



Mega Financial Holding Co., Ltd.

Annual Report 2017

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Mega Financial Holding Co., Ltd.

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## Contents

<b>Letter to Shareholders</b>	<b>2</b>
1.1 Review of Business Operations in 2017	4
1.2 Business Plan for 2018	10
1.3 Future Development Strategies	10
1.4 Impact from External Competition, Rules and Regulations, and the Overall Operation Environment	11
1.5 Credit Ratings	11
<b>Company Profile</b>	<b>13</b>
2.1 Date of Incorporation	14
2.2 Company History	14
<b>Corporate Governance Report</b>	<b>15</b>
3.1 Organization	16
3.2 Directors and Management Team	18
3.3 Implementation of Corporate Governance	32
3.4 Information on External Auditor Fee	60
3.5 Changes of External Auditors	60
3.6 The Company's Responsible Persons Hold a Position at the Accounting Firm or its Affiliated Enterprises	61
3.7 Changes in Shareholding	62
3.8 Information Disclosing the Relationship between Any of the Company's Top Ten Shareholders	63
3.9 Long-term Investment Ownership	64
<b>Capital Overview</b>	<b>65</b>
4.1 Capital and Shares	66
4.2 Issuance of Corporate Bonds	69
4.3 Preferred Stock, Issuance of Depositary Receipts, Employee Stock Options, New Restricted Employee Shares	70
4.4 Mergers with or Acquisitions of Other Financial Institutions	70
4.5 Capital Utilization Plans and Execution Status	70
<b>Operational Overview</b>	<b>71</b>
5.1 Business Overview	72
5.2 Benefits of Cross Selling	87
5.3 Market Overview	88
5.4 Human Resources	90
5.5 Corporate responsibility and ethical conduct	91
5.6 Employee Average Welfare of Non-supervisor	91
5.7 Information equipment	91
5.8 Labor Relations	93
5.9 Important Contract	94
<b>Financial Information</b>	<b>95</b>
6.1 Five-Year Financial Summary	96
6.2 Five-Year Financial Analysis	100
6.3 Examination Report of the Audit Committees	104
6.4 Consolidated Financial Statements	105
<b>Review of Financial Conditions, Operating Results, and Risk Management</b>	<b>211</b>
7.1 Analysis of Financial Status	212
7.2 Analysis of Financial Performance	213
7.3 Analysis of Cash Flow	214
7.4 Influence from Major Capital Expenditures in 2017	215
7.5 Investment Strategies in the Past Year and Investment Plan for the Coming Year	215
7.6 Risk Management	217
7.7 Crisis Management and Response Mechanism	235
7.8 Other Significant Events	235
<b>Special Disclosure</b>	<b>236</b>
8.1 Affiliated Companies Information	237
8.2 Private placement of securities in the most recent year and current year up till the publication date of this annual report	240
8.3 Disposal of the Company's shares by subsidiaries in the most recent year and current year up till the publication date of this annual report	240
8.4 Other supplementary notes, where applicable	240
8.5 Occurrences that are significant to shareholders' equity or securities prices, as defined in Subparagraph 2, Paragraph 2 of Article 36 of the Securities and Exchange Act	240

# Letter to Shareholders



The trend of simultaneous strengthening among the economies of developed and emerging markets appeared for the first time in late 2016. In 2017, the leading international economic forecast institutions raised their global economic growth predictions many times. Economic recovery is robust with the highest growth rates since 2011. The US economy performed exceptionally well with private investments providing the main growth impetus. The Eurozone benefited from diminishing political risks and recovering trade



Chao-Shun Chang, Chairman of the Board

momentum. The overall economic outlook is bright. In Japan, exports and capital expenditures increased significantly and the deflation pressures decreased. The Chinese economy is staging a comeback, and imports and exports are picking up steam. Looking ahead to 2018, the International Monetary Fund (IMF) forecasts the stable growth of investments and consumption in advanced economies, which will spur economic expansion. On April 17, 2018, the IMF forecasts global economic growth of 3.9% for 2018. The IMF believes that the US tax reform will stimulate the US economy and provide a boost for the main trading partners of the US. This will also strengthen the global economy.

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

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

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



Kuang-Hua Hu, President

## 1.1 Review of Business Operations in 2017

### 1.1.1 Global and Domestic Financial Environment

In 2017, the US dollar index (USDIX) dropped by 10%, reversing an eight-year trend of appreciation, marking the worst performance since 2003. In view of the strengthening momentum of the US economy and other positive stimuli such as the passing of the tax reform bill of the Trump administration, announcement of infrastructure projects and a Federal Reserve interest rate hike, the continued weakness of the US dollar is beyond market expectation.

In view of the global economic recovery, stable expansion of the European economy and greatly reduced political risks in 2018, the European Central Bank considers adjusting forward guidance and speed up monetary tightening. The trend of a strong Euro is expected to continue in 2018. Mainland China, on the other hand, benefits from economic stability, de-leveraging and a tightening monetary policy. Capital outflow and RMB depreciation pressures are likely to ease. Due to the fact that core CPI fall short of the targets by a wide margin, the loosening monetary policy is likely to continue in Japan. As a result of population aging, low birth rates and national defense issues, the budget expenditures are expected to reach a record high in 2018. The impact of the US tax reform and infrastructure projects on investments and the overall economy are currently still unclear. The pace of the Federal Reserve's interest rate hikes will depend on the inflation and the impact of the US government's fiscal stimulus policies. Monetary policies of major countries (USA, Europe, Japan, China) are expected to have a significant impact on the global economy and macroeconomic policies.

In domestic financial market, the NT dollar appreciated against the US dollar consecutively in 2017 due to a weak US dollar in international market. NT dollar against the US dollar was closed at 29.848 at the end of 2017, appreciating by 5.8% compared to the end of 2016 at 32.318. As for interest rates, the Central Bank has kept the key interest rates unchanged for seven consecutive quarters due to moderate inflation pressures and expectations, uncertainties in the global economic outlook and a sluggish domestic growth. Looking ahead, the domestic economic growth momentum is likely to remain stable in the wake of the global economic recovery and it is expected that the central bank will maintain its loose monetary policy to create a positive financial environment and boost economic growth.

### 1.1.2 Change in Organization Structure

As of the end of 2017, the subsidiary companies, in which the Company has direct controlling interest, remains the same as that of 2016. The subsidiary companies are Mega International Commercial Bank Co., Ltd., Mega Securities Co., Ltd., Mega Bills Finance Co., Ltd., Chung Kuo Insurance Co., Ltd., Mega International Investment Trust Co., Ltd., Mega Asset Management Co., Ltd., Mega Life Insurance Agency Co., Ltd. and Mega Venture Capital Co., Ltd.

### 1.1.3 Operating Results in 2017

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

Note : 1.All figures above are average monthly balance, except foreign exchange business.

2.Consumer financing excludes credit card loans.

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



## Mega Securities Co., Ltd. (MSC)

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

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

## Mega Bills Finance Co., Ltd.

Units: NT\$ million

Item	2017	2016	Change (%)
Underwriting and purchasing of bills	2,632,704	2,457,301	7.14
Issue amounts of commercial paper issued for funding purpose	2,237,849	2,165,844	3.32
Trading volume of bills	8,661,278	8,427,016	2.78
Trading volume of bonds	5,116,324	5,646,907	( 9.40)
Guaranteed issues of CP2 outstanding balance	152,652	152,160	0.32
Overdue credit amounts	0	0	-
Percentage of overdue credits (%)	0	0	-

## Chung Kuo Insurance Co., Ltd.

Unit: NT\$ million

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

## Mega International Investment Trust Co., Ltd.

Unit: NT\$ million

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



## Mega Asset Management Co., Ltd.

Unit: NT\$ million

Item	2017	2016	Change (%)
Gain from disposal of NPL and the underlying collateral	106	177	( 40.11)
Interest income	4	120	( 96.67)
Service income	370	419	( 11.69)
Total	481	715	( 32.73)

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

## Mega Venture Capital Co., Ltd.

Unit: NT\$ million

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

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

## Mega Life Insurance Agency Company Co., Ltd.

Unit: NT\$ million

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

### 1.1.4 Budget Implementation

#### The Company

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

Item	Final accounting figure, 2017	Budget figure, 2017	Achievement Rate (%)
Revenues	26,120,188	25,027,531	104.37
Expenses and losses	483,468	456,082	106.00
Net income before tax from continuing operations	25,636,720	24,571,449	104.34
Net income	25,734,515	24,246,573	106.14
Earnings per share	1.89	1.78	106.18

#### 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.	24,237,489	24,126,125	100.46
Mega Securities Co., Ltd.	692,683	562,541	123.13
Mega Bills Finance Co., Ltd.	3,211,521	2,945,840	109.02
Chung Kuo Insurance Co., Ltd.	465,597	469,880	99.09
Mega Asset Management Co., Ltd.	327,994	325,302	100.83
Mega Life Insurance Agency Co., Ltd.	458,866	355,129	129.21
Mega Venture Capital Co., Ltd.	19,205	17,013	112.88
Mega International Investment Trust Co., Ltd.	92,100	114,948	80.12

The budget achievement rate of Mega International Investment Trust Company stands at 80.12%, mainly due to the decline in the size of the money market fund and its management fee rates.

## 1.1.5 Financial Results

The Company's consolidated net profit before tax in 2017 amounts to NT\$29,280,727 thousand, an increase of NT\$1,363,514 thousand or 4.88% compared to 2016. The increase in consolidated net profit before tax is mainly due to the increase in non-interest income of NT\$6,409,796 thousand, which offsets the decrease in net interest income of NT\$1,813,528 thousand, while the operating expenses increased by NT\$2,778,429 thousand and provisions for bad debts expense and guarantee liability increased by NT\$454,325 thousand. The increase in non-interest income is mainly due to the increase in gain from financial assets and liabilities at fair value through profit or loss and reduction in penalty imposed by US government, which offsets the decrease in fee income and foreign exchange gain. The consolidated net profit after tax of the Company and its subsidiaries reached NT\$25,729,095 thousand, an increase of NT\$3,286,200 thousand or 14.64% from 2016. Its consolidated return on assets was 0.75%, while the consolidated return on equity reached 8.72%. A breakdown of the financial results of the Company and its subsidiaries in 2017 are shown in the table below:

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

Company	Net Income Before Tax	Net Income After Tax	Earnings Per Share	Return on Assets (%)	Return on Shareholders' Equity (%)
Mega FHC & Its Subsidiaries	29,280,727	25,729,095	1.89	0.75	8.72
Mega FHC (Unconsolidated)	25,636,720	25,734,515	1.89	7.81	8.72
Mega International Commercial Bank Co., Ltd.	24,237,489	21,523,410	2.52	0.70	8.26
Mega Securities Co., Ltd.	692,683	596,831	0.51	1.10	4.07
Mega Bills Finance Co., Ltd.	3,211,521	2,705,229	2.06	0.99	7.75
Chung Kuo Insurance Co., Ltd.	465,597	350,643	1.17	2.17	5.66
Mega Asset Management Co., Ltd.	327,994	272,303	1.36	2.27	9.67
Mega Life Insurance Agency Co., Ltd.	458,866	380,859	190.43	55.68	75.25
Mega Venture Capital Co., Ltd.	19,205	18,999	0.19	2.44	2.47
Mega International Investment Trust Co., Ltd.	92,100	78,458	1.49	8.40	9.39

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

### 1.1.6 Research and Development

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

1. The Company assessed the feasibility of mergers with and acquisitions of domestic and international financial institutions, established application functions of the VaR management system for financial products, developed credit risk limit control reports and application functions of the operational risk database systems, revised consolidated financial statements and financial risk reporting system in accordance with IFRS 9. An equity evaluation system for the Group is also developed.
2. Mega International Commercial Bank published the Mega Bank Monthly, which includes monographs and articles covering the latest international and domestic economic and financial news and is made public periodically on the bank's website. The bank finished creating the ATM white list mechanism, reinforcing various necessary security measures according to the Customer Security Programme (CSP) of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the network traffic management system and the X86 cloud platform. In terms of digital financial innovations, as of the end of 2017, a total of 96 financial patents were applied for and 46 of them were approved in 2017. In addition, continuous efforts have been made to optimize the big data core system, to explore customer demands, to develop and optimize digital savings accounts, mobile ATM cards and robotic services, among other digital financial services. By working together with external consultants, the bank's capabilities in analyzing data have been effectively enhanced and so has its digital marketing efficiency.
3. Mega Securities Company continued to reinforce its front office and back office system configuration, optimize the comprehensive e-commerce platform and its customer service features. It has also deployed the Channel Sales service model for wealth management business, offered central depository e-passbook services, Line@ "Mega wealth management secretary", AI voice recognition and security online services, and "e-radar" with individual stock price and quantity real-time alert services. Efforts in upgrade or establishment of the functions of its information system will also be continued.
4. Mega Bills Finance Company studied the feasibility of undertaking RP transaction of US dollar bonds with life insurance companies. It has been planning the Basel III system framework and practice, and strengthening AML/CFT and related risk monitoring. Besides, it called for the competent authority to relax the scope of derivatives transactions of bills finance companies. It also promoted book-entry system for issuance of short-term bills in primary market and the establishment of relevant information systems.
5. Chung Kuo Insurance Company developed a total of 316 new insurance products in 2017, including 2 products filed with the competent authority on a "prior approval" basis, 245 products on "file for recordation" basis and 69 products on "simple file for recordation" basis.
6. Mega International Investment Trust Company introduced multiple currencies products to develop the foreign currency investor base. It issued three funds namely Mega Taiwan Blue Chip 30 Umbrella ETF, Mega 3-Year Emerging Market Bond Fund, Mega 3-Year Emerging Asia Bond Fund. The Mega Taiwan Blue Chip 30 Umbrella ETF includes two sub-funds, Mega Taiwan Blue Chip 30 ETF and Mega Taiwan Blue Chip 30 Daily Inverse ETF.

## 1.2 Business Plan for 2018

### 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. Shaping a culture of risk management and enhancing risk management
4. Strengthening the information security management and digital processing capability
5. Reinforcing corporate governance and fulfilling corporate social responsibility
6. Promoting relationships with institutional investors and 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 2018 are as follows:

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

Business	Item	Budget for 2018
Banking	Average outstanding deposits	2,289,623
	Average outstanding loans	1,759,828
	Undertaking of foreign exchange	808,100
Bills Finance	Underwriting and purchasing of bills	2,472,600
	Trading volume of bills and bonds	12,205,150
	Guaranteed issues of CP2 average outstanding balance	153,000
Securities	Market share of brokerage	3.15%
P&C Insurance	Premium income	7,485

### 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) Faced with the competition from technology service providers that are setting foot in the financial industry, the banking sector has been proactively updating their software and hardware equipment, training their people and engaged in the transformation of financial services and enhancement of FinTech services. On December 29, 2017, the Legislative Yuan passed the Regulations Governing FinTech Development and Innovative Experiments (Regulatory Sandbox) after three readings. These regulations will be conducive to the establishment of an innovative experimental mechanism for FinTech. They will also facilitate coordination and cooperation between the financial and non-financial service industry, and thereby boost the development of FinTech in Taiwan and enhance the competitiveness of the financial sector.
- (2) In 2017, the Financial Supervisory Commission amended the “Rules Governing Offshore Banking Branches”, the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries”, the “Regulations Governing Anti-Money Laundering of Financial Institutions”, and the “Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Banking Business, Electronic Payment Institutions and Electronic Stored Value Card Issuers”. It is aimed at enhancing the legal compliance by financial institutions, attaching importance of AML/CFT, strengthening the qualifications, professional training, roles and functions of legal compliance personnel and compliance officers, and consolidating an anti-money laundering mechanism. OBUs are required to re-inspect the identities of customers, and conduct KYC as well as risk rating. In the short run, this will lead to a significant increase in costs of personnel training, system build-up and organizational adjustments for financial institutions. In the long run, it will be conducive to the overseas deployment and operations of the Taiwanese financial sector, and enhance its international competitiveness.

## 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	Sep. 15, 2017
	Moody's	A3	-	Stable	Jun. 13, 2017
Mega International Commercial Bank	Taiwan Ratings Corp.	twAA+	twA-1+	Stable	Oct. 16, 2017
	Moody's	A1	P-1	Stable	Dec. 20, 2017
	S & P	A	A-1	Stable	Oct. 16, 2017
Mega Bills Finance Co., Ltd.	Taiwan Ratings Corp.	twAA+	twA-1+	Stable	Sep. 15, 2017
Mega Securities Co., Ltd.	Taiwan Ratings Corp.	twAA	twA-1+	Stable	Sep. 15, 2017
Chung Kuo Insurance Co., Ltd.	Taiwan Ratings Corp.	twAA	-	Stable	Sep. 27, 2017
	Moody's	A3	-	Stable	Sep. 1, 2017
	S & P	A-	-	Stable	Sep. 27, 2017

Despite the threat of trade protectionism in early 2017, the global economy performed better than expected because the economic performances in America, Europe and numerous emerging economies exceeded expectations, and bulk commodity prices saw a gradual rise. However, the uncertainty in regards as the international politics, trade conflicts, economic and financial situations remains high. The unknown economic impact of trade policies of the Trump administration and the slowing economic growth in China add to the uncertainty of global economic performance and may inhibit economic growth in Taiwan. In response to domestic and international politics and economic trends, the Company constantly monitors changes in economy and finance, and adjusts its business direction to maximize shareholders' value. We are also committed to a continued strengthening of legal compliance, implementation of AML/CFT, internal audit and internal control mechanisms. The information and digital technology systems will continuously be enhanced as well to optimize information security and risk management in response to the increasingly strict international financial supervision and legal compliance standards. Furthermore, the Company will integrate the group's resources in its active engagement in social welfare, promotion of green and eco-friendly policies, and the fulfillment of its corporate social responsibility. Mega Financial Holding is firmly committed to achieving the goals entrusted by shareholders under the support of all shareholders. We fully expect that Mega Financial Holding will be able to turn crises into opportunities and restore the former glory.



Chao-Shun Chang  
Chairman of the Board



Kuang-Hua Hu  
President

# Company Profile





# 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
November 7, 2002	Acquired a 28.01% equity stake in the International Commercial Bank of China ("ICBC", now renamed as Mega International Commercial Bank Co., Ltd.)
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.
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.



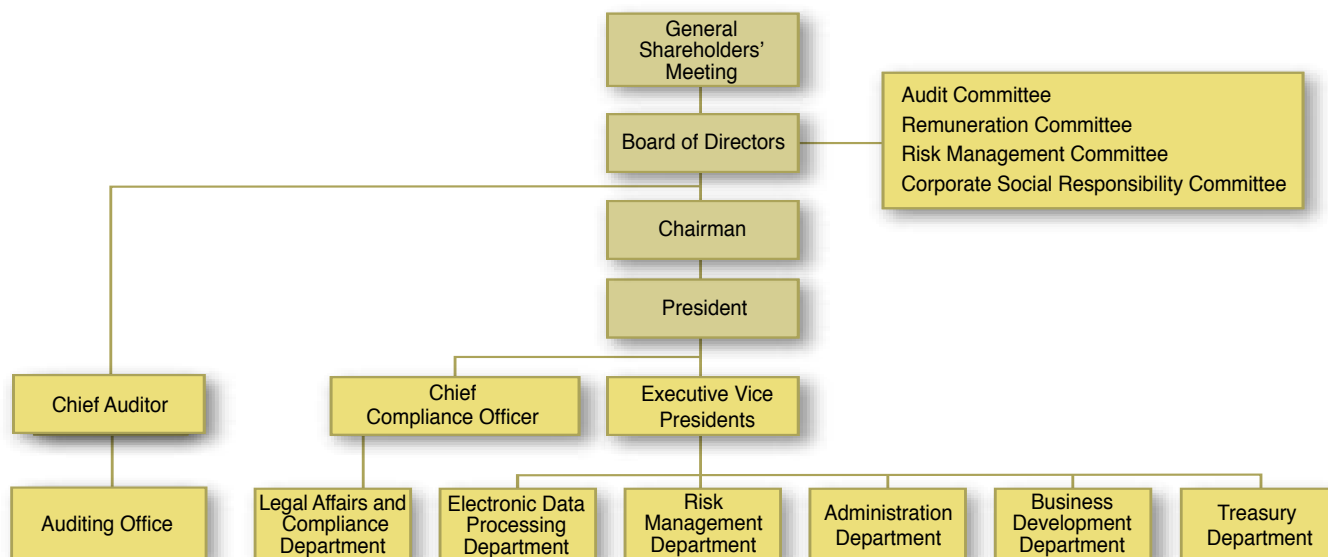
# Corporate Governance Report



# Corporate Governance Report

## 3.1 Organization

### 3.1.1 Organization Chart



### Major Corporate Functions

#### Auditing Office

- Internal audit and process compliance

#### Legal Affairs and Compliance Department

- Legal affairs
- Legal compliance affairs
- Group's plan of anti-money laundering and counter financing terrorism

#### Business Development Department

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

#### Treasury Department

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

#### Risk Management Department

- Risk management

#### Electronic Data Processing Department

- IT development and operation

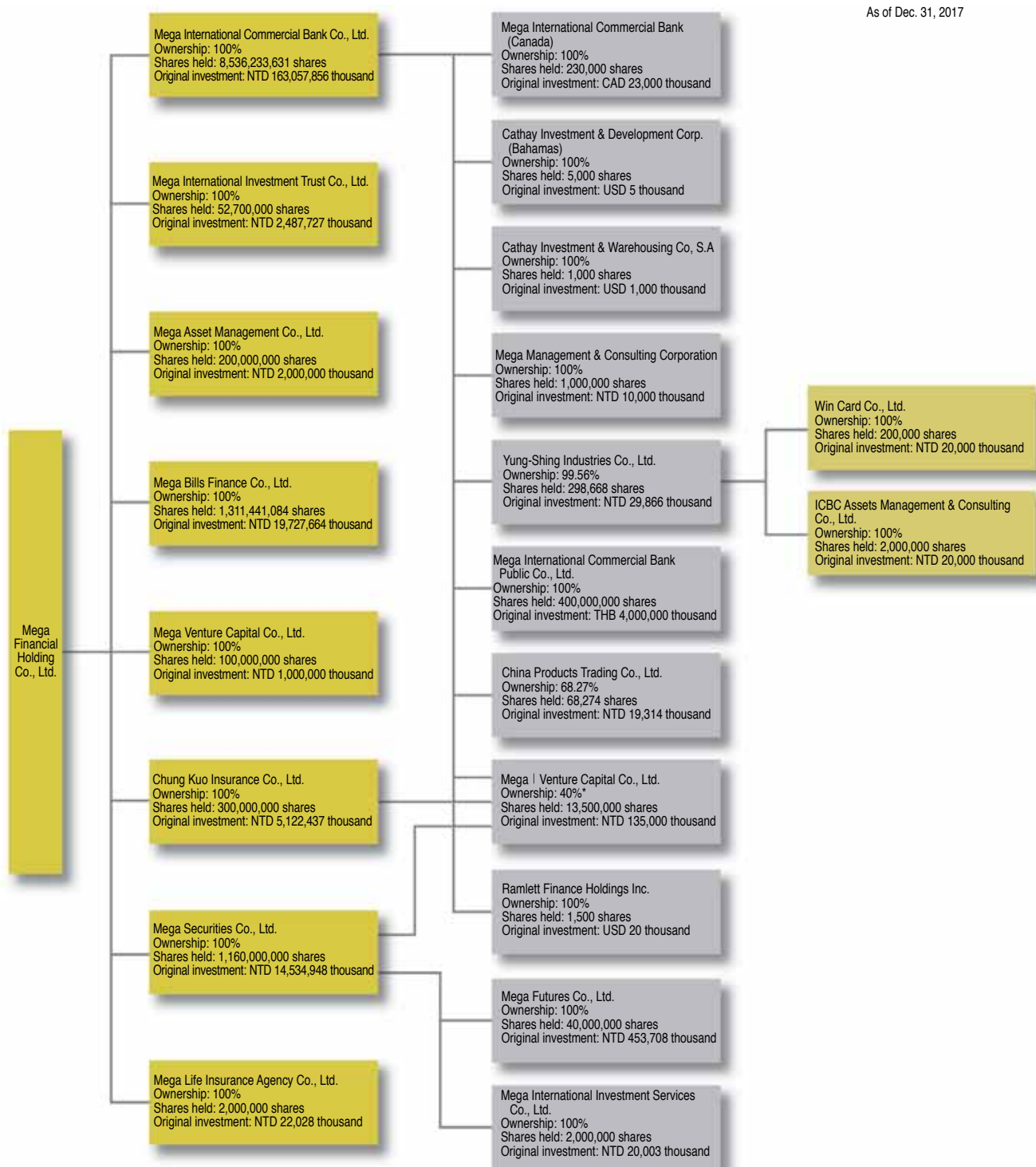
#### Administration Department

- Human resources management and staff training
- Corporate documentation, procurement and public relations
- Planning and administration of corporate governance, ethical management and corporate social responsibility



### 3.1.2 Affiliated Companies Chart

As of Dec. 31, 2017



\*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	1.84	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.	Kuang-Hua Hu (Representative of the Ministry of Finance, R.O.C.)	Male	02/07/2018	0.39	02/07/2018	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	07/01/2015	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

April 16, 2018

Experience & education	Other position	Executives, directors or supervisors who are spouses or within two degrees of kinship		
		Title	Name	Relation
Executive Vice President of Polaris Financial Group, Chairman of Oversea-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 Co., Ltd., Chairman of Mega Charity Foundation, Chairman of Mega Int'l Commercial Bank Cultural and Educational Foundation, Director of National Credit Card Center of R.O.C., Director of Financial Information Service Co., Ltd., Director of Taiwan Capital Buffalo Fund Co., Ltd.	None	None	None
Chief Secretary of Bank of Taiwan, Chief Secretary / Executive Vice President of Taiwan Cooperative Bank, Chairman of Taiwan Cooperative Bills Finance Corporation, Executive Vice President of Taiwan Cooperative Financial Holding Co., Ltd. & Taiwan Cooperative Bank  M.A. in Statistics, National Chung Hsing University B.A. in Business Administration, Iowa State University, U.S.A	Managing Director of Mega Int'l Commercial Bank Co., Ltd. Director of Mega International Investment Trust Co., Ltd.	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 Administration, Ministry of Finance, R.O.C.  M.A. in Management Science, National Chiao Tung University	Supervisor of Mega International Commercial Bank Co., Ltd., Director-General, Department of Fiscal, Statistical and Financial Affairs, Executive Yuan, R.O.C. Managing Director of the Institute of Internal Auditors-Chinese Taiwan	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  M.A. in Economics, Oklahoma State University, U.S.A. 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
Manager of Research Department, Taiwan Insurance Institute, Vice President / President of Taiwan Insurance Institute  M.A. in Public Finance, National Cheng-Chi University M.S. in Actuarial Science, University of Wisconsin-Madison, U.S.A. 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, Chairman of the United Association of Nuclear Energy Insurance of the Republic of China Chairman of Risk Management Society of Taiwan, R.O.C. Director of DaoNan Cultural and Educational Foundation, Director of Mega Charity Foundation	None	None	None
Director, 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
Executive Vice President, Fubon Securities Co., Ltd. Senior Vice President, Department of Planning of Fubon Financial Holding Co., Ltd. Executive Vice President, Capital Securities Corporation President of Concord Securities Co., Ltd.  M.A. in Accounting, National Chengchi University Ph.D. in Business Management, Remnin University of China	President of E-turn Management Consulting Inc. President of Lifeline Healthcare Co., Ltd. Supervisor of Young Fast Optoelectronics Co., Ltd. Independent Director of Shin Shin Co., Ltd.	None	None	None



# Corporate Governance Report

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-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
Director	R.O.C.	Jui-Chi Chou (Representative of Chunghwa Post Co., Ltd.)	Male	08/18/2017	0.86	08/18/2017	358,438,634	2.89	487,484,910	3.58	0	0	0	0
Director	R.O.C.	Jiunn-Rong Chiou (Representative of National Development Fund, Executive Yuan, R.O.C.)	Male	10/01/2017	0.73	10/01/2017	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 Co., Ltd.)	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	0.00098 0.00045	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	0.00004	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

Note : Ms. Shioh-Huey Yeh resigned on April 19, 2018 as the director of the Company.





April 16, 2018

Experience & education	Other position	Executives, directors or supervisors who are spouses or within two degrees of kinship		
		Title	Name	Relation
Director, Department of Administrative Police, Central Police University Director, Graduate Institute of Police Policy, Central Police University Adjunct Professor, Department of Law, National Chengchi University  M.A. in Law, College of Justice Administration, Central Police 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
Vice Chairperson of the Strategic Planning Committee of Chunghwa Post Co., Ltd.  B.A. in Journalism & Communication, Chinese Culture University	Executive Vice President, Chunghwa Post Co., Ltd. Chairman of Taiwan Postal Association	None	None	None
Committee Member, National Financial Stabilization Fund Management Committee, Executive Yuan, R.O.C. Vice President of Taiwan Institute of Economic Research  M.A. in Economics, National Taiwan University Ph.D. in Economics, National Taiwan University	Deputy Minister of National Development Council	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 Co., Ltd. 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, R.O.C.  B.A., National Taipei University of Business	Vice President of Digital Banking Department 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, Independent Director of Supreme Electronics Co., Ltd.	None	None	None
Research Fellow/Economic Policy Advisor of Chung-Hua Institution for 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	Adjunct Associate Professor, Department of Public Finance and Tax Administration, National Taipei University of Business Advisor of Chung-Hua Institution for Economic Research	None	None	None
Adjunct 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, 2017

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Ministry of Finance, R.O.C.	N.A.
National Development Fund, Executive Yuan, R.O.C.	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, 2017

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, 2017

Name	Criteria	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
Kuang-Hua Hu				✓		✓	✓	✓	✓		✓	✓	✓		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
Jui-Chi Chou				✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Jiunn-Rong Chiou	✓				✓	✓	✓	✓		✓	✓	✓	✓		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

The Article 31 of the Company's Corporate Governance Best Practice Principles stipulates that composition of the board of directors shall be determined by taking diversity into consideration, and directors concurrently serving as company officers shall not exceed one-third of the total number of the board members. An appropriate policy on diversity based on the Company's business operations, operating dynamics, and development needs are also formulated. As of the end of 2017, 4 of the 15 directors are female, accounting for 26.67% of the Board of Directors. 60% of directors are in the age between 50 and 59 years, while the remaining 40% of directors are in the age between 60 and 69 years. The average age of the directors is 59.87 years.

### 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	
Kuang-Hua Hu	Male	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
Jui-Chi Chou	Male	V	V	V				
Jiunn-Rong Chiou	Male	V	V	V	V	V	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.	Kuang-Hua Hu (Note 1)	Male	02/07/2018	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 (Note 2)	Female	02/21/2017	50,000	0.00	0	0.00	0	0.00
Chief Internal 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	40,000	0.00	0	0.00	0	0.00
Chief Secretary of the Board	R.O.C.	Han-Yin Ting (Note 3)	Female	05/23/2017	60,000	0.00	0	0.00	0	0.00
Senior Vice President	R.O.C.	Jui-Ying Tsai	Female	11/22/2016	262,766	0.00	0	0.00	0	0.00
Senior Vice President	R.O.C.	Chia-Min Hong	Female	11/22/2016	87,234	0.00	0	0.00	0	0.00
Vice President	R.O.C.	Hsi-Jui Chao	Male	08/15/2002	272,568	0.00	0	0.00	0	0.00
Vice President	R.O.C.	Ta-Sheng Chen	Male	09/09/2016	147,452	0.00	0	0.00	0	0.00
Acting Vice President	R.O.C.	Ming-Chih Lu (Note 4)	Male	03/28/2017	6,464	0.00	0	0.00	0	0.00

Note : 1. Mr. Kuang-Hua Hu is appointed as the President by the Board of Directors on February 7, 2018.

2. Starting from October 24, 2017. Ms. Yu-Mei Hsiao serves as Senior Executive President of Mega International Commercial Bank and concurrently serves as Executive Vice President of this Company.

3. Ms. Han-Yin Ting, Chief Secretary of Mega International Commercial Bank, serves concurrently as the Chief Secretary of the Board of Directors of the Company from May 23, 2017.

4. Mr. Ming-Chih Lu serves as acting head of the Business Development Department effective March 28, 2017.



April 16, 2018

Experience & education	Other position	Managers who are spouses or within two degrees of kinship		
		Title	Name	Relation
Chief Secretary of Bank of Taiwan, Chief Secretary / Executive Vice President of Taiwan Cooperative Bank, Chairman of Taiwan Cooperative Bills Finance Corporation, Executive Vice President of Taiwan Cooperative Financial Holding Co., Ltd. & Taiwan Cooperative Bank  M.A. in Statistics, National Chung Hsing University B.A. in Business Administration, Iowa State University, U.S.A.	Managing Director of Mega Int'l Commercial Bank Co., Ltd. Director of Mega International Investment Trust Co., Ltd.	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., Managing Director of The Non-Life Insurance Association of the Republic of China	None	None	None
Vice President, London / New York Branch of First Commercial Bank Senior Vice President, Gong-guan / 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.	Senior Executive Vice President of Mega Int'l Commercial Bank Co., Ltd., Director of Mega Asset Management Co., Ltd., Director of Taiwan Financial Asset Service Corporation Director of Hotung Investment Holdings Limited., Director of Mega Bills Finance 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
SVP & GM, Shih-Mao Branch of First Commercial Bank SVP & Head of Compliance & Legal Division of First Commercial Bank  B.A. in Laws, National Taiwan University	Chief Compliance Officer of Mega Int'l Commercial Bank Co., Ltd.	None	None	None
Assistant Vice President of Mega International Commercial Bank Co., Ltd. Acting Chief Secretary of the Board of Mega International Commercial Bank Co., Ltd.  B.A. in Finance, National Taiwan University	Chief Secretary of the Board of Mega International Commercial Bank Co., Ltd. Director of Mega Securities Co., Ltd. Director of Overseas Investment & Development Corp.	None	None	None
Vice President & Head of Treasury Department of Mega Financial Holding Co., Ltd.  B.A. in Business Administration, National Taiwan University	Director of Mega International Investment Trust Co., Ltd.	None	None	None
Vice President & Head of Administration Department of Mega Financial Holding Co., Ltd.  B.A. in Accounting, National Chung Hsing University	Director of Mega Securities Co., Ltd.	None	None	None
Senior Vice President & General Manager of Chiao Tung Bank  M.A. in Operations Research, Stanford University	Supervisor of Mega Securities Co., Ltd.	None	None	None
Vice President of Mega International Commercial Bank Co., Ltd.  M.A. in Finance, National Central University	Senior Vice President & General Manager of Mega International Commercial Bank Co., Ltd. Supervisor of Mega International Investment Trust Co., Ltd. Director of China Products Trading Co., Ltd.	None	None	None
Manager of Mega Financial Holding Co., Ltd.  M.A. in Economics, National Taiwan University	Director of Mega Asset Management Co., Ltd.	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, R.O.C.										
	Chao-Shun Chang ( Representative of Ministry of Finance, R.O.C. )										
Director ( Representative of Ministry of Finance, R.O.C. )	Li-Yen Yang										
	Chia-Chi Hsiao										
	Tzong-Yau Lin										
	Wen-Ling Hung										
	Cheng-Te Liang										
	Chun-Lan Yen										
	Shiow-Huey Yeh										
	Chiu-Fa Tsai										
Director	National Development Fund										
	Jiunn-Rong Chiou										
	Ming-Hsin Kung										
Director	Chunghwa Post Co., Ltd.										
	Jui-Chi Chou										
	Wen-Chyi Ong										
Director	Bank of Taiwan										
	Ye-Chin Chiou										
Independent Director	Keh-Nan Sun										
	Tsun-Siou Li										
	Chi-Hung Lin										
Amount		2,132	12,165	0	820	128,904	128,904	3,168	5,819	0.504	0.555

Note: 1. Mr. Li-Yen Yang retired effective February 7, 2018 and Mr. Kuang-Hua Hu takes his position as a director effective the same day. Mr. Ming-Hsin Kung is replaced by Mr. Jiunn-Rong Chiou on October 1, 2017. Mr. Wen-Chyi Ong resigned on June 29, 2017 and Mr. Jui-Chi Chou takes his position as a director effective August 18, 2017.

2. Compensation paid to company drivers by all consolidated entities for NT\$1,788 thousand is not included in Allowances (d). "Salary, bonuses, and allowances (e)" does not include compensation paid to company drivers for NT\$1,105 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	8,868	0	438	0	0	144	0	0.504	0.59	879



## Directors' Compensations and Remuneration

Bracket	Name of Directors			
	Total of (a+b+c+d)	All Investee Companies	The company	Total of (a+b+c+d+e+f+g)
		The company	All Investee Companies	
Under NT\$ 2,000,000		Chao-Shun Chang, Li-Yen Yang Chia-Chi Hsiao, Tzong-Yau Lin, Wen-Ling Hung, Cheng-Te Liang Chun-Lan Yen, Shioh-Huey Yeh Chiu-Fa Tsai, Jiunn-Rong Chiou Ming-Hsin Kung, Jui-Chi Chou Wen-Chyi Ong, Ye-Chin Chiou Keh-Nan Sun, Tsun-Siou Li, Chi-Hung Lin	Li-Yen Yang, Chia-Chi Hsiao Tzong-Yau Lin, Wen-Ling Hung, Chun-Lan Yen, Shioh-Huey Yeh Chiu-Fa Tsai, Jiunn-Rong Chiou Ming-Hsin Kung, Jui-Chi Chou Wen-Chyi Ong, Ye-Chin Chiou Keh-Nan Sun, Tsun-Siou Li Chi-Hung Lin	Chao-Shun Chang, Tzong-Yau Lin, Wen-Ling Hung, Chun-Lan Yen, Shioh-Huey Yeh, Chiu-Fa Tsai Jiunn-Rong Chiou, Ming-Hsin Kung, Jui-Chi Chou, Wen-Chyi Ong Ye-Chin Chiou, Keh-Nan Sun Tsun-Siou Li, Chi-Hung Lin
NT\$2,000,000 ~ NT\$5,000,000				
NT\$5,000,000 ~ NT\$10,000,000		National Development Fund Chunghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.	Chao-Shun Chang Cheng-Te Liang National Development Fund Chunghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.	Chao-Shun Chang Li-Yen Yang Cheng-Te Liang 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				
Over NT\$100,000,000		Ministry of Finance, R.O.C.	Ministry of Finance, R.O.C.	Ministry of Finance, R.O.C.
Total	21	21	21	21

## 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			
Ex-President	Li-Yen Yang													
Executive Vice President	Jui-Yun Lin													
Ex-Executive Vice President	Yu-Mei Hsiao													
Chief Auditor	Chung-Hsing Chen													
Chief Compliance Officer	Tzong-Chi Hsu													
Ex-Compliance Officer	Hui-Lin Wu													
	Hsien-Tzu Hsing													
Total		11,169	15,261	719	890	5,817	10,427	1,879	0	1,939	0	0.072	0.107	714

Note: 1. Mr. Li-Yen Yang retired effective February 7, 2018 and Mr. Kuang-Hua Hu takes his position as the President on the same day. Mr. Chung-Hsing Chen resigned on August 2, 2017. Ms. Yu-Mei Hsiao is promoted to Executive Vice President effective February 21, 2017. Ms. Hsien-Tzu Hsing is replaced by Ms. Hui-Lin Wu as Chief Compliance Officer effective January 26, 2017.

2. Compensation paid to company drivers by all consolidated entities for NT\$4,290 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, Chung-Hsing Chen, Hsien-Tzu Hsing	Chung-Hsing Chen, Hsien-Tzu Hsing
NT\$ 2,000,000 ~ NT\$ 5,000,000	Yu-Mei Hsiao, Hui-Lin Wu	Yu-Mei Hsiao, Hui-Lin Wu
NT\$ 5,000,000 ~ NT\$ 10,000,000	Jui-Yun Lin, Tzong-Chi Hsu	Li-Yen Yang, Jui-Yun Lin, Tzong-Chi Hsu
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	7	7

## 2017 Employee Remuneration to Managerial Officers

Dec. 31, 2017 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	Yu-Mei Hsiao				
Chief Auditor	Tzong-Chi Hsu				
Chief Compliance Officer	Hui-Lin Wu				
Senior Vice President	Jui-Ying Tsai				
Senior Vice President	Chia-Min Hong				
Vice President	Hsi Jui Chao				
Total		0	3,186	3,186	0.00012

### 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

	2017	2016
The ratio of total remuneration paid to directors, president and executive vice presidents, relative to net income after tax, by the Company	0.597%	0.599%
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	0.723%	0.817%

Total remuneration paid, in 2017, by the Company to its directors, president and executive vice presidents as a percentage of consolidated net income after tax slightly dropped by around 0.1% from 2016.



## 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

- a. Director: The compensation paid to directors includes directors' remuneration and transportation allowance. According to the Articles of Incorporation, the current year's earnings (i.e. pre-tax income before deducting the remuneration to employees and directors) of the Company shall first be applied to cover all its accumulated losses, and the remaining balance shall be appropriated not more than 0.5% as remuneration to directors. Transportation allowance for every director is NT\$20,000 per month.
- b. Independent director: Compensation 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 times of attendance of the meeting. The chairman of the committee will be paid NT\$12,000 per meeting, while other members of the committee will be paid NT\$10,000 per meeting.
- c. Chairman: Compensation 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: Compensation to the president and executive vice presidents includes salary, severance pay, bonuses, employees' remuneration, and allowance including rent for housing or vehicles, and fuel expenses. The total amount of performance bonus of the Company is based on the Company's budget achieving rate, EPS, ROA and ROE, while the amount of performance bonus distributed to employees, including President and Executive Vice Presidents, is based on the result of his / her performance evaluation.

### (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 unconsolidated net profit after tax for the year 2017 increased by 14.60% from the previous year. In consideration of the performance and future risks, the remuneration paid to directors, president and executive vice presidents increased by 14.27%, compared to 2016. The remuneration paid to directors, president and executive vice presidents by all companies in the consolidated financial statements increased by 0.71% from the year 2016.

## 3.3 Implementation of Corporate Governance

### 3.3.1 Board of Directors

A total of 12 (A) meetings of the Board of Directors were held in 2017. 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, R.O.C. )	11	0	91.67	
Director & President	Li-Yen Yang (Representative of Ministry of Finance, R.O.C. )	11	1	91.67	
Independent director	Tsun-Siou Li	11	1	91.67	
Independent director	Keh-Nan Sun	12	0	100.00	
Independent director	Chi-Hung Lin	12	0	100.00	
Director	Chia-Chi Hsiao (Representative of Ministry of Finance, R.O.C. )	11	1	91.67	
Director	Cheng-Te Liang (Representative of Ministry of Finance, R.O.C. )	12	0	100.00	
Director	Chun-Lan Yen (Representative of Ministry of Finance, R.O.C. )	12	0	100.00	
Director	Tzong-Yau Lin (Representative of Ministry of Finance, R.O.C. )	12	0	100.00	
Director	Wen-Ling Hung (Representative of Ministry of Finance, R.O.C. )	12	0	100.00	
Director	Shiow-Huey Yeh (Representative of Ministry of Finance, R.O.C. )	12	0	100.00	
Director	Chiu-Fa Tsai (Representative of Ministry of Finance, R.O.C. )	12	0	100.00	
Director	Ming-Hsin Kung (Representative of National Development Fund )	7	2	77.78	left office on Oct. 1, 2017 Number of Required Attendance:9
Director	Jiunn-Rong Chiou (Representative of National Development Fund )	3	0	100.00	took office on Oct. 1, 2017 Number of Required Attendance:3
Director	Wen-Chyi Ong (Representative of Chunghwa Post Co., Ltd.)	5	1	83.33	left office on June 29, 2017 Number of Required Attendance:6
Director	Jui-Chi Chou (Representative of Chunghwa Post Co., Ltd.)	5	0	100.00	took office on Aug. 18, 2017 Number of Required Attendance:5
Director	Ye-Chin Chiou (Representative of Bank of Taiwan Co., Ltd.)	9	0	75.00	

## Other items:

## 1. Operation of the Board of Directors:

- (1) Resolutions related to Article 14-3 of the Securities and Exchange Act: This item is not applicable as the Company has set up an audit committee.
- (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:

- (1) At the 28th meeting of the sixth term Board of Directors on March 28, 2017, the Board discussed a proposal to release the prohibition on directors Chao-Shun Chang, Li-Yen Yang, Tsun-Siou Li and Chiu-Fa Tsai from participation in competitive business, the said persons were the interested parties, they recused themselves from discussions and did not participate in the voting according to regulations.
- (2) At the 36th meeting of the sixth term Board of Directors on November 28, 2017, the Board discussed a proposal to amend the Rules Governing the Scope of Powers of Independent Directors, which are deemed to be concerned with independent directors themselves. Independent directors Tsun-Siou Li, Keh-Nan Sun and Chi-Hung Lin recused themselves from discussions and did not participate in the voting according to regulations.

## 3. Measures taken to strengthen the functions of the Board:

- (1) The Company has established the 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 6 times in 2017.
- (2) In order to strengthen the functions 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 board performance evaluation shall be conducted by an independent professional institution at least once every three years. The first performance evaluation by independent professional institution is scheduled to be conducted by the end of 2018. The self-evaluation results of 2017, described below, were reported to the Board of Directors meeting of February 27, 2018:

## A. Board of Directors scored 97.5, same as 2016, in five dimensions and 40 self-evaluation indicators.

- a. One indicator failed to score: "31. Do directors complete the required continuing education hours?"
- b. Performance analysis and improvement: The dimensions with good performance included "participation in the operations of the company", "enhancing the Board's decision making quality", "composition and structure of the board of directors", and "internal control" which all received full marks. Indicator 31 that does not have a score belongs to the "Election and Continuing Education of Board of Directors" dimension because one of the directors who had not begun his tenure until October 2017 had difficulty completing 12 hours of continuing education before the end of the year. Another item that did not have a score last time (2016), Indicator 33, is about the presence of continuing professional development programs available for cultivating directors so that they can reinforce their knowledge and skills. After discussions, the Company will keep the practice of sending information on the latest programs available at training institutes such as the Securities and Futures Institute through email for the directors' reference; in addition, training institutes of different natures have been added in 2017 to diversify the options, such as the Corporate Operations Association of the Republic of China (Taiwan), to facilitate further diversification of their knowledge and skills. Therefore, for the said question, improvements have been made and it should score during the current self-evaluation.

## B. Board members scored an average of 98.40, increasing 0.27 compared to 2016, in 6 dimensions, 25 self-evaluation indicators. The directors' self-evaluation scores ranged from 96 to 100.

- a. Three indicators failed to score, including: Indicator "13. Familiarity with the management team and industry of the company" and "18. Do directors and external auditors have good communication and interaction?"
- b. Performance analysis and improvement status: The dimensions with good performance included: "Familiarity with the goals and missions of the company", "Awareness of the powers of a director", "The directors' professionalism and continuing education" and "Internal control", which all received full marks. Indicators failed to score are under the dimensions of "Participation in the operations of the company" and "Management of internal relationship and communication". One director thought that he does not fully understand the operation of the Company, while five directors thought that they did not have full communication with the external auditors. The Company will hold meetings inviting directors and the external auditors to communicate with each other twice a year, which is held once a year in 2017.

- c. Link between performance evaluation and remuneration: Each independent director of the Company only get monthly compensation of NT\$60,000 and research fees based on the times of his attendance in the Audit (or Remuneration) Committee; No directors' compensation will be paid to independent directors. For the remaining 12 directors, they are corporate (or government) representatives, so all the directors' compensation distributed by the Company belongs to their corporations (or the government). In other words, compensation for directors is not linked to the evaluation result of individual directors' performance.

## C. The Audit Committee and Remuneration Committee satisfied the 5 dimensions, 32 self-evaluation indicators, and scored full marks, which was the same as that of 2016.

