tax liabilities	191,490	131,256
Held-to-maturity financial assets	350,000	600,000	Provisions for liabilities	2,728,105	2,757,420
Other financial assets, net	820,362	818,540	Deferred tax liabilities	22,700	12,647
Property and equipment, net	370,177	375,457	Other liabilities	431,098	828,935
Investment property, net	2,528,424	2,539,088	Total liabilities	230,523,143	188,644,473
Intangible assets	3,310	2,427	**Equity**		
Deferred tax assets, net	152,104	106,254	Common stock	13,114,411	13,114,411
Other assets, net	34,868	48,225	Capital surplus	320,929	320,929
			Retained earnings	20,375,867	19,490,920
			Other equity interest	(32,149)	1,526,992
			Total equity	33,779,058	34,453,252
TOTAL ASSETS	$ 264,302,201	$ 223,097,725	TOTAL LIABILITIES AND EQUITY	$ 264,302,201	$ 223,097,725

CHUNG KUO INSURANCE CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	2016	2015	Liabilities	2016	2015
Cash and cash equivalents	$ 6,781,690	$ 6,497,850	Payables	$ 1,097,452	$ 1,190,044
Receivables	674,813	722,091	Current income tax liabilities	25,892	85,043
Current income tax assets	229,745	224,496	Insurance liabilities	8,964,715	7,772,662
Financial assets at fair value through profit or loss	53,484	29,485	Provisions for liabilities	186,666	244,255
Available-for-sale financial assets	1,076,673	1,282,755	Deferred tax liabilities	12,316	15,590
Financial assets measured at cost	100,000	100,000	Other liabilities	127,820	43,456
Investment in bonds without active markets	292,496	449,775	Total liabilities	10,414,861	9,351,050
Held-to-maturity financial assets	1,102,127	849,783			
Investments accounted for under equity method	38,642	38,969	**Equity**		
Investment property	314,750	318,895	Common stock	3,000,000	3,000,000
Reinsurance contracts assets	4,261,668	3,308,814	Capital surplus	1,084,811	1,084,811
Property and equipment	843,868	846,468	Retained earnings	2,035,108	1,963,968
Intangible assets	32,250	36,572	Other equity interest	(76,273)	(42,416)
Deferred tax assets	37,877	49,769	Total equity	6,043,646	6,006,363
Other assets	618,424	601,691			
TOTAL ASSETS	$ 16,458,507	$ 15,357,413	TOTAL LIABILITIES AND EQUITY	$ 16,458,507	$ 15,357,413

MEGA INTERNATIONAL INVESTMENT TRUST CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	2016	2015	Liabilities	2016	2015
Current assets	$ 450,697	$ 458,128	Current liabilities	$ 60,923	$ 42,426
Available-for-sale financial assets	290,827	270,391	Liabilities - non-current	23,444	23,243
Other financial assets	1,500	-	Total liabilities	84,367	65,669
Property and equipment	4,105	3,123			
Investment property	111,274	111,937	**Equity**		
Intangible assets	339	123	Common stock	527,000	527,000
Deferred tax assets	6,298	6,495	Capital surplus	3,675	3,675
Other assets - non-current	47,778	27,772	Retained earnings	316,233	299,572
			Other equity interest	(18,457)	(17,947)
			Total equity	828,451	812,300
TOTAL ASSETS	$ 912,818	$ 877,969	TOTAL LIABILITIES AND EQUITY	$ 912,818	$ 877,969

MEGA ASSET MANAGEMENT CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	2016	2015	Liabilities	2016	2015
Current assets	$ 11,281,034	$ 12,632,843	Current liabilities	$ 8,201,347	$ 13,055,089
Other financial assets	174,837	349,233	Other liabilities - non-current	1,034,063	685,786
Property and equipment	920	1,264	Total liabilities	9,235,410	13,740,875
Investment property	424,760	14,572			
Intangible assets	6,621	6,175	**Equity**		
Deferred tax assets	111,679	132,778	Common stock	2,000,000	2,000,000
Other assets - non-current	93,287	3,488,908	Capital surplus	1,261	1,261
			Retained earnings	856,467	883,637
			Total equity	2,857,728	2,884,898
TOTAL ASSETS	$ 12,093,138	$ 16,625,773	TOTAL LIABILITIES AND EQUITY	$ 12,093,138	$ 16,625,773

MEGA INSURANCE AGENCY CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	2016	2015	Liabilities	2016	2015
Current assets	$ 688,300	$ 631,674	Current liabilities	$ 224,934	$ 216,087
Property and equipment	719	848	Other liabilities - non-current	18	18
Intangible assets	1,694	1,273	Total liabilities	224,952	216,105
Deferred tax assets	-	95	**Equity**		
Other financial assets- non-current	99,300	-	Common stock	20,000	20,000
Other assets - non-current	5,415	3,243	Capital surplus	804	804
			Retained earnings	549,672	400,224
			Total equity	570,476	421,028
TOTAL ASSETS	$ 795,428	$ 637,133	TOTAL LIABILITIES AND EQUITY	$ 795,428	$ 637,133

MEGA VENTURE CAPITAL CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	2016	2015	Liabilities	2016	2015
Current assets	$ 64,735	$ 19,450	Current liabilities	$ 6,729	$ 3,651
Financial assets at fair value through profit or loss	5,425	-	Total liabilities	6,729	3,651
Available-for-sale financial assets	418,311	411,222			
Financial assets measured at cost	244,720	248,363	**Equity**		
Refundable deposits	8,228	-	Common stock	1,000,000	1,000,000
			Retained earnings	(16,024)	(39,393)
			Other equity interest	(249,286)	(285,223)
			Total equity	734,690	675,384
TOTAL ASSETS	$ 741,419	$ 679,035	TOTAL LIABILITIES AND EQUITY	$ 741,419	$ 679,035

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	2016	2015
Interest income	$ 50,236,766	$ 53,192,080
Less: Interest expense	(15,191,706)	(17,705,988)
Interest income, net	35,045,060	35,486,092
Revenues other than interest income, net	10,135,583	14,329,399
Net revenue	45,180,643	49,815,491
Bad debts expense and guarantee liability (provisions) reserve	(3,593,348)	544,711
Operating expenses	(18,529,368)	(20,109,898)
Income before income tax from continuing operations	23,057,927	30,250,304
Income tax expense	(4,047,966)	(4,541,859)
Net income	19,009,961	25,708,445
Other comprehensive loss	(2,134,315)	(3,721,805)
Total comprehensive income	$ 16,875,646	$ 21,986,640
Earnings per share		
Basic and diluted earnings per share (after taxes)	$ 2.23	$ 3.27

MEGA SECURITIES CO., LTD.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	2016	2015
Revenues	$ 2,163,056	$ 2,869,616
Service fee expenditure	(83,460)	(104,373)
Employee benefit expense	(1,290,180)	(1,471,012)
Other operating expenditures	(146,186)	(180,077)
Operating expenses	(767,272)	(889,204)
Other gains and losses	178,010	189,937
Share of loss of associates and joint ventures accounted for under equity method	33,614	(21,433)
Income before income tax from continuing operations	87,582	393,454
Income tax expense	(53,932)	(61,714)
Net income	33,650	331,740
Other comprehensive (loss) income	(13,148)	19,391
Total comprehensive income	$ 20,502	$ 351,131
Earnings per share		
Basic and diluted earnings per share (after taxes)	$ 0.03	$ 0.29

MEGA BILLS FINANCE CO., LTD.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	2016	2015
Interest income	$ 3,322,888	$ 2,930,965
Less: Interest expense	(899,280)	(901,456)
Interest income, net	2,423,608	2,029,509
Revenues other than interest income, net	1,898,101	2,134,405
Net revenue	4,321,709	4,163,914
Provisions	45,896	134,508
Operating expense	(796,560)	(792,612)
Income before income tax from continuing operations	3,571,045	3,505,810
Income tax expense	(590,919)	(495,374)
Net income	2,980,126	3,010,436
Other comprehensive (loss) income	(1,576,997)	(385,439)
Total comprehensive income	$ 1,403,129	$ 3,395,875
Earnings per share		
Basic and diluted earnings per share (after taxes)	$ 2.27	$ 2.30

CHUNG KUO INSURANCE CO., LTD.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	2016	2015
Operating revenue	$ 4,632,448	$ 4,658,578
Operating cost	(3,480,785)	(3,135,641)
Operating expense	(977,372)	(1,026,556)
Operating income	174,291	496,381
Non-operating income and expense	14,376	1,675
Income before income tax from continuing operations	188,667	498,056
Income tax expense	(87,492)	(85,043)
Net income	101,175	413,013
Other comprehensive income	(41,828)	(32,524)
Total comprehensive income	$ 59,347	$ 380,489
Earnings per share		
Basic and diluted earnings per share (after taxes)	$ 0.34	$ 1.38

