



Mega Financial Holding Co., Ltd.
Annual Report 2018

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Mega Financial Holding Co., Ltd.
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Letter to Shareholders



After two years of economic expansion, there are increasing signs pointing to a global economic slowdown in 2019. In view of the global economy and financial situation, modest inflation, and increasing uncertainty over business prospects, the Fed on January 30, 2019 has shifted towards a more dovish bias and implied to stop interest hike. It also lowered both the economic growth and inflation forecasts for 2019, and raised the unemployment rate forecast on March 21, 2019. The balance sheet normalization program is announced to be completed at the end of this September. Major economies around the world also cut their 2019 economic growth forecasts in succession and adopted monetary policy to prop up the declining economy. Since the beginning of 2019, the leading international economic organizations including World Bank, IMF, IHS Markit all cut their global economic growth forecasts. As the global trade tensions continue, the downside risks for the global economy are intensifying.

The economic differentiation is seen in the three major economies. The US economy continuously performs well with strong employment and wage growth. The Eurozone demonstrates poor prospects due to the lower-than-expected performance of the top three economies in the EU. Due to the impact of the US-China trade dispute, China's economic outlook is clouded by decreasing domestic and external demands. Looking ahead to 2019, the global economy is not optimistic in consideration of the US-China trade war, the weakening trade momentum, the uncertainty of Brexit, increasing financial risks of emerging markets, the breakdown of the meeting between Trump and Kim Jong Un, and resurgent geopolitical risks resulting from tensions in the middle east.

For domestic economy, the economic growth rate in Q2 2018 rose to 3.29% from 3.15% in Q1 2018, but went down quarterly. In Q3, the economic growth rate dropped to 2.38% due to the intensified US-China trade dispute and global funds movement resulting from the US interest hike. In Q4, the economic growth further decreased to 1.78%, with slowdown in export growth, lower-than-expected growth in investment and private consumption, impacted by the slowdown in global economic growth, lower-than-expected sales of smart phone and a higher base-year level. The annual economic growth rate in 2018 reached 2.63%. In February 2019, Directorate-General of Budget, Accounting, and Statistics, Executive Yuan lowered the forecast for 2019 economic growth rate by 0.14% to 2.27% due mainly to the escalating uncertainties about global economic growth, affecting Taiwan's domestic and external demands. In December 2018, both Taiwan's domestic leading indicator and coincident indicator continuously dropped, changing the monitoring indicator signal to a blue light indicating a weakening expansion. However, the



Chao-Shun Chang, Chairman of the Board

stable employment market and active wage rise by businesses are conducive to the growth of domestic demands. Most institutions predicted Taiwan's economic growth rate in 2019 lies between 2.1% and 2.6%.

After the huge penalty imposed by the US regulators, the Company in 2018 still performed well and created a highest profit records over the last three years despite the impact of various negative factors of international economic finance. The consolidated net income after tax reached NT\$28,093 million in 2018, an increase of NT\$2,364 million or 9.19% from NT\$25,729 million in 2017. The EPS was NT\$2.07, reaching the new high over the last three years. The operation results of the Company in 2018 are shown below.

1.1 Review of Business Operations in 2018



Kuang-Hua Hu, President

1.1.1 Changes in Financial Environment and Organization Structure

A. Change in Global and Domestic Financial Environment

In 2018, the US economy grew significantly due to Trump's tax cuts, America First Policies, and the Fed's interest hike. In April 2018, the US 10-year bond yield moved to 3%, and emerging market currencies depreciated. Besides, the US-China trade tension intensified and the US imposed tariffs on Chinese imports, pushing the US dollar continuously to rise modestly. Although there have been no significant risks seen in the US economy, the Fed leans toward a slowdown in the pace of the rate hikes. The market generally expects a weaker US dollar in 2019. Nonetheless, due to global economic downturn, the World Trade Outlook Indicator (WTOI) posted a new low for Q1 2019 since its launch, signaling tense global trade. Due to the continued geopolitical conflicts including Brexit and tensions in the middle east, depreciation of emerging market currencies and uncertainties over global financial market, petroleum, and commodity, attraction of US dollar interest rate spreads will still dominate markets. Dramatic volatility is expected to continue in international foreign exchange market in 2019.

Reacting to the poor prospect in global economy, the European Central Bank (ECB) resolved to start the two-year Targeted Long-Term Refinancing Operation (TLTRO) in September 2019 to shore up the declining economy. Bank of Japan (BOJ) maintains the easing monetary policy to continuously stimulate its economy. For some emerging economies, in consideration of capital outflow or rising inflation, interest rates were raised, while China began to ease its monetary and fiscal policies to boost economic growth and kept policy interest rates unchanged.

The rising interest rate in the US drove up the value of the US dollar and the RMB weakened due to the escalating US-China trade tension in 2018. In domestic financial market, the New Taiwan dollar consolidated in a small range in 2018 as affected by the opposite movement of the US dollar and RMB. The New Taiwan Dollar rose to 31.126 against US Dollar in October 2018, which is the highest level since March 2017, and closed at 30.733 against US Dollar at the end of 2018. The average exchange rate of New Taiwan Dollar against US Dollar was 30.156 in 2018, a slight appreciation compared to 30.439 in 2017. In terms of interest rate, domestic inflation remains modest, but the international economic and financial situations including uncertain development of the US-China trade negotiation, uncertainty about geopolitics in Asia, slowing growth of major economies, and change of monetary policy, are not conducive to Taiwan's export. Private investment and consumer confidence were tending conservative. Both economic growth and inflation are expected to decline in 2019. The Central Bank has kept the rediscount rate unchanged for 11 times in a row since July 2016. Looking forward, the Central Bank is likely to maintain accommodative monetary policy to build a favorable financial environment for economic growth.

B. Change in Organization Structure

As of the end of 2018, the subsidiary companies, in which the Company has direct controlling interest, remains the same as those of 2017. The subsidiary companies are Mega International Commercial Bank Co., Ltd. (Mega Bank), 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.

1.1.2 Implementation of Business Plan and Operation Strategies

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 investee enterprises. 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	2018	2017	Change (%)
Deposits (including due to Chunghwa Post Co.)	2,354,393	2,261,201	4.12
Loans, Import/export bills negotiated	1,824,721	1,701,601	7.24
Corporate financing	1,405,758	1,309,372	7.36
Consumer financing (excluding credit card revolving loans)	418,963	392,229	6.82
Foreign exchange business undertaken	893,678	845,753	5.67
Securities purchased	529,031	502,291	5.32
Long-term equity investments	19,411	20,497	(5.30)
Credit card revolving loans	1,140	1,131	0.80

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

2. The non-performing loans outstanding at the end of 2018 amounted to NT\$2,670 million, representing a non-performing loan ratio of 0.14%, while the bad debt coverage ratio reached 1,121.78%.

Mega Securities Company

Item		2018	2017	Change (%)
Securities brokerage	Market share of brokerage	3.22% (rank 8)	3.06% (rank 9)	0.16
	Market share of margin loan	5.37% (rank 6)	4.86% (rank 8)	0.51
Equity underwriting	Number of issues lead managed by MSC	8 (rank 7)	4 (rank 9)	100.00
Bond underwriting	Number of issues lead managed by MSC	1 (rank 8)	2 (rank 6)	(50.00)
	Amount of issues lead managed by MSC (NT\$ billion)	6.0 (rank 7)	2.6 (rank 11)	130.77
New financial products	Number of warrants issued	1,238 (rank 12)	1,434 (rank 9)	(13.67)
	Amount of warrants issued (NT\$ billion)	10.4 (rank 13)	11.6 (rank 10)	(10.34)

Note : It is the ranking of 18 local securities firms among the top 25 securities brokers in 2018.

Mega Bills Finance Company

Item		2018	2017	Change (%)
Units: NT\$ million				
Underwriting and purchasing of bills		2,806,666	2,632,704	6.61
Underwriting amount of commercial paper issued for funding purpose (CP2)		2,369,796	2,237,849	5.90
Trading volume of bills		8,723,464	8,661,278	0.72
Trading volume of bonds		4,911,287	5,116,324	(4.01)
Average outstanding balance of guaranteed issues of commercial paper		161,271	152,652	5.65
Overdue credit amounts		0	0	-
Percentage of overdue credits (%)		0	0	-

Chung Kuo Insurance Company

Item		2018	2017	Change (%)
Unit: NT\$ million				
Direct written premiums		6,911	6,498	6.35
Inward reinsurance premiums		655	688	(4.74)
Total		7,566	7,186	5.29

Mega International Investment Trust Company

Item		2018	2017	Change (%)
Unit: NT\$ million				
Public funds under management		79,274	88,766	(10.69)
Private placement funds under management		16,142	18,380	(12.18)
Discretionary account		902	1,190	(24.20)
Total		96,318	108,337	(11.09)

Mega Asset Management Company

Unit: NT\$ million

Item	2018	2017	Change (%)
Gain from disposal of NPL purchased and the related collateral	12	106	(88.68)
Interest income	3	4	(25.00)
Service income	386	370	4.32
Total	402	481	(16.63)

Note : 1.The company was distributed proceeds of about NT\$80 million from the auction of non-performing loans by the court in 2017, so the revenue decreased in 2018.

2.The interest income reduced in 2018 due to the decline in beneficial rights of real estate development trust in 2017.

Mega Venture Capital Company

Unit: NT\$ million

Item	2018	2017	Change (%)
Drawdown of long term equity investment	234	399	(41.35)
Original cost of long term equity investment	700	997	(29.79)

Mega Life Insurance Agency Company

Unit: NT\$ million

Item	2018	2017	Change (%)
Commission income	1,415	1,344	5.28

1.1.3 Budget Implementation Status

A. The Company's 2018 budget is implemented as follows:

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

Item	Final accounting figure, 2018	Budget figure, 2018	Achievement Rate (%)
Revenues	28,169,482	26,892,777	104.75
Expenses and losses	446,454	487,489	91.58
Net income before tax from continuing operations	27,723,028	26,405,288	104.99
Net income	28,109,164	26,277,288	106.97
Earnings per share	2.07	1.93	107.25

B. The subsidiaries' 2018 budgets are implemented as follows:

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.	26,636,996	26,243,613	101.50
Mega Securities Co., Ltd.	358,613	711,464	50.40
Mega Bills Finance Co., Ltd.	3,062,597	3,033,225	100.97
Chung Kuo Insurance Co., Ltd.	469,352	487,500	96.28
Mega Asset Management Co., Ltd.	231,687	230,000	100.73
Mega Life Insurance Agency Co., Ltd.	403,200	348,225	115.79
Mega Venture Capital Co., Ltd.	(62,917)	34,257	(183.66)
Mega International Investment Trust Co., Ltd.	101,653	95,661	106.26

Mega Securities Company only achieved 50.40% of its budgeted net income before tax due mainly to poor performance in securities proprietary trading.

Chung Kuo Insurance Company posted a budget achieving rate of 96.28% largely because of the increase in net claims of auto insurance and fire insurance as well as overall operating expense compared to 2017, leading to the decrease in underwriting profit.

Mega Venture Capital Company posted a net loss, due mainly to loss from sale of stocks with poor prospects. Besides, the loss was also attributed to the fact that the recognition of equity valuation after introduction of IFRS 9 in 2018, is reclassified in the accounting item of “gain on financial assets at fair value through profit or loss”.

1.1.4 Financial Results

The Company and its subsidiaries' consolidated net profit before tax in 2018 amounts to NT\$31,079,960 thousand, an increase of NT\$1,799,233 thousand or 6.14% compared to 2017. The increase is due mainly to the increase in net interest income for NT\$2,216,167 thousand. To conform to the requirements of IFRS 9 introduced in 2018, the setup of accounting item “realized gain (loss) on financial assets at fair value through other comprehensive income” caused the increase of revenue in 2018, while the removal of accounting item “realized gain (loss) on available-for-sale financial assets” resulted in the decrease of revenue in 2018. Besides, the revenues other than interest in 2018 decreased by NT\$267,148 thousand compared to 2017 due largely to the increase in net service fee revenue and commissions, foreign exchange gain and other income, offset by the decline in financial assets and liabilities at fair value through profit or loss. The bad debts expense and guarantee liability provisions decreased by NT\$2,256,534 thousand, while the operating expenses increased by NT\$2,406,320 thousand. The consolidated net profit after tax of the Company and its subsidiaries reached NT\$ 28,093,445 thousand, an increase of NT\$2,364,350 thousand or 9.19%. Its return on assets was 0.79%, and the return on equity reached 9.04%. A breakdown of the financial results of the Company and its subsidiaries in 2018 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	31,079,960	28,093,445	2.07	0.79	9.04
Mega FHC (Unconsolidated)	27,723,028	28,109,164	2.07	8.11	9.05
Mega International Commercial Bank Co., Ltd.	26,636,996	24,172,212	2.83	0.76	8.73
Mega Securities Co., Ltd.	358,613	315,768	0.27	0.53	2.04
Mega Bills Finance Co., Ltd.	3,062,597	2,558,081	1.95	0.94	7.11
Chung Kuo Insurance Co., Ltd.	469,352	351,906	1.17	2.15	5.35
Mega Asset Management Co., Ltd.	231,687	201,911	1.01	1.63	7.33
Mega Life Insurance Agency Co., Ltd.	403,200	322,560	161.28	59.05	78.16
Mega Venture Capital Co., Ltd.	(62,917)	(63,215)	(0.63)	(8.42)	(8.49)
Mega International Investment Trust Co., Ltd.	101,653	54,724	1.04	5.79	6.58

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

1.1.5 Research and Development

The Company and its subsidiaries' research and development progress in 2018 are summarized as follows:

- (1) In 2018, the Company obtained patents for market risk evaluation system, and assessed the feasibility of mergers with or acquisitions of domestic and international institutions. To conform to IFRS 9, it revised the financial risk reporting system established under IFRS 7. Improvement in classification of credit rating for enterprises group is made, and the management system for high-risk country's financial product is completed. Optimization of the Group's equity valuation system, consolidated financial statement system, and financial performance management system were performed. To prepare for the introduction of IFRS 16 in 2019, the Company also built a leasing measurement and reporting system.
- (2) Mega International Commercial Bank continuously promotes business by developing new financial products or marketing program to satisfy client needs. New financial products developed in 2018 include: In credit services, "SME Preferential Loan Program for Factory Building," "Reverse Mortgage Loan Part II (integrated with insurance and trust program)," "3-Year Mid-term Revolving Secured Loan (mid-term expert wealth management financing)" and "Function Enhancement for Consumer Financing Online Services"; in wealth management businesses, insurance products with market differentiation exclusively sold by the Bank; for credit card business, new co-branded cards targeting at young population with market competitiveness, marketing through cooperation with different sectors and social media. To enhance digital finance applications, "Big Data Management Platform" was built in 2018 to strengthen big data infrastructure and analytical application. Taiwan Pay QR Code, the common payment standard, was introduced. Functions of "Mega Pay" on mobile banking App were enhanced. LINE official account "Business Connect" service was launched to provide personalized services, foreign exchange services, and credit card services, etc. Service function of digital deposit account was optimized, and opening of foreign currency digital deposit account is now available online. A "Blockchain Confirmation System" connecting to "Financial Blockchain Confirmation" services of the Financial Information Service Company is built to automatically produce account's reply of CPA auditing information. Additionally, the Bank continued to be devoted to digital finance R&D and applied for various financial services and patents. As of December 31, 2018, it obtained 102 utility model patents and 10 invention patents approval from the Ministry of Economic Affairs, and 4 utility model patents and 50 invention patents applications are under review.
- (3) Mega Securities Company evaluated new businesses or adjusted existing products in response to opening up of new business or regulatory amendments by the competent authority. To promote digitalization and e-commerce, it continued to optimize and build e-platform as follows:

Platform	Digital optimization
Mobile VIP	1.Switching to new 3-in-1 version: support to old version interface, and switching to single window or double windows 2.Support to fingerprint identification on Android phone 3.Introduction of Hong Kong real-time stock price quotation services
Mega Winner	Mega Winner, XQ-Trade Platform Service Online
HTS	Introduction of foreign futures trading services
eRadar	Introduction of after-market futures trading
Borrowing of Securities	Matching services for securities borrowing by natural person
Mega Wealth Management Secretary	1.Introduction of securities borrowing for natural person and LINE notification services 2.Introduction of financial e-news services

- (4) Mega Bills Finance Company studied the feasibility of undertaking RP transaction of US dollar bonds with life insurance companies. It continued improving the existing self-assessment system for operational risk and preparing for Basel III system framework and introduction practice. Execution and risk monitoring on anti-money laundering and combating financing of terrorism (AML/CFT) are enhanced. It sought approval from the competent authority to relax derivatives transaction scope of bills finance companies. In addition, it promoted dematerialization of short-term bills in the primary and secondary market and established e-learning system.
- (5) Chung Kuo Insurance Company built a market information database and developed insurance products with marketability, competitiveness and niche. A total of 225 new insurance products were developed in 2018, including 1 products filed with the competent authority on a “prior approval” basis, 165 products on a “file for recordation” basis and 59 products on a “simple file for recordation” basis.
- (6) Mega International Investment Trust Company developed multiple currencies products to increase customer base of foreign currency investment. Mega China A-shares Equity Fund’s investment quota in foreign currency was approved to increase by the regulator.

1.2 Business Plan for 2019

1.2.1 Operating Guidelines

- Cultivating customer relationships and creating group synergy
- Expanding business momentum and maximizing shareholder value
- Building a culture of risk management and enhancing risk management
- Strengthening the information security management and digital processing capability
- Reinforcing corporate governance and fulfilling corporate social responsibility



- Promoting relationships with institutional investors and increasing information transparency
- Fortifying anti-money laundering operation and increasing legal compliance sense

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 2019 are as follows:

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

Business	Item	Budget for 2019
Banking	Average outstanding deposits	2,442,924
	Average outstanding loans	1,896,353
	Undertaking of foreign exchange	912,930
Bills Finance	Underwriting and purchasing of bills	2,522,294
	Trading volume of bills and bonds	12,377,916
	Average outstanding balance of guaranteed issues of CP2	161,000
Securities	Market share of brokerage	3.30%
P&C Insurance	Premium income	7,831

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

- Promoting corporate governance and further fulfilling corporate social responsibility
- Seizing the opportunity to develop business in Asian Pacific and creating innovative operating growth model
- Expanding the competitive advantage of corporate banking and investing in future star industries
- Reinforcing consumer banking and wealth management business as well as developing digital service channels
- Expediting the distribution network reform and enhancing digital platforms integration
- Strengthening business integrations to increase synergy from cross selling
- Cultivating international talents, motivating and promoting employee's value
- Expanding capital and assets scale as well as improving capital efficiency
- Adjusting global operating structure and promoting risk management skills

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

- (1) Financial technology development has brought growing impacts on business model of the financial industry. In 2018, the number of domestic banks' branches in Taiwan decreased by 14 and reached the lowest level over the past seven years. This reflects that the rise of financial technology and online banking replaces some functions of physical branch. The use volume of mobile devices by clients continuously grows. Financial institutions are required to develop mobile services in products, commercial design, and operational procedure to respond to needs of clients. Additionally, in response to the government's policy to increase e-payment and mobile payment ratio, financial institutions are also required to make physical payment tools mobilized and integrate the function of peripheral service to increase the convenience of mobile financial services.
- (2) To promote inclusive financing and financial technology development, Financial Supervisory Commission on January 31st, 2018 added to Article 22-1 of the Banking Act, innovative experiment of banking businesses shall be applied under Financial Technology Development and Innovative Experimentation Act. This opens up applications for internet only banks.
- (3) To respond to a shift in the regional supply chain due to the US-China trade tension, Executive Yuan in 2019 introduced the 3-year "Welcome Taiwanese Companies abroad to Invest in Taiwan Action Plan". The Plan is oriented for the needs of homecoming enterprises, actively assisting Taiwanese companies to return and invest in Taiwan in an effort to promote domestic investment momentum.

1.5 Credit Ratings

Company	Credit Rating Agency	Long-Term	Short-Term	Outlook	Date of Issuance
Mega Financial Holding Company	Taiwan Ratings Corp.	twAA	twA-1+	Stable	Oct. 16, 2018
	Moody's	A3	-	Stable	Sep. 26, 2018
Mega International Commercial Bank	Taiwan Ratings Corp.	twAA+	twA-1+	Stable	Oct. 17, 2018
	Moody's	A1	P-1	Stable	Jan. 17, 2019
	S & P	A	A-1	Stable	Oct. 16, 2018
Mega Bills Finance Co., Ltd.	Taiwan Ratings Corp.	twAA+	twA-1+	Stable	Sep. 28, 2018
Mega Securities Co., Ltd.	Taiwan Ratings Corp.	twAA	twA-1+	Stable	Dec. 06, 2018
Chung Kuo Insurance Co., Ltd.	Taiwan Ratings Corp.	twAA	-	Stable	Oct. 29, 2018
	Moody's	A3	-	Stable	Dec. 27, 2018
	S & P	A-	-	Stable	Oct. 28, 2018

In 2019, global industrial development is facing restructuring. Under the concept of Globalization 3.0, the manufacturing industry moves to consuming countries via capital, talents, and technologies and builds the industrial ecological chain locally to create jobs. This development model is heading for integration of balanced manufacturing and consuming market, which is likely to hinder the economic growth of export-oriented countries. Facing with the fast-moving economic and political environment, the Company will constantly monitor changes in economy and finance and adjust business direction based on customer's demand to maximize shareholder's value. With a prudent attitude, we are also committed to a continued strengthening of legal compliance, anti-money laundering and countering financing of terrorism, and internal audit and internal control mechanisms. In response to the increasingly strict international financial supervisory and legal compliance standards, we will continue to upgrade the information and digital technology systems and optimize the information security and risk management. Furthermore, the Company will integrate the Group's resources to actively engage in social welfare and continue to implement green and eco-friendly policies, to fulfill corporate social responsibility. We are fully confident that we will strongly grow and achieve the goals entrusted by shareholders with the support of all shareholders.



Chao-Shun Chang
Chairman of the Board



Kuang-Hua Hu
President

Company Profile



2.1 Date of Incorporation: February 4, 2002

2.2 Company History

Date	Milestones
February 4, 2002	Founded by Chiao Tung Bank Co., Ltd. ("CTB") and International Securities Co., Ltd. ("IS") through the exchange of shares, and simultaneously listed on the Taiwan Stock Exchange with the name of CTB Financial Holding Company (Code 2886)
August 22, 2002	Acquired a 100% equity stake in Chung Hsing Bills Finance Corporation (now renamed as Mega Bills Finance Co., Ltd.) and Barits Securities Corp. ("BS") through a share swap
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.

Company Profile

Date	Milestones
December 30, 2015	Subscribed all 536 million shares of private placement offered by subsidiary Mega International Commercial Bank to improve its capital structure.
March 28, 2016	Mega Securities Co., Ltd. acquired the businesses of Tai An Securities Co., Ltd.
August 10, 2016	Mega Securities Holdings Co., Ltd. completed the disposal of shares of Mega Securities (Hong Kong) Ltd.
April 26, 2017	The Board of Directors of Mega Securities Co., Ltd. approved the dissolution plan of Mega Securities Holdings Co., Ltd.
April 20, 2018	The Board of Directors of Mega International Commercial Bank resolved to launch reorganization, introducing the business and management model of “business group” and “administration group” in the organization structure.
August 25, 2018	The Company’s Exchangeable Bond, exchangeable into shares of Taiwan Business Bank, is repaid at maturity.
January 11, 2019	The Board of Directors of Mega International Commercial Bank resolved to establish Next Commercial Bank Co., Ltd., an internet only bank.