## 3.3.2 Audit Committee Meeting

The Company's Audit Committee held 6 meetings (A) in 2017, with the following attendance:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Independent Director	Tsun-Siou Li	6	0	100%	
Independent Director	Chi-Hung Lin	6	0	100%	
Independent Director	Keh-Nan Sun	6	0	100%	

Annotations:

1. Operation of the Audit Committee

(1) Resolutions related to Article 14-5 of the Securities and Exchange Act

Audit committee	Agenda	Resolution	Response to Audit Committee's opinions
February 7, 2017 the 15th meeting	Reviews of remuneration of the external auditor of the 2017 financial statements	Agenda was passed as proposed by all attending members of the committee.	None
March 21, 2017 the 16th meeting	Review of the Company's 2016 financial statements	Agenda was passed with amendment to the wordings in p.70.	The wordings in the notes to the financial statements have been amended according to the resolution.
	Review of the 2016 Internal Control System Statement	Agenda was passed as proposed by all attending members of the committee.	None
	Review of the Operating Procedures for Acquisition or Disposal of Assets	Agenda was passed as proposed by all attending members of the committee.	None
May 2, 2017 the 17th meeting	Review of the Company's Internal Control System Implementation Regulations	Agenda was passed with amendment to the wordings of Articles 5, 8, 9, 18-1.	The wordings in the Regulations have been amended according to the resolution.
August 22, 2017 the 18nd meeting	Review of the Company's 2017 Q2 financial statements	Agenda was passed as proposed by all attending members of the committee.	None
November 14, 2017 the 20th meeting	Review of the engagement of the external auditor of the 2018 financial statements	Agenda was passed as proposed by all attending members of the committee.	None
	Review of the 2018 internal audit plan	Agenda was passed as proposed by all attending members of the committee.	None

(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 2017.

2. There were no recusals of independent directors due to conflicts of interests in 2017.

3. Descriptions of the communications between the Independent Directors, the internal auditors, and the external auditors in 2017 (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 and executes the suggestions provided by the independent directors (such as studying the feasibility of making up for audit manpower).
- The Auditing Office of the Board of Directors reports the audit operations to the Audit Committee once every six months and carries out suggestions made by the independent directors (such as the performance assessment of subsidiaries' internal audits should be made earlier).
- The deficiencies indicated in the examination reports of the Financial Supervisory Commission and the improvement status thereof were submitted to the Audit Committee from time to time by the Auditing Office.
- The Auditing Office of the Board of Directors submits its internal audit report within 2 months following the inspection to the independent directors and the Audit Committee.
- The Auditing Office of the Board of Directors complies deficiencies of the Group's internal control system periodically each year and asks independent directors to hold a conference to review the deficiencies.



Date	Communication subjects
February 7, 2017	The 2016 conference for review of deficiencies of the Group's internal control system
	Investigation result on Mega International Commercial Bank's equity financing to Kai-yueh Co., Ltd for tender offer of the TY Cable TV Co., Ltd and HYA Cable TV Co., Ltd.
May 2, 2017	Amendments to the Company's Audit System Implementation Regulations
September 21, 2017	The examination opinions on the Company's general business made by FSC and the improvements thereof
November 14, 2017	2018 internal audit plan

(2) Communications between Independent Directors and the external auditors

Besides discussing audit operations with the external auditors during the Audit Committee once every six months, dependent directors also communicate on the semi-annual and annual financial reports of the Company and their related matters (such as the auditing procedures for legal compliance of overseas branches and subsidiaries of Mega International Commercial Bank and related contingent liabilities). The wordings in the Financial Reports were revised according to the suggestions provided by the independent directors.

Date	Communication subjects
March 21, 2017	Auditing result of the 2016 consolidated financial statement and system internal control
	Auditing procedures for legal compliance of overseas branches and subsidiaries of Mega International Commercial Bank and related contingent liabilities
	Audit plan for the 2017 financial statements
August 22, 2017	Auditing result of 2017 Q2 consolidated financial statement and internal control system
	Auditing procedures for legal compliance of overseas branches and subsidiaries of Mega International Commercial Bank and related contingent liabilities
	The impact of the important regulations and interpretations in connection with financial reports

### 3.3.3 The disclosure items in accordance with the Corporate Governance Best-Practice Principles for Financial Holdings Companies

For other communication details, please log on to our website at [http://megaholdings.com.tw/contents\\_1024/co\\_goven/communicate.asp](http://megaholdings.com.tw/contents_1024/co_goven/communicate.asp).

### 3.3.4 Corporate Governance Execution Status and Deviations from “Corporate Governance Best-Practice Principles for Financial Holding Companies”

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 access way, addressing principle and deadline to reply to shareholders, etc. There is no dispute or litigation between the Company and its shareholders at present.	None
(2) Does the company possess a list of major shareholders and beneficial owners of these major shareholders?	V		In addition to analysis of the shareholding structures based on the register of shareholders on book closure date, 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 defines 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 with related parties 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 and risk management and firewall mechanism between the Company and its subsidiaries.	None

# Corporate Governance Report

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
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 Committee for Corporate Social Responsibility is also set up to monitor the goals, action plans 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 and reports to the Audit Committee and Board of Directors. 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 as the part-time unit to handle the planning and administration matters of corporate governance, to handle matters relating to corporate registration and amendment registration and 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
4. Has the company established a means of communicating with its stakeholders (including but not limited to shareholders, employees, customers, etc.)??	V		Under "Corporate Social Responsibilities" of its official website, the Company sets up the dedicated section for stakeholders to provide channels of communications with stakeholders, to understand shareholders' opinion and concerns, and to communicate with stakeholders in the following ways. 1. With shareholders: publishing information of revenues, earnings and self-assessed earnings per share on the Market Observation Post System and the Company's website each month, issuing the annual report and releases the annual business report, and holding the shareholders' meeting each year. Shareholders may state opinions and vote in the shareholders' meeting as well as take part in investors' conferences from time to time. Spokespersons are available for briefing to the public. 2. With employees: phone calls, emails, social media and labor management meetings, among others. 3. With customers: Customer service and hotlines for filing complaints, investment seminars, customer satisfaction survey, e-news and investment research reports are available at the subsidiaries. 4. With the government: Visits, official letters, phone calls, and online registration, among others. 5. With the community: meetings, volunteer service, charity events, among others. 6. With suppliers: project meetings, phone calls, and emails, among others. 7. With the media: press conferences, issuance of news letters or material information.	None

<p>5. Information disclosure</p> <p>(1) Has the company established a corporate website to disclose information regarding its financials, business and corporate governance status?</p> <p>(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.?)</p>	<p>V</p> <p>V</p>	<p>An “Investor Relations” section under the Company’s website is set to disclose financial information, credit rating, IR calendar and briefing, bond issues, and annual reports, etc. A “Corporate Governance” section is also set to disclose the Company’s corporate governance structure, board of directors, shareholders’ meeting, implementation of corporate governance, ethical management, Internal Control Statements, the communications between independent directors with internal auditor and external auditor.</p> <p>The Company’s English website discloses the company’s profile, corporate governance, services, latest news and investor relations. To ensure accuracy, timeliness and completeness of the information disclosure, the Company designates dedicated personnel to collect and disclose the Company’s information, and appoints spokesperson to solely make external statements. In 2017, the Company held 262 one-on-one investor meetings and conference calls with local and overseas institutional investors, and attended 2 investor roadshows hosted by foreign securities firms. The information announced in investor roadshows is disclosed on the Company’s website.</p>	<p>None</p> <p>None</p>
<p>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)?</p> <p>(1)Employee rights, employee wellness, investor relations, rights of stakeholder</p> <p>(2)Directors’ training records</p> <p>(3)Implementation of risk management policies and risk measurement criteria</p>	<p>V</p> <p>V</p> <p>V</p>	<p>(1)Employee rights, employee wellness: Please refer to “Corporate Social Responsibilities” on page 42 and “Labor Relation” on page 93.</p> <p>(2)Investor relations: The Company has established an “Investor Relations” section on its website to provide investors with relevant information. Besides 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 to maintain a good relation with investors.</p> <p>(3)Rights of stakeholders: Please refer to the Company’s 2017 CSR Report.</p> <p>Please refer to page 39-40 of this annual report.</p> <p>In addition to full compliance of government regulations, the Company aims at establishing a risk management policy that conforms to international best practice in the long run. 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, liquidity risk, legal compliance risk, information security risk, human resource management, and material contingencies. On credit risk, the Company has set up the Group’s Guidelines on Credit Risk Management to prevent over-concentration of risk exposure. It divides the credit risk exposure of the Group into different categories by clients, industries as well as country, which are reviewed and reported on a regular basis. So far, the credit risks are not over-concentrated. On market risk, the Company has set up the Group’s Guidelines on Market Risk Management. An integrated risk management system is also being established step by step to monitor the market risk of all subsidiaries on daily basis. On operational risk, the Company has set up the Group’s Guidelines on Operational Risk Management to periodically monitor the operational risk management of every subsidiary. Subsidiaries are required to conduct self-assessment of operational risk every year and to gradually build up the database for operational risks loss. On liquidity risk, the Company has set up the Group’s Guidelines on Liquidity Risk Management to periodically monitor 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.</p>	<p>None</p> <p>None</p> <p>None</p>

# Corporate Governance Report

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
(4)Implementation of consumer policy	V		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 Processing and 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 accept client's complaint and handle customer complaints in a timely manner.	None
(5)Purchase of Liability Insurance for Directors and Supervisors	V		The Company purchases Liability Insurance for Directors, Supervisors and Senior Officers of the Group with an insurance coverage of US\$30 million every year. The insured amount, coverage, premium rate, and other major contents of the liability insurance are submitted to the board of directors for review before renewal of the policy.	None
(6)Donation to political parties, related parties, and charity organizations	V		The Company does not make donations to political parties. In 2017, the Mega International Commercial Bank donated NT\$19 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 Investment Trust Company, amounted to NT\$5 million in total. The amount of the Group's donation and sponsorship to government, charity organizations and other legal entities reached NT\$232,534,792 in 2017.	None
7. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange			With regard to the result of 4th (2017) corporate governance evaluation, those already improved and those pending improvement are as follows:	
(1) Improved items:	V		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 directors of the Company (including independent directors) are expected to complete the required hours of continuing education in 2018.	None
(2) Unimproved items with prioritized reinforcement:	V		<p>A. Indicator 3.29 "No punishments from the competent authority or no deficiency letter from the TWSE or OTC requesting attendance in educational programs organized by some unit designated by the competent authority on related control operations of the company's internal control system.": The subsidiary Mega International Commercial Bank was punished by the competent authority because of the deficiencies in loans to Ching Fu Shipbuilding Company and its affiliates in 2017. The bank has prepared improvement plans which have either been completed or been on-going.</p> <p>B. Indicator 4.18 "Does the company attend (or hold) at least 2 investor roadshows": The company will attend (or hold) at least 2 investor roadshows in 2018.</p> <p>C. Indicator C03 "No material violation of the internal control system": The subsidiary Mega International Commercial Bank was punished by the competent authority on December 29, 2017 due to deficiencies in loans to Ching Fu Shipbuilding Company and its affiliates, and its New York Branch, Chicago Branch and Silicone Valley Branch were fined by the FED and Illinois Department of Financial and Professional Regulation in January 2018 due to deficiencies in AML/CFT. The improvements have either been completed or been ongoing.</p>	None



## Directors' training records

Name	Date	Training Agency	Course	Training Hours
Chao-Shun Chang	09/28/2017	Taiwan Stock Exchange Corporation	2017 financial and economic forum in memory of Mr. Yuan-Dong Sheu	6.0
Li-Yen Yang	07/27/2017	Training Institute, Ministry of Finance, R.O.C.	Legal system for corporate governance and duties of directors and supervisors	3.0
	05/11/2017	Chinese National Association of Industry and Commerce, Taiwan (CNAIC)	Risk management trend and its practice analysis	3.0
Tsun-Siou Li	05/11/2017	Chinese National Association of Industry and Commerce, Taiwan (CNAIC)	Risk management trend and its practice analysis	3.0
	04/07/2017	Securities & Futures Institute	2017 Insider trading and CSR conference	3.0
Keh-Nan Sun	10/25/2017	Taiwan Corporate Governance Association	The 13rd international corporate governance summit forum	6.0
	10/21/2017	Taiwan Academy of Banking and Finance	2017 financial knowledge lecture - new financial appearance in Fintech era	6.0
	07/27/2017	Training Institute, Ministry of Finance, R.O.C.	Legal system for corporate governance and duties of directors and supervisors	3.0
	07/07/2017	Securities & Futures Institute	Compliance seminar on share transactions by insiders of listed company	3.0
	07/05/2017	Corporate Operation Association of the Republic of China (Taiwan)	Corporate governance and financial legal system	3.0
	04/28/2017	Taiwan Corporate Governance Association	Information security governance in technology development	3.0
	04/07/2017	Securities & Futures Institute	2017 insider trading and CSR conference	3.0
	03/31/2017	Taiwan Corporate Governance Association	Long-term incentives for directors and managements and the international trend of bonus design	3.0
	03/10/2017	Taiwan Corporate Governance Association	Innovation in external auditor's report – the key audit matters and countermeasures directors should understand	3.0
	02/24/2017	Taiwan Corporate Governance Association	How do directors and supervisors supervise company's risk management, crisis management and enhance corporate governance	3.0
	02/23/2017	Securities & Futures Institute	Strategies and key performance indicators	3.0
	01/12/2017	Securities & Futures Institute	Strategies and key performance indicators	3.0
Chi-Hung Lin	12/06/2017	Corporate Operation Association of the Republic of China (Taiwan)	2017 mergers and acquisition practices by foreign companies in Taiwan	3.0
	10/25/2017	Taiwan Corporate Governance Association	The 13rd international corporate governance summit forum	3.0
Chia-Chi Hsiao	07/27/2017	Training Institute, Ministry of Finance, R.O.C.	Legal system for corporate governance and duty of directors and supervisors	3.0
	04/14/2017	Taiwan Institute of Directors	Challenges and priority missions of audit committee	3.0
	01/19/2017	Association of Certified Fraud Examiners	The 5th fraud prevention round table forum	3.0
Cheng-Te Liang	10/25/2017	Taiwan Corporate Governance Association	The 13rd international corporate governance summit forum	3.0
	07/27/2017	Training Institute, Ministry of Finance, R.O.C.	Legal system for corporate governance and duties of directors and supervisors	3.0
	04/19/2017	Securities & Futures Institute	Strategies and key performance indicators	3.0
	03/17/2017	Taiwan Corporate Governance Association	How to effectively communicate with the market- a tool for competitive strategy- information disclosure	3.0



# Corporate Governance Report

Chun-Lan Yen	11/17/2017	Securities & Futures Institute	2017 insider trading and CSR conference	3.0
	07/27/2017	Training Institute, Ministry of Finance, R.O.C.	Legal system for corporate governance and duties of directors and supervisors	3.0
Jiunn-Rong Chiou	11/17/2017	Securities & Futures Institute	2017 insider trading and CSR conference	3.0
	05/16/2017	Taiwan Academy of Banking and Finance	Special lecture on corporate governance	3.0
Jui-Chi Chou	11/16/2017	Securities & Futures Institute	Analysis of financial crisis' warning and type	3.0
	10/20/2017	Taiwan Corporate Governance Association	How do directors fulfill the duty of loyalty (including case analysis and best practice)	3.0
	09/12/2017	Securities & Futures Institute	Legal risk and response measures of directors illustrated with major business scandals	3.0
	09/06/2017	Securities & Futures Institute	Interpretation on business performance information	3.0
Tzong-Yau Lin	08/22/2017	Securities & Futures Institute	The impact of the new Money Laundering Control Act	3.0
	05/04/2017	Securities & Futures Institute	Regulations on prevention of commercial bribery and case study	3.0
Ye-Chin Chiou	10/03/2017	Taiwan Academy of Banking and Finance	Special lecture on corporate governance	3.0
	05/16/2017	Taiwan Academy of Banking and Finance	Special lecture on corporate governance	3.0
Wen-Ling Hung	10/26/2017	Securities & Futures Institute	Business operation and related taxation	3.0
	06/23/2017	Taiwan Corporate Governance Association	How do directors fulfill the duty of loyalty (including case analysis and best practice)	3.0
Shiow-Huey Yeh	10/25/2017	Taiwan Corporate Governance Association	The 13th international corporate governance summit forum	6.0
	08/01/2017	Securities & Futures Institute	Compliance seminar on share transactions by insiders of listed company	3.0
	07/27/2017	Training Institute, Ministry of Finance, R.O.C.	Legal system for corporate governance and duties of directors and supervisors	3.0
	07/25/2017	Taiwan Corporate Governance Association	How do directors fulfill loyal duty and the commerce court as well as international trend	1.0
	03/28/2017	Taiwan Corporate Governance Association	How do business face international risk – international relationship	1.0
	02/22/2017	Taiwan Corporate Governance Association	Legal compliance and director's supervisory duties from the event of Mega Int'l Commercial Bank	3.0
	01/24/2017	Taiwan Corporate Governance Association	Key points on amendment to the Company Act in connection with corporate governance of listed company	1.0
Chiu-Fa Tsai	08/08/2017	Ministry of Labor	2017 labor director training on professional knowledge	9.0
	07/27/2017	Training Institute, Ministry of Finance, R.O.C.	Legal system for corporate governance and duties of directors and supervisors	3.0
	07/07/2017	Securities & Futures Institute	Compliance seminar on share transactions by insiders of listed company	3.0
	01/12/2017	Securities & Futures Institute	Strategies and key performance indicators	3.0



### 3.3.5 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	2
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 Responsibility and Operation Status

(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 2017, the Committee held 4 meetings with the following attendance:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) ( B/A )	Remarks
Chair	Chi-Hung Lin	4	0	100%	
Member	Tsun-Siou Li	4	0	100%	
Member	Keh-Nan Sun	4	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 2017.
2. There were no written or otherwise recorded resolutions on which a member of the Remuneration Committee had a dissenting opinion or qualified opinion.

## 3.3.6 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 implementation results?	V		To fulfill CSR, 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 conducts, every year, training of social responsibilities and designates staff to attend relevant external trainings or seminars from time to time. In 2017, the Company held a seminar with the subject of "Transition from GRI 4 Guidelines to GRI Standard". The seminar was attended by 38 staffs with 7 hours per person.	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		A Corporate Social Responsibility Committee is established, which is chaired by President. 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 in the beginning of every year. Implementation of CSR is reported annually to the committee and Board of Directors. The major function of the committee is to supervise the planning and implementation of the CSR and ethical management.	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 policies. Besides the fixed 14-month salary (including the 2-month year-end bonus), performance bonus is distributed based on the budget achieving rate, EPS, ROA and ROE. In addition, 0.02% to 0.15% of profit is appropriated for employee remunerations according to the Articles of Incorporation. In other words, the Company's operational performance is fully reflected in the remunerations for employees. The evaluation indicators of employees' performance include "jobs and capabilities", "moral behaviors" and "education and knowledge level". If employee violates laws or relevant internal regulations such as Services Guidelines, Principles for Ethical Management, CSR Principles, the violation will be taken into consideration in the performance evaluation, and punishments will be given according to the violations. On the contrary, those who have special contribution 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 is devoted to sustainable environmental development and enforces the following measures for managing resources and energy: 1. Paper: Administrative operations or notifications are done through email instead of paper-based documents. Notebook computers or tablets are used to realize paper-less meetings. The e-learning and electronic transaction services are promoted. For bank and securities subsidiaries, electronic bills and electronic statements are adopted. Under the condition that data are not disclosed, double-sided printing is promoted. There is the waste paper recycling box in place to facilitate recycling and re-utilization of resources. 2. Water resource: The volume of water coming out of faucets is regulated and set to a reduced size. Waste water from cleaning water towers is recycled to minimize water consumption. 3. Fuel consumption: Video conference systems are adopted to replace business trips. For necessary business trips, it is encouraged to take public transportation and to reduce the use of company cars. 4. Natural gas: The way of cooking in the employee restaurant has been changed. Salads, steamed dishes or light meals are increased so as to reduce use of natural gas. 5. Electricity: The energy-saving program is enforced to control consumption of electricity by air-conditioning equipment, lighting equipment, information equipment and elevators. Air-conditioning and lighting equipment carrying the energy-saving symbol is being gradually purchased to replace existing ones. In response to the government's policy on renewable energy, green power is purchased.	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 Group's operation is unlike the production business where generation of noise, discharge of sewage, waste water and toxic substances, among other pollutants, are likely. Therefore, environmental management system verification does not apply. In order to reduce the impact that the operation has on the environment, however, we have established related management measures for keeping the workplace safe and sanitary and managing the drinking water, fire prevention and waste, among others. In addition, in order to equally emphasize business operations and sustainability, sustainable management remains at the heart of the environmental management policy. To address climate change and to protect the environment, energy-saving targets are set. Various environmental management systems are in place to minimize the adverse impact of operations on the environment. Energy and resource consumption is checked periodically and fulfillment of goals is being reviewed in order to keep improving management policies and measures. Starting in 2017, with the Jilin Building where the head office of Mega Int'l Commercial Bank is as the demonstration unit, the ISO 14001 Environmental Management System was introduced and it was verified in January 2018.	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		<p>In governance of climate change, board members of the Company monitor and oversee related issues through regular Corporate Social Responsibility Committees and Board Meetings. The Corporate Social Responsibility Committee meets once every half year to quarter to discuss actions for the response to climate change issues and track implementation effectiveness which periodically reported to the board of directors.</p> <p>Our major strategy in 2017 is to participate in the CDP assessment and strengthen green financial services. At the same time, in response to the government's renewable energy policy, Mega has actively invested in the green energy industry to promote the transition of low carbon economy. To reduce the impact of global climate change and protect the environment, the energy saving targets are set to mitigate the GHG emissions. Through the establishment of an environmental management system, we actively reduce the negative impact of operating activities on the environment. Consequently, inventory and targets are regularly reviewed to continuously improve management policies and measures for energy and resource efficiency. We regularly identify the risks and opportunities of climate change and assess the impact on the Group so as to integrate into the overall operational and risk management policies.</p> <p>From the perspective of a financial institution, the Group closely looks out the global climate change and the market trend of related industries, and promotes financing services for energy conservation, GHG emission reduction and environmental protection industries. Not only continue to assist customers in managing the impact of business activities on the environment and society, but prevent the lending funds posing significant risks or inducing negative impacts on the environmental and social aspect. In the future, through the provision of low-carbon financial service, the Group will work with stakeholders to jointly reduce the impact of climate change and avoid the risk of intensive exposure to climate change for our owned or managed assets.</p> <p>As for the impact of climate change on finance, climate change will affect the insurance products and related investments relating to natural disaster, including the increase in the amount of claims and the impairment of investments, which may affect this Company's financial and operating conditions. In response to this effect, the insurance subsidiary will take natural disaster risk into account and consider the allowance for losses before launching insurance products or investing. Besides, the Group will increase investment in green energy industries to retard the impact of climate change.</p>	None

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
			The target of energy saving and emission mitigation is a reduction of 1% per year (including water, electricity, and fuel consumption). The boundary covers all domestic branches. Since 2013, the Group has carried out greenhouse gas inventory, introduced ISO 14064-1 in 2015, and expanded the scope of inspections year by year. The scope 1 and 2 emissions in 2017 were 631.30 and 8,750.51 metric tons of CO <sub>2</sub> e, respectively. The data covers our five buildings and 10 branches of the Group. In 2016, the scope of the inventory check was 5 branches less than that of 2017, so the greenhouse gas emissions was lower with scope 1 and 2 at 472.63 and 6,745.66 metric tons of CO <sub>2</sub> e, respectively. In response to the government's climate change policy, the Company requires all subsidiaries to set targets for energy conservation and emission reduction. Each year, the targets of annual ESG performances are reported to the Corporate Social Responsibility Committee for approval, and subsidiaries must report the use of oil, electricity, and water to the Company to review quarter's effectiveness.	
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 specifies in its corporate social responsibility policy that it will follow applicable labor laws and respect the rules over the basic rights of the workforce recognized by the international society in order to protect the legitimate rights of its employees and provide a sound workplace. 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. Various human resources rules are enacted.	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, phone call or email. Employees' appeals are handled confidentially to protect their interest.	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. Environmental disinfection, labor safety training, and fire drill are held on a regular basis. Access control is implemented and regular health examinations are offered for employees. In 2017, the Company also worked with professional psychological counselors that provide employees with individual counseling services to help them relieve the pressure.	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. Employees are encouraged to engage in professional and inter-industry diverse learning as required by their own professional fields.	None

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
(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, etc. To protect the privacy and security 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
(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		<p>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 it for amounts higher than NT\$1 million to sign an agreement to fulfill social responsibilities related to the environment and society.</p> <p>Green purchases of the Group include the following:</p> <ol style="list-style-type: none"> <li>1. Lighting equipment: T5, LED, high-power electronic stabilizers and high-power electricity-saving light bulbs that meet the energy-saving symbol are purchased.</li> <li>2. Air-conditioning system: Air-conditioners with variable frequency energy-saving control or environmentally friendly coolants are preferentially purchased.</li> <li>3. Fire extinguisher: The computer room takes the lead in using the environmental protection gas extinguishers in order to minimize the hazards of greenhouse gas emissions.</li> <li>4. Company vehicle: Vehicles carrying the environmental protection symbol and the energy-saving symbol are adopted or rented. In addition, the Group has been gradually increasing the use of hybrid vehicles to replace certain conventional gasoline vehicles.</li> </ol>	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 adverse 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 its CSR report which are also disclosed on its website and the Market Observation Post System (MOPS) 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: Please refer to the 2017 CSR Implementation Results and 2018 Action Plans as shown below.				
7. If the company's corporate social responsibility reports have received assurance from external institutions, they should state so below: The Company's 2017 CSR report is assured by the British Standard Institution (BSI) according to the "AA1000" Type 1 and "GRI Standards" (Core option).				

## 2017 CSR Implementation Results and 2018 Action Plans

Item	2017 Implementation Results	2018 Action Plans
Corporate Governance	<ol style="list-style-type: none"> <li>1. The Global Anti-money Laundering and Counter-Terrorism Financing Policies and Standards were established and the manpower devoted to anti-money laundering, compliance, and supervision of branches has been gradually expanded.</li> <li>2. The Risk Management Committee was lifted to be under the charge of the Board of Directors and the Chairman of the Board has been serving as its chairperson, with members being high-ranking managements such as heads of the respective departments and the chairman of each of the subsidiaries. The Chief Auditor of the Financial Holding Company and the Chief Risk Management Officer of each of the subsidiary also attend the committee meetings as nonvoting delegates.</li> <li>3. The performance evaluation of directors and supervisors was extended to include those of subsidiaries in order to reinforce supervision and management of directors and supervisors at subsidiaries.</li> </ol>	<ol style="list-style-type: none"> <li>1. The performance evaluation of Board of Directors will be outsourced in 2018 in order to enhance the efficacy and transparency of the Board of Directors.</li> <li>2. The Group will reinforce credit, market and operational risk management systems, advance the risk management and internal control mechanism, and consolidate the Group's risk management policy and goals.</li> <li>3. Securities and investment trust subsidiary will sign the "Institutional Investor's Declaration over Compliance with the Stewardship Code" to increase the corporate value of themselves and the invested companies.</li> <li>4. The Equator Principles are referred to in financing business. The loan policy added that the borrower's fulfillment of its environmental protection, ethical corporate management, and social responsibilities will be paid attention to.</li> <li>5. The Group will continue to enhance AML / CFT mechanism and build up a culture of legal compliance.</li> </ol>
Customer Commitment	<ol style="list-style-type: none"> <li>1. To help the government promote 5+2 Industrial Innovation Plan, Mega Int'l Commercial Bank grants, in 2017, a total of NT\$380.7 billion loans, the 3rd highest in the domestic financial sector.</li> <li>2. In 2017, the Group's loan outstanding for green technology was NT\$82.7 billion. The total amount of investments in green energy, such as natural gas power plants and solar cell companies reached NT\$2.438 billion.</li> <li>3. Mega Green Diamond Fund is a type of fund that has to do with the idea of green finance. By the end of 2017, the fund size had reached NT\$104 million.</li> <li>4. Mega Securities introduced the AI on LINE Fintech wealth management service by the name of "Mega Wealth Management Assistant." The current market price, intra-day trend, and various wealth management features are available through the LINE interface.</li> <li>5. To protect the rights of its customers, the completion rate of educational training on customer information security and personal information at the respective subsidiaries of this Company were consistently greater than 99%.</li> <li>6. Throughout 2017, a total of 317 barrier-free automatic teller machines were set up.</li> <li>7. By means of the block chain and smart contract technology, once it is confirmed that the insured's flight is delayed, Chung Kuo Insurance will spontaneously notify the insured of the general travel insurance with delayed flights in coverage.</li> </ol>	<ol style="list-style-type: none"> <li>1. In response to an aging society, Mega Int'l Commercial Bank will continue to promote care trust and the commercial reverse mortgages for seniors.</li> <li>2. With mobile payment at its core, Taiwan Pay for transfer and payment (of taxes), among other diversified services, is initiated to create comprehensive cash flows electronically.</li> <li>3. For the card center of the Bank, a smart customer service system will be configured. Through questions and answers on line, the system will automatically answer questions in real time, which helps enhance the quality of customer service.</li> <li>4. For the property insurance subsidiary, insurance technology will continue to be used. The mobile App will be created to facilitate real-time convenient services for customers. Meanwhile, reinforced efforts will be made to promote information security insurance products that help guard against information risk and reinforce customer services.</li> </ol>
Environmental Protection	<ol style="list-style-type: none"> <li>1. The ISO14064-1 inspection certificate was obtained in 2017 (for 5 buildings and 10 branches) and the ISO14001 environmental management system was introduced in Jilin Building of Mega Int'l Commercial Bank and verification was approved.</li> <li>2. The Group's energy-saving target of 1% is set. By means of various environmental management systems, adverse impacts of operating activities on the environment are reduced.</li> <li>3. Mega Int'l Commercial Bank started to take part in subscribing green electricity in 2015. Each year, 250,000 kWh were subscribed to. By 2017, the accumulated electricity subscribed reached 750,000 kWh.</li> </ol>	<ol style="list-style-type: none"> <li>1. The boundary of the "ISO14064-1 greenhouse gases inventory check" will continue to be increased. It is expected that by 2021, a comprehensive inventory check of a total of 194 domestic sites will be completed in three stages for the Group.</li> <li>2. The Group will gradually eliminate old and energy-consuming air-conditioning equipment, adopt off-peak control over elevators, set up recycling trashcan for used batteries and CDs, add water-savers to faucets or replace with sensor faucets, set the overtime sleep mode for office machines, promote electronic forms and a paper-less workplace, gradually eliminate old lights, select illuminating devices that carry an energy-saving symbol and adjust regional brightness in order to reduce the energy consumption.</li> <li>3. Mega Int'l Commercial Bank will continuously promote loans for the green industry, and look for enterprises with relatively sound operating status and financial standings for promotion of loan business.</li> </ol>



Employee Care	<ol style="list-style-type: none"> <li>1. The employee assistance program (EAP) has been introduced. The psychological counseling workshops and services are available to help promote the normal physical and mental development of employees.</li> <li>2. In order to reinforce the ability of employees in anti-money laundering and risk identification, Mega Int'l Commercial Bank's employees have been encouraged to attend Certified Anti-Money Laundering Specialist (CAMS) test. Nearly NT\$200 million has been spent on subsidies and incentives. Around 3,500 employees were certified as CAMS.</li> <li>3. In order to make sure that employees have a safe and healthy workplace and habits, a doctor's on-site service has been held on a monthly basis since July 2017 where environmental and employee health tests, consultations, and related promotional activities are held.</li> <li>4. The Maternal Health Protection Plan was approved to ensure a safe and friendly workplace through health assessment and consultation, by providing employees at high risk with health guidance, adaptive job arrangements and health education.</li> </ol>	<ol style="list-style-type: none"> <li>1. Mega Int'l Commercial Bank will enforce comprehensive employee care and a healthy workplace, continue to work with Taiwan Adventist Hospital and promote weight loss and physical and mental care seminars.</li> <li>2. In response to the dynamics in the financial market, by providing full or partial sponsorships, employees are encouraged to receive related training and certification tests reflective of their job responsibilities so that employees' skills are kept up to date with the company's business operations.</li> <li>3. In response to the government's childbirth encouragement policy, the subsidy amount for childbirth will be increased for employees.</li> </ol>
Social Welfare	<ol style="list-style-type: none"> <li>1. To promote artistic and cultural development, Mega Int'l Commercial Bank held three large concerts in the northern, central, and southern Taiwan, respectively. Local teachers and students were invited to take part in to reinforce interactions with local communities and customers. A total of 7,750 persons attended the concerts.</li> <li>2. For elementary schools and junior high schools in remote areas such as Yilan, Hualien and Tainan, long-term sponsorship (3 years or longer) of the training budget for NT\$530,000 was provided to strategically selected sports activities like youth league baseball, archery and weight lifting reflective of local culture and advantages in Taiwan.</li> <li>3. Sponsorship of NT\$800 thousand was provided to the Harmony Home Foundation Taiwan to help babies grow healthily, that do not have a nationality and are generally ignored by society.</li> <li>4. Starting from 2012, the Group offers summer job opportunities to 40 to 50 disadvantaged students every year in line with the policy of the Ministry of Education, totaling 254 students were helped as of the end of 2017.</li> </ol>	<ol style="list-style-type: none"> <li>1. Mega Int'l Commercial Bank will locally promote artistic and cultural developments and holding three charity concerts in the northern, central and southern Taiwan, respectively.</li> <li>2. The Group will continue to promote domestic characteristic sports and sponsor the expenses for training students interested in baseball, archery and weightlifting.</li> <li>3. The Group cares for the disadvantaged elderly and students with living, medical and education subsidies.</li> <li>4. The Group will continue to cultivate domestic financial talents and promote universal financial education and corporate volunteer financial educators so that the core competencies of Mega Int'l Commercial Bank may benefit the general public in terms of financial education.</li> <li>5. To support the domestic e-Sport industry, Mega Int'l Commercial Bank will organize eSport competitions. This may develop national players, and enhance related industries.</li> </ol>

### 3.3.7 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 programs 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 enacted Ethical Management Principles, which are posted on the MOPS and the Company's website, clearly specifying the ethical corporate management policies and guidelines. Ethical conduct clauses are included in 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 or sponsorship, and providing or accepting unreasonable gifts, hospitality, or other improper benefits. Relevant operational procedures, disciplinary rules for violations and appeal channel are also stated in the Principles.	None



# Corporate Governance Report

Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
(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 demonstrate unethical conduct as prohibited in the Principles for Ethical Management. As such, 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 is appointed as the unit responsible for promotion of the ethical corporate management ideas. The committee is chaired by President with Executive Vice Presidents of the Company and its subsidiaries as committee members. The major function of the committee is to supervise the planning and implementation of the CSR and ethical management. Implementation of Principles for Ethical Management is submitted to the board meeting every year.	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 "Procedure for Board of Directors Meetings" which specifies 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
(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 business practices, the Company has established and followed an effective accounting system and 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-inspection 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 ethical corporate management and promotes ethical concepts to the suppliers in suitable occasions. In 2017, the Group held internal and external compliance trainings (including anti-bribery, ethical management, confidentiality and information security, legal compliance and banking rules and regulations, code of conduct, anti-money laundering and counter-financing terrorism, Personal Information Protection Act, Consumer Protection Act and Financial Consumer Protection Act), with a total of 42,568 person-times and 96,666 hours.	None



Assessment	Implementation status			Non-implementation and its reasons
	Yes	No	Explanation	
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 guidelines for reporting of unethical conduct specify the mailbox and hotline for reporting, acceptance of written report. Unit appointed to handle reporting are based on the identity of the whistleblower. Independent directors are assigned to accept the reporting from external whistle-blower such as investor, while the management or related units are assigned to accept employees' reporting.	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 specify 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, reporting line of the investigation, punishment and reward, retention period 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 implementation 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 Principles for Ethical Management, and Procedures for Ethical Management and Guidelines for Conduct based on the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", are 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): The Company doesn't make any political contribution. All donation or sponsorship is made in accordance with relevant laws and regulations. Prior to engaging in commercial dealings, the Company assesses, the counterparty's legality and reputation, and avoids conducting transactions with those against corporate social responsibility policy.				

### 3.3.8 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](http://www.megaholdings.com.tw/contents_1024/co_govern/regulations.asp)

### 3.3.9 Other Important Information: None.

## 3.3.10 Implementation 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, 2017 to December 31, 2017, the Company has duly complied with the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” 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 attachments, 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 : Kuang-Hua Hu

Chief Auditor : Tzong-Chi Hsu

Chief Compliance Officer : Hui-Lin Wu

March 27, 2018



## Internal Control Weaknesses and Improvement Plans

( As of December 31, 2017 )

Items to be reinforced	Improvement Measures	Estimated Completion Time of Improvement
<b>Mega International Commercial Bank Co., Ltd.</b> 1. 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 inefficient 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 lacked diligent oversight by the head office.  2. For the penalty imposed by the New York State Department of Financial Services, the Bank failed to establish and implement an internal control system during the management and handling process of this case.	1. The New York Branch has established an independent, exclusive compliance department with an experienced Chief Compliance Officer and a BSA officer (anti-money laundering officer) hired. Its manpower and resources are expanded to execute legal compliance and anti-money laundering improvement plans. 2. The branch has established a Compliance Committee to discuss compliance proposals on a monthly basis, with particular emphasis on issues concerning anti-money laundering such as suspicious activity reports. 3. Consultants were retained to improve procedures and to revise the manual. Management system and the functions of the anti-money laundering system are reinforced. 4. An anti-money laundering system has been adopted and consultants have been retained to assist in the system installation with the goal of enhancing the analysis, screening and transaction monitoring functions of the anti-money laundering system. The ultimate goal lies in an effective implementation of the anti-money laundering and counter terrorism financing tasks. 5. The formulation of the Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards has been completed. It is planned to apply these policies and standards to the overseas units in different stages to make the domestic and overseas anti-money laundering and counter-terrorism financing system in sync with the international standards. 6. Compliance and operations training based on various business categories are enhanced to improve employees' compliance capability. 7. Communication with overseas financial examination institutions and the relevant reporting mechanisms have been strengthened. 8. Compliance officers at overseas branches have been taken on by dedicated personnel, and all compliance officers in the US have been adjusted to local professional. 9. The head office has already established an Anti-Money Laundering and Financial Crime Compliance Department. Manpower has been greatly expanded and professionals have been hired for the overall planning of anti-money laundering operations. 10. In addition to enhancement of the functions of internal audit, the communications and examination quality control mechanism of external auditors will be strengthened.  1. Reinforcing the supervisory and management features of the Board of Directors (1) The bank has engaged compliance, anti-money laundering, and information technology 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. (2) A mechanism for reporting material information to the Board of Directors has been established. (3) The Board shall enhance supervision over follow-up of the examinations performed by overseas regulatory authorities.	1. Improvement measures have been formulated and improvements are carried out based on the detailed items listed in the improvement plans. 2. Anti-money laundering system installation specified in Paragraph 4 is slated for completion in Q1 of 2018. 3. The timetable for adoption of the Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards in overseas units is based on the progress of the system installation. These tasks are still in progress. 4. Various improvements tasks are executed until the removal of supervision by the US competent authorities.  Completed or ongoing according to the improvement measures

Items to be reinforced	Improvement Measures	Estimated Completion Time of Improvement
3. The Bank is found with deficiencies in anti-money laundering and management of regulatory compliance by overseas branches.	<p>2. Improving the oversight and management of overseas branches by the head office</p> <p>(1) The bank has adjusted its organizational framework by establishing an Overseas Branches Administration Department and an Anti-Money Laundering &amp; Financial Crime Compliance Department. It also expands the manpower and reinforces management over overseas branches.</p> <p>(2) The bank has reinforced follow-up of financial examinations performed by local regulatory authorities on overseas branches and reported on a monthly basis progress on the remediation of deficiencies to the Board of Directors.</p> <p>(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.</p> <p>(4) The head office reviews the framework for oversight of global operation network, defining the reporting lines, and revising the relevant operating regulations and procedures.</p> <p>3. Improving the regulatory compliance system of overseas branches</p> <p>(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.</p> <p>(2) The bank has enhanced training for legal compliance officers and overseas staff.</p> <p>(3) The contents to be reported and to be discussed in meetings of compliance committees of overseas branches have been strengthened. The overseas branches will periodically analyze and reflect upon 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.</p> <p>4. Reinforcing internal monitoring functions</p> <p>(1) The bank will investigate and increase screening factors and take advantage of computer audit software to screen anomaly items.</p> <p>(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.</p> <p>(3) An external professional institution is retained to perform independent test on the anti-money laundering operations at overseas branches.</p> <p>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 rating.</p> <p>2. Factors of risk assessment, anti-money laundering operations and procedures (including name screening, customer risk assessment, due diligence, transaction monitoring and suspicious activities reports) and the relevant regulations will be continuously reviewed and enhanced.</p> <p>3. Professional consultants have been engaged to assist in the formulation of customer risk rating methodology. This will be incorporated into the anti-money laundering monitoring system to improve monitoring and management of anti-money laundering.</p> <p>4. To enhance the bank's worldwide anti-money laundering monitoring system, the first stage of system installation focuses on domestic area and Hong Kong branches. The system is expected to go live in Q2 of 2018. In the second stage, it is planned to complete the installation of relevant systems in the Manila and Singapore branches by the end of 2018. This will be followed by timetables and plans for the adoption of the system in other overseas branches.</p> <p>5. The "Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards" and the related risk management framework have already been completed. Furthermore, the implementation guidelines have been formulated in cooperation with external consultants. These policies and standards will be gradually implemented in stages in accordance with the risk levels and legal requirements at overseas branch locations.</p> <p>6. To reinforce the oversight and management of overseas branches, the bank has established an exclusive management mechanism for regulatory compliance by overseas branches and a mechanism for periodic bilateral communication.</p>	<p>The first and second stages specified in item 4 are slated for completion at the end of June and December 2018, respectively. The remaining items have been completed or are still in progress in accordance with the relevant improvement measures</p>



Weakness to be Improved	Improvement Plans	Estimated Completion Date
4.The branch in Panama did not have a risk profile descriptions or indicators to effectively identify risks in place, which made it impossible to perceive potential risks and measure them in real time. It did not precisely conduct risk self-assessments or take effective measures to control risk. The effectiveness of the functions of risk management unit needs to be reinforced. Quality of information submitted to the Banking Regulatory Commission did not meet requirements.	<ol style="list-style-type: none"> <li>1. The branch has revised various operating manuals such as internal control and operational risk manuals to clearly describe risk profiles and operational risk indicators. The operating manuals will be reviewed and updated every year.</li> <li>2. The branch will strengthen risk management system, implement operational risk self-assessment, reinforce the identification of various operational risk indicators, periodically follow up and control, and report to the risk and compliance committee for oversight.</li> <li>3. The branch will strengthen KYC operations and customer data filing. Customer due diligence (CDD) and regular data updates and enhanced due diligence (EDD) will be performed as well.</li> <li>4. Investigation into blacklist warnings and transaction monitoring will be reinforced.</li> <li>5. The branch will comprehensively review and correct archived data, and amend the program so that related statements are generated by the system to enhance the quality of information submitted to the competent authority.</li> </ol>	Improvement measures have been formulated and improvements are carried out based on the detailed items listed in the improvement plans. Numerous tasks have already been completed. Furthermore, optimization of the whole anti-money laundering monitoring mechanism is scheduled for completion by the end of 2018.
5.Reviews of OBU account opening procedures and transaction monitoring shall be carried out in a reliable manner.	<ol style="list-style-type: none"> <li>1. Risk rating for said customers have been re-assessed and accounts are closed except those having substantial investment transactions. The regulations for account opening introduced by OSU for private wealth management business have been amended to facilitate the compliance by business units.</li> <li>2. Employees' training has been reinforced.</li> </ol>	Improvements have been completed according to the improvement plans.
6.Anti-money laundering inspections and monitoring shall be carried out for transactions that conform to the screening indicators for suspected money laundering or terrorism financing.	<ol style="list-style-type: none"> <li>1. Relevant programs have been revised to eliminate false-hit suspected transactions, screening of suspected transactions has been improved, and reminders and warnings have been added to the forms.</li> <li>2. In addition to constant strengthening of the legal compliance framework and anti-money laundering regulations, the operating procedures for KYC, CDD and EDD will be implemented.</li> <li>3. The fully upgraded anti-money laundering system is expected to go live in Q2 of 2018.</li> <li>4. Anti-money laundering practices and legal compliance training for bank personnel will be strengthened, and all employees are encouraged to register for ACAMS certifications.</li> </ol>	The newly established AML system is expected to be on line in 2018 Q2, while the remaining improvements have been completed.
7.The chief accountant of the Thai subsidiary utilized a loophole in the computer system security control mechanism to embezzle bank capital.	<ol style="list-style-type: none"> <li>1. Strengthening of reports monitoring: This includes revision of approval procedures for important statements, which are incorporated into inspection items of internal audits, and revision of the contents of management report. Account anomaly reports are also required to provide in order to enhance control efficacy.</li> <li>2. Modification of computer programs: This includes modification of the authorization and control mechanism for the transaction and accounting systems.</li> </ol>	Improvements have been completed according to the improvement plans. In addition, independent external organizations have been commissioned to carry out verification on the effectiveness of the improvements, which is expected to be completed by the end of February 2018.
8.General principles for project financing should be formulated to govern risk assessment, financial planning, financing framework arrangement, procedures management, risk mitigation and risk control mechanism. Sufficient professional resources should be allocated for project financing to enhance the professional capabilities.	<ol style="list-style-type: none"> <li>1. The bank will review the relevant operating procedures and perform authenticity verifications on the related transactions.</li> <li>2. The Bank will formulate risk management mechanism for key public construction and project financing in line with the mechanism studied by Bankers Association of tripartite contracts and contact among procurement agencies of the government, businesses and banks.</li> <li>3. In a project financing, the bank shall ensure the investment plans conform to the project financing principles. In addition to customer due diligence, the bank shall negotiate the following items with borrowers: risk sharing mechanism and guarantee framework, rights and interests of financing banks and right of recourse, procedures for formation of syndications. Post-loan management will also be carried out. If loans need to be drawn down in accordance with the project progress, the bank will ensure that the drawdown schedule conforms to the project progress, and regular visits to the construction site shall be made.</li> </ol>	It is expected to be completed by the end of March 2018, except the 2nd item. The enhancement or risk management on public construction, project financing will be implemented based on the deliberation results of the Bankers Association.