MEGA INTERNATIONAL INVESTMENT TRUST CO., LTD.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	2016	2015
Operating revenue	$ 365,161	$ 328,233
Operating expense	(263,203)	(264,805)
Operating income	101,958	63,428
Non-operating income and expense	11,818	48,365
Income before income tax	113,776	111,793
Income tax expense	(33,651)	(17,849)
Net income	80,125	93,944
Other comprehensive loss	(550)	(35,190)
Total comprehensive income	$ 79,575	$ 58,754
Earnings per share		
Basic and diluted earnings per share (after taxes)	$ 1.52	$ 1.78

MEGA ASSET MANAGEMENT CO., LTD.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	2016	2015
Operating revenue	$ 715,142	$ 986,051
Operating cost	(10,769)	(796)
Gross Profit	704,373	985,255
Operating expense	(141,458)	(402,848)
Operating income	562,915	582,407
Non-operating income and expense	(86,676)	(79,296)
Income before income tax	476,239	503,111
Income tax expense	(81,288)	(34,164)
Net income	394,951	468,947
Other comprehensive loss	(559)	(545)
Total comprehensive income	$ 394,392	$ 468,402
Earnings per share		
Basic and diluted earnings per share (after taxes)	$ 1.97	$ 2.34

MEGA INSURANCE AGENCY CO., LTD.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	2016	2015
Operating revenue	$ 1,943,531	$ 1,561,719
Operating expense	(1,332,645)	(1,130,869)
Operating income	610,886	430,850
Non-operating income and expense	2,961	2,939
Income before income tax from continuing operations	613,847	433,789
Income tax expense	(104,354)	(73,744)
Net income	$ 509,493	$ 360,045
Earnings per share		
Basic and diluted earnings per share (after taxes)	$ 254.75	$ 180.02

MEGA VENTURE CAPITAL CO., LTD.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	2016	2015
Operating revenue	$ 56,400	$ 54,453
Operating cost	(10,000)	(8,271)
Gross Profit	46,400	46,182
Operating expense	(20,555)	(17,744)
Operating income	25,845	28,438
Non-operating income and expense	87	250
Income before income tax	25,932	28,688
Income tax expense	(2,563)	(246)
Net income	23,369	28,442
Other comprehensive income (loss)	35,937	(86,673)
Total comprehensive income (loss)	$ 59,306	($ 58,231)
Earnings per share		
Basic and diluted earnings per share (after taxes)	$ 0.23	$ 0.28

(11) Profitability of the Company and its subsidiaries:

A. Profitability

(a) The Company

UNIT：%

Items		MEGA FINANCIAL HOLDING CO., LTD	
		For the year ended December 31, 2016	For the year ended December 31, 2015
Return on assets	Pre-tax	7.07	9.84
	After-tax	6.94	9.69
Return on equity	Pre-tax	7.81	10.78
	After-tax	7.67	10.62
Net profit margin		96.38	96.30

UNIT：%

Items		MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES	
		For the year ended December 31, 2016	For the year ended December 31, 2015
Return on assets	Pre-tax	0.83	1.05
	After-tax	0.67	0.88
Return on equity	Pre-tax	9.54	12.67
	After-tax	7.67	10.56
Net profit margin		40.76	48.60

(b) The subsidiary

UNIT：%

Items		MICB	
		For the year ended December 31, 2016	For the year ended December 31, 2015
Return on assets	Pre-tax	0.76	1.00
	After-tax	0.63	0.85
Return on equity	Pre-tax	9.02	12.82
	After-tax	7.44	10.89
Net profit margin		42.08	51.61

UNIT：%

Items		MS	
		For the year ended December 31, 2016	For the year ended December 31, 2015
Return on assets	Pre-tax	0.18	0.78
	After-tax	0.07	0.66
Return on equity	Pre-tax	0.61	2.70
	After-tax	0.23	2.27
Net profit margin		1.56	11.56

UNIT：%

Items		MBF	
		For the year ended December 31, 2016	For the year ended December 31, 2015
Return on assets	Pre-tax	1.47	1.60
	After-tax	1.22	1.37
Return on equity	Pre-tax	10.47	10.37
	After-tax	8.74	8.91
Net profit margin		68.96	72.30

UNIT：%

Items		CKI	
		For the year ended December 31, 2016	For the year ended December 31, 2015
Return on assets	Pre-tax	1.19	3.23
	After-tax	0.64	2.68
Return on equity	Pre-tax	3.13	8.55
	After-tax	1.68	7.09
Net profit margin		2.18	8.87

Note 1:Return on assets = Income (loss) before income tax ÷ Average total assets
Note 2:Return on equity = Income (loss) before income tax ÷ Average equity
Note 3:Net profit margin = Net income (loss) after income tax ÷ Net revenues
Note 4:Net income (loss) pre-tax / after-tax refers to the income (loss) for the years ended December 31, 2016 and 2015.

(12) In accordance with Article 17 of the Trust Enterprise Law, the disclosures of the trust balance sheet, trust income statement and schedule of investment for trust business would be shown every semi-year:

(Please refer to p.161-162 of the Consolidated Financial Statements)

17. ADDITIONAL DISCLOSURES

(Please refer to p.163-182 of the Consolidated Financial Statements)

18. DISCLOSURE OF FINANCIAL INFORMATION BY SEGMENTS

(1) General Information

The Group's operation segment reports are consistent with the internal reports provided to the chief operating decision-maker ("CODM"). The CODM allocates resources to operating segments and evaluates their performance. The Group's CODM refers to the Board of Directors.

Inter-segmental transactions are arm's-length transactions, and gain and loss arising from such transactions are eliminated by the parent company upon the presentation of consolidated financial statements. Profit and loss directly attributable to various segments have been considered when segment performance is being evaluated.

The operating segments of the Group comprise banking, securities, bills finance, insurance and other businesses. The operating results are reviewed by the CODM regularly and are referenced when allocating resources and evaluating operating performance.

The Group is based in the global market, comprising four major business segments; there were no changes in the reporting segments for the period.

The operating results have different income items due to different nature of the operating segments, and the CODM evaluates segment performance based on the net profit before tax of various segments. Therefore, performance of all reporting segments is presented by the net amount of operating net profit less various operating expenses. Income from external clients provided for the CODM to review is measured on the same basis with the statement of comprehensive income.

Adjustments of internal pricing and transfer pricing are reflected in segment performance evaluation. Income from external clients has been allocated based on the regulated allocation standard between segments.

The internal management's operating reports are prepared based on net operating profit, including net interest income, net service fee income, recovered bad debts (provision), loan loss impairment, net gain (loss) on financial instruments and other operating gain (loss). Measurement basis does not include non-recurring items, e.g. litigation expenses.

(2) Information about segment profit or loss, assets and liabilities

The Group's management mainly focuses on the operating results of the whole group, which is consistent with the statement of comprehensive income on page 5 of the consolidated financial statements.

(3) Major customer information

The Group's source of income is not concentrated on transactions with a single customer or single trading.

(4) Information on products and services

All operating segments' operating results of the Group mainly comes from interest income from external clients and is measured on a consistent basis compared with the statement of comprehensive income. While the segmental income also consists of internal profit and loss appropriated by the terms agreed amongst segments other than external revenue. Please refer to the information by geography for relevant components of income balances.