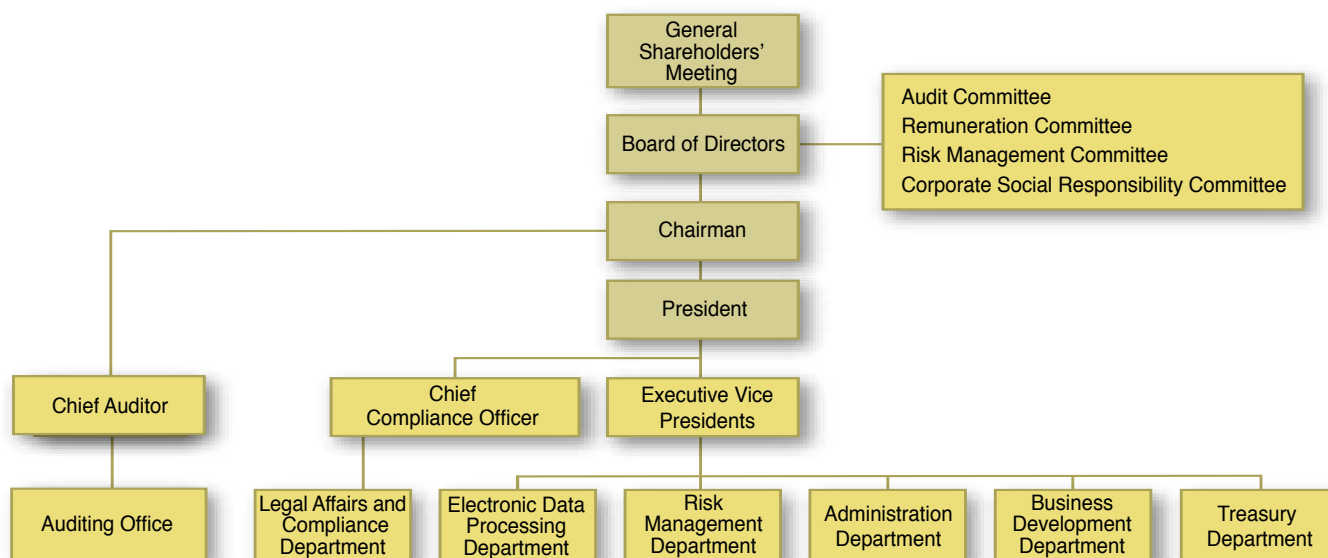
Corporate Governance Report



Corporate Governance Report

3.1 Organization

3.1.1 Organization Chart



Major Corporate Functions

Auditing Office

- Planning and implementation of internal audit; examination of financial and business operation, internal control and legal compliance

Legal Affairs and Compliance Department

- Planning, management and implementation of legal compliance system; legal affairs; formulation and amendment of the group's overall AML/CFT plan

Business Development Department

- Planning of group's business strategy and operating goals; development of enterprise investment opportunity; evaluation, planning and implementation of strategic alliance; research and analysis of domestic and international political and economic situation; planning and promotion of product integration and cross selling; oversight of the adjustment of the group's organization structure; institutional investor relations

Treasury Department

- Formulation, planning and implementation of accounting system; planning and compiling of budget, final account and financial forecast; capital planning; planning and processing of group's tax affairs; handling of internal review and statistics; funds procurement and application; financial planning; assets and liability management; evaluation of subsidiaries' operation performance

Risk Management Department

- Planning and management of risk management system; formulation and amendment of principles governing credit risk, market risk and operational risk; compiling, analysis, supervisory and report of group's risk

Electronic Data Processing Department

- Planning and implementation of group's overall information system; integration of IT system structure of the Company and its subsidiary; build-up, security control and maintenance of various IT system; evaluation and management of the computer-related software asset

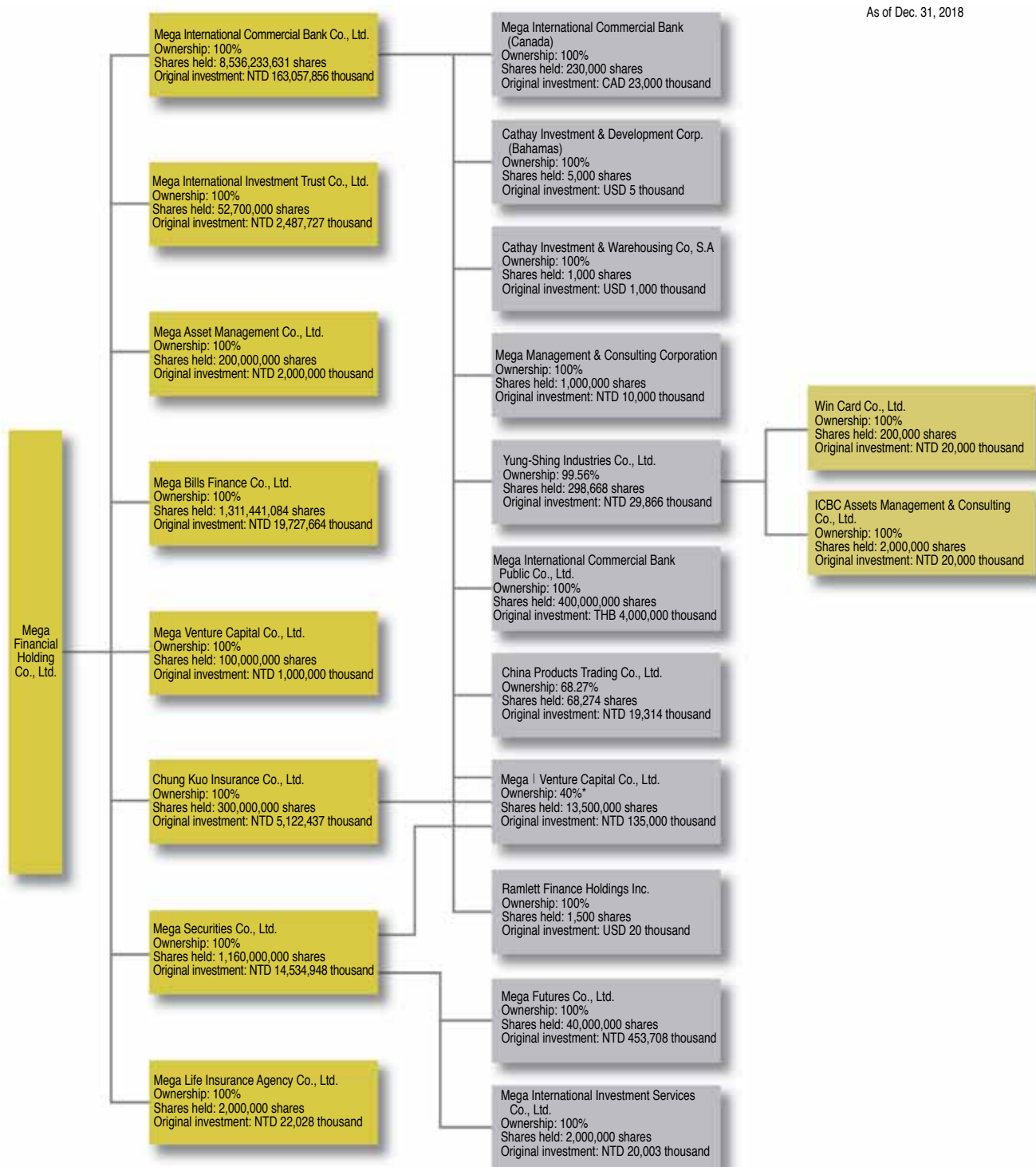
Administration Department

- Planning and implementation of administrative management system; administrative affairs of shareholders meeting; management of general affairs; cashier; human resources and public relations; planning and administrative affairs of corporate governance; ethical corporate management and corporate social responsibility



3.1.2 Affiliated Companies Chart

As of Dec. 31, 2018



*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	07/01/2018	3	09/02/2016	1,143,043,883	8.40	1,143,043,883	8.40	287,713	0.00212	0	0
Director	R.O.C.	Kuang-Hua Hu (Representative of the Ministry of Finance, R.O.C.)	Male	07/01/2018	3	02/07/2018	1,143,043,883	8.40	1,143,043,883	8.40	0	0	0	0
Director	R.O.C.	Tzong-Yau Lin (Representative of the Ministry of Finance, R.O.C.)	Male	07/01/2018	3	02/20/2012	1,143,043,883	8.40	1,143,043,883	8.40	0 10,811	0 0.00008	0	0
Director	R.O.C.	Cheng-Te Liang (Representative of the Ministry of Finance, R.O.C.)	Male	07/01/2018	3	09/09/2016	1,143,043,883	8.40	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	07/01/2018	3	09/09/2016	1,143,043,883	8.40	1,143,043,883	8.40	3,402	0.00003	0	0
Director	R.O.C.	Pei-Chun Chen (Representative of the Ministry of Finance, R.O.C.)	Female	07/01/2018	3	07/01/2018	1,143,043,883	8.40	1,143,043,883	8.40	113,653	0.00084	0	0
Director	R.O.C.	Wen-Ling Hung (Representative of the Ministry of Finance, R.O.C.)	Female	07/01/2018	3	09/09/2016	1,143,043,883	8.40	1,143,043,883	8.40	0	0	0	0

Dec 31, 2018

Experience (education)	Other position	Executives, directors or supervisors who are spouses or within two degrees of kinship		
		Title	Name	Relation
Vice Chairman of Polaris Financial Group, Chairman of Overseas-Chinese Banking Corporation Limited, Chairman of Franklin Templeton SinoAm Securities Investment Management Inc., Chairman of Taiwan Business Bank, Supervisor of First Financial Holding Co., Ltd., Resident Supervisor of First Commercial Bank, Chairman of First Financial Holding Co., Ltd. & First Commercial Bank, CPA M.A. in Public Finance, National Chengchi University	Chairman of Mega International Commercial Bank, Chairman of Mega Charity Foundation, Chairman of Mega Bank Cultural and Educational Foundation, Director of National Credit Card Center of R.O.C. Director of Taipei Financial Center Corp.	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	Director of Mega International Investment Trust Co., Ltd. Managing Director of Mega International Commercial Bank Co., Ltd. Director of Mega Bank Cultural and Educational Foundation Vice Chairman & Chief Executive Officer of Mega Charity Foundation, Director of Financial Information Service Co., Ltd.	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
Director of Research Department, Taiwan Insurance Institute, Vice President/Executive Vice President/President of Taiwan Insurance Institute M.A. in 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, Board of Director of Risk Management Society of Taiwan, R.O.C. Director of DaoNan Charity Foundation, Director of Mega Charity Foundation	None	None	None
Supervisor, National Treasury Administration, Ministry of Finance, R.O.C. M.A. in Agricultural Economics, National Taiwan University	Deputy Director-General, National Treasury Administration, Ministry of Finance, R.O.C. Director of Taiwan Resident Earthquake Insurance Fund	None	None	None
Manager of Yuanta Core Pacific Securities Co., Ltd. Vice President of PineBridge Investments Management Taiwan Ltd. Legal Director of Prestige Law Firm Chief Auditor / President of Mega Securities Co., Ltd. M.A. in Law, Boston University	Chairman of Mega Securities Co., Ltd. Chairman of Mega Futures Co., Ltd. Director of Trust Association of R.O.C.	None	None	None
Director of Police Policy Research Institute & Director of Administrative Police Department, Central Police University Adjunct Professor, Department of Law, National Chengchi University 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

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.	Chien-Hung Wei (Representative of Chunghwa Post Co., Ltd.)	Male	08/14/2018	2.88	08/14/2018	487,484,910	3.58	490,735,910	3.61	0	0	0	0
Director	R.O.C.	Cheng-Mount Cheng (Representative of National Development Fund, Executive Yuan, R.O.C.)	Male	08/17/2018	2.87	08/17/2018	830,973,202	6.11	830,973,202	6.11	0	0	0	0
Director	R.O.C.	Ye-Chin Chiou (Representative of Bank of Taiwan Co., Ltd.)	Female	07/01/2018	3	08/30/2016	334,951,379	2.46	334,951,379	2.46	785	0.0000	0	0
Director	R.O.C.	Chi-Hsu Lin (Representative of the Ministry of Finance, R.O.C.)	Male	07/01/2018	3	07/01/2018	1,143,043,883	8.40	1,143,043,883	8.40	29,873 1,207	0.00022 0.00000	0	0
Independent Director	R.O.C.	Jiun-Wei Lu	Male	07/01/2018	3	07/01/2018	0	0	0	0	0	0	0	0
Independent Director	R.O.C.	Ying-Ko Lin	Male	07/01/2018	3	07/01/2018	0	0	0	0	0	0	0	0
Independent Director	R.O.C.	Chang-Ching Lin	Male	07/01/2018	3	07/01/2018	0	0	0	0	0	0	0	0

Note : Mr. Chia-Chi Hsiao was discharged on October 3, 2019.



Dec. 31, 2018

Experience (education)	Other position	Executives, directors or supervisors who are spouses or within two degrees of kinship		
		Title	Name	Relation
<p>Senior Visiting Research Fellow, Institute for Transportation, New Jersey Institute of Technology, awarded by the Fulbright Foundation, Department of State, U.S.A.</p> <p>Professor, National Cheng Kung University</p> <p>Chairperson, Department of Transportation and Communication Management, National Cheng Kung University</p> <p>Director-General, Bureau of Transportation, Metropolitan Tainan City Government</p> <p>Joint Appointment Professor, Research Center for Humanities and Social Sciences, National Cheng Kung University</p> <p>Director, Research Center for Smart City Transportation and Network, National Cheng Kung University</p> <p>B.S., Transportation Engineering and Management, National Chiao Tung University</p> <p>M.S., Traffic Engineering, National Taiwan University</p> <p>Ph.D., Transportation Engineering, University of Maryland at College Park, U.S.A.</p>	<p>Chairman, Chunghwa Post Co., Ltd.</p> <p>Managing Director, Chinese Institute of Transportation</p> <p>Intelligent Supervisor, Transportation Society of TAIWAN</p>	None	None	None
<p>Assistant Research Fellow, Taiwan Institute of Economic Research.</p> <p>Chief Economist, Citibank Taiwan Limited</p> <p>Adjunct Associate Professor, Department of Finance, National Chengchi University</p> <p>President, Academy of Banking and Finance</p> <p>President, Agricultural Bank of Taiwan</p> <p>Vice Chairman, Financial Supervisory Commission</p> <p>B.A., Economics, National Taiwan University</p> <p>M.A., Economics, University of Wisconsin-Madison, U.S.A.</p>	<p>Deputy Minister, National Development Council, Executive Yuan, R.O.C.</p> <p>Director of YangMing Marine Transport Corp.</p> <p>Director of Straits Exchange Foundation</p>	None	None	None
<p>Vice President of Bank of Taiwan</p> <p>Director of United Taiwan Bank S.A.</p> <p>Director of Hua Nan Financial Holdings Co., Ltd.</p> <p>Supervisor of Taiwan Power Company</p> <p>Director of Cathay United Bank</p> <p>Director of Small & Medium Enterprise Credit Guarantee Fund of Taiwan</p> <p>B.A. in Economics, National Taiwan University</p>	<p>Managing Director & President of Bank of Taiwan</p> <p>Director of Taiwan Small & Medium Enterprise Counseling Foundation Chairperson of Taipei Interbank Money Center, The Bankers Association of The Republic of China, Director of Taipei Forex Inc.</p>	None	None	None
<p>Assistant Vice President, Corporate Finance Division & Credit Management Division of Mega Int'l Commercial Bank Co., Ltd.</p> <p>Vice President of Mega Int'l Commercial Bank Co., Ltd. Labor Union</p> <p>Deputy Chairman of Mega Int'l Commercial Bank Co., Ltd. Staff Welfare Committee</p> <p>M.A. in Business Management, National Taichung University of Science and Technology</p>	<p>Assistant Vice President of Mega Int'l Commercial Bank Co., Ltd.</p>	None	None	None
<p>Committee Member, National Financial Stabilization Fund</p> <p>Independent Director, Taiwan Finance Corporation</p> <p>Ph.D. in Political Science, National Taiwan University</p>	<p>Associate Research Fellow, Research Division II in Taiwan Institute of Economic Research</p> <p>Director of Air Asia Company Limited</p>	None	None	None
<p>Assistant Professor, Associate Professor, Professor and Chairperson, Department of Finance, National Chung Hsing University</p> <p>Ph.D. in Finance, Department of Finance and Real Estate at the University of Texas at Arlington</p>	<p>Professor, Department of Finance, National Chung Hsing University</p> <p>Supervisor, Te Tan Ti Agri-Biotech Co., Ltd.</p>	None	None	None
<p>Assistant Research Fellow, Institute of Economics, Academia Sinica</p> <p>Adjunct Assistant Professor, Department of Economics, National Central University</p> <p>Adjunct Assistant Professor, Department of Economics, National Taiwan University</p> <p>Associate Dean, College of Social Sciences, National Cheng Kung University</p> <p>Ph.D. in Economics, University of Michigan - Ann Arbor</p>	<p>Associate Professor, Department of Economics, National Cheng Kung University</p>	None	None	None

Corporate Governance Report

Major shareholders of the institutional shareholders

Dec. 31, 2018

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, 2018

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, 2018

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
Cheng-Te Liang			✓	✓	✓		✓	✓	✓		✓	✓	✓		0
Chun-Lan Yen			✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		0
Tzong-Yau Lin	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Wen-Ling Hung	✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		0
Pei-Chun Chen			✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		0
Chi-Hsu Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Cheng-Mount Cheng	✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		0
Chien-Hung Wei	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Ye-Chin Chiou			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Jiun-Wei Lu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Ying-Ko Lin	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chang-Ching 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.

Implementation of diversification policy of members of the board

The Article 31 of the Company's Corporate Governance Best Practice Principles specifies 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. The diversified standards include basic requirements (gender, age, nationality, and race) and professional knowledge and skills (professional background, professional skills, and industry experience). In 2018, the 7th term of Board of Directors is reelected, comprising 12 directors and 3 independent directors. Independent directors account for 20% of the directors and only 1 director is concurrently employee, representing 6.67%. As of the end of 2018, 4 of the 14 incumbent directors are female, accounting for 29% of the Board of Directors. There are 2 directors in the age between 40 and 49 years, 9 directors in the age between 50 and 59, 2 directors in the age between 60 and 69, and 1 director in the age between 70 and 79 years. The average age of the directors is 56.92 years. Average term of the incumbent directors is 1.62 years, while the average term of independent directors is 0.5 years.

Diversification of the Board of Directors

Title	Name	Diversification Core 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
Chairman	Chao-Shun Chang	Male	V	V	V	V	V	V	
Director and President	Kuang-Hua Hu	Male	V	V	V	V	V		
Independent Director	Jiun-Wei Lu	Male	V	V	V	V		V	
Independent Director	Ying-Ko Lin	Male			V	V	V		
Independent Director	Chang-Ching Lin	Male	V	V	V	V		V	
Director	Cheng-Te Liang	Male	V	V	V		V	V	
Director	Chun-Lan Yen	Female	V	V	V	V	V	V	
Director	Tzong-Yau Lin	Male	V	V	V	V		V	
Director	Wen-Ling Hung	Female	V	V	V			V	V
Director	Pei-Chun Chen	Female	V	V	V	V			V
Director	Chi-Hsu Lin	Male	V	V	V	V	V		
Director	Chien-Hung Wei	Male	V	V	V	V			
Director	Cheng-Mount Cheng	Male	V	V	V	V	V	V	V
Director	Ye-Chin Chiou	Female	V	V	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	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 1)	Female	02/21/2017	120,000	0.00	0	0.00	0	0.00
Executive Vice President	R.O.C.	Kuo-Pao Chen (Note2)	Male	12/21/2018	1,697,437	0.01	45,693	0.00	0	0.00
Chief Auditor	R.O.C.	Tzong-Chi Hsu	Male	04/28/2015	119,632	0.00	0	0.00	0	0.00
Chief Compliance Officer	R.O.C.	Hui-Lin Wu	Female	01/26/2017	40,000	0.00	0	0.00	0	0.00
Chief Secretary of the Board	R.O.C.	Han-Yin Ting	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.	Hui-Ling Yu (Note3)	Female	06/01/2018	0	0.00	0	0.00	0	0.00
Acting Vice President	R.O.C.	Ming-Chih Lu	Male	03/28/2017	6,464	0.00	0	0.00	0	0.00

Note :1. Ms. Yu-Mei Hsiao is transferred to Mega International Commercial Bank and concurrently serves as Executive Vice President effective October 24, 2017.

2. Mr. Kuo-Pao Chen, Senior Executive Vice President of Mega International Commercial Bank, serves as Executive Vice President & head of Electronic Data Processing Department of the Company effective December 21, 2018.