# Corporate Governance Report

Weakness to be Improved	Improvement Plans	Estimated Completion Date
<p>9. On the examination cut-off date in 2016, the New York, Chicago, and Silicon Valley branches failed to meet the requirements of the competent authorities in risk management and anti-money laundering systems.</p>	<ol style="list-style-type: none"> <li>1. The board of the bank was completely re-organized. Newly appointed directors and supervisors include CPA, lawyers, finance and economics scholars and anti-money laundering professionals. In addition, a special committee subordinate to the board has been established to strengthen the board supervisory functions.</li> <li>2. The anti-money laundering and legal compliance operations of the bank have been comprehensively reviewed and organizational reforms have been carried out. The management organization of the head office has been adjusted and a dedicated management unit has been added. Manpower for legal compliance and anti-money laundering has been increased. Full-time legal compliance officers are appointed in overseas branches and the qualifications of the bank's legal compliance personnel have been enhanced. Employees' legal compliance awareness shall be heightened.</li> <li>3. The bank has developed anti-money laundering policies and relevant management systems applicable to domestic and overseas units. Professional consultants are engaged to assist in the risk assessment of money laundering and terrorism financing and the adoption of improvement measures. The bank successively implements the Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards and internal regulations governing the management of overseas branches in pursuit of a sound legal compliance and anti-money laundering system. The ultimate goal is to bring the bank in sync with international anti-money laundering standards and ensure conformity to the requirements of the US financial examination authority.</li> <li>4. The bank has enhanced the anti-money laundering monitoring system, established a KYC database, strengthened the functions of anti-money analysis, screening and monitoring and implementation.</li> <li>5. Improvement plans have been proposed in accordance with the review opinions of compliance consultants designated by NYDFS. These plans encompass internal organizational adjustment, strengthening of the rules, regulations, procedures and anti-money laundering system, etc. Relevant items are implemented according to the planned schedule.</li> </ol>	<p>Improvements have been completed or ongoing according to the improvement plans.</p>
<p><b>Mega Securities Co., Ltd.</b></p> <p>1. In underwriting of unsecured convertible bonds, the company allocated the convertible bonds in coordination with a bank.</p> <p>2. Violations of sales personnel, including failure to comply with the integrity and trust principles in the execution of services, utilization of customer accounts for the trading of securities, handling illegal discretionary account for customers, and borrowing funds from customers.</p> <p>3. A warrant trader bought warrants at high prices and sold them at low price to accounts belonging to his relatives to earn illegal profits.</p>	<ol style="list-style-type: none"> <li>1. The company has established the inspection measures for securities allocation through book building method and strengthened post management to ensure fairness and reasonableness of the securities allocation.</li> <li>2. Legal compliance of underwriting operations has been added into the item of self-assessment. Legal compliance training for underwriting operations is automatically conducted through computer systems on monthly basis.</li> </ol> <p>Employees in charge of securities brokerage have been educated on the Brokerage Service Operation Principles and Disciplinary Measures. No anomaly has been detected upon investigation of the brokerage transactions of other customers.</p> <ol style="list-style-type: none"> <li>1. The company has strengthened inspections of price quotation made through manual operation by warrant traders.</li> <li>2. Personal wireless telecommunication devices are forbidden in trading rooms.</li> <li>3. Strict access control for trading rooms is implemented.</li> </ol>	<p>Improved</p> <p>Improved</p> <p>Improved</p>



Weakness to be Improved	Improvement Plans	Estimated Completion Date
4. The following deficiencies have been identified: reporting out-trades when account errors not attributable to the company, failure to test the effectiveness of the anti-money laundering and counter-terrorism financing (AML/CFT) programs, failure to include certain risks in AML risk assessments, failure to conduct AML risk assessment for new products prior to the launch, failure to create a nationality column in the AML information system, screening flaws of customer default system, failure to handle reports of suspected cases of money laundering in a confidential manner, failure to verify the identity of Repo transaction customers.	<ol style="list-style-type: none"> <li>1. The company has enhanced training and specifies that out-trade reports are disallowed if the errors not are not attributable to the company.</li> <li>2. The company has completed reports on the testing of plan effectiveness, revised the AML/CFT assessment list, remediated the risk assessment procedures prior to the launch of new products, added a nationality column in the information system, revised screening criteria in customer default system, reported suspected cases of money laundering in a confidential manner. Existing customers have been requested to submit powers of attorney for proxies. Customers who have failed to submit POAs will be prohibited from transaction.</li> </ol>	Improved
<b>Chung Kuo Insurance Co., Ltd.</b> Loss of rate recordation documents for certain products of the Guam representative office issued by the competent authorities.	<ol style="list-style-type: none"> <li>1. The Guam representative office has already amended the relevant guidelines governing document management and preservation. In the future, documents are classified into the two categories of "permanent files" and "non-permanent files."</li> <li>2. Rate recordation documents issued by insurance supervisory authorities of Guam will not only be properly preserved by the Guam representative office but also forwarded to the International Department as well as the Planning and Actuarial Department.</li> </ol>	Improved

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

### 3.3.11 Penalties Imposed for Violations of Laws or Regulations and Major Defects and Remedial Measures Adopted in the Past Two Years

#### A. Legal action involving executives or employees:

The Taiwan Taipei Prosecutors Office prosecuted ex-Chairman Mr. Tsai and former Chief Secretary Mr. Wang of this Company for violating the Company Act, Banking Act, Money Laundering Control Act, Trade Secrets Act, Financial Holding Company Act, 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 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:

- a. The bank has strengthened training by successively adding training courses relating to identification of foreign currency notes, anti-money laundering and counter terrorism financing.
- b. The bank has established a mechanism to control the exchange of foreign currency cash in large amount.
- c. The bank has enacted regulations on the management of counterfeit money detector, and comprehensively inspected and upgraded functions of money detectors.



- (2) Mega International Commercial Bank provided customer basic information to Chung Kuo Insurance to facilitate its telemarketing operations without obtaining permission from the clients first, which is in violation of the Personal Information Protection Act. It was fined NT\$50,000 by FSC on June 29, 2016.

Improvements:

- a. After the amendment to the Article 43 of the Financial Holding Company Act effective June 6, 2014, the bank no longer provided customer data to other subsidiaries of the Company for cross selling.
- b. 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 cross selling.

- (3) For the penalty of US\$180 million imposed by the NYDFS, 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 fined NT\$10 million and ordered correction by FSC on September 14, 2016. It was also temporarily prohibited from applying to set up new overseas branches until the shortcomings in this case are corrected; 6 senior managements were ordered to be removed from their positions.

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

- (4) Mega International Commercial Bank was fined NT\$4 million by FSC on December 29, 2017 due to its failure to control credit risk of Ching Fu Shipbuilding Company and its affiliated companies. There are deficiencies in credit investigation, credits, drawdown of loans and remittance business in this regard.

Improvements:

- a. The bank will review the relevant operating procedures and perform authenticity verifications on the related transactions. This is expected to be completed by the end of August 2018.
- b. The Bank will formulate risk management mechanism for key public construction and project financing in line with the mechanism studied by Bankers Association of tripartite contracts and contact among procurement agencies of the government, businesses and banks.
- c. In a project financing, the bank shall ensure the investment plans conform to the project financing principles. In addition to customer due diligence, the bank shall negotiate the following items with borrowers: risk sharing mechanism and guarantee framework, rights and interests of financing banks and right of recourse, procedures for formation of syndications. Post-loan management will also be carried out. If loans need to be drawn down in accordance with the project progress, the bank will ensure that the drawdown schedule conforms to the project progress, and regular visits to the construction site shall be made.

- (5) Chung Kuo Insurance Company failed to follow the premium rates of public accident liability insurance and automobile insurance submitted to FSC for review. The premium of group injury insurance was not charged in accordance with the rates approved by 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 manual 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:

- a. The company has changed the premium rates of public accident liability insurance and submitted to FSC for recordation.
- b. Premiums have been charged according to the new premium rates and the rate modification range submitted to FSC for recordation.



- c. All group injury insurance projects have been checked comprehensively and the adequacy of the premium rates has been re-checked. In addition, notices of the premium rates increase and adoption of the adequate rates have been sent to the cooperated insurance brokerage/agency firms.
  - d. The system for the filing and change of the roster of named insured drivers has been revised to seek perfection.
  - e. The repair shops were asked immediately to accommodate the needs of the company in its operations by providing quotations right away to the claims personnel after the inspection was completed.
  - f. The claims department is required to obtain the quotation or repair estimation sheet signed by the proposer (or the insured) or those it has authorized, according to the requirements of the competent authority, and the claims adjustment supervisors are required to conduct random inspections irregularly.
- (6) 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 evaluating the premium rates for its commercial fire insurance business. Consequently, Chung Kuo Insurance Company was fine NT\$600,000 by the FSC on September 30, 2016.

**Improvements:**

- a. The company has established a mechanism for approval of premium rates and has organized training.
  - b. The additional charges have been included in the rate modification factor.
  - c. The company has revised the underwriting technical modification factor sheet; riders qualified for additional charges have to be precisely considered in evaluation of additional premium.
- (7) As for the management of Guam representative office, Chung Kuo Insurance Company failed to establish a business statement and insurance product review mechanism. The staffs in the office were found to have affixed their signatures to checks issued while they were off. FSC therefore imposed a fine of NT\$600,000 on the company on December 13, 2016.

**Improvements:**

- a. Management over the office in Guam has been reinforced by the International Department. The business statement and insurance product review and management mechanism are in place.
- b. The office in Guam has revised the internal operation manual and established a control mechanism to be followed.

### **C. Correction ordered by the FSC**

- (1) Without obtaining prior approval for providing consultation services on foreign securities, Mega International Securities Investment Consulting Co., Ltd. provided analysis on individual stocks trading in China. It was therefore given a correction order by FSC on September 19, 2016.

**Improvements:** The company has stopped providing information on stocks traded on foreign markets and enhanced staff training.

- (2) As a co-manager of WPG Holdings Unsecured Convertible Bonds Issue, Mega Securities relayed two customers' payment information for subscription of the said bonds to Far Eastern Commercial Bank, indicating Mega Securities placed the bonds in coordination with the bank. Mega Securities was imposed a warning sanction by FSC on January 19, 2017, and ordered to punish Mr. Wu, head of Capital Market Department and Ms. Jiang, sales person of Capital Market Department.

**Improvements:** Please refer to the first item of Mega Securities on the Internal Control Weaknesses and Improvement Plans.

- (3) Mega Securities was given a correction order by FSC on August 16, 2017 because of the following deficiencies: reporting out-trades when account errors not attributable to the company, failure to test the effectiveness of the anti-money laundering and counter-terrorism financing (AML/CFT) programs, failure to include certain risks in AML risk assessments, failure to conduct AML risk assessment for new products prior to the launch, failure to create a nationality column in the AML information system, screening flaws of customer default system, failure to handle reports of suspected cases of money laundering in a confidential manner, failure to verify the identity of Repo transaction customers.

Improvements: Please refer to the fourth item of Mega Securities on the Internal Control Weaknesses and Improvement Plans.

- (4) Mega International Investment Trust Company was given a correction order by FSC on January 24, 2017 due to the following deficiencies in its investment analysis reports: mistake of transaction side or analysis target, bearing no signature of writers or responsible superiors. Besides, the screening and review of suspected money laundering customer are not conducted according to the internal guidelines.

Improvements:

- Writers of the investment analysis reports are strictly required to ensure the accuracy and completeness of the reports before submission.
- Review officer and responsible superiors have reinforced review of the analysis reports.
- Review officer of the Investment Decision Statement are required to ensure that the investment analysis reports are duly signed, before signing on the Investment Decision Statement.
- The system programs for screening and review of suspected money laundering customers have been revised.

**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.**

### 3.3.12 Major Resolutions of Shareholders' Meeting and Board Meetings in 2017

#### A. Important resolution of the annual shareholders' meeting

- Approved the 2016 Business Report and Financial Statements
- Approved the proposal of earning distribution for 2016

Implementations: The meeting resolved to pay cash dividend of \$1.42 per share with an aggregate amount of NT\$19,311,750,056. The dividend record date was set on August 16, 2017, and the dividend was paid on September 1, 2017.

- Approved the amendment to the Operating Procedures for Acquisition or Disposal of Assets

Implementations: The amended Operating Procedures for Acquisition or Disposal of Assets were published on the Company's website and MOPS on June 16, 2017.

#### B. Important resolution of the Board meetings held in 2017

- The 26th meeting of the sixth term Board of Directors held on January 24, 2017 approved the budget target of 2017 and re-appointment of an independent director and a labor director of the Mega International Commercial Bank.





- (2) The 27th meeting of the sixth term Board of Directors held on February 21, 2017 approved the engagement of the external auditor for 2017 financial statements, the re-appointment of two independent directors of the Mega International Commercial Bank and one independent director of Mega Securities Company.
- (3) 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, convening of the 2017 general shareholders' meeting and re-appointment of directors and/or supervisors of four subsidiaries.
- (4) The 29th meeting of the sixth term Board of Directors held on April 25, 2017 approved the 2016 Business Report and re-appointment of a supervisor of the Mega Venture Capital Company.
- (5) The 30th meeting of the sixth term Board of Directors held on May 23, 2017 approved the appointment of the acting president of Mega Asset Management Company.
- (6) The 32nd meeting of the sixth term Board of Directors held on July 25, 2017 approved the record date for 2016 earning distribution.
- (7) The 33rd meeting of the sixth term Board of Directors held on August 29, 2017 approved the appointment of one director and one supervisor of the Mega International Commercial Bank.
- (8) The 34th meeting of the sixth term Board of Directors held on September 26, 2017 approved the appointment of directors of the Mega International Investment Trust Company.
- (9) The 37th meeting of the sixth term Board of Directors held on December 26, 2017 approved the budget target of 2018.
- (10) The 40th meeting of the sixth term Board of Directors held on February 7, 2018 approved the appointment of Kuang-Hua Hu as the President of the Company, Yong-Yi Tsai as the President of the Mega International Commercial Bank, and re-appointment of one director of Mega International Commercial Bank.
- (11) The 41st meeting of the sixth term Board of Directors held on February 27, 2018 approved the engagement of the external auditor for 2018 financial statements, re-appointment of the 15th term of Board of Directors of Mega Bills Finance Company and its Chairman and President.
- (12) The 42nd meeting of the sixth term Board of Directors held on March 27, 2018 approved the 2017 internal control system statement, 2017 consolidated financial statements, and Employees' and Directors' compensation for 2017.

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

### **3.3.14 Resignation or Dismissal of Personnel Involved in Preparation of Financial Reports:**

Title	Name	Date of appointed	Date of termination	Reasons for resignation or dismissal
President	Li-Yen Yang	September 10, 2016	February 7, 2018	Retirement

### **3.3.15 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)	King-Tse Huang Chung-Hsi Lai	January 1, 2017~December 31, 2017	

Unit: NT\$

Bracket	Item	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	2,503,900	0	0	0	1,225,500	1,225,500	1/1/2017 – 12/31/2017	1. IFRS 9 consulting fee 2. BEPS consulting fee 3. 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	Chien-Hung Chou is replaced by Chung-Hsi Lai as the external auditor of the 2017 financial statements due to internal job rotation in CPA firm		
Was the termination of audit services initiated by the principal or by the CPA	Counterparty	CPA	Principal
	Situation		
	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.		
Date of Reappointment	The Board of Directors approved on February 27, 2018		
Reason for reappointment	King-Tse Huang is replaced by Shu-Mei Chi as the external auditor of the 2018 financial statements due to 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	Chung-Hsi Lai
Date of reappointment	The Board of Directors approved on February 21, 2017
Inquiries and replies relating to the accounting practices or accounting principles of certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment	None
Written disagreements from the succeeding auditor against the opinions made by the former CPA	None
Name of accounting firm	PricewaterhouseCoopers, Taiwan
Name of external auditor	Shu-Mei Chi
Date of reappointment	The Board of Directors approved on February 27, 2018
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: None.

## 3.7 Changes in Shareholding

### 3.7.1 Changes in Shareholding of Directors, Executives and Major Shareholders

Unit: Share

Title	Name	2017		As of March 31, 2018	
		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.	-	-	-	-
	Chunghwa Post Co., Ltd.	8,982,000	-	2,598,000	-
Chairman	Chao-Shun Chang	-	-	-	-
Director and President	Kuang-Hua Hu (Note1)	-	-	-	-
Ex-director and ex-President	Li-Yen Yang (Note1)	-	-	-	-
Director	Tzong-Yau Lin	-	-	-	-
Director	Chia-Chi Hsiao	-	-	-	-
Director	Cheng-Te Liang	-	-	-	-
Director	Chun-Lan Yen	-	-	-	-
Director	Wen-Ling Hung	-	-	-	-
Director	Shiow-Huey Yeh (Note2)	-	-	-	-
Director	Chiu-Fa Tsai	-	-	-	-
Director	Jiunn-Rong Chiou	-	-	-	-
Director	Jui-Chi Chou	-	-	-	-
Director	Ye-Chin Chiou	-	-	-	-
Independent Director	Tsun-Siou Li	-	-	-	-
	Chi-Hung Lin	-	-	-	-
	Keh-Nan Sun	-	-	-	-
Executive Vice President	Jui-Yun Lin	-	-	-	-
	Yu-Mei Hsiao	50,000	-	-	-
Chief Internal Auditor	Tzong-Chi Hsu	-	-	-	-
Chief Compliance Officer	Hui-Lin Wu	20,000	-	20,000	-
Chief Secretary of the Board	Han-Yin Ting (Note 3)	-	-	-	-
Senior Vice President	Jui-Ying Tsai	-	-	-	-
Senior Vice President	Chia-Min Hong	-	-	-	-
Vice President	Hsi Jui Chao	-	-	-	-
Vice President	Ta-Sheng Chen	-	-	-	-
Acting Vice President	Ming-Chih Lu (Note 4)	-	-	-	-

Note: .

1. Mr. Li-Yen Yang retired on February 7, 2018 and Kuang-Hua Hu is appointed by the Board of Directors as the President effective February 7, 2018.
2. Ms. Shiow-Huey Yeh resigned on April 19, 2018 as the director of the Company.
3. Ms. Han-Yin Ting serves as Chief Secretary of the Board effective May 23, 2017.
4. Mr. Ming-Chih Lu serves as acting head of the Business Development Department effective March 28, 2017.



### 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 16, 2018

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, R.O.C.	None
National Development Fund, Executive Yuan, R.O.C. (Representative: Mei-Ling Chen)	830,973,202	6.11	0	0	0	0	None	None	None
Chunghwa Post Co., Ltd. (Representative: Kwo-Tsai Wang)	487,484,910	3.58	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: Tiao-Kuei Huang)	379,309,692	2.79	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, R.O.C.	Taiwan Financial Holding Co., Ltd. is wholly owned by the Ministry of Finance, R.O.C.	None
China Life Insurance Co., Ltd. (Representative: Mr. Alan Wang)	309,595,345	2.28	0	0	0	0	None	None	None
Nan Shan Life Insurance Co., Ltd. (Representative: Y. T. Du)	203,713,000	1.50	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
New Labor Pension Fund (Representative: Ji-Fa Shih)	189,793,772	1.40	0	0	0	0	None	None	None

## 3.9 Long-term Investment Ownership

As of December 31, 2017

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.	1,499,076	0.42	4,341,458	1.20	5,840,534	1.62
Taipei Financial Center Corp.	73,500,000	5.00	50,375,227	3.43	123,875,227	8.43
Taiwan Business Bank	738,604,841	12.02	1,194,643,048	19.44	1,933,247,889	31.45
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 Management & Consulting Co., Ltd.	0	0	2,000,000	100.00	2,000,000	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 Fong 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



# Capital Overview

## 4.1 Capital and Shares

### 4.1.1 Issued Shares

As of Dec. 31, 2017

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, 2017

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 16, 2018

Type of shareholders	Government agencies	Financial institutions	Other juridical persons	Domestic natural persons	Foreign institutions & natural persons	Total
Number of shareholders	12	36	760	254,585	826	256,219
Shareholding (shares)	2,542,507,797	2,812,756,367	1,186,594,391	1,798,647,133	5,259,318,295	13,599,823,983
Percentage (%)	18.70	20.68	8.73	13.22	38.67	100.00

### 4.1.3 Distribution Profile of Share Ownership

Par value per share: NT\$10 As of April 16, 2018

Shareholder ownership (Unit: Share)	Number of shareholders	Shareholding (Shares)	Percentage (%)
1 ~ 999	94,720	27,171,633	0.20
1,000 ~ 5,000	98,867	226,182,890	1.66
5,001 ~ 10,000	27,053	197,495,049	1.45
10,001 ~ 15,000	11,728	141,943,125	1.04
15,001 ~ 20,000	5,816	103,406,044	0.76
20,001 ~ 30,000	6,186	151,277,124	1.11
30,001 ~ 40,000	3,039	105,470,193	0.78
40,001 ~ 50,000	1,975	89,835,058	0.66
50,001 ~ 100,000	3,570	251,249,044	1.85
100,001 ~ 200,000	1,686	231,570,526	1.70
200,001 ~ 400,000	685	185,321,245	1.36
400,001 ~ 600,000	182	89,463,063	0.66
600,001 ~ 800,000	115	79,362,658	0.58
800,001 ~ 1,000,000	68	61,436,846	0.45
Over 1,000,001	529	11,658,639,485	85.74
Total	256,219	13,599,823,983	100.00





#### 4.1.4 Major Shareholders

As of April 16, 2018

Name of shareholder	Number of common shares	Percentage of shareholding (%)	Percentage of voting rights (%)
Ministry of Finance, R.O.C.	1,143,043,883	8.40	9.37
National Development Fund, Executive Yuan, R.O.C.	830,973,202	6.11	6.81
Chunghwa Post Co., Ltd.	487,484,910	3.58	4.00
Fubon Life Insurance Co., Ltd.	471,858,168	3.47	3.87
Cathay Life Insurance Co., Ltd.	379,309,692	2.79	3.11
Bank of Taiwan Co., Ltd.	334,951,379	2.46	2.75
China Life Insurance Co., Ltd.	309,595,345	2.28	2.54
Nan Shan Life Insurance Co., Ltd.	203,713,000	1.50	1.67
Pou Chen Corporation	191,730,486	1.41	1.57
New Labor Pension Fund	189,793,772	1.40	1.56

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

Unit: NT\$

Item		Year	2017	2016	As of March 31, 2018
Market price per share (Note 1)	High		26.40	26.20	26.10
	Low		22.80	19.05	23.70
	Average		24.19	22.82	25.09
Net worth per share (Note 2)	Before distribution		21.92	21.47	(Note 6)
	After distribution		(Note 7)	20.05	-
Earnings per share	The weighted average of outstanding shares (in thousands of shares)		13,599,824	13,599,824	13,599,824
	Earnings per share	Before adjustment	1.89	1.65	(Note 6)
		After adjustment	1.89	1.65	-
Dividends per share	Cash dividends		1.50	1.42	-
	Stock dividends	Earnings	None	None	None
		Capital surplus	None	None	None
	Cumulative undistributed dividends		None	None	None
Investment return analysis	PE ratio (Note 3)		12.80	13.83	-
	Price-dividend ratio (Note 4)		16.13	16.07	-
	Cash dividend yield (%) (Note 5)		6.20	6.22	-

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 financial statements of 2018 Q1 have not been reviewed by external auditor.

7. The proposal for distribution of 2017 profits will be submitted to the annual shareholders' meeting on June 15, 2018.

## 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 2017 Profits

It is proposed to submit to the Company's Annual Shareholders' Meeting, to be held on June 15, 2018, for its approval of the distribution of NT\$20,399,735,975 cash dividends, which is NT\$1.50 per share. The proposed cash dividends account for 35.75% of the 2017 distributable earnings for NT\$50,067,843,345, or 88.08% of the net balance NT\$23,161,062,943 of net income after tax in 2017 minus 10% legal reserve.

## 4.1.7 Impact to 2017 Business Performance and EPS of Stock Dividend Distribution

The Company will not distribute any stock dividend for 2017 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 2017

The Company's 2017 employee remuneration and director remuneration have been estimated according to the Articles of Incorporation and in reference to peer levels and previous distributions. If the actual payment amount changes, the difference will be treated as a change in accounting estimate and recognized as a gain or loss in the following year.

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

The meeting of Board of Directors on April, 24, 2018 approved to distribute employees' and directors' remuneration for 2017 in cash for NT\$13,405,999 and NT\$128,903,840 respectively. The aggregate amount decreased by NT\$1,739,180 compared to the expenses recognized in 2017 due to estimate difference.

#### D. Distribution of employees' and directors' remuneration for the year 2016

The employees' and directors' remuneration for 2016 amounted to NT\$10,705,074 and NT\$114,648,956, respectively, which are the same as booking amount. Both employees' and directors' remuneration were distributed in cash, and no employees' remuneration was distributed in stock.

#### 4.1.9 Buyback of Company Shares

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

### 4.2 Issuance of Corporate Bonds

Issue		2015-2 Domestic Unsecured Exchangeable Bonds
Issue date		August 25, 2015
Denomination		NT\$100,000
Issue/Transaction place		Taiwan
Issue price		100.1%
Issue size (Nominal amount)		NT\$5,800,000,000
Coupon rate		0% p.a.
Maturity		3 years (due 8/25/2018)
Repayment priority		Senior debts
Guarantor		None
Trustee		Taipei Fubon Commercial Bank
Underwriter		Fubon Securities Co., Ltd.
Certifying attorney		Chung-Chieh Wei Law Office
Auditor		PricewaterhouseCoopers, Taiwan
Repayment		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.
Outstanding principal		NT\$4,682,200,000 as of March 31, 2018
Redemption at the option of the issuer		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.
Restriction clause		None
Whether included in eligible capital		No
Credit rating		None
Other rights of bondholders	Amount of converted or exchanged common Shares, DRs or other securities	NT\$2,960,677,220
	Terms of issuance and exchange (or conversion)	Please refer to the prospectus of this issue published on the Market Observation Post System of the Taiwan Stock Exchange
Dilution effect and other adverse effects on existing shareholders		None
Custodian of the underlying securities		Taiwan Depository & Clearing Corporation

## 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	2017	As of March 31, 2018
Shareholding of underlying common shares		636,481,677 shares	682,944,839 shares	717,092,080 shares	738,604,841 shares	602,949,629 shares
Exchange price		9.56	8.91	8.49	8.24	8.24
Market price of the exchangeable bonds	Highest	100.60	101.00	101.75	103.25	107.50
	Lowest	97.00	97.00	98.25	100.80	102.30
	Average	98.96	99.45	100.57	102.46	104.75
Issue date		August 25, 2015				
Underlying securities		Taiwan Business Bank Common Shares				

### 4.3 Preferred Stock, Issuance of Depositary Receipts, Employee Stock Options, New Restricted Employee Shares: None.

### 4.4 Mergers with or Acquisitions of Other Financial Institutions: None.

### 4.5 Capital Utilization Plans and Execution Status

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

# Operational Overview



# Operational Overview

## 5.1 Business Overview

The Company has 8 directly owned subsidiaries including Mega International Commercial Bank Co., Ltd., Mega Securities Co., Ltd., Mega Bills Finance Co., Ltd., Chung Kuo Insurance Co., Ltd., Mega International Investment Trust Co., Ltd., Mega Asset Management Co., Ltd., Mega Life Insurance Agency Co., Ltd. and Mega Venture Capital Co., Ltd. The Company and its subsidiaries' business overview are described as follows.

### 5.1.1 Business Scope

#### Mega Financial Holding Co., Ltd.

##### A. Major business

The business of the Company is limited to investment in, and management of, its invested enterprise(s). The business services which the Company may invest include financial holding companies, banking, bill finance, credit card, trust, insurance, securities, futures, venture capital, foreign financial organizations allowed to be invested upon approval of the competent authority, and other enterprises determined by the competent authority to be related to financial services.

##### B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2017		2016	
		Amount	%	Amount	%
Investment income from equity investments accounted for by the equity method		25,926,293	99.26	23,132,410	99.29
Other operating revenue		193,895	0.74	166,501	0.71
Total		26,120,188	100.00	23,298,911	100.00

##### C. New products and services planned for the future: not applicable.

#### Mega International Commercial Bank Co., Ltd.

##### A. Major business

- Commercial banking business: deposits, loans & guarantees, documentary credits, remittance, offshore banking business, short term bills business, foreign exchange business, safety boxes services, book entry business for the central government bonds, ATM business, electronic banking and internet banking business
- Consumer banking and wealth management business: credit cards, consumer loans, student loan for studying overseas, mortgage loans, non-discretionary money trust investments in domestic and foreign securities, trust business
- Investment and agency services: direct equity investment, securities underwriting, agency for selling gold/silver coins, agency for securities issuance, agency for payment of interest and dividend
- Other business approved by the competent authority



## B. Revenue Breakdown

Unit: NTD thousand

Item	Year	2017		2016	
		Amount	%	Amount	%
Net interest income		33,552,745	67.67	35,045,060	77.57
Revenue other than interest income, net		16,029,323	32.33	10,135,583	22.43
Fee income – net		6,870,359	13.86	7,840,059	17.35
Gains on financial assets and liabilities at fair value through profit or loss		5,425,632	10.94	3,009,229	6.66
Realized gain on available-for-sale financial assets		1,484,447	2.99	1,596,716	3.53
Realized gain on held-to-maturity financial assets		-	-	( 189)	-
Foreign exchange gain – net		1,853,603	3.74	2,046,115	4.53
Loss on asset impairment		( 205,179)	( 0.41)	( 334,397)	( 0.74)
Share of profit of associates and joint ventures accounted for under equity method		471,613	0.95	451,001	1.00
Other revenue other than interest income		235,497	0.47	227,825	0.50
Gain on financial assets carried at cost		619,151	1.25	803,272	1.78
Net other miscellaneous income (loss)		( 725,800)	( 1.46)	( 5,504,048)	( 12.18)
Net revenue		49,582,068	100.00	45,180,643	100.00

## C. New products and services planned for the future

In order to develop new customer bases and to respond to the development of FinTech, additional co-branded credit cards will be issued, the e-banking business will be expanded, the membership points accumulation platform will be developed to interface with the respective digital channels of the bank, and opening of digital savings accounts will continue to be optimized in 2018. In addition, for the sake of soliciting business opportunities derived from an aging era, development of the care trust business will be reinforced.

## Mega Securities Co., Ltd.

### A. Major business

#### (1) Business activities

- a. Securities brokerage, underwriting and proprietary trading
- b. Agency for stock affairs
- c. Margin trading and short-selling services
- d. Futures proprietary trading of securities-related futures
- e. Introducing brokerage of securities-related futures
- f. Wealth management business
- g. Lending and borrowing in connection with securities services
- h. Other services approved by the competent authority



## B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2017		2016	
		Amount	%	Amount	%
Brokerage fee revenue		1,427,705	46.22	956,331	43.25
Fee income from margin loans		764	0.02	395	0.02
Commission income from securities financing		31,045	1.01	23,648	1.07
Revenue from underwriting business		76,910	2.49	91,035	4.12
Net income from wealth management business		23,725	0.77	16,242	0.73
Net gains (losses) on sale of securities held for operations		367,077	11.88	( 227,467)	( 10.29)
Income from providing stock registration services		36,780	1.19	41,966	1.90
Interest income		887,568	28.74	879,693	39.79
Dividend income		166,866	5.40	109,390	4.95
Valuation Gains of trading securities at fair value through profit and loss		58,753	1.90	( 63,522)	( 2.87)
Gain on covering on securities borrowings and bond purchased under resale agreement		( 66,814)	( 2.16)	( 74,931)	( 3.39)
Gain on valuation for securities borrowings and bond purchased under resale agreement		20,019	0.65	( 42,652)	( 1.93)
Gain on issuance of stock warrants		160,680	5.20	286,173	12.94
Futures commission income		46,500	1.51	52,841	2.39
Loss on derivative financial instruments - Futures		( 181,326)	( 5.87)	( 15,960)	( 0.72)
Gain (loss) on derivative financial instruments - OTC		( 11,049)	( 0.36)	6,144	0.28
Other operating income		43,437	1.41	171,779	7.77
Total		3,088,640	100.00	2,211,105	100.00

## C. New products and services planned for the future

The company will proactively evaluate the business opportunity of new business relaxed by the competent authority to increase profit opportunities.

### Mega Bills Finance Co., Ltd.

#### A. Major business

- Bills Business: certification, underwriting, brokerage and proprietary trading of short-term bills ( including USD short-term bills ), guarantee or endorsement of commercial paper
- Bonds Business: certification, underwriting, brokerage and proprietary trading of bank debentures, proprietary trading of government bonds and corporate bonds, proprietary trading and investment of fixed income securities and foreign currency bonds
- Equity investment business
- Others

## B. Revenue Breakdown

Unit: NT\$1,000

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

## C. New products and services planned for the future: None.

### Chung Kuo Insurance Co., Ltd.

#### A. Major business

- Direct writing business: Fire insurance, marine cargo insurance, marine hull insurance, automobile insurance, aviation insurance, engineering insurance, liability insurance, credit insurance, bond, accident insurance, health insurance and other property insurance, etc.
- Reinsurance assumed business

## B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2017		2016	
		Amount	%	Amount	%
Fire insurance premium		1,630,532	25.09	1,592,953	24.83
Marine cargo insurance premium		254,362	3.91	244,294	3.81
Marine hull insurance premium		308,634	4.75	362,461	5.65
Automobile insurance premium		3,190,328	49.10	3,045,799	47.48
Aviation insurance premium		68,088	1.05	122,782	1.91
Engineering insurance premium		180,214	2.77	164,267	2.56
Accident insurance premium		187,471	2.88	197,528	3.08
Health insurance premium		26,703	0.41	22,575	0.35
Other insurance premium		651,876	10.03	661,907	10.32
Total direct written premium income		6,498,207	100.00	6,414,566	100.00
Inward reinsurance premium income		688,205	-	589,905	-
Total		7,186,412	-	7,004,471	-

## C. New products and services planned for the future

- Auto Insurance for PHYD (Pay How You Drive)
- Motorcycle Passengers Liability Insurance
- Three-year-term Health Insurance
- Physical Damage Insurance Part C for Commercial Purpose
- Child care liability insurance
- Lady Guard- Individual Personal Accident Insurance

## Mega International Investment Trust Co., Ltd.

### A. Major business

- Issuance of securities investment trust funds through public offering
- Issuance of securities investment trust funds through private placement
- Discretionary investment services
- Other relevant operations approved by the Financial Supervisory Commission

### B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2017		2016	
	Amount	%	Amount	%
Public issued funds	378,009	94.16	347,218	95.09
Private equity funds	19,601	4.88	14,882	4.07
Discretionary account	3,853	0.96	3,061	0.84
Total	401,463	100.00	365,161	100.00

### C. New products and services planned for the future

The company proposed to issue a few target maturity bond funds with different investment area, category of bonds and maturity.

## Mega Asset Management Co., Ltd.

### A. Major business

- Credits of financial institutions: acquisition, valuation, auction and management services of account receivable, as well as management service of overdue accounts receivable
- Real estate related business: trade, lease, development and sale/lease, brokerage, urban renewal, investment consulting, management consulting, etc.
- Other business related to financial, insurance and real estate industry and business approved by the competent authority

### B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2017		2016	
	Amount	%	Amount	%
Net proceeds from disposal of purchased NPL and Gain on sale of collaterals	105,820	22.02	176,838	24.73
Rental income	291	0.06	0	0.00
Interest income	4,220	0.88	119,663	16.73
Service income	370,337	77.04	418,641	58.54
Total	480,668	100.00	715,142	100.00

### C. New products and services planned for the future : None.



## Mega Life Insurance Agency Co., Ltd.

### A. Major business : Life insurance agency services

### B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2017		2016	
	Amount	%	Amount	%
Commission income - traditional policies	1,249,629	92.96	1,890,730	97.28
Commission income - investment policies	94,695	7.04	52,801	2.72
Total	1,344,324	100.00	1,943,531	100.00

### C. New products and services planned for the future

New types of insurance products such as disability support insurance, characteristic quasi-discretionary investment-linked policies, usage-based insurance, and insurance with in-kind benefits are introduced in order to meet customers' demand for protection against longevity risks and injuries and illnesses. Besides, to go with the tech-savvy era, mobile insurance applications will be introduced.

## Mega Venture Capital Co., Ltd.

### A. Major business

- Direct provision of capital to investees
- Business administration, management and consulting services to investees

### B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2017		2016	
	Amount	%	Amount	%
Revenue from disposal of long-term securities investment	35,345	60.04	37,141	65.85
Dividend income	21,928	37.25	17,962	31.85
Director's or supervisor's remuneration income	707	1.20	897	1.59
Financial assets and liabilities at fair value through profit or loss	886	1.51	400	0.71
Total	58,866	100.00	56,400	100.00

### C. New products and services planned for the future

Mega Venture Capital Company is managed by Mega Management and Consulting Corp., which is one of the management consulting companies engaged by the Industrial Development Bureau of Ministry of Economic Affairs on the "Investment Management Plan for Enhanced Investment in Strategic Service Sector". Investment of strategic service sector by Mega Management and Consulting Corp. will be able to match with funds provided by the Industrial Development Bureau of Ministry of Economic Affairs. This will increase Mega Venture Capital's investment opportunity.

## 5.1.2 Operating Policies in 2018

### The Company

#### 1. Cultivating customer relationships and creating group synergy

- (1) To maintain current client relations and continue to heighten the quality of products and services
- (2) To enhance resource integration and broaden client penetration for the Group's products

#### 2. Focusing on core business to maximize shareholders' value

- (1) To evaluate deployment of service network in South East Asia, and closely watch future development in China's market
- (2) To maximize profits of the Group's investment portfolio by efficient and strategic asset allocation

#### 3. Shaping risk management culture and enhancing risk management mechanism

- (1) To watch the impact of macro economy, new technology and regulation change on industry and the Group's operations
- (2) To enhance collection and analysis of internal and external risk information for better understanding of the Group's risk profile
- (3) To oversee subsidiaries' establishment of risk management regulations and strengthen the Group's risk awareness culture
- (4) To oversee the Group's capital adequacy and implementation of various risk management mechanism

#### 4. Strengthening the Group's information security management and digital processing capability

- (1) To strengthen information security protection mechanism and talent cultivation in order to ensure information security
- (2) To continually phase out information systems and enhance automatic management to promote the system security and stability
- (3) To continually promote establishment of the Group's digitization in response to the digitization trend

#### 5. Reinforcing corporate governance and fulfilling corporate social responsibility

- (1) To heighten diversification and independence of the board members to promote operation efficacy of the board
- (2) To intensify employees training to upgrade employee's financial talents and compliance awareness
- (3) To ensure effectiveness of the internal control system by the rigorous implementation of risk management, legal compliance and internal audit
- (4) To continually promote environmental sustainability and social welfare through core business and enhance disclosure of non-financial information

#### 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 investor's suggestion in a timely manner and take it into consideration for strategy making
- (3) To hold or participate in institutional investment conferences to enhance investor recognition and the Group's transparency

### Mega International Commercial Bank

- (1) To consolidate the anti-money laundering and financial crime mechanism and create a compliance culture
- (2) To review the operation status of overseas business units to reinforce management oversight mechanism of the head office
- (3) To advance the risk control mechanism and promote a counter-balance between risks and rewards
- (4) To keep track of developmental trends in the economy and industries in order to consolidate leading advantages in corporate banking business
- (5) To expand consumer financing, wealth management and credit card business to add momentum to operational growth
- (6) To keep track of international financial situations and respond flexibly to boost financial operation performance
- (7) To pay attention to the FinTech development, activate innovation transformation, and reinforce information security
- (8) To consolidate corporate governance system and ethical management principle to fulfill corporate social responsibilities

### Mega Securities Company

- (1) To continue to set up security counters in Mega International Commercial Bank to increase customer sources and heighten brokerage market share
- (2) To strengthen risk control and operation agility in order to enhance trading performance and reduce position risks
- (3) To pro-actively develop IPO businesses of overseas Taiwanese businessmen through referral of this Company's subsidiaries
- (4) To improve the issuance strategy of warrant to increase issuance benefits
- (5) To pro-actively take part in new business relaxed by the competent authority to catch business opportunities

### Mega Bills Finance Company

- (1) To continuously seek to lead-manage syndicated loans and attend joint underwriting of unsecured commercial paper in order to steadily expand the bills sources and increase revenue from the bills business
- (2) To pro-actively seek underwriting or purchase of bank negotiable certificates of deposits, secured and unsecured notes in order to increase sources of bills and interest spread income
- (3) To explore steady and low-cost funding sources from general companies in order to reduce the funding cost and to disperse funding sources
- (4) To carefully build foreign currency bond portfolio, disperse country risk and increase the proportion of foreign currency corporate bonds to reduce the impacts of the US interest hike
- (5) To purchase convertible corporate bonds with good credit and conduct asset swap to increase income
- (6) To pro-actively replace low interest corporate bonds with high yield dividend stocks to boost income

## Chung Kuo Insurance Company

- (1) To strengthen local business and increase market share
- (2) To adjust operation structure and enhance underwriting profits
- (3) To seek cooperation with distribution channels, strengthen group synergy, develop horizontal alliances, and explore the niche market
- (4) To promote personal insurance products and SME business in order to strengthen the core business and to enhance underwriting profits
- (5) To keep track of the cloud technology trend and develop e-commerce business
- (6) To improve the functions of legal compliance, risk management and internal audit, and strengthen internal and corporate governance
- (7) To strengthen fund utilization so as to increase financial income
- (8) To enhance customer services and promote corporate image

## 5.1.3 Industry Overview

### A. Global and Domestic Financial Environment

#### Global Financial Environment

The trends of economic recovery got increasingly clear throughout 2017. The US economy had outstanding performance with private investments contributing to the major growth momentum. Thanks to the central bank monetary policy, subsided political risk, and growing global trade, the economy in the Eurozone is likely to keep the optimistic aura. Exports and capital expenditure in Japan obviously increased, decreasing deflation pressure. The economy in China resumed its rising trend. Both imports and exports have turned from sluggishness to growth. Looking into 2018, the International Monetary Fund (IMF) predicts that both investment and consumption in advanced economies will steadily grow, driving the economy toward moderate expansion. Therefore, in January 2018, it lifted the predicted global economic growth forecast to 3.9%. Uncertainty factors, however, remain, such as the Fed announcing the balance sheet unwind program, the European Central Bank scaled down bond-buying program, and geopolitical conflicts which will add variables to the global economic outlook.

#### Domestic Financial Environment

- (1) In terms of the domestic macro economy, thanks to the better-than-expected global economic outlook, the annual growth rate of the industrial production index reached 1.20% in December 2017. Import-export trades are active, and the annual import and export growth rates in December 2017 reached 12.2% and 14.8%, respectively. Consumer confidence increased. The CPI in December 2017 showed a year-on-year increase of 1.21%. The CPI forecast for 2018 is 0.96%. Prices are fairly stable. The total score of monitoring indicators in December 2017 was 22. The light turned from green to yellow blue. However, both leading indicator and coincident indicator keep climbing, so domestic economy is still recovering. The Directorate-General of Budget, Accounting and Statistics predicted in February 2018 domestic economic growth of 2.42% in 2018 compared with a figure of 2.86% in 2017.



- (2) In terms of the domestic monetary policy, the central bank discount rate, the rate on accommodations with collateral, and the interest rate for short-term accommodations remain unchanged at 1.375%, 1.75%, and 3.625%. Fed, however, will raise the interest rate again in 2018. If the domestic economy keeps turning better and upward pressure on consumer prices increases, it will not be ruled out that the central bank will start raising interest rates.

## 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 (TSEC) or the Gre Tai Securities Market (GTSM) and one wholly state-owned financial holding corporation, totaling sixteen financial holding companies. However, the market shares of each bank 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. 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 Southbound Policy, a priority of the government in Taiwan, in particular, will feature extensive exchange and collaboration with member states involved in the New Southbound 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 target countries in the New Southbound 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. In order to help financial institutions deploy target countries in the New Southbound Policy, the Financial Supervisory Commission already signed financial MOU with 9 new southbound countries, including the ASEAN countries, namely Singapore, Malaysia, Thailand, Indonesia, the Philippines, and Vietnam, India in South Asia, and Australia and New Zealand.
3. As technology advances, financial technology (FinTech) has broken through existing boundaries among financial markets. Respective governments and industries are pro-actively dealing with this issue. Conventional financial institutions of Taiwan also look at themselves as an important overturning force and have been devoted to applying innovative technologies such as big data analytics, artificial intelligence (AI), mobile telecommunication technology, and robotic process automation (RPA) into their business operation. The Financial Technology Development, Innovation and Experiment Act already passed the Third Reading at the Legislative Yuan on December 29, 2017. The Act facilitates the financial regulatory sandbox law to create a friendly regulatory environment in favor of the development of FinTech business. In addition, having referred to the physical clusters in the UK or Singapore, the Financial Supervisory Commission planned to create the FinTech Innovation Park. Along with the implementation of Financial Technology Development, Innovation and Experiment Act, it is likely to expedite the partnership between the financial service sector and the non-financial service sector, control over FinTech business opportunities, and development of the FinTech business in Taiwan to jointly enhance the efficiency and quality of financial services.

## Banking Industry

1. The competition in the domestic banking industry is fierce. Bank's interest rate spread continues to shrink and it accordingly eats into the overall bank profit. Besides, the market liquidity remains ample, inflow of foreign capital and foreign currency deposits continue to increase, while industrial transformation is uneasy, resulting in conservative demand for funds. In addition, the real estate market can hardly recover over the short term. The loan-to-deposit ratio of banks continued to drop.
2. The global economic growth rate and the world trade growth rate are likely to keep expanding in 2018. The US dollar interest rate rise and normalization of money policy in major economies are the mainstream. Nevertheless, attention needs to be paid to the increasing volatility of the international financial market, the rise of trade protectionism, political uncertainty, and geopolitical conflicts, among other risk factors.
3. Overseas markets are known for their greater interest spread and hence remain attractive to local banks. The trends for domestic banks to expand their overseas deployment will remain unchanged. Nevertheless, internationalized operation will become even harder and the compliance cost associated with the operation of overseas branches tends to rise and can hardly drop. In order to meet the regulatory requirements in the US, the Financial Supervisory Commission has modified a series of its laws and regulations and adopted countermeasures. Banks in Taiwan also reinforce their compliance with anti-money laundering laws and regulations and the internal control system and proactively improve systematic management.
4. The rapid development of FinTech has impacted the business model of banks. Faced with the competitive pressures brought about by technology industry that are setting foot in financial business, banks have proactively converted their software and hardware equipment and reinforced staff training over the past few years, which is conducive to transformation of the banking industry and the growth in FinTech-related business.
5. The government continues to promote six major measures to boost the economy, including a pay raise for public servants, promotion of tax reform, speedy investments in Taiwan, regulatory relaxation, among others. It is expected to be capable of stimulating private consumption and investment momentum, and, therefore, boosting economy in Taiwan.

## 5.1.4 Research and Development

### Mega Financial Holding Company

#### A. Research & Development Achievements in the Past Two Years

- a. The Company's R&D expenses in 2016 and 2017 are NT\$1,070 thousand and NT\$1,067 thousand, respectively. The expenses were resulting from project consulting, establishment and services as well as staff training.
- b. The achievements of R&D are as follows:
  - Evaluation of the feasibility of merger with or acquisition of other domestic or foreign financial institutions
  - 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-assessment of the operational risk mechanism in the Group
  - Development of an IFRS 7 financial risk reporting system
  - Establishment of wireless network environment

## B. Future R&D Projects

The estimated R&D expenses in 2018, including personnel training and project service expenses, are NT\$3,182 thousand. R&D projects for the future are as follows:

1. Evaluation of the feasibility of merger with or acquisition of other domestic or foreign financial institutions
2. Continued adoption of corporate social responsibility systems in the Group
3. Continued establishment of the application functions of VaR (Value at risk) management systems for financial products
4. Continued development of an IFRS 7 financial risk reporting system in line with the progress of introduction of IFRS by the competent authority
5. Continued enhancement of the application functions of the reporting systems for credit risk limit control
6. Continued development of the application functions of operational risk database
7. Study the risk probably caused by FinTech

## Mega International Commercial Bank

### A. Research & Development Achievements in the Past Two Years

- a. The Bank's R&D expenses in 2016 and 2017 are NT\$938 thousand and NT\$1,141 thousand, respectively. The expenses were resulting from purchase of professional publications, electronic database, and publishing of Mega Bank Monthly.
- b. The achievements of R&D are as follows:
  - The 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.
  - In terms of financial products, the bank, in 2017, introduced credit card targeted at younger generations and exclusive insurance products with market differentiation.
  - In terms of information system, the bank, in 2017, finished creating the ATM white list mechanism, reinforcing various necessary security measures according to the Customer Security Programme (CSP) of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the network traffic management system and the X86 cloud platforms.
  - In terms of digital financial innovations, the bank pro-actively researched and applied for financial services and patents. As of the end of 2017, a total of 96 financial patents were applied for and 46 of them were approved in 2017. In addition, continuous efforts have been made to optimize the big data core system, to explore customer demands, to develop and optimize digital savings accounts in New Taiwan Dollars and in foreign currencies, mobile ATM cards and robotic services, among other digital financial services. By working together with external consultants, the bank's capabilities in analyzing data have been effectively enhanced and so has its digital marketing efficiency.

### B. R&D Projects

The bank will closely monitored 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 websites.