(5) Information about segment profit or loss, assets and liabilities

	For the year ended December 31, 2016						
Items	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Interest income, net	$ 35,583,640	$ 82,412	$ 1,252,519	$ 772,316	$ 2,165	$ -	$ 37,693,052
Revenues other than interest income, net	10,051,088	1,210,614	3,069,190	1,500,505	24,958,512	(23,418,841)	17,371,068
Net revenue	45,634,728	1,293,026	4,321,709	2,272,821	24,960,677	(23,418,841)	55,064,120
Bad debts expenses and guarantee liability (provisions) reserve	(3,619,823)	7,543	45,896	-	(47,083)	-	(3,613,467)
Net chang in provisions for insurance liabilities	-	(116,264)	-	-	-	-	(116,264)
Operating expenses	(18,899,537)	(995,638)	(796,560)	(2,180,722)	(839,567)	294,848	(23,417,176)
Income (loss) before income tax from continuing operations	23,115,368	188,667	3,571,045	92,099	24,074,027	(23,123,993)	27,917,213
Income tax expense	(4,105,407)	(87,492)	(590,919)	(58,449)	(632,051)	-	(5,474,318)
Net Income (loss)	$ 19,009,961	$ 101,175	$ 2,980,126	$ 33,650	$ 23,441,976	($ 23,123,993)	$ 22,442,895

	For the year ended December 31, 2015						
Items	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Interest income, net	$ 36,045,950	$ 103,488	$ 805,635	$ 816,032	($ 82,512)	$ -	$ 37,688,593
Revenues other than interest income, net	14,195,272	1,457,670	3,358,279	2,116,573	32,001,227	(30,589,308)	22,539,713
Net revenue	50,241,222	1,561,158	4,163,914	2,932,605	31,918,715	(30,589,308)	60,228,306
Bad debts expenses and guarantee liability reserve (provisions)	543,892	-	134,508	-	(251,941)	-	426,459
Net change in provisions for insurance liabilities	-	(12,356)	-	-	-	-	(12,356)
Operating expenses	(20,464,905)	(1,050,746)	(792,612)	(2,530,623)	(964,798)	270,257	(25,533,427)
Income (loss) before income tax from continuing operations	30,320,209	498,056	3,505,810	401,982	30,701,976	(30,319,051)	35,108,982
Income tax expense	(4,611,764)	(85,043)	(495,374)	(70,242)	(573,290)	-	(5,835,713)
Net Income (loss)	$ 25,708,445	$ 413,013	$ 3,010,436	$ 331,740	$ 30,128,686	($ 30,319,051)	$ 29,273,269

Items	For the year ended December 31, 2016						
	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Segment assets	$ 2,974,451,591	$ 16,458,507	$ 264,302,201	$ 46,600,694	$ 338,818,666	($ 320,840,243)	$ 3,319,791,416
Segment liabilities	$ 2,716,887,344	$ 10,414,861	$ 230,523,143	$ 32,285,551	$ 41,771,817	($ 4,118,743)	$ 3,027,763,973

Items	For the year ended December 31, 2015						
	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Segment assets	$ 3,088,767,723	$ 15,357,413	$ 223,097,725	$ 54,246,750	$ 342,955,867	($ 325,907,172)	$ 3,398,518,306
Segment liabilities	$ 2,835,274,773	$ 9,351,050	$ 188,644,473	$ 39,696,111	$ 44,672,797	($ 12,576,206)	$ 3,105,062,998

(6) Geographical information about net revenue and identifiable assets

	For the years ended December 31,	
	2016	2015
Asia	$ 56,259,930	$ 56,309,222
America	(2,485,381)	2,724,453
Other	1,289,571	1,194,631
Total net revenue	$ 55,064,120	$ 60,228,306

	December 31, 2016	December 31, 2015
Asia	$ 2,942,189,343	$ 2,968,689,281
America	305,245,561	359,645,404
Other	72,356,512	70,183,621
Total identifiable assets	$ 3,319,791,416	$ 3,398,518,306

Review of Financial Conditions, Operating Results, and Risk Management

7.1 Analysis of Financial Status

Consolidated

Unit: NT$1,000

Item \ Year	2016	2015	Difference	
			Amount	%
Cash and cash equivalents, due from the Central Bank and call loans to banks	638,143,099	656,138,947	(17,995,848)	(2.74)
Financial assets at fair value through profit or loss, net	186,317,373	182,036,664	4,280,709	2.35
Available-for-sale financial assets, net	354,464,708	346,461,364	8,003,344	2.31
Derivative financial assets for hedge	0	0	0	0
Bills and bonds purchased under resale agreements	2,855,885	7,079,210	(4,223,325)	(59.66)
Receivables, net	86,825,802	175,747,221	(88,921,419)	(50.60)
Current income tax assets	577,485	2,307,563	(1,730,078)	(74.97)
Non-current assets held for sale, net	0	0	0	0
Bills discounted and loans, net	1,715,278,766	1,773,269,054	(57,990,288)	(3.27)
Reinsurance contract assets, net	4,261,668	3,308,814	952,854	28.80
Held-to-maturity financial assets, net	280,997,362	201,233,939	79,763,423	39.64
Equity investments accounted for by the equity method, net	3,108,470	2,976,409	132,061	4.44
Restricted assets	0	0	0	0
Other financial assets, net	14,955,209	17,189,576	(2,234,367)	(13.00)
Property and equipment, net	21,787,452	21,834,486	(47,034)	(0.22)
Investment property, net	1,711,561	1,368,553	343,008	25.06
Intangible assets, net	270,438	299,644	(29,206)	(9.75)
Deferred income tax assets	5,463,227	4,716,552	746,675	15.83
Other assets, net	2,772,911	2,550,310	222,601	8.73
Total assets	3,319,791,416	3,398,518,306	(78,726,890)	(2.32)
Due to the Central Bank and financial institutions	401,731,599	428,405,839	(26,674,240)	(6.23)
Funds borrowed from the Central Bank and other banks	39,974,427	45,459,094	(5,484,667)	(12.07)
Financial liabilities at fair value through profit or loss	12,105,231	22,980,692	(10,875,461)	(47.32)
Derivative financial liability for hedge	0	0	0	0
Bills and bonds sold under repurchase agreements	231,191,763	192,936,650	38,255,113	19.83
Commercial paper payable, net	11,701,649	19,945,870	(8,244,221)	(41.33)
Payables	59,001,999	63,623,826	(4,621,827)	(7.26)
Current income tax liability	8,589,599	10,517,577	(1,927,978)	(18.33)
Liability directly related to assets held for sale	0	0	0	0
Deposits and remittances	2,171,287,924	2,230,143,429	(58,855,505)	(2.64)
Bonds payable	41,924,088	41,878,505	45,583	0.11
Other loans	5,954,030	2,280,000	3,674,030	161.14
Preferred stock liabilities	0	0	0	0
Other financial liabilities	10,849,706	10,720,861	128,845	1.20
Provisions for liabilities	25,047,224	22,917,606	2,129,618	9.29
Deferred income tax liabilities	2,201,659	2,195,423	6,236	0.28
Other liabilities	6,203,075	11,057,626	(4,854,551)	(43.90)
Total liabilities	3,027,763,973	3,105,062,998	(77,299,025)	(2.49)
Equity attributable to owners of parent	291,985,353	293,404,079	(1,418,726)	(0.48)
Common stock	135,998,240	135,998,240	0	0
Capital surplus	68,194,233	68,194,233	0	0
Retained earnings	89,958,846	88,373,007	1,585,839	1.79
Other equity interest	(2,165,966)	838,599	(3,004,565)	(358.28)
Treasury stock	0	0	0	0
Non-controlling interest	42,090	51,229	(9,139)	(17.84)
Total Equity	292,027,443	293,455,308	(1,427,865)	(0.49)

Change analysis:

1. The decrease in bills and bonds purchased under resale agreements is primarily due to the reduction in the said investments.
2. The reduction in receivables is mainly owing to the decline in usance outright receivable and the decrease in recovery of accounts receivable.
3. The current income tax assets fell largely due to the reduction in prepaid income tax.
4. The reinsurance contract assets decreased largely because of the growth in reinsurance reserve assets.
5. The held-to-maturity financial assets grew primarily owing to the increase in certificate of deposit.
6. The increase in investment property is largely because of increased procurement of the said property and reduced disposal of the said property.
7. The decline in financial liabilities at fair value through profit or loss is primarily due to the reduction in derivative instruments and financial debentures.
8. The amount of commercial paper payable fell largely because the issuance of domestic commercial papers declined.
9. The increase in other loans is mainly due to the growth in credit loans.
10. The amount of other liabilities declined mainly due to the reduction in the deposits received, advance receipt as well as the temporary receipts and suspense accounts.
11. The decrease in other equity interest is primarily due to the decline in unrealized (loss) gain on valuation of available-for-sale financial assets, and cumulative translation differences of foreign operations.