3. Ms. Hui-Ling Yu serves as Vice President of Risk Management Department effective June 1st, 2018.



Dec. 31, 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	Director of Mega International Investment Trust Co., Ltd. Managing Director of Mega International Commercial Bank Co., Ltd. Director of Mega Bank Cultural and Educational Foundation Vice chairman & Chief Executive Officer of Mega Charity Foundation, Director of Financial Information Service Co., Ltd.	None	None	None
M.A. in Statistics, National Chung Hsing University B.A. in Business Administration, Iowa State University				
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.	Director of Mega Bills Finance Co., Ltd., Chairman and President of Mega Venture Capital Co., Ltd., Managing Director of The Non-Life Insurance Association of the Republic of China	None	None	None
M.A. in Public Finance, National Chengchi University				
Assistant Manager, London/New York Branch of First Commercial Bank Manager, Gong-guan/ Brisbane Branch of First Commercial Bank Chief Secretary of Mega International Commercial Bank Co., Ltd. & Mega Financial Holding Co., Ltd.	Senior Executive Vice President of Mega International Commercial Bank Co., Ltd., Director of Mega Bills Finance Co., Ltd., Director of Mega Asset Management Co., Ltd., Chairman of Mega International Commercial Bank Public Co., Ltd. Director of Taiwan Financial Asset Service Corporation	None	None	None
M.A. in Finance, University of Illinois at Urbana-Champaign, U.S.A.				
Assistant Vice President, Offshore Banking Department & Treasury Department/ Senior Vice President, Treasury Department/ Senior Vice President, Financial Risk Management Center/ Senior Vice President & General Manager, Data Processing & Information Department/ Executive Vice President & General Manager, Data Processing & Information Department of Mega International Commercial Bank Co., Ltd.	Senior Executive Vice President of Mega International Commercial Bank Co., Ltd., Director of Mega International Commercial Bank Public Co., Ltd. Director of Mega Bills Finance Co., Ltd., Director of Allied Biotech Corporation	None	None	None
Executive Master of Business Administration Program College of Commerce National Chengchi University				
Chief Auditor of Chung Kuo Insurance Co., Ltd.	Supervisor of Mega Securities Co., Ltd., Supervisor of Mega Asset Management Co., Ltd.	None	None	None
M.A. in Public Finance, National Chengchi University				
SVP & GM, Shih-Mao Branch of First Commercial Bank SVP & Head of Compliance & Legal Division of First Commercial Bank	Chief Compliance Officer of Mega International Commercial Bank Co., Ltd.	None	None	None
B.A. in Laws, National Taiwan University				
Assistant Vice President of Mega International Commercial Bank Co., Ltd. Acting Chief Secretary of the board of Mega International Commercial Bank Co., Ltd.	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
B.A. in Finance, National Taiwan University				
Vice President & Head of Treasury Department of Mega Financial Holding Co., Ltd.	Director of Mega International Investment Trust Co., Ltd.	None	None	None
B.A. in Business Administration, National Taiwan University				
Vice President & Head of Administration Department of Mega Financial Holding Co., Ltd. Vice President & Head of Treasury Department of Mega Financial Holding Co., Ltd.	Director of Mega Securities Co., Ltd.	None	None	None
B.A. in Accounting of National Chung Hsing University				
Vice President & Deputy General Manager of Head Office-Foreign Dept., MEGA Bank Vice President & Deputy General Manager of Credit Control Dept., MEGA Bank & Vice President & General Manager of Credit Analysis Dept., MEGA Bank Vice President & General Manager of Risk Management Dept., MEGA Bank	Vice President & General Manager of Mega International Commercial Bank Co., Ltd. Director of Star Buck Power Corp. Supervisor of ICBC Assets Management & Consulting Co., Ltd.	None	None	None
B.A. in Accounting, National Taiwan University				
Manager of Mega Financial Holding Co., Ltd.	Director of Mega Asset Management Co., Ltd.	None	None	None
M.A. in Economics, National Taiwan University				



3.2.3 Remuneration of Directors, President, and Executive Vice Presidents

Remuneration of Directors

Title	Name	Compensations								Ratio of total remuneration (a+b+c+d) to net income (%)	
		Base compensation (a)		Severance pay (b)		Director's remuneration (c)		Allowances (d)			
		The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities
Chairman	Ministry of Finance										
	Chao-Shun Chang										
Director (Representative of Ministry of Finance, R.O.C.)	Li-Yen Yang										
	Kuang-Hua Hu										
	Chia-Chi Hsiao										
	Tzong-Yau Lin										
	Wen-Ling Hung										
	Cheng-Te Liang										
	Chun-Lan Yen										
	Shiow-Huey Yeh										
	Pei-Chun Chen										
	Chiu-Fa Tsai										
	Chi-Hsu Lin										
	Director										
Jiunn-Rong Chiou											
Cheng-Mount Cheng											
Director	Chunghwa Post Co., Ltd.										
	Jui-Chi Chou										
	Chien-Hung Wei										
Director	Bank of Taiwan										
	Ye-Chin Chiou										
Independent Director	Keh-Nan Sun										
	Tsun-Siou Li										
	Chi-Hung Lin										
	Jiun-Wei Lu										
	Chang-Ching Lin										
	Ying-Ko Lin										
Amount		2,146	14,853	0	828	139,386	139,386	3,285	6,359	0.52	0.57

Note: 1. Mr. Li-Yen Yang retired effective February 7, 2018 and Mr. Kuang-Hua Hu takes his position as a director on the same day. Mr. Jiunn-Rong Chiou was replaced by Mr. Cheng-Mount Cheng on August 17, 2018. Ms. Shiow-Huey Yeh resigned on April 19, 2018 and Ms. Pei-Chun Chen takes her position as a director effective July 1, 2018. Mr. Chiu-Fa Tsai was replaced by Mr. Chi-Hsu Lin effective July 1, 2019. Mr. Jui-Chi Chou is replaced by Mr. Chien-Hung Wei effective July 1, 2018. Due to term expiry, Mr. Tsun-Siou Li, Mr. Chi-Hung Lin and Mr. Keh-Nan Sun were replaced by Mr. Ying-Ko Lin, Mr. Jiun-Wei Lu and Mr. Chang-Ching Lin effective July 1, 2018. Mr. Chia-Chi Hsiao was discharged effective October 3, 2018.

2. Compensation paid to company drivers by all consolidated entities for NT\$2,136 thousand is not included in Allowances (d). "Salary, bonuses, and allowances (e)" does not include compensation paid to company drivers for NT\$1,343 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	
				Cash	Stock	Cash	Stock		

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)
Under NT\$ 2,000,000	The company	Chao-Shun Chang, Li-Yen Yang Kuang-Hua Hu, Chia-Chi Hsiao Tzong-Yau Lin, Wen-Ling Hung Cheng-Te Liang, Chun-Lan Yen, Shiow-Huey Yeh, Pei-Chun Chen Chiu-Fa Tsai, Chi-Hsu Lin Jiunn-Rong Chiou, Cheng-Mount Cheng Jui-Chi Chou, Chien-Hung Wei Ye-Chin Chiou, Keh-Nan Sun Tsun-Siou Li, Chi-Hung Lin Jiun-Wei Lu, Chang-Ching Lin Ying-Ko Lin	Chao-Shun Chang, Li-Yen Yang Chia-Chi Hsiao, Tzong-Yau Lin Wen-Ling Hung, Cheng-Te Liang Chun-Lan Yen, Shiow-Huey Yeh Pei-Chun Chen, Chiu-Fa Tsai Chi-Hsu Lin, Jiunn-Rong Chiou Cheng-Mount Cheng, Jui-Chi Chou Chien-Hung Wei, Ye-Chin Chiou Keh-Nan Sun, Tsun-Siou Li Chi-Hung Lin, Jiun-Wei Lu Chang-Ching Lin, Ying-Ko Lin	Li-Yen Yang, Chia-Chi Hsiao, Tzong-Yau Lin, Wen-Ling Hung Chun-Lan Yen, Shiow-Huey Yeh Chiu-Fa Tsai, Chi-Hsu Lin Jiunn-Rong Chiou, Cheng-Mount Cheng Jui-Chi Chou, Chien-Hung Wei Ye-Chin Chiou, Keh-Nan Sun, Tsun-Siou Li, Chi-Hung Lin, Jiun-Wei Lu, Chang-Ching Lin Ying-Ko Lin
	All Investee Companies	Li-Yen Yang, Kuang-Hua Hu Chia-Chi Hsiao, Tzong-Yau Lin Wen-Ling Hung, Chun-Lan Yen Shiow-Huey Yeh, Chiu-Fa Tsai Chi-Hsu Lin, Jiunn-Rong Chiou Cheng-Mount Cheng, Jui-Chi Chou Chien-Hung Wei, Ye-Chin Chiou Keh-Nan Sun, Tsun-Siou Li Chi-Hung Lin, Jiun-Wei Lu Chang-Ching Lin, Ying-Ko Lin	Chao-Shun Chang, Li-Yen Yang Chia-Chi Hsiao, Tzong-Yau Lin Wen-Ling Hung, Cheng-Te Liang Chun-Lan Yen, Shiow-Huey Yeh Pei-Chun Chen, Chiu-Fa Tsai Chi-Hsu Lin, Jiunn-Rong Chiou Cheng-Mount Cheng, Jui-Chi Chou Chien-Hung Wei, Ye-Chin Chiou Keh-Nan Sun, Tsun-Siou Li Chi-Hung Lin, Jiun-Wei Lu Chang-Ching Lin, Ying-Ko Lin	Li-Yen Yang, Chia-Chi Hsiao, Tzong-Yau Lin, Wen-Ling Hung Chun-Lan Yen, Shiow-Huey Yeh Chiu-Fa Tsai, Chi-Hsu Lin Jiunn-Rong Chiou, Cheng-Mount Cheng Jui-Chi Chou, Chien-Hung Wei Ye-Chin Chiou, Keh-Nan Sun, Tsun-Siou Li, Chi-Hung Lin, Jiun-Wei Lu, Chang-Ching Lin Ying-Ko Lin
NT\$2,000,000 ~ NT\$5,000,000	Pei-Chun Chen	Pei-Chun Chen		Pei-Chun Chen
NT\$5,000,000 ~ NT\$10,000,000	Chao-Shun Chang, Cheng-Te Liang	Chao-Shun Chang, Cheng-Te Liang	Kuang-Hua Hu	Chao-Shun Chang, Kuang-Hua Hu Cheng-Te Liang
NT\$10,000,000 ~ NT\$15,000,000	National Development Fund Chungghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.	National Development Fund Chungghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.	National Development Fund Chungghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.	National Development Fund Chungghwa Post Co., Ltd. Bank of Taiwan Co., Ltd.
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.	Ministry of Finance, R.O.C.
Total	27	27	27	27

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 by invested companies other than the company's subsidiary
		The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company		All consolidated entities		The company	All consolidated entities	
								Cash	Stock	Cash	Stock			
President	Li-Yen Yang													
President	Kuang-Hua Hu													
Executive Vice President	Jui-Yun Lin													
	Yu-Mei Hsiao													
	Kuo-Pao Chen													
Chief Auditor	Tzong-Chi Hsu													
Chief Compliance Officer	Hui-Lin Wu													
Total		11,182	14,637	681	843	9,175	13,345	1,835	0	2,706	0	0.08	0.11	427

Note: 1. Mr. Li-Yen Yang retired effective February 7, 2018 and Mr. Kuang-Hua Hu takes his position as the President from the same day.

2. Compensation paid to company drivers by all consolidated entities for NT\$7,084 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, Yu-Mei Hsiao Kuo-Pao Chen	Li-Yen Yang, Kuo-Pao Chen
NT\$ 2,000,000 ~ NT\$ 5,000,000		
NT\$ 5,000,000 ~ NT\$ 10,000,000	Jui-Yun Lin, Tzong-Chi Hsu, Kuang-Hua Hu Hui-Lin Wu	Jui-Yun Lin, Tzong-Chi Hsu, Hui-Lin Wu Yu-Mei Hsiao, Kuang-Hua Hu
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

Employee Remuneration to Managerial Officers

Dec. 31, 2018 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				
Executive Vice President	Kuo-Pao Chen				
Chief Internal Auditor	Tzong-Chi Hsu				
Chief Compliance Officer	Hui-Lin Wu				
Senior Vice President	Jui-Ying Tsai				
Senior Vice President	Chia-Min Hong				
Total		0	2,932	2,932	0.01

Information of consultants who are retired chairman or president: None

3.2.4 Remuneration for Directors, Presidents and Executive Vice Presidents for the Past 2 Years

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

Item	2018	2017
The ratio of total remuneration paid to directors, president and executive vice presidents, relative to net income after tax, by the Company	0.599%	0.597%
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	0.700%	0.723%

Total remuneration paid, in 2018, by the Company to its directors, president and executive vice presidents as a percentage of net income after tax slightly dropped by 0.1% from 2016.



B. Compensation policies, standards, and packages, the procedures for determining compensation, and the correlation with operating performance and future risks exposure

(1) The policies, standards and packages of compensation

According to Article 19 of the Company's Articles of Incorporation, the remuneration of the independent directors of the Company shall be determined by the Board, considering degrees of participation and value of contribution of said directors in business operation of the Company, as well as based on levels of remuneration generally adopted by the same industry. Besides, the Article 31-1 of the Company's Articles of Incorporation specifies that the current year's earnings (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.

- a. Director: Aside from payment of NT\$20,000 to each director for transportation allowance on monthly basis, there is no other fix compensation. Director remuneration will be distributed depending on the Company's profits according to the Company's Articles of Incorporations.
- b. Independent director: In addition to the monthly compensation of NT\$60,000 per person, 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 time, while other committee member will be paid NT\$10,000 per time.
- 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, vehicles, and fuel expenses.

(2) The procedures for determining compensation

The directors' compensation is appropriated not more than 0.5% of the current year's profits according to the Articles of Incorporation. Besides, the compensations payable to its directors are determined, subject to the approval of remuneration committee and the board of directors, in a reasonable manner based on the business performance of the Company, while taking into account of the industry standards and evaluation result of the Board's performance.

The President and Vice President salaries shall be determined, subject to the approval of remuneration committee and the board of directors, in accordance with the stipulated salary standards for different positions, the scope of authority and responsibility, and contributions to the Company. Bonuses and employee compensations shall be paid pursuant to the relevant bonus and compensation guidelines, while taking into account of the personal performance and contributions to the company.

(3) The correlation with business performance and future risk exposure

The Company's unconsolidated net profit after tax for the year 2018 increased by 9.25% compared to 2017. In consideration of operating performance and future risk exposure, the remuneration paid to directors, president and executive vice presidents increased by 9.69%, compared to 2017. The remuneration paid to directors, president and executive vice presidents by all companies in the consolidated financial statements increased by 5.56% compared to 2017, which is reasonable.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 15 (A) meetings of the board of directors were held in 2018. 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)	14	1	93.33	
Director & President	Li-Yen Yang (Representative of Ministry of Finance)	2	0	100.00	left office on Feb. 7, 2018 Number of Required Attendance:2
Director & President	Kuang-Hua Hu (Representative of Ministry of Finance)	13	0	100.00	took office on Feb. 7, 2018 Number of Required Attendance:13
Director	Chia-Chi Hsiao (Representative of Ministry of Finance)	12	0	100.00	left office on Oct. 3, 2018 Number of Required Attendance:12
Director	Cheng-Te Liang (Representative of Ministry of Finance)	15	0	100.00	
Director	Chun-Lan Yen (Representative of Ministry of Finance)	15	0	100.00	
Director	Tzong-Yau Lin (Representative of Ministry of Finance)	15	0	100.00	
Director	Wen-Ling Hung (Representative of Ministry of Finance)	15	0	100.00	
Director	Shiow-Huey Yeh (Representative of Ministry of Finance)	5	0	100.00	left office on Apr. 19, 2018 Number of Required Attendance:5
Director	Pei-Chun Chen (Representative of Ministry of Finance)	6	1	85.71	took office on Jul. 1, 2018 Number of Required Attendance:7
Director	Chiu-Fa Tsai (Representative of Ministry of Finance)	8	0	100.00	left office on Jun. 30, 2018 Number of Required Attendance:8
Director	Chi-Hsu Lin (Representative of Ministry of Finance)	7	0	100.00	took office on Jul. 1, 2018 Number of Required Attendance:7
Director	Jiunn-Rong Chiou (Representative of National Development Fund, Executive Yuan)	9	0	100.00	left office on Aug. 17, 2018 Number of Required Attendance:10
Director	Cheng-Mount Cheng (Representative of National Development Fund, Executive Yuan)	5	0	100.00	took office on Aug. 17, 2018 Number of Required Attendance:5
Director	Jui-Chi Chou (Representative of Chunghwa Post Co., Ltd.)	10	0	100.00	left office on Aug. 14, 2018 Number of Required Attendance:10
Director	Chien-Hung Wei (Representative of Chunghwa Post Co., Ltd.)	5	0	100.00	took office on Aug. 14, 2018 Number of Required Attendance:5
Director	Ye-Chin Chiou (Representative of Bank of Taiwan Co., Ltd.)	12	0	80.00	
Independent director	Tsun-Siou Li	7	1	87.50	left office on Jun. 30, 2018 Number of Required Attendance:8
Independent director	Keh-Nan Sun	8	0	100.00	left office on Jun. 30, 2018 Number of Required Attendance:8
Independent director	Chi-Hung Lin	6	2	75.00	left office on Jun. 30, 2018 Number of Required Attendance:8
Independent director	Jiun-Wei Lu	7	0	100.00	took office on Jul. 1, 2018 Number of Required Attendance:7
Independent director	Ying-Ko Lin	7	0	100.00	took office on Jul. 1, 2018 Number of Required Attendance:7
Independent director	Chang-Ching Lin	6	0	85.71	took office on Jul. 1, 2018 Number of Required Attendance:7

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 in 2018:

Meeting Dates	Interested Directors	Subject Matter	Reason for Conflict of Interest Recusal	Participation in Deliberation
February 7, 2018 the 40th meeting of the 6th term of board of directors	Kuang-Hua Hu	To appoint Kuang-Hua Hu as the President of the Company and managing director of Mega International Commercial Bank	The recused director is the interested party of the proposal.	The interested director recused during discussion and voting.
March 27, 2018 the 42nd meeting of the 6th term of board of directors	Kuang-Hua Hu	To deliberate the compensation of Kuang-hua Hu, and appoint the 14th term board of directors and supervisors of Mega International Investment Trust Company	The recused director is the interested party of the proposal.	The interested director recused during discussion and voting.
June 29, 2018 the 1st meeting of the 7th term of board of directors	Kuang-Hua Hu	To reappoint Kuang-Hua Hu as the President of the Company	The recused directors are interested parties of the proposal.	The interested director recused during discussion and voting.
	Jiun-Wei Lu	To engage three independent directors as the members of the 4th Remuneration Committee		The interested director recused during discussion and voting.
	Ying-Ko Lin			
July 24, 2018 the 2nd meeting of the 7th term of board of directors	Ying-Ko Lin	To donate NT\$360, 000 academic reward to National Chung Hsing University	The interested directors are professors of the respective school.	The interested directors recused during discussion and voting.
	Chang-Ching Lin	To donate NT\$1,500, 000 academic reward to National Cheng Kung University		
September 25, 2018 the 4th meeting of the 7th term of board of directors	Chao-Shun Chang, Kuang-Hua Hu, Chia-Chi Hsiao Wen-Ling Hung	To reappoint the 16th term board of directors and supervisors of the Mega International Commercial Bank and to designate the chairman and president of the Bank	The recused directors are the interested parties of the proposal.	The interested director recused during discussion and voting.
October 23, 2018 the 5th meeting of the 7th term of board of directors	Pei-Chun Chen	To reappoint the 11th term board of directors and supervisors of the Mega Securities Company and to designate the chairman and president of the company	The recused director is the interested party of the proposal.	The interested director recused during discussion and voting.
November 27, 2018 the 6th meeting of the 7th term of board of directors	Kuang-Hua Hu	To amend the Company's Employee's Bonus and Compensation Guidelines	The recused director is the interested party of the proposed guidelines.	The interested director recused during discussion and voting.
December 18, 2018 the 7th meeting of the 7th term of board of directors	Kuang-Hua Hu	To deliberate 2019 earning budget goal	The bonus of the recused director is in connection with achievement ratio of the budget.	The interested director recused during discussion and voting.

3. Measures taken to strengthen the function 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 met 10 times in 2018.
- (2) In order to strengthen the function of the Board, the Board of Directors approved on November 24, 2015 the "Guidelines Governing the Performance Evaluation of the Board" which stipulate that by the end of each year the Board must conduct a performance self-evaluation for the current year according to the evaluation procedures and performance indicators of these guidelines. The scope of evaluation includes the Board of Directors as a whole, individual board members, and functional committees. The board performance evaluation shall be conducted by an external independent professional institution or a panel of external experts and scholars at least once every three years.

The Company's board performance evaluation of the 2018 shall be conducted by an external institution and according to selection guidelines of external evaluation institution set up by Taiwan Stock Exchange Corporation (TWSE). Ernst & Young (EY) is selected to carry out the said evaluation. The team has the professional talents and experience required for the enhancement of corporate governance and board performance. In recent years, its training on board performance assessment has been reinforced. The service experience of the team spans various industries. Due to the fact that EY is not a specified company has a financial or business relationship with the Company, it meets the professional and independent requirements for external evaluation institution:

A. Evaluation Result and applications:

Ernst & Young evaluated three dimensions including structure, people, and process and information via document review, self-evaluation questionnaire filled by directors, and on-site interview to cover eight items: structure and process, members, juristic person and organizational structure, role and duty, behavior and culture, training and development of directors, supervision of risk control, declaration, disclosure, and performance monitoring.

After comprehensive evaluation, the Company's board performance reached "advanced" level in three dimensions (note). When nominating members of the board of directors, the Company shall base its determination of an individual director's remuneration on the evaluation results of his or her performance.

Three dimensions	Evaluation result
(a)Structure of Board of Directors (including structure and process, and members)	Design of Board of Directors and functional committees complies with laws and regulations. Members of Board of Directors are from diverse backgrounds, matching with the Company's strategic goal of becoming a regional financial group in Asia.
(b)Members (including juristic person and organizational structure, role and duty, behavior and culture)	Directors interviewed are fully aware of the Company's vision and strategic plan and have come to grips with operating performance and management of relevant risk issues, building the Company's deep business culture basis with emphasis on risk mitigation and prevention from corruption or malfeasance.
(c)Process and information (including training and development of directors, supervision of risk control, declaration, disclosure, and performance)	The Audit Committee is highly concerned of the implementation of internal audit and internal control including human resource allocation, peer operations, corruption and deficiency improvement and requires all relevant units to engage in comprehensive and effective improvement.

B. Suggestion and improvement plan:

Suggestion of EY	Improvement plan
(a)To set up guidelines for nomination of diversified candidates of directors by corporate shareholders	The Company will establish guidelines for diversification nomination which shall link to the Company's long-term strategic goal to promote functions and decision making effectiveness of the board of directors.
(b)To invite external experts to offer group courses for the Board of Directors	Group training course will be offered dependent on the annual education status of directors to provide directors with opportunity to exchange strategic opinions, to deepen interaction and mutual trust and to build diverse communication platform.
(c)Identification for issues relating to risks of mid-term and long-term sustainable management and report to the board	Risk management status of the Group's sustainability will be reported to the Board of Directors to facilitate the board to clarify possible external risks, operational risk and financial and non-financial risk in sustainable management.

Note:

- The evaluation period is from May 2017 to October 2018 and the evaluation results were reported to the 9th meeting of the 7th term Board of Directors held on February 26, 2019.
- Evaluation result include basic (compliance with basic requirement of the competent authority and relevant laws and regulations), advanced (compliance with basic requirement of the competent authority and relevant laws and regulations and a set of existing and effective practices or actively improve performance of the dimension) and benchmark (not only performing better than basic requirement of the competent authority and relevant laws and regulations but also demonstrating practices equivalent to benchmarks).

3.3.2 Audit Committee Meeting

The Company's Audit Committee held 10 meetings (A) in 2018, with the following attendance:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Independent Director (Chair)	Tsun-Siou Li	5	0	100%	Term expired on June 30, 2018 Number of required attendance: 5
Independent Director	Chi-Hung Lin	5	0	100%	Term expired on June 30, 2018 Number of required attendance: 5
Independent Director	Keh-Nan Sun	5	0	100%	Term expired on June 30, 2018 Number of required attendance: 5
Independent Director	Jiun-Wei Lu	5	0	100%	Took office on July 1, 2018 Number of required attendance: 5
Independent Director	Ying-Ko Lin	5	0	100%	Took office on July 1, 2018 Number of required attendance: 5
Independent Director	Chang-Ching Lin	5	0	100%	Took office on July 1, 2018 Number of required attendance: 5

Annotations:

1. Operation of the Audit Committee

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

Date of Audit committee	Term/No. of the Meeting	Agenda	Resolution	Response to Audit Committee's opinions
February 6, 2018	The 21st meeting of the 2nd term	Reviews of remuneration of the external auditor of the 2018 financial statements	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors.
March 13, 2018	The 22nd meeting of the 2nd term	Review of the Company's 2017 financial statements	Agenda was passed with amendment to some wordings according to the member's suggestion	The wordings in the notes to the financial statement have been amended according to the resolution. The proposal has been submitted to and approved by the Board of Directors.
March 13, 2018	The 22nd meeting of the 2nd term	Review of the 2017 Internal Control System Statement	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors.
August 14, 2018	The 2nd meeting of the 3rd term	Review of the Company's 2018 Q 2 financial statements	Agenda was passed as proposed and provision of complete financial statements before the meeting is requested.	The unit in charge will follow the resolution. The proposal has been submitted to and approved by the Board of Directors.
October 9, 2018	The 3rd meeting of the 3rd term	Review of the 2019 internal audit plan	Agenda was passed as proposed. Details of other resolutions are specified in communication details of October 9, 2018 meeting as the following table.	The proposal has been submitted to and approved by the Board of Directors. Responsive actions are specified in communication details of October 9, 2018 meeting as the following table.