## 5.1.5 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, 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 2018 operating policies as shown on page 78 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, medium- and long-term development strategies, and operational objectives as specified below:

1. Our Group vision is to become an Asia regional financial group
2. 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 promote capital efficiency
  - Enhancing global operation and risk management skills and systems
3. Medium and Long term operational target

#### Business targets

Banking subsidiary	Loan market share >7.05%
	Market share of earnings of OBU and overseas branches >20%
	Proportion of consumer lending >25%
	Proportion of small- and medium-sized enterprises lending >30%
	Proportion of risk-free fee income and commission income >20%
Bills finance subsidiary	Market share of bills underwriting volume ranking top 1, and >28%
	Market share of bills trading volume ranking top 1, and >28%
	Market share of bonds trading volume ranking top 1, and >28%
	Market share of guaranteed issues of commercial paper 2 ranking top 1, and >28%



Securities	Brokerage market share > 3.5%
	Ranking of domestic equity and bonds underwriting in terms of number of issues or issue amount: among the top 5
	Ranking of IPO business of overseas Taiwan businessmen or foreign company, in terms of number of IPO or IPO amount : among the top 3
Property & casualty insurance subsidiary	Combined ratio < 95%
	Proportion of automobile insurance premium > 45%
Securities investment trust subsidiary	Proportion of non-money market funds > 20%
	Proportion of number of funds out-performing the market average > 50%

### Financial targets

The Company	ROE > 12%
	Group Capital adequacy ratio > 110%
	Double leverage ratio < 115%
Banking subsidiary	ROE > 12%
	ROA > 1%
	Cost / income ratio < 40%
	NPL ratio < 0.5%
	Coverage ratio > 300%
	Capital adequacy ratio > 12%
	Tier 1 capital ratio > 10%
Bills finance subsidiary	ROE > 8%
	Capital adequacy ratio > 12%
Securities subsidiary	ROE > 8%
Property & casualty insurance subsidiary	ROE > 10%
	Capital adequacy ratio > 400%
Securities investment trust subsidiary	ROE > 15%
Asset management subsidiary	ROE > 13%
Life insurance agency subsidiary	ROE > 80%
Venture capital subsidiary	ROE > 8%

## Mega International Commercial Bank

### A. Short-term Business Development Plans

#### Wealth management business

- 1.To strengthen the compliance mechanism and consolidate existing wealth management clients
- 2.To continue to encourage financial advisors to obtain professional certification, create a wealth management team with equal emphasis on the quality and quantity and boost the bank's corporate image in professional wealth management
- 3.To provide high-end customers with diversified and differential services, promote added-value of wealth management and reinforce the bank's competitive advantages
- 4.To increase exposure in printed and digital media to pass on customers the bank's values and functions in wealth management

## **Credit business**

1. To apply outstanding marketing capabilities and flexible pricing strategies to attract customers with good credit or good guarantee conditions and to enhance the overall loans quality and income
2. To continue to improve and innovate on consumer loan products and expand consumer banking business
3. To follow credit principles and honor "Equator Principles" by deliberating whether borrowers have fulfilled environmental protection, ethical management, and social responsibilities, before approval of the corporate credits
4. To comply with the government's New Southbound Policy, reinforce the effort to extend foreign currency loans to OBU and overseas good customers by taking advantage of its many years' experience in developing business of Taiwanese businessmen and wide-spread overseas sites to boost profits
5. To pay close attention to global political and economic situations and prudently screen international syndicated loan in low-risk regions and with better income in order to enrich the profitable foundation

## **Finance and financial market business**

1. To increase equity trading position in line with the moderate pace of expansion in global economy and the prosperous stock market, and realize capital gains
2. To increase bond positions within a controllable risk range in response to maturity of bond positions and enhance the income from capital utilization
3. To keep track of the trends and fluctuations of the financial market and adequately trade respective financial instruments to augment financial income
4. To diversify channels available for allocating funds and flexibly trade in the money market

## **Trust Business**

1. To continuously promote the elderly care trust business in line with the government's policy
2. To comply with the government's policies such as urban renewal, reconstruction of old and unsafe building, major infrastructures, and normalization of the housing market, to proactively solicit real estate-related trust business
3. To promote corporate and individual trust services by combining corporate banking and consumer banking to meet the diversified demand of customers
4. To comply with the cross-selling policy of the Group and work together with other subsidiaries in promoting and seeking related trust business

## **B. Long-term Business Development Plans**

### **Wealth management business**

1. Combine the big data analysis and marketing model, keep track of the behavioral model of customers, target specific customers for precise marketing, and create smart wealth management consulting services and robotic wealth management services
2. Address the demands for insurance digitalization by planning the mobile insurance application procedure and creating a phased-in mobile insurance application system

### Credit business

1. To take advantage of the increasingly complete service network in Southeast Asia to develop the local market, deeply implement the New Southbound Policy, and to enrich sources of customers for the credit business.
2. To strengthen the collaboration mechanism among domestic operation units, domestic business centers in respective regions, and overseas country heads, improve the operating efficiency through professional services, and proactively explore new business opportunities in domestic and overseas market
3. To plan new credit products and modify existing credit products to meet customers' demand in response to market changes and the development of digital technology

### Finance and financial market business

1. To create long-term investment portfolio of high yield stocks in order to get steady dividend income
2. To create an optimized bond portfolio in response to the pace of Fed's interest rate hike and the trend of global central banks' unwinding of quantitative easing
3. To continue to analyze the long-term trends on the financial market so as to look for future niche products and trading strategy and to take a position in due course for enhanced overall performance
4. To adequately discuss and advance internal operational management and risk management of asset portfolios so that the overall business is well developed under risk control

### Trust Business

1. To spontaneously keep track of related information, enhance the system for custodian services, and develop related experts in response to the constant introduction of new financial instruments in order to boost the service efficiency, to provide differential quality service, and to accordingly strengthen the competitive advantages of the bank
2. To continue to provide staff training for promotion of the trust-related laws and regulations, innovative asset management approaches, professional competence and advanced service quality in order to achieve the goal of expanding the scale of entrusted assets

## 5.2 Benefits of Cross Selling

The profits derived from cross-selling among the Company's subsidiaries reached NT\$765 million which achieved 104.48% of the goal in 2017. Key cross-selling item are described as follows:

1. In 2017, the number of Mega International Commercial Bank credit cards issued through referral of other subsidiaries increased by about 11,000. The market share of credit card issued increased to 9.77% from 6.94% in 2016. The market share of credit card in circulation increased to 7.91% from 7.08% in 2016. As a settlement bank for securities transaction of Mega Securities Company, the bank's deposits in securities settlement accounts amounted to NT\$20.8 billion generating cross selling benefits for NT\$96 million.
2. Among 44 branches of Mega Securities Company, 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 settlement accounts amounted to NT\$26.03 billion as of the end 2017. The



cross-selling benefits of Mega Securities from domestic and overseas stock transaction referred by other subsidiaries reached NT\$18 million.

3. In 2017, Mega Bills Finance Company acted as an underwriter for a total of NT\$68.6 billion of commercial papers guaranteed by Mega International Commercial Bank.
4. In 2017, Chung Kuo Insurance Company achieved insurance premium revenues of NT\$449 million through cross selling by other subsidiaries, down 18.29% from the NT\$549 million posted in 2016. The premium revenues from cross selling accounted for 7.78% of the domestic written premiums, declining from 9.71% in 2016.
5. In 2017, average outstanding amount of mutual funds issued by Mega International Investment Trust Company (MIIT) through cross-selling by other subsidiaries reached NT\$37.4 billion, representing a 1% drop from the NT\$37.8 billion posted in 2016. This accounted for 42.51% of the total average outstanding amount of funds issued by MIIT, compared to 38.85% in 2016. Mutual funds distributed by other subsidiaries account for 29.98% of the total distributed amount, increasing from 26.92% of 2016.

## 5.3 Market Overview

There are sixteen financial holding companies in Taiwan by the end of 2017. The market share of each bank under the financial holding companies accounts for less than 10%, showing that local banks are still relatively small in size and lack of economies of scale. In order to increase market share, reduce operating expenses and expand business scope, financial holding companies will accelerate mergers with financial institutions. Banks that have not yet joined financial holding companies face the constant enlargement of financial holding companies and an increasingly competitive environment caused by cross-selling. To avoid being marginalized, they may form their own or join the existing financial holding companies or form strategic alliances with other financial institutions, which in turn results in mergers of domestic financial institutions.

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

### Banking Industry

#### A. Territories where the main products (services) are sold (provided)

Domestic banks mainly operate in Taiwan, but the overseas markets are getting more and more important due to the fierce competition in local market, the trend of globalization and liberalization, and the factors such as the declining transaction cost of financial products and financial innovation, etc. Enhancing deployment of overseas market, especially Southeast Asia, has been an important operating strategy for domestic banks in order to boost their profitability.

#### B. 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, all banks' ( including local banks and branches in Taiwan of foreign banks ) loans outstanding reached NT\$24,483.4 billion by the end of 2017, growing by 4.37% compared with the end of the previous year. Among them, loans to

private enterprises and individuals are NT\$22,725 billion, an increase of 5.13% compared to the end of the previous year, while loans to state-owned enterprises and government agency declined.

- In consumer loans aspect, as the interest rates for domestic mortgage loan remains low, mortgage loans and construction loans outstanding are NT\$6,647.8 billion and NT\$1,738.4 billion by the end of 2017, up 4.44% and 5.46%, 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 tend to be cautious about mortgage loans business.
- As of the end of 2017, the number of credit cards in circulation reached 41.73 million, growing by 2.53% from 40.70 million compared to the prior year. The revolving credit outstanding balance posted NT\$111.1 billion, an increase of 1.83% from NT\$109.1 billion recorded in 2016. This growth indicates that scale of consumer financing is getting steady. Domestic banks are expected to continually adjust their strategy to increase the proportion of effective cards and the amount of credit card transaction.

### C. Operations targets

Item	Budget of 2018
Average outstanding of deposits (in thousand NTD)	2,289,623
Average outstanding of loans (in thousand NTD)	1,759,828
Foreign exchange business undertaken (in million USD)	808,100

### D. Positive and Negative Factors Influencing Banks' Future Operations

#### Positive Factors

- The global economic growth in 2018 is likely to be climbing further. Business' funding demand and market investment willingness are increasing, which are conducive to growths in loan and wealth management services of domestic banks, leading to improvement of their profitability.
- To comply with the government's New Southbound Policy, domestic banks are putting more emphasis on overseas business and new markets. The competent authority also continues to relax restrictions on domestic and overseas loan and encourages loans to key innovative industries. All are helpful for domestic banks to develop new loans and promote their competitive advantages and income.
- With the promotion of related policies, expedited relaxation of laws and regulations, gradual improvements in information security, increased customer acceptance, banks continue to magnify collaboration and strategic alliances with technology industry. These will be conducive to domestic banks' improving their innovation capability for FinTech products, exploring the FinTech market, and developing new customer bases.
- The steady global economic recovery, US interest rate rise, and reduction of balance sheet will slowly drive up the interest rates in major countries, while the domestic interest rate is likely to remain stable. The interest spread of domestic and overseas loans is expected to improve and hence boost their profitability.

## Negative Factors

- In response to the increasingly strict compliance requirements, domestic banks have to raise the professional competence of AMP/CFT, expand dedicated department and improve software and hardware equipment. In addition, the constant innovations seen in FinTech have significantly increased the equipment and marketing expenditure, etc. All of these will drive up the operating cost of banks.
- Domestic banks are speeding up expanding their presence in overseas markets with different culture and customs. With the development of FinTech, bank's business model is gradually changing. The importance of information security and risk control constantly increase, leading to a significant increase in the demand for related manpower. The enlistment of relevant talents and inheritance of experience will pose a challenge to domestic banks in the management of human resources.
- As China continues to adjust its economic and industrial structures, the risk associated with corporate debts and house price increase keeps rising. The corporate credit structure in China is likely to turn weak, and domestic banks' asset quality in China might drop.

## 5.4 Human Resources

Item \ Year		2016	2017	Apr. 25, 2018
Number of Employees	Mega FHC	53	51	55
	Mega Int'l Commercial Bank	5,543	6,005	6,023
	Mega Bills Finance	189	193	196
	Mega Securities	1,456	1,384	1,385
	Chung Kuo Insurance	732	760	768
	Mega Int'l Investment Trust	98	99	97
	Mega Asset Management	29	27	27
	Mega Life Insurance Agency	22	26	25
	Total	8,122	8,545	8,576
Average Age	Mega FHC	50.04	50.53	50.61
	Mega Int'l Commercial Bank	42.65	41.29	41.16
	Mega Bills Finance	47.82	46.99	46.15
	Mega Securities	43.77	44.34	44.66
	Chung Kuo Insurance	41.40	41.50	41.50
	Mega Int'l Investment Trust	43.37	43.72	43.94
	Mega Asset Management	44.17	43.93	44.26
	Mega Life Insurance Agency	41.90	41.51	42.27
	Total	43.77	43.72	43.94
Average Years of Services	Mega FHC	11.92	12.84	12.22
	Mega Int'l Commercial Bank	16.69	15.20	14.98
	Mega Bills Finance	18.53	17.98	16.76
	Mega Securities	10.84	11.55	11.74
	Chung Kuo Insurance	11.20	11.00	11.10
	Mega Int'l Investment Trust	9.71	10.14	10.45
	Mega Asset Management	10.10	10.60	10.97
	Mega Life Insurance Agency	6.26	5.62	6.11
	Total	11.92	12.84	12.22

## 5.5 Corporate responsibility and ethical conduct

In order to fulfill its corporate social responsibilities, besides the pursuit for improved operational performance, the Company is more proactively devoted to care about society and hopes to serve as a good example for the greater public to be involved in charity events. With respective subsidiaries as its backbone in fulfillment of corporate social responsibilities, in addition to the two foundations, namely, Mega International Commercial Bank Cultural and Educational Foundation and Mega Charity Foundation, the Company is leading the Group to instill a heart-warming force into society. Employees are encouraged to join in the effort so that benefits of social resources may be maximized and a wonderful and warm vision about life may be created. For the fulfillment of social responsibilities in 2017, please refer to page 42 in detail. For the ethical conduct, refer to page 47 where there are descriptions of ethical operations and measures adopted.

## 5.6 Employee Average Welfare of Non-supervisors

	2016	2017	Growth rate
Number of non-supervisor employees	5,361	5,770	7.63%
Non-supervisor employees' annual average employee benefit expenses	1,166,288	1,156,223	(0.86%)

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

## 5.7 Information equipment

### 5.7.1 Major information system hardware, deployment of software and maintenance

- (1) For the Mega Group, the primary suppliers for servers and mainframes are IBM and HP; for the operating systems that running on the servers are UNIX and Window. On the mainframes there are host specific operating systems (such as IBM mainframe, Tandem and IBM AS/400). The Group has adopted CISCO products as its main network equipment with leased lines connected within subsidiaries. Enterprise Application Integration (EAI) is the platform used to enable the integration of applications and hardware systems.
- (2) The main database includes DB2, Oracle and SQL. And primary middleware for web application comprises iPlanet and WebSphere. As for Data Warehouse, IBM and Teradata are the major suppliers.
- (3) IT departments carry out the pertinent system maintenance tasks with support from various vendors. Furthermore, all critical equipment and facilities are insured.

### 5.7.2 Outlook of Group Information System Management

#### Mega International Commercial Bank

- (1) To further reinforce the system stability and security for overseas branches, the continuous enhancement of AD and backup systems has been in progress.
- (2) To constantly strengthen the Bank's information security and fulfill its corporate responsibilities of protecting the customer's personal information, various information risk management measures such as device management, hardware protection, application system security monitoring, Internet access, and mobile security, among others, have been implemented.

- (3) Pursuant to the information security assessment requirements in the “Guidelines for Evaluating Information Security of Computer Systems at Financial Institutions”, annual technical and management auditing measures have been completed periodically to improve and enhance the capability of protecting the network, the information system and to ensure the success of Information Governance.
- (4) The implementation of the Security Information and Event Management System and the improvement of the Vulnerability Scanning System will be carried out in stages; and Microsoft System Center Configuration Manager (SCCM) will be installed and together with building a Security Operations Center (SOC) to strengthen information protection capacity.
- (5) To improve the effectiveness and stability of network connectivity, active-active data centers with 100G connection and FLASH hard disc drive enhancement will be carried out.

## 5.7.3 Emergency Backup and Security Protection Measures

### A. Emergency backup

- (1) Data backup on-site and off-site: Backup important data in magnetic tapes or other media and store them in safe sites. Some of them will have separate copies stored in different locations to prevent against concurrent destruction of equipment and data during major catastrophes.
- (2) Instant system recovery: Furthermore, important information facilities, equipment, or servers will have one or more sets of the same system or auxiliary system set up as immediate support to provide non-stopping services in case of any system abnormalities.
- (3) Redundancy and load sharing network: To prevent service disruption caused by abnormal network, the connection of important networks will be via multiple lines or multiple routers, even the line provided by different fixed line operators to strengthen backup capability. Also to address unusual circumstances where personnel will be prevented from coming to offices to work due to disease outbreaks such as SARS or other unforeseeable events, certain secured and encrypted remote access solutions based on VPN are also available.
- (4) Disaster recovery: To prevent any prolonged suspension of operation due to major catastrophes (such as a war or natural disasters etc.), key systems required for current daily operations are equipped with necessary software and hardware at a different site. This will ensure that the systems can be recovered within a short period of time during major catastrophes and the duration of operation interruptions will be minimized.

### B. Security Protection Measures

- (1) Physical safeguard: All of the important information equipment is located in controlled areas with access control, surveillance cameras, and staff to control the in and out of personnel and items. To maintain a safe environment, there are environment-monitoring facilities to detect abnormal incidents in real time (such as fires, abnormal power and temperature circumstances, among others), activate protective measures, and notify related personnel to prevent any damage to the equipment.
- (2) Network protection: Security measures such as firewalls, intrusion detection, communication encryption, and the segmentation network design are in place.
- (3) Device access control: Necessary access controls are in place depending on the degrees of importance of the respective equipment and facilities. The basic account number/password mechanism, for example, is available to prevent access by unauthorized personnel, and One-time password is also adopted to prevent the password from being stolen. In addition, software or hardware certificates are used to verify the identity of personnel or equipment.

- (4) Protection against viruses and malware: All servers and personal computers are installed with anti-virus and intrusion prevention software. Some are with centralized management, which enables monitoring personnel to detect invasion when it first takes place, and manage the same adequately.
- (5) Information security managed in compliance with international standards: The Group has established pertinent information procedures compliant to the international security standards (ISO/IEC 27001:2005), and has been certified accordingly. As such the rights of customers and investors will be properly protected.

## 5.8 Labor Relations

### 5.8.1 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 subsidies, 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.

### 5.8.2 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 reserve funds are deposited in the account designated by the competent authority on a monthly basis and a Supervisory Committee of Labor Pension Reserve Funds is in place. 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. In accordance with the new labor pension system coming into force on July 1, 2005, the Company contributes monthly labor pension 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. Employees who are 60 years or older may claim for monthly pension payment or a lump-sum pension payment.

### 5.8.3 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\$140,211 thousand in 2017, accounting for 0.83%, 0.54% and 0.24% of the Company's consolidated employee welfare expenses, operating expenses and net revenues, respectively. The number of trainee totaled 139,377 person-times.

## 5.8.4 Employee's Conduct 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 career ethics of the Company.

## 5.8.5 Employer-employee negotiations

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

## 5.9 Important Contract

Contract type	Principals	Contract beginning and ending date	Main contents	Restrictive clauses
Consent order	Mega International Commercial Bank and New York 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 ( MICB ) 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 (MICB) under New York Banking Law §§ 39 and 44. In addition to paying a penalty to NYDFS in the amount of US\$180,000,000, MICB and the New York Branch shall engage a Compliance Consultant and Independent Monitor of the NYDF's choosing, to consult about, and oversee deficiencies in the New York Branch's AML compliance function.	None
Cease and Desist Order	Mega International Commercial Bank, the Board of Governors of the Federal Reserve System (FED) and the Illinois Department of Financial and Professional Regulation, Division of Banking (IDFPR)	Signed on January 17, 2018 Ending date of the contract: the date of improvement recognized by FED and IDFPR	On the examination cut-off date in 2016, the New York, Chicago, and Silicon Valley branches failed to meet the requirements of the competent authorities in risk management and anti-money laundering systems. Mega Bank signed a Cease and Desist Order with FED and IDFPR. In addition to paying a penalty in the amount of US\$29,000,000, Mega Bank should submit an improvement plan and engage an independent third party to conduct a review and retrospective investigation of the New York Branch's U.S. dollar clearing transaction activity from January 1, 2015 to June 30, 2015.	None



# Financial Information



# Financial Information

## 6.1 Five-Year Financial Summary

### 6.1.1 Condensed Consolidated Balance Sheet

Unit: NT\$1,000

Item	Year	2017	2016	2015	2014	2013
Cash and cash equivalents, due from the Central Bank and call loans to banks		711,066,683	638,143,099	656,138,947	634,546,355	551,247,431
Financial assets at fair value through profit or loss		191,581,454	186,317,373	182,036,664	181,366,843	195,800,759
Available-for-sale financial assets, net		442,557,049	354,464,708	346,461,364	280,703,020	272,943,633
Derivative financial assets for hedge		0	0	0	0	0
Bills and bonds purchased under resale agreements		2,553,228	2,855,885	7,079,210	11,874,327	2,585,345
Receivables, net		96,055,863	86,825,802	175,747,221	201,540,361	184,587,941
Current income tax assets		786,198	577,485	2,307,563	1,534,999	921,969
Non-current assets held for sale, net		0	0	0	2,739	2,576
Bills discounted and loans, net		1,762,160,756	1,715,278,766	1,773,269,054	1,733,994,271	1,654,577,193
Reinsurance contract assets, net		3,555,454	4,261,668	3,308,814	3,217,685	3,293,937
Held-to-maturity financial assets, net		284,687,657	280,997,362	201,233,939	163,708,076	184,411,233
Equity investments accounted for by the equity method, net		3,184,501	3,108,470	2,976,409	2,761,637	2,697,551
Restricted assets		0	0	0	0	0
Other financial assets, net		15,089,381	14,955,209	17,189,576	20,626,729	23,430,204
Property and equipment, net		21,981,154	21,787,452	21,834,486	22,125,875	22,150,245
Investment property, net		1,696,863	1,711,561	1,368,553	1,976,764	2,059,428
Intangible assets, net		382,728	270,438	299,644	307,693	318,046
Deferred income tax assets		6,018,307	5,463,227	4,716,552	4,030,528	3,785,582
Other assets, net		3,964,038	2,772,911	2,550,310	6,320,035	8,815,345
<b>Total assets</b>		<b>3,547,321,314</b>	<b>3,319,791,416</b>	<b>3,398,518,306</b>	<b>3,270,637,937</b>	<b>3,113,628,418</b>
Due to the Central Bank and financial institutions		400,547,065	401,731,599	428,405,839	474,623,325	490,935,730
Funds borrowed from the Central Bank and other banks		33,457,560	39,974,427	45,459,094	53,906,541	32,330,245
Financial liabilities at fair value through profit or loss		9,966,779	12,105,231	22,980,692	29,582,637	14,856,685
Derivative financial liability for hedge		0	0	0	0	0
Bills and bonds sold under repurchase agreements		237,706,429	231,191,763	192,936,650	221,809,530	219,651,334
Commercial paper payable, net		20,165,421	11,701,649	19,945,870	15,363,080	4,393,653
Payables		71,839,997	59,001,999	63,623,826	60,564,578	66,105,983
Current income tax liability		7,525,373	8,589,599	10,517,577	9,123,049	5,522,518
Liability directly related to assets held for sale		0	0	0	0	0
Deposits and remittances		2,386,555,016	2,171,287,924	2,230,143,429	2,036,403,864	1,933,722,541
Bonds payable		31,670,036	41,924,088	41,878,505	56,200,000	55,898,677
Other loans		1,325,368	5,954,030	2,280,000	5,926,763	5,509,213
Preferred stock liabilities		0	0	0	0	0
Other financial liabilities		12,698,470	10,849,706	10,720,861	10,778,269	10,094,610
Provisions for liabilities		26,182,764	25,047,224	22,917,606	21,647,077	22,419,391
Deferred income tax liability		2,266,455	2,201,659	2,195,423	2,169,411	2,051,201
Other liabilities		7,319,019	6,203,075	11,057,626	11,640,531	8,544,561
<b>Total liabilities</b>	<b>Before distribution</b>	<b>3,249,225,752</b>	<b>3,027,763,973</b>	<b>3,105,062,998</b>	<b>3,009,738,655</b>	<b>2,872,036,342</b>
	<b>After distribution</b>	<b>Note</b>	<b>3,047,075,723</b>	<b>3,125,462,734</b>	<b>3,027,168,409</b>	<b>2,885,855,647</b>
Equity attributable to owners of parent		298,054,133	291,985,353	293,404,079	260,737,349	241,405,536
Capital stock		135,998,240	135,998,240	135,998,240	124,498,240	124,498,240
Capital surplus		68,194,233	68,194,233	68,194,233	55,270,198	55,271,623
<b>Retained earnings</b>	<b>Before distribution</b>	<b>94,868,778</b>	<b>89,958,846</b>	<b>88,373,007</b>	<b>77,606,654</b>	<b>61,534,835</b>
	<b>After distribution</b>	<b>Note</b>	<b>70,647,096</b>	<b>67,973,271</b>	<b>60,176,900</b>	<b>47,715,530</b>
Other equity interest		( 1,007,118)	( 2,165,966)	838,599	3,362,257	100,838
Treasury stock		0	0	0	0	0
Non-controlling interest		41,429	42,090	51,229	161,933	186,540
<b>Total Equity</b>	<b>Before distribution</b>	<b>298,095,562</b>	<b>292,027,443</b>	<b>293,455,308</b>	<b>260,899,282</b>	<b>241,592,076</b>
	<b>After distribution</b>	<b>Note</b>	<b>272,715,693</b>	<b>273,055,572</b>	<b>243,469,528</b>	<b>227,772,771</b>

Note: The earnings distribution for 2017 has not been resolved by the shareholders' meeting.



## 6.1.2 Condensed Unconsolidated Balance Sheet

Unit: NT\$1,000

Item	Year	2017	2016	2015	2014	2013
Cash and cash equivalents		307,833	83,306	2,292,712	27,368	1,044,333
Financial assets at fair value through profit or loss		0	0	0	0	0
Available-for-sale financial assets, net		6,196,895	5,844,300	5,586,489	5,849,267	5,550,855
Receivables, net		389	0	0	463	0
Current income tax assets		505,311	225,605	0	630,319	630,319
Held-to-maturity financial assets		0	0	0	0	0
Equity investments accounted for by the equity method, net		325,981,280	316,539,845	313,143,661	276,353,146	256,786,037
Other financial assets, net		758,293	758,293	758,293	758,293	758,293
Property and equipment, net		595,029	603,350	750,459	757,220	771,442
Investment property, net		135,615	137,126	0	0	0
Intangible assets, net		0	0	0	0	0
Deferred income tax assets		8,092	8,092	8,092	8,092	7,737
Other assets, net		8,667	5,704	5,944	5,826	8,507
Total assets		334,497,404	324,205,621	322,545,650	284,389,994	265,557,523
Financial liabilities at fair value through profit or loss		183,860	156,600	155,440	0	0
Bills and bonds sold under repurchase agreements		0	0	0	0	0
Commercial paper payable, net		10,397,276	6,398,631	6,198,832	2,549,078	0
Payables		18,093,250	16,481,538	14,835,817	13,264,258	11,975,327
Current income tax liability		1,720,249	1,789,244	1,912,617	1,385,649	121,298
Bonds payable		5,770,036	5,724,088	5,678,505	6,000,000	11,998,677
Preferred stock liabilities		0	0	0	0	0
Other loans		0	1,600,000	300,000	400,000	0
Provisions for liabilities		62,523	57,935	56,339	48,021	52,431
Deferred income tax liability		205	1,124	1,436	3,500	2,168
Other liabilities		215,872	11,108	2,585	2,139	2,086
Total liabilities	Before distribution	36,443,271	32,220,268	29,141,571	23,652,645	24,151,987
	After distribution	Note	51,532,018	49,541,307	41,082,399	37,971,292
Common stock		135,998,240	135,998,240	135,998,240	124,498,240	124,498,240
Capital surplus		68,194,233	68,194,233	68,194,233	55,270,198	55,271,623
Retained earnings	Before distribution	94,868,778	89,958,846	88,373,007	77,606,654	61,534,835
	After distribution	Note	70,647,096	67,973,271	60,176,900	47,715,530
Other equity interest		( 1,007,118)	( 2,165,966)	838,599	3,362,257	100,838
Treasury stock		0	0	0	0	0
Total Equity	Before distribution	298,054,133	291,985,353	293,404,079	260,737,349	241,405,536
	After distribution	Note	272,673,603	273,004,343	243,307,595	227,586,231

Note: The earnings distribution for 2017 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	2017	2016	2015	2014	2013
Interest income	57,094,672	54,113,662	56,852,736	56,213,248	46,533,690
Less: interest expenses	( 21,215,148)	( 16,420,610)	( 19,164,143)	( 19,539,068)	( 15,257,563)
Interest income, net	35,879,524	37,693,052	37,688,593	36,674,180	31,276,127
Revenues other than interest, net	23,780,864	17,371,068	22,539,713	23,830,787	23,732,341
Net revenue	59,660,388	55,064,120	60,228,306	60,504,967	55,008,468
Bad debts expense on loans and provisions for guarantee liabilities	( 4,336,814)	( 3,613,467)	426,459	( 1,588,465)	( 5,276,424)
Reversal of (provisions for) insurance reserve	152,758	( 116,264)	( 12,356)	207,527	183,695
Operating expenses	( 26,195,605)	( 23,417,176)	( 25,533,427)	( 23,771,195)	( 22,915,657)
Income from continuing operations - before tax	29,280,727	27,917,213	35,108,982	35,352,834	27,000,082
Income tax expense	( 3,551,632)	( 5,474,318)	( 5,835,713)	( 5,093,190)	( 4,505,513)
Net income from continuing operations – after tax	25,729,095	22,442,895	29,273,269	30,259,644	22,494,569
Income from discontinued departments	0	0	0	0	0
Profit for the year	25,729,095	22,442,895	29,273,269	30,259,644	22,494,569
Total other comprehensive income (after income tax)	( 349,226)	( 3,471,024)	( 3,644,024)	3,176,516	( 535,261)
Total comprehensive income	25,379,869	18,971,871	25,629,245	33,436,160	21,959,308
Profit attributable to owners of parent	25,734,515	22,456,183	29,417,211	30,278,591	22,489,232
Profit attributable to non-controlling interests	( 5,420)	( 13,288)	( 143,942)	( 18,947)	5,337
Comprehensive income attributable to owners of parent	25,380,530	18,981,010	25,672,449	33,455,988	21,954,295
Comprehensive income attributable to non-controlling interests	( 661)	( 9,139)	( 43,204)	( 19,828)	5,013
Earnings per share	1.89	1.65	2.35	2.43	1.96



### 6.1.4 Condensed Unconsolidated Income Statement

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

Item \ Year	2017	2016	2015	2014	2013
Share of profit of associates and joint ventures accounted for under equity method	25,926,293	23,132,410	30,416,201	30,871,359	23,768,937
Other revenues	193,895	166,501	131,964	68,761	12,827
Operating expenses	( 377,240)	( 365,275)	( 441,434)	( 404,463)	( 336,698)
Other expenses and losses	( 106,228)	( 67,257)	( 242,233)	( 216,571)	( 290,185)
Income before income tax from continuing operations	25,636,720	22,866,379	29,864,498	30,319,086	23,154,881
Income tax expense	97,795	( 410,196)	( 447,287)	( 40,495)	( 665,649)
Net income	25,734,515	22,456,183	29,417,211	30,278,591	22,489,232
Other comprehensive loss for the period, net of tax	( 353,985)	( 3,475,173)	( 3,744,762)	3,177,397	( 534,937)
Total comprehensive income for the period	25,380,530	18,981,010	25,672,449	33,455,988	21,954,295
Earnings per share	1.89	1.65	2.35	2.43	1.96

### 6.1.5 Independent Auditors' Name and Opinion

Year	CPA Firm	CPA's Name	Auditing Opinion
2017	PricewaterhouseCoopers, Taiwan	King-Tse Huang, Chung-Hsi Lai	Unqualified 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

### 6.1.6 Effective Tax Rate

Unit: NT\$1,000

Financial Reporting	FY 2016	FY 2017	Calculated Average
Earnings before Tax	27,917,213	29,280,727	-
Reported Taxes	4,017,078	3,356,676	-
Reported Tax Rate ( in% )	14.39%	11.46%	12.925%
Cash Taxes Paid	4,527,024	3,284,750	-
Cash Tax Rate ( in% )	16.22%	11.22%	13.72%

## 6.2 Five-Year Financial Analysis

### 6.2.1 Financial Analysis

Consolidated

Unit: NT\$1,000; %

Item		Year	2017	2016	2015	2014	2013
Operating ability	Total assets turnover		0.02	0.02	0.02	0.02	0.02
	Loans to deposits ratio of bank subsidiary(%)		75.14	80.38	80.71	86.34	86.87
	NPL ratio of bank subsidiary(%)		0.13	0.11	0.09	0.07	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		6,728	6,546	7,155	7,210	6,410
	Average profit per employee		2,902	2,668	3,477	3,603	2,621
Profit ability	Return on total assets (%)		1.26	1.07	1.35	1.46	1.20
	Return on equity (%)		8.72	7.67	10.56	12.03	9.95
	Net income margin (%)		43.13	40.76	48.60	49.98	40.89
	Earnings per share (NT\$)		1.89	1.65	2.35	2.43	1.96
Financial structure (%)	Ratio of liabilities to assets		91.60	91.20	91.37	92.01	92.24
	Ratio of liabilities to net worth		1,089.99	1,036.81	1,058.10	1,152.22	1,188.79
	FHC's double leverage ratio		111.70	110.67	108.89	108.51	108.98
Leverage ratio (%)	Operating leverage ratio		1.17	1.16	1.01	1.06	1.22
	FHC's financial leverage ratio		1.00	1.00	1.01	1.01	1.01
Growth rates (%)	Growth rate of assets		6.85	( 2.32)	3.91	5.04	14.18
	Growth rate of profit		4.88	( 20.48)	( 0.69)	30.85	6.83
Cash flow (%)	Cash flow ratio		29.06	2.94	8.02	15.62	14.60
	Cash flow adequacy ratio		481.10	336.01	385.78	273.10	277.03
	Cash flow for operating to cash flow from investing		NA	NA	7,598.82	NA	NA
Operating scale (%)	Market share of assets		6.76	6.91	7.47	7.83	8.08
	Market share of net worth		8.02	8.69	9.37	8.81	9.22
	Market share of deposits of bank subsidiary		-	-	-	-	-
	Market share of loans of bank subsidiary		-	-	-	-	-
Capital adequacy ratio (%)	Capital adequacy ratio of each subsidiary calculated according to its own industry regulations (%)						
	Mega International Commercial Bank		14.30	14.32	13.16	11.76	11.07
	Mega Securities Co., Ltd.		424.69	574.67	468.16	481.69	492.62
	Mega Bills Finance Co., Ltd.		13.64	13.53	13.88	13.84	13.57
	Chung Kuo Insurance Co., Ltd.		751.95	739.35	730.37	698.10	574.82
	Eligible capital of each subsidiary (thousands)						
	Mega International Commercial Bank		282,955,080	281,087,158	283,117,215	246,656,769	222,652,005
	Mega Securities Co., Ltd.		12,831,508	12,154,901	12,357,542	12,051,480	11,690,673
	Mega Bills Finance Co., Ltd.		35,146,019	33,248,864	31,288,743	28,548,890	28,705,412
	Chung Kuo Insurance Co., Ltd.		6,765,462	6,581,472	6,655,210	6,290,905	5,852,753
	Mega Asset Management Co., Ltd.		2,775,707	2,857,728	2,884,898	2,757,557	2,811,036
	Mega Life Insurance Agency Co., Ltd.		441,841	570,476	421,028	217,608	204,809
	Mega Venture Capital Co., Ltd.		801,698	734,690	675,384	733,615	789,111
	Mega Int'l Investment Trust Co., Ltd.		841,988	828,451	812,300	862,076	836,890
	Group's net eligible capital (thousands)		309,989,545	306,394,970	307,966,244	269,748,822	248,532,887



Statutory capital requirements (thousands)						
Mega International Commercial Bank	183,050,518	169,355,378	172,111,231	167,851,387	160,970,192	
Mega Securities Co., Ltd.	4,532,031	3,172,652	3,959,397	3,752,892	3,559,719	
Mega Bills Finance Co., Ltd.	20,619,364	19,653,980	18,029,426	16,506,631	16,926,762	
Chung Kuo Insurance Co., Ltd.	1,799,450	1,780,334	1,822,432	1,802,296	2,036,362	
Mega Asset Management Co., Ltd.	5,967,847	6,046,569	8,312,887	5,619,304	4,294,875	
Mega Life Insurance Agency Co., Ltd.	286,246	397,714	318,567	151,517	165,023	
Mega Venture Capital Co., Ltd.	406,603	370,710	339,518	368,478	394,809	
Mega Int'l Investment Trust Co., Ltd.	478,050	431,685	406,080	427,864	447,541	
Group's total statutory capital requirement (thousands)	224,832,106	208,553,117	212,395,848	203,846,599	195,877,253	
Group capital adequacy ratio (%)	137.88	146.91	145.00	132.33	126.88	
The percentage of credit extension, guarantees or other transaction conducted by all subsidiaries of the Company to the same person that are subject to disclosure under article 46 of the FHC ACT (%)	381.64	325.42	273.80	276.17	350.32	
The percentage of credit extension, guarantees or other transaction conducted by all subsidiaries of the Company to the same related party that are subject to disclosure under article 46 of the FHC ACT (%)	337.93	107.22	69.28	120.84	166.19	
The percentage of credit extension, guarantees or other transaction conducted by all subsidiaries of the Company to the same affiliated enterprise that are subject to disclosure under article 46 of the FHC ACT (%)	351.88	305.72	297.22	360.47	1,015.25	
Analysis of deviation of 2017 vs. 2016 over 20% :						
1. The growth rate of assets increased by 395%, largely due to the growth in cash and cash equivalents, due from the Central Bank and call loans to banks, available-for-sale financial assets, receivables, and bills discounted and loans compared to 2016.						
2. The growth rate of profit increased by 124% due to the increase in net income before tax in 2017 compared to 2016.						
3. The cash flow ratio increased by 888% mainly due to the increase in cash flows from operating activities and decrease in call loans to other banks.						
4. The increase of 43% in cash flow adequacy ratio is mainly due to the increase in cash flows from operating activities in the recent 5 years.						
5. The capital adequacy ratio of Mega Securities drops by 26% primarily due to the increase in statutory capital requirements.						



# Financial Information

## Unconsolidated

Unit: NT\$1,000; %

Item		Year	2017	2016	2015	2014	2013
Operating ability	Total assets turnover		0.08	0.07	0.10	0.11	0.09
	Loans to deposits ratio of bank subsidiary (%)		74.90	80.16	80.42	85.91	86.50
	NPL ratio of bank subsidiary (%)		0.12	0.09	0.08	0.06	0.16
	NPL ratio of bills finance subsidiary (%)		0.00	0.00	0.00	0.00	0.00
	Average operating revenue per employee		512,161	439,602	598,984	606,284	466,309
	Average profit per employee		504,598	423,702	576,808	593,307	440,965
Profitability	Return on assets (%)		7.83	6.96	9.76	11.06	9.00
	Return on equity (%)		8.72	7.67	10.62	12.05	9.96
	Net profit margin (%)		98.52	96.38	96.30	97.86	94.57
	Earnings per share (NT\$)		1.89	1.65	2.35	2.43	1.96
Financial structure (%)	Ratio of liabilities to assets		10.89	9.94	9.03	8.31	9.09
	Ratio of liabilities to net worth		12.23	11.03	9.93	9.06	10.00
	FHC's double leverage ratio		111.70	110.67	108.89	108.51	108.98
Leverage ratio (%)	Operating leverage ratio		0.99	0.99	1.00	1.00	1.00
	FHC's financial leverage ratio		1.00	1.00	1.01	1.01	1.01
Growth rates (%)	Growth rate of assets		3.17	0.51	13.42	7.20	10.92
	Growth rate of profit		12.12	( 23.43)	( 1.50)	30.85	8.91
Cash flow (%)	Cash flow ratio		124.46	176.33	170.50	353.05	3,865.15
	Cash flow adequacy ratio		92.36	98.16	106.00	113.69	113.70
	Cash flow coverage ratio		NA	NA	NA	NA	NA
Operating scale (%)	Market share of assets		8.20	8.67	9.28	8.70	9.41
	Market share of net worth		8.32	8.83	9.54	8.98	9.67
	Market share of deposits of bank subsidiary		5.81	5.50	5.89	5.73	5.78
	Market Share of loans of bank subsidiary		5.93	5.99	6.34	6.34	6.43

Analysis of deviation of 2017 vs. 2016 over 20% :

1. The NPL ratio of bank subsidiary increased by 33% primarily due to the increase in non-performing loans.
2. The growth rate of assets increased by 522%, largely due to the growth in equity investments accounted for by the equity method compared to 2016.
3. The growth rate of profit increased by 152% mainly due to the increase in net income before tax in 2017 compared to 2016.
4. The cash flow ratio dropped by 29% mainly due to the increase in commercial paper payable.

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  $\times$  ( 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. Capital adequacy

- (1) Group's net eligible capital = Eligible capital of the financial holding company + ( ownership percentage in subsidiaries  $\times$  eligible capital of each subsidiary ) - mandatory deductions
- (2) Group's statutory capital requirement = Statutory capital requirement of the financial holding company + ownership percentage in subsidiaries  $\times$  statutory capital requirement of each subsidiary
- (3) Group capital adequacy ratio = Group's net eligible capital / Group's statutory capital requirements

## 6.2.2

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.148~157 of the Consolidated Financial Statements.)

## 6.3 Examination Report of the Audit Committees

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

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

To:

2018 General Shareholders' Meeting

Mega Financial Holding Co., Ltd.

Chairman of the Audit Committee : Tsun-Siou Lee

Date: May 8, 2018

## 6.4 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, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Mega Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, “Regulations Governing the Preparation of Financial Reports by Public Banks”, “Regulations Governing the Preparation of Financial Reports by Public Held Bills Finance Companies”, “Regulations Governing the Preparation of Financial Reports by Securities Firms”, “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants”, “Regulations Governing the Preparation of Financial Reports by Enterprises Engaging in Insurance” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations as endorsed by the Financial Supervisory Commission.

#### *Basis for opinion*

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

#### *Key audit matters*

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

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

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

##### Description

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

The credit services provided by the subsidiary, Mega International Commercial Bank Co., Ltd (MICB), which are their main business activity, are primarily corporate credit facilitations. Impairment losses on bills discounted and loans are losses as

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

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

#### How our audit addressed the matter

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

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



## Impairment assessment of equity investments carried at cost

### Description

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

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

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

### How our audit addressed the matter

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

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

## Claims reserve and ceded claims reserve

### Description

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

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

## How our audit addressed the matter

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

1. Checked the accuracy and completeness of historical values used in the loss development triangle for calculating claims reserve.
2. Elected the work of actuarial specialists to assist 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 inspected the reasonableness of method used in the estimation of claims reserve;
  - (3) Established the interval estimation for claims reserve. On a sampling basis, compared the interval estimation and the account balances of the reserves for any significant differences in order to confirm the reasonableness of the reserves.

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

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

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

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

## ***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



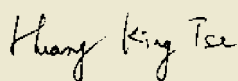
resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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 Mega Group audit. We remain solely responsible for our audit opinion.