7.2 Financial Performance

Consolidated

Unit: NT$1,000

Item	2016	2015	Difference	%
Interest income	54,113,662	56,852,736	(2,739,074)	(4.82)
Less: interest expenses	(16,420,610)	(19,164,143)	2,743,533	(14.32)
Interest income, net	37,693,052	37,688,593	4,459	0.01
Revenues other than interest, net	17,371,068	22,539,713	(5,168,645)	(22.93)
Net revenue	55,064,120	60,228,306	(5,164,186)	(8.57)
Bad debts expense on loans and provisions for guarantee liabilities	(3,613,467)	426,459	(4,039,926)	(947.32)
Reversal of (provisions for) insurance reserve	(116,264)	(12,356)	(103,908)	840.95
Operating expenses	(23,417,176)	(25,533,427)	2,116,251	(8.29)
Income before income tax	27,917,213	35,108,982	(7,191,769)	(20.48)
Income tax expenses	(5,474,318)	(5,835,713)	361,395	(6.19)
Profit for the year	22,442,895	29,273,269	(6,830,374)	(23.33)
Total other comprehensive income (after income tax)	(3,471,024)	(3,644,024)	173,000	(4.75)
Total comprehensive income	18,971,871	25,629,245	(6,657,374)	(25.98)
Profit attributable to owners of parent	22,456,183	29,417,211	(6,961,028)	(23.66)
Profit attributable to non-controlling interests	(13,288)	(143,942)	130,654	(90.77)
Comprehensive income attributable to owners of parent	18,981,010	25,672,449	(6,691,439)	(26.06)
Comprehensive income attributable to non-controlling interests	(9,139)	(43,204)	34,065	(78.85)

Change analysis:

1. The decline in revenues other than interest is mainly due to the penalty imposed by New York State Department of Financial Services, the reduction in service fee revenue and commissions, indemnity income, and gain from disposal of investment property, which offset the increase in gains on financial operations.
2. The growth in bad debts expense on loans and provisions for guarantee liabilities is mainly due to the increase in provisions for bad debts of normal credit assets.
3. Provisions for liabilities reserve rose primarily due to recognition of reserve for insurance liabilities.
4. The drop in both profit attributable to owners of parent and comprehensive income attributable to owners of parent was mainly owing to the decrease of net profit.
5. The increase in both profit attributable to non-controlling interests and comprehensive income attributable to non-controlling interests was mainly attributable to the reduction in net loss of the investee, Mega 1 Venture Capital Company.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for 2016

Item / Year	2016	2015	Variance
Cash flow ratio	2.94%	8.02%	(63.34%)
Cash flow adequacy ratio	336.01%	385.78%	(12.90%)
Cash reinvestment ratio	(5.94%)	55.43%	(110.72%)

Change Analysis:

1. The cash flow ratio declined primarily due to the reduction in net cash flow provided by operating activities.
2. The decline in cash reinvestment ratio is mainly due to the decline in net cash flow provided by operating activities.

7.3.2 Cash Flow Analysis for 2017

Unit: NT$1,000

Expected cash and cash equivalents (1)	Estimated net cash flow from operating activities (2)	Estimated cash outflow (3)	Cash surplus (1)+(2)-(3)	Leverage of cash surplus (deficit)	
				Investment plans	Financing plans
98,131,357	53,328,941	13,454,443	138,005,855	None	None

Analysis of Cash Flow:

1. Operating activities: mainly from the increase in deposits and remittances and the reduction in held-to-maturity financial assets.
2. Investing activities: mainly procurement of investment property and disposal of real property and equipment.
3. Financing activities: mainly payout of cash dividends, increase in funds borrowed from the Central Bank and other banks, growth in other loans and reduction in bonds payable.

7.4 Influences from Major Capital Expenditures in 2016: None.

7.5 Investment Strategies in 2016 and Investment Plan for the Coming Year

7.5.1 Investment Policies in 2016

- Expanding the Group's operation network through merger and acquisition and enlarging the economic scale.
  - Banking sector: We target at state-owned and private banks specializing in consumer banking which is complementary to our business.
  - Securities sector: We aim at increasing our market share of securities brokerage over 5% and entering top 5 securities brokers in Taiwan.
  - Life insurance sector: We aim at domestic life insurance companies to expand the Group's business scope.
- Continually studying domestic and global financial environment, development of merger and acquisition, and directions for the Group's future development. The study findings are used as reference for investment policies.

7.5.2 Review of Investment Performance and Improvement plans

Mega International Commercial Bank Co., Ltd.

The bank recorded a net profit after tax in 2016 of NT$19,009,961 thousand, a drop of 26.06% from the NT$25,708,445 thousand in 2015, largely due to the US$180 million sanction by the New York State Department of Financial Services. The bank has adopted several measures to remediate the deficiencies, including reinforcing the supervisory and management function of the board, improving the supervision and management of overseas branches by the head office, enhancing the legal compliance system of overseas branches, and strengthening internal audit.

Mega Securities Co., Ltd. (MSC)

MSC's net profit after tax in 2016 reached NT$33,650 thousand, a 89.86% decrease compared to NT$331,740 thousand in 2015 mainly due to the decrease in profits from proprietary trading and brokerage services, resulting from the drop of market trading volume and margin trading. The company will continue to promote the wealth management business, develop digital financial services and expand the e-commerce business. In addition to improving the ability in selection of stock targets for trading and hedge mechanism, the company will be actively involved in development of new business to improve its performance.

Mega Bills Finance Co., Ltd. (MBF)

MBF's net profit after tax in 2016 reached NT$2,980,126 thousand, falling 1.01% compared to NT$3,010,436 thousand in 2015. The reduction in profit is largely attributed to the decline in gains on disposal of equity investments. The company proposes to raise its equity investment profit by deeply conducting fundamental and technical analysis on target securities and grasping the market opportunities. Its low-yield corporate bond portfolio will be replaced with stocks with good credits and high dividend yields, to increase the profits.

Chung Kuo Insurance Co., Ltd. (CKI)

CKI's net profit after tax in 2016 amounted to NT$101,175 thousand, a 75.50% decrease compared to NT$413,013 thousand in 2015. As a result of higher claims for natural disaster (earthquake, typhoon and flood) and business insurance (large fire insurance, marine hull insurance and marine cargo insurance), underwriting profit for the year declined dramatically. Non-operating income also fell because of the foreign exchange losses and decreased interest income resulting from interest rate cut. The company will continue to conduct product structure adjustment, reinforce underwriting profits and increase fund utilization income, to boost the overall profits.

Mega Assets Management Co., Ltd.

In 2016, the company reported a net profit after tax of NT$394,951 thousand, a 15.78% decline compared to NT$468,947 thousand in 2015. The reduction is in large part attributable to lack of auction of non-performing loans as the NPL ratio of financial institutions fell dramatically. The company's NPL portfolio is therefore in low level. Aside from continually acquiring NPL assets in the auction markets, the company will actively develop bid services to increase service fee income.

Mega Life Insurance Agency Co., Ltd. (MLIA)

MLIA posted a net profit after tax in 2016 of NT$509,493 thousand, a 41.51% increase from NT$360,045 thousand in 2015 mainly due to the increase in commission income. The hot sale of certain quasi-time-deposits products and saving-linked products in the bank channel contributed to the growth in commission income.

Mega Venture Capital Co., Ltd. (MVC)

MVC recorded a net profit after tax in 2016 of NT$23,369 thousand, falling 17.84% from NT$28,442 thousand in 2015. The profit reduction was largely because of increase in operating expense (performance bonus) and income tax expense. In order to improve the investment performance, the company will continue to improve its portfolio by investing in those companies with positive industrial prospect, healthy management, vice versa, the companies will also cut-loss on those companies which have unknown prospect, poor operation.

Mega International Investment Trust Co., Ltd. (MIIT)

MIIT posted a net profit after tax in 2016 of NT$80,125 thousand, a 14.71% drop from the NT$93,944 thousand in 2015 primarily due to the reduction in investment income, the increase in foreign exchange loss and adjustment of income tax. The company will not increase any more foreign-currency assets in 2017. If the New Taiwan Dollar depreciates against the U.S. Dollar in the future, the unrealized foreign exchange loss can be reversed.

Taipei Financial Center Corporation (TFCC)

TFCC posted a net profit in 2016 for NT$2,136,809 thousand, up NT$100,559 thousand or 4.93%, from NT$2,036,250 thousand recorded in 2015, primarily owing to the reduction in interest expense. Its operating income increased by NT$14,368 thousand compared to 2015, while non-operating expenses decreased by NT$107,014 thousand. The lease ratio, the rent collection ratio, and average monthly rent of the office building all increased from 2015 levels. Currently, government controlled entities own 52.08% of the shares outstanding, while the Ting Hsin International Group owns 37.18%, making it the largest non-government shareholder.

Taiwan Depository & Clearing Corporation (TDC)

TDC recorded a net profit after tax in 2016 of NT$1,438,226 thousand, down by NT$189,191 thousand or 11.63% from NT$1,627,417 thousand in 2015. The reduction of profit was largely due to the NT$108,427 thousand increase in operating expenses and the NT$76,255 thousand reduction in securities service revenues.