(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 2018.

2. There were no recusals of independent directors due to conflicts of interests in 2018.

3. Descriptions of the communications among the Independent Directors, the internal auditors, and the external auditors (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 performs research according to suggestions of independent directors.
- The Auditing Office of the Board of Directors reports the audit operations to the Audit Committee at least once every six months and carries out suggestions made by the independent directors.
- The deficiencies indicated in the examination reports of the Financial Supervisory Commission and the improvements 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 compiles deficiencies of the Group's internal control system periodically each year and asks independent directors to hold a conference to review the deficiencies.

Corporate Governance Report

Directors and supervisors shall periodically hold discussions with their internal auditors about reviews of internal control system deficiencies.			
Date	Term/No. of the Meeting	Communication subjects	Communication result and responsive action
January 9, 2018	Meeting to review the Group's internal control system deficiencies	Review of the Group's internal control system deficiencies	The meeting minutes has been reported to the Board of Directors and forwarded to subsidiaries.
March 13, 2018	The 22nd meeting of the 2nd Audit Committee	Reporting on internal audit activities of the second half of 2017	It is acknowledged by all attending members of the committee.
April 10, 2018	The 23rd meeting of the 2nd Audit Committee	The examination opinions on the Company's general business made by FSC and the improvements thereof Meeting instruction is as follows: The attachment of from B shall be attached or otherwise specifying the reason or displayed in the meeting room.	1.It is acknowledged by all attending members of the committee. 2.The Auditing office will follow the meeting instruction in the future.
June 12, 2018	The 25th meeting of the 2nd Audit Committee	The implementation status of internal audit supervised by the independent directors of the 2nd Audit Committee	It is noted by all attending members of the committee.
August 14, 2018	The 2nd meeting of the 3rd Audit Committee	Reporting on internal audit activities of the first half of 2018	It is acknowledged by all attending members of the committee.
August 23, 2018	The meeting with Jiun-Wei Lu, Chairman of Audit Committee	The way to report the audit business to the audit committee and the contents of audit report delivered to independent directors by the auditing office in the future.	The Auditing office will follow the meeting instructions.
October 9, 2018	The 3rd meeting of the 3rd Audit Committee	Report on the deficiencies found in the routine audit of the Company and its subsidiaries and the relevant improvements	It is acknowledged by all attending members of the committee.
		2019 internal audit plan Meeting instruction are as follows: 1.Please submit man power requirement in due course if necessary. 2.Please provide concrete demonstration on risk evaluation method and evaluation result of subsidiaries of recent years in next meeting. 3.Please amend wording of the attachment.	1.The proposal is approved as proposed. 2.The auditing office will submit man power requirement if necessary. 3.The risk evaluation method and evaluation result of subsidiaries of recent years has been reported to the audit committee in November 2018. 4.The wording of the attachment has been amended.
November 27, 2018	The 4th meeting of the 3rd Audit Committee	The date, method and subject of the meeting to review the Group's internal control system deficiencies.	It is acknowledged by all attending members of the committee.
		A concrete demonstration on risk evaluation method and evaluation result of subsidiaries of recent years. Meeting instruction are as follows: When the 2020 audit plan is submitted to this meeting, please also submit a report on amendment to or improvement of risk point and grade calculation method.	1.It is acknowledged by all attending members of the committee. 2.The Auditing office will submit the report when submitting 2020 audit plan according the meeting instruction.
(2) Communications between Independent Directors and the external auditors			
The audit committee meets with CPA at least two times a year, in which meeting the financial situation of the Company and its domestic and overseas subsidiaries are reported by CPA. Major adjustment entries and effects of amendments to the laws and regulations communications are fully communicated.			

Date	Term/No. of the Meeting	Communication subjects	Communication result and responsive action
March 13, 2018	The 22nd meeting of the 2nd Audit Committee	1. Report of auditing result of the 2017 consolidated financial statements and internal control system 2. Audit explanation for 2017 compliance and contingency of Mega Bank's overseas branches and subsidiaries 3. Effect of IFRS 9 beginning account 4. Explanation for special audit of 2017 AML/CFT 5. Audit plan for the 2018 financial statements 6. Material laws, regulation and interpretive developed by the authority in connection with financial reports	The annual financial statements have been approved by the audit committee and board of directors, and publicly disclosed and filed.
August 14, 2018	The 2nd meeting of the 3rd Audit Committee	1. Report pf auditing result of the first half of 2018 consolidated financial statement and internal control system 2. Audit explanation of compliance and contingency of Mega Bank's overseas branches and subsidiaries of the first half of 2018 3. Audit plan for the second half of 2018 financial statements and IFRS 9 4. Communications on the key audit matters for the first half of 2018 5. Material laws, regulation and interpretive rules developed by the authority in connection with financial reports The impact of the important regulations in connection with financial reports 6. Corporate Governance Roadmap (2018~2020) and the effects of amendment to the Company Act on July 6, 2018	The first half of 2018 financial statements have been approved by the audit committee and board of directors, and publicly disclosed and filed.



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 <https://www.megaholdings.com.tw/EN/CompanyRules.aspx>.

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. which are carried out accordingly. There is no dispute or litigation between the Company and its shareholders.	None
(2) Does the company come to grips with list of real major shareholders and ultimate controllers of these major shareholders?	V		In addition to periodic analysis of the shareholding structure based on the register of shareholders on book closure date, the Company come to grips with a list of major shareholders and ultimate controllers of these major shareholders by way of the information provided by insiders and shareholders holding more than 1% of the outstanding share of the Company in accordance with the regulations.	None
(3) Has the company built and executed a risk management mechanism and “firewall” among 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 among the Company and its affiliated enterprises. The “Rules for Monitoring Operations of the Subsidiaries” and “Risk Management Policy and Guidelines” are in place to strengthen the management of subsidiaries and risk management and firewall mechanism among the Company and its Subsidiaries.	None
2. Composition and responsibilities of the Board of Directors				
(1) Other than the Remuneration Committee and Audit Committee which are required by law, does the company volunteer 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 and implementation status of Corporate Social Responsibility.	None
(2) Does the company regularly evaluate its external auditor's independence?	V		In addition to recognizing whether the CPA is the related party under the Article 45 of the Financial Holding Company Act, the Company assesses the independence of its external auditor at least once a year before submitting to the Audit Committee and Board for approval. The criteria of assessment is as follows: 1. No financial benefits between this Company and the external auditors. 2. No gifts given to the external auditors by this Company, its affiliated companies or directors. 3. External auditors not serving as directors, supervisors, or managerial officers of this Company or its affiliated entities. 4. Limitation on external auditors serving for this Company. 5. Limitation on previous employee serving for the external auditor's firm.	None

Corporate Governance Report

<p>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.)</p>	<p>V</p>	<p>Ms. Jui-Yun Lin, Executive Vice President of the Company has been designated as the company secretary by the 10th meeting of the 7th term of Board of Directors held on March 26, 2019. Her duties include supervision of matters relating to board of directors meetings and shareholders meetings, preparation of minutes of the board of directors meetings and shareholders meetings, assistance in onboarding and continuing education of the directors, provision of information required for performance of duties by the directors and assistance in the directors' law. Her 2019 main business points are assistance in compliance of procedures and resolution of the board meeting and shareholders meeting, and arrangement directors' continuing educations. The company secretary's 2019 training is listed as follows:</p> <table border="1"> <thead> <tr> <th>Date</th><th>Training Agency</th><th>Course</th><th>Training Hours</th></tr> </thead> <tbody> <tr> <td>April 18, 2019</td><td>Securities & Futures Institute</td><td>Discussion on responsibility of Directors and Supervisors – from illegal cases in the securities market</td><td>3</td></tr> </tbody> </table>	Date	Training Agency	Course	Training Hours	April 18, 2019	Securities & Futures Institute	Discussion on responsibility of Directors and Supervisors – from illegal cases in the securities market	3	<p>None</p>
Date	Training Agency	Course	Training Hours								
April 18, 2019	Securities & Futures Institute	Discussion on responsibility of Directors and Supervisors – from illegal cases in the securities market	3								
<p>4. Has the company established a means of communicating with its stakeholders (including but not limited to shareholders, employees, customers, etc.)?</p>	<p>V</p>	<p>Under "Corporate Social Responsibilities" of its official website, the Company sets up the dedicated section for stakeholders to facilitate communications among the latter, to understand what shareholders have to say and care about, and to communicate with stakeholders in the following ways:</p> <ol style="list-style-type: none"> 1. With shareholders: Publishing information of revenues, earnings and unaudited 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 operations 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. 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. 	<p>None</p>								
<p>5. Information disclosure (1) Has the company established a corporate website to disclose information regarding its financials, business and corporate governance status?</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, and annual reports. 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 corporate management, the communications between independent director with internal auditor and external auditor.</p>	<p>None</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>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 2018, aside from holding one online investor conference, the Company held 251 one-on-one investor meetings and conference calls with local and overseas institutional investors, and attended 4 investor roadshows hosted by foreign securities firms. The information announced in investor roadshows are disclosed on MOPS and the Company's website.</p>	<p>None</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)?

(1)Employee rights, employee wellness, investor relations, rights of stakeholder	V	<p>(1)Employee rights, employee care: Please refer to "Corporate Social Responsibilities" on page 45 and "Labor Relation" on page 114.</p> <p>(2)Investor relations: The Company has established an "investor" section on its website to provide investors with relevant information. To maintain a good relationship with investors, the Company designates a spokesperson to communicate with investors, and attends investor conference held by local and international securities firms from time to time. One-on-one meetings with investors are also held irregularly.</p> <p>(3)Rights of Stakeholders: Please refer to the Company's 2018 CSR report and "2018 CSR Implementation Results and 2019 Action Plans" on page 49 of this annual report.</p>	None
(2)Directors' training records	V	Please refer to page 42 of this annual report.	None
(3)Implementation of risk management policies and risk measurement criteria	V	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 has developed "Risk Management Policy and Guidelines" which clearly described the guidelines on management of credit risk, market risk, operational risk, liquidity risk management, legal compliance risk, information security risk, human resource management, and material contingencies. On credit risk, the Company has enacted "Credit Risk Management Guidelines" stipulating regular monitoring and reporting of the credit risk exposure by client, industry and country to lower concentration risk. So far, the credit risks are not over-concentrated. On market risk, in addition to formulation of the "Market Risk Management Guidelines", 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 "Mega Group Operational Risk Management Guidelines" 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 risk loss. On liquidity risk, the Company has enacted "Liquidity Risk Management Guidelines" to periodically monitor liquidity risk of its subsidiaries. Respective risk management status is reported to the Risk Management Committee and Board of Directors on a regular basis.	None
(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 Client Data Processing Guidelines and the Group's Firewall Policy are also followed. No disclosure, referral, or exchange of client data by the Company would be carried out without an agreement signed by or written consent from the client, in accordance with relevant statutory requirements in force. Besides, the subsidiaries set up client hotlines to handle customer complaints in a timely manner.	None
(5)Purchase of Liability Insurance for Directors and Supervisors	V	The Group purchases Liability Insurance for Directors, Supervisors and Senior Officers of the Company and its subsidiaries with an insurance coverage of US\$30 million every year. The 2018 insured amount, coverage, premium rate, and other major contents of the policy were submitted to the board of directors for approval.	None
(6)Donation to political parties, related parties, and charity organizations	V	The Company and its subsidiaries do not make donations to political parties. In 2018, the Mega International Commercial Bank donated NT\$19 million to the Mega International Commercial Bank of China 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 (including related parties) reached NT\$195,037,524 in 2018.	None

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7. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange
With regard to the evaluation results of the 5th (2018) corporate governance evaluation systems, those already improved and those pending improvement are as follows:

(1) Improved items:

a. Indicator 2.21 "Does the company designate dedicated corporate governance personnel in charge of corporate governance matters, and disclose the operation and implementation of the corporate governance unit in the annual report and website?"

The Company has designated a corporate governance officer according to the resolution of the 10th meeting of the 7th term of Board of Directors held on March 26, 2019 and discloses the operation and implementation of the corporate governance unit in its annual report and the website".

b. Indicator 2.29 "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."

According to the announcement of Banking Bureau, FSC, there are deficiencies in Mega International Commercial Bank's derivative operation and oversight of overseas branches. After adoption of the improvement measures, the weaknesses have been improved.

c. Indicator 3.14 "Does the company's annual report disclose the linkage of performance evaluation of the board of directors with their compensation?"

The information has been disclosed in this annual report.

(2) Unimproved items with prioritized reinforcement:

Indicator 4.7 "Does the company sign a collective agreement with the labor union according to the Collective Agreement Act?"

The Company will sign a collective agreement with the labor union once both parties reach an agreement.

Directors' training records

Name	Date	Training Agency	Course	Training Hours
Chao-Shun Chang	09/06/2018	Ministry of Finance, R.O.C.	Special Lecture on Anti-Money Laundering	3
	09/07/2018	Ministry of Finance, R.O.C.	Special Lecture on Corporate Governance	3
Kuang-Hua Hu	03/29/2018	Chinese National Association of Industry and Commerce, Taiwan	Development Trend and Best Practice of Corporate Governance and CSR	3
	05/09/2018	Taiwan Academy of Banking and Finance	Lecture on Corporate Governance	3
	05/15/2018	Chinese National Association of Industry and Commerce, Taiwan	Business Innovation, Information Technology and Advantage Edges Directors Should Know	3
	05/17/2018	Chinese National Association of Industry and Commerce, Taiwan	Challenges in AML Faced by Business and Countermeasures	3
	09/06/2018	Ministry of Finance, R.O.C.	Special Lecture on Anti-Money Laundering	3
	09/07/2018	Ministry of Finance, R.O.C.	Special Lecture on Corporate Governance	3
Jiun-Wei Lu	07/19/2018	Securities & Futures Institute	Latest Trends of Corporate Governance in Corporate Sustainability	3
	07/19/2018	Securities & Futures Institute	Enhancement of Corporate Governance by Means of Self-Evaluation of Board of Directors	3
	07/20/2018	Securities & Futures Institute	Commercial Concerns and Legal Risk Analysis in Corporate Decision Making	3
	07/20/2018	Securities & Futures Institute	Case Study on Legal Responsibility and Risk Management of Directors and Supervisors on Misrepresentation of Financial Report	3
	09/06/2018	Ministry of Finance, R.O.C.	Special Lecture on Anti-Money Laundering	3
	09/07/2018	Ministry of Finance, R.O.C.	Special Lecture on Corporate Governance	3
Ying-Ko Lin	09/19/2018	Taiwan Corporate Governance Association	The 14th International Corporate Governance Forum – Compliance and Supervision of Director's Liability	6
Chang-Ching Lin	07/17/2018	Chinese National Association of Industry and Commerce, Taiwan	Development of Corporate Governance Evaluation and Countermeasures	3
	09/06/2018	Ministry of Finance, R.O.C.	Special Lecture on Anti-Money Laundering	3
	09/07/2018	Ministry of Finance, R.O.C.	Special Lecture on Corporate Governance	3
	10/23/2018	Securities & Futures Institute	Exploration on Legal Responsibility of Directors and Supervisors for Misrepresentation of Financial Report	3



Cheng-Te Liang	01/26/2018	Taiwan Corporate Governance Association	Key Information of Financial Statements and Responsibility of Directors and Supervisors	3
	04/20/2018	Taiwan Corporate Governance Association	Development Trend and important regulations of AML/CFT	3
	09/06/2018	Ministry of Finance, R.O.C.	Special Lecture on Ant-Money Laundering	3
	09/19/2018	Taiwan Corporate Governance Association	The 14th International Corporate Governance Forum – of Director's Compliance and Supervision Liability	3
Chun-Lan Yen	03/06/2018	Taiwan Corporate Governance Association	Shareholders' Meeting and Shareholding Management	3
	05/17/2018	Chinese National Association of Industry and Commerce, Taiwan	Challenges and Response to AML by Business	3
	07/17/2018	Chinese National Association of Industry and Commerce, Taiwan	Development and countermeasures of Corporate Governance Evaluation	3
	09/06/2018	Ministry of Finance, R.O.C.	Special Lecture on Ant-Money Laundering	3
	09/19/2018	Taiwan Corporate Governance Association	The 14th International Corporate Governance Forum – Director's Compliance and Supervision Liability	3
Tzong-Yau Lin	04/12/2018	Securities & Futures Institute	Exploration on Employee Fraud Prevention	3
	08/16/2018	Securities & Futures Institute	Financial Crisis Alert and Type Analysis	3
Wen-Ling Hung	08/17/2018	Taiwan Corporate Governance Association	The Final Line of Defense in Corporate Governance – Directors and Officers Liability Insurance	3
	08/24/2018	Taiwan Corporate Governance Association	Analysis and Practice of AML/CFT	3
	09/07/2018	Ministry of Finance, R.O.C.	Special Lecture on Corporate Governance	3
Pei-Chun Chen	09/06/2018	Ministry of Finance, R.O.C.	Special Lecture on Ant-Money Laundering	3
	09/07/2018	Ministry of Finance, R.O.C.	Special Lecture on Corporate Governance	3
	11/22/2018	Securities & Futures Institute	Case Study on Fraudulent Financial Reporting and Responsibility of Directors and Supervisors on Misrepresentation of Financial Report	3
	12/06/2018	Securities & Futures Institute	The Latest Major Amendment to, and Practice of, Company Act	3
Chi-Hsu Lin	04/24/2018	Taiwan Academy of Banking and Finance	Performance Evaluation of Board of Directors	3
	04/27/2018	Taiwan Academy of Banking and Finance	Prevention of Business Fraud and Establishment of Whistle Blower System	3
	06/21/2018	Taiwan Securities Association	The Impact of Taiwan's Anti-Tax Avoidance Rules on Enterprises, Common Reporting Standard (CRS) and FATCA	4
	07/19/2018	Securities & Futures Institute	The Impact of Recent Amendments to the Company Act on Corporate Governance, Internal Control and the Responsibility of Directors and Supervisors	3
	09/06/2018	Ministry of Finance, R.O.C.	Special Lecture on Ant-Money Laundering	3
	12/19/2018	Taiwan Securities Association	Case Study on Legal Strategy and Crisis Management	3
Cheng-Mount Cheng	10/05/2018	Taiwan Corporate Governance Association	Case Study on Director's Fiduciary Liability and Business Judgement Principle	3
	10/15/2018	Financial Supervisory Commission	The 12nd Taipei Corporate Governance Forum	3
	10/19/2018	Taiwan Corporate Governance Association	Intelligence Property Management from the Perspectives of Directors and Supervisors	3
	10/26/2018	Taiwan Corporate Governance Association	Operation and Responsibility of Board of Directors	3
Chien-Hung Wei	07/20/2018	Taiwan Corporate Governance Association	Internal Control and Risk Management –Analysis on Top Ten Global Risks in 2018	3
	08/10/2018	Taiwan Corporate Governance Association	Business Secret and Prohibition of Business Competition	3
	08/31/2018	Taiwan Academy of Banking and Finance	International and Domestic Laws and Regulation of AML/CFT	3
	10/19/2018	Taiwan Corporate Governance Association	Intelligence Property Management from the Perspectives of Directors and Supervisors	3
Ye-Chin Chiou	06/11/2018	Taiwan Academy of Banking and Finance	Special lecture on Corporate governance	3
	11/05/2018	Taiwan Academy of Banking and Finance	Special lecture on Corporate Governance	3

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	
Independent Director	Ying-Ko Lin	V		V	V	V	V	V	V	V	V	V	0
Independent Director	Chang-Ching Lin	V		V	V	V	V	V	V	V	V	V	0
Independent Director	Jiun-Wei Lu			V	V	V	V	V	V	V	V	V	0

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

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

B. Remuneration Committee's Operation Status and Responsibility

- (1) The Responsibility of Remuneration Committee is as follows:
 - (a) Prescribing and periodically reviewing the performance evaluation and remuneration system for directors and managerial officers.
 - (b) Prescribing and periodically reviewing the salary and remuneration of directors and managerial officers.
- (2) The Company's Remuneration Committee has 3 members. The current Committee's tenure of office is July 1, 2018 to June 30, 2021. In 2018, the Committee held 6 meetings with the following attendance:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Chair	Chi-Hung Lin	3	0	100%	Tenure expired on June 30, 2018
Member	Tsun-Siou Li	3	0	100%	
Member	Keh-Nan Sun	3	0	100%	
Chair	Ying-Ko Lin	3	0	100%	Taking office on July 1, 2018
Member	Chang-Ching Lin	3	0	100%	
Member	Jiun-Wei Lu	3	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 2018.
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) Important Resolution of the Remuneration Committees in 2018

Date of Meeting	Term/No. of the Meeting	Agenda	Resolution	Response to Remuneration Committee's opinions
March 13, 2018	The 8th meeting of the 3rd term	Review of managerial officers' salary adjustment and the new president's salary	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors.
		Review of the 2017 directors' compensation and its distribution principles, and managerial officers' compensation	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors.
April 10, 2018	The 9th meeting of the 3rd term	Review of the amendment to the Regulations Governing the Group's Staff Exchange	Agenda was passed with amendment to the calculation basis of the part-time allowance.	The Regulations have been revised according to the resolution, submitted to the Board and approved by the Board.
		Review of the managerial officers' salary adjustment, top salary bonus and performance bonus	Agenda was passed as proposed and the attachment is required to add some description.	The attachment has been added description according to resolution. The proposal has been submitted to the Board of Directors and approved by the Board.
June 12, 2018	The 10th meeting of the 3rd term	Review of the part-time allowance for managerial officers	Agenda was passed as proposed, while the part-time allowance is required to submit to this committee for regular review.	The proposal has been approved by the Board of Directors. The part-time allowance will be submitted to the Remuneration Committee for review on a yearly basis.
August 14, 2018	The 1st meeting of the 4th term	Review of the amendment to the Company's Regulations Governing Employee Compensation	Agenda was passed as with amendment to the wording of Article 11.	The Regulations have been revised according to the resolution, submitted to the Board of Director and approved by the Board of Directors.
August 28, 2018	The 2nd meeting of the 4th term	Review of the amendment to the Company's Employee Bonus and Compensation Guidelines	Agenda was passed with following amendment: Please delete the stipulation about chairman's compensation and revise the calculation basis of operation bonus.	The Guidelines have been revised according to the resolution and submitted to and approved by the Board of Directors.
October 23, 2018	The 3rd meeting of the 4th term	Review of the 2018 directors compensation and its distribution principles	Agenda was passed as proposed and the unit in charge was required to provide appropriation ratio of director compensation by other financial holding companies next time this proposal is submitted to this meeting.	1.The unit in charge will follow the resolution. 2.The proposal has been submitted to and approved by the Board of Directors.