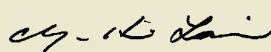
We communicate with those charged with audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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



Huang, King-Tse



Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 27, 2018

# Financial Information

## MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

(Expressed in Thousands of New Taiwan Dollars )

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

(Continued)



## MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

( Expressed in Thousands of New Taiwan Dollars )

Liabilities and Stockholders' equity		Notes	December 31, 2017		December 31, 2016	
			Amount	%	Amount	%
<b>Liabilities</b>						
21000	Due to the Central Bank and financial institutions	6(14) and 11	\$ 400,547,065	11	\$ 401,731,599	12
21500	Funds borrowed from the Central Bank and other banks	6(15)	33,457,560	1	39,974,427	1
22000	Financial liabilities at fair value through profit or loss	6(16)	9,966,779	-	12,105,231	1
22500	Bills and bonds sold under repurchase agreements	6(17)	237,706,429	7	231,191,763	7
22600	Commercial paper payable, net	6(18) and 11	20,165,421	1	11,701,649	-
23000	Payables	6(19)	71,839,997	2	59,001,999	2
23200	Current income tax liabilities		7,525,373	-	8,589,599	-
23500	Deposits and remittances	6(20)	2,386,555,016	67	2,171,287,924	66
24000	Bonds payable	6(21)	31,670,036	1	41,924,088	1
24400	Other loans	6(22)	1,325,368	-	5,954,030	-
24600	Provisions for liabilities	6(23)	26,182,764	1	25,047,224	1
25500	Other financial liabilities	6(24)	12,698,470	1	10,849,706	-
29300	Deferred income tax liabilities	6(39)	2,266,455	-	2,201,659	-
29500	Other liabilities	6(25)	7,319,019	-	6,203,075	-
<b>Total liabilities</b>			<b>3,249,225,752</b>	<b>92</b>	<b>3,027,763,973</b>	<b>91</b>
<b>Equity</b>						
<b>Equity attributable to owners of parent</b>						
31100	<b>Share capital</b>					
31101	Common stock	6(26)	135,998,240	4	135,998,240	4
31500	<b>Capital surplus</b>	6(26)	68,194,233	2	68,194,233	2
<b>Retained earnings</b>						
32001	Legal reserve	6(26)	32,682,332	1	30,436,714	1
32003	Special reserve	6(26)	3,004,318	-	2,545,158	-
32011	Unappropriated retained earnings	6(27)	59,182,128	1	56,976,974	2
<b>Other equity interest</b>		6(28)				
32500	Other equity interest		( 1,007,118)	-	( 2,165,966)	-
39500	<b>Non-controlling interests</b>		41,429	-	42,090	-
<b>Total Stockholders' Equity</b>			<b>298,095,562</b>	<b>8</b>	<b>292,027,443</b>	<b>9</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>			<b>\$ 3,547,321,314</b>	<b>100</b>	<b>\$ 3,319,791,416</b>	<b>100</b>

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

# Financial Information

## 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)

			For the year ended				Change percentage (%)
			December 31, 2017		December 31, 2016		
			Amount	%	Amount	%	
	Items	Notes					
41000	Interest income	6(29) and 11	\$ 57,094,672	96	\$ 54,113,662	98	6
51000	Less: interest expense	6(29) and 11	( 21,215,148 )	( 36 )	( 16,420,610 )	( 30 )	29
	Interest income, net		35,879,524	60	37,693,052	68	( 5 )
	Revenues other than interest, net						
49800	Service fee revenue and commissions, net	6(30)	9,430,560	16	10,237,640	19	( 8 )
49810	Insurance revenue, net		1,773,954	3	1,682,081	3	5
49820	Financial assets and liabilities at fair value through profit or loss	6(31) and 11	7,588,210	13	4,596,354	8	65
49825	Gain on investment property		18,462	-	18,578	-	( 1 )
49830	Realized gain on available-for-sale financial assets, net	6(32) and 11	1,918,710	3	1,988,048	4	( 3 )
49840	Realized loss on held-to-maturity financial assets, net		-	-	( 189 )	-	( 100 )
49870	Foreign exchange gain		1,705,046	3	2,089,104	4	( 18 )
49890	Share of profit of associates and joint ventures accounted for under equity method	6(9)	212,015	-	229,098	-	( 7 )
49900	Other revenue other than interest income	6(34)	1,751,776	3	2,058,557	4	( 15 )
49999	Net other miscellaneous loss	6(35)	( 414,866 )	( 1 )	( 5,147,557 )	( 9 )	( 92 )
55000	Loss on asset impairment	6(33)	( 203,003 )	-	( 380,646 )	( 1 )	( 47 )
	Net revenue		59,660,388	100	55,064,120	100	8
58100	Bad debts expense and guarantee liability provisions	6(4)(5)(6)(10)(23)	( 4,336,814 )	( 7 )	( 3,613,467 )	( 7 )	20
58300	Net change in provisions for insurance liabilities	6(23)	152,758	-	( 116,264 )	-	( 231 )
	Operating expenses						
58501	Employee benefit expense	6(36)	( 16,933,655 )	( 29 )	( 14,953,836 )	( 27 )	13
58503	Depreciation and amortization	6(37)	( 761,012 )	( 1 )	( 711,525 )	( 1 )	7
58599	Other business and administrative expenses	6(38)	( 8,500,938 )	( 14 )	( 7,751,815 )	( 14 )	10
61000	Income before income tax		29,280,727	49	27,917,213	51	5
61003	Income tax expense	6(39)	( 3,551,632 )	( 6 )	( 5,474,318 )	( 10 )	( 35 )
69000	Profit for the year		\$ 25,729,095	43	\$ 22,442,895	41	15
	Other comprehensive income (after income tax)						
69561	Remeasurement of defined benefit plan		( \$ 1,822,689 )	( 3 )	( \$ 566,997 )	( 1 )	221
69569	Income tax related to the components of other comprehensive income that will not be classified subsequently		309,856	1	96,389	-	221
	Potentially reclassifiable to profit or loss subsequently						
69571	Cumulative translation differences of foreign operations	6(28)	( 1,890,094 )	( 3 )	( 1,278,555 )	( 3 )	48
69572	Unrealized loss on valuation of available-for-sale financial assets	6(28)	3,037,736	5	( 1,658,397 )	( 3 )	( 283 )
69575	Share of other comprehensive (loss) income of associates and joint ventures accounted for under equity method	6(9)(28)	15,965	-	( 63,464 )	-	( 125 )
69500	Total other comprehensive loss (after income tax)		( \$ 349,226 )	-	( \$ 3,471,024 )	( 7 )	( 90 )
69700	Total comprehensive income		\$ 25,379,869	43	\$ 18,971,871	34	34
	Profit (loss) attributable to:						
69901	Owners of parent		\$ 25,734,515	43	\$ 22,456,183	41	15
69903	Non-controlling interests		( 5,420 )	-	( 13,288 )	-	( 59 )
			\$ 25,729,095	43	\$ 22,442,895	41	15
	Comprehensive income (loss) attributable to:						
69951	Owners of parent		\$ 25,380,530	43	\$ 18,981,010	34	34
69953	Non-controlling interests		( 661 )	-	( 9,139 )	-	( 93 )
			\$ 25,379,869	43	\$ 18,971,871	34	34
	Earnings per share						
70000	Basic and diluted earnings per share (in dollars)	6(40)	\$ 1.89		\$ 1.65		

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



MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31,	
	2017	2016
<b>Cash flows from operating activities</b>		
Income before income tax	\$ 29,280,727	\$ 27,917,213
Adjustments		
Adjustments to reconcile profit (loss)		
Depreciation	696,276	649,559
Amortization	64,736	61,966
Bad debts expense and guarantee liability provision	4,336,814	3,613,467
Interest expense	21,525,218	17,075,355
Interest income	( 59,200,791 )	( 56,336,478 )
Dividend income	( 1,459,735 )	( 1,480,289 )
Net change in provisions for insurance liabilities	( 152,759 )	116,264
Loss on asset impairment	203,003	380,646
(Gain) loss on disposal of property and equipment	( 1,266 )	1,323
(Gain) loss on disposal of investment property	( 221 )	1,075
Share of profit of associates accounted for under equity method	( 212,015 )	( 229,098 )
Changes in operating assets and liabilities		
Changes in operating assets		
Decrease in due from Central Bank and call loans to other banks	34,914,999	6,827,796
Increase in financial assets at fair value through profit or loss	( 5,264,081 )	( 4,280,709 )
Increase in available-for-sale financial assets	( 85,192,365 )	( 9,765,082 )
(Increase) decrease in receivables	( 8,516,076 )	89,851,276
(Increase) decrease in bills discounted and loans	( 50,940,398 )	54,310,193
Decrease (increase) in reinsurance contract assets	706,214	( 952,854 )
Increase in held-to-maturity financial assets	( 3,690,295 )	( 79,763,423 )
(Increase) decrease in other financial assets	( 637,457 )	1,383,351
Increase in other assets	( 1,152,259 )	( 168,328 )
Changes in operating liabilities		
Decrease in due to the Central Bank and financial institutions	( 1,184,534 )	( 26,674,240 )
Decrease in financial liabilities at fair value through profit or loss	( 2,138,452 )	( 10,875,461 )
Increase in bills and bonds purchased under resale agreements	6,514,666	38,255,113
Increase (decrease) in payables	8,909,720	( 7,909,521 )
Increase (decrease) in deposits and remittances	215,267,092	( 58,855,505 )
Increase in other financial liabilities	1,848,764	128,845
(Decrease) increase in liabilities reserve	( 542,200 )	1,062,654
Decrease in other liabilities	( 79,220 )	( 3,312,125 )
Cash inflow (outflow) generated from operations	103,904,105	( 18,967,017 )
Interest received	58,218,582	54,950,261
Cash dividend received	1,614,856	1,639,225
Interest paid	( 20,864,314 )	( 17,211,322 )
Income tax paid	( 3,284,750 )	( 4,527,024 )
Net cash flows from operating activities	139,588,479	15,884,123
<b>Cash flows from investing activities</b>		
Proceeds from disposal of investments accounted for under the equity method	-	2,747
Proceeds from capital reduction of investments measured at cost	410,894	69,384
Acquisition of property and equipment	( 912,318 )	( 542,060 )
Proceeds from disposal of property and equipment	30,150	5,422
Acquisition of intangible assets	( 283,478 )	( 13,893 )
Acquisition of investment property	( 825 )	( 91,825 )
Proceeds from disposal of investment property	1,209	12,175
Net cash flows used in investing activities	( 754,368 )	558,050
<b>Cash flows from financing activities</b>		
Decrease in due to the Central Bank and financial institutions	( 6,516,867 )	( 5,484,667 )
Increase (decrease) in commercial papers payable	8,465,000	( 8,245,579 )
Redemption of financial bonds	( 10,300,000 )	-
(Decrease) increase in other loans	( 4,628,662 )	3,674,030
Increase (decrease) in guarantee deposits received	1,192,790	( 677,718 )
Cash dividends paid	( 17,719,905 )	( 18,718,378 )
Net cash flows used in financing activities	( 29,507,644 )	( 29,452,312 )
Effect of exchange rate changes on cash and cash equivalents	( 1,790,543 )	( 1,265,138 )
Net increase (decrease) in cash and cash equivalents	107,535,924	( 15,391,377 )
Cash and cash equivalents at beginning of year	429,341,320	444,732,697
Cash and cash equivalents at end of year	\$ 536,877,244	\$ 429,341,320
<b>The components of cash and cash equivalents</b>		
Cash and cash equivalents reported in the statement of financial position	\$ 143,864,749	\$ 98,131,357
Due from central bank and call loans to other banks qualified as cash and cash equivalents as defined by IAS 7	390,459,267	328,354,078
Investments in bills and bonds under resale agreements qualified as cash and cash equivalents as defined by IAS 7	2,553,228	2,855,885
Cash and cash equivalents at end of reporting period	\$ 536,877,244	\$ 429,341,320

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

# Financial Information

## MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS END DECEMBER 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Share capital- common stock	Capital Surplus
<u>For the year ended December 31, 2016</u>		
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	<u>\$ 135,998,240</u>	<u>\$ 68,194,233</u>
<u>For the year ended December 31, 2017</u>		
Balance at January 1, 2017	\$ 135,998,240	\$ 68,194,233
Earnings distribution for 2016		
Legal reserve	-	-
Cash dividends	-	-
Special reserve	-	-
Profit (loss) for the year	-	-
Other comprehensive (loss) income for the year	-	-
Balance at December 31, 2017	<u>\$ 135,998,240</u>	<u>\$ 68,194,233</u>

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



Equity attributable to owners of the parent							
Retained Earnings			Other equity interest		Total	Non-controlling interest	Total
Legal Reserve	Special Reserve	Unappropriated Retained Earnings	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets			
\$ 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 )
<u>\$ 30,436,714</u>	<u>\$ 2,545,158</u>	<u>\$ 56,976,974</u>	<u>(\$ 853,382 )</u>	<u>(\$ 1,312,584 )</u>	<u>\$ 291,985,353</u>	<u>\$ 42,090</u>	<u>\$ 292,027,443</u>
\$ 30,436,714	\$ 2,545,158	\$ 56,976,974	(\$ 853,382 )	(\$ 1,312,584 )	\$ 291,985,353	\$ 42,090	\$ 292,027,443
2,245,618	-	( 2,245,618 )	-	-	-	-	-
-	-	( 19,311,750 )	-	-	( 19,311,750 )	-	( 19,311,750 )
-	459,160	( 459,160 )	-	-	-	-	-
-	-	25,734,515	-	-	25,734,515	( 5,420 )	25,729,095
-	-	( 1,512,833 )	( 1,899,975 )	3,058,823	( 353,985 )	4,759	( 349,226 )
<u>\$ 32,682,332</u>	<u>\$ 3,004,318</u>	<u>\$ 59,182,128</u>	<u>(\$ 2,753,357 )</u>	<u>\$ 1,746,239</u>	<u>\$ 298,054,133</u>	<u>\$ 41,429</u>	<u>\$ 298,095,562</u>



**MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(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 "Mega Group") was 8,867 and 8,447 as of December 31, 2017 and 2016, 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 27, 2018.

## 3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the 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 Mega 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 amortised 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 recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

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

## Consolidated balance sheet

Affected items	2017 version IFRSs amount	Effect of adoption of new standards	2018 version IFRSs amount	Remark
<b>January 1, 2018</b>				
Financial assets at fair value through profit or loss	\$ 191,581,454	\$ 12,837,903	\$ 204,419,357	2 and 5
Due from the Central Bank and call loans to banks	567,201,934	( 2,122)	567,199,812	8
Available-for-sale financial assets	442,557,049	( 442,557,049)	-	1,2,3,4 and 5
Financial assets at fair value through other comprehensive income	-	409,078,294	409,078,294	1 and 4
Held-to-maturity financial assets	284,687,657	( 284,687,657)	-	3 and 4
Financial assets at amortised cost	-	325,897,967	325,897,967	3 and 7
Accounts receivable, net	96,055,863	( 45,091)	96,010,772	5 and 8
Other financial assets, net	15,089,381	( 11,628,614)	3,460,767	1,2 and 3
Other assets	1,950,147,976	5,716	1,950,153,692	8
<b>Total affected assets</b>	<b>\$ 3,547,321,314</b>	<b>\$ 8,899,347</b>	<b>\$ 3,556,220,661</b>	
Provisions for liabilities	\$ 26,182,764	\$ 39,719	\$ 26,222,483	8
Deferred tax liabilities	2,266,455	( 13,962)	2,252,493	4
Other liabilities	3,220,776,533	( 64)	3,220,776,469	8
<b>Total affected liabilities</b>	<b>\$ 3,249,225,752</b>	<b>\$ 25,693</b>	<b>\$ 3,249,251,445</b>	
Share capital	\$ 135,998,240	\$ -	\$ 135,998,240	
Capital surplus	68,194,233	-	68,194,233	
Retained earnings	94,868,778	637,630	95,506,408	1,2,4,5,6,7 and 8
Other equity interest	( 1,007,118)	8,248,585	7,241,467	1,2,3,4,5 and 6
<b>Total affected controlling interest</b>	<b>298,054,133</b>	<b>8,886,215</b>	<b>306,940,348</b>	
Non-controlling interest	41,429	( 12,561)	28,868	1
<b>Total affected equity</b>	<b>298,095,562</b>	<b>8,873,654</b>	<b>306,969,216</b>	
<b>Total affected liabilities and equity</b>	<b>\$ 3,547,321,314</b>	<b>\$ 8,899,347</b>	<b>\$ 3,556,220,661</b>	

### Explanation:

1. In accordance with IFRS 9, the Mega Group expects to reclassify available-for-sale financial assets-equity instruments and other financial assets-equity investment carried at cost in the amounts of \$10,094,348 and \$6,306,853, respectively, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing retained earnings and other equity interest, decreasing non-controlling interest in the amounts of \$24,505,194, \$720,837, \$7,395,717 and \$12,561, respectively.
2. In accordance with IFRS 9, the Mega Group expects to reclassify available-for-sale financial assets-equity instruments and other financial assets-equity investments carried at cost in the amounts of \$6,911,095 and \$4,861,333, respectively, by increasing financial assets at fair value through profit or loss and increasing retained earnings and other equity interest in the amounts of \$12,600,748, \$198,183 and \$630,137, respectively.
3. In accordance with IFRS 9, the Mega Group expects to reclassify available-for-sale financial assets, held-to-maturity financial assets and other financial assets-investments in debt instruments without active market of \$40,859,030, \$284,587,657 and \$460,428, respectively, by increasing financial assets at amortised cost and increasing other equity interests in the amount of \$325,912,224 and \$5,109, respectively.
4. In accordance with IFRS 9, the Mega Group expects to reclassify available-for-sale financial assets, held-to-maturity financial assets of \$384,471,468 and \$100,000, respectively, by increasing financial assets at fair value through other comprehensive income, decreasing deferred income tax liabilities and retained earnings, increasing other equity interests in the amount of \$384,573,100, \$13,962, \$7,451 and \$23,045, respectively.
5. In accordance with IFRS 9, the Mega Group expects to reclassify available-for-sale financial assets and account receivables-accrued interest of \$22,108 and \$16,085, respectively, by increasing financial assets at fair value through profit or loss, decreasing retained earnings, increasing other equity interests in the amount of \$237,155, \$14,579 and \$14,541, respectively.
6. In line with the regulations under IFRS 9 on provision for impairment, other equity interests will have to be increased by \$180,036 and retained earnings decreased by \$180,036.



7. In line with the regulation under IFRS 9 on provision for impairment, financial assets at amortised cost will have to be decreased by \$14,257 and retained earnings decreased by \$14,257.

8. In line with the regulation under IFRS 9 on provision for impairment, other assets will have to be increased by \$6,279, provisions increased by \$39,719, account receivables decreased by \$29,006, bill discounted and loan decreased by \$47, cash and cash equivalents decreased by \$516, due from the Central Bank and call loans to banks decreased by \$2,122, other liabilities decreased by \$64 and retained earnings decreased by \$65,067.

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

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

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

Except for the following, the 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 Mega Group:

#### A. IFRS 16, 'Leases'

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

#### B. IFRS 17, 'Insurance contracts'

IFRS 17 'Insurance Contracts' replaces IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard applies to insurance contracts (including reinsurance contracts) issued, to reinsurance contracts held and to investment contracts with discretionary participation features issued, provided the entity also issues insurance contracts. Embedded derivatives, distinct investment components and distinct performance obligations shall be separated from the insurance contracts. An entity shall, at initial recognition, disaggregate a portfolio into three groups of contracts: onerous, no significant risk of becoming onerous, and remaining contracts. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. An entity may apply a simplified measurement approach (the premium allocation approach) to some insurance contracts. An entity recognises the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately. Entities are required to present separately insurance revenue, insurance service expenses and insurance finance income or expenses and to disclose information about amounts, judgments and risks arising from insurance contracts.

## 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) recognised at fair value, defined benefit liabilities recognised 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 Mega 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 Mega 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 Mega 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 (%)		Remark
		December 31, 2017	December 31, 2016	
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	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)
MICB, MS and CKI	Mega I Venture Capital	40.00	40.00	Note(15)

- (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 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 (%)		Business Activities
		December 31, 2017	December 31, 2016	
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 Mega Group controls an entity when the Mega 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 Mega 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 recognised 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 recognised in profit or loss. All amounts previously recognised 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 Mega Group loses control of a subsidiary, all gains or losses previously recognised 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 Mega 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 recognised 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 recognised in other comprehensive income.

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

##### C. Entities in consolidated financial statements

The operating results and financial position of all the Mega 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 Mega 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 recognised 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 recognised 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 recognised at the date of sale or purchase.

#### (7) Financial assets or liabilities

The financial assets and liabilities of the Mega Group including derivatives are recognised 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 Mega 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 recognised and derecognised 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 Mega 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 Mega 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 recognised 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 recognised as 'interest revenue'. An impairment loss is recognised 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 recognised 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 recognised 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 Mega 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 recognised as 'interest revenue'. An impairment loss is recognised when there is an objective evidence of impairment on financial assets. Impairment loss is a deduction to carrying amount of financial assets, which is recognised 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 capitalised.

An impairment loss is recognised when there is an objective evidence of impairment. If financial assets have not been derecognised, accumulated impairment loss related to the financial assets that was previously recognised in other comprehensive income shall be reclassified to profit or loss. Impairment loss of an investment in an equity instrument recognised 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 recognised 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 recognised, the impairment amount is reversed and recognised in current profit and loss.

Equity instruments with no quoted price in an active market are initially recognised 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 recognised at fair value on the trade date plus transaction costs of acquisition or issuance. Disposal gain or loss is recognised when derecognised. Bond investments without active market are measured at amortised 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 recognised based on relevant regulations. Purchase of claim receivable is measured at amortised 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 Mega 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 recognised 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 amortised cost.

## C. Derecognition of financial assets

The Mega Group derecognises 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 derecognised 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 Mega Group or provision of bonds or stocks as security for Repo trading, the Mega Group does not derecognise the financial asset, because substantially all risks and rewards of ownership of the financial asset are still retained in the Mega 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 recognised amounts and (B) there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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

A. The Mega Group would presume that a financial asset or a group of financial assets is impaired and recognise 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 Mega 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 Mega 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 reorganisation;
- (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; and.

(I) Cases that meet the self-made evaluation items of the Mega 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 Mega Group recognises' 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 recognised, the amount of impairment loss recognised previously shall be reserved by adjusting allowance for doubtful debts. The reversal shall not cause a carrying amount of the financial asset exceeds the amortised cost of the period before recognition of the impairment loss. The amount of the reversal shall be recognised 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 recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset directly.

## (10) Derivatives

Derivatives are initially recognised 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 recognised 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 recognised 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 Mega 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 recognised at cost.

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

C. Unrealised gains on transactions between the Mega Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised 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 Mega Group.



- D. When changes in an associate's equity that are not recognised 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 recognises 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 recognised 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 recognised 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 Mega Group are recognised 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 Mega Group, the subsequent expenses of property and equipment may be individually recognised as an asset or included in the carrying amount of the asset. The carrying amount of the replaced part is derecognised.

Significant renewals and improvements incurred to increase the future economic benefits of the assets are capitalised. Routine maintenance and repairs are charged to expense as incurred.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

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

#### (13) Operating leases

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

#### (14) Investment property

The properties held by the Mega 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 Mega Group and the remaining will be used to generate rental income or capital appreciation. If the property held by the Mega 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 Mega Group and the costs can be reliably measured, the investment property shall be recognised 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 capitalised. All maintenance cost are recognised 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.

## (15) Intangible assets

Intangible assets of Mega Group, mainly computer software, is stated at cost and amortised on a straight-line basis over their estimated useful lives of 1 to 10 years.

## (16) 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.

## (17) Impairment of non-financial assets

The Mega 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 recognised 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 recognising 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 amortised historical cost would have been if the impairment had not been recognised.

## (18) Provisions for liabilities, contingent liabilities and contingent assets

A. When all the following criteria are met, the Mega Group shall recognise 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 recognised 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 Mega 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 Mega Group did not recognise 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 Mega Group. The Mega Group did not recognise 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 authorised 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 recognised 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 recognised.

**(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 recognised 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.

**(19) Financial guarantee contracts**

A financial guarantee contract is a contract that requires the Mega 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 Mega Group initially recognises financial guarantee contracts at fair value on the date of issuance. The Mega 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 recognised in deferred accounts and amortized through straight-line method during the contract term.

Subsequently, the Mega 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 recognised less, when appropriate, cumulative amortisation recognised 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 recognised in “bad debts expense 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 Debts”, and provides adequate reserve for guarantee liabilities.

**(20) Employee benefits****A. Short-term employee benefits**

The Mega Group should recognise 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 preferential 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 recognised 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 recognised in accordance with IAS 19, Defined Benefit Plan, as endorsed by FSC. Relevant past service costs will be recognised 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 recognised 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 Mega Group has made promises in the formal detailed employment termination plan which is irrevocable, and shall recognise 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 Mega 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 recognised as pension expenses when they are due on an accrual basis. Prepaid pension assets are recognised 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 recognised 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 unrecognised 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 recognised in other comprehensive income in the period in which they arise.

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

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

Employees' compensation and directors' and supervisors' remuneration are recognised 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.

## (21) 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 recognised 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 recognised is based on the number of equity instruments that eventually vest.

## (22) Revenue and expense

Income and expense of the Mega Group are recognised as incurred. Expense consists of employee benefit expense, depreciation and amortisation expense and other business and administration expenses. Dividend revenues are recognised 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 recognised as “interest income” and “interest expense” in the consolidated statement of comprehensive income.

B. Service fee income and expense are recognised upon the completion of services of loans or other services; service fee earned from performing significant items shall be recognised 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 recognised in the period when the respective policies are issued. The associated expenses such as commissions, agency cost and service charges are recognised accordingly. Claims of direct coverage are recognised 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.

#### (23) 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.

#### (24) Reinsurance contracts

A. Revenues and expenses of inward and outward reinsurance business are recognised on the date the bills are received. Appropriate methods should be adopted in estimating payments and income arising from unrecognised 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 recognised. 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 recognised if the receivables do not exceed reinsurance reserve asset at book value. Recognition should be appropriately made according to the amount for amortisable claim, payment of reinsurance, reinsurance transaction receivables and non-collectable outward reinsurance reserve fund.

#### (25) 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 recognised in other comprehensive income or equity, and that related income taxes in the period are recognised in other comprehensive income or directly derecognised from equity, all the others should be recognised 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 realisation 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 recognised as deferred income tax. The temporary difference of the Mega 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 recognised as deferred income tax.

Temporary difference related to investment in the subsidiaries, branches and affiliated entities are recognised as deferred income tax liabilities. However, when the Mega 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 recognised.

The land revaluation appraisal occurring due to the revaluation assessment in line with relevant regulations, deemed as taxable temporary difference, is recognised 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 realised in the future, the proportion of realisation 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 recognised amounts and there is an intention to settle on a net basis or realise 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 realise the asset and settle the liability simultaneously.
- D. Certain transactions of the Mega Group are recognised in other comprehensive income, such as change in unrealised 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 recognised in other comprehensive income.

## (26) 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 recognised 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 recognised and only disclosed as subsequent event in the notes if the dividend declaration date is later than the consolidated balance sheet date.

## (27) Operating segments

Information of operating segments of the Mega 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 judgments in applying the Mega Group's accounting policies and make critical assumptions and estimates concerning future events. These judgments affect the results of the financial reporting.

The assumptions and estimates made by the Mega 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 judgments in applying the Mega 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 Mega 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 Mega 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 Mega Group recognises 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 Mega 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 Mega Group follows the guidance of IAS 39 to determine whether a financial asset-equity investment is impaired. This determination requires significant judgment. In making this judgement, the Mega 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 Mega 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 Mega 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 and reinsurance reserve assets**

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, 2017	December 31, 2016
Cash on hand and petty cash	\$ 14,938,497	\$ 15,421,486
Bank deposits	5,170,596	6,451,399
Cash equivalents	980,093	1,221,411
Checks for clearance	520,444	763,191
Due from banks	122,256,412	74,276,076
Subtotal	143,866,042	98,133,563
Less: Allowance for doubtful accounts – due from banks	( 1,293)	( 2,206)
Total	\$ 143,864,749	\$ 98,131,357

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

	December 31, 2017	December 31, 2016
Reserve for deposits-category A	\$ 11,516,365	\$ 25,765,381
Reserve for deposits-category B	41,465,157	37,590,523
Reserve for deposits- general	281	305
Reserve for deposits- foreign currency	587,701	585,654
Deposits of overseas branches with foreign Central Banks	258,376,119	275,864,933
Interbank settlement fund of Fund Center	6,237,279	4,895,305
Call loans to banks and bank overdrafts	246,017,328	188,357,264
Import and export loans from banks	958,904	140,799
Participate in interbank financing with risk	2,042,800	6,811,578
Total	\$ 567,201,934	\$ 540,011,742

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, 2017 and 2016, reserve for deposits and call loans to banks of the Mega 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 \$390,459,267 and \$328,354,078, respectively.

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

	December 31, 2017	December 31, 2016
<u>Financial assets held for trading</u>		
Stocks	\$ 7,543,033	\$ 4,557,071
Commercial papers	102,682,813	96,877,807
Beneficiary certificates	372,134	233,762
Bank's acceptance bill	-	700,074
Negotiable certificates of deposit	28,981,755	22,449,487
Bonds	44,865,780	52,763,031
Derivative instruments	3,571,029	4,027,243
Other securities	43,178	23,873
Subtotal	188,059,722	181,632,348
<u>Financial assets designated as at fair value through profit or loss</u>		
Convertible corporate bond asset swaps	3,521,732	4,685,025
Total	\$ 191,581,454	\$ 186,317,373

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, 2017 and 2016 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, 2017 and 2016.

C. As of December 31, 2017 and 2016, the above financial assets used as underlying assets for repurchase agreements held by the Mega Group were \$96,198,926 and \$99,978,257, respectively.

## (4) Receivables, net

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 14,654,328	\$ 14,353,025
Factoring receivable	33,152,887	36,988,054
Notes receivable	177,591	152,712
Accrued income and interest	8,521,129	7,540,723
Acceptances receivable	10,344,104	8,240,037
Insurance receivable	361,036	474,635
Margin loans and securities business money lending receivable	11,981,235	9,162,663
Recovery of accounts receivable	87,058	8,000

Purchase of obligor receivable for acting as assignee	92,022	93,879
Credit card receivables	4,860,248	4,452,488
Usance outright receivable	3,038,711	1,879,409
Receivable accounts for settlement	9,372,118	4,014,210
Other receivables	1,568,612	1,382,045
Total	98,211,079	88,741,880
Less: Allowance for bad debts	( 2,155,216)	( 1,916,078)
Receivables, net	\$ 96,055,863	\$ 86,825,802

(5) Bills discounted and loans, net

	December 31, 2017	December 31, 2016
Bills and notes discounted	\$ 9,660	\$ 14,859
Overdrafts	3,180,332	1,977,856
Short-term loans	509,194,785	389,317,574
Medium-term loans	690,056,078	773,175,872
Long-term loans	576,100,312	563,521,555
Import/export bills negotiated	9,895,964	12,512,002
Loans transferred to non-accrual loans	2,079,130	1,453,280
Total	1,790,516,261	1,741,972,998
Less: allowance for bad debts	( 28,355,505)	( 26,694,232)
Loans, net	\$ 1,762,160,756	\$ 1,715,278,766

A. As of December 31, 2017 and 2016, the amounts of reclassified non-performing loans to overdue loans were \$2,079,130 and \$1,453,280, including interest receivable of \$8,236 and \$7,916, respectively.

B. Movements in allowance for credit losses

Information on the evaluations of impairment of the Mega Group's loans and receivables as of December 31, 2017 and 2016 was as follows:

(A) Loans:

		Loans	Allowance for credit losses
Item		December 31, 2017	December 31, 2017
With existing objective evidence of individual impairment	Individual assessment	\$ 15,232,401	\$ 2,656,718
	Group assessment	969,486	142,804
Without existing objective evidence of individual impairment	Group assessment	1,774,314,374	25,555,983

		December 31, 2016	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

(B) Receivables:

		Receivables	Allowance for credit losses
Item		December 31, 2017	December 31, 2017
With existing objective evidence of individual impairment	Individual assessment	\$ 1,255,790	\$ 926,515
	Group assessment	237,005	26,524
Without existing objective evidence of individual impairment	Group assessment	96,718,284	1,202,177

		December 31, 2016	December 31, 2016
With existing objective evidence of individual impairment	Individual assessment	\$ 932,328	\$ 686,484
	Group assessment	405,866	34,693
Without existing objective evidence of individual impairment	Group assessment	87,403,686	1,194,901

The Mega Group considers asset quality in respect of accounts receivable, bills discounted and loans, Non-accrual loans transferred from overdue receivables, 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, 2017 and 2016, details of recognised allowance for bad debts and relevant movement are as follows:

	For the year ended December 31, 2017				
	Accounts receivable	Bills discounted and loans	Non-accrual loans transferred from overdue	Remittance acquired	Total
Balance, January 1	\$ 1,916,078	\$ 26,694,232	\$ 18,356	\$ 155	\$ 28,628,821
Provision (Reversal)	272,253	4,058,408	( 1,518)	( 139)	4,329,004
Write-off-net	( 79,628)	( 3,584,836)	( 23,896)	-	( 3,688,360)
Recovery of written-off credits	83,726	1,364,605	1,042	-	1,449,373
Effects of exchange rate changes and others	( 37,213)	( 176,904)	16,749	-	( 197,368)
Balance, December 31	\$ 2,155,216	\$ 28,355,505	\$ 10,733	\$ 16	\$ 30,521,470

	For the year ended December 31, 2016				
	Accounts receivable	Bills discounted and loans	Non-accrual loans transferred from overdue	Remittance acquired	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

## (6) Reinsurance contract assets-net

A. Details are as follows:

	December 31, 2017	December 31, 2016
Reinsurance claims and payment receivables	\$ 315,679	\$ 382,882
Reinsurance transaction receivables	244,912	190,418
Overdue reinsurance		
-Claims and payment receivables	1,342	687
-Transaction receivables	36,624	37,552
Less: allowance for bad debts	( 19,378)	( 19,384)
Subtotal	579,179	592,155
Reinsurance reserve assets		
Ceded unearned premium reserve	1,267,530	1,229,560
Ceded claim reserve	1,670,558	2,400,073
Ceded premium deficiency reserve	37,890	39,880
Ceded liability reserve	297	-
Subtotal	2,976,275	3,669,513
Total	\$ 3,555,454	\$ 4,261,668

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

	For the year ended December 31,	
	2017	2016
Balance at January 1,	\$ 19,384	\$ 9,808
Provision	2,845	15,084
Write-off-net	( 2,809)	( 5,495)
Foreign currency translation adjustments	( 42)	( 13)
Balance at December 31,	\$ 19,378	\$ 19,384





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

	December 31, 2017	December 31, 2016
Stocks	\$ 16,548,026	\$ 15,455,885
Commercial papers	39,161,670	24,623,320
Bonds	373,057,158	308,944,643
Beneficiary certificates	857,234	647,622
Beneficiary securities	227,935	1,028,194
Certificates of deposit	12,883,735	3,658,802
Treasury securities	-	997,756
Subtotal	442,735,758	355,356,222
Less: Accumulated impairment	( 178,709)	( 891,514)
Total	\$ 442,557,049	\$ 354,464,708

A. The Mega Group has available-for-sale financial assets which consist of bonds and bills sold under repurchase agreements amounting to \$139,870,503 and \$129,613,204 as of December 31, 2017 and 2016, 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, 2017 and 2016.

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

	December 31, 2017	December 31, 2016
Central Bank's certificates of deposits	\$ 251,900,000	\$ 246,125,000
Bank's certificates of deposits	11,199,845	12,937,145
Financial bonds	15,226,010	14,884,099
Government bonds	3,652,658	3,506,609
Corporate bonds	2,709,144	3,544,509
Total	\$ 284,687,657	\$ 280,997,362

A. Please refer to Note 12 for details of the aforementioned financial assets pledged as collateral as of December 31, 2017 and 2016.

B. The Mega Group recognised interest income of \$31,954 and \$28,026 on holding held-to-maturity financial assets for the years ended December 31, 2017 and 2016, respectively.

C. 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 accounted for under the equity method, net

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

Individually Immaterial Associates	December 31, 2017		December 31, 2016	
	Amount	Percentage of Shareholding	Amount	Percentage of Shareholding
Cathay Investment & Development Corporation (Bahamas)	\$ 58,808	100.00	\$ 60,195	100.00
Cathay Investment & Warehousing Ltd.	51,135	100.00	55,941	100.00
Mega Management Consulting Corporation	79,160	100.00	66,316	100.00
Ramlett Finance Holdings INC.	7,500	100.00	6,931	100.00
Yung Shing Industries Co.	684,534	99.56	690,960	99.56
China Products Trading Company	27,048	68.27	27,661	68.27
An Feng Enterprise Co., Ltd.	11,901	25.00	11,844	25.00
Taiwan Bills Finance Corporation	1,646,941	24.55	1,574,082	24.55
Ever Strong Iron & Foundry & Mfg. Corporation	44,637	22.22	43,457	22.22
Mega Growth Venture Capital Co., Ltd.	247,535	20.08	249,449	20.08
China Real Estate Management Co., Ltd.	182,814	20.00	183,507	20.00
Universal Venture Capital Investment Corporation	142,488	11.84	138,127	11.84
Total	\$ 3,184,501		\$ 3,108,470	

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

	For the year ended December 31,	
	2017	2016
Profit for the year	\$ 212,015	\$ 229,098
Other comprehensive income (loss) (after income tax)	15,965	( 63,464)
Total comprehensive income	\$ 227,980	\$ 165,634

C. The shares of individually immaterial associates and joint ventures the Mega 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 11.81%. 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 as of December 31, 2017 and 2016 have not been pledged or provided as collateral.

## (10) Other financial assets, net

	December 31, 2017	December 31, 2016
Remittance purchased	\$ 4,089	\$ 16,908
Purchase of obligor receivable	5,417	32,666
Debt investments with no active market	460,428	667,663
Equity investments carried at cost	12,461,719	12,861,411
Non-accrual loans transferred from accounts other than loans	23,097	36,226
Pledged time deposits	400,000	419,198
Customer margin account	2,687,825	1,720,026
Securities lending guarantee deposits	130,322	156,178
Securities lending refundable deposits	117,950	465,731
Others	102,815	47,361
Subtotal	16,393,662	16,423,368
Less: Allowance for bad debts-remittance purchased	( 16)	( 155)
Allowance for bad debts-non-accrual loans transferred from accounts other than loans	( 10,733)	( 18,356)
Accumulated impairment-equity investments carried at cost	( 1,293,532)	( 1,449,648)
Total	\$ 15,089,381	\$ 14,955,209

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, 2017 and 2016, 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 Mega Group recognised impairment loss for the years ended December 31, 2017 and 2016, respectively. Please refer to Note 6(33) for details.

E. For information regarding the Mega Group's profit or loss related to the disposal of their investee or dividend income for the years ended December 31, 2017 and 2016, please refer to the explanation in Note 6(34).

## (11) Investment property, net

For the years ended December 31, 2017 and 2016, the movement of the Mega Group's investment property is as follows:

January 1, 2017	Land and land improvements	Buildings and structures	Total
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
For the year ended December 31, 2017			
Additions	-	825	825
Disposals	( 560)	( 428)	( 988)
Transfers	-	1,481	1,481
Reversal of impairment	( 129)	9	( 120)
Depreciation	-	( 15,743)	( 15,743)
Foreign exchange differences	-	( 153)	( 153)
December 31, 2017	\$ 1,211,073	\$ 485,790	\$ 1,696,863
December 31, 2017			
Cost	\$ 1,239,703	\$ 697,881	\$ 1,937,584
Accumulated depreciation and impairment	( 28,630)	( 212,091)	( 240,721)
	\$ 1,211,073	\$ 485,790	\$ 1,696,863

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

- A. The fair values of the investment property held by the Mega Group as of December 31, 2017 and 2016 were \$5,343,885 and \$5,370,181, 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, 2017 and 2016, Level 2 within the fair value hierarchy was \$3,755,152 and \$3,781,772, respectively, and Level 3 within the fair value hierarchy was \$1,588,733 and \$1,588,409, respectively.
- B. Rental income from the lease of the investment property for the years ended December 31, 2017 and 2016 was \$63,040 and \$63,697, respectively.
- C. For the aforesaid investment property pledged as collaterals as of December 31, 2017 and 2016, please refer to Note 12.

## (12) Property and equipment, net

Details of property and equipment are as follows:

January 1, 2017	Land and land improvements	Buildings	Equipment	Leasehold improvements	Prepayments for equipment	Total
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
<b>For the year ended December 31, 2017</b>						
At January 1,	\$ 14,652,929	\$ 6,072,754	\$ 1,022,920	\$ 26,507	\$ 12,342	\$ 21,787,452
Additions	-	248,791	652,516	865	10,146	912,318
Disposals	-	( 214)	( 28,670)	-	-	( 28,884)
Transfers	-	-	3,342	229	( 18,032)	( 14,461)
Depreciation	-	( 254,057)	( 414,338)	( 12,138)	-	( 680,533)
Reversal of impairment	24,775	2,512	-	-	-	27,287
Foreign exchange differences	( 1,914)	( 20,316)	205	-	-	( 22,025)
December 31, 2017	\$ 14,675,790	\$ 6,049,470	\$ 1,235,975	\$ 15,463	\$ 4,456	\$ 21,981,154
<b>December 31, 2017</b>						
Cost	\$ 14,835,915	\$ 12,900,616	\$ 6,514,657	\$ 251,749	\$ 4,456	\$ 34,507,393
Accumulated depreciation and impairment	( 160,125)	( 6,851,146)	( 5,278,682)	( 236,286)	-	( 12,526,239)
Total	\$ 14,675,790	\$ 6,049,470	\$ 1,235,975	\$ 15,463	\$ 4,456	\$ 21,981,154

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
<b>For the year ended December 31, 2016</b>						
At January 1,	\$ 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
<b>December 31, 2016</b>						
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

Please refer to Note 12 for details of the property and equipment pledged as collateral as of December 31, 2017 and 2016.

## (13) Other assets, net

	December 31, 2017	December 31, 2016
Prepayments	\$ 235,474	\$ 183,849
Refundable deposits	1,986,142	632,677
Guarantee deposits held for operation and funds for security settlements	922,699	937,240
Temporary payments	694,186	788,608
Others	125,537	230,537
Total	\$ 3,964,038	\$ 2,772,911

As of December 31, 2017 and 2016, 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, 2017	December 31, 2016
Call loans from banks	\$ 152,075,208	\$ 232,381,140
Due to Chunghwa Post	2,374,693	2,818,812
Overdrafts on banks	4,711,419	6,781,442
Due to the financial institutions	45,003,496	44,551,667
Due to the Central Bank	196,382,249	115,198,538
Total	\$ 400,547,065	\$ 401,731,599

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

	December 31, 2017	December 31, 2016
Funds borrowed from the Central Bank	\$ 5,398,742	\$ 5,909,170
Other funds borrowed from the Central Bank	3,824,592	4,283,398
Call loan from other banks	24,234,226	29,781,859
Total	\$ 33,457,560	\$ 39,974,427

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

	December 31, 2017	December 31, 2016
<u>Financial liabilities held for trading</u>		
Derivative instruments	\$ 2,138,724	\$ 3,489,154
Liabilities on sale of borrowed securities	122,280	295,143
Issuance of call (put) warrants	431,045	121,690
Bonds purchased under resale agreements	353,976	-
Others	632	22,544
Subtotal	3,046,657	3,928,531
<u>Financial liabilities designated as at fair value through profit or loss</u>		
Financial bonds	6,920,122	8,176,700
Total	\$ 9,966,779	\$ 12,105,231

A. For information regarding the Mega Group's recognised 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, 2017 and 2016, 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)	Issuing period	Interest rate	Total issued amount	December 31, 2017	December 31, 2016
103-4 Development Financial bond	2014.11.19-2034.11.19	0.00%	\$ 30,000	\$ -	\$ 30,000
103-5 Development Financial bond	2014.11.19-2034.11.19	0.00%	130,000	130,000	130,000
103-7 Development Financial bond	2014.11.19-2044.11.19	0.00%	75,000	75,000	75,000
				\$ 205,000	\$ 235,000

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, 2017	December 31, 2016
Short-term bills	\$ 86,133,133	\$ 86,699,426
Bonds	151,549,316	144,297,980
Others	23,980	194,357
Total	\$ 237,706,429	\$ 231,191,763

# Financial Information

## (18) Commercial papers payable, net

	December 31, 2017	December 31, 2016
Domestic commercial papers	\$ 20,170,000	\$ 11,705,000
Less: unamortized discount	( 4,579)	( 3,351)
Net	\$ 20,165,421	\$ 11,701,649

As of December 31, 2017 and 2016, none of the aforementioned commercial papers payable was provided for guarantees, and the interest rate ranged from 0.32% to 0.71% and 0.45% to 0.85%, respectively.

## (19) Payables

	December 31, 2017	December 31, 2016
Notes and accounts payable	\$ 8,221,665	\$ 8,565,683
Settlement amounts payable	10,467,991	3,725,090
Accrued expenses	5,436,262	4,342,991
Interest payable	3,057,288	2,441,104
Dividends payable	23,647,800	22,077,713
Acceptances	10,445,175	8,932,976
Collections for others	1,324,497	1,200,111
Commissions payable	106,951	105,470
Due from other insurers	737,214	814,146
Securities financing refundable deposits	1,313,144	1,123,121
Deposits payable for securities financing	1,433,578	1,254,159
Other payables	5,648,432	4,419,435
Total	\$ 71,839,997	\$ 59,001,999

## (20) Deposits and remittances

	December 31, 2017	December 31, 2016
Checking account deposits	\$ 32,921,336	\$ 37,879,956
Demand deposits	685,562,016	677,561,855
Time deposits	932,559,093	749,748,743
Demand savings deposits	469,471,766	429,888,906
Time savings deposits	258,313,660	268,289,551
Negotiable certificates of deposits	1,332,800	1,544,100
Remittances	6,349,345	6,374,813
Total	\$ 2,386,555,016	\$ 2,171,287,924

## (21) Bonds payable

	December 31, 2017	December 31, 2016
Unsecured exchangeable corporate bonds	\$ 5,800,000	\$ 5,800,000
Less: Exchangeable corporate bond discount	( 29,964)	( 75,912)
Subtotal	5,770,036	5,724,088
Financial bonds, net	25,900,000	36,200,000
Total	\$ 31,670,036	\$ 41,924,088

A. The Company:

Name of bond(Note)	Issuing period	Interest rate	Total issued amount	December 31, 2017	December 31, 2016
Second issue of domestic unsecured exchangeable bonds	2015.8.25-2018.8.25	0%	\$ 5,800,000	\$ 5,770,036	\$ 5,724,088

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:

The 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, 2017 is \$8.24.

## (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, 2017, the Company has not redeemed any of its exchangeable bonds from the Taipei Exchange, nor has any bondholder exercised their exchange right. Bondholders have already exercised their exchange right at January 24, 2018. Information about exchangeable bonds will be posted in the "Market Observation Post System".

B. Financial bonds issued by MICB were as follows:

Name of bond (Note)	Issuing period	Interest rate	Total issued amount	December 31, 2017	December 31, 2016
99-1 Development Financial bond	2010.12.24-2017.12.24	1.53%	\$ 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				<u>\$ 25,900,000</u>	<u>\$ 36,200,000</u>

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

As of December 31, 2017 and 2016, the unpaid balance of financial bonds issued by the subsidiary, amounted to US\$205,000 and US\$235,000, and NT\$25,900,000 NT\$36,200,000, respectively. The financial bonds are senior bonds of US\$205,000 and US\$235,000, 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 recognised 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, please refer to the explanations in Note 6(16).



## (22) Other loans

	December 31, 2017	December 31, 2016
Credit loans	\$ 1,325,368	\$ 5,954,030

As of December 31, 2017 and 2016, the interest rates ranged from 0.67% to 2.44% and 0.69% to 1.65%, respectively.

## (23) Reserves for liabilities

	December 31, 2017	December 31, 2016
Insurance liabilities	\$ 8,194,654	\$ 8,964,715
Liabilities reserve for employee benefits	12,038,574	10,135,730
Reserve for guarantee liabilities	5,949,536	5,946,779
Total	\$ 26,182,764	\$ 25,047,224

A. Details of reserves for insurance liabilities as of December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Reserve for unearned premiums	\$ 3,364,416	\$ 3,250,510
Reserve for outstanding losses	3,512,496	4,419,457
Reserve for catastrophic losses	1,279,481	1,251,358
Deficiency reserve	37,890	43,390
Liability reserve	371	-
Total	\$ 8,194,654	\$ 8,964,715

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

	For the year ended December 31, 2017		
	Total	Ceded	Net
Balance at January 1	\$ 3,250,510	\$ 1,229,560	\$ 2,020,950
Provision	3,364,416	1,267,530	2,096,886
Recovery	( 3,250,510)	( 1,229,560)	( 2,020,950)
Balance at December 31	\$ 3,364,416	\$ 1,267,530	\$ 2,096,886

	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

(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, 2017	December 31, 2016
Claims reported but not paid	\$ 2,743,363	\$ 3,656,131
Claims incurred but not reported	769,133	763,326
	\$ 3,512,496	\$ 4,419,457

b. Detail of ceded claim reserve:

	December 31, 2017	December 31, 2016
Claims reported but not paid	\$ 1,380,313	\$ 2,115,377
Claims incurred but not reported	290,245	284,696
	\$ 1,670,558	\$ 2,400,073



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

For the year ended December 31, 2017			
	Total	Ceded	Net
Balance at January 1	\$ 4,419,457	\$ 2,400,073	\$ 2,019,384
Provision	3,512,496	1,670,558	1,841,938
Recovery	( 4,419,457)	( 2,400,073)	( 2,019,384)
Balance at December 31	\$ 3,512,496	\$ 1,670,558	\$ 1,841,938

For the year ended December 31, 2016			
	Total	Ceded	Net
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

(C) Changes in special reserve are as follows:

For the year ended December 31, 2017			
	Compulsory insurance	Others	Total
Balance at January 1	\$ 177,357	\$ 1,074,001	\$ 1,251,358
Provision	28,123	-	28,123
Balance at December 31	\$ 205,480	\$ 1,074,001	\$ 1,279,481

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

a. In 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 12, 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, 2017				
	Net income	Earnings per share	Total liability	Equity
Applicable amount	\$ 350,643	\$ 1.17	\$ 1,279,481	\$ 6,337,342
Non-applicable amount	350,643	1.17	205,480	7,228,763
Affected amount	\$ -	\$ -	\$ 1,074,001	(\$ 891,421)

For the year ended December 31, 2016				
	Net income	Earnings per share	Total liability	Equity
Applicable amount	\$ 101,175	\$ 0.34	\$ 1,251,358	\$ 6,043,646
Non-applicable amount	( 87,916)	( 0.29)	177,357	6,935,067
Affected amount	\$ 189,091	\$ 0.63	\$ 1,074,001	(\$ 891,421)

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

	For the year ended December 31, 2017		
	Total	Ceded	Net
Balance at January 1	\$ 43,390	\$ 39,880	\$ 3,510
Provision	37,890	37,890	-
Recovery	( 43,390)	( 39,880)	( 3,510)
Balance at December 31	\$ 37,890	\$ 37,890	\$ -

	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

(E) Change in ceded liability reserve and liability reserve are as follows:

	For the year ended December 31, 2017		
	Total	Ceded	Net
Balance at January 1	\$ -	\$ -	\$ -
Provision	371	297	74
Recovery	-	-	-
Balance at December 31	\$ 371	\$ 297	\$ 74

B. Liabilities reserve for employee benefits are as follows:

	December 31, 2017	December 31, 2016
Recognized in consolidated balance sheet:		
- Defined benefit plans	\$ 8,036,825	\$ 6,591,684
- Employee preferential savings plans	4,001,749	3,544,046
Total	\$ 12,038,574	\$ 10,135,730

(A) Defined contribution plan

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 years ended December 31, 2017 and 2016 were \$193,242 and \$183,099, respectively.