Taiwan Business Bank (TBB)

TBB posted a consolidated net profit after tax in 2016 of NT$5,195,699 thousand, up NT$82,663 thousand or 1.62%, from NT$5,113,036 thousand in 2015. The profit growth was mainly due to the NT$522,264 thousand increase in net revenue which offset the NT$231,529 thousand increase in operating expense and a NT$136,639 thousand increase in provisions for bad debts expense. As of the end of 2016, its NPL ratio slightly decline to 0.43% from 0.48% in 2015, while the coverage ratio rose to 277.63% from 231.22% recorded in 2015.

7.5.3 Investment Plans for 2017

- Continuing to evaluate and explore opportunities for merging with financial institutions that are complementary to our operations and can enhance synergy within the Group.
- Evaluating the feasibility of access to overseas and China's financial markets.

7.6 Analysis of Risk Management

7.6.1 Risk Management Structure and Policy

Risk Management Structure

As the highest authority for the Group's risk management, the Board of Directors of the Company takes full responsibility for the Group's risk management mechanism and its effective operation. The Risk Management Committee of the Company chaired by the Chairman formulates the execution of the Group's risk management policy and reports to the Board. The Risk Management Department of the Company performs the daily oversight works and provides risk reports. And, the Auditing Office of the Board takes charge of evaluating the effectiveness of internal control systems and the efficiency of the Group's operations.

The Company and its subsidiaries have established a defined risk management organization and framework in accordance with the three lines of defense as indicated by the competent authority. Respective business units are responsible for identifying, evaluating and controlling possible risks according to their operating procedures and the internal control process, which form the first line of defense in risk management. Risk management and legal compliance units, on the other hand, are responsible for establishing applicable risk management specifications, reviewing, monitoring and reporting overall risk, which are the second line of defense. The audit unit performs independent assessments and ensures that the risk management mechanism is solid and consolidated and hence is the third line of defense. The Company has established regulations for monitoring respective risks and the capital adequacy throughout the Group in accordance with the "Risk Management Policy and Operating Guidelines". Respective subsidiaries have also established the risk management objectives, limits and applicable rules reflective of their operational properties so that they can perform risk management tasks and periodically report the management status to the Company's Risk Management Committee and the Board of Directors.

Risk Management Policy

The purposes of our risk management policy are to build mechanisms for identifying, evaluating, responding to, supervising, and controlling risks arising from various businesses and to carry out consistent approaches to evaluate and manage all risks to ensure that the management team of the Company is well-informed regarding the Group's overall risk profile. Additionally, the policy aims to ensure the capital adequacy of our subsidiaries to pursue rationalized risk and reward.

7.6.2 Risk Management Tasks and Quantification of Risk Exposure

Risk Management Tasks

The Company has set out medium and long-term risk management goals for the Group, and has established a risk management strategy in line with the latest Basel standards as required by the competent authority. The major tasks of risk management are to set and monitor the annual risk management targets and early warning indicators for the Group; to enhance horizontal interaction among subsidiaries for the risk management practices; to encourage the implementation of advanced risk management tools and approaches; to supervise the subsidiaries building their risk management systems; to establish and amend the policy, regulations and limits of risk management for the Group; to review risk management rules and regulations; and to monitor capital adequacy, total business exposure and risk concentrations of the subsidiaries. The Company's risk management tasks are described as follows.

(1) Credit risk:

The Company uniformly defines operations, target exposures and statistical methods with respect to credit risk management, which applies to all subsidiaries within the Group; the subsidiaries will then periodically upload operational data to the Company. The Risk Management Department periodically monitors the extent of concentration of respective credit exposures throughout the Group for out-of-limit levels, if any, and reports to the Group and the Company's Risk Management Committee and Board of Directors the credit risk profile.

(2) Market risk:

The Company has established a Value at Risk (VaR) market risk management system. With transaction data of financial instruments uploaded on a daily basis from respective subsidiaries, possible market risk for the next day is to be estimated with the historical simulation method. In addition, market price evaluation of respective subsidiaries' financial product transactions are monitored on a daily basis to see if they are within the range of estimated losses and issuance of warning can be processed appropriately. In order to reinforce management over interest rate risk, the DV01 model is adopted to evaluate the gains and losses in the ratings of interest rate commodities as a result of variation in the yield to maturity. For non-trading book's interest rate sensitive assets and liabilities, the possible effects of the interest rate sensitivity gap to the net interest income and expenditure are evaluated.

(3) Operational risk:

The Company has established on its own an internal operational risk loss database for the whole Group. Following the eight major types of business and seven major types of loss events as advised in the Basel Accord, detailed operations within the Group are defined and jointly categorized. Respective subsidiaries are to upload loss events with respect to the operational risk and punishments by the competent authority in a custom format periodically into the database to facilitate the analysis of loss event patterns and the concentration of and correlation among respective types of business. In addition, to reinforce the awareness of risk among subsidiaries and to facilitate improvement of the operating procedure, operational risk self-assessments are specified and organized centrally by the Company.

(4) Liquidity risk:

The Company and its subsidiaries periodically monitor liquidity risk indicators, perform capital allocation transactions, report capital liquidity status from time to time, and periodically discuss the limits according to respectively approved gap limits. Subsidiaries periodically upload capital in-flow and out-flow profiles to the Company so that the management can keep track of the capital gap status of each subsidiary.

(5) Other risk management tasks:

Capital ratios: to monitor and control subsidiaries' various capital to debt ratios at the levels set and approved by the Board of Directors, in order to ensure a robust capital structure.

ALM: to monitor and control the Group and subsidiaries' interest rate and foreign exchang rate risks within the management targets, in order to ensure healthy assets and liabilities allocation.

Quantification of Risk Exposure

Mega International Commercial Bank

(1) Credit risk

The Capital Requirement for Credit Risk under Standard Approach

December 31, 2016; Unit: NT$ thousand

Exposure types	Exposures after credit mitigation	Capital requirement
Sovereigns	651,608,165	579,224
Non-central government public sector entities	332,518	5,320
Banks (including multilateral development banks)	409,301,505	11,848,232
Enterprises (including securities firms and insurance companies)	1,469,931,331	100,920,067
Regulatory retail portfolios	220,663,821	14,755,872
Residential property	243,754,095	12,256,089
Equity investment	15,137,735	4,333,185
Other assets	34,261,971	1,793,223
Total	3,044,991,141	146,491,213

Note: Capital requirement=Exposures after credit mitigation*risk weighting*statutory capital adequacy ratio.

(2) Market risk

The Capital Requirement for Market Risk

December 31, 2016; Unit: NT$ thousand

Risk type	Capital requirement
Interest rate risk	1,773,618
Equity risk	533,947
Foreign exchange risk	563,091
Product risk	0
Total	2,870,656

(3) Operational risk

The Capital Charge for Operational Risk

December 31, 2016; Unit: NT$ thousand

Year	Gross profits	Capital requirement
2016	49,299,524	
2015	47,367,306	
2014	49,601,705	
Total	146,268,535	7,413,427

(4) Securitization Risk

The Capital Requirement for Securitization Framework

December 31, 2016; Unit: NT$ thousand

Bank category (Risk exposure category)	Book type	Asset category	Traditional – Exposure – Retained or purchased	Traditional – Exposure – For liquidity facility	Traditional – Exposure – For credit enhancement	Traditional – Exposure – Sub-total (1)	Traditional – Capital charge (2)	Synthetic – Exposure – Retained or purchased (3)	Synthetic – Capital charge (4)	Total – Exposure (5)=(1)+(3)	Total – Capital charge (6)=(2)+(4)	Total – Capital charge before securitization
Non-originating bank	Banking book	Mortgage loan	60,173			60,173	60,173			60,173	60,173	
	Trading book											
	Sub-total		60,173	-	-	60,173	60,173			60,173	60,173	
Originating bank	Banking book											
	Trading book											
	Sub-total											
Total			60,173	-	-	60,173	60,173			60,173	60,173	

(5) Liquidity Risk

Analysis of the Maturity Structure-NT Dollar

December 31, 2016; Unit: NT$ thousand

Item	Total	Amount Outstanding by Remaining Time to Maturity					
		0~10 days	11~30 days	31~90 days	91~180 days	181days~1 year	Over 1 Year
Major Inflows of Matured Funds	$1,755,269,500	$ 168,414,595	$ 180,071,201	$ 191,975,919	$ 198,777,659	$ 202,400,836	$ 813,629,290
Major Outflows of Matured Funds	2,437,483,830	109,575,849	173,464,798	298,729,968	275,651,699	481,489,585	1,098,571,931
Period Gap	($ 682,214,330)	$ 58,838,746	$ 6,606,403	($ 106,754,049)	($ 76,874,040)	($ 279,088,749)	($ 284,942,641)

Note: The above table reports the N.T. dollars position held by the Bank.