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	
1. Exercising corporate governance			
(1) Does the company declare its CSR policy, systems or relevant management guidelines and review the results?	V		To implement 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 is also published to disclose the action plan and a review of its implementation.
(2) Does the company organize education and training on the implementation of CSR initiatives on a regular basis?	V		The Company invites external professional to give training of social responsibilities every year and designates staff to attend relevant external trainings or seminars from time to time. In 2018, the Company held 5 seminars, attended by 130 staffs, with the subject of "ISO 146064 -1 Greenhouse Gases Inventory", "GRI Standard and Introduction of DJSI" and "CDP Climate Change Program". The training time of each seminar is ranging from 3 to 8 hours.
(3) Does the company establish an exclusively (or concurrently) dedicated unit to be in charge of CSR and appoint executive-level positions by the board of directors with responsibility for CSR issues, and to report the status of the handling to the board of directors?	V		The Company designates the Administration Department as the unit in charge of promotion of corporate social responsibility. A Corporate Social Responsibility Committee is established, which is chaired by President. Executive Vice President of the Company act as a director general and the president or executive vice presidents of 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 enact and review CSR policy, deliberate annual plan and action plan, and follow up the implementation status.

Corporate Governance Report

(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 fulfillment rate, EPS, ROA and ROE. In addition, employee remunerations are appropriated according to the Articles of Incorporation. 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". In case of violation of laws or relevant internal regulations such as Employee Code of Conduct, Ethical Corporate Management Principles, CSR Principles, the employee shall be subject to disciplinary action according to the degree of 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.	None
(2) Does the company establish proper environment management systems based on the characteristics of its industry?	V	As financial service providers, the Group's operation is unlike manufacturing enterprises where generation of noise, discharge of sewage, waste water and toxic substances, among other pollutants, are likely. 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. Starting in 2017, with the Jilin Building where the head office of Mega Bank is as the demonstration unit, the ISO 14001 Environmental Management System was introduced and it was verified in January 2018 (The certificate is valid from January 5, 2018 to January 4, 2021, and the latest validity review date is November 19, 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	In terms of governance of climate change, our board member monitors and oversees related issues through regular Corporate Social Responsibility Committees and Board Meetings. The Corporate Social Responsibility Committee meets 2 to 3 times every year to discuss actions for the response to climate change issues and track implementation effectiveness which periodically reported to the board of directors. In 2018, the Group participated in the CDP assessment for the first time and got B rating, disclosing our efforts in promoting environment sustainability to international investors. At the same time, The Group continued to strengthen green financial services. In response to the government's renewable energy policy, we have actively invested in the green energy industry to promote the development and construction of the green energy industry. To respond to climate change and environmental protection, the Group has set energy saving targets to mitigate the GHG emissions. Through the establishment of an environmental management system, we reduce the adverse impact of operating activities on the environment. Energy and resources consumption inventory are regularly conducted and targets thereof are reviewed continuously to improve management policies and measures for energy and resource efficiency. Additionally, we identify the risks and opportunities of climate change and assess the impact on the Group, integrating into the operating and risk management policies.	None



		<p>As a financial service provider, the Group closely watches 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. In addition to providing assistance to customers with managing the impact of business activities on the environment and society, the Group prevents the loan proceeds from posing significant risks or inducing adverse impacts on the environment and society. In the future, the Group will cooperate with stakeholders to lower the impact of climate change through the provision of proper financial products and avoid the risk of intensive exposure to climate change risk 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 investments relating to natural disaster, including the increase in the amount of claims and the impairment of investment, which may affect the 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 launch of insurance products or investment. Besides, the Group will increase investment in green energy industries to retard the impact of climate change.</p> <p>Aside from the short-term target of 1% reduction per year for energy saving and emission mitigation per year (including water, electricity, and fuel consumption), the Group set a 5 year (2017-2022) target of more than 5% reduction with 2017 as the base year. The boundary covers domestic operating units. The Group has carried out greenhouse gas inventory since 2013. ISO 14064-1 will be introduced in all domestic operating units in 3 years. In 2018, operating units in northern Taiwan have introduced ISO 14064-1, and the scope will expand to central Taiwan in 2019 and to southern Taiwan in 2010.</p> <p>In 2017, the scope 1 and 2 emissions of 15 operating units in northern Taiwan, verified by BSI, were 631.30 and 8,750.51 metric tons of CO₂e, respectively. In 2018, the scope 1 and 2 emissions of 90 operating units in northern Taiwan, verified by SGS, were 718.94 and 14,004.90 metric tons of CO₂e, respectively. The greenhouse gas emissions increased in 2018 because the number of operating units verified increased by 75 operating units.</p> <p>To conform to the government's climate change policy, the Company requires all subsidiaries to set targets for energy conservation and emission reduction. Each year, the ESG action plans of each subsidiary are reported to the Corporate Social Responsibility Committee for approval. All subsidiaries shall also report the consumption of fuel, electricity, and water to the Company quarterly for review.</p>	
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 and human right 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 nationality, 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, which are specified in its human resources rules.	None
(2) Does the company provide an employee grievance mechanism and respond to any employee's grievance in an appropriate manner?	V	The Company set up diverse communication channels for employees including direct contact or email. 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.	None

Corporate Governance Report

(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	Labor-Management Meetings are held regularly. Employees are encouraged to talk to their superiors directly or via emails or meetings. In case of operational changes that may result in huge impacts on employees, employees will be informed via meetings or other reasonable methods within the required time, under the applicable laws.	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 compliance and 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.	None
(6) Does the company establish policies on consumer rights and interests and accept consumer complaints in the process of research and development, procurement, production, operations, and services?	V	Processing of personal information is managed according to requirements of the "Financial Holding Company Act", the "Personal Information Protection Act" and "Regulations Governing Cross Selling among Subsidiaries of Financial Holding Company". To protect the secret and safety of customer's personal information, the Company has adopted rigorous control mechanism. Measures for protection of clients' privacy are disclosed on the Company's website. Besides, the Company and 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	The Group follows "Financial Holding Company Act", "Banking Act", "Financial Consumer Protection Act" and relevant laws and regulations when marketing or labeling its products and Services. A strict internal control system is in place to be followed. Product information is disclosed on the website, application form, account statement, DM, EDM and advertisement. In accordance with general ethical principles and the spirit of financial consumer protection, a fair transaction market is maintained to create customer value.	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	Prior to engaging in commercial dealings, the Company assesses and screens suppliers, refraining from conducting transactions with those with negative record of impact on the environment and society. Starting from 2014, the Company requests suppliers having transactions with it for amounts more than NT\$1 million to issue a CSR statement to fulfill social responsibilities relating to the environment and society. Besides, the Company has enacted "Supplier CSR Guidelines" requiring suppliers to follow regulations relating to environment, safety or sanitary issues.	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 its CSR statement and has caused significant negative impact on the environment and society 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 the corporate social 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 material discrepancy.			
6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices: Please refer to the 2018 CSR Implementation Results and 2019 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 2018 CSR report is assured by the British Standard Institution (BSI) according to "AA1000 AS:2008 with 2018 addendum" and the principle of "GRI Standards". For details, please refer to the 2018 CSR report.			



2018 CSR Implementation Results and 2019 Action Plans

Item	2018 Implementation Results	2019 Action Plans
Corporate Governance	<ol style="list-style-type: none"> 1. To promote the function and transparency of the board of directors, the Company engaged an external independent institution to conduct performance evaluation of the board of directors. 2. The Group reinforced credit risk, market risk, and operational risk management systems, advanced the risk management and internal control mechanism, and put the risk management policy and goal into practice. 3. To encourage investee companies to enhance the corporate governance quality and increase their value, Mega Bank, Chung Kuo Insurance, Mega Securities and Mega International Investment Trust become signatories of the compliance statements on "Stewardship Principles for Institutional Investors". 4. The Equator Principles are referred to in financing business. It is added in the credit policy that the borrower's fulfillment of environmental protection, ethical corporate management, and social responsibilities will be paid attention to. 5. To strengthen supervision on subsidiaries' AML/CFT and prepare for the APG mutual evaluation, the Group held AML meeting every month in 2018, optimized AML information sharing platform and expanded the sharing content and items. 	<ol style="list-style-type: none"> 1. In line with the government policy, the Company appoints a company secretary to provide directors with more assistance. 2. In response to international trend in the tax governance, the Group will reinforce tax legal compliance and promote transparency of tax information. 3. The management of emerging risks, including climate change will be added into the Group's "Risk Management Policy and Guidelines". 4. Legal compliance system and compliance training will be continuously enhanced. 5. The Company enacts Employee Code of Conducts to promote employee's ethical standard. Each company of the Group will strengthen the whistle-blowing system and implementation status of ethical corporate management will be reported to the Board. 6. The Company will optimize the Group's consistent AML/CFT guidelines applicable for subsidiaries. AML Training and compliance tests will continued to be organized.
Customer Commitment	<ol style="list-style-type: none"> 1. In September 2018, Mega Bank launched "Gogoro Co-brand Card" to take advantage of the Bank's resources to protect environment. 2. In response to an aging society, Mega Bank continues to promote care trust and reverse mortgages for seniors. With a care trust assets of NT\$562 million as of the end of 2018, the Bank was awarded third prize in 2017 evaluation of the elderly and disabled trust assets by the FSC. 3. For the card center of the Bank, a smart customer service system has been online in May 2018. For questions raised on line, the system will automatically answer questions in real time, which helps enhance the quality of customer service. 4. Service of withdrawing deposits from ATM without financial card is activated, enhancing mobile services quality for customers. 5. Chung Kuo Insurance continues to utilize technology in building mobile App which facilitates real-time convenient services for customers. Meanwhile, reinforced efforts will be made to promote information security insurance products that help guard against information security risk. 6. Mega Securities also maintains its commitment to the digitization of securities, development of digital marketing, active management of the official website, social media, fan pages, and organization of the relevant activities with the goal of gradually establishing an online interactive mechanism for the satisfaction of customer needs. 	<ol style="list-style-type: none"> 1. Mega Bank will continue to purchase insurance to protect against information security and cyber security event. Mega Securities will introduce ISO 27001 information security verification, to reinforce information security and personal information protection. 2. In line with the government policy, the Bank will continue to promote "Taiwan Pay" mobile payment and related payment collection services for shopping, fund transfer and payment (of taxes or expense), among other diversified services. 3. In line with the "Green Finance Action Plan" of the government, Mega Bank and Mega Bills Finance will continue to promote financing for solar photovoltaic, LED lightening industry, etc. Mega Securities will continue to help enterprises to raise funds for green technology development through participation in underwriting or investment of green bank debentures or equity, and promote green financial products approved by the government. 4. In response to an aging society, Mega Bank continues to promote care trust and reverse mortgages for seniors. 5. Mega Bank will continue to promote youth mortgage loan and provide preferential interest rate to lower interest expense for customer purchasing house for the first time. 6. SME loans will be strengthened to assist domestic SME to develop solidly. 7. Urban renewal business will be promoted to improve urban function, local industrial development and environmental quality.
Environmental Protection	<ol style="list-style-type: none"> 1. In November 2018, a total of 90 operating sites of the Group conduct "ISO 16064-1 Greenhouse Emission Inventory Check". The Group's greenhouse emission equivalent reduces 0.23% in 2018. 2. Mega Bank procured green products in an amount of NT\$64,388 thousand in 2018 and was rewarded a certificate of merit by Department of Environmental Protection, the Taipei City Government. 3. As of the end of 2018, the loans to innovative industries by Mega Bank reached NT\$384.2 billion, among which green technology reached NT\$74.4 billion, representing 5.85% of total domestic loans outstanding. 4. Mega Bills Finance granted a total of NT\$20,549 million credit line to green industries, while the credit outstanding totaled NT\$9,739 million as of the end of 2018. 5. Mega Securities acted as co-manager in underwriting of 3 green bonds, accounting for 21.4% of the green bonds issued in 2018 in terms of cases. As of the end of 2018, it holds 3 green bonds with a total amount of NT\$310 million. 6. Mega Bank launched a Loan Program for the Renewable Power Generation Industry in cooperation with the Small & Medium Enterprise Credit Guarantee Fund of Taiwan as well as different city and county governments. Loan facility for NT\$30 billion in total were granted to businesses in those counties and cities for the development of the renewable power generation industry. 	<ol style="list-style-type: none"> 1. The Group will continue to perform the "ISO14064-1 Greenhouse Emission Inventory Check", the scope of which will be expanded to the Group's all operating sites around Taiwan by 2021. 2. The Mega Jinlin Building will continue to conduct ISO 14001 environment management system. 3. The Group will continue to promote energy saving and carbon reduction to achieve the goal of 5% reduction, with 2017 as the base year, in gasoline, electricity and water consumption by the end of 2022. 4. The Company will enhance the supplier management mechanism, while its subsidiaries will enact supplier management system. Green procurement will also be strengthened.

Employee Care	<ol style="list-style-type: none"> 1. Mega Bank enforces full-range employee care and a healthy workplace, continues to work with Taiwan Adventist Hospital and promotes weight loss and physical and mental care seminars. 2. In response to the dynamics in the financial market, by providing full or partial subsidy, employees are encouraged to receive related training and certifying tests reflective of their job responsibilities so that employees' skills are kept up to date with the company's business operations. A total of around NT\$30 million subsidy were granted by Mega Bank in 2018. 3. Mega Bank and Mega Bills Finance have increased its marriage and childbirth subsidies in line with the government policy to encourage marriage at the marriageable age and childbirth. A total of 156 employees were granted marriage subsidy in 2018, while childbirth subsidy were given for 191 newborns by the Group. 	<ol style="list-style-type: none"> 1. By providing full or partial subsidy for registration fee and license fee, employees are encouraged to obtain professional license or participate in qualification tests reflective of their job responsibilities. 2. To maintain a harmony labor-management relationship, labor-management meetings are convened regularly and diverse complaint means is built to help employees solve their problems. 3. To facilitate employee health and thereby enhance overall competitiveness, Mega Bank continues to organize "Weight Loss Classes" as well as "Health Lectures" encompassing "Health Knowledge", "Stress Management" and "Spiritual Growth" in northern, central and southern Taiwan in cooperation with the Taiwan Adventist Hospital.
Social Welfare	<ol style="list-style-type: none"> 1. Mega Bank linked locally by promoting artistic and cultural developments and held three charity concerts in the northern, central and southern Taiwan, respectively. 2. The Group continues to promote domestic characteristic sports and sponsor the budget needed for training students interested in baseball, archery, weight-lifting and other sport activities by sponsoring NT\$18.03 million in 2018. 3. To support the domestic e-Sport industry, Mega Bank organizes the First Mega Bank eSport Competitions cultivating national players and related industries. 4. In 2018, the Group offers summer job opportunities for 46 disadvantaged students, totaling 300 students were offered summer job from 2012 to 2018. 5. The Group cares for disadvantaged populations and provides the disadvantaged elderly and students with living, medical and education subsidies for NT\$3,390 thousand in 2018. 6. The Group offered funeral subsidy and emergency assistance for 57 cases introduced by Department of Social Welfare of various city/county government and hospitals. 7. To maintain basic human rights of safety protection for disadvantaged populations, Chung Kuo Insurance provides micro-insurance products. A total of 3,167 persons are insured, and there are 5 claims for NT\$1.5 million in 2018. 	<ol style="list-style-type: none"> 1. The Group will continue to promote financial literacy by cooperation with university workshop or enterprise visit activities so that the core competencies of Mega Bank may benefit the general public. 2. Employees continue to go to home for elderly to provide volunteer work once a month. 3. To promote tax awareness and social welfare, the Group will continue to work with Ministry of Finance, R.O.C to organize Unified Invoice Running, which may achieve tax literacy, health and social welfare benefits. 4. Mega Bank will hold large charity concerts to promote artistic culture and support cultural and creative industry locally. 5. The Group will continue to sponsor adoption of children of disadvantaged family, provide the disadvantaged students with living, lunch and education subsidies, and sponsor nursing home activities.

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. Establishment of ethics policy and implementation measures (1) Does the company clearly specify ethical corporate management policies, guidelines and the commitments of the board of directors and management team to implement the policies in its rules and external documents?	V		The Company's "Ethical Corporate Management Principles" and "Code of Ethical Conduct" are approved by the board of directors, reported to the shareholders meeting, and posted on the MOPS and the Company's website, which clearly specify the commitment by the board of directors and the management on rigorous and thorough implementation of such policies. Directors, managerial officers and employees are required to carry out the policies.	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 and its subsidiaries enacted "Ethical Corporate Management Principles" clearly stating 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



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, Paragraph 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 behavior, the Company requires and proactively promote that directors, managerial officers and employees should not demonstrate unethical behavior as prohibited in the "Ethical Corporate Management Principles" and "Code of Ethical Conduct". In addition, the Company conducts various preventative measures, including: establishment of rigorous accounting system, internal control and internal audit system, and a whistle-blowing system, encouraging report of illegal and unethical 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 and its subsidiaries take into account ethical records of transaction counterparties and avoid transactions with companies tainted by unethical practices. When entering into contracts with suppliers, the Company includes in such contracts terms requiring compliance with ethical corporate management policy and that in the event the trading counterparties are involved in unethical conduct, the Company may at any time terminate or rescind the contracts.	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 the President who is concurrently a director, while Executive Vice Presidents of the Company and its subsidiaries are committee members. The major function of the committee is to supervise the planning and implementation of the CSR and ethical corporate management. Implementation of Ethical Corporate Management Principles 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		The Company has established an accounting system which is updated according to the laws and regulations of the competent authority, and the Company's financial statements are audited or reviewed by external auditors. Additionally, to ensure adherence to the internal control system, aside from examination 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 and its subsidiaries periodically organize compliance and ethical management training. When conducting commercial activities, the Company also promoted the ethical management concept to suppliers. In 2018, a total of 7,870 employees participating in ethical management training, accounting for 95% of all employees, for a total of 7,843 hours. The training courses include anti-bribery, Personal Information Protection Act, Consumer Protection Act and Financial Consumer Protection Act.	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 Handling of Whistle-Blowing" clearly defines whistle-blowing incentive measures and reporting means as follows: (1)Hotline: (02)2395-6128 (2)Email: hr@megaholdings.com.tw (3)Unit to handle whistle-blowing: Legal Affairs and Compliance Department	None
(2) Does the company establish standard operation procedures for the investigation and security mechanism?	V		The Company's "Guidelines for Handling of Whistle-Blowing" 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, investigation, 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 and its subsidiaries protect whistleblowers by keeping whistleblowers' identity and report contents confidential. No unfair treatment or punishment will be given due to the reports given by whistleblowers.	None
4.Enhancing disclosure of ethical corporate management information Does the company disclose the content and the implement status of the Ethical Corporate Management Principles on the Company's website and MOPS?	V		The Company discloses the content and the implementation status of its "Ethical Corporate Management Principles" on the Company's website. The implementation results of 2018 include: amendment to the whistle-blowing system which specifies the unit to handle whistle-blowing, secondary review of the investigation report, training of ethical corporate management, promotion of the concept of integrity and ethical value, no transaction with counterparty having unethical record, no whistle-blowing on violation of ethical corporate management by directors and managerial officers.	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 and its subsidiaries have enacted "Ethical Corporate Management Principles" and "Procedures for Ethical Management and Guidelines for Conduct", which are 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): (1) All donations to related parties are approved by the Board of Directors of the Company, and information of donation and sponsorship is compiled and reported to the Board of Directors once half a year. (2)The Company at all times monitors the development of relevant local and international regulations concerning ethical corporate management and encourages its directors, managerial officers, and employees to make suggestions, based on which the ethical corporate management policies will be reviewed and improved with a view to achieving better implementation of ethical corporate management.				

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

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, 2018 to December 31, 2018, the Company has duly complied with the “Implementation Rules of Internal Control and Internal Audit 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 schedule, the internal control and legal compliance systems of each department have been in effect during the year, this Statement will be included as the main content of the Company’s annual report and prospectus, and be published to the public. If there is any illegal activity such as fraud or concealment, liabilities under Articles 20, 32, 171, and 174 of the Securities and Exchange Act will be involved.

Chairman: Chao-Shun Chang

President: Kuang-Hua Hu

Chief Auditor: Tzong-Chi Hsu

Chief Compliance Officer: Hui-Lin Wu

March 26, 2019

Internal Control Weaknesses and Improvement Plans

As of December 31, 2018

Items to be reinforced	Improvement Measures	Estimated Completion Time of Improvement
Mega International Commercial Bank 1. The New York Branch had failed to establish an effective compliance system and failed to report suspicious transactions of money laundering that should be reported. The Branch had inadequate internal controls and it had failed to conduct sufficient customer due diligence. Additionally, the Branch had inadequate risk assessment policies and procedures in place, and lack diligent oversight by the head office.	1. The New York Branch has established an independent, dedicated compliance department equipped with an experienced Chief Compliance Officer (CCO) and a BSA officer (anti-money laundering officer). Its manpower and resources are expanded to execute legal compliance and anti-money laundering improvement plans. 2. The New York Branch has established a Compliance Committee and Corrective Action Committee dedicated to discussing the compliance and following up on various corrective actions on a monthly basis, especially the issues relating to such anti-money laundering issues as suspicious activity reports. 3. The Bank has retained professional consultants to draft the corrective action plan, including enhancement of the management system, operating procedures and manuals, and building of the anti-money laundering system. 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. Continued system adjustment and functional sub-systems are adopted to help monitor money laundering and terrorism financing effectively. 5. The head office has established the supervisory taskforce to ensure fulfillment of various corrective actions through documentary review and on-site visits. 6. The formulation of the Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards has been completed by the head office. It is planned to apply these policies and standards to the overseas units in stages to make the domestic and overseas anti-money laundering and counter-terrorism financing system in sync with the international standards. 7. Staff training based on various business categories are enhanced to improve employees' compliance capability. 8. Communication with overseas financial examination institutions and the relevant reporting mechanisms have been strengthened. 9. Compliance officers at overseas branches have been all taken on by dedicated personnel, and compliance officers of branches in the U.S.A. have been adjusted to local professional. 10. The Bank has established the "Compliance Committee in the U.S.A.", and appointed the Chief Compliance Officer of the New York Branch as the Chief Compliance Officer in the U.S.A. concurrently, responsible for the integration of compliance and risk management affairs in the U.S.A. 11. The New York Branch has completed the re-examination on know your customer (KYC) for high-risk and mid-risk customers, and the review of customer identification program (CIP) for low-risk customers. 12. 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. In line with the Bank's organizational reform, the Overseas Business Management Department is set up to strengthen the management of overseas branches. 13. To enhance the functions of internal audit, communications with outsourcing internal auditor will be strengthened and quality control mechanism of the outsourcing examination will be strengthened.	1. The improvement measures specified in item 3 are preliminarily completed at the end of March 2018. Besides ensuring continued implementation of the improvement measures, the Bank also retains independent consultants to conduct verification. 2. Anti-money laundering system installation specified in item 4 has completed in Q3 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 improvement tasks are executed until the removal of supervision by the US competent authorities.