Pursuant to relevant government regulations in the country where the entity operates, local staff of the Group's overseas subsidiaries, recognised pension expenses of \$19,276 and \$23,639 applying defined contribution plans for the years ended December 31, 2017 and 2016, 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 Mega Group for the years ended December 31, 2017 and 2016 were \$553,312 and \$571,731, respectively.



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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	\$ 18,073,421	\$ 17,184,726
Fair value of plan assets	( 10,046,275)	( 10,604,140)
Net defined benefit liability	\$ 8,027,146	\$ 6,580,586

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, 2017			
Balance at January 1	\$ 17,184,726	(\$ 10,604,140)	\$ 6,580,586
Current service cost	488,583	-	488,583
Interest expense (income)	172,205	( 106,935)	65,270
Past service cost	-	( 105)	( 105)
	17,845,514	( 10,711,180)	7,134,334
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	5,575	5,575
Change in demographic assumptions	485	-	485
Change in financial assumptions	1,506,923	-	1,506,923
Experience adjustments	309,362	344	309,706
	1,816,770	5,919	1,822,689
Pension fund contribution	-	( 906,446)	( 906,446)
Paid pension	( 1,588,863)	1,565,432	( 23,431)
Balance at December 31	\$ 18,073,421	(\$ 10,046,275)	\$ 8,027,146

	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

d. The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity

securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

e. The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2017	2016
Discount rate	0.8%~1.4%	1%~1.75%
Future salary increases	1.16%~3%	1.16%~2.25%

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

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 424,913)	\$ 441,146	\$ 430,223	(\$ 416,705)
December 31, 2016				
Effect on present value of defined benefit obligation	(\$ 437,523)	\$ 413,184	\$ 405,767	(\$ 392,743)

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 Mega Group expects to contribute \$452,761 for defined benefit plan in 2018.

(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 recognised 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,	
	2017	2016
Present value of defined benefit obligation	\$ 4,001,749	\$ 3,544,046
Less: fair value of plan asset	-	-
	\$ 4,001,749	\$ 3,544,046

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, 2017			
Balance at January 1	\$ 3,544,046	\$ -	\$ 3,544,046
Interest cost	135,249	-	135,249
	<u>3,679,295</u>	<u>-</u>	<u>3,679,295</u>
Remeasurements:			
Change in demographic assumptions	581,719	-	581,719
Experience adjustments	458,528	-	458,528
	<u>1,040,247</u>	<u>-</u>	<u>1,040,247</u>
Pension fund contribution	-	( 717,793)	( 717,793)
Paid pension	( 717,793)	717,793	-
Balance at December 31	<u>\$ 4,001,749</u>	<u>\$ -</u>	<u>\$ 4,001,749</u>

	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
	<u>3,221,279</u>	<u>-</u>	<u>3,221,279</u>
Remeasurements:			
Change in demographic assumptions	584,751	-	584,751
Experience adjustments	365,420	-	365,420
	<u>950,171</u>	<u>-</u>	<u>950,171</u>
Pension fund contribution	-	( 627,404)	( 627,404)
Paid pension	( 627,404)	627,404	-
Balance at December 31	<u>\$ 3,544,046</u>	<u>\$ -</u>	<u>\$ 3,544,046</u>

c. Actuarial assumptions are as follows:

	For the years ended December 31,	
	2017	2016
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, 2017				
Effect on present value of defined benefit obligation	<u>(\$ 81,596)</u>	<u>\$ 84,691</u>	<u>(\$ 28,522)</u>	<u>\$ 28,522</u>
December 31, 2016				
Effect on present value of defined benefit obligation	<u>(\$ 72,311)</u>	<u>\$ 75,075</u>	<u>(\$ 17,003)</u>	<u>\$ 17,003</u>

Subsidiary–MICB recognized employee benefit expenses of \$1,376,912 and \$1,245,291 for the years December 31, 2017 and 2016, respectively.

#### C. Reserve for guarantee liabilities

The Mega 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, 2017 and 2016 are as follows:

	For the years ended December 31,	
	2017	2016
Balance at January 1,	\$ 5,946,779	\$ 5,564,889
Provision	7,810	383,703
Effects of exchange rate changes and others	( 5,053)	( 1,813)
Balance at December 31,	<u>\$ 5,949,536</u>	<u>\$ 5,946,779</u>

## (24) Other financial liabilities

	December 31, 2017	December 31, 2016
Structured instruments	\$ 8,727,350	\$ 7,607,768
Appropriated loan fund	1,307,089	1,529,903
Futures traders' equity	2,664,031	1,712,035
Total	<u>\$ 12,698,470</u>	<u>\$ 10,849,706</u>

## (25) Other liabilities

	December 31, 2017	December 31, 2016
Deposits received	\$ 2,849,335	\$ 1,581,823
Advance receipt	1,657,525	1,831,877
Receipts under custody from customers' security subscription	205,746	123,692
Other liabilities to be settled	402,773	431,815
Temporary receipts and suspense accounts	1,621,716	1,546,031
Others	581,924	687,837
Total	<u>\$ 7,319,019</u>	<u>\$ 6,203,075</u>

## (26) Equity

### A. Common stock

As of December 31, 2017 and 2016, the Company's authorised 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. Capital surplus

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

	December 31, 2017	December 31, 2016
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
	<u>\$ 68,194,233</u>	<u>\$ 68,194,233</u>

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

(B) As of December 31, 2017, 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. 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 capitalised 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 unrealised 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 amortised 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, 2017 and March 29, 2016, respectively, and were approved by the stockholders at the stockholders' meeting dated June 16, 2017 and 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, 2017	(\$ 853,382)	(\$ 1,312,584)	(\$ 2,165,966)
Available-for-sale financial assets			
Evaluation adjustment in the year	-	1,439,766	1,439,766
Realized gain and loss in the year	-	1,593,211	1,593,211
Translation gain and loss on the financial statements of foreign operating entities in the year	( 1,890,094)	-	( 1,890,094)
Share of the other comprehensive income of associates accounted for under the equity method in the year	( 9,881)	25,846	15,965
At December 31, 2017	(\$ 2,753,357)	\$ 1,746,239	(\$ 1,007,118)

	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 year	-	( 63,373)	( 63,373)
Realized gain and loss in the year	-	( 1,599,173)	( 1,599,173)
Translation gain and loss on the financial statements of foreign operating entities in the year	( 1,278,555)	-	( 1,278,555)
Share of the other comprehensive income of associates accounted for under the equity method in the year	( 2,591)	( 60,873)	( 63,464)
At December 31, 2016	(\$ 853,382)	(\$ 1,312,584)	(\$ 2,165,966)

# Financial Information

## (29) Interest income, net

	For the years ended December 31,	
	2017	2016
<u>Interest income</u>		
Interest income of bills discounted and loans	\$ 38,535,880	\$ 38,730,900
Interest income of deposits and call loans from the other banks	8,363,618	5,015,209
Interest income of securities investment	8,817,199	8,110,985
Interest income of bills and bonds purchased under resale agreements	12,908	31,049
Interest income of usance outright receivable	24,651	869,183
Credit card interest income	172,411	174,441
Interest income of securities purchased under resale agreements income	598,269	550,254
Interest income of accounts receivable	323,540	277,965
Other interest income	246,196	353,676
Subtotal	57,094,672	54,113,662
<u>Interest expense</u>		
Interest expense of deposits	( 14,704,356)	( 12,071,930)
Interest expense of interbank overdraft and call loans	( 4,465,428)	( 2,622,437)
Interest expense of issuance of bills and bonds	( 665,909)	( 651,174)
Interest expense of bonds payable under repurchase agreements	( 1,212,193)	( 922,101)
Other interest expense	( 167,262)	( 152,968)
Subtotal	( 21,215,148)	( 16,420,610)
Total	\$ 35,879,524	\$ 37,693,052

## (30) Service fee and commission income, net

	For the years ended December 31,	
	2017	2016
<u>Service fee income and commission income</u>		
Service fee income from export and import	\$ 531,859	\$ 607,319
T/T service fee income	858,168	975,766
Loans service fee income	1,528,782	1,843,727
Guarantee service fee income	1,443,438	1,551,926
Brokerage fee income	1,733,101	1,320,523
Service fee income of trust and ancillary business	1,610,887	1,650,802
Agency service fee income	240,827	831,043
Reinsurance commission income	509,341	483,167
Other commission income	1,344,324	1,943,531
Underwriting fee income	362,051	384,279
Other service fee income	1,623,260	1,076,454
Subtotal	11,786,038	12,668,537
<u>Service fee expense and commission expense</u>		
Insurance commission expense	( 946,436)	( 918,498)
Agency service fee expense	( 695,730)	( 641,953)
Brokerage handling fee expense	( 152,744)	( 115,224)
Other commission expense	( 156,992)	( 351,404)
Other service fee expense	( 403,576)	( 403,818)
Subtotal	( 2,355,478)	( 2,430,897)
Total	\$ 9,430,560	\$ 10,237,640

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,	
	2017	2016
<u>Gain and loss from disposal of financial assets and liabilities at fair value through profit or loss</u>		
Short-term notes and bills	\$ 495,487	\$ 562,751
Bonds	63,918	37,185
Stocks	648,361	( 167,795)
Derivative instruments	3,207,089	1,694,630
Negotiable certificate of deposits	13,914	4,370
Beneficiary certificates	( 406)	( 21,889)
Warrant	251	340,918
Subtotal	<u>4,428,614</u>	<u>2,450,170</u>
<u>Valuation gains and losses on financial assets and liabilities at fair value through profit or loss</u>		
Short-term notes and bills	23,092	( 39,019)
Bonds	( 76,335)	( 113,652)
Stocks	108,158	158,369
Derivative instruments	823,900	389,341
Negotiable certificate of deposits	( 631)	( 151)
Beneficiary certificates	( 1,468)	5,426
Others	160,428	( 54,745)
Subtotal	<u>1,037,144</u>	<u>345,569</u>
Interest income on financial assets at fair value through profit or loss	2,106,119	2,222,816
Interest expense on financial liabilities at fair value through profit or loss	( 310,070)	( 654,745)
Dividend and bonus from financial assets at fair value through profit or loss	326,403	232,544
Total	<u>\$ 7,588,210</u>	<u>\$ 4,596,354</u>

(32) Realized gain on available-for-sale financial assets, net

	For the years ended December 31,	
	2017	2016
Income from dividend and bonus	\$ 325,500	\$ 388,875
Bonds	116,198	478,839
Stocks	1,458,926	1,114,013
Beneficiary certificates	12,618	( 1,487)
Others	5,468	7,808
Total	<u>\$ 1,918,710</u>	<u>\$ 1,988,048</u>

## (33) Impairment of assets

	For the years ended December 31,	
	2017	2016
Impairment loss on available-for sale financial assets	\$ 92,391	\$ 308,670
Reversal of gain on property and equipment	( 27,287)	( 82,400)
Impairment loss on available-for-sale financial assets	137,760	103,340
Impairment loss on investment property	139	51,036
Total	\$ 203,003	\$ 380,646

## (34) Revenues other than interest, net

	For the years ended December 31,	
	2017	2016
Gain on financial assets measured at cost, net	\$ 618,990	\$ 798,876
Gain on rental, net	201,349	207,982
Advisory income	771,445	783,322
Gain on sales of property and equipment	1,266	( 1,322)
Gain on sales of non-performing loans	158,726	269,699
Total	\$ 1,751,776	\$ 2,058,557

## (35) Net other miscellaneous income loss

	For the years ended December 31,	
	2017	2016
Penalty paid to New York State Department of Financial Services (Note1)	\$ -	(\$ 5,797,854)
Penalty paid to Board of Governors of the Federal Reserve System(Note 2)	( 878,506)	-
Others	463,640	650,297
Total	(\$ 414,866)	(\$ 5,147,557)

Note1: The New York State Department of Financial Services (NYDFS) fined the subsidiary, Mega International Commercial Bank (MICB), and MICB New York Branch (MICB NY Branch) for failing to comply with Bank Secrecy Act (BSA) anti-money laundering laws (AML). The fine was part of a consent order entered into with the NYDFS pursuant to which MICB and MICB NY Branch shall take immediate steps to correct the non-compliance. According to the consent order, MICB and MICB NY Branch shall engage an independent compliance consultant of NYDFS' selection for six months to immediately consult about, oversee and address deficiencies in MICB NY Branch's compliance function, including compliance with BSA/AML requirements. In addition, MICB and MICB NY Branch shall retain an independent monitor to conduct a comprehensive review of the effectiveness of the Branch's program for compliance with BSA/AML requirements, laws and regulations and prepare a written report of findings, conclusions, and recommendations. The independent monitor shall also conduct a review of MICB NY Branch's U.S. dollar clearing transaction activity from January 1, 2012 through December 31, 2014, to determine whether transactions are inconsistent with or in violation of the OFAC Regulations. As of the reporting date of these financial statements, MICB and the MICB NY Branch have been overseen and consulting with the compliance consultant during the stipulated term of six months. Currently, the MICB NY Branch is conducting a comprehensive review of effective compliance with BAS/AML requirements, laws and regulations by the independent monitor whereas a review of U.S. dollar clearing transaction activity has not commenced yet.

Subsequently, on May 22, 2017, a press release announced by the Taipei District Prosecutors Office (TDPO) with respect to the investigation result of MICB's suspicious money laundering activities indicated no evidence was found that MICB's related member and citizen is involved in any money laundering.

As for Jin-Guan-Jian-Kong-Zi Letter No.1060152046 on February 6, 2017, there was no evidence that is related to suspicious money laundering transaction.

As MICB and MICB NY Branches adopted the improvement process, internal member and independent external third party found that some transactions might cause disputes over compliance issues and result in the payment of economic resources. As of the reporting date, the definite amount of penalty depends on the adjudicative body.

Note2: Following the most recent examination of the MICB NY Branch, MICB Chicago Branch and MICB Silicon Valley Branch (collectively, the "Branches") of June 30, 2016, December 31, 2016, and September 30, 2016, the supervisory authorities disclosed deficiencies relating to the Branches' risk management and compliance with the BSA/AML requirements. Therefore, on January 17, 2018, MICB, the Branches, the Board of Governors of the Federal Reserve System (FED) and the Illinois Department of Financial and Professional Regulation (IDFPR), Division of Banking entered into a consent Order to Cease and Desist and Order of Assessment of a Civil Money Penalty. The FED and IDFPR fined a \$29 million penalty against the U.S. operations of MICB and the Branches. According to the Order, MICB's Board of Directors and the respective management of each of the Branches shall jointly submit an individual written plan aiming to enhance the Bank's and the respective Branch's management's oversight of the respective Branch's compliance with the BSA/AML requirements and the OFAC regulations on a consolidated basis. Each plan shall provide for a sustainable governance framework that addresses an enhanced BSA/AML compliance program, a revised

program for conducting appropriate levels of customer due diligence, an enhanced program reasonably designed for suspicious activity monitoring and reporting and a plan to ensure compliance with the OFAC regulations. Additionally, the MICB and MICB NY Branch shall engage an independent third party acceptable to the Federal Reserve Bank of New York to conduct a review of the MICB NY Branch's U.S. dollar clearing transaction activity from January 1, 2015 to June 30, 2015 to determine whether suspicious activity involving higher risk customers were properly identified and reported. The Order acknowledged that the Bank has undertaken enhancements to its corporate governance and is committed to continue to implement improvements in its oversight and compliance program. As of the reporting date of these financial statements, the written plan has been submitted whereas a review of U.S. dollar clearing transaction activity has not commenced yet.

In addition, the U.S. supervisory authorities has completed subsequent examination in branches across the U.S. and required MICB and MICB NY Branch to take improvement measures to address deficiencies in risk management and compliance with BSA/AML requirements and OFAC regulations prior to the next examination to avoid further supervisory escalation. MICB and MICB NY Branch endeavor to implement the measures stipulated in the written plan to address deficiencies in compliance.

### (36) Employee benefit expense

	For the years ended December 31,	
	2017	2016
Wages and salaries	\$ 12,932,987	\$ 11,072,239
Labor and health insurance fees	868,687	837,029
Pension costs	2,142,742	2,023,760
Other personnel expenses	989,239	1,020,808
Total	\$ 16,933,655	\$ 14,953,836

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, 2017 and 2016, employees' compensation was accrued at \$10,713 and \$10,705, respectively; directors' remuneration was accrued at \$133,336 and \$114,649, respectively. The aforementioned amounts were recognised in wages and salaries.

Employees' compensation and directors' and supervisors' remuneration of 2016 as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2016 financial statements.

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.

### (37) Depreciation and amortization

	For the years ended December 31,	
	2017	2016
Depreciation	\$ 696,276	\$ 649,559
Amortization	64,736	61,966
Total	\$ 761,012	\$ 711,525

### (38) Other business and administrative expenses

	For the years ended December 31,	
	2017	2016
Rental expenses	\$ 778,597	\$ 793,817
Information technology expenses	605,339	590,900
Tax and official fee	2,546,588	2,729,680
Donations	222,579	111,533
Insurance	410,367	420,883
Office supplies and printing expenses	2,909,181	2,240,710
Other operating expenses	1,028,287	864,292
Total	\$ 8,500,938	\$ 7,751,815

## (39) Income taxes

A. The income taxes comprise the following:

(A)The income taxes comprise the following:

	For the years ended December 31,	
	2017	2016
Current tax		
Current tax on profits for the year	\$ 4,324,152	\$ 5,226,434
Income tax of adjustments for (over) under provisions of prior years' income tax	( 603,491)	747
Separate income tax	41	282
Additional 10% tax on distributed earnings	962	888,663
Total current tax	3,721,664	6,116,126
Deferred income tax:		
Origination and reversal of temporary differences	( 170,032)	( 641,808)
Income tax expense	\$ 3,551,632	\$ 5,474,318

(B)Income tax charge relating to components of other comprehensive income:

	For the years ended December 31,	
	2017	2016
Remeasurement of defined benefit plan	(\$ 309,856)	(\$ 96,389)

B. Differences between accounting income and taxable income are reconciled as follows:

	For the years ended December 31,	
	2017	2016
Income tax from pre-tax income calculated at statutory tax rate	\$ 4,977,724	\$ 4,745,926
Effects of items not recognized under relevant regulations	( 59,617)	68,875
Additional 10% tax levied on undistributed earnings	962	888,663
Effect of alternative minimum tax	815,009	957,082
Income tax of adjustments for (over) under provisions of prior years' income tax	( 603,491)	747
Effects of income tax exemption and adjustment of other income	( 1,578,955)	( 1,186,975)
Income tax expense	\$ 3,551,632	\$ 5,474,318

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

Unappropriated retained earnings on December 31, 2016:

	December 31, 2016
Earnings generated in and after 1998	\$ 56,976,974

D. As of December 31, 2016, the balances of the imputation tax credit account was \$4,972,685. The creditable tax rate was 14.81% for the year ended December 31, 2016.

E. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	For the years ended December 31, 2017			
	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	\$ 2,665,714	\$ 295,177	\$ -	\$ 2,960,891
Reserve for guarantee liabilities in excess of limit	199,597	-	-	199,597
Unpaid liabilities reserve for employee benefits	1,419,940	( 60,946)	309,856	1,668,850
Unrealized loss on impairment	728,534	( 4,447)	423	724,510
Others	449,442	15,637	( 620)	464,459
	\$ 5,463,227	\$ 245,421	\$ 309,659	\$ 6,018,307

	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
	<u>\$ 4,716,552</u>	<u>\$ 651,720</u>	<u>\$ 94,955</u>	<u>\$ 5,463,227</u>

	For the years ended December 31, 2017			
	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	( 467,147)	32,704	8,165	( 426,278)
Share of profit of associates and joint ventures accounted for under equity method	( 600,384)	( 733)	-	( 601,117)
Others	( 80,828)	( 107,360)	2,428	( 185,760)
	<u>(\$ 2,201,659)</u>	<u>(\$ 75,389)</u>	<u>\$ 10,593</u>	<u>(\$ 2,266,455)</u>

	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)
	<u>(\$ 2,195,423)</u>	<u>(\$ 9,912)</u>	<u>\$ 3,676</u>	<u>(\$ 2,201,659)</u>

#### 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, 2017, 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.

#### (40) Earnings per share

Basic and diluted earnings per share

	For the years ended December 31,	
	2017	2016
Profit attributable to ordinary stockholders of the Company	<u>\$ 25,734,515</u>	<u>\$ 22,456,183</u>
Weighted-average number of shares outstanding(In thousands of shares)	<u>13,599,824</u>	<u>13,599,824</u>
Basic earnings per share (In dollars)	<u>\$ 1.89</u>	<u>\$ 1.65</u>



## 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 recognised by fair value, which is transaction price in most cases. Subsequent recognitions are measured by fair value except that certain financial instruments are recognised 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 Mega 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 Mega 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, 2017	
	Carrying Value	Fair Value
Held-to-maturity financial assets, net	\$ 21,587,812	\$ 21,615,482
Debt instruments without active market-CKI	\$ 395,428	\$ 403,321

	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

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.

For more complicated financial instruments, such as debt instruments with embedded derivative instruments or securitization products, the Mega 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.

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 Mega 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 TAIEX3 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-centralised 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-centralised 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 Mega 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 Mega 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 Mega Group's investments in non-popular government bonds, corporate bonds, financial bonds, convertible bonds and most derivative instruments and corporate bonds issued by the Mega 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 Mega 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, 2017			
	Total	Level 1	Level 2	Level 3
<b>Non-derivative financial instruments</b>				
<b>Assets</b>				
Financial assets held for trading				
Investment in bills	\$ 131,664,568	\$ -	\$ 131,664,568	\$ -
Investment in stocks	7,543,033	7,342,130	170,852	30,051
Investment in bonds	44,865,780	1,873,463	42,992,317	-
Others	415,312	415,312	-	-
Financial assets designated as at fair value through profit or loss	3,521,732	-	3,521,732	-
<b>Available-for-sale financial assets</b>				
<b>Available-for-sale financial assets</b>				
Investment in bills	52,045,405	-	52,045,405	-
Investment in stocks	16,369,317	13,688,659	2,680,658	-
Investment in bonds	373,057,158	26,841,298	346,215,860	-
Others	1,085,169	857,234	227,935	-
<b>Liabilities</b>				
Financial liabilities held for trading	( 907,933)	( 553,325)	( 354,608)	-
Financial liabilities designated as at fair value through profit or loss	( 6,920,122)	-	( 6,920,122)	-
<b>Derivative financial instruments</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss	3,571,029	210,685	3,360,285	59
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	( 2,138,724)	-	( 2,138,376)	( 348)

December 31, 2016				
Recurring fair value measurements	Total	Level 1	Level 2	Level 3
<b>Non-derivative financial instruments</b>				
<u>Assets</u>				
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				
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	-
<u>Liabilities</u>				
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)	-
<b>Derivative financial instruments</b>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	4,027,243	127,227	3,899,221	795
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	( 3,489,154)	-	( 3,488,973)	( 181)

C. The transfer between Level 1 and Level 2.

On December 31, 2017, the balance of MICB's held 2016 Fiscal Year Order 11 Category 1 Central Government Construction Bonds was \$1,459,572. Due to the bonds becoming inactive securities in the Index, thus the bonds were transferred from Level 1 to 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, thus 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. 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, 2017

Item	Valuation gain or loss			Addition		Reduction		December 31, 2017
	January 1, 2017	Recognized as other comprehensive income		Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
		Recognized as gain (loss)						
<u>Non-derivative financial instruments</u>								
Financial assets at fair value through profit or loss								
Financial assets held for trading	\$ 40,599	(\$ 649)	\$ -	\$ 5,519	\$ 34,287	(\$ 16,465)	(\$ 33,240)	\$ 30,051
<u>Derivative financial instruments</u>								
Financial assets at fair value through profit or loss	795	( 343)	-	1,751	-	( 2,144)	-	59
Total	\$ 41,394	(\$ 992)	\$ -	\$ 7,270	\$ 34,287	(\$ 18,609)	(\$ 33,240)	\$ 30,110

# Financial Information

For the year ended December 31, 2016

Item	Valuation gain or loss			Addition		Reduction		December 31, 2016
	January 1, 2016	Recognized as other		Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
		Recognized as profit	comprehensive income					
<u>Non-derivative financial instruments</u>								
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
<u>Derivative financial instruments</u>								
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

(B) Movements of financial liabilities classified into Level 3 of fair value are as follows:

For the year ended December 31, 2017

Item	January 1, 2017	Valuation gain or loss		Addition		Reduction		December 31, 2017
		Recognized as gain	Recognized as other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	(\$ 181)	(\$ 26)	\$ -	(\$ 2,873)	\$ -	\$ 2,732	\$ -	(\$ 348)

For the year ended December 31, 2016

Item	January 1, 2016	Valuation gain or loss		Addition		Reduction		December 31, 2016
		Recognized as gain	Recognized as other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Liabilities								
Financial liabilities at fair value through profit or loss	(\$ 171)	(\$ 26)	\$ -	(\$ 2,493)	\$ -	\$ 2,457	\$ -	(\$ 181)

For the transfers from Level 3, the fair value of financial instruments were measured from observable market prices instead of the fair value from counterparties, therefore, these were transferred to Level 2.

(C) The measure of fair value for Level 3, the sensitivity analysis for the reasonable alternative hypothesis of the fair value

The Mega 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, 2017	Changing in the fair value recognized in the current profit or loss	
	Favorable changes	Unfavorable changes
The level 3 of financial instruments	\$ 3,018	(\$ 3,017)

December 31, 2016	Changing in the fair value recognized in the current profit or loss	
	Favorable changes	Unfavorable changes
The level 3 of financial instruments	\$ 4,151	(\$ 4,147)

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.

(D) 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 summarises quantitative information of significant unobservable inputs:

December 31, 2017	Fair value	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	\$ 30,051	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	59	Determined using the Option Pricing Model verified by the subsidiary – MS	Price volatility	22%~30%	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	( 348)	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 value is.

December 31, 2016	Fair value	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 value is.

(E) 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 Mega 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 Mega 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 Mega 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 Mega 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 organisation, 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, organisation 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 summarising 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 Mega 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 Mega Group's capital expenditure.

#### B. Credit risk management policies

The objectives of the Mega 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.

Setting careful prior review procedures for lending and criteria of handling subsequent matters, regular post-lending follow-up, understanding of clients' operation and capital outflows, and increase in the frequency of review on clients with higher risk.

(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 Mega 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 utilisation 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 as the basis for calculating credit risk and add the limit to the total credit risk limit for monitoring.

d. Asset quality

The Mega 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 recognised.

(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 recognised 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 Mega 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 Mega 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 Mega 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 Mega 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, 2017	December 31, 2016
Government organisation	\$ 85,422,512	\$ 84,705,196
Finance, investment and insurance	65,826,531	56,519,710
Corporate and commerce	362,335,873	381,845,072
Personal	61,148,036	56,710,159
Others	2,183,854	1,646,707
Total	\$ 576,916,806	\$ 581,426,844

(A) Relevant financial information on effect of the Mega Group's assets exposed to credit risk, net settlement master netting arrangements and other credit improvements is as follows:

December 31, 2017	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
<b>On-Balance-Sheet Items</b>				
Cash and cash equivalents	\$ 980,093	\$ -	\$ -	\$ 980,093
Financial assets at fair value through profit or loss				
- debt instrument	-	-	13,016,238	13,016,238
- derivative instrument	944,738	426,107	-	1,370,845
Available-for-sale financial assets - debt instrument	-	-	20,072,171	20,072,171
Bills and bonds purchased under resale agreements	2,551,301	-	-	2,551,301
Receivables	23,277,373	-	-	23,277,373
Bills discounted and loans	1,145,290,237	-	52,161,524	1,197,451,761
Held-to-maturity financial assets - debt instrument	-	-	2,824,775	2,824,775
Other assets	135,739	-	-	135,739
Subtotal	1,173,179,481	426,107	88,074,708	1,261,680,296
<b>Off-Balance-Sheet Items</b>				
Irrevocable commitments	87,519,164	-	1,030,909	88,550,073
Guarantees	141,847,397	-	1,134,912	142,982,309
Letters of credit	12,927,711	-	424,900	13,352,611
Subtotal	242,294,272	-	2,590,721	244,884,993
Total	\$ 1,415,473,753	\$ 426,107	\$ 90,665,429	\$ 1,506,565,289

December 31, 2016	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
<b>On-Balance-Sheet Items</b>				
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
<b>Off-Balance-Sheet Items</b>				
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

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 Mega 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 Mega Group may not use, sell or pledge the transferred financial assets during the valid period of the transaction. The financial assets were not derecognised 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 analysed as follows:

December 31, 2017		
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	89,180,678	89,140,823
Available-for-sale financial assets, net Repurchase agreement	59,340,300	56,402,746

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

### b. Transferred financial assets that are derecognized in their entirety

The Mega Group does not have any financial asset securitisation transaction and do not have any derecognised and transferred financial asset.

## (C) Offsetting financial assets and financial liabilities

The Mega 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 Mega 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 follows:

December 31, 2017						
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 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	\$ 3,571,495	\$ 466	\$ 3,571,029	\$ 1,304,195	\$ 66,650	\$ 2,200,184
Repurchase agreement	354,383	-	354,383	352,457	-	1,926
Total	\$ 3,925,878	\$ 466	\$ 3,925,412	\$ 1,656,652	\$ 66,650	\$ 2,202,110
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	\$ 2,139,190	\$ 466	\$ 2,138,724	\$ 426,107	\$ 13,556	\$ 1,699,061
Repurchase agreement	21,060,877	-	21,060,877	21,060,877	-	-
Total	\$ 23,200,067	\$ 466	\$ 23,199,601	\$ 21,486,984	\$ 13,556	\$ 1,699,061

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

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 Mega 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 Mega Group are shown below by industry:

		Loans and credit commitments			
		December 31, 2017		December 31, 2016	
		Amount	Percentage (%)	Amount	Percentage (%)
Individuals	Individuals	\$ 469,885,151	19.85%	\$ 451,344,091	19.43%
Corporation	Government institution	95,409,141	4.03%	93,173,084	4.01%
	Finance, investment and insurance	252,166,182	10.65%	218,409,633	9.40%
	Enterprise and commerce	1,537,332,305	64.94%	1,548,718,266	66.66%
	- Manufacturing	585,731,536	24.74%	558,688,565	24.05%
	- Electricity and gas supply	86,934,980	3.67%	99,400,752	4.28%
	- Wholesale and retail	170,400,003	7.20%	171,495,535	7.38%
	- Transportation and storage	166,899,325	7.05%	174,256,727	7.50%
	- Real estate	325,344,624	13.74%	330,584,046	14.23%
	- Others	202,021,837	8.54%	214,292,641	9.22%
	Others	12,643,288	0.53%	11,754,768	0.51%
Total		\$ 2,367,436,067	100.00%	\$ 2,323,399,842	100.00%

(B) Loans and credit commitments of the Mega Group are shown below by location:

		Loans and credit commitments			
		December 31, 2017		December 31, 2016	
		Amount	Percentage (%)	Amount	Percentage (%)
ROC		\$ 1,884,316,704	79.59%	\$ 1,806,051,546	77.74%
Asia		303,204,321	12.81%	296,208,761	12.75%
North America		82,687,000	3.49%	105,347,987	4.53%
Others		97,228,042	4.11%	115,791,548	4.98%
Total		\$ 2,367,436,067	100.00%	\$ 2,323,399,842	100.00%

(C) Loans and credit commitments of the Mega Group are shown below by collaterals:

	Loans and credit commitments			
	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Unsecured	\$ 925,099,312	39.08%	\$ 916,590,277	39.45%
Secured				
- Secured by stocks	171,872,987	7.26%	158,915,232	6.84%
- Secured by bonds	87,149,314	3.68%	56,237,114	2.42%
- Secured by real estate	916,370,393	38.71%	893,363,113	38.45%
- Secured by movable property	96,494,268	4.07%	109,674,057	4.72%
- Letter of guarantee	54,752,245	2.31%	57,288,066	2.47%
- Others	115,697,548	4.89%	131,331,983	5.65%
Total	\$ 2,367,436,067	100.00%	\$ 2,323,399,842	100.00%

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

(A)The Mega Group's financial assets credit quality and analysis of past due and impairment

(Please refer to p.101 of the Consolidated Financial Statements.)

(B)The Mega 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, 2017				
	Overdue for less than 1 month	Overdue for 1~3 months	Overdue for 3~6 months	Overdue for more than 6 months	Total
Receivables	\$ 14,227	\$ 6,934	\$ -	\$ 308	\$ 21,223
Bills discounted and loans					
- Government	\$ 44,048	\$ -	\$ -	\$ -	\$ 44,048
- Enterprise and commerce	48,663	97,015	-	-	145,678
- Individuals	2,087,365	-	-	-	2,087,365
Total	\$ 2,180,076	\$ 97,015	\$ -	\$ -	\$ 2,277,091

	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

(C)The Mega Group's provisions for doubtful accounts analysis of impaired loans



	December 31, 2017								
	Loans					Provisions for doubtful accounts			Loans net amount
	Not impaired		Impaired		Total	Individual assessment	Group assessment	Total	
	Individual assessment	Group assessment	Individual assessment	Group assessment					
ROC	\$ -	\$ 1,332,698,395	\$ 9,848,528	\$ 786,023	\$ 1,343,332,946	\$ 1,650,536	\$ 19,323,124	\$ 20,973,660	\$ 1,322,359,286
Asia	-	285,696,724	1,386,692	6,520	287,089,936	331,413	4,117,269	4,448,682	282,641,254
North America	-	67,656,193	273,114	-	67,929,307	46,001	976,859	1,022,860	66,906,447
Others	-	88,263,062	3,724,067	176,943	92,164,072	628,768	1,281,535	1,910,303	90,253,769
Total	\$ -	\$ 1,774,314,374	\$ 15,232,401	\$ 969,486	\$ 1,790,516,261	\$ 2,656,718	\$ 25,698,787	\$ 28,355,505	\$ 1,762,160,756

	December 31, 2016								
	Loans					Provisions for doubtful accounts			Loans net amount
	Not impaired		Impaired		Total	Individual assessment	Group assessment	Total	
	Individual assessment	Group assessment	Individual assessment	Group assessment					
ROC	\$ -	\$ 1,261,478,161	\$ 10,588,311	\$ 728,542	\$ 1,272,795,014	\$ 2,383,636	\$ 17,338,574	\$ 19,722,210	\$ 1,253,072,804
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	105,543,045
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

G. Foreclosed properties management policy

As of December 31, 2017 and 2016, 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, 2017				
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	\$ 1,128,319	\$ 645,095,746	0.17%	\$ 9,782,286	866.98%
	Unsecured loans	536,519	736,683,401	0.07%	12,510,566	2331.80%
Consumer banking	Residential mortgage loans (Note 4)	472,705	307,978,041	0.15%	4,579,914	968.87%
	Cash card services	-	-	-	-	-
	Small amount of credit loans (Note 5)	307	11,654,683	0.00%	169,328	55155.70%
	Others (Note 6) Secured loans	132,076	88,979,017	0.15%	1,311,503	992.99%
	Unsecured loans	468	125,373	0.37%	1,908	407.69%
Gross loan business		\$ 2,270,394	\$ 1,790,516,261	0.13%	\$ 28,355,505	1248.92%
		Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services		\$ 9,460	\$ 4,840,142	0.20%	\$ 47,226	499.22%
Without recourse factoring (Note 7)		\$ -	\$ 33,152,887	-	\$ 497,293	-

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	-

Note 1: The amount recognised 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 recognised 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, 2017		
	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)	350	2,728
Total	\$ 350	\$ 2,728

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

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, 2017	
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	\$ 51,663,696	19.58%
2	B Group—Real Estate Development Activities	37,925,144	14.37%
3	C Group—Other Financial Service Activities Not Elsewhere Classified	35,881,823	13.60%
4	D Group—Other Financial Service Activities Not Elsewhere Classified	25,120,360	9.52%
5	E Group—Air Transport	22,840,187	8.66%
6	F Group—Rolling and Extruding of Iron and Steel	18,748,581	7.10%
7	G Group—Other Financial Service Activities Not Elsewhere Classified	16,338,253	6.19%
8	H Group—Woolen textile	15,559,273	5.90%
9	I Group—Ocean Freight Transportation Forwarding Services	14,966,084	5.67%
10	J Group—Real Estate Development Activities	11,612,591	4.40%

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%

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

Note: Items follow "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt".

(b) Overview of main business

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

## (c) Credit risk concentration

Item	December 31, 2017		December 31, 2016	
Amount of credit extensions to interested parties	\$	97,000	\$	97,000
Ratio of credit extensions to interested parties %(Note 1)		0.06		0.07
Ratio of credit extensions secured by stocks %(Note 2)		17.98		17.49
	<b>Industry</b>	<b>Ratio (%)</b>	<b>Industry</b>	<b>Ratio (%)</b>
Industry concentration (%)	Financial & Insurance	28.77	Real estate	29.36
(Top 3 industries with highest ratio of credit extension amount) (Note 3)	Real estate	26.66	Financial & Insurance	26.81
	Manufacturing	22.80	Manufacturing	22.03

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 Mega 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 Mega 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 Mega Group is responsible for daily capital liquidity management. According to the limits authorised 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 Mega 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 Mega Group include:

- Maintain the ability to perform all payment obligations immediately.
- Maintain solid assets/liabilities structure to ensure medium and long-term liquidity safety.
- Diversify capital sources and absorb stable core depositors to avoid depending on certain large-sum depositors or minor borrowers.
- Avoid potential unknown loss risk which will increase capital cost and capital procurement pressure.
- Conduct due date management to ensure that cash inflow is greater than cash outflow in short term.
- Keep liquidity ratio regulated by the supervision authority.
- Keep legal ratio for high-quality, high-liquidity assets.
- Awareness of the liquidity, safety and diversity of financial instruments.
- The Mega Group has capital emergency plans, which are reviewed regularly.
- The overseas branches of the Mega 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 Mega 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 Mega Group's maturity analysis for non-derivative liabilities

(Please refer to p.112 of the Consolidated Financial Statements.)

(B) Structure analysis for maturity of derivative financial assets and liabilities (settled by gross amount)

(Please refer to p.114 of the Consolidated Financial Statements.)

(C) Structure analysis for maturity of derivative financial assets and liabilities (settled by net amount)

(Please refer to p.115 of the Consolidated Financial Statements.)

(D) Analysis for maturity leasing contractual commitments

(Please refer to p.116 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.117 of the Consolidated Financial Statements)

(B) Maturity analysis of USD of subsidiary-MICB

(Please refer to p.117 of the Consolidated Financial Statements)

(C) Maturity analysis of USD of MICB's-overseas branches

(Please refer to p.117 of the Consolidated Financial Statements)

E. Disclosure requirements in the "Regulations Governing the Procedures for Bills Finance Companies."

(Please refer to p.118 of the Consolidated Financial Statements)

#### (5) Market risk

A. Definition of market risk

The Mega 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 Mega 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 Mega 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 Mega Group manages finance independently. Each subsidiary has set organisation 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 authorises 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 Mega 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 Mega 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 authorised 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 Mega Group’s interest rate risk mainly comes from the unmatched periods of interest-rate sensitive assets and liabilities of bank subsidiaries.

As the Mega Group has interest-rate sensitive gaps, market interest rate fluctuations have good or bad impacts on the Group’s earnings and cash flows.

The Mega 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 Mega 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 Mega Group monthly analyses 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 Mega 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 Mega Group's foreign exchange risk gaps

	December 31, 2017				
	USD	AUD	RMB	EUR	JPY
<b>Assets</b>					
Cash and cash equivalents	\$ 79,478,220	\$ 526,960	\$ 21,665,965	\$ 3,646,458	\$ 19,674,139
Due from the Central Bank and call loans to banks	464,400,136	1,848,048	6,408,555	633,202	22,644,647
Financial assets at fair value through profit or loss	31,529,761	3,184,769	258	4,157	1,369
Available-for-sale financial assets	92,322,671	68,676,711	17,313,588	4,158,860	-
Bills and bonds purchased under resale agreements	354,383	-	-	-	-
Receivables	33,342,850	7,686,002	1,582,258	378,176	1,928,689
Current income tax assets	10,506	-	-	-	-
Bills discounted and loans	470,566,619	46,818,900	15,803,835	21,447,658	28,518,461
Reinsurance contract asset	156,796	-	-	59	29
Held-to-maturity financial assets	22,501,857	1,513,813	3,923,593	512,581	263,368
Equity investments accounted for under the equity method	117,444	-	-	-	-
Other financial assets	630,350	76	53,190	7,277	12,283
Property and equipment	197,267	27,474	4,345	41,214	25,959
Intangible assets	11,485	582	9,012	415	-
Deferred income tax assets	368,127	-	3,514	-	-
Other assets	1,509,778	4,475	68,514	15,811	35,186
<b>Total assets</b>	<b>\$1,197,498,250</b>	<b>\$ 130,287,810</b>	<b>\$ 66,836,627</b>	<b>\$ 30,845,868</b>	<b>\$ 73,104,130</b>
<b>Liabilities</b>					
Due to the Central Bank and financial institutions	\$ 325,360,627	\$ 2,007,669	\$ 4,894,036	\$ 1,818,821	\$ 26,335,065
Funds borrowed from the Central Bank and other banks	33,457,560	-	-	-	-
Financial liabilities at fair value through profit or loss	8,209,149	8,739	285	2,123	1,461
Bills and bonds sold under repurchased agreements	38,038,773	461,983	-	-	-
Payables	17,590,771	277,300	807,331	756,318	1,810,597
Current income tax liabilities	199,276	-	43,713	48,696	127,550
Deposits and remittances	866,530,769	37,581,977	95,858,190	31,147,010	28,192,669
Other loans	474,368	-	-	-	-
Provisions for liabilities	526,639	15,802	-	11	36,716
Other financial liabilities	4,424,981	1,057,315	1,127,848	67,220	173,751
Deferred income tax liabilities	13,962	-	3,628	-	-
Other liabilities	2,571,633	816,446	( 148,401)	719,493	117,318
<b>Total liabilities</b>	<b>\$1,297,398,508</b>	<b>\$ 42,227,231</b>	<b>\$ 102,586,630</b>	<b>\$ 34,559,692</b>	<b>\$ 56,795,127</b>
On-balance sheet foreign exchange gap	(\$ 99,900,258)	\$ 88,060,579	(\$ 35,750,003)	(\$ 3,713,824)	\$ 16,309,003
Off-balance sheet commitments	\$ 62,735,767	\$ 915,439	\$ 1,774,825	\$ 11,643,677	\$ 3,102,882

	December 31, 2016				
	USD	AUD	RMB	EUR	JPY
<b>Assets</b>					
Cash and cash equivalents	\$ 51,951,026	\$ 360,570	\$ 10,947,379	\$ 3,681,424	\$ 12,129,043
Due from the Central Bank and call loans to banks	424,434,194	756,861	13,878,642	1,700,832	22,568,162
Financial assets at fair value through profit or loss	37,947,334	2,240,329	462,933	9,930	2,252
Available-for-sale financial assets	92,221,128	49,517,023	15,240,350	4,441,860	-
Receivables	33,556,696	5,151,369	1,318,895	1,010,405	1,840,866
Bills discounted and loans	485,835,591	40,866,161	12,683,762	20,649,860	33,179,147
Reinsurance contract asset	144,715	-	-	-	-
Held-to-maturity financial assets	22,064,690	1,527,971	4,109,819	679,202	276,970
Equity investments accounted for under the equity method	122,687	-	-	-	-
Other financial assets	384,023	28	103,704	6,226	16,209
Property and equipment	243,287	26,903	10,835	39,534	29,187
Intangible assets	2,904	-	8,537	470	-
Deferred income tax assets	308,152	-	2,215	5,235	-
Other assets	162,281	5,229	59,187	16,661	25,057
<b>Total assets</b>	<b>\$1,149,378,708</b>	<b>\$ 100,452,444</b>	<b>\$ 58,826,258</b>	<b>\$ 32,241,639</b>	<b>\$ 70,066,893</b>
<b>Liabilities</b>					
Due to the Central Bank and financial institutions	\$ 321,370,945	\$ 3,462,822	\$ 5,652,241	\$ 2,408,881	\$ 22,514,259
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	6,402	3,223
Bills and bonds sold under repurchased agreements	39,040,808	-	159,987	-	-
Payables	13,976,999	242,784	788,147	580,837	1,905,729
Deposits and remittances	776,913,967	29,935,501	82,258,183	28,837,558	29,034,894
Other loans	161,030	-	-	-	-
Provisions for liabilities	533,595	14,721	-	24	43,961
Other financial liabilities	4,082,887	776,374	1,442,173	482,166	141,029
Deferred income tax liabilities	8,822	-	3,712	-	-
Other liabilities	1,993,135	434,301	( 47,372)	282,069	204,632
<b>Total liabilities</b>	<b>\$1,208,420,092</b>	<b>\$ 34,879,525</b>	<b>\$ 90,257,499</b>	<b>\$ 32,597,937</b>	<b>\$ 53,847,727</b>
On-balance sheet foreign exchange gap	(\$ 59,041,384)	\$ 65,572,919	(\$ 31,431,241)	(\$ 356,298)	\$ 16,219,166
Off-balance sheet commitments	\$ 75,718,179	\$ 1,400,585	\$ 2,278,564	\$ 11,527,929	\$ 3,337,466

## K. Equity securities risk management

- (A) The market risk of the equity securities held by the Mega 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 Mega Group's risk management for equity securities is primarily categorised 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 Mega Group's investment portfolios, measurement of the extent of the impact of systematic risk on investment portfolios using  $\beta$  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 Mega 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  $\beta$  value of purchased stocks, convertible bonds and the portfolio of subsidiary issued stock warrants in respect to the weighted stock index.

December 31, 2017

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%	(\$ 78,267)	(\$ 1,792)
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	78,267	1,792
Interest rate risk (not including deposits and loans)	Major increases in interest rates 1BP	( 50,231)	( 102,939)
Interest rate risk (not including deposits and loans)	Major decline in interest rates 1BP	58,820	113,180
Equity securities risk	TAIEX declined by 1%	( 28,123)	( 112,320)
Equity securities risk	TAIEX increased by 1%	33,418	94,582

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

## M. Value at Risk analysis of the Mega 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, 2017

Value at risk of primary market	Average	Maximum	Minimum
Value at risk of equity securities	\$ 385,450	\$ 538,600	\$ 232,300
Value at risk of interest products	537,470	900,830	174,110
Value at risk of foreign exchange products	302,150	443,250	161,050
Value at risk of credit products	202,675	266,550	138,800
Total VaR	\$ 1,427,745	\$ 2,149,230	\$ 706,260

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

## 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, 2017

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	\$ 529,230,345	\$ 940,173,141	\$ 19,231,002	\$ 93,939,541	\$ 1,582,574,029
Interest rate sensitive liabilities	498,686,298	689,370,550	90,374,554	19,925,814	1,298,357,216
Interest rate sensitive gap	\$ 30,544,047	\$ 250,802,591	(\$ 71,143,552)	\$ 74,013,727	\$ 284,216,813
Net worth					\$ 251,183,190
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					121.89%
Ratio of interest rate sensitivity gap to net worth					113.15%

### 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%

- 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, 2017

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	\$ 36,339,034	\$ 1,048,181	\$ 424,577	\$ 341,939	\$ 38,153,731
Interest rate sensitive liabilities	37,432,085	2,088,035	1,361,413	-	40,881,533
Interest rate sensitive gap	(\$ 1,093,051)	(\$ 1,039,854)	(\$ 936,836)	\$ 341,939	(\$ 2,727,802)
Net worth					\$ 534,498
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					93.33%
Ratio of interest rate sensitivity gap to net worth					( 510.35%)

### 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%)

- 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, 2017

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$ 125,105,204	\$ 11,029,492	\$ 8,628,403	\$ 128,028,508	\$ 272,791,607
Interest rate sensitivity liabilities	237,784,226	1,719,638	35,143	-	239,539,007
Interest-rate sensitivity gap	(\$ 112,679,022)	\$ 9,309,854	\$ 8,593,260	\$ 128,028,508	\$ 33,252,600
Net worth					\$ 36,037,857
Interest rate sensitivity assets and liabilities ratio					113.88%
Interest rate sensitivity gap and net worth ratio					92.27%

## 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%

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

	For the year ended December 31, 2016	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	\$ 895,741	0.30
Financial assets at fair value through profit or loss	124,034,245	0.94
Bills and bonds 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

Note: Cash and cash equivalents comprise restricted assets-certificate of deposit.