Analysis of the Maturity Structure-US Dollar

December 31, 2016; Unit: US$ thousand

Item	Total	Amount Outstanding by Remaining Time to Maturity				
		0~30 days	31~90 days	91~180 days	181days~1 year	over 1 year
Major Inflows of Matured Funds	$ 49,616,397	$ 19,875,115	$ 7,124,975	$ 3,407,806	$ 2,521,586	$ 16,686,915
Major Outflows of Matured Funds	61,855,679	22,461,490	8,469,306	5,147,899	6,649,376	19,127,608
Period Gap	($ 12,239,282)	($ 2,586,375)	($ 1,344,331)	($ 1,740,093)	($ 4,127,790)	($ 2,440,693)

Note: The above table reports the U.S. dollars position held by the Bank.

Analysis of the Maturity Structure-US Dollar of Overseas Branches

December 31, 2016; Unit: US$ thousand

Item	Total	Amount Outstanding by Remaining Time to Maturity				
		0~30 days	31~90 days	91~180 days	181days~1 year	over 1 year
Major inflows of matured funds	$ 19,234,224	$ 10,148,675	$ 2,547,692	$ 790,346	$ 825,862	$ 4,921,649
Major outflows of matured funds	21,533,211	10,478,428	1,219,097	844,573	818,041	8,173,072
Period gap	($ 2,298,987)	($ 329,753)	$ 1,328,595	($ 54,227)	$ 7,821	($ 3,251,423)

Mega Bills Finance Co., Ltd.

(1) Credit risk

The Capital Requirement for Credit Risk under Standard Approach

December 31, 2016; Unit: NT$ thousand

Exposure types	Capital requirement	Risk assets
Sovereigns	0	0
Non-central government public sector entities	3,733	46,666
Banks (including multilateral development banks)	167,637	2,095,465
Corporations (including securities firms and insurance companies)	11,664,299	145,803,732
Regulatory retail portfolios	34,456	430,697
Equity investment	64,704	808,800
Other assets	250,735	3,134,189
Total	12,185,564	152,319,549

(2) Market risk

The Capital Requirement for Market Risk under Standard Approach

December 31, 2016; Unit: NT$ thousand

Exposure type	Capital requirement	Risk assets (Note)
Interest rate risk	6,698,272	83,728,400
Equity risk	199,986	2,499,825
Foreign exchange risk	6,538	81,725
Product risk	0	0
Stock option processed with simplified method	0	0
Total	6,904,796	86,309,950

Note: Capital charge times 12.5

(3) Operational risk

The Capital Requirement for Operational Risk under Basic Indicators Method

December 31, 2016; Unit: NT$ thousand

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

(4) Securitization risk

The Capital Charge for Securitization Framework

December 31, 2016; Unit: NT$ thousand

Bank category \ Book type \ Risk exposure category		Asset category	Traditional: Exposure: Retained or purchased (1)	Traditional: Capital charge (2)	Synthetic: Exposure: Retained or purchased (3)	Synthetic: Capital charge (4)	Total: Exposure (5)=(1)+(3)	Total: Capital charge (6)=(2)+(4)	Total: Capital charge before securitization
Non-originating bank	Banking book								
	Trading book								
		Rent receivable		513,119	29,509	513,119	29,509		
	Sub-total			513,119	29,509	513,119	29,509		
Originating bank	Banking book								
	Trading book								
	Sub-total								
Total				513,119	29,509	513,119	29,509		

(5) Liquidity risk

Analysis of the Maturity Structure

December 31, 2016; Unit: NT$ million

	Total	Amount Outstanding by Remaining Time to Maturity: 0~30 days	31~90 days	91~180 days	181days~1 year	over1 year
Major inflows of matured funds	260,363	68,857	50,323	9,502	11,221	120,460
Major outflows of matured funds	228,108	191,258	33,510	3,116	204	20
Period gap	32,255	(122,401)	16,813	6,386	11,017	120,440
Cumulative gap		(122,401)	(105,588)	(99,202)	(88,185)	32,255

Mega Securities Co., Ltd.

(1) Counterparty’s country risk

December 31, 2016; Unit: NT$ million

Country Exposure	Deposits	Securities	Derivatives	Total	As a percentage of shareholder’s equity
Cayman Islands	0	658,768	0	658,768	4.60%
USA	168,670	378,523	0	547,193	3.82%
China	3,012	521,248	0	524,260	3.66%
Hong Kong	0	467,145	0	467,145	3.26%
Australia	0	323,110	0	323,110	2.26%
New Zealand	0	259,000	0	259,000	1.81%
Luxembourg	72,834	0	0	72,834	0.51%
Japan	0	32,293	0	32,293	0.23%
Singapore	0	32,079	0	32,079	0.22%

(2) Liquidity Risk

Analysis of the Maturity Structure

December 31, 2016; Unit: NT$ million

	Total	Amount Outstanding by Remaining Time to Maturity					
		1~10 days	1~30 days	1~90 days	1~180 days	1day~1 year	1day~Over 1 year
Major inflows of matured funds	39,364	16,971	29,922	30,362	31,316	36,026	39,364
Major outflows of matured funds	30,329	16,527	25,363	27,807	28,004	29,670	30,329
Cumulative gap		444	4,559	2,555	3,312	6,356	9,035

Chung Kuo Insurance Co., Ltd.

December 31, 2016; Unit: NT$ thousand

Exposure	Risk capital	As a percentage of the risk capital before adjustment
1. Asset risk	608,542	19.47%
2. Credit risk	135,936	4.44%
4. Underwriting risk	2,245,585	73.33%
5. Asset liability allocation risk	6,435	0.21%
6. Other risk	65,918	2.15%
Risk capital amount before adjustment	3,062,416	100.00%
Risk capital amount	890,167	
Equity capital amount	6,581,472	
Capital Adequacy Ratio	739.35%	

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

Please refer to p.10 "Impact from External Competition, Rules and Regulations, and the Overall Operation Environment" of this annual report.

7.6.4 Impact on the Company's financial standing due to technological or industrial changes, and corresponding countermeasures

(1) Impacts of technology changes on finances and business of banks

Impacted by technological advancement in the information and communication industry, the management pattern of the banking industry is faced with major reforms and challenges. Advanced technology needs to be applied to operating procedures of the financial industry in order to break barriers set by the geographical location and business hours.

Technological advancements have not only resulted in changes in the habit of users but also further expedited digitalization and maximized the scope of application of related technologies. Banks need to adequately adjust or seek innovations in the patterns and contents of various types of services they offer reflective of customers' needs and changes on the external market and be able to provide customers with diversified digital financial services taking advantage of the electronic technology so that customers can have access various cash flow services rapidly and safely over the Internet. Impacts of technology on financial operations of banks are described as follows:

- With mobile devices becoming more and more popular, customers mostly rely on mobile phones or tablets in their daily life. Banks should meet customer's demand by providing mobile financial services and integrating various payment services.

- In response to the developmental trends of Bank 3.0, banks are stepping up digitalization in their operations. Traditional manual works are turned into online transaction. In light of the constantly growing amount of digital transactions and number of users, banks should continue to invest in information systems while at the same time introducing new information technologies in order to ensure stability and expansion of services.
- By promoting digitalized transactions, banks can effectively bring down the operating and manpower cost of physical channels, maintain their relationships with customers and expand the scope of cooperation accordingly while at the same time obtaining various data to help understand and explore customers' needs.
- The market for online shopping in Mainland China is growing rapidly. Banks in Taiwan are competing against each other to work with a third-party payment service provider in Mainland China and grasp the collection and payment opportunities brought about by cross-strait and cross-border cash flows for enhanced income.

(2) Responsive measures

In light of the fact that the success or failure of financial operations in the contest are dependent on speed and cost, banks have to proactively promote and develop e-banking, increase their investment in computer equipment, strengthen the use of high-tech communication equipment and the Internet; and provide customers with rapid, low-cost, and safe services in order to attract new customers and retain existing ones.

- Promote products through digital media marketing, use of characteristics of mobile devices; and strengthen the digital brand image by working with social media, using word of mouth marketing and managing the customer base over the long-term.
- Initiate online banking and renovate mobile banking by introducing user experience design, optimizing the operating procedure, and strengthening mobile service features in order to address customers' needs for digital finance.
- Continue to develop new digital financial instruments (such as mobile ATM cards, card-less withdrawals, mobile OTP, point platform, collection platform, and collection and payment services for cross-border online transactions) in order to improve customer loyalty.
- Turn over-the-counter service features digital, provide online transaction and branch pre-processing features, and introduce robotic service to reduce the work load for bank clerks and to improve quality of service of the bank at the same time.
- Have external consultants to help the bank build the ability to analyze big data and train people to do so through an autonomous analysis model that can render visualized charts to serve as reference when investigating potential customers, for risk control, and upon development of products.
- Enhance digital financing education and training for employees to boost their knowledge and skills in using a computer and equip them with basic marketing capabilities.
- Proactively invest in related applications, innovations and R&D efforts, make best use of data value, and create a brand new financial service platform that helps explore various potential customers and business opportunities focusing on the five technical dimensions for cloud-computing, information security, mobile application, big data, and the Internet of Things.
- In order to boost the competitiveness of online collection business, the online collection platform is completely set up to provide cross-border collection service.