<p>2. The Bank is found with deficiencies in anti-money laundering and management of regulatory compliance by overseas branches.</p>	<ol style="list-style-type: none"> 1. The Bank has established a mechanism to evaluate customers' money laundering risk. Periodical updates on customer's information and risk assessment will be carried out according to customers' risk level. 2. Factors of Risk assessment, anti-money laundering operations (including name screening, customer risk assessment, due diligence, transaction monitoring and suspicious activities reports) and the relevant regulations will be reviewed and enhanced. 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 AML monitoring and management. 4. The anti-money laundering monitoring system throughout the Bank will be upgraded. The construction of domestic branches' SAS systems, 1st stage, has been completed in 2018. Notwithstanding, because it is still necessary to strengthen functions of certain sub-systems, the said system may not go live or operate until the end of June 2019. Upon expiration of one year after the system goes live, namely the maturity period, the said system will be built up and introduced in overseas branches. 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. 6. To reinforce the supervision 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>The first stage specified in item 4 is slated for completion by the end of June 2019 and the remaining items have been completed or are still in progress in accordance with the relevant improvement measures.</p>
<p>3. For credit operations, the 5 Principles and post-credit management operations shall be fulfilled. The Credit Review Committee and Board of Managing Directors shall fulfill their obligation and supervisory management to strengthen corporate governance and credit risk management.</p>	<ol style="list-style-type: none"> 1. The Bank has reviewed the related operating procedures and required all business units to strictly follow the 5 Principles and relevant credit investigation regulations when processing applications for credit, and strengthened the credit investigation and evaluation to promote the quality of credit assets. 2. The post-credit management follow-up and check mechanism for credit customers is established to strengthen operating procedure management and fulfill the post-credit management. It is required to review, document and maintain the relevant information for record. 3. The comprehensive credit evaluation will be conducted on positive and negative information according to the 5 Principles. Any important negative information or assessment opinion will be provided to the Loan Committee and Board of Directors (Board of Managing Directors) for discussion. 	<p>Improved</p>
<p>4. On the audit base date in 2016, it was detected that the New York, Chicago, and Silicon Valley Branches failed to meet the standards of the supervisory authorities for risk management and anti-money laundering systems.</p>	<ol style="list-style-type: none"> 1. The Board of the Bank has been completely re-organized. Newly appointed directors and supervisors include CPA, lawyers, finance scholars and anti-money laundering professionals. In addition, a special committee subordinate to the board has been established to strengthen the board supervisory functions. 2. The anti-money laundering and compliance operations of the Bank have been fully 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 established. Compliance and anti-money laundering human resources have been increased. In addition, full-time compliance executives are appointed in overseas branches and the qualifications of the compliance personnel of the whole bank have been enhanced to strengthen the compliance awareness of all employees. 	<p>Strengthening of various operations are in progress according to the improvement measures.</p>

	<p>3. Consistent anti-money laundering policies and relevant management systems have been developed for the whole bank. Professional consultants are commissioned to assist in the assessment of money laundering and terrorism financing risks and the adoption of improvement measures. The Bank successively promotes the Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards and internal regulations governing the overseas branch organization management for the purpose of establishing a sound compliance and anti-money laundering system. The ultimate goal is to bring the Bank in sync with international standard and satisfy the requirements of the financial examination authority of the U.S.A.</p> <p>4. The Bank has upgraded the anti-money laundering monitoring systems for branches in the U.S.A. to strengthen such functions as analysis, screening, and monitoring of anti-money laundering cases and validity thereof.</p> <p>5. According to the Cease and Desist Order, the Bank has presented the corrective action plans, including internal organizational adjustment, enhancement of regulations and procedures, and improvement of an anti-money laundering system, and executed the same as per the planned schedule. Meanwhile, the corrective action progress will be submitted to the Board of Managing Directors or Board of Directors on a quarterly basis, and submit the same report to the competent authority in the U.S.A. upon approval by the boards of managing directors or boards of directors.</p>	
<p>5. Know your product (KYP) operations shall be carried out in sale of structured products. Rigorous identification standards shall be in place in order to assess the attributes of customer risk and identify professional investors. Meanwhile, a classification or check mechanism shall be established with respect to the customer base of specific products.</p>	<p>1. The assessment items in the "Customer Investment Attribute Assessment Form" for natural persons and juristic persons in wealth management operations are amended to strengthen control over customers with weak risk tolerance by prohibiting them from claiming themselves as professional investors or purchasing structured products.</p> <p>2. The qualifications of customers, who are allowed to claim themselves as professional investors, are amended to require that they shall have both investment experience and professional knowledge about financial instruments. The identification standards of related experience and professional knowledge are expressly specified.</p> <p>3. The individual risk concentration control mechanisms for each customer against different currencies, maturities and underlying products of structured products are established.</p> <p>4. The derivatives business personnel assessment form of the Treasury Department has been amended to include the "Non-Financial Valuation Item".</p>	Improved
<p>6. The Manila Branch repeatedly failed to submit the reports in accordance with the local competent authority's requirements and to provide sufficient deposit reserves. Its internal control operations including internal management and review mechanism should be enhanced.</p>	<p>1. The operating manual has been amended to include reports category that should be submitted to the authority and the submission way. The accountant in charge and accounting supervisor are required to strengthen the review and control over submission of the reports.</p> <p>2. The Bank has retained two additional accountants in charge and a reserve accountant in charge, who hold a CPA license and once worked for large CPA firms, to strengthen the accounting department's functions.</p> <p>3. Job rotation inside same department is adopted to prevent effects of personnel change on business operation and prevent such operational risk as errors in reporting to the Central Bank.</p> <p>4. In addition to acquirement of certification software for reports to the Central Bank, an automated system preparing the reports to the Central Bank is adopted. The cross-reference operation has been completed. Thereafter, the dual-track test for manual preparation and automated output will be implemented for at least a half of year.</p>	Improvements specified in item 1~3 have been completed according to the improvement measure. The adoption of automated reporting system is ongoing according to the improvement measures.
<p>7. The monitoring mechanism for prevention of loan brokerage cases should be established.</p>	<p>1. The head office shall review the bank-wide "List of Suspicious Loan Brokerage Cases" on a monthly basis.</p> <p>2. A "Loan Brokerage Cases Prevention (cross-region undertaking) Checklist" is formulated for "cross-region undertaking loan" cases to carry out follow-up and control.</p> <p>3. The Bank has indicated on the website that "No access to the Website for online marketing in an illegal manner or without the Bank's consent will be permitted. The Bank reserves the right to pursue the legal liability of any person breaching said requirement".</p> <p>4. In accordance with the "Prevention Measures of Loan Brokerage Cases by the Banking Industry", the risk examination mechanism for management of business personnel is established.</p>	Establishment of risk examination mechanism in loan review system specified in item 4 is slated to be on line by the end of June 2019 and the remaining items have been completed according to the improvement measures.

<p>8. A former financial specialist of Feng Yuan Branch took advantage of the weakness in the internal control mechanism for non-over-the-counter service, and completed a blank withdrawal slip privately to misappropriate customers' deposit.</p>	<ol style="list-style-type: none"> 1. The control over the deposits or remittances processed by staff on behalf of others will be strengthened and a control mechanism for real-time notification when any accounts are credited or debited through over-the-counter transactions will be established. 2. Domestic business units shall be equipped with phone recording devices as the basis for a random check on whether the branch fulfills the notification procedure. 3. Aside from enactment of operating procedures to optimize random external confirmations on deposit statements, the follow-up situation of external confirmations will be enhanced via systems and reports. 4. The operating control mechanism for collection of various documents, receipts, and payment by wealth management business personnel outside of the bank will be strengthened. 5. The self-inspection items shall include the inspection on the separate operating procedures of the front office and back office for wealth management transactions. The control over transactions processed by financial specialists and whereabouts of the fund in the wealth management accounts will be strengthened. 6. The wealth management operations and personnel's management will be strengthened. Aside from implementation of the "Account Officer System" for wealth management operations, the identification and checking measures against the financial specialists' affiliated accounts will be enhanced. 	<p>Improvements are ongoing according to the improvement plans.</p>
<p>Mega Bills Finance Co., Ltd Due to the fact that the company failed to collect, document, and maintain related parties' information, credit agreements of the related parties were mistakenly renewed through the procedure applicable to general credit cases.</p>	<ol style="list-style-type: none"> 1. To enhance new managerial officer's compliance training, the "Notices for Implementation of Compliance System" have been amended to specify that compliance training for initial managerial officers on declaration of related parties' information shall be organized within one month before or after the managerial officers take their position. 2. The "Notices for Processing of Transactions with Related Parties" have been amended to add a diagram of kinsfolk illustrating relatives by blood within the 3rd degree of kinship and relatives by marriage within the 2nd degree of kinship to prevent any omission or error. 3. The "Guidelines for Handling Transactions with Related Party" have been amended to expressly provide that certain discipline shall be imposed pursuant to work rules if related parties' information is not honestly or completely provided. 4. A written notification is given to each managerial officer to ask them to declare his (her) related parties' information honestly. Otherwise, certain disciplines will be imposed pursuant to work rules. 	<p>Improved</p>

<p>Mega Securities Co., Ltd.</p> <p>1. The company failed to take appropriate actions to verify customers as politically exposed persons (PEPs) or their relatives from the watch list of the Taiwan Depository & Clearing Corporation (TDCC) and World Check, resulting in an error in assessment of customer risk level.</p> <p>2. The company failed to conduct watch list filtering on the foreign head office of a customer, which was a foreign juristic person's branch in Taiwan, and the authorized person engaged in transactions. No watch list filtering policy and procedure for customers and relevant trading counterparties at the time of the inspection by the competent authority.</p> <p>3. The company failed to undertake enhanced due diligence (EDD) on high-risk customers and the EDD form was not in place.</p>	<p>The company has already completed the re-identification and recordation of the PEPs or their relatives, and re-assessed the customer risk level as high risk.</p> <p>The company has already completed watch list filtering and other necessary procedures on the overseas head office of the customer, which is a foreign juristic person's branch in Taiwan, and its authorized person engaged in transactions, and also established the "Standard Operating Procedure for Watch List Filtering" to conform to the requirements of the Regulations Governing Anti-Money Laundering of Financial Institution.</p> <p>The company has already established the "Standard Operating Procedures for CDD" in which expressly provide the EDD procedures and relevant forms on high-risk customers. This will create a checking record about customers' wealth and sources of fund.</p>	<p>Improved</p> <p>Improved</p> <p>Improved</p>
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B. Report of Independent Auditor appointed to conduct special audit on the company's internal control system: None.

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

A. Legal action involving executives or employees:

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

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

Mega International Commercial Bank

(1) The Panama Branch of Mega International Commercial Bank was discovered, after an examination with a base date of June 30, 2016, by the Superintendency of Banks of Panama, to have deficiencies in violation of the country's AML Law, Banking Law and other applicable laws and regulations. The Bank was imposed a fine of US\$1.25 million on August 25, 2017.

Improvements: The deficiencies have been improved according to the following improvement measures:

- The branch has revised operation manuals including internal control and operational risk to add concrete risk profiles descriptions and operational risk indicators. The operation manuals will be reviewed and updated every year.
- The branch has strengthened risk management system, implemented operational risk self-assessment, reinforced identification of various operational risk indicators, periodically followed up and controlled, and reported to the risk and compliance committee for supervision.
- The branch has strengthened know your customer (KYC) operations and customer data collection. Customer due diligence (CDD) and regular data updates and enhanced due diligence (EDD) have been performed.

- d. Watch list filtering and transaction monitoring have been reinforced.
 - e. The branch has comprehensively reviewed and corrected archived data, and amended the program so that related reports are generated by the system to enhance the quality of information submitted to the competent authority.
- (2) 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 Ship Building Company and its affiliated companies. There are deficiencies in credit investigation, granting credits, drawdown of loans and remittance business in this regard.
- Improvements: The deficiencies have been improved according to the following improvement measures:
- a. The Bank has reviewed the relevant operating procedures and performed authenticity verifications on the related transactions.
 - b. The Bank will formulate risk management mechanism for key public construction and project financing in line with the mechanism set up 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 that the investment plans conform to the project financing principles. Due diligence must be carried out for customers. The bank must 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 consortiums and implementation of post-loan management. Where funds are granted in accordance with the project process, it must be strictly ensured that the payment schedule conforms to the project progress and regular visits to the construction site must be made.
- (3) On the examination base date in 2016, the Bank was detected that its New York, Chicago, and Silicon Valley Branches failed to meet the requirements of the competent authorities in risk management and anti-money laundering systems. Therefore, the Bank signed a Cease and Desist Order with Federal the Board of Governors of the Federal Reserve System (FED) and Illinois Department of Financial and Professional Regulation Division of Banking (IDFPR) on January 17, 2018 and was imposed a fine of US\$29 million.
- Improvements: Improvements are ongoing according to the improvement plans. For correction measures, please refer to the item 4 of Mega International Commercial Bank on the "Internal Control Weaknesses and Improvement Plans" on page 55.
- (4) A former financial specialist of Feng Yuan Branch of Mega Bank misappropriated clients' funds for about NT\$63.4 million by taking advantage of the weakness in the internal control mechanism for non-over-the-counter service, and affixing customers' seal to the withdrawal slip privately. The Bank was imposed by the FSC a fine of NT\$6 million on March 26, 2019, a correction order and an order to discharge the aforementioned employee.
- Improvements: Improvements are ongoing according to the improvement measures are listed in item 8 of "Internal Control Weaknesses and Improvement Plans" on page 57.

Mega Securities Company

In AML/CFT operations, the company failed to undertake enhanced due diligence (EDD) on high-risk customers, conduct watch list filtering on it customers, enact relevant policy as well as procedures, and take appropriate actions to verify customers as politically exposed persons (PEPs) or having close relationship with PEP. Therefore, the company was imposed by FSC a fine of NT\$500,000 on November 16, 2018.

Improvements: The deficiencies have been improved according to the improvement measures as listed in items 1~3 of "Internal Control Weaknesses and Improvement Plans" on page 58.

C. Correction orders issued by the FSC for serious operational improprieties

Mega International Commercial Bank

(1) The procedure for OBU account opening and transaction monitoring were not carried out in a reliable manner, disturbing the sound operation of a bank. The Bank was therefore issued a correction order by the FSC on March 16, 2018.

Improvements: The deficiencies have been improved according to the following improvement measures:

- a. Risk rating for said customers has 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.
- b. Employees' training has been reinforced.

(2) Anti-money laundering inspections and monitoring were not carried out in a reliable manner for transactions that conform to the screening indicators for suspected money laundering or terrorism financing, disturbing the sound operation of a bank. The Bank was therefore issued a correction order by the FSC on August 4, 2018.

Improvements: The deficiencies have been improved according to the following improvement measures:

- a. Relevant programs have been revised to eliminate erroneous suspected transactions, screening of suspicious transactions has been improved, and reminders and warnings have been added to the reports.
- b. 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 improved.
- c. The anti-money laundering system will be upgraded comprehensively and transaction monitoring system (SAS) has been on line in Q1 of 2018.
- d. Anti-money laundering practices and legal compliance training for bank personnel have been strengthened, and all employees are encouraged to register for CAMS certifications.

(3) Due to the deficiencies in internal management and operation of derivative business, oversight of overseas branches, prevention measures from loan brokerage cases, which would likely disturb the sound operation of a bank, the Bank was issued a correction order on February 21, 2018.

Improvements: The deficiencies have been improved according to the following improvement measures:

- a. Deficiencies in derivatives business: The performance evaluation form for sales personnel of derivatives, risk attributes evaluation form for juristic person and qualification review standard for professional investors have been amended. The control mechanism for customer attributes evaluation has been enhanced.
- b. Deficiencies in oversight of overseas branches: Please refer to item 6 of "Internal Control Weaknesses and Improvement Plans" on page 56.
- c. Deficiencies in prevention measure from loan brokerage cases: Please refer to item 7 of "Internal Control Weaknesses and Improvement Plans" on page 56.

(4) Due to the deficiencies in credit investigation and post-credit management operation for credit to TMT Group, which would likely disturb the sound operation of a bank, the Bank was imposed a correction order on May 15, 2018.

Improvements: The deficiencies have been improved according to the improvement measures listed in item 3 of "Internal Control Weaknesses and Improvement Plans" on page 55.

Mega Bills Finance Company

Due to the fact that the company failed to properly collect, document, and maintain related parties' data, credit agreements of the related parties were mistakenly renewed through the procedure applicable to general credit cases. The company was issued a correction order by the FSC on November 26, 2018.

Improvements: The deficiencies have been improved according to the improvement measures listed in “Internal Control Weaknesses and Improvement Plans” on page 57.

Mega International Investment Trust Company

(1)The company was given a correction order by FSC on January 24, 2017 due to the following deficiencies in its stock analysis reports: mistake of transaction direction or analysis target, bearing no signature of writers or responsible superiors. Besides, the screening and review of customer on anti-money laundering are not conducted according to the internal guidelines.

Improvements: The deficiencies have been improved according to the following improvement measures:

- a. Writers of the stock analysis reports are strictly required to ensure the accuracy and completeness of the reports before submission.
- b. Review officer and responsible superiors have reinforced review of the analysis reports.
- c. Review officer of the Investment Decision Statement are required to confirm that the analysis reports are duly signed before signing on the Investment Decision Statement.
- d. The system programs for screening and review of customer on anti-money laundering have been revised.

(2)Due to the fact that no monitoring mechanism has been established to control the investment ratio of investment-grade bond, as specified in the prospectus, the company was issued a correction order by FSC on December 20, 2018.

Improvements: The deficiencies have been improved according to the following improvement measures:

- a. Reviews have been conducted in the internal meetings and the education of relevant personnel has been strengthened. The clear specification of the relevant ratios as market simulation forecast patterns in promotional materials has been enforced where the statement of simulation portfolio ratios and product characteristics are involved to ensure balanced reporting.
- b. The company has strengthened existing review mechanisms for promotional materials and revised the relevant control procedures. If the promotional materials involve fund risk control ratios, the Risk Management Department shall conduct the monitoring mechanism.

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:

A former financial specialist of Feng Yuan Branch of Mega Bank misappropriated clients’ funds for about NT\$63.4 million by taking advantage of the weakness in the internal control mechanism for non-over-the-counter service, and affixing customers’ seal to the withdrawal slip privately. The Bank has adopted improvement measures which are listed in item 8 of page 57 “Internal Control Weaknesses and Improvement Plans” of this annual report.

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

3.3.12 Major Resolutions of Shareholders’ Meeting and Board Meetings

A. Important resolution of the annual shareholders’ meeting

(1)Approved the 2017 Business Report and Financial Statements

Implementations: The 2017 Business Report and Financial Statements have been filed with FSC.

(2) Approved the 2017 earning distribution proposal

Implementations: The meeting resolved to pay cash dividend of \$1.50 per share with an aggregate amount of NT\$20,399,735,975. The dividend record date was set on August 15, 2018, and the dividend was paid on September 6, 2018.

(3) Election of the 7th term of board of directors

Implementation: The 7th term of board of directors has taken office on July 1, 2018 with term of office from July 1, 2018 to June 30, 2021.

(4) Approved releasing the prohibition on the 7th term board of directors from participation in competitive business

Implementation: Material information has been announced on June 15, 2018.

B. Important resolution of the Board meetings held in 2018

Meeting date	No. of meeting and terms	Agenda and resolution
February 7, 2018	The 40th meeting of the 6th term	Approved the appointment of president of the Company and Mega International Commercial Bank
February 27, 2018	The 41st meeting of the 6th term	Approved the engagement of the external auditor for 2017 financial statements and reappointment of the 15 term of board of directors of Mega Bills Finance Company
March 27, 2018	The 42nd meeting of the 6th term	Approved the 2017 consolidated financial statements, 2017 internal control system statement, convening of the 2018 general shareholders' meeting, principle for allocation of 2016 Directors' compensation, and reappointment of directors and/or supervisors of four subsidiaries.
April 24, 2018	The 43rd meeting of the 6th term	Approved 2017 earnings distribution proposal and 2017 Business Report
May 22, 2018	The 44th meeting of the 6th term	Approved reappointment of directors of Mega Asset Management Company
June 29, 2018	The 1st meeting of the 7th term	Approved the appointment of president of the Company
July 24, 2018	The 2nd meeting of the 7th term	Approved the record date for the 2017 earning distribution
August 28, 2018	The 3rd meeting of the 7th term	Approved 2018 Q2 consolidated financial statements
September 25, 2018	The 4th meeting of the 7th term	Approved the reappointment of the 16th term of board of directors of Mega International Commercial Bank
October 23, 2018	The 5th meeting of the 7th term	Approved 2019 audit plan and reappointment of the 11th term of board of directors of Mega Securities
November 27, 2018	The 6th meeting of the 7th term	Approved the reappointment of directors and supervisors of Mega International Commercial Bank and Mega Life Insurance Agency Company
December 18, 2018	The 7th meeting of the 7th term	Approved the budget target of 2019 and reappointment of directors and supervisors of 4 subsidiaries

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)	Shu-Mei Chi Chung-Hsi Lai	January 1, 2018~December 31, 2018	

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: None.

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	Shu-Mei Chi Chung-Hsi Lai	2,527,600	0	0	0	200,000	200,000	1/1/2018 – 12/31/2018	Translation expenses of the financial statements for NT\$200,000

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

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

3.5 Change of External Auditors

3.5.1 Information relating to the former CPA

Date of Reappointment	The Board of Directors approved on February 21, 2017		
Reason for reappointment	The external auditor of the 2017 financial statement, Chien-Hung Chou, is replaced by Chung-Hsi Lai due to internal job rotation in CPA firm		
Was the termination of audit services initiated by the principal or by the CPA	Counterparty		CPA
	Situation		Principal
	Service terminated by		N.A.
Reasons for issuing opinions other than unqualified opinions in the recent 2 years	Service no longer accepted (continued) by		N.A.
	None		

Corporate Governance Report

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	The external auditor of the 2018 financial statement King-Tse Huang is replaced by Shu-Mei Chi 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	2018		As of March 28, 2019	
		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.	5,849,000	-	-	-
Chairman	Chao-Shun Chang	-	-	-	-
Director and President	Li-Yen Yang	-	-	-	-
Director and President (Note 1)	Kuang-Hua Hu	-	-	-	-
Independent Director	Tsun-Siou Li	-	-	-	-
	Keh-Nan Sun	-	-	-	-
	Chi-Hung Lin	-	-	-	-
Independent Director (Note 2)	Jiun-Wei Lu	-	-	-	-
	Ying-Ko Lin	-	-	-	-
	Chang-Ching Lin	-	-	-	-
Executive Vice President	Jui-Yun Lin	-	-	-	-
	Yu-Mei Hsiao	70,000	-	-	-
	Yuan-Hsi Lin (Note 3)	-	-	-	-
	Kuo-Pao Chen (Note 4)	-	-	-	-
Chief Auditor	Tzong-Chi Hsu	-	-	-	-
Chief Compliance Officer	Hui-Lin Wu	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 (Note 4)	-	-	-	-
Vice President	Ta-Sheng Chen (Note 5)	-	-	-	-
Vice President	Hui-Ling Yu (Note 5)	-	-	-	-
Acting Vice President	Ming-Chih Lu (Note 4)	-	-	-	-

Note:

- Starting from February 7, 2018, Li-Yen Yang, President, retired and Kuang-Hua Hu was approved by the Board of Directors to be the President of the Company.
- Starting from July 1, 2018, Jiun-Wei Lu, Ying-Ko Lin and Chang-Ching Lin were elected as the independent directors.
- Yuan-Hsi Lin, Senior Executive Vice President of Mega Bank concurrently served as the Executive Vice President of this Company for the period from July 1, 2018 to August 5, 2018.
- Starting from December 21, 2018, Hsi Jui Chao was transferred to serve in Mega Securities. Kuo-Pao Chen, Senior Executive President of Mega Bank concurrently serves as Executive Vice President and Head of Electronic Data Processing Department of the Company.
- Starting from June 1, 2018, Ta-Sheng Chen, Senior Vice President and General Manager of Mega Bank was replaced by Hui-Ling Yu as the concurrent head of Risk Management Department of the Company.