## 9. Insurance risk management

In order to effectively recognise, 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, 2017 and 2016, 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, 2017		For the year ended December 31, 2016	
	Premium Income	Self-retained Premium	Premium Income	Self-retained Premium
Earthquake insurance	\$ 691,583	\$ 172,962	\$ 688,032	\$ 164,997
Fire insurance	719,458	322,194	641,659	263,291
Engineering insurance	196,485	106,988	176,622	78,154

## (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, 2017 and 2016 is respectively as follows:

Type	December 31, 2017		December 31, 2016	
	Final loss rate increases 5%		Final loss rate increases 5%	
	Total increase of claim reserves	Net increase of claim reserves	Total increase of claim reserves	Net increase of claim reserves
Fire Insurance	\$ 52,145	\$ 18,431	\$ 49,033	\$ 16,235
Marine Insurance	30,160	8,489	31,548	9,212
Automobile Insurance	165,926	128,131	158,788	122,670
Accident Insurance	86,133	34,263	89,359	34,230
Injury Insurance	15,000	12,245	17,669	13,094
Offshore Branches	4,261	4,259	4,980	4,974

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 inverted.

## (4) Claim development trend

As of December 31, 2017 and 2016, the subsidiary-CKI's claim development trend is as follows:

### A. Accumulative claim amounts (Before reinsurance ceding)

December 31, 2017											
Year of Accident	2012.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31	2017.12.31	Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
2012 and before	24,570,984	24,747,717	24,538,516	24,470,044	24,415,547	24,378,604	24,378,604	24,094,983	283,621		
2013		1,973,722	2,347,007	2,296,331	2,290,391	2,242,499	2,242,499	2,135,380	107,119		
2014			2,404,641	2,535,901	2,514,147	2,524,300	2,524,300	2,391,085	133,215		
2015				2,714,989	2,889,178	2,878,176	2,878,176	2,723,257	154,919		
2016					4,145,650	4,300,537	4,300,537	3,582,424	718,113		
2017						2,715,887	2,715,887	1,702,525	1,013,362		
Total							39,040,003	36,629,654	2,410,349	1,102,147	3,512,496

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

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, 2017											
Year of Accident	Day of evaluation						Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
	2012.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31	2017.12.31					
2012 and before	15,815,113	16,136,277	16,058,224	16,045,373	16,043,396	16,002,444	16,002,444	15,862,094	140,350		
2013		1,322,491	1,654,907	1,679,800	1,685,737	1,653,905	1,653,905	1,579,525	74,380		
2014			1,411,247	1,634,777	1,673,889	1,685,070	1,685,070	1,596,550	88,520		
2015				1,487,384	1,728,447	1,766,948	1,766,948	1,657,162	109,786		
2016					1,971,815	2,281,993	2,281,993	1,969,622	312,371		
2017						1,578,405	1,578,405	1,021,371	557,034		
Total							24,968,765	23,686,324	1,282,441	559,497	1,841,938

December 31, 2016											
Year of Accident	Day of evaluation						Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
	2011.12.31	2012.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31					
2011 and before	14,058,028	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

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 realise 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.

The following table illustrates the cash outflows for the claims of the subsidiary - CKI as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Below 1 year	\$ 3,278,389	\$ 4,225,529
From 1 year to 5 year	234,107	193,928
Total	\$ 3,512,496	\$ 4,419,457

#### 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, 2017						
Type	Premium income (1)	Reinsurance premium (2)	Reinsurance premiums ceded (3)	Retained insurance premiums(4)=(1)+(2)-(3)	Net change in reserve for unearned premiums (5)	Net premiums (6)=(4)+(5)
Compulsory insurance	\$ 426,268	\$ 169,407	\$ 180,905	\$ 414,770	(\$ 2,764)	\$ 412,006
Non-compulsory insurance	6,071,939	518,798	2,813,177	3,777,560	( 73,172)	3,704,388
Total	\$ 6,498,207	\$ 688,205	\$ 2,994,082	\$ 4,192,330	(\$ 75,936)	\$ 4,116,394

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)	Net change in reserve for unearned premiums (5)	Net premiums (6)=(4)+(5)
Compulsory insurance	\$ 419,171	\$ 166,061	\$ 176,204	\$ 409,028	(\$ 5,413)	\$ 403,615
Non-compulsory insurance	5,995,395	423,844	2,839,812	3,579,427	25,258	3,604,685
Total	\$ 6,414,566	\$ 589,905	\$ 3,016,016	\$ 3,988,455	\$ 19,845	\$ 4,008,300

The subsidiaries had no premium income from compulsory insurance in Guam and \$730,619 and \$761,601 from non-compulsory insurance for the years ended December 31, 2017 and 2016, respectively.

#### B. Details of calculation of net claims are as follows:

For the year ended December 31, 2017				
Type	Claims incurred (1)	Reinsurance claims incurred (2)	Claims recovered from reinsurers (3)	Net claims(4)=(1)+(2)-(3)
Compulsory insurance	\$ 314,135	\$ 123,519	\$ 182,060	\$ 255,594
Non-compulsory insurance	3,604,285	296,773	1,838,539	2,062,519
Total	\$ 3,918,420	\$ 420,292	\$ 2,020,599	\$ 2,318,113



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

C. Details of assets and liabilities for compulsory automobile liability insurance are as follows:

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Cash and bank deposits	\$ 548,777	\$ 548,076
Premiums receivable	8,319	5,250
Claims recoverable from Reinsurers	55,553	20,006
Due from reinsurers and ceding companies	28,092	27,239
Ceded unearned premium reserve	98,376	96,485
Ceded claims reserve	151,014	148,832
Temporary payments	322	2,218
Total	\$ 890,453	\$ 848,106
<b>Liabilities</b>		
Due to reinsurers and ceding companies	\$ 30,659	\$ 30,359
Unearned premium reserve	259,435	254,780
Reserve for outstanding losses	392,023	384,486
Reserve for catastrophic losses	205,480	177,357
Temporary receipts	1,302	553
Other liabilities	1,554	571
Total	\$ 890,453	\$ 848,106

D. Details of costs and revenues relating to compulsory automobile liability insurance:

	For the years ended December 31,	
	2017	2016
<b>Operating revenues</b>		
Direct written premiums	\$ 301,497	\$ 293,637
Reinsurance premiums	169,407	166,061
Less: reinsurance premiums	( 180,905)	( 176,204)
net change in reserve for unearned premiums	( 2,764)	( 5,413)
Net premiums written	287,235	278,081
Interest income	1,836	1,868
Total	\$ 289,071	\$ 279,949
	For the years ended December 31,	
	2017	2016
<b>Operating costs</b>		
Claims incurred	\$ 314,135	\$ 327,218
Reinsurance Claims incurred	123,519	109,193
Less: claims recovered from reinsurers	( 182,060)	( 168,467)
Net claims	255,594	267,944
Net change in reserve for claims	5,354	3,396
Net change in special reserve	28,123	8,609
Total	\$ 289,071	\$ 279,949

## E. Net premiums

Net premiums of the respective insurances are as follows:

Items	2017	2016
General fire insurance	\$ 1,600,000	\$ 1,600,000
Fire & allied perils insurance	1,600,000	1,600,000
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	1,600,000
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	30,000

## F. Unqualified reinsurance reserve

(A) The summarised 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
Asian Re Bangkok	Cargo insurance, marine hull insurance
Santam LTD	Marine hull insurance
Schwarzmeer Und Ostsee Versicherungs-AKT	Fire insurance
Milli Reasurans T.A.S	Cargo insurance, marine hull insurance, fire insurance

(B) The unqualified reinsurance expense was \$1 and \$844 for the years ended December 31, 2017 and 2016, respectively.

(C) As of December 31, 2017 and 2016, the unqualified reinsurance reserves are unearned premium reserve. Details are set forth as follows:

	December 31, 2017	December 31, 2016
Unearned premium reserve	\$ -	\$ 422
Ceded claims reserve-reported	6,792	8,492
Claims recoverable from reinsurers	-	537

## 10. Capital management

### (1) Objective of capital management

- A. The Mega 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 Mega 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 Mega 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 realise 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 Mega 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, 2017

	Ownership percentage held by the Company		Eligible capital		Minimum capital
The Company	100.00%		\$ 298,043,150		\$ 333,673,277
MICB	100.00%		282,955,080		183,050,518
MS	100.00%		12,831,508		4,532,031
MBF	100.00%		35,146,019		20,619,364
CKI	100.00%		6,765,462		1,799,450
MAM	100.00%		2,775,707		5,967,847
Mega Life Insurance Agency	100.00%		441,841		286,246
Mega Venture Capital	100.00%		801,698		406,603
MITC	100.00%		841,988		478,050
Deduction item			330,612,908		325,981,280
Subtotal		(A)	\$ 309,989,545	(B)	\$ 224,832,106
Capital adequacy ratio of the Consolidated Company (C)=(A)÷(B)				(C)	137.88%

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%

B. As of December 31, 2017 and 2016, the financial holding's net eligible capital

Mega Financial Holding Co., Ltd. and its Subsidiaries  
Financial Holding's Net Eligible Capital

Item	December 31, 2017	December 31, 2016
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	32,682,332	30,436,714
Special reserve	3,004,318	2,545,158
Accumulated earnings	59,182,128	56,976,974
Equity adjustment number	( 1,007,118)	( 2,165,966)
Less: goodwill and other intangible assets	2,863	4,356
deferred assets	8,120	8,414
treasury stocks	-	-
Total net eligible capital	\$ 298,043,150	\$ 291,972,583

## 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	Supervisor of the Company
Bank of Taiwan	BOT	Supervisor 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, 2017	December 31, 2016
Others (individual amounts accounting for less than 10% of the total amount)	\$ 7,354,911	\$ 6,302,446

#### 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, 2017	December 31, 2016
Others (individual amounts accounting for less than 10% of the total amount)	\$ 65,890	\$ 105,809

#### C. Bank deposits

	December 31, 2017	December 31, 2016
Chunghwa Post	\$ 1,886	\$ 5,831
BOT	140,699	272,754
Total	\$ 142,585	\$ 278,585

#### D. Refundable deposits

Collaterals	December 31, 2017	December 31, 2016
BOT Available-for-sale financial assets - bonds	\$ 51,131	\$ 50,049

## E. Sales of securities and bonds

	For the years ended December 31,	
	2017	2016
BOT	\$ 251,333,418	\$ 181,181,742
Chunghwa Post	41,836,724	21,955,635
Total	\$ 293,170,142	\$ 203,137,377

Terms and conditions on the above transactions are not materially different from those with non-related parties.

## F. Transactions with other financial institutions

### (A) Due from banks and call loans to banks

	December 31, 2017	December 31, 2016
BOT	\$ 20,025,740	\$ 9,330,096

### (B) Overdraft on banks

	December 31, 2017	December 31, 2016
Chunghwa Post	\$ 4,674,693	\$ 2,818,812
BOT	15,302,086	7,383,788
Total	\$ 19,976,779	\$ 10,202,600

## G. Commercial paper payable

Institutions of guarantee or acceptance	December 31, 2017	December 31, 2016
TFC	\$ 370,000	\$ -

## H. Collaterals

Collaterals		December 31, 2017	December 31, 2016
BOT	Financial assets at fair value through profit or loss - negotiable certificate of deposits	\$ 700,263	\$ 700,802
	Available-for-sale financial assets - bonds	2,015,046	2,011,752
	Total	\$ 2,715,309	\$ 2,712,554

## I. Loans

### December 31, 2017

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default status		Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
				Normal loans	Overdue accounts		
Consumer loans for employees	7	\$ 3,165	\$ 2,639	V		None	None
Home mortgage loans	80	560,330	514,268	V		Real estate	None
Other loans	3	66,680	56,291	V		Real estate	None

### December 31, 2016

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default status		Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
				Normal loans	Overdue accounts		
Consumer loans for employees	11	\$ 11,383	\$ 3,933	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

## J. Interest revenue

	For the years ended December 31,			
	2017		2016	
	NT\$	% of the Account	NT\$	% of the Account
BOT	\$ 1,021	-	\$ 1,278	-

## K. Interest expense

	For the years ended December 31,			
	2017		2016	
	Amount	% of the Account	Amount	% of the Account
BOT	\$ 40,059	0.19	\$ 38,447	0.23
Chunghwa Post	36,416	0.17	31,038	0.19
Total	\$ 76,475	0.36	\$ 69,485	0.42

## L. 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,			
	2017		2016	
	Amount	% of the Account	Amount	% of the Account
BOT	\$ 1,688	0.02	(\$ 5,798)	( 0.13)
Chunghwa Post	62,718	0.83	58,269	1.27
Total	\$ 64,406	0.85	\$ 52,471	1.14

## M. Income of available-for-sale financial assets (sales of securities and bonds)

	For the years ended December 31,			
	2017		2016	
	Amount	% of the Account	Amount	% of the Account
Chunghwa Post	\$ -	-	\$ 51,427	2.59

## N. Information on remunerations to the Company's key management:

	For the years ended December 31,	
	2017	2016
Salaries and other short-term employee benefits	\$ 345,085	\$ 334,666
Post-employment benefits	7,810	5,301
Termination benefits	637	577
Total	\$ 353,532	\$ 340,544

## 12. PLEDGED ASSETS

Asset	Purpose of pledge	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss	Collaterals for Central Bank and bank overdrafts,	\$ 9,003,333	\$ 10,503,131
Available-for-sale financial assets	Guarantees or money lodged at Courts, Collaterals for bank overdrafts, Guarantees or money lodged at Courts, Operation guarantee deposits of bills firm and securities firm	16,387,589	18,972,746
Held-to-maturity financial assets	Guarantees or money lodged at Courts	5,262,900	5,276,900
Other financial assets	Collaterals for short-term borrowings, Collaterals for and bank overdrafts	402,100	402,100
Property and equipment	Collaterals for short-term borrowings	2,446,153	2,456,922
Investment property	Collaterals for short-term borrowings	451,682	457,373
Other assets	Guarantee of insurance business, performance guarantee	513,830	523,042
		\$ 34,467,587	\$ 38,592,214

## 13. COMMITMENTS AND CONTINGENT LIABILITIES

### (1) The subsidiaries-MICB

A. Information about MICB New York Branch's contingent liabilities on OFAC's regulation compliance is described in Note 6(35).

B. As of December 31, 2017 and 2016, MICB and its subsidiaries' commitments and contingent liabilities were as follows:

	December 31, 2017	December 31, 2016
Irrevocable arranged financing limit	\$ 107,752,677	\$ 115,408,871
Securities sold under repurchase agreement	848,352	444,888
Securities purchased under resale agreement	1,698,567	4,256,613
Credit card line commitments	61,044,582	56,378,442
Guarantees issued	182,968,272	195,512,459
Contra Guarantees	-	60,644
Letters of credit	60,185,575	61,515,435
Customers' securities under custody	221,738,214	193,861,943
Properties under custody	3,228,472	3,323,676
Guarantee received	212,814,538	136,273,654
Collections for customers	91,916,408	102,094,722
Agency loans payable	763,880	977,405
Travelers' checks consigned-in	1,288,056	1,525,830
Gold coins consigned-in	404	433
Payables on consignments-in	698	2,459
Agent for government bonds	2,433	144,109,400
Short-dated securities under custody	156,997,800	89,610,128
Trust liability	64,572,117	522,980,128
Certified notes paid	5,775,950	6,256,579
Exposures	9,343	322,060

### (2) The subsidiaries-MBF

As of December 31, 2017 and 2016, the company's commitments and contingent liabilities arising from its normal course of business were as follows:

	December 31, 2017	December 31, 2016
Bills and bonds bought under resale agreements	\$ 501,259	\$ -
Bills and bonds sold under repurchase agreements	208,414,735	210,809,807
Guarantees for commercial papers	156,971,100	147,973,500
Buy fixed rate financial paper	17,050,000	14,170,000
Sell fixed rate financial paper	500,000	500,000
Buy index rate financial paper	33,310,000	29,310,000
Sell index rate financial paper	4,500,000	4,000,000

### (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, 2017, 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.148-157 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 specialised 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, 2017:

The promotion bonus paid to other subsidiaries by MITC and MICB amounted to \$25,380 and \$1,110, respectively. As a result of cross-selling by other subsidiaries, the insurance premium income increased by \$448,710 for CKI; \$21,690 for MICB; and \$156,300 for MITC.

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; \$136,320 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, 2017

Items	Bank division	Insurance division	Bills division	Securities division	Total other divisions	Consolidation
Interest income, net	\$ 34,061,109	\$ 63,958	\$ 1,093,964	\$ 760,509	(\$ 100,016)	\$ 35,879,524
Revenues other than interest, net	15,078,485	1,312,266	2,816,930	2,275,598	2,297,585	23,780,864
Net revenue	49,139,594	1,376,224	3,910,894	3,036,107	2,197,569	59,660,388
(Provisions for) reversal of bad debts expense and guarantee liability reserve	( 4,344,809)	18	11,068	-	( 3,091)	( 4,336,814)
Net change in provisions for insurance liabilities	-	152,758	-	-	-	152,758
Operating expenses	( 21,188,109)	( 1,077,460)	( 729,545)	( 2,363,682)	( 836,809)	( 26,195,605)
Income before income tax from continuing operations	23,606,676	451,540	3,192,417	672,425	1,357,669	29,280,727
Income tax expense	( 2,779,632)	( 114,954)	( 506,292)	( 101,004)	( 49,750)	( 3,551,632)
Consolidated net income from continuing operations	\$ 20,827,044	\$ 336,586	\$ 2,686,125	\$ 571,421	\$ 1,307,919	\$ 25,729,095

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
(Provisions for) reversal of bad debts expense and guarantee liability 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

(10) Financial statements of the Company and condensed financial statements of its subsidiaries:

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

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



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

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

MEGA FINANCIAL HOLDING CO., LTD.  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Common stock	Retained earnings			Other equity interest			Total
		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	
<u>For the year ended December 31, 2016</u>								
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	<u>\$ 135,998,240</u>	<u>\$ 68,194,233</u>	<u>\$ 30,436,714</u>	<u>\$ 2,545,158</u>	<u>\$ 56,976,974</u>	<u>\$ 853,382</u>	<u>(\$ 1,312,584)</u>	<u>\$ 291,985,353</u>
<u>For the year ended December 31, 2017</u>								
Balance at January 1, 2017	\$ 135,998,240	\$ 68,194,233	\$ 30,436,714	\$ 2,545,158	\$ 56,976,974	(\$ 853,382)	(\$ 1,312,584)	\$ 291,985,353
Earnings distribution for 2016								
Legal reserve	-	-	2,245,618	-	( 2,245,618)	-	-	-
Cash dividends	-	-	-	-	( 19,311,750)	-	-	( 19,311,750)
Special reserve	-	-	-	459,160	( 459,160)	-	-	-
Profit for the year	-	-	-	-	25,734,515	-	-	25,734,515
Other comprehensive (loss) income for the year	-	-	-	-	( 1,512,833)	( 1,899,975)	3,058,823	( 353,985)
Balance at December 31, 2017	<u>\$ 135,998,240</u>	<u>\$ 68,194,233</u>	<u>\$ 32,682,332</u>	<u>\$ 3,004,318</u>	<u>\$ 59,182,128</u>	<u>(\$ 2,753,357)</u>	<u>\$ 1,746,239</u>	<u>\$ 298,054,133</u>



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

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

## Financial Information

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.  
CONDENSED BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	December 31, 2017	December 31, 2016	Liabilities	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 134,573,043	\$ 86,952,288	Due to the Central Bank and financial institutions	\$ 369,280,814	\$ 384,930,934
Due from the Central Bank and call loans to banks	568,191,492	540,639,263	Funds borrowed from the Central Bank and other banks	33,049,531	39,974,427
Financial assets at fair value through profit or loss	41,615,571	45,311,254	Financial liabilities at fair value through profit or loss	8,774,635	11,393,071
Bills and bonds purchased under resale agreements	1,697,586	4,255,968	Bills and bonds sold under repurchase agreements	848,125	444,678
Receivables, net	59,097,182	59,342,642	Payables	35,363,073	32,010,867
Current income tax asset	99,432	122,108	Current income tax liabilities	7,100,532	8,106,031
Bills discounted and loans, net	1,746,168,423	1,699,285,739	Deposits and remittances	2,375,199,023	2,159,117,253
Available-for-sale financial assets, net	278,090,000	205,720,937	Financial bonds payable	25,900,000	36,200,000
Held-to-maturity financial assets, net	280,013,940	276,724,781	Other financial liabilities	8,969,641	8,583,989
Investments accounted for under equity method, net	9,025,778	8,851,388	Provisions for liabilities	14,819,979	12,952,174
Other financial assets, net	9,336,419	9,669,542	Deferred tax liabilities	2,216,847	2,161,652
Property and equipment, net	14,859,167	14,278,800	Other liabilities	6,356,448	5,244,438
Investment property, net	584,646	865,039	Total liabilities	2,887,878,648	2,701,119,514
Deferred tax assets	5,525,907	5,049,996			
Other assets, net	2,882,935	1,614,016	Equity		
			Common stock	85,362,336	85,362,336
			Capital surplus	62,219,540	62,219,540
			Retained earnings	118,719,341	111,444,170
			Other equity interest	( 2,418,344)	( 1,461,799)
			Total equity	263,882,873	257,564,247
TOTAL ASSETS	\$ 3,151,761,521	\$ 2,958,683,761	TOTAL LIABILITIES AND EQUITY	\$ 3,151,761,521	\$ 2,958,683,761



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

Assets	December 31, 2017	December 31, 2016	Liabilities	December 31, 2017	December 31, 2016
Current assets	\$ 58,900,517	\$ 39,543,327	Current liabilities	\$ 48,660,068	\$ 30,404,966
Financial assets measured at cost - non-current	215,757	239,595	Provisions for liabilities - non-current	128,576	119,584
Investments accounted for under equity method	653,317	967,801	Deferred tax liabilities	1,463	2,482
Property and equipment	2,505,808	2,565,664	Other liabilities - non-current	11,433	11,295
Investment property	497,256	504,241	Total liabilities	48,801,540	30,538,327
Intangible assets	80,085	73,919			
Deferred tax assets	85,317	56,407	Equity		
Other assets - non-current	879,399	902,516	Common stock	11,600,000	11,600,000
			Capital surplus	971,161	971,161
			Retained earnings	2,410,211	1,837,677
			Other equity interest	34,634	93,695
			Total equity	15,016,006	14,315,143
TOTAL ASSETS	\$ 63,817,456	\$ 44,853,470	TOTAL LIABILITIES AND EQUITY	\$ 63,817,546	\$ 44,853,470



## Financial Information

MEGA BILLS FINANCE CO., LTD.  
CONDENSED BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	December 31, 2017	December 31, 2016	Liabilities	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 793,634	\$ 346,391	Interbank overdraft and call loans	\$ 31,124,272	\$ 15,714,592
Financial assets at fair value through profit or loss	136,554,017	125,297,488	Financial liabilities at fair value through profit or loss	632	22,543
Available-for-sale financial assets, net	135,888,342	132,867,186	Bills and bonds sold under repurchase agreements	208,414,735	210,809,807
Bills and bonds purchased under resale agreements	501,259	-	Payables	947,769	602,808
Receivables, net	1,651,477	1,531,891	Current income tax liabilities	40,412	191,490
Held-to-maturity financial assets	100,000	350,000	Provisions for liabilities	2,759,489	2,728,105
Other financial assets, net	875,137	820,362	Deferred tax liabilities	45,675	22,700
Property and equipment, net	363,606	370,177	Other liabilities	151,008	431,098
Investment property, net	2,517,760	2,528,424	Total liabilities	243,483,992	230,523,143
Intangible assets	4,920	3,310	Equity		
Deferred tax assets, net	222,666	152,104	Common stock	13,114,411	13,114,411
Other assets, net	49,031	34,868	Capital surplus	320,929	320,929
			Retained earnings	21,013,426	20,375,867
			Other equity interest	1,589,091	( 32,149 )
			Total equity	36,037,857	33,779,058
TOTAL ASSETS	\$ 279,521,849	\$ 264,302,201	TOTAL LIABILITIES AND EQUITY	\$ 279,521,849	\$ 264,302,201



CHUNG KUO INSURANCE CO., LTD.  
CONDENSED BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	December 31, 2017	December 31, 2016	Liabilities	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 5,275,016	\$ 6,781,690	Payables	\$ 1,124,649	\$ 1,097,452
Receivables	719,863	674,813	Current income tax liabilities	55,618	25,892
Current income tax assets	181,452	229,745	Insurance liabilities	8,194,654	8,964,715
Financial assets at fair value through profit or loss	157,856	53,484	Provisions for liabilities	192,379	186,666
Available-for-sale financial assets	1,917,802	1,076,673	Deferred tax liabilities	497	12,316
Financial assets measured at cost	145,000	100,000	Other liabilities	23,059	127,820
Investment in bonds without active markets	295,382	292,496	Total liabilities	9,590,856	10,414,861
Held-to-maturity financial assets	1,792,318	1,102,127			
Investments accounted for under equity method	37,434	38,642	Equity		
Investment property	310,620	314,750	Common stock	3,000,000	3,000,000
Reinsurance contracts assets	3,555,454	4,261,668	Capital surplus	1,084,811	1,084,811
Property and equipment	830,830	843,868	Retained earnings	2,367,500	2,035,108
Intangible assets	49,287	32,250	Other equity interest	( 114,969)	( 76,273)
Deferred tax assets	40,123	37,877	Total equity	6,337,342	6,043,646
Other assets	619,761	618,424			
TOTAL ASSETS	\$ 15,928,198	\$ 16,458,507	TOTAL LIABILITIES AND EQUITY	\$ 15,928,198	\$ 16,458,507

## Financial Information

MEGA INTERNATIONAL INVESTMENT TRUST CO., LTD.  
CONDENSED BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	December 31, 2017	December 31, 2016	Liabilities	December 31, 2017	December 31, 2016
Current assets	\$ 554,271	\$ 450,697	Current liabilities	\$ 93,572	\$ 60,923
Financial assets at fair value through profit or loss	8,850	-	Liabilities - non-current	20,540	23,444
Available-for-sale financial assets	221,109	290,827	Total liabilities	114,112	84,367
Other financial assets	1,137	1,500	Equity		
Property and equipment	5,309	4,105	Common stock	527,000	527,000
Investment property	110,610	111,274	Capital surplus	3,675	3,675
Intangible assets	2,185	339	Retained earnings	325,854	316,233
Deferred tax assets	4,844	6,298	Other equity interest	( 14,541)	( 18,457)
Other assets - non-current	47,785	47,778	Total equity	841,988	828,451
TOTAL ASSETS	\$ 956,100	\$ 912,818	TOTAL LIABILITIES AND EQUITY	\$ 956,100	\$ 912,818

MEGA ASSET MANAGEMENT CO., LTD.  
CONDENSED BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	December 31, 2017	December 31, 2016	Liabilities	December 31, 2017	December 31, 2016
Current assets	\$ 11,349,349	\$ 11,281,034	Current liabilities	\$ 9,126,773	\$ 8,201,347
Other financial assets	65,000	174,837	Other liabilities - non-current	33,214	1,034,063
Property and equipment	749	920	Total liabilities	9,159,987	9,235,410
Investment property	418,648	424,760	Equity		
Intangible assets	2,846	6,621	Common stock	2,000,000	2,000,000
Deferred tax assets	92,815	111,679	Capital surplus	1,261	1,261
Other assets - non-current	6,287	93,287	Retained earnings	774,446	856,467
TOTAL ASSETS	\$ 11,935,694	\$ 12,093,138	Total equity	2,775,707	2,857,728
			TOTAL LIABILITIES AND EQUITY	\$ 11,935,694	\$ 12,093,138



MEGA INSURANCE AGENCY CO., LTD.  
CONDENSED BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	December 31, 2017	December 31, 2016	Liabilities	December 31, 2017	December 31, 2016
Current assets	\$ 563,967	\$ 688,300	Current liabilities	\$ 130,632	\$ 224,934
Property and equipment	623	719	Other liabilities - non-current	19	18
Intangible assets	3,017	1,694	Total liabilities	130,651	224,952
Other financial assets- non-current	-	99,300	Equity		
Other assets - non-current	4,885	5,415	Common stock	20,000	20,000
			Capital surplus	804	804
			Retained earnings	421,037	549,672
			Total equity	441,841	570,476
TOTAL ASSETS	\$ 572,492	\$ 795,428	TOTAL LIABILITIES AND EQUITY	\$ 572,492	\$ 795,428

MEGA VENTURE CAPITAL CO., LTD.  
CONDENSED BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	December 31, 2017	December 31, 2016	Liabilities	December 31, 2017	December 31, 2016
Current assets	\$ 11,226	\$ 64,735	Current liabilities	\$ 11,507	\$ 6,729
Financial assets at fair value through profit or loss	-	5,425	Total liabilities	11,507	6,729
Available-for-sale financial assets	493,238	418,311	Equity		
Financial assets measured at cost	302,863	244,720	Common stock	1,000,000	1,000,000
Other assets, net	5,878	-	Retained earnings	2,975	( 16,024)
Refundable deposits	-	8,228	Other equity interest	( 201,277)	( 249,286)
			Total equity	801,698	734,690
TOTAL ASSETS	\$ 813,205	\$ 741,419	TOTAL LIABILITIES AND EQUITY	\$ 813,205	\$ 741,419

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.  
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Interest income	\$ 53,202,794	\$ 50,236,766
Less: Interest expense	( 19,650,049)	( 15,191,706)
Interest income, net	33,552,745	35,045,060
Revenues other than interest income, net	16,029,323	10,135,583
Net revenue	49,582,068	45,180,643
Provisions for bad debts expense and guarantee liabilities reserve	( 4,371,190)	( 3,593,348)
Operating expenses	( 20,973,389)	( 18,529,368)
Income before income tax from continuing operations	24,237,489	23,057,927
Income tax expense	( 2,714,079)	( 4,047,966)
Net income	21,523,410	19,009,961
Other comprehensive income (loss)	( 2,400,434)	( 2,134,315)
Total comprehensive income	\$ 19,122,976	\$ 16,875,646
Earnings per share		
Basic earnings per share ( after taxes )	\$ 2.52	\$ 2.23

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

	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenues	\$ 3,088,640	\$ 2,163,056
Service fee expenditure	( 123,261)	( 83,460)
Other operating expenditures	157,182	( 146,186)
Operating expenses	( 2,293,029)	( 2,057,452)
Other gains and losses	( 162,400)	178,010
Share of loss of associates and joint ventures accounted for under equity method	25,551	33,614
Income before income tax from continuing operations	692,683	87,582
Income tax expense	( 95,852)	( 53,932)
Net income	596,831	33,650
Other comprehensive income (loss)	114,102	( 13,148)
Total comprehensive income	\$ 710,933	\$ 20,502
Earnings per share		
Basic earnings per share ( after taxes )	\$ 0.51	\$ 0.03



MEGA BILLS FINANCE CO., LTD.  
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Interest income	\$ 3,382,516	\$ 3,322,888
Less: Interest expense	( 1,209,251 )	( 899,280 )
Interest income, net	2,173,265	2,423,608
Revenues other than interest income, net	1,792,655	1,898,101
Net revenue	3,965,920	4,321,709
Reversal	11,068	45,896
Operating expenses	( 765,467 )	( 796,560 )
Income before income tax from continuing operations	3,211,521	3,571,045
Income tax expense	( 506,292 )	( 590,919 )
Net income	2,705,229	2,980,126
Other comprehensive income (loss)	1,586,304	( 1,576,997 )
Total comprehensive income	\$ 4,291,533	\$ 1,403,129
Earnings per share		
Basic and diluted earnings per share ( after taxes )	\$ 2.06	\$ 2.27

CHUNG KUO INSURANCE CO., LTD.  
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Operating revenue	\$ 4,833,715	\$ 4,632,448
Operating cost	( 3,303,113 )	( 3,480,785 )
Operating expense	( 1,066,380 )	( 977,372 )
Operating income	464,222	174,291
Non-operating income and expense	1,375	14,376
Income before income tax from continuing operations	465,597	188,667
Income tax expense	( 114,954 )	( 87,492 )
Net income	350,643	101,175
Other comprehensive income	( 56,947 )	( 41,828 )
Total comprehensive income	\$ 293,696	\$ 59,347
Earnings per share		
Basic and diluted earnings per share ( after taxes )	\$ 1.17	\$ 0.34

MEGA INTERNATIONAL INVESTMENT TRUST CO., LTD.  
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Operating revenue	\$ 401,463	\$ 365,161
Operating expense	( 337,455 )	( 263,203 )
Operating income	64,008	101,958
Non-operating income and expense	28,092	11,818
Income before income tax	92,100	113,776
Income tax expense	( 13,642 )	( 33,651 )
Net income	78,458	80,125
Other comprehensive income (loss)	6,241	( 550 )
Total comprehensive income	<u>\$ 84,699</u>	<u>\$ 79,575</u>
Earnings per share		
Basic earnings per share ( after taxes )	<u>\$ 1.49</u>	<u>\$ 1.52</u>

MEGA ASSET MANAGEMENT CO., LTD.  
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Operating revenue	\$ 480,668	\$ 715,142
Operating cost	( 5,149 )	( 10,769 )
Gross Profit	475,519	704,373
Operating expense	( 92,137 )	( 141,458 )
Operating income	383,382	562,915
Non-operating income and expense	( 55,388 )	( 86,676 )
Income before income tax	327,994	476,239
Income tax expense	( 55,691 )	( 81,288 )
Net income	272,303	394,951
Other comprehensive loss	629	( 559 )
Total comprehensive income	<u>\$ 272,932</u>	<u>\$ 394,392</u>
Earnings per share		
Basic earnings per share ( after taxes )	<u>\$ 1.36</u>	<u>\$ 1.97</u>

MEGA INSURANCE AGENCY CO., LTD.  
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Operating revenue	\$ 1,344,324	\$ 1,943,531
Operating expense	( 887,999 )	( 1,332,645 )
Operating income	456,325	610,886
Non-operating income and expense	2,541	2,961
Income before income tax from continuing operations	458,866	613,847
Income tax expense	( 78,007 )	( 104,354 )
Net income	<u>\$ 380,859</u>	<u>\$ 509,493</u>
Earnings per share		
Basic earnings per share ( after taxes )	<u>\$ 190.43</u>	<u>\$ 254.75</u>





MEGA VENTURE CAPITAL CO., LTD.  
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Operating revenue	\$ 58,866	\$ 56,400
Operating cost	( 12,378 )	( 10,000 )
Gross Profit	46,488	46,400
Operating expense	( 27,490 )	( 20,555 )
Operating income	18,998	25,845
Non-operating income and expense	207	87
Income before income tax	19,205	25,932
Income tax expense	( 206 )	( 2,563 )
Net income	18,999	23,369
Other comprehensive income	48,009	( 35,937 )
Total comprehensive income	\$ 67,008	( \$ 59,306 )
Earnings per share		
Basic earnings per share ( after taxes )	\$ 0.19	\$ 0.23

(11) Profitability of the Company and its subsidiaries:

A. Profitability

(a) The Company

UNIT : %

		MEGA FINANCIAL HOLDING CO., LTD	
Items		For the year ended December 31, 2017	For the year ended December 31, 2016
Return on assets	Pre-tax	7.78	7.07
	After-tax	7.81	6.94
Return on equity	Pre-tax	8.69	7.81
	After-tax	8.72	7.67
Net profit margin		98.52	96.38

UNIT : %

		MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES	
Items		For the year ended December 31, 2017	For the year ended December 31, 2016
Return on assets	Pre-tax	0.85	0.83
	After-tax	0.75	0.67
Return on equity	Pre-tax	9.92	9.54
	After-tax	8.72	7.67
Net profit margin		43.13	40.76

(b) The subsidiary

UNIT : %

		MICB	
Items		For the year ended December 31, 2017	For the year ended December 31, 2016
Return on assets	Pre-tax	0.79	0.76
	After-tax	0.70	0.63
Return on equity	Pre-tax	9.30	9.02
	After-tax	8.26	7.44
Net profit margin		43.41	42.08

UNIT : %

Items		MS	
		For the year ended December 31, 2017	For the year ended December 31, 2016
Return on assets	Pre-tax	1.27	0.18
	After-tax	1.10	0.07
Return on equity	Pre-tax	4.72	0.61
	After-tax	4.07	0.23
Net profit margin		19.32	1.56

UNIT : %

Items		MBF	
		For the year ended December 31, 2017	For the year ended December 31, 2016
Return on assets	Pre-tax	1.18	1.47
	After-tax	0.99	1.22
Return on equity	Pre-tax	9.20	10.47
	After-tax	7.75	8.74
Net profit margin		68.21	68.96

UNIT : %

Items		CKI	
		For the year ended December 31, 2017	For the year ended December 31, 2016
Return on assets	Pre-tax	2.88	1.19
	After-tax	2.17	0.64
Return on equity	Pre-tax	7.52	3.13
	After-tax	5.66	1.68
Net profit margin		7.25	2.18

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, 2017 and 2016.

- (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.172 of the Consolidated Financial Statements)

## 17. ADDITIONAL DISCLOSURES

The transactions between and among subsidiaries have been eliminated during the consolidation. The disclosed information below is for reference purposes only.

- (1) Significant transaction information:

(Please refer to p.175 of the Consolidated Financial Statements.)

- (2) Information on the investees:

(Please refer to p.177 of the Consolidated Financial Statements.)

- (3) Information on investments in Mainland China

(Please refer to p.184 of the Consolidated Financial Statements.)

- (4) Significant transactions between parent company and subsidiaries

(Please refer to p.185 of the Consolidated Financial Statements.)

- (5) MS and MF engaged in futures business and shall meet the requirements of relevant futures transactions regulations. Financial ratio and enforcement of MS and MF are as follows:

(Please refer to p.188 of the Consolidated Financial Statements)

- (6) The Prospective Risk For Futures Trading

(Please refer to p.189 of the Consolidated Financial Statements)



## 18. DISCLOSURE OF FINANCIAL INFORMATION BY SEGMENTS

### (1) General Information

The Mega 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 Mega 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 Mega 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 Mega 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 Mega Group's management mainly focuses on the operating results of the whole group, which is consistent with the statement of comprehensive income on page 12 of the consolidated financial statements.

### (3) Major customer information

The Mega 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 Mega 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, 2017							
Items	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Interest income, net	\$ 34,084,103	\$ 68,210	\$ 1,069,211	\$ 755,657	(\$ 97,657)	\$ -	\$ 35,879,524
Revenues other than interest income, net	15,892,500	1,321,632	2,896,709	2,325,503	27,539,501	( 26,194,981)	23,780,864
Net revenue	49,976,603	1,389,842	3,965,920	3,081,160	27,441,844	( 26,194,981)	59,660,388
(Provision for) reversal of bad debts expense and guarantee	( 4,344,809)	18	11,068	-	( 3,091)	-	( 4,336,814)
Net change in provisions for insurance liabilities	-	152,758	-	-	-	-	152,758
Operating expenses	( 21,328,752)	( 1,077,021)	( 765,467)	( 2,383,325)	( 912,901)	271,861	( 26,195,605)
Income (loss) before income tax from continuing operations	24,303,042	465,597	3,211,521	697,835	26,525,852	( 25,923,120)	29,280,727
Income tax expense	( 2,779,632)	( 114,954)	( 506,292)	( 101,004)	( 49,750)	-	( 3,551,632)
Net Income (loss)	\$ 21,523,410	\$ 350,643	\$ 2,705,229	\$ 596,831	\$ 26,476,102	(\$ 25,923,120)	\$ 25,729,095

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
(Provisions for) reversal of bad debts expenses and guarantee	( 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	( 18,899,537)	( 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, 2017							
Items	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Segment assets	\$ 3,168,188,095	\$ 15,928,198	\$ 279,521,849	\$ 66,518,554	\$ 348,843,985	( \$ 331,679,367)	\$ 3,547,321,314
Segment liabilities	\$ 2,904,305,222	\$ 9,590,856	\$ 243,483,992	\$ 51,502,548	\$ 45,859,568	( \$ 5,516,434)	\$ 3,249,225,752

For the year ended December 31, 2016							
Items	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

(6) Geographical information about net revenue and identifiable assets

For the years ended December 31,			
	2017	2016	
Asia	\$ 56,725,947	\$ 56,259,930	
America	1,744,047	( 2,485,381)	
Other	1,190,394	1,289,571	
Total net revenue	\$ 59,660,388	\$ 55,064,120	

	December 31, 2017	December 31, 2016	
Asia	\$ 3,184,379,353	\$ 2,942,189,343	
America	289,355,703	305,245,561	
Other	73,586,258	72,356,512	
Total identifiable assets	\$ 3,547,321,314	\$ 3,319,791,416	



Review of Financial Conditions,  
Operating Results,  
and Risk Management



# Review of Financial Conditions, Operating Results, and Risk Management

## 7.1 Analysis of Financial Status

Unit: NT\$1,000

Item	Year	2017	2016	Difference	
				Amount	%
Cash and cash equivalents, due from the Central Bank and call loans to banks		711,066,683	638,143,099	72,923,584	11.43
Financial assets at fair value through profit or loss, net		191,581,454	186,317,373	5,264,081	2.83
Available-for-sale financial assets, net		442,557,049	354,464,708	88,092,341	24.85
Derivative financial assets for hedge		0	0	0	0
Bills and bonds purchased under resale agreements		2,553,228	2,855,885	( 302,657)	( 10.60)
Receivables, net		96,055,863	86,825,802	9,230,061	10.63
Current income tax assets		786,198	577,485	208,713	36.14
Non-current assets held for sale, net		0	0	0	0
Bills discounted and loans, net		1,762,160,756	1,715,278,766	46,881,990	2.73
Reinsurance contract assets, net		3,555,454	4,261,668	( 706,214)	( 16.57)
Held-to-maturity financial assets, net		284,687,657	280,997,362	3,690,295	1.31
Equity investments accounted for by the equity method, net		3,184,501	3,108,470	76,031	2.45
Restricted assets		0	0	0	0
Other financial assets, net		15,089,381	14,955,209	134,172	0.90
Property and equipment, net		21,981,154	21,787,452	193,702	0.89
Investment property, net		1,696,863	1,711,561	( 14,698)	( 0.86)
Intangible assets, net		382,728	270,438	112,290	41.52
Deferred income tax assets		6,018,307	5,463,227	555,080	10.16
Other assets, net		3,964,038	2,772,911	1,191,127	42.96
Total assets		3,547,321,314	3,319,791,416	227,529,898	6.85
Due to the Central Bank and financial institutions		400,547,065	401,731,599	( 1,184,534)	( 0.29)
Funds borrowed from the Central Bank and other banks		33,457,560	39,974,427	( 6,516,867)	( 16.30)
Financial liabilities at fair value through profit or loss		9,966,779	12,105,231	( 2,138,452)	( 17.67)
Derivative financial liability for hedge		0	0	0	0
Bills and bonds sold under repurchase agreements		237,706,429	231,191,763	6,514,666	2.82
Commercial paper payable, net		20,165,421	11,701,649	8,463,772	72.33
Payables		71,839,997	59,001,999	12,837,998	21.76
Current income tax liability		7,525,373	8,589,599	( 1,064,226)	( 12.39)
Liability directly related to assets held for sale		0	0	0	0
Deposits and remittances		2,386,555,016	2,171,287,924	215,267,092	9.91
Bonds payable		31,670,036	41,924,088	( 10,254,052)	( 24.46)
Other loans		1,325,368	5,954,030	( 4,628,662)	( 77.74)
Preferred stock liabilities		0	0	0	0
Other financial liabilities		12,698,470	10,849,706	1,848,764	17.04
Provisions for liabilities		26,182,764	25,047,224	1,135,540	4.53
Deferred income tax liabilities		2,266,455	2,201,659	64,796	2.94
Other liabilities		7,319,019	6,203,075	1,115,944	17.99
Total liabilities		3,249,225,752	3,027,763,973	221,461,779	7.31
Equity attributable to owners of parent		298,054,133	291,985,353	6,068,780	2.08
Common stock		135,998,240	135,998,240	0	0
Capital surplus		68,194,233	68,194,233	0	0
Retained earnings		94,868,778	89,958,846	4,909,932	5.46
Other equity interest		( 1,007,118)	( 2,165,966)	1,158,848	( 53.50)
Treasury stock		0	0	0	0
Non-controlling interest		41,429	42,090	( 661)	( 1.57)
Total Equity		298,095,562	292,027,443	6,068,119	2.08



## Change analysis:

1. The increase in available-for-sale financial assets is primarily due to the increase in bonds and negotiable certificate of deposits.
2. The increase in current income tax assets is largely due to the rise in prepaid income tax.
3. The increase in intangible assets is mainly due to the increase in computer software.
4. The increase in other assets is largely due to the increase in refundable deposits.
5. The increase in commercial paper payable is largely due to the increase in issuance of domestic commercial papers.
6. The increase in payables is mainly due to the increase in settlement amount payable.
7. The reduction in bonds payable is primarily due to the repayment of subordinated financial bonds.
8. The decrease in other loans is mainly due to the decline in credit loans.
9. The increase in other equity items is primarily due to the increase in unrealized gain on valuation of available-for-sale financial assets which offsets the increase in exchange loss on translation of foreign financial statements.

## 7.2 Analysis of Financial Performance

Unit: NT\$1,000

Item	2017	2016	Difference	%
Interest income	57,094,672	54,113,662	2,981,010	5.51
Less: interest expenses	( 21,215,148)	( 16,420,610)	( 4,794,538)	29.20
Interest income, net	35,879,524	37,693,052	( 1,813,528)	( 4.81)
Revenues other than interest, net	23,780,864	17,371,068	6,409,796	36.90
Net revenue	59,660,388	55,064,120	4,596,268	8.35
Bad debts expense on loans and provisions for guarantee liabilities	( 4,336,814)	( 3,613,467)	( 723,347)	20.02
Reversal of (provisions for) insurance reserve	152,758	( 116,264)	269,022	( 231.39)
Operating expenses	( 26,195,605)	( 23,417,176)	( 2,778,429)	11.86
Income before income tax	29,280,727	27,917,213	1,363,514	4.88
Income tax expenses	( 3,551,632)	( 5,474,318)	1,922,686	( 35.12)
Profit for the year	25,729,095	22,442,895	3,286,200	14.64
Total other comprehensive income (after income tax)	( 349,226)	( 3,471,024)	3,121,798	( 89.94)
Total comprehensive income	25,379,869	18,971,871	6,407,998	33.78
Profit attributable to owners of parent	25,734,515	22,456,183	3,278,332	14.60
Profit attributable to non-controlling interests	( 5,420)	( 13,288)	7,868	( 59.21)
Comprehensive income attributable to owners of parent	25,380,530	18,981,010	6,399,520	33.72
Comprehensive income attributable to non-controlling interests	( 661)	( 9,139)	8,478	( 92.77)

## Change analysis:

1. The increase in interest expense is largely due to the growth in interest expense of deposits, interbank over-draft and call loans.
2. The increase in revenues other than interest is mainly due to the increase in gain from financial assets and liabilities at fair value through profit or loss and the decrease in penalty imposed by the US government, which offsets the reduction in service fee and commission income and foreign exchange gain.

3. The growth in bad debts expense on loans and provisions for guarantee liabilities is mainly due to increase in provisions for bad debts.
4. The decrease in net change in provisions for insurance liabilities is primarily due to reverse of various provisions for insurance liabilities.
5. The reduction in income tax expense is mainly due to the decrease in tax on undistributed earnings and tax rebate benefits.
6. The increase in total other comprehensive income (after income tax) is largely due to the increase in unrealized gain on available-for-sale financial assets, which offsets the increase in exchange loss on translation of foreign financial statements and loss from re-measurement of defined benefit plan.
7. The increase in both profit attributable to non-controlling interests and comprehensive income attributable to non-controlling interests is mainly attributable to the reduction in net loss of the investee, Mega I Venture Capital Company.
8. The increase in comprehensive income attributable to owners of parent is mainly due to the increase in total comprehensive income (after tax).