Impacts of changes in the industry and responsive measures

(1) Impacts of industry changes on finances and business of banks

In order to boost domestic economic growth, the government is proactively promoting the projects of "Expanding Investment Solution" and the "Five Plus Two Plus Two" innovation industry. These projects focus on four dimensions including facilitating economic transformation and upgrade, optimizing the investment environment, inspiring private investments, boosting investments in state-owned and pan-state-owned businesses, and strengthening digital innovation. Hopefully, these projects will boost the economy over the short term, create the next-generation industry for the mid-to-long term and increase the overall growth potential benefits.

To realize a digital country, smart island, high-value service industry, non-nuclear homeland, and energy-saving and carbon reduction vision, the Taiwan government intends to drive growths of next-generation industries through development of the following industries:

- Biotech medicine, Asian Silicon Valley, smart machinery, green technology, and national defense industry, namely five major innovative industries
- New agriculture and circular economy, namely two major sustainable industries
- "Digital country˙Innovative economy" and "Cultural technology"

This will bring development opportunities for manufacturers in related fields and accordingly drive growths in bank business.

(2) Responsive measures

In order to strengthen industrial analysis and to keep track of industrial dynamics, we not only subscribe to professional industrial economy databases for our people to access and read in real time online but also hold the Credit Investigation Workshop periodically in order to reduce credit risk. In addition, for reinforced loan risk management, our loan policy has set loan risk undertaking limits for major industries and business group, respectively, in order to decentralize the impacts that changes to the industry have on the operation of the bank subsidiary.

7.6.5 Impact of changes in the corporate image on crisis management of the company and its subsidiaries, and corresponding countermeasures

To be consistent with the Group's "single brand" strategy, respective subsidiaries under the Company started to change their name to "Mega" in 2006 and continued to use the corporate logo of the Company ; hopefully, it will help shape a unified desired corporate image. In 2016, the New York Branch of Mega International Commercial Bank was fined by the NYDFS for failure to comply with anti-money laundering laws and regulations, which has had adverse impacts on the image of the Company and its subsidiaries. Mega International Commercial Bank has already established a responsible functional committee, an overseas management office, and an anti-money laundering center to reinforce supervision over compliance with laws and regulations in overseas branches and anti-money laundering practices. In addition, higher-ranking compliance officials in overseas branches have been comprehensively changed to be full-time staff and consultants have been hired to help improve the anti-money laundering operating procedures, reinforce the anti-money laundering monitoring system, and establish a compliance culture. Moreover, communication with the competent authority and the media will be reinforced in order to rebuild the professional and impartial quality image of the Group.

In addition, the Company has long been taking care of the disadvantaged to fulfill the corporate social responsibility. It performs social public welfare activities through Mega Charity Foundation and Mega International Commercial Bank Cultural and Educational Foundation under the Group, in an effort to promote its corporate brand image and create a peaceful society.

7.6.6 Expected benefits, possible risks and response actions of merger and acquisitions

1. When engaged in mergers and acquisition (M&A) activities, the Company will consider the 3S (scale, scope, and skills) benefits. By "scale", it refers to the economic scale; that is, how will the economic scale brought about by merging or acquiring a company or a group for the Company be, such as marketing channels? The second one is "scope", that is, the "economic scope", such as product line, among others. The third one, "Skills", is the management skill, such as management technique and technological level, among others. In addition, with M&A, the assessment will also be focused on how much the additional synergistic effect will be with addition of the said company or group for the Company or what will be the outcome for both parties following acquisition.
2. Possible risks associated with M&A include: (a) The M&A strategies and goals are inadequate; (b) The industry where the Company to be merged and acquired is not promising and the Company's profitability cannot be effectively improved; (c) The target company's real value is overestimated; (d) The target company's liabilities from legal lawsuits exceed expectations; (e) Major members of the management have left the company one after another in large numbers before and after the consolidation.
3. In order to avoid or reduce risks brought about by M&A, the Company will review and adjust M&A strategies based on actual needs by strictly screening M&A targets, performing due diligence and engaging a professional institution to perform assessments while at the same time arranging in advance matters following consolidation to maximize consolidation synergy.

7.6.7 Risks generated by business concentration and response measures

In order to avoid overly concentrated risks, the Company has the Group's Guidelines on Credit Risk Management in place that set limits for the same person, the same corporation or business group, the same industry, the same region/country to facilitate control; respective subsidiaries ought to follow the Guidelines.

- The subsidiary bank sets limits for loans to the same person, the same related party, the same affiliated business and related parties of the bank as required by the Banking Act; in addition, it classifies corporations and groups based on their credit rating and set the overall loan limits and limits for unsecured loans accordingly. Factors such as changes to the overall economic performance and industrial prospects are considered as part of the operating strategy and separate limits are set for the respective major industries according to their risk appetite for loan and credit. Reflective of the different levels of stability with the political regime, economic development potential, credit rating and solvency in each country, risk limits are established for respective countries and their risk level. In addition, exposures of each country is calculated on a monthly basis in order to prevent the over-concentration of risks in a certain country.

  Due to its unique business nature, the bills subsidiary of the Company holds relatively high positions in interest rate sensitive assets and is faced with relatively high interest rate volatility risks. As such, control over risk positions and risk durations is particularly reinforced. As far as the loan guarantee business is concerned, control over the credit risks of business group is reinforced. The operations, financial standing, and liabilities of groups and corporations are analyzed according to their credit status, corporate or group profile and highlights of the main business, among others and remainder of the loan credit is controlled according to each group's credit rating to enhance assets quality.

- The property and casualty insurance subsidiary of the Company has balanced developments of respective insurance operations and hence the risk of overconcentration is relatively low. Aside from the property insurance business from large corporations, the subsidiary is pro-actively expanding small-to-medium-sized companies' properties insurance and personal insurance in an effort to diversify sources of business.

7.6.8 Impact or risk associated with large transfers or changes in shareholdings by directors or major shareholders holding over 1%

The shareholdings of directors and major shareholders did not change significantly in 2016, so there was no impact on the share price and operations of the Company.

7.6.9 The influence of the change of ownership exerting on the company and its risk

As of the end of 2016, the government, state-owned enterprises and government-run pension funds totally hold around 25.78% shares of the Company. There has been no major ownership change as yet.

7.6.10 Lawsuit and non-lawsuit

Ex-Chairman Mr. Tsai and Ex-President Mr. Wu of Mega International Commercial Bank failed to proactively handle and respond to deficiencies to be improved as indicated in the report of examination by New York State Department of Financial Services (NYDFS), leading to a fine of US$180 million (equivalent to NT$5,751,953,509) as per the consent order entered into by and between Mega International Commercial Bank and NYDFS on August 19, 2016. Also because of this, Mega International Commercial Bank was determined by the Financial Supervisory Commission to have violated Article 45-1 Paragraph 1 of the Banking Act and was fined NT$10 million according to Article 129 Subparagraph 7 of the same Act. The Board of Directors of Mega International Commercial Bank resolved to make claims against Mr. Tsai and Mr. Wu on September 23, 2016. The Bank has already engaged attorneys to file a civil lawsuit against both Mr. Tsai and Mr. Wu with the Taiwan Taipei District Court on September 30, 2016 for NT$5,761,953,509 and apply for provisional seizure of their properties. The case is currently being handled at the court.

7.6.11 Other significant risks and response actions

Besides reinforced monitoring efforts and managing business and financial risks, the Company and each of the subsidiaries are gradually adjusting their risk management strategies by establishing related operational mechanisms to deal with risks that are gaining importance each day and have to do with compliance, information system abnormality, protection over personal data, regional politics and climate change, among others, and to improve the overall business competitive advantages and ability to safeguard against risks.

7.7 Crisis Management and Emergency Response

The Company has an emergency strain group and emergency event reporting system in place. In case of emergency, the "Emergency Event and Crisis Management Operating Mechanism" is activated and the concerned people including the convener of the emergency strain group are notified immediately as required so that the emergency strain group can take charge of handling and taking command in case of emergencies and accidents. From the onset of an emergency event to the conclusion of the event, related units should continue to collect and follow up on related news coverage and public response to facilitate determination and judgment by the decision-making supervisor. The spokesperson or the public relations department shall also adequately issue an external statement or get in contact with the media for clarification in case of an emergency event.