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 22, 2019

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: Jain-Rong Su)	1,143,043,883	8.40	0	0	0	0	Bank of Taiwan, a wholly-owned subsidiary of Taiwan Financial Holding Co., Ltd.	Taiwan Financial Holding Co., Ltd. is wholly-owned by Ministry of Finance	None
National Development Fund, Executive Yuan, R.O.C. (Representative: Mei-Ling Chen)	830,973,202	6.11	0	0	0	0	None	None	None
Chunghwa Post Co., Ltd. (Representative: Chien-Hung Wei)	490,735,910	3.61	0	0	0	0	None	None	None
Fubon Life Insurance Co., Ltd. (Representative: Richard M. Tsai)	385,746,138	2.84	0	0	0	0	None	None	None
Bank of Taiwan Co., Ltd. (Representative: Jye-Cherng Lyu)	334,951,379	2.46	0	0	0	0	Ministry of Finance	Taiwan Financial Holding Co., Ltd. is wholly owned by the Ministry of Finance	None
Taiwan Life Insurance Co., Ltd. (Representative: Su-Kuo Huang)	286,275,771	2.11	0	0	0	0	None	None	None
Shin Kong Life Insurance Co., Ltd (Representative: Tung-Chin Wu)	259,293,324	1.91	0	0	0	0	None	None	None
New Labor Pension Fund (Representative: Feng-Ching Tsay)	242,541,900	1.78	0	0	0	0	None	None	None
Old Labor Pension Fund (Representative: Feng-Ching Tsay)	210,734,714	1.55	0	0	0	0	None	None	None
China Life Insurance Co., Ltd. (Representative: Ming Yang Wang)	202,553,345	1.49	0	0	0	0	None	None	None



3.9 Long-term Investment Ownership

As of December 31, 2018

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.	1,536,552	0.41	4,449,992	1.20	5,986,544	1.61
Taipei Financial Center Corp.	73,500,000	5.00	50,375,227	3.43	123,875,227	8.43
Taiwan Business Bank	19,619,515	0.31	1,242,432,550	19.43	1,262,052,065	19.74
Mega International Commercial Bank (Canada)	0	0	230,000	100.00	230,000	100.00
Mega International Commercial Bank Public Co., Ltd.	0	0	400,000,000	100.00	400,000,000	100.00
Mega I Venture Capital Co., Ltd.	0	0	13,500,000	40.00	13,500,000	40.00
Mega International Investment Services Co., Ltd.	0	0	2,000,000	100.00	2,000,000	100.00
Mega 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 Corp.	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, 2018

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 by cash	Note 2
Dec. 2015	10	22,000,000,000	220,000,000,000	13,599,823,983	135,998,239,830	Issuance of 1.15 billion shares of common stock by 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, 2018

Type of stock	Authorized capital			Remark
	Issued shares (Note)	Unissued shares	Total	
Common stock	13,599,823,983	8,400,176,017	22,000,000,000	Note

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

4.1.2 Ownership and Distribution of Shares

As of April 22, 2019

Type of shareholders	Government agencies	Financial institutions	Other juridical persons	Domestic natural persons	Foreign institutions & natural persons	Total
Number of shareholders	11	33	839	266,164	977	268,024
Shareholding (shares)	2,640,005,654	2,408,748,552	1,406,587,504	1,873,395,707	5,271,086,566	13,599,823,983
Percentage (%)	19.41	17.71	10.34	13.78	38.76	100.00

4.1.3 Distribution Profile of Share Ownership

Par value per share: NT\$10 As of April 22, 2019

Shareholder ownership (Unit: Share)	Number of shareholders	Shareholding (Shares)	Percentage (%)
1 ~ 999	94,080	26,907,693	0.20
1,000 ~ 5,000	109,799	247,137,491	1.82
5,001 ~ 10,000	28,231	208,899,548	1.54
10,001 ~ 15,000	11,873	144,362,996	1.06
15,001 ~ 20,000	5,912	105,749,090	0.78
20,001 ~ 30,000	6,161	151,455,686	1.11
30,001 ~ 40,000	3,075	107,353,822	0.79
40,001 ~ 50,000	2,012	91,505,127	0.67
50,001 ~ 100,000	3,562	250,848,747	1.84
100,001 ~ 200,000	1,662	228,806,264	1.68
200,001 ~ 400,000	704	189,828,393	1.40
400,001 ~ 600,000	197	97,306,389	0.72
600,001 ~ 800,000	121	83,597,566	0.61
800,001 ~ 1,000,000	81	73,486,886	0.54
Over 1,000,001	554	11,592,578,285	85.24
Total	268,024	13,599,823,983	100.00

4.1.4 Major Shareholders

As of April 22, 2019

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.	490,735,910	3.61	4.02
Fubon Life Insurance Co., Ltd.	385,746,138	2.84	3.16
Bank of Taiwan Co., Ltd.	334,951,379	2.46	2.75
Taiwan Life Insurance Co., Ltd.	286,275,771	2.11	2.35
Shin Kong Life Insurance Co., Ltd.	259,293,324	1.91	2.13
New Labor Pension Fund	242,541,900	1.78	1.99
Old Labor Pension Fund	210,734,714	1.55	1.73
China Life Insurance Co., Ltd.	202,553,345	1.49	1.66

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

Unit: NT\$

Item		Year	2018	2017	As of March 31, 2019
Market price per share (Note 1)	High		27.80	26.40	28.20
	Low		23.70	22.80	25.20
	Average		26.05	24.19	26.80
Net worth per share (Note 2)	Before distribution		23.11	21.92	(Note 6)
	After distribution		(Note 7)	20.42	None
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	2.07	1.89	(Note 6)
		After adjustment	2.07	1.89	-
Dividends per share	Cash dividends		1.70	1.50	-
	Stock dividends	Earnings	None	None	None
		Capital surplus	None	None	None
	Cumulative undistributed dividends		None	None	None
Investment return analysis	PE ratio (Note 3)		12.58	12.80	-
	Price-dividend ratio (Note 4)		15.32	16.13	-
	Cash dividend yield (%) (Note 5)		6.53	6.20	-

- 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 Q1 2018 have not been reviewed by external auditor.
 7. The proposal for distribution of 2018 profits will be submitted to the annual shareholders' meeting on June 21, 2019.



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 2018 Profits

It is proposed to submit to the Company's Annual Shareholders' Meeting, to be held on June 21, 2019, for its approval of the distribution of NT\$23,119,700,771 cash dividends, which is NT\$1.70 per share. The proposed cash dividends account for 37.31% of the 2018 distributable earnings of NT\$61,963,497,941, or 91.39% of the net balance of NT\$23,161,062,943 after appropriation of 10% legal reserve from the net income after tax in 2018.

4.1.7 Impact to Business Performance and EPS of Stock Dividend Distribution

The Company will not distribute any stock dividend for 2018 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.

B. The accounting estimates for employees' and directors' remuneration for 2018

The Company's 2018 employee remuneration and director remuneration were estimated according to the Articles of Incorporation and in reference to peer levels and previous distributions. The discrepancy between the distributed amount and estimated expense 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 dated March 26, 2019 approved to distribute employees' and directors' remuneration for 2018 in cash for NT\$16,726,285 and NT\$139,385,707, respectively. The aggregate amount increased by NT\$1,998,598 compared to the expenses recognized in 2018 due to estimation difference.

D. Distribution of employees' and directors' remuneration for the year 2017

The employees' and directors' remuneration for 2017 amounted to NT\$13,405,999 and NT\$128,903,840, respectively. The total amount of the employees' and directors' remuneration fell by NT\$1,739,180 compared to the expenses recognized in 2017 due to estimation difference. 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: None.

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 Company

A. Major business

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

B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2018		2017	
		Amount	%	Amount	%
Investment income from equity investments accounted for by the equity method		27,913,508	99.09	25,926,293	99.28
Other operating revenue		255,974	0.91	188,208	0.72
Total		28,169,482	100.00	26,114,501	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, import and export financing and guarantees, 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 finance 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: NT\$1,000

Item	Year	2018		2017	
		Amount	%	Amount	%
Net interest income		36,002,845	69.23	33,552,745	67.67
Revenue other than interest income, net		16,002,923	30.77	16,029,323	32.33
Fee income – net		6,877,209	13.22	6,870,359	13.86
Gains on financial assets and liabilities at fair value through profit or loss		4,707,750	9.05	5,425,632	10.94
Realized gain on available-for-sale financial assets		-	-	1,484,447	2.99
Realized gain on financial assets at fair value through other comprehensive income		955,315	1.84	-	-
Gains on derecognition of investments in debt instruments at amortized cost		1,064	0.00	-	-
Foreign exchange gain – net		2,561,956	4.93	1,853,603	3.74
Gain on reverse of (loss on) asset impairment		82,888	0.16	(205,179)	(0.41)
Share of profit of associates and joint ventures accounted for under equity method		470,429	0.90	471,613	0.95
Other revenue other than interest income		177,284	0.34	235,497	0.47
Gain on financial assets carried at cost		-	-	619,151	1.25
Net other miscellaneous income (loss)		169,028	0.33	(725,800)	(1.46)
Net revenue		52,005,768	100.00	49,582,068	100.00

C. New products and services planned for the future

The Bank will launch preferential loan products such as “Urban unsafe and Old Buildings Reconstruction Loan”, “Industrial Area and Industrial Parks Factory Building Preferential Loan”, and other corporate loan marketing projects, and combine with the original housing loans, Expert Financing Loans and credit card business to introduce new products like the “Second Mortgage Loans”, and “Small Amount Online Credit Loan for Credit Card Customers”. In response to the development of Fintech, the e-banking business will be continuously expanded, the membership points accumulation platform will be developed to interface with the respective digital channels of the Bank, and customer digital experience will be optimized. In terms of trust business, the Bank will continue to launch foreign currency money trust business to expand the trust assets.

Mega Securities Company

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
- k. Agency for lending and borrowing in connection with securities services
- l. Other services approved by the competent authority

B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2018		2017	
		Amount	%	Amount	%
Brokerage fee revenue		1,729,784	59.52	1,524,392	49.35
Fee income from margin loans		55	0.00	764	0.02
Commission income from securities borrowing		43,481	1.50	31,045	1.01
Revenue from underwriting business		99,398	3.42	76,910	2.49
Net income from wealth management business		15,142	0.52	23,725	0.77
Net gains (losses) on sale of securities held for operations		(376,966)	(12.97)	367,077	11.88
Income from providing stock registration services		36,183	1.25	36,780	1.19
Interest income		1,028,395	35.39	887,568	28.74
Dividend income		160,886	5.54	166,866	5.40
Valuation Gains of trading securities at fair value through profit and loss		(73,635)	(2.53)	58,753	1.90
Gain on covering on securities borrowings and bond purchased under resale agreement		43,384	1.49	(66,814)	(2.16)
Gains on borrowed securities and bonds with resale agreements at fair value through profit or loss, net		7,011	0.24	20,019	0.65
Debt instruments at fair value through other comprehensive income		16,931	0.58	-	-
Gain on issuance of stock warrants		338,086	11.63	160,680	5.20
Futures commission income		54,841	1.89	46,500	1.51
Loss on derivative financial instruments - Futures		(98,821)	(3.40)	(181,326)	(5.87)
Gain (loss) on derivative financial instruments - OTC		(8,262)	(0.28)	(11,049)	(0.36)
Expected credit loss		(62,316)	(2.14)	-	-
Other operating income		(47,465)	(1.63)	(53,250)	(1.72)
Total		2,906,112	100.00	3,088,640	100.00

C. New products and services planned for the future

The company will continue to increase various types of financial services and products to enhance the diversity, completeness, and competitiveness of its products based on clients' demands and the opening policy of the competent authority. It will also improve operation efficiency and customer satisfaction by building up a sound supporting information system or enhancing its service function.

Mega Bills Finance Company

A. Major business

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



B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2018		2017	
		Amount	%	Amount	%
Bills business		2,419,982	44.82	2,522,561	47.93
Bonds business		2,667,555	49.41	2,497,190	47.44
Equity investments		72,712	1.35	123,150	2.34
Others		238,847	4.42	120,641	2.29
Total revenue		5,399,096	100.00	5,263,542	100.00

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

Chung Kuo Insurance Company

A. Major business

- a. Direct writing business: Including fire insurance, marine cargo insurance, marine hull insurance, automobile insurance, aviation insurance, engineering insurance, liability insurance, credit insurance, bond, injury insurance, health insurance and other property insurance, etc.
- b. Reinsurance assumed

B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2018		2017	
		Amount	%	Amount	%
Fire insurance premium		1,693,972	24.51	1,630,532	25.09
Marine cargo insurance premium		270,440	3.91	254,362	3.91
Marine hull insurance premium		321,213	4.65	308,634	4.75
Automobile insurance premium		3,363,882	48.68	3,190,328	49.10
Aviation insurance premium		99,314	1.44	68,088	1.05
Engineering insurance premium		203,149	2.94	180,214	2.77
Injury insurance premium		215,692	3.12	187,471	2.88
Health insurance premium		31,245	0.45	26,703	0.41
Other insurance premium		711,828	10.30	651,876	10.03
Total direct written premium income		6,910,736	100.00	6,498,207	100.00
Inward reinsurance premium income		655,574	-	688,205	-
Total		7,566,310	-	7,186,412	-

C. New products and services planned for the future

- a. PHYD (big data) new type of product-Auto insurance for the commercial fleet.
- b. Personal injury insurance for the elderly
- c. Criminal defense attorney fee compensation insurance.
- d. Cruise travel comprehensive insurance.
- e. Designated driving service industry liability insurance.
- f. Pet insurance

Mega International Investment Trust Company

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	2018		2017	
	Amount	%	Amount	%
Public issued funds	417,439	95.23	378,009	94.16
Private equity funds	17,821	4.06	19,601	4.88
Discretionary account	3,110	0.71	3,853	0.96
Total	438,370	100.00	401,463	100.00

C. New products and services planned for the future

The company proposed to issue the following two public issued funds:

- Mega international foreign equity fund: The fund will target innovative industry which may catch business opportunity brought by future trends
- Mega foreign bond fund: The fund will mainly invest in investment-grade bonds with high credit rating and stable income source

Mega Asset Management Company

A. Major business

- Financial institution creditor's right (money) purchase: Including acquisition, valuation, auction and management services of creditor's right (money), as well as management service of overdue accounts receivable
- Real estate related business: Including 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	2018		2017	
	Amount	%	Amount	%
Net proceeds from disposal of purchased NPL and Gain on sale of collaterals	11,902	2.96	105,820	22.02
Rental income	263	0.07	291	0.06
Interest income	3,172	0.79	4,220	0.88
Service income	386,225	96.18	370,337	77.04
Total	401,562	100.00	480,668	100.00

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



Mega Life Insurance Agency Company

A. Major business : Life insurance agency services

B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2018		2017	
	Amount	%	Amount	%
Commission income - traditional policies	1,327,153	93.82	1,249,629	92.96
Commission income - investment policies	87,446	6.18	94,695	7.04
Total	1,414,599	100.00	1,344,324	100.00

C. New products and services planned for the future

To meet customers' demand for protection against longevity, the company will introduce new types of insurance products such as care trust for the elderly, value-added mortgage life insurance, pension insurance linked with reverse mortgage loan. It also plans to develop mobile insurance system after establishment of the e-insurance operational system in response to the development of Fintech.

Mega Venture Capital Company

A. Major business

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

B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2018		2017	
	Amount	%	Amount	%
Net gains from disposal of financial asset	14,399	33.15	35,345	60.04
Dividend income	27,893	64.21	21,928	37.25
Director's or supervisor's remuneration income	1,147	2.64	707	1.20
Gains on financial assets at fair value through profit or loss	(Note)	(Note)	886	1.51
Total	43,439	100.00	58,866	100.00

Note: This item is reclassified in to operating cost from 2018.

C. New products and services planned for the future

Mega Venture Capital Company is managed by Mega Management and Consulting Company, which is one of the management consulting companies entrusted by the Small and Medium Enterprise Administration of Ministry of Economic Affairs for the "Investment Management Plan for Enhanced Investment in SME". Investment of SME by Mega Management and Consulting Company will be able to match with funds provided by the Small and Medium Enterprise Administration of Ministry of Economic Affairs. This will increase Mega Venture Capital's investment opportunity.

5.1.2 Operating Policies in 2019

The Company

1. Cultivating customer relationships and creating group synergy

- (1) To maintain existing client relations and continue to heighten the quality of products and services
- (2) To develop consumer banking business and increase related customer base
- (3) To develop Fintech and expand customers of new fields
- (4) To strengthen resource integration and increase client penetration of the Group's products

2. Expanding business momentum and maximizing shareholders' value

- (1) To maximize profits of the Group's investment portfolio by effective and strategic asset allocation
- (2) To consolidate the existing niche and develop the second profit generating engine

3. Shaping risk management culture and enhancing risk management mechanism

- (1) To watch the industry and business risks arising from changes in domestic and international economy, new technology and regulation
- (2) To enhance collection and analysis of internal and external risk information for better grips with the Group's risk profile
- (3) To strengthen risk management mechanism and effectively put into practice
- (4) To further risk awareness in line with international financial supervisory trend

4. Strengthening information security management and digital processing capability

- (1) To strengthen information security management mechanism and talent cultivation in order to ensure information security
- (2) To continually phase out information systems and enhance automated management to promote the system performance and the ability of security protection
- (3) To continually promote the Group's digital transformation and increase the Group's digital competitiveness

5. Reinforcing corporate governance and fulfilling corporate social responsibility

- (1) To appoint a company secretary to provide more support for the Board of Directors and promote functions of the Board
- (2) To continually promote environmental sustainability and social welfare through our core business and enhance disclosure of non-financial information

6. Fortifying relations with institutional investors and promoting information transparency

- (1) To strengthen ties with investors and establish a basis for mutual trust and communication
- (2) To respond to investor's suggestion in a timely manner and take it into consideration for managerial decision making
- (3) To hold or participate in institutional investment conferences to enhance investor acceptance and the Group's transparency

7. Furthering anti-money laundering and strengthening compliance awareness

- (1) To formulate unanimous AML/CFT regulations applying to the Group
- (2) To promote the function of the Group's information sharing platform for AML/CFT
- (3) To ensure every business guidelines are timely amended in line with external laws and regulations
- (4) To reinforce regulatory compliance training to increase employee's compliance awareness



Mega International Commercial Bank

- (1) To ensure the effectiveness of the legal compliance system and continue to further anti-money laundering and countering financing of terrorism mechanism
- (2) To execute the risk management mechanism and maintain a sound asset quality and proper capital adequacy
- (3) To consolidate the advantages of corporate finance and international finance business to boost operational growth momentum
- (4) To enhance the supervision and management functions of the head office to continuously improve the management of overseas business units
- (5) To conduct flexible financial operations in response to financial situation, expand long-term investment and optimize asset allocation
- (6) To deploy the synergy of organizational reform and the function of business groups, and actively expand consumer banking business
- (7) To develop customer-oriented digital financial services and strengthen information systems as well as information security
- (8) To implement the corporate governance system and the principle of ethical management, and fulfill corporate social responsibility

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 emphasize risk control and trading flexibility in trading units in order to improve trading performance and reduce the position risk
- (3) To proactively develop IPO business for return of Taiwanese business in Southeast Asia through referral of the Group's resources
- (4) To continuously improve the warrant issuance strategy as well as related market making quality, and to increase distribution of the issued warrant
- (5) To proactively take part in new business relaxed by the competent authority so as to catch business opportunities

Mega Bills Finance Company

- (1) To continuously seek to lead-manage syndicated loans and participate joint underwriting of unsecured commercial paper in order to steadily expand the bills sources and increase income of bills business
- (2) To proactively seek underwriting or purchase of bank negotiable certificates of deposit, secured and unsecured bills 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 prudently build foreign currency denominated bond portfolio and disperse country risk and industrial risk, in order to raise the overall interest spread
- (5) To proactively build an equity portfolio with good credit and high dividend yield, replacing low yield corporate bonds to boost income

Chung Kuo Insurance Company

- (1) To enhance cooperation with niche insurance brokers and agents, and work with international insurance brokers in line with the government's emerging industry development policy, including the green, biotechnology, and international medical services industries, to strive for insurance business opportunities
- (2) To continue to develop innovative personal insurance products in response to shifts of the market demand and consuming patterns, expand e-commerce business, optimize the platform system, explore new customers, and improve customer adhesion
- (3) To strengthen cooperation with the financial channels and car vendors, develop ecosphere by having strategic alliances with different industries, integrate the insurance channels and introduce mobile insurance platform to streamline the insurance process and expand business channel opportunities
- (4) To increase marketing channels through the Group's cross selling and joint promotion strategy
- (5) To adjust asset allocation, improve the capital efficiency and increase stable income
- (6) To optimize the risk management mechanism in line with the Group's integrated risk management system and skills

Mega International Investment Trust Company

- (1) To explore customers of multi-currency investment and continuously promote small amount investment
- (2) To expand the marketing network widely and increase fund distribution with good performance
- (3) To enhance new products and market research capability of the research team and expand diversified product lines
- (4) To cooperate and communicate with foreign asset management companies and catch market development trend
- (5) To improve implementation of AML/CFT

Mega Asset Management Company

- (1) To continuously look for the opportunity of NPL integration in the secondary market and acquire real estate in the auction market to seek fixed rental or capital gain
- (2) To acquire high value-added or specific creditor's object for its own account or for its customers to create stable service fees or capital gains, based on its long-term experience in disposal of NPL

Mega Life Insurance Agency Company

- (1) To promote the traditional floating rate insurance policies with premiums paid in installments by offering special discounts linked with credit card service
- (2) To promote US dollar denominated insurance by taking advantage of Mega Bank's advantage in foreign exchange business
- (3) To take the opportunity arising from government's annuity reform to launch annuity products available for Mega Bank's clients exclusively
- (4) To strengthen the life insurance linked with mortgage loan



Mega Venture Capital Company

- (1) To join pre-IPO competitive auctions, and invest in companies in mature stage or the emerging stocks in the first listing market or the OTC market
- (2) To invest in those previously invested company with good industrial prospect or product development potential in the open market and sell shares of companies with poor prospect to activate fund application
- (3) To continue to explore investment opportunity in China and Asia-Pacific region
- (4) To invest in quality companies, in the semiconductor/AI, industry 4.0/IoT, electric car/self-driving, mobile device, 5G/Netcom and biotech sectors, less affected by the US-China trade war and not belonging to the China's red supply chain

5.1.3 Industry Overview

A. International and Domestic Financial Environment

International Financial Environment

Due to the continued US-China trade conflict, the slowdown of China's economic growth, and the monetary policy uncertainty of major economies, the global economy is facing a downside risk. In advanced economies, despite the fact that economic growth in Europe and Japan was decreasing, US economic growth was accelerating due to strong domestic demand in 2018. And the economy was generally downward in emerging market economies compared to 2017. Now the global economy is facing the following downside risks:

- (1) The uncertainty of the US trade policy: The US is suspending tariff increases on China imports, however it is still under observation whether the US and China could reach an agreement within the deadline.
- (2) The slowdown in China's economic growth: The adverse effects of imposing tariffs on China imports by the US have gradually emerged. The investment in manufacturing and real estate, and consumption in China are likely to weaken. The downside risk in the Chinese economy is rapidly increasing. In addition to the increased debt in the non-financial sector, the spillover effect may significantly affect the global economic growth.
- (3) The uncertainty in the monetary policy of major economies: This will cause the rapid movement of international fund and increase fluctuations in the foreign exchange market.
- (4) The political and economic chaos of the EU: The market worries the negative effects of no-deal "Brexit" and the fiscal discipline of Italy on European economy, which bring a downside risk to the international economy. International institutions predict that the growth of global and major economies will decrease in 2019.