## 7.3 Analysis of Cash Flow

### 7.3.1 Cash Flow Analysis for 2017

Item \ Year	2017	2016	Variance
Cash flow ratio	29.06%	2.94%	888.44%
Cash flow adequacy ratio	481.10%	336.01%	43.18%
Cash reinvestment ratio	243.76%	( 5.94%)	-

#### Change Analysis:

1. The increase in cash flow ratio is mainly due to the growth in net cash flow provided by operating activities and the decrease in due from Central Bank and call loans to other banks.
2. The growth in cash flow adequacy ratio is primarily due to the increase in net cash flow provided by operating activities over the last five years.
3. The growth in cash reinvestment ratio is mainly due to the increase in net cash flow provided by operating activities.

### 7.3.2 Cash Flow Analysis for 2018

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
143,864,749	( 56,534,983 )	( 5,433,382 )	92,763,148	None	None

#### Analysis of Cash Flow:

1. Operating activities: mainly from decrease in deposits and remittances.
2. Investing activities: mainly for procurement of investment property as well as disposal of property and equipment.
3. Financing activities: mainly for payout of cash dividends, increase in funds borrowed from the Central Bank and other banks, other loans and the reduction in bonds payable.



## 7.4 Influences from Major Capital Expenditures in 2017: None.

## 7.5 Investment Strategies in the Past Year and Investment Plan for the Coming Year

### 7.5.1 Investment Policies in 2017

- 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 2017 of NT\$21,523,410 thousand, a growth of 13.22% from NT\$19,009,961 thousand in 2016, largely due to increase in gains on disposal of derivatives and stocks, and the US\$180 million sanction by the New York Department of Financial Services in 2016. In addition to strengthening the concept of AML and legal compliance through continuous training, the bank is establishing effective AML system, and internal audit and internal control system. The bank will consolidate its competitive advantage in corporate financing, offshore banking and financial operations, and develop digital and youth-oriented services. To expand consumer banking business, the bank will adopt the "business group" model in operation and management, and divide works by business type and the nature of front desk and back office.

#### Mega Securities Co., Ltd. (MSC)

MSC's net profit after tax in 2017 reached NT\$596,831 thousand, a 1,673.64% increase compared to NT\$33,650 thousand of 2016 largely due to the increase in the profits from proprietary trading and brokerage fee income, resulting from the growth in market trading volume and margin trading loans. The company will continue to develop digital financial services and expand the function of its e-commerce business. In addition to improving the ability in selection of trading stock 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 2017 reached NT\$2,705,229 thousand, falling 9.22% compared to NT\$2,980,126 thousand of 2016. The reduction in profit is largely attributed to the decline in net revenue from bills and bonds business. The company will continue to closely monitor the Central Bank's monetary policies, keep track of the financial situation, timely modify the interest rate for primary and secondary transactions,

and properly manage the bills positions in order to maximize interest spread from issuance and trading of bills. In addition, the company will carefully build a foreign currency bond portfolio, disperse country risk and increase the proportion of foreign currency corporate bonds in a hope to maintain the overall spread and to minimize the impacts from the US interest hike.

## Chung Kuo Insurance Co., Ltd. (CKI)

CKI's net profit after tax in 2017 amounted to NT\$350,643 thousand, a 246.57% increase compared to NT\$101,175 thousand in 2016. The profit growth mainly comes from increased underwriting profits thanks to continued product structure adjustment. Operations with higher losses were reviewed and efforts have been made to lower the loss rate. Besides, the gains on disposal of domestic securities investment also contribute to the increase of financial income.

## Mega Assets Management Co., Ltd.

In 2017, the company reported a net profit after tax of NT\$272,303 thousand, a 31.05% decline compared to NT\$394,951 thousand in 2016. The reduction of profits 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. Besides from acquiring NPL assets in the auction markets, the company will actively develop bid services in the foreclosure market. In addition, the company will proactively develop a service-oriented business in response to the governmental policies, such as urban renewal, demolition of dangerous sea-sand houses, dangerous and old buildings in cities, and seek the opportunity to act as an implementer in urban renewal.

## Mega Life Insurance Agency Co., Ltd. (MLIA)

MLIA posted a net profit after tax in 2017 of NT\$380,859 thousand, a 25.25% decrease from NT\$509,493 thousand in 2016. As the authority has cut interest rate on liability reserves, tightened control over negative net premium, the products with high commission rate are not for sale any more since early 2017, leading to the reduction in commission income. The company will introduce insurance products with high quality and benefits to meet clients' diversification need. The product strategy will be adjusted based on sales channel, customers' attributes, and market dynamics to enhance performance.

## Mega Venture Capital Co., Ltd. (MVC)

MVC recorded a net profit after tax in 2017 of NT\$18,999 thousand, falling 18.70% from NT\$23,369 thousand in 2016. The profit reduction was largely due to the reduction in gains on disposal of securities investment, the increase in appropriation of investment loss and operating expense (performance bonus). In order to improve the investment performance and activate funds utilization, the company will continue to improve its portfolio by investing in those companies with good quality, vice versa, it will also cut-loss on those companies which have uncertain prospect and poor operation.

## Mega International Investment Trust Co., Ltd. (MIIT)

MIIT posted a net profit after tax in 2017 of NT\$78,458 thousand, a 2.08% drop from NT\$80,125 thousand in 2016 largely due to the increase in operating expenses and the cut in management fee rate of money market

funds under its management. Although the management fee income increased owing to launch of new funds in 2017 and the increase in fund size of China A Share Funds, the advertisement fee also increased, leading to the increase in operating expenses. The company plans to improve its profits by expanding its AUM by launching 3 issues of new funds in 2018.

### Taipei Financial Center Corporation (TFCC)

TFCC posted a net profit in 2017 for NT\$2,129,660 thousand, down NT\$7,149 thousand or 0.33%, from NT\$2,136,809 thousand recorded in 2016, primarily owing to the reduction in operating income by NT\$58,872 thousand which offset the decrease in non-operating expenses (mainly interest expense) by NT\$49,922 thousand. Both lease ratio and rent collection ratio declined from 2016 levels, but the average monthly rent increased from the 2016 levels.

### Taiwan Depository & Clearing Corporation (TDC)

TDC recorded a net profit after tax in 2017 of NT\$2,095,603 thousand, surging by NT\$657,377 thousand or 45.71% from NT\$1,438,226 thousand in 2016. The company's securities service revenues rose by NT\$895,482 thousand due to the sharp increase in trading volume of the domestic equity market, while the operating expenses only increased NT\$84,777 thousand.

### Taiwan Business Bank (TBB)

TBB posted a net profit after tax in 2017 of NT\$5,039,924 thousand, a drop of NT\$155,775 thousand or 3.00% from NT\$5,195,699 thousand in 2016. The profit reduction was mainly due to the increase in operating expense of NT\$164,459 thousand and bad debts expense of NT\$524,517 thousand which offset the increase in net revenue of NT\$205,661 thousand. As of the end of 2017, its NPL ratio slightly decline to 0.33% from 0.43% in 2016, while the coverage ratio rose to 327.57% from 277.63% recorded in 2016.

## 7.5.3 Investment Plans for 2018

- 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 financial markets.

## 7.6 Risk Management

### 7.6.1 Risk Management Structure and Policy

#### A. Risk Management Structure

##### Mega Financial Holding Company

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 Company's "Risk Management Committee" is presided over by its chairman and is responsible for deliberating on the group's risk management policies, and supervising and providing guidance on the group's risk management

mechanism. The Risk Management Department is responsible for compiling, measuring, analyzing, monitoring and reporting the risks throughout the group. The Legal Affairs and Compliance Department takes charge of planning, managing and executing the compliance system. The Auditing Office of the Board takes charge of evaluating the effectiveness of internal control systems and the efficiency of the Group's operations, and timely provides advice.

## Mega International Commercial Bank

Under the Board of Directors is the Risk Management Committee, which helps the Board supervise the operations of the risk management system. Other committees and management units are responsible for reinforcing effective legal compliance, reviewing and controlling risks associated with loans, investments, transactions, wealth management and asset/liability allocation among other operations. The Risk Management Department, Compliance Department, and Anti-Money Laundering and Financial Crime Compliance Department, reflective of their responsibilities, are in charge of supervising the establishment of the risk control mechanism, monitoring and reporting risks, and reinforcing the effectiveness of internal control.

## B. Risk Management Policy

The risk management policies of the Company and its subsidiaries are established reflective of their business and are sufficient to identify, supervise and control risks. The policies emphasize systematic prevention, reduction and response to foreseeable operational risks, and consolidate the capital in order to address unforeseeable risks and to ensure that operating risks are controlled within a tolerable range.

## 7.6.2 Methods of Risk Assessment and Quantification of Risk Exposure

### A. Strategies and procedures

#### Mega Financial Holding Company

The Company and its subsidiaries, through a defined risk management organization and management framework, complete risk management regulations and internal operating control procedures, effectively enforce the group's risk management policies. Respective dedicated units of the Company take responsibilities for supervising the integrity of the risk management framework and the implementation of risk management policies. 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, periodically reviewing and monitoring overall risk, conducting stress tests, responding to incidents and reporting to the management, which are the second line of defense. The audit unit ensures that the risk management mechanism is solid and complied with, and hence is the third line of defense.

The Company has established various regulations for monitoring respective risks throughout the Group such as "Risk Management Policy and Operating Guidelines" approved by the Board of Directors and group risk limits. Respective subsidiaries have also established the risk management objectives, monitoring indicators, risk limits and applicable rules reflective of their business features so that they can detect business,



asset & liability risk and periodically report the management status to the Company's Risk Management Committee. The Company, on the other hand, reports the Group's risk management status to the Board of Directors periodically, so that the Board of Directors understands the various risks undertaken inside the institution and how they are controlled.

According to the "Risk Management Policy and Operating Guidelines," the Company has established respective regulations governing credit risk, market risk, operational risk, liquidity risk, capital adequacy, asset quality and others to be jointly complied with throughout the group. Risks are categorized according to their nature, source and grade. The risk profiles of the group and respective subsidiaries are evaluated in all respects by means of diversified tools. Appropriate measures are adopted to keep the risk indicators within the approved limits. Pre-warning indicator, alert and anomaly reporting mechanisms are established and the improvement status are followed up.

#### (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 and reports to the Company's Risk Management Committee and Board of Directors the group's credit risk profile.

#### (2) Market risk

The Company has established a market risk management system by means of self-development along with outsourcing. With transaction data of financial instruments uploaded on a daily basis from respective subsidiaries, Value at risk (VAR, (1D, 99%)) 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 analyze the sensibility of the evaluation gains or losses affected by the variation of yields of interest rate products. 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 have exclusive departments to take charge of managing the daily capital liquidity. According to respective gap limits approved by the Board of Directors, they monitor liquidity risk indicators, perform capital allocation transactions, report capital liquidity status from time to time, and periodically review the 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.

In response to the expansion of overseas business in the future, the development of new business and to be in line with the international practice, the group makes “enhancing global operations and risk management skills and systems” one of its mid-to-long-term development strategies, and it will continue to improve its risk management features and scope of coverage for quantified information.

## Mega International Commercial Bank

### (1) Credit risk

In response to the implementation of New Basel Capital Accord, the internal rating system linked to the probability of default (PD) is introduced to predict customer's PD and loss given default etc. with quantitative analysis tools so as to enhance the management efficacy of credit risk. In addition, a defined different authorization limits is in place to streamline the processes and enhance operational efficiency. Before granting credits and making investment, the bank does perform credit investigation and case reviews, among others. Follow-up review and tracing will be carried out periodically after undertaking. Anomaly and emergent incidents are required to report to the management within a given timeframe according to the reporting mechanism.

### (2) Market risk

Market risk positions and tolerable losses throughout the bank are being monitored according to the risk management goals and risk limits approved by the Board of Directors. In order to ensure profits and to minimize operating risk, each transaction is required to follow the limits and stop-loss rules. If a transaction reaches the stop-loss limit, stop-loss shall be enforced immediately. If not, it has to be reported to the senior management for approval and reported to the Risk Management Committee and the Board of Directors. The positions of various financial instruments are summarized and analyzed on a daily basis, with evaluation gains/loss and sensitive risk factors. Outstanding balances, losses and gains, and market value evaluations of securities investments and derivatives transactions are compiled periodically and reported to the (Managing) Board of Directors.

### (3) Operational risk

Training on the laws, regulations and business is reinforced. An effective control framework and internal control procedures for each level are established. Measures such as self-inspections, internal and external audit and supervision are taken to help minimize operational risk-associated losses. There is an operational risk events reporting system in place. By reporting in real time and discussing the cause, improvement measures may be stipulated to prevent loss events from happening again. In addition, an operational risk self-assessment system is in place to help identify and evaluate the extent of operational risk exposure, to



reinforce risk management awareness and to improve the current control mechanism. With key indicators for operational risk, the bank monitors potential risks and adequately adopts appropriate management measures. Risk identification and assessment, legitimacy analysis and planning of the information operating system are conducted prior to launch of new products or business and official opening of new overseas operating sites. New products or new businesses need to be submitted to the related meetings for review.

#### (4) Asset securitization risk

Securitization needs to be approved by the Loan Committee, Investment Committee and (Managing) Board of Directors. After the application submitted by the trustee is approved by the competent authority, the related securitization contracts are entered into and beneficiary securities are issued followed by ex-post risk management.

#### (5) Liquidity risk

The liquidity risk is being monitored according to the risk management targets and limits approved by the Board of Directors. Stress test is carried out periodically, and the results are reported to the Asset & Liability Management Committee and the Board of Directors to ensure that the bank's liquid funds are sufficient to address the increase in assets or to fulfill obligations upon maturity. Domestic units' NTD and foreign currencies intra-day liquidity positions and risks are controlled on a daily basis, and the liquidity reserve is maintained as required to ensure adequate liquidity. Overseas branches shall follow the regulations of this parent country and the local competent authority to maintain sufficient liquidity.

### B. Organization of risk management

#### Mega International Commercial Bank

##### (1) Credit risk

The Risk Management Committee is responsible for deliberating the risk management policies and rules among others. The Loan Committee and the Investment Committee, respectively, take charge of reviewing credit and investment cases, related policies, and the implementation status this regard. The Problem Loan Committee manages the problem loans and debt collection, and reviews related policies of non-performing loans. Each unit in charge of credit risk at the Head Office and performs risk management procedures such as identification, measurement, monitoring and reporting reflective of their duties. It also formulates business management regulations and continuously improves the risk management. The Risk Management Department coordinates and supervises the various units in creating the credit risk management mechanism, develops tool such as internal rating system and periodically submits risk management reports to the Board of Directors and this Company.

##### (2) Market risk

The Risk Management Committee is responsible for supervising the market risk. The Risk Management Department is responsible for creating a market risk management mechanism and stipulating the related internal regulations. It summarizes and analyzes data such as positions, evaluation gains and losses, sensitive risk factors analysis and stress tests of various financial products regularly and reports to the top management, the Board of Directors and this Company.

## (3) Operational risk

Related units at the Head Office formulate respective business management regulations and operational specifications to create a control mechanism. The Risk Management Department is responsible for stipulating the operational risk management policies and targets, designing and introducing the operational risk assessment and management mechanisms, summarizing and reporting the operational risk loss regularly. The Auditing Department of the Board of Directors is responsible for inspecting the effectiveness of the operational risk management mechanisms at the respective units.

## (4) Asset securitization risk

The target assets, securitization structure and risk positions of asset securitization are approved by the (Managing) Board of Directors, while the type, line of credit, investment of the asset pool, and target creditor's rights created by the founding institution are reviewed by the Investment Committee and Loan Committee. The Credit Control Department shall ensure loan asset securitization is conducted in accordance with loan operating procedures.

## (5) Liquidity risk

The Board of Directors is the highest liquidity risk supervisory unit that approves the risk strategies and limits. The Treasury Department manages the daily liquidity risks. The Risk Management Department periodically reports the monitoring status of liquidity risk to the Capital Review Committee, the Assets & Liabilities Management Committee, and the (Managing) Board of Directors.

## C. Scope and characteristics of reporting and measuring system

### Mega International Commercial Bank

#### (1) Credit risk

In order to control risks associated with related (group) enterprises, sectors and countries, and to prevent the over-concentration of risks, credit and investment limits for related (group) enterprises and the primary industries are set, and the control status is periodically reported to the senior management and the Board of Directors. Credit follow-up review is conducted and the review status is reviewed on a yearly basis. Invested companies are visited to check on their operations. Updates on various control status are reported to the senior management. If borrowers or invested businesses are showing anomaly or experiencing financial difficulties with insufficient cash flows or other material incidents that are sufficient to impact the company operations, it shall be reported in real time to the senior management and this Company in order to keep track of the related information, and to adopt the necessary measures adequately. Business supervisory unit periodically evaluates losses that might arise from the respective assets and recognizes provisions for bad debts or accumulated impairments.

#### (2) Market risk

Domestic trading units report the various financial products' positions and gains and losses to the management on a daily basis. The Risk Management Department performs stress test on a monthly basis and reports to the Risk Management Committee periodically. Derivatives trading position held



are evaluated with the market value on a daily basis, while derivatives positions for hedge trades are evaluated twice a month. As soon as evaluation losses reach the stop-loss limits, stop-loss will be executed immediately. If stop-loss is not executed, reasons for non-stop-loss and responsive solutions have to be specified and reported to the top management for approval. When the losses exceed a certain level, the position shall be submitted to the Risk Management Committee and reported to the Board of Directors.

### (3) Operational risk

Reports on the result of self-assessment of operational risk, occurrences of operational risk loss incidents, the implementation of legal compliance system, and audits and self-inspections status are to be submitted to the Board of Directors periodically. Discussions and improvements are to be taken on as soon as deficiencies are found with the respective units. The responsible unit at the Head Office is to follow up on and track the improvements as well. The domestic and overseas operational units and the management units at the Head Office are to organize self-assessment of the operational risk each year to measure the operational risk exposure and discuss how to improve the existing control mechanisms based on the suggestions provided by the respective units.

### (4) Asset securitization risk

The bank's investments in securitization products are assigned in the banking book. According to the internal management guidelines, the risk management report is to be produced periodically, showing the types, amount, credit rating and valuation of beneficiary securities or asset-backed securities invested, as well as the performance of target assets of the securitization.

### (5) Liquidity risk

The liquidity risk report estimates the impacts of future cash flows on allocation of funds to keep the cash flow gap or ratio within a tolerable range. As soon as liquidity indicators reach the alert level, the Risk Management Department should report it to the Fund Management Committee. If they reach the criteria for activating the response plan, the interim fund management meeting is called and the President is to approve the liquidity response plan, so that the Treasury Department may enforce it accordingly. In addition, the stress test is performed periodically. The fund structure is adjusted or other response measures are taken, depending on the stress test results in order to bring down the risk.

## D. Hedging or mitigation policy and strategies and procedures

### Mega International Commercial Bank

#### (1) Credit risk

Through the prudent credit review process and follow-up review mechanism, the bank sufficiently understands a client's and the guarantor's financial and operational standings, and take into account the probability of default and the expected losses before deciding whether or not to extend the credits, or to take other measures for transferring or mitigating the risk. For collaterals such as securities that involve greater price volatility, efforts will be made to periodically monitor and maintain the loan-to-value ratios within an acceptable range.

## (2) Market risk

The bank uses spot transactions or derivatives to hedge market risk. The positions, and gains and losses of hedging and hedged targets are consolidated to control the stop-loss limits and evaluate whether the risk is within the tolerable range and the effectiveness of hedging.

## (3) Operational risk

Possible operational risk losses from employees, treasury and assets are transferred through the banking comprehensive insurance purchased, and an outsourced service provider is carefully selected for signing the contract in order to transfer the possible operational risks. The auditing unit of the Board of Directors is responsible for conducting inspections to ensure legal compliance by the contractors.

## (4) Asset securitization risk

When conducting asset securitization, the bank takes into considerations the industry concentration, business cycle risk and effective utilization of capital of risk assets, etc. Cost and benefits are discussed from time to time thereafter in order to effectively evaluate the appropriate timing for securitization.

## (5) Liquidity risk

In response to the liquidity risk, the liquidity emergency response plan is in place to reduce the liquidity risk.

## E. Method of risk management & quantification of risk exposure

### Mega International Commercial Bank

## (1) Credit risk

### The Capital Requirement for Credit Risk under Standard Approach

December 31, 2017; Unit: NT\$ thousand

Exposure types	Exposures after credit mitigation	Capital requirement
Sovereigns	629,546,451	879,695
Non-central government public sector entities	1,333,447	21,335
Banks (including multilateral development banks)	534,683,746	14,223,706
Enterprises (including securities firms and insurance companies)	1,476,204,567	103,982,322
Regulatory retail portfolios	228,177,129	15,318,240
Residential property	248,535,044	9,730,694
Equity investment	14,370,373	1,149,630
Other assets	34,269,804	1,901,483
Total	3,167,120,561	147,207,105

## (2) Market risk

## The Capital Requirement for Market Risk

December 31, 2017; Unit: NT\$ thousand

Risk type	Capital requirement
Interest rate risk	2,384,379
Equity risk	649,672
Foreign risk	545,832
Product risk	0
Total	3,579,883

## (3) Operational risk

## The Capital Requirement for Operational Risk

December 31, 2017; Unit: NT\$ thousand

Year	Gross profits	Capital requirement
2017	49,253,517	
2016	49,299,524	
2015	47,367,306	
Total	145,920,347	

## (4) Securitization Risk:None

## (5) Liquidity Risk

## A. An Analysis of the Maturity Structure-NT Dollar

December 31, 2017; 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	\$1,884,008,321	\$ 187,833,304	\$ 208,337,785	\$ 237,385,104	\$ 248,521,534	\$ 177,816,984	\$ 824,113,610
Major Outflows of Matured Funds	2,474,105,713	128,173,756	235,794,465	311,681,705	283,744,919	429,264,908	1,085,445,960
Period Gap	(\$ 590,097,392)	\$ 59,659,548	(\$ 27,456,680)	(\$ 74,296,601)	(\$ 35,223,385)	(\$ 251,447,924)	(\$ 261,332,350)

Note: The above table reports the N.T. dollars position held by the Bank.

## B. An Analysis of the Maturity Structure-US Dollar

December 31, 2017; Unit: US\$ thousand

Item	Total	Amount Outstanding by Remaining Time to Maturity				
		1~30 days	31~90 days	91~180 days	181days~1 year	over 1 year
Major Inflows of Matured Funds	\$ 56,886,477	\$ 26,657,714	\$ 8,343,873	\$ 3,766,739	\$ 2,154,972	\$ 15,963,179
Major Outflows of Matured Funds	66,821,302	26,582,615	9,076,199	5,419,476	6,325,843	19,417,169
Period Gap	(\$ 9,934,825)	\$ 75,099	(\$ 732,326)	(\$ 1,652,737)	(\$ 4,170,871)	(\$ 3,453,990)

Note: The above table reports the U.S. dollars position held by the Bank.

## C. An Analysis of the Maturity Structure-US Dollar of Overseas Branches

December 31, 2017; 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	\$ 20,412,248	\$ 11,517,700	\$ 2,516,467	\$ 753,350	\$ 1,009,933	\$ 4,614,798
Major outflows of matured funds	21,991,414	10,855,576	1,066,824	727,380	666,492	8,675,142
Period gap	(\$ 1,579,166)	\$ 662,124	\$ 1,449,643	\$ 25,970	\$ 343,441	(\$ 4,060,344)

## Mega Bills Finance Co., Ltd.

### (1) Credit risk

#### The Capital Requirement for Credit Risk under Standard Approach

December 31, 2017; Unit: NT\$ thousand

Exposure types	Capital requirement	Risk assets
Sovereigns	0	0
Non-central government public sector entities	9,819	122,734
Banks (including multilateral development banks)	269,603	3,370,043
Enterprises (including securities firms and insurance companies)	12,203,351	152,541,892
Regulatory retail portfolios	150,362	1,879,528
Equity investment	64,704	808,800
Other assets	261,027	3,262,834
Total	12,958,866	161,985,831

### (2) Market risk

#### The Capital Requirement for Market Risk under Standard Approach

December 31, 2017; Unit: NT\$ thousand

Exposure type	Capital requirement	Risk assets (Note)
Interest rate risk	6,730,733	84,134,163
Equity risk	272,092	3,401,150
Foreign exchange risk	59,531	744,138
Product risk	0	0
Option adopted sensitive analysis method	0	0
Total	7,062,356	88,279,450

Note: Capital requirement times 12.5

### (3) Operational risk

#### The Capital Requirement for Operational Risk under Basic Indicators Method

December 31, 2017; Unit: NT\$ thousand

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



## (4) Securitization risk

## The Capital Requirement for Securitization Framework

December 31, 2017; Unit: NT\$ thousand

Bank category	Risk exposure category Book type	Asset category	Traditional		Synthetic		Total		
			Exposure		Exposure		Exposure (5)=(1)+(3)	Capital requirement (6)=(2)+(4)	Capital requirement before securitization
			Retained or purchased (1)	Capital requirement (2)	Retained or purchased (3)	Capital requirement (4)			
Non-originating bank	Banking book								
	Trading book	Rent receivable			227,935	11,968	227,935	11,968	
	Sub-total				227,935	11,968	227,935	11,968	
Originating bank	Banking book								
	Trading book								
	Sub-total								
Total					227,935	11,968	227,935	11,968	

## (5) Liquidity risk

## Analysis of the Maturity Structure of Assets and Liability

December 31, 2017; 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	275,056	68,451	57,576	11,900	8,848	128,281
Major outflows of matured funds	241,099	213,083	25,107	2,335	568	6
Period gap	33,957	( 144,632)	32,469	9,565	8,280	128,275
Cumulative gap		( 144,632)	( 112,163)	( 102,598)	( 94,318)	33,957

## Mega Securities Co., Ltd.

## (1) Counterparty's country risk

December 31, 2017; Unit: NT\$ million

Country Exposure	Deposits	Securities	Derivatives	Total	As a percentage of shareholder's equity
China	53	2,718,041	-	2,718,094	18.21%
Hong Kong	0	1,156,434	-	1,156,434	7.75%
France	0	650,863	-	650,863	4.36%
USA	0	570,956	-	570,956	3.83%
New Zealand	0	475,549	-	475,549	3.19%
Cayman Islands	0	245,731	-	245,731	1.65%
Ireland	0	176,856	-	176,856	1.19%
Luxembourg	86,877	0	-	86,877	0.58%
Australia	0	29,865	-	29,865	0.20%
Japan	0	29,728	-	29,728	0.20%

## (2) Liquidity Risk

### Analysis of the Maturity Structure

December 31, 2017; Unit: NT\$ million

	Total	Amount Outstanding by Remaining Time to Maturity					
		1~10 days	1~30 days	1~90 days	1~181 days	1day~1 year	1day~Over 1 year
Major inflows of matured funds	58,632	24,119	46,184	46,999	47,746	53,755	58,632
Major outflows of matured funds	48,484	25,087	40,501	45,547	45,745	47,266	48,484
Cumulative gap		( 968)	5,683	1,452	2,001	6,489	10,148

## Chung Kuo Insurance Co., Ltd.

December 31, 2017; Unit: NT\$ thousand

Exposure	Risk requirement	As a percentage of the risk capital before adjustment
R0 : Asset risk – Related party risk	97,319	2.99%
R1 : Asset risk – Unrelated party risk	817,012	25.11%
R2 : Credit risk	143,475	4.41%
R3a : Underwriting risk – Reserve risk	845,092	25.97%
R3b : Underwriting risk – Premium risk	1,278,767	39.30%
R3c : Underwriting risk – Long-term insurance risk	10	0.00%
R4 : Asset & liability allocation risk	4,747	0.15%
R5 : Other risk	67,683	2.08%
Risk capital amount before adjustment	3,254,104	100.00%
Risk capital amount	899,725	
Equity capital amount	6,765,462	
Capital Adequacy Ratio	751.95%	

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

### A. Impact of changes in key policies and laws

- (1) The Ministry of Justice amended the Money Laundering Control Act on December 28, 2016 that defines patterns of money laundering and the reinforced review procedure that should be applied to clients who are politically exposed persons, their family members and closely-related people. In addition, the legal basis for reviewing clients and penalties upon violations are added in order to be in line with the international regulations and to improve the anti-money laundering efficacy. Related operational costs will be increased for the Company in order to fulfill the applicable anti-money laundering laws and regulations and operational requirements.
- (2) To go with the "New Southbound Policy Action Plan" activated in the beginning of 2017 by the Executive Yuan, the Financial Supervisory Commission (FSC) established the "Solution for Encouraging Domestic Banks to Reinforce Loans to Target Countries in New Southbound Policy" to help the related enterprises obtain funds required for investing in or promoting their business in these countries, and it also helps domestic banks develop new markets in Southeast Asia and increase their scale of overseas loans and also their profitability.



- (3) The Ministry of Finance, R.O.C. announced the amended "Securities Transaction Tax Act" on April 26, 2017 that cut the security transaction tax on stock day trading from the current 0.3% to 0.15%. It helps boost transactions in the securities market.
- (4) In order to strengthen the procedure for verifying OBU (Offshore Banking Unit) client identity, the FSC amended the Rules Governing Offshore Banking Branches in May 2017 that require OBUs to re-examine the identity of each client, and performs KYC (know your customer) and risk classification of all accounts. Although this increases the operational cost for domestic banks, it is conducive to connecting with the international anti-money laundering system.
- (5) The FSC amended the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries", the "Regulations Governing Anti-Money Laundering of Financial Institutions", and the "Guidance for Internal Control of Anti-Money Laundering and Counter Terrorism-Financing of Banks, Electronic Payment Institutions and Electronic Stored Value Card Issuers" during the first half of 2017. For the short term, they will increase the staff training, system configuration and organizational adjustment costs, among others, for financial institutions. Over the long run, however, these are conducive to the overseas deployment and operations, and enhancing international competitiveness of domestic banks.
- (6) The ownership ceiling on banks in venture businesses was increased from the 5% to 100% in October 2017. The overall amount of direct investment in venture capital businesses, however, may not exceed 3% of the net worth of a bank. In addition, for direct investments in the "Five Plus Two" key innovative industries promoted by the government, there is no need to present the related certificates issued by the competent authority. This helps domestic banks diversify the operations and boost the investments and credit business.

## **B. Countermeasures**

The Company will amend the related internal regulations to comply with the requirements of the laws and regulations announced by the competent authority, and reinforce its anti-money laundering and counter terrorism financing systems to fulfill the internal and external regulations and to reinforce legal compliance and the risk management mechanism.

## **7.6.4 Impact on the Company's finance and business due to technological or industrial changes, and corresponding countermeasures**

### **A. Impacts of technological changes and countermeasures**

#### **a. Impact of technological changes on bank's finance and business**

Technological advancements have not only resulted in changes in the habit of users but also further expedited digitalization. The scope of digital application and cooperation between different industries is also expanded. In response to customers' needs and changes in the market, banks need to enhance customer management and product R&D in service patterns and contents of services. Besides, banks

should gradually promote business innovation and process optimization to increase customer satisfaction and achieve the sustainability goal. Impacts of technology changes on bank's finance and business are described as follows:

- **Increased demand for mobile banking:** The amount of time spent on mobile devices is continuing to grow. Banks are, therefore, required to develop mobile services in terms of product design and their operating procedures. In addition, to be in line with the government's policy to increase the electronic payment and mobile payment ratios, banks also need to develop mobile payment to replace the physical payment tools or work with other sectors in jointly promoting the mobile payment services.
- **Enhancing digital management and marketing capabilities:** The banking industry, compared to other sectors, owns more digital data. Therefore, banks should make use of technology skills to create a high-performing database framework. Data value is extracted through data analysis to facilitate the internal research or development of new products. For the application of the marketing channel, it also goes beyond conventional media to cover digital or social media which, along with the collection of digital behavior, ensure control over more data and information that can be used in research and analysis. The investment in data analysis has become one of the key factors influencing maintenance of banks' competitiveness.
- **Expediting branches' digital transformation:** The competent authority has relaxed various regulatory restrictions over the past few years and allowed consumers to apply for various financial services online. It is expected that the ratio of clients physically visiting branches for financial services will gradually drop each year. In order to address this trend early on, banks should establish a digital transformation plan for their branches' operations to accommodate the overall digital development.
- **Continuously updating the information system:** With banks promoting digital developments, the ratio of clients taking advantage of various digital means to get financial services will continue to rise. As the amount of digital transactions and the number of users constantly grow, banks should keep investing in the software and hardware of their information systems and introducing new information technologies in order to ensure service stability and extensibility.

## b. Countermeasures

- We update Internet banking and mobile banking system to introduce user experience design, optimize the operating procedure, and promote Taiwan Pay QR Code mobile payment services for money transfer, shopping and tax payment. The Bank home page will be updated to provide mobile web page in response to the needs of clients for mobile banking.
- We adopt long-term collaboration with external consultants to build the analytics capabilities. By creating a core big data system and reinforcing peripheral applications such as digital behavior collection, the width and depth of data analysis will be reinforced. In terms of digital marketing, we will work with the social media platform, LINE. With a LINE corporate account, the membership verification mechanism will be activated and clients will start to receive personalized information and notices. This helps boost customer adhesion and reinforce the digital brand image of Mega International Commercial Bank.





- We continuously develop new digital financial products (such as digital NTD and foreign currency savings accounts, biological traits, intelligent customer service, robots, mobile ATM cards, card-less cash withdrawal, bonus points marketing platforms, among others).
- We plan introduction of the VTM (virtual teller machine) remote video service system to branches which will contain features such as video conference account opening and issuance of IC ATM cards. This will reduce the workload for bank clerks and improve the quality of digital services at the same time.
- We enhance digital banking training for employees in order to boost their knowledge and skills in using a computer and equip them with basic marketing capabilities.
- Focusing on the five technical dimensions for cloud-computing, information security, mobile application, big data, and the Internet of Things, we will proactively invest in related applications, innovations and R&D, make best use of data value, and create a brand new financial service platform that helps explore various potential customers and business opportunities
- We will continue to promote the FSC's "Creating Digital Financial Environment 3.0" plan and reinforce our competitive advantages. With the planned utilization of big data analysis, clients' data analysis model is created to facilitate the classification of individual clients and analysis of relationship network of corporate customers, which will be utilized in precise wealth management marketing, in exploring potential customers and in reinforcing risk management.
- We will create the "Big Data Management Platform" that includes the "consistent data marketplace" to meet the various internal needs for data utilization. In addition to the "Data Lake" that stores enormous data required for big data analysis, we will introduce "ETL management tool" that can execute and monitor the scheduling of various operations.
- In line with the government policy, we will add features such as Taiwan Pay QR Code for money transfer, fee payment and tax payment to the "Mobile ATM" and "Mobile Bank". In addition, to ensure the stability and security of operations, the telephone banking system and the intermediary software for online banking have been upgraded and the multi-certificate identification mechanism has been created. Meanwhile, the online banking and mobile banking systems will be updated.
- In order to expand the customer base for online savings accounts, the citizen digital certificate and cross-bank accounts are adopted to verify customer's identity, and customers are allowed to use existing credit cards to apply for another credit card. In order to streamline operations at branches, we leverage robots to receive customers and provide, at selected sites, pre-services such as helping customers deposit or withdraw money, scan IDs for account opening, among others.

## **B. Impacts of industrial changes and countermeasures**

### **a. Impacts of industrial changes on bank's finance and business**

- As the economies in advanced and emerging countries concurrently improve, major institutions have in general predicted that the global economic outlook in 2018 will be slightly better than that in 2017. This helps maintain the export momentum of Taiwan. Attention, however, needs to be paid to the rise of trade protectionism, changes in global financial situation, increased geopolitical risks in the Middle

East and North Korea, and other risk factors such as the environmental protection ban in China and fluctuation in exchange rates, among others.

- In terms of internal demand, the semi-conductor businesses are expected to invest in advanced processes. In addition, the government will proactively remove investment obstacles in order to initiate forward-looking infrastructures, and to consolidate the industrial innovation and development plan; this vitalizes and speeds up the domestic investment momentum. The improvement of corporate profits, employee pay raises and dividend increases as well as steady employment situation are likely to boost private consumption.
- Thanks to the steady global economic recovery and the expanding trends for novel applications such as electric vehicles and the Internet of Things, the demand for semi-conductors is booming. Besides, local manufacturers enjoy leading advantages in the processes that they have developed, which is conducive to the development of electronic components industry. As international enterprises increase their capital expenditure, their demand for machinery and equipment is also increased. Quotations for international iron ores remain high, which is in favor of the increase in steel quotations. The rising trade protectionism in the international society, however, disfavors export. The threats faced by computer, electronic product and optical product manufacturers from counterparts in China are increasing each day. Local automobile manufacturers have to deal with the competitive advantages that imported vehicles have. The benefits of the government's policy in subsidies for replacement of old vehicles are diminishing. Investment income of domestic vehicle manufacturers from China is on the decline. The bicycle market in China continues to transform, which has also accordingly affected the purchase order of the related businesses in Taiwan. The service sector's profits are expected to increase somewhat with the economic growth. The decreased number of tourists and increased labor cost, however, will impact certain retail, restaurant and tourism businesses. For the real estate market, general residential housing accounts for a majority. It is expected that the housing price will be modified. Most buyers are buying houses for their own use. It is hard to see any breakthroughs in terms of the price and trading volume in the short term. The speedy investment in new factory by domestic semi-conductor magnates and the proactive promotion of forward-looking infrastructures by the government to expand expenditure on public constructions are conducive to the development of the construction sector.
- The government promotes "IC design and semi-conductor forward-looking technology", and combines software and hardware to promote the servitization in manufacturing industry and develop emerging service industry.

## b. Countermeasures

In order to strengthen industry analysis and to keep track of industry 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 credit risk management, our credit policy has set credit risk limits for major industries and business group, respectively, in order to disperse the impacts of industry changes on the operation of the bank subsidiary.



### 7.6.5 Impact of changes in the corporate identity of crisis management of the company and its subsidiaries, and corresponding countermeasures

To be consistent with the Group's "single brand" strategy, respective subsidiaries of 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 January 2018, the New York Branch, Chicago Branch and Silicon Valley Branch of Mega International Commercial Bank were fined by the FED and Illinois Department of Financial and Professional Regulation, Division of Banking for deficiencies in risk management and AML legal compliance existing during the financial examination conducted in 2016 by the Federal Reserve Bank. After entering into the consent order with NYDFS in 2016, Mega International Commercial Bank has already reorganized the Board, established a responsible functional committee, an Overseas Branches Administration Department, and an anti-money laundering center to reinforce supervision over legal compliance and anti-money laundering practices in overseas branches. In addition, compliance officers in overseas branches have been comprehensively changed to be full-time staff and consultants have been engaged 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, impartial and 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 charity activities through social public welfare activities of Mega Charity Foundation and Mega International Commercial Bank Cultural and Educational Foundation under the Group, in an effort to promote its corporate brand image.

### 7.6.6 Expected benefit(s), possible risk(s) and response action(s) 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 technology 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 regularly and from time to time to reflect on the 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 associated with business concentration

In order to avoid overly concentrated risks, the Company has the Group Credit Risk Management Guidelines 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 credit limits 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 credit limits and limits for unsecured credits accordingly. Factors such as changes to the overall economic performance and industry prospects are considered as part of the operating strategy and separate limits are set for the respective major industries. 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. In addition, exposures of each country are 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 large 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 are particularly reinforced. As far as the credit guarantee business is concerned, control over the credit risks of business group is strengthened. 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. The outstanding credits of each group are controlled according to its credit rating to enhance our asset 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 2017, so there was no impact on the 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 2017, the government, state-owned enterprises and government-run pension funds totally hold around 25.64% stakes of the Company. There has been no major ownership change as yet.

### 7.6.10 Litigious and non-litigious matters

Facts of the dispute	Amount at stake	Date of litigation commencement	Main parties	Status of the dispute
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. The Board of Directors of Mega International Commercial Bank resolved to make claims against Mr. Tsai and Mr. Wu on September 23, 2016.	NT\$5,751,953 thousand	September 30, 2016	Mr. Tsai and Mr. Wu	Mega International Commercial Bank has already engaged Perennial 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 important risks and response measures

Besides monitoring and managing business and financial risks, the Company and each of the subsidiaries are gradually adjusting their risk management strategies to deal with risks, which are increasingly important, such as compliance, information security, personal information protection, regional politics and climate change, among others. Relevant business control systems are established to improve the overall business competitive advantages and ability to safeguard against risks.

## 7.7 Crisis Management and Response Mechanism

The Company has a material incident management team and incident reporting system in place. In case of a material incident occurred, responsible department would notify the spokesperson to report to the Chairman and President according to the “Guidelines for Operation of Material Incident”. The material incident management team will then take charge to coordinate all departments concerned to respond and manage the incident. 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 judgement by the decision-making supervisor. The spokesperson or the public relations department shall also timely issue an external statement or get in contact with the media for clarification in case of an incorrect media report.

## 7.8 Other Significant Events: None.

# Special Disclosure



## 8.1 Affiliated Companies Information

### 8.1.1 Affiliated Companies Chart

Please refer to page 17 of this annual report.

### 8.1.2 Summary of Affiliated Companies

Dec. 31, 2017 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
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 Trading, agency and lease of real estate Urban renewal business
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
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



Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Win Card Co., Ltd.	10.23.2000	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
ICBC Assets Management & Consulting Co., Ltd.	01.30.2003	8F, No. 100, Jilin Road, Taipei, Taiwan	NTD 20,000	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.	12.30.1981	Calle 50 y Esquina Margarita A, de Vallarino, Entrada Nuevo Campo Alegre, Edificio MEGAICBC, No. 74, Panama City, Republic of Panama	USD 20	Investment of real estate

Note: Mega Securities Holdings Co., Ltd. has been dissolved on June 7, 2017.

## 8.1.3 Companies Presumed to Have a Relationship of Control and Subordination under Article 369-3 of the Company Act: None.

### 8.1.4 Business scope of the Affiliated Companies

The business type of the Company's affiliated companies includes bank industry, securities industry, bills finance industry, non-life insurance industry, insurance agency industry, venture capital industry, futures industry, retail industry, service industry, warehousing industry and real estate investment industry.

### 8.1.5 Description of Business Relationship (work division)

Mega Securities Company is engaged in futures introducing brokerage business, while Mega Futures Company is engaged in futures brokerage business. About 70% of the two company's futures business is conducted by Mega Securities Company. Starting from 2000, Mega Futures Company is engaged in securities introducing brokerage business, but nearly 100% of the securities brokerage business is conducted by Mega Securities Company since Mega Futures Company has no branches.



## 8.1.6 Operational Highlights of Affiliated Companies

As of December 31, 2017 Unit: NT\$ thousand, except 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	3,151,761,521	2,887,878,648	263,882,873	49,582,068*	24,237,489*	21,523,410	2.52
Mega Securities Co., Ltd.	11,600,000	63,817,546	48,801,540	15,016,006	3,088,640	515,168	596,831	0.51
Mega Bills Finance Co., Ltd.	13,114,411	279,521,849	243,483,992	36,037,857	3,965,920*	3,211,521*	2,705,229	2.06
Chung Kuo Insurance Co., Ltd.	3,000,000	15,928,198	9,590,856	6,337,342	4,833,715	464,222	350,643	1.17
Mega Asset Management Co., Ltd.	2,000,000	11,935,694	9,159,987	2,775,707	480,668	383,382	272,303	1.36
Mega Life Insurance Agency Co., Ltd.	20,000	572,492	130,651	441,841	1,344,324	456,325	380,859	190.43
Mega Venture Capital Co., Ltd.	1,000,000	813,205	11,506	801,699	58,866	18,998	18,999	0.19
Mega International Investment Trust Co., Ltd.	527,000	956,100	114,112	841,988	401,463	64,008	78,458	1.49
Mega Management & Consulting Corporation	10,000	98,908	12,269	86,639	77,688	57,896	48,357	48.36
Mega I Venture Capital Co., Ltd.	337,500	69,089	41	69,048	0	( 9,079)	( 9,033)	( 0.27)
Mega Futures Co., Ltd.	400,000	3,452,397	2,905,360	547,037	247,747	8,159	25,068	0.63
Mega International Investment Services Co., Ltd.	20,000	36,224	7,063	29,161	34,400	2,376	2,021	1.01
China Products Trading Corp., Ltd.	5,000	45,752	28,223	17,529	118	( 725)	( 342)	( 3.42)
Yung-Shing Industries Co., Ltd.	30,000	1,013,816	249,275	764,541	189,924	8,743	45,480	151.60
Win Card Co., Ltd.	20,000	54,901	17,115	37,786	173,760	7,368	6,360	31.80
ICBC Assets Management & Consulting Co., Ltd.	20,000	22,451	47	22,404	3,008	1,248	1,663	0.83
Mega International Commercial Bank (Canada)	542,701	4,858,855	3,895,525	963,330	95,515*	( 2,776)*	( 2,024)	( 0.37)
Mega International Commercial Bank Public Co., Ltd.	3,626,800	18,376,214	13,422,091	4,954,123	673,961*	331,576*	265,252	0.66
Cathay Investment & Warehousing Ltd.	29,648	49,076	281	48,795	3,697	( 371)	( 371)	( 370.59)
Cathay Investment & Development Corp. (Bahamas)	148	58,602	0	58,602	3,746	3,602	3,602	720.47
Ramlett Finance Holdings Inc.	593	54,822	51,530	3,292	7,434	233	233	155.10

Note: 1. Par value of common stocks of Yung-Shing Industries Co. is NT\$100 per share, respectively.

2. Exchange rates are as follows:

Balance Sheet Items	Income Statement Items	Company Name
USD 1 = NTD 29.6480	USD 1 = NTD 30.2933	Cathay Investment & Warehousing Limited, Cathay Investment & Development Corp. (Bahamas), and Ramlett Finance Holdings Inc.
CAD 1 = NTD 23.5957	CAD 1 = NTD 23.3989	Mega International Commercial Bank (Canada)
THB 1 = NTD 0.9067	THB 1 = NTD 0.8958	Mega International Commercial Bank Public Co., Ltd.

## 8.1.7 Consolidated financial statements of affiliated enterprises

The list of companies required to be included in the consolidated financial statements of affiliated enterprises under "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" is identical to the list of companies already included in the consolidated financial statements, prepared in accordance with IFRS 10. Since all information required above has already been disclosed in the consolidated financial statements, the Company would not prepare separate consolidated financial statements for affiliated enterprises.

## 8.2 Private placement of securities in the most recent year and current year up till the publication date of this annual report: None.

## 8.3 Disposal of the Company's shares by subsidiaries in the most recent year and current year up till the publication date of this annual report:

Unit: NT\$ thousand

Subsidiary	Paid-in capital	Funding source	Shareholding by the Mega FHC	Obtaining or disposal date	Amount and number of shares obtained	Amount and number of shares disposed	Investment gain (loss)	Amount and number of shares obtained as of May 8, 2018	Number of shares pledged
Chung Kuo Insurance Company	\$3,000,000	(Note)	100%	Year 2017	-	-	-	-	-
				Year-to-date as at May 8	40,000 shares \$1,002.51	40,000 shares \$1,011.44	\$8.93	None	None

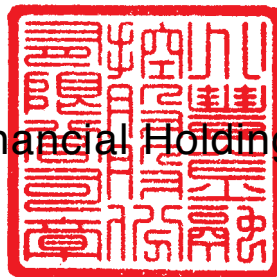
Note: Funds under the discretionary account managed by YuanTa Securities Investment Trust Co., Ltd.

## 8.4 Other supplementary notes, where applicable: None.

## 8.5 Occurrences that are significant to shareholders' equity or securities prices, as defined in Subparagraph 2, Paragraph 2 of Article 36 of the Securities and Exchange Act: None.



Mega Financial Holding Co., Ltd.



Chairman

*Eschang*