7.8 Other Significant Events: None.

Special Disclosure

8.1 Affiliated Companies Chart

Please refer to page 17 of this annual report.

8.2 Summary of Affiliated Companies

Dec. 31, 2016
Expressed in thousands of dollars

Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Mega International Commercial Bank Co., Ltd.	12.17.1971	No. 100 Jilin Road, Taipei, Taiwan	NTD 85,362,336	Commercial banking, consumer banking, wealth management, investment banking and financial consulting etc.
Mega Securities Co., Ltd.	10.19.1989	3F, No. 95, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan	NTD 11,600,000	Brokerage, dealing and underwriting of securities
Mega Bills Finance Co., Ltd.	05.03.1976	2~5F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 13,114,411	Brokerage, dealing, underwriting, and guaranteeing of short-term debt instruments
Chung Kuo Insurance Co., Ltd.	11.01.1931	58 Sec. 1, Wuchang Street, Taipei, Taiwan	NTD 3,000,000	Non-life insurance
Mega Asset Management Co., Ltd.	12.05.2003	6F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 2,000,000	Purchase, evaluation, auction and management of NPL
Mega Life Insurance Agency Co., Ltd	11.05.1996	19F, No. 123, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan	NTD 20,000	Life insurance agency
Mega Venture Capital Co., Ltd.	12.13.2005	7F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 1,000,000	Venture capital investment
Mega International Investment Trust Co., Ltd.	08.09.1983	7~8F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 527,000	Asset management
Mega Management & Consulting Co., Ltd.	01.16.2002	7F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 10,000	Venture capital management consulting, investment consulting and business administration consulting
Mega I Venture Capital Co., Ltd.	11.05.2003	7F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 337,500	Venture capital investment
Mega Futures Co., Ltd.	07.29.1999	2F, No. 95, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan	NTD 400,000	Futures brokerage Futures advisory services
Mega International Investment Services Co., Ltd.	11.20.1997	10F, No. 95, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan	NTD 20,000	Securities investment advisory
Mega Securities Holdings Co., Ltd.	05.05.1997	Suites 1109-1111, 11/F, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong	USD10,201	Investment holding business
China Products Trading Corp., Ltd.	12.29.1956	7F, No. 100 Jilin Road, Taipei, Taiwan	NTD 5,000	Investment in property, warehousing and other businesses(stop running business since 1966)
Yung-Shing Industries Co., Ltd.	12.09.1950	7F, No. 100 Jilin Road, Taipei, Taiwan	NTD 30,000	International trading and agency service for electronic data processing, printing and packaging
Win Card Co., Ltd.	11.10.2000	4~7F, No. 99, Sec. 3, Chongyang Rd., Sanchong Dist., New Taipei City 24145, Taiwan	NTD 20,000	Business administration consulting, advertising, and management of past due accounts receivable

Company	Date of Incorporation	Address	Paid-in Capital	Main Business
ICBC Assets Management & Consulting Co., Ltd.	02.13.2003	3F, No. 100, Jilin Road, Taipei, Taiwan	NTD20,000	Investment consulting, business administration consulting, venture capital management consulting
Mega International Commercial Bank (Canada)	12.01.1982	North York Madison Centre 4950 Yonge Street, Suite 1002 Toronto, Ontario, M2N 6K1, Canada	CAD 23,000	Commercial banking
Mega International Commercial Bank Public Co., Ltd.	08.08.2005	36/12 P.S. Tower, Asoke, Sukhumvit 21 Road, Klongtoey-nua, Wattana, Bangkok 10110, Thailand	THB 4,000,000	Commercial banking
Cathay Investment & Warehousing Ltd.	11.01.1982	Dominador Bazan y Calle 20, Manzana 31, P. O. Box 0302-00445 Colon Free Zone, Republic of Panama	USD 1,000	Renting of real estate
Cathay Investment & Development Corp. (Bahamas)	07.15.1969	Post Office Box 3937 Nassau, Bahamas	USD 5	International investment and development
Ramlett Finance Holdings Inc.	01.13.1982	Calle 50 y Esquina Margarita A de Vallarino, Entrada Nuevo Campo Alegre Edificio ICBC, No. 74, Panama	USD 20	Investment of real estate

8.3 Operational Highlights of Affiliated Companies

As of December 31, 2016
Unit: NT$ thousand, expect EPS in NT$

Company	Paid-in Capital	Total Assets	Total Liabilities	Stockholders' Equity	Operating Revenues (Net Revenue*)	Operating Income (Income before Tax*)	Net Income (After Tax)	Earnings per share (After Tax)
Mega International Commercial Bank	85,362,336	2,958,683,761	2,701,119,514	257,564,247	45,180,643*	23,057,927*	19,009,961	2.23
Mega Securities Co., Ltd.	11,600,000	44,853,470	30,538,327	14,315,143	2,163,056	(124,042)	33,650	0.03
Mega Bills Finance Co., Ltd.	13,114,411	264,302,201	230,523,143	33,779,058	4,321,709*	3,571,045*	2,980,126	2.27
Chung Kuo Insurance Co., Ltd.	3,000,000	16,458,507	10,414,861	6,043,646	4,632,448	174,291	101,175	0.34
Mega International Investment Trust Co., Ltd.	527,000	912,818	84,367	828,451	365,161	101,958	80,125	1.52
Mega Asset Management Co., Ltd.	2,000,000	12,093,138	9,235,410	2,857,728	715,142	562,915	394,951	1.97
Mega Life Insurance Agency Co., Ltd.	20,000	795,428	224,952	570,476	1,943,531	610,886	509,493	254.75
Mega Venture Capital Co., Ltd.	1,000,000	741,419	6,729	734,690	56,400	25,845	23,369	0.23
Mega Management & Consulting Corporation	10,000	83,546	14,223	69,323	65,703	41,649	34,819	34.82
Mega I Venture Capital Co., Ltd.	337,500	88,173	92	88,081	376	(12,198)	(12,147)	(0.36)
Mega Futures Co., Ltd.	400,000	2,396,377	1,860,379	535,998	251,930	6,008	22,089	0.55
Mega International Investment Services Co., Ltd.	20,000	43,412	15,920	27,492	39,419	1,211	1.161	0.58
Mega Securities Holdings Co., Ltd.	334,746	324,747	20	324,727	213	(1,964)	11,910	1.17
China Products Trading Corp., Ltd.	5,000	46,288	27,861	18,427	1,373	628	618	6.18
Yung-Shing Industries Co., Ltd.	30,000	1,021,028	249,364	771,664	158,341	7,284	58,297	194.32
Win Card Co., Ltd.	20,000	56,465	17,114	39,351	166,884	10,195	8,806	44.03
ICBC Assets Management & Consulting Co., Ltd.	20,000	25,106	328	24,778	5,607	1,834	4,363	2.18
Mega International Commercial Bank (Canada)	549,672	5,212,257	4,234,485	977,772	121,155*	14,179*	10,476	45.55
Mega International Commercial Bank Public Co., Ltd.	3,594,400	18,162,617	13,322,753	4,839,864	650,559*	267,123*	213,403	0.58
Cathay Investment & Warehousing Ltd.	32,206	53,733	334	53,399	3,947	(2,820)	(2,820)	(2,819.78)
Cathay Investment & Development Corp. (Bahamas)	161	59,892	0	59,892	2,616	2,541	2,541	508.16
Ramlett Finance Holdings Inc.	644	60,303	55,976	4,327	8,678	1,190	1,190	793.41

Note: 1. Par value of common stocks of Mega Securities Holdings Co., Ltd. and Yung-Shing Industries Co. is US$1, and NT$100 per share, respectively.
2. Exchange rates are as follows:

Balance Sheet Items	Income Statement Items	Company Name
USD 1 = NTD 32.2060	USD 1 = NTD 32.2103	Cathay Investment & Warehousing Limited, Cathay Investment & Development Corp. (Bahamas), and Ramlett Finance Holdings Inc.
CAD 1 = NTD 23.8988	CAD 1 = NTD 24.3626	Mega International Commercial Bank (Canada)
THB 1 = NTD 0.8986	THB 1 = NTD 0.9132	Mega International Commercial Bank Public Co., Ltd.
HKD 1 = NTD 4.1523	HKD 1 = NTD 4.1504	Mega Securities Holdings Co., Ltd.

Mega Financial Holding Co., Ltd.

Chairman