Domestic Financial Environment

Due to the slowing of global economy and the persistent US-China trade conflict, in recent months, domestic exports and long-term capital equipment import growth have slowed down. The situation in the domestic labor market was stable as the unemployment rate declined and salaries were growing moderately. However, the dramatic fluctuation in Taiwan stock market along with the international stock market affected consumer confidence. Domestic economic growth in 2018 was gradually slowing down quarter by quarter. Looking ahead 2019, the global trade volume and economic growth rate are expected to slow down, and the demand for smart phones is becoming saturated, which may affect export expansion. In the aspect of domestic

demand, benefitting from the execution of government's "Forward-Looking Infrastructure", public investment has risen sharply. Offshore wind power investment and urban renewal have continued to be promoted and semiconductor manufacturers continue to upgrade their processes, leading to a continued growth in private investment. On the other hand, despite the rise of basic salary in 2019 and the continued growth in business profits in 2018, which is conducive to payment of cash dividends in 2019, private consumption growth is expected to be equivalent to it in 2018 due to the weak consumer confidence and the annuity reform impact.

Overall, in the year of 2019, export growth momentum will be weakened, and economic growth will continue to rely on domestic demand. The Central Bank predicts a domestic economic growth rate 2.33%. Due to the mild domestic demand, plus the disappearance of the tobacco tax increase effect and international oil prices being expected to fall back, the inflation outlook is moderate, and the forecast for the annual growth rate of CPI is 1.05% from the Central Bank. The Central Bank has kept the rediscount rate unchanged for 11 quarters in a row since July 2016. Looking forward, the Central Bank is likely to maintain accommodative monetary policy to build a favorable financial environment for economic growth.

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, totally 16 financial holding companies. However, the market shares of the banks under these financial holding corporations account for less than 10%. This shows local banks are still relatively small in size and lack of economies of scale. As a consequence, overbanking hinders the development of the industry. In order to provide a friendly M&A regulatory environment, the Financial Supervisory Commission (FSC) amended or promulgated the "Regulations Governing the Investing Activities of a Financial Holding Company" and other two regulations on November 28, 2018. The regulation allows the initial shareholding ratio of financial holding companies or banks in other financial institution reduced from the control shareholding (25%) to more than 10%. This provides financial institutions with options to conduct equity participation first and then seek the possibility of merger discussion. The FSC also provided an incentive by lowering the relevant capital requirement as an incentive to trigger market mechanism and promote financial consolidation. However, there is no large-scale financial consolidation as yet.
2. With the development of technology, financial technology (FinTech) has broken through existing boundaries among financial markets. Governments and industries are proactively dealing with this issue. Domestic traditional financial institutions also regard themselves as an important subversion. A total of NT\$12.47 billion have been invested in financial technology in 2018, an increase of 59% compared to NT\$7.85 billion in 2017.
3. To facilitate inclusive financing and financial technology development, FSC on January 31, 2018 modified Article 22-1 of the Banking Act regulating that anyone, without limitation to banks, may apply for innovative experiments of banking business pursuant to the "Financial Technology Development and Innovative Experimentation Act". This opens up the internet only bank applications by all sort of industrial operations.
4. In order to develop financial technology and encourage innovative financial products or services, the government has formulated the "Financial Technology Development and Innovative Experimentation Act", which was promulgated and implemented on April 30, 2018, becoming the world's first Fintech supervisory sandbox. As of January 31, 2019, there have been three financial technology innovation

experiment cases approved, with content including identity identification and big data exchange, foreign worker cross-border remittances, etc. Two other cases are still pending approval, and another 26 cases application is currently in process.

5. In order to accelerate the cooperation between the financial services industry and the non-financial services industry and to seize financial technology business opportunities, the Taiwan Financial Services Roundtable Co., Ltd. has also established the "FinTechSpace", which opened on September 18, 2018 to provide startups with initial operating resources. It cooperates with industry, academia and research institutes to strengthen international connection and expand business opportunities. The FinTechSpace also has the characteristics of a co-creation alliance, international network, digital sandbox, enterprise laboratory, etc., providing different resources by stages, which can bring about benefits such as establishing a Fintech ecosphere, and cultivating international talents and innovative enterprises. As of the end of December 2018, a total of 41 innovative teams have stationed there.

Banking Industry

1. Due to fierce competition in the domestic banking industry, it is not easy to expand interest rate spreads. In addition to overbanking and excessive liquidity in Taiwan, the continued USD interest hike in 2018 made the interest spread between domestic and overseas market expand further and overseas markets become increasingly important. On the other hand, the loan growth of domestic monetary institutions in 2018 has been greater than deposits growth for two consecutive years, indicating that the pressure from excessive liquidity was slightly lower.
2. Financial technology development has brought growing impacts on business model of the financial industry. In 2018, the number of domestic banks' branches in Taiwan decreased by 14 and reached the lowest level over the past seven years. This reflects that the rise of financial technology and online banking replaces some functions of physical branch. To increase the adhesion of existing customers, banks continue optimizing user's experience based on the use habits of different groups. This will help enhance the competitiveness of digital financial services.
3. As the US-China trade dispute has not yet been relieved, this uncertainty will force companies to postpone their investment plans, thereby reducing bank's lending opportunities. The slowdown in international trade momentum will also affect the volume of trade financing. However, some supply chains have moved to Southeast Asia or returned to Taiwan, making it possible for banks to increase their service opportunities outside of China.
4. External demand has slowed down, and domestic demand has continued to be the growth engine. The weakening of the global economy and trade momentum curbs the contribution of external demand to Taiwan's economic growth. However, domestic demand is likely to benefit from the government's policies including promotion of a forward-looking infrastructure plan, improvement of the domestic investment environment (according to the World Bank's 2019 Ease of Doing Business, EoDB, Taiwan ranks 13, where it ranked 11 last year), cut of the income tax, and basic salary hike, etc.

Securities industry

1. The profit of the securities industry was deeply affected by the trading volume of the Taiwan stock market. In the year 2018, the Taiwan stock market was interfered with international political and economic issues, however it still benefited from the continued global economic growth starting from 2017. The improvement of enterprises' profit, reduction of securities transaction tax by half on day trade and tax reforms, etc., coupled with the return of domestic fund, made the annual average daily volume of NT\$166 billion and the average financing balance of NT\$227.9 billion increasing by 5% and 10%, respectively compared to 2017. In 2018, the TAIEX index fell by 8.6%, and the TPEx Index declined by 16.8%. However, the number of SPO cases grew by 50% to 60 cases compared with 40 cases in 2017.

2. The securities industry reported a profit of NT\$29.49 billion in 2018, down by 28.44% compared to 2017. Among them, brokerage fee income increased by 10.82% due to the growth of total trading value of the market, but the profit from proprietary trading and underwriting business decreased by 65.73% and 54.66%, respectively. Some research institutions predict that the global economic outlook in 2019 will be slightly but not significantly revised downwards due to numerous domestic and external political and economic interference variables. The structural changes in Taiwan's capital market and regional competition have led to the running of the securities firm becoming more challenging. However, the authorities still proactively open up new financial products and promote various policies, to continuously expand the size of the capital market and help securities firms boost their business and operational quality.

Bills Finance Industry

1. Apart from 39 banks and 4 securities companies engaged in bills finance business, there are 8 dedicated bills finance companies in Taiwan, three of which are subsidiaries of financial holding company. As of the end of 2018, commercial papers outstanding of the whole market reached NT\$1,760.6 billion, increasing by 3.02% compared to NT\$1,709 billion in 2017.
2. The government bonds maturing in 2019 amount to NT\$485.3 billion, of which NT\$242 billion will mature in the first quarter of 2019. However, government bonds to be issued in the first quarter estimated by the Ministry of Finance total NT\$130 billion. This shows that the supply of the government bonds was relatively insufficient compared to the demand, so financial institutions are expected to cover their position, driving down NTD bond yield and the interest spread between the repo rate and bond yield.

Non-Life Insurance Industry

1. As of the end of December 2018, there were a total of 19 property and casualty insurance companies in Taiwan, including 14 domestic insurance companies and 5 branches of foreign insurance companies. Taiwan's property and casualty insurance market has always been dominated by domestic insurance companies. With the support of the vast number of marketing channels, the insurance premiums of the local insurance companies accounted for more than 97.04% of the industry's total premium income, while foreign non-life insurance companies' branch in Taiwan accounts for only about 2.96%.
2. In the year 2018, the auto insurance overall market premium income was NT\$88.8 billion, accounting for 53.90% of the total premium income. Auto insurance premium income was the main source of premium income in the property and casualty insurance market, followed by fire insurance (including natural disaster insurance) where premium income accounted for 15.23%, and injury insurance accounted for 10.92%. These are the top three kinds of insurance, while other insurance (including liability insurance, credit insurance and bond insurance, etc.) accounted for 10.88%.
3. In the year 2018, benefiting from the growth in auto insurance and fire insurance business, overall premium income in domestic property and casualty insurance market continued to grow. It is expected that the insurance market will be more competitive in terms of products or rates, affected by the liberalization of insurance rates and the weakening of the international reinsurance market.

Securities Investment Trust Industry

As of the end of 2018, there are 39 domestic securities investment trust enterprises in Taiwan which manage a total of 859 mutual funds for NT\$2,570 billion and 56 private funds totaling NT\$37.6 billion. The number of discretionary investment account reached 537 with a total amount of NT\$1,720 billion. There are 5 securities investment trust company with AUM of mutual fund exceeding NT\$100 billion.

Asset Management Industry

Since the Financial Supervisory Commission imposed strict restrictions on the sale of NPLs by domestic banks in 2013, the non-performing loan (NPL) sold by domestic banks are limited to NPL of syndicated loans, dramatically cutting the supply of NPL cases. Asset management companies are facing survival challenges. The Financial Supervisory Commission amended the “Operation Principles for Financial Holding Companies (Banks) Investing Asset Management Company” on August 12, 2015 to add the exceptions for financial institutions to sell NPLs. However, the benefits of these exceptions are still quite limited. In order to help promotion of the urban renewal policy, the FSC revised the operation principles as mentioned above on December 29, 2017, allowing asset management companies to invest in urban renewal service companies. It also set a cap for advance payment at seven times the AMC’s net worth. This regulation increased the business item of asset management companies.

Insurance Agency Industry

In 2018, the first year premiums (FYP) of all life insurance companies in Taiwan amount to NT\$1,379.94 billion, an increase of NT\$1,260.72 billion or 9.5% compared to 2017. The FYP generated through bank-related insurance agents (or brokers) channels amounted to NT\$760.79 billion, up by 16% from NT\$655.81 billion in 2017. The FYP generated through bank-related insurance agents (or brokers) channels accounted for 55.13% of total FYP, a 3.11% increase from 52.02% in 2017. This indicates that bank-related insurance agents (or brokers) channels, the main channels of insurance sales, are getting more important.

Mega Venture Capital Industry

According to the industry investment situation from 2007 to 2017 published in 2018 Taiwan Venture Capital Yearbook, in terms of the number of investment cases, the largest is in the IT industry (including electronics industry, optoelectronics industry, information industry, and communications industry), with a total of 3,299 cases (55.18%); followed by the pan-manufacturing industry including traditional manufacturing and strategic manufacturing, totaling 940 cases (15.72%); the third largest in total investment cases is biotechnology and pharmaceuticals, with a total of 799 cases (13.36%).

In terms of the total investment amount, the IT industry still ranks first, with a total of about NT\$68.74 billion, accounting for 43.76% of the total investment amount, while the biotechnology and pharmaceuticals is second, totaling about NT\$26.88 billion (17.11%). The third is the pan-manufacturing industry, amounting to about NT\$25.72 billion (16.37%).

5.1.4 Research and Development

Mega Financial Holding Company

A. Research & Development Expenses and Achievements in the Past Two Years

- a. The Company’s R&D expenses incurred in 2017 and 2018 are NT\$1,067 thousand and NT\$1,405 thousand, respectively, mainly for project consulting, establishment and services as well as staff training.
- b. The achievements of R&D are as follows:
 - (1) Evaluation of the feasibility of merger with or acquisition of other domestic or foreign financial institutions
 - (2) Introduction of the corporate social responsibility system to get in sync with international best practices

- (3) Optimization of the valuation system for the Group's equity investment
- (4) Optimization of subsidiaries financial performance management system
- (5) Development of lease measurement and reporting system based on IFRS 9
- (6) Obtaining patents for market risk evaluation system on September 11, 2018
- (7) Amendment to the IFRS 7 financial risk reporting system in line with adoption of IFRS 9
- (8) Improvement on classification of enterprise group's credit risk
- (9) Optimization of the consolidated financial statement system
- (10) Completing the high risk countries' financial products management system

B. Future R&D Projects

The estimated R&D expenses in 2019, including personnel training and project service expenses, are estimated at NT\$1,990 thousand. R&D projects for the future are as follows:

1. Evaluation on the feasibility of merger with or acquisition of other domestic or foreign financial institutions
2. Continued optimization of corporate social responsibility system
3. Continued establishment of VaR (Value at risk) management systems for financial products
4. Continued development of financial and risk reporting system in line with the progress of promotion of IFRS by the competent authority
5. Study of the risk arising from FinTech

The R&D expenses in 2019 are estimated at NT\$1,990 thousand.

Mega International Commercial Bank

A. Research & Development Expenses and Achievements in the Past Two Years

- a. The Bank's R&D expenses incurred in 2017 and 2018 are NT\$1,141 thousand and NT\$3,326 thousand, respectively, mainly for purchase of professional publications, electronic data base, and publishing of Mega Bank Monthly.
- b. The achievements of R&D are as follows:
 - (1) 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. Research reports on global and domestic economic and financial situations are published regularly or irregularly.
 - (2) In terms of credit services, the Bank introduced "SMEs Preferential Loan Program for Factory Building," "Reverse Mortgage Loan Part II (integrated with insurance and trust program)," "3-Year Mid-term Revolving Secured Loan (mid-term expert wealth management financing)" and enhanced functions of "Consumer Financing Online Services", etc.
 - (3) In terms of wealth management business, the Bank introduced insurance products with market differentiation exclusively sold by the Bank. In credit card business, new co-branded credit cards, targeting at young population, with market competitiveness were introduced based on customer demand.

- (4) In terms of enhancement of digital finance applications, “Big Data Management Platform” was built in 2018 to strengthen big data infrastructure and analytical application. Taiwan Pay QR Code, the common payment standard, was introduced, and the functions of “Mega Pay” on mobile banking App were enhanced. LINE official account “Business Connect” service was launched to provide personalized services, foreign exchange services, and credit card services, etc. Service function of digital deposit account was optimized, and opening of foreign currency digital deposit account is now available online. A “Blockchain Confirmation System” connecting to “Financial Blockchain Confirmation” services of the Financial Information Service Company is built to automatically produce account’s reply for CPA auditing information.
- (5) In terms of digital financial innovation, the Bank continued to be devoted to digital finance R&D and applied for various financial services and patents. As of December 31, 2018, it obtained 102 utility model patents, and 10 invention patents approval from the Ministry of Economic Affairs, and 4 utility model patents and 50 invention patents applications are under review.

B. Future R&D Projects

The Bank will closely monitor ongoing development of the international and domestic economic and financial situations, and submit research reports for top management’s reference or publishing on the Bank’s websites. The R&D expenses are estimated at NT\$4,487 thousand in 2019.

Mega Securities Company

A. Research & Development Expenses and Achievements in the Past Two Years

- a. The Company’s new products developed in 2017 and 2018 are planned by respective business units and executed through upgrade or adjustment of hardware or software by the IT Department, so no R&D expenses were incurred.
- b. The achievements of R&D are as follows:
 - (1) The company introduced the Straight-Through-Processing (STP) brokerage automation service and completed partial function of the service project which allows customer to enjoy services from branches other than the branch with which the customer opened account.
 - (2) The trust platform was enhanced with the function of instant block of deposits for mutual fund transactions.
 - (3) The Line@ "Mega Wealth Management Secretary" platform increased the functions of real-time stockholding inquiry service, order connection for security, futures and option transaction, re-consigned account inquiry service, securities borrowing and warrant push notification, etc.
 - (4) In line with setup of securities counter in Mega Bank, information equipment for tape reading and customer relationship management (CRM) system were equipped.

B. Future R&D Projects

- (1) In line with the pace of business relaxation of the competent authority, the company will evaluate and introduce new business together with related system and management mechanism.
- (2) The company will promote finance 3.0 policy and strengthen e-commerce business.
- (3) Functions of various information systems will be continuously established or upgraded.

Mega Bills Finance Company

A. Research & Development Expenses and Achievements in the Past Two Years

The company's R&D expenses incurred in 2017 and 2018 are NT\$1,673 thousand and NT\$1,636 thousand, respectively, mainly for staff training. The achievements of R&D are as follows:

- (1) The company studied the feasibility of applying to the competent authority for undertaking RP transaction of US dollar bonds with life insurance companies.
- (2) Application to the competent authority for relaxing derivatives transaction scope of bills finance companies was made.
- (3) In response to the adoption of IFRS 9, the company adjusted the related accounting system and information system.
- (4) Personal data inventory and related risk analysis system was established.
- (5) In response to the promotion of non-physical short-term bills in the primary market, relevant information system was established.

B. Future R&D Projects

- (1) Execution and risk monitoring on AML/CFT will be continuously enhanced.
- (2) The company will seek the authority's approval to engage in USD Repo transaction with life insurance companies.
- (3) In line with promotion of short-term bills' transaction slip dematerialization in the secondary market by the industry association, relevant information system will be established.
- (4) The company will introduce visual analysis tools and continuously enhance information security management.

The R&D expenses in 2019 are estimated at NT\$1,500 thousand.

Chung Kuo Insurance Company

A. Research & Development Expenses and Achievements in the Past Two Years

The company's R&D expenses incurred in 2017 and 2018 are NT\$1,466 thousand and NT\$3,473 thousand, respectively. The R&D achievements are as follows:

The company launched the insurance proactive claim service for flight delays in the second half of 2017. Through blockchain and application technology of smart contracts that cannot be modified, the system automatically compares the flight information of the customer, simplifying the application procedures for the claim of the policyholder. In mid-2018, the mobile app is online that is able to guide policyholders to "online premium payment" and "Insurance online" and equipped with the functions of "self-service on the scene of the accident", "application for claims", and "online convenience spot examination". UBI (Usage Based Insurance) auto insurance products were approved by the FSC on December 24, 2018, and the applied UBI APP "Personal Vehicle Identification System for Vehicle Insurance and the Method" also obtained the patent certificate issued by the Ministry of Economic Affairs for a utility model patent, and was under application for an invention patent.

B. Future R&D Projects

In line with the development of insurance technology and information security risk management, the company will continue to optimize the operation process and the mobile APP, develop e-insurance policies or construct other platform, etc., so as to increase adhesion of policyholders and development of potential customers. In terms of risk management, the company will build up and conduct own risk and solvency assessment (ORSA) mechanisms. The estimated R&D expenses for the year 2019 is NT\$5 million.

Mega International Investment Trust Company

A. Research & Development Expenses and Achievements in the Past Two Years

The company's R&D expenses incurred in 2017 and 2018 are NT\$3,904 thousand and NT\$3,237 thousand, respectively. The R&D expenses are for offering of new mutual funds, subscription of China's financial information services (Wind), Lipper database and MSCI global index constituent stock information. The R&D achievements are issuance of Mega Taiwan blue chip 30 ETF umbrella funds (including 2 sub-funds: Mega Taiwan blue chip 30 ETF and Mega Taiwan blue chip 30 ETF single day inverse one time ETF), Mega 3-Year Maturity Emerging Market Bond Fund and Mega 3-Year Maturity Asia Emerging Market Bond Fund.

B. Future R&D Projects

The company will issue one to three funds and develop multi-currency products to increase the breadth of its products. Small investment and online transaction platform will also be promoted. The R&D expenses for the year 2019 is estimated at NT\$5 million.

Mega Asset Management Company

A. Research & Development Expenses and Achievements in the Past Two Years

The company's R&D expenses incurred in 2017 and 2018 are NT\$281 thousand and NT\$300 thousand, respectively, mainly for enhancement and upgrade of business and financial information systems, which will make the system function more complete and promote informatization as well as system integration to provide more efficient and flexible management tools.

B. Future R&D Projects

The company will pay close attention to the trends and fluctuations of real estate industry, and track the impact of the economic movement on various stages of the real estate industry, supplemented by flexible and diversified strategies to minimize the impact of economic fluctuations. There will be no R&D expenses in 2019.

Mega Life Insurance Agency Company

A. Research & Development Expenses and Achievements in the Past Two Years

The company's R&D expenses incurred in 2017 and 2018 are NT\$5,366 thousand and NT\$3,888 thousand, respectively, mainly for promotion of automation of administrative operation and electronic insurance. The R&D achievements are as follows:

B. Future R&D Projects

The company will continue to promote automation of administrative operation. The R&D expenses for the year 2019 is estimated at NT\$1,050 thousand.

Mega Venture Capital Company

A. Research & Development Expenses and Achievements in the Past Two Years: None.

B. Future R&D Projects

The company will invest in companies which have financial difficulty by cooperating with peers in the same or other industry and explore investment opportunity in Asia Pacific. There will be no R&D expenses in 2019.

5.1.5 Long-term and Short-term Business Development Plans

Mega Financial Holding Company

A. Short-term Business Development Plans

For facilitating sustainability of the Group, establishing a competitive edge in core businesses, integrating operations of subsidiaries, and strengthening resources sharing, the Company has set up short-term business development plans and the Group's long-term development strategies. In line with the Group's long-term development strategies, all subsidiaries are required to formulate execution plans as a guide for the operations of all subsidiaries. A description of the short-term business development plans is the same as 2019 operating policies as shown on page 80 of this annual report.

B. Long-term Business Development Plans

The Group's long-term development strategies will be achieved through enhancement of niche operations and development of the Group's competitive advantage. For internal strategies, the overlapping operations of subsidiaries will be continuously integrated. For external strategies, suitable acquisition targets for expansion of business domain will be evaluated. In addition, the international operations will be strengthened. The Group's long-term business development plans encompass the Group vision, medium- and long-term development strategies, and operational objectives as specified below:

1. The Group vision is to become an Asia regional financial group.
2. Medium- and long-term development strategy
 - To promote corporate governance and further fulfill corporate social responsibility
 - To seize the opportunity to develop business in Asian Pacific and create innovative operating growth model
 - To increase competitive advantage in corporate banking and foreign exchange business, and invest in future star industries
 - To reinforce consumer banking and wealth management business, and develop digital service channels
 - To expedite the distribution network reform and enhance digital platforms integration
 - To strengthen business integrations and improve cross-selling synergies
 - To cultivate international talents, motivate and promote employee's value
 - To expand capital and assets scale, and improve capital efficiency
 - To adjust global operating structure and promote risk management skills



3. Medium and Long term operational target

Business targets

Banking subsidiary	Market share of OBU and overseas branches earnings $\geq 60\%$
	Proportion of small- and medium-sized enterprises lending $\geq 30\%$
	Proportion of consumer lending $\geq 30\%$
	Proportion of fee income $\geq 30\%$
Bills finance subsidiary	Market share of bills underwriting volume ranking top 1, and $\geq 28\%$
	Market share of bills trading volume ranking top 1, and $\geq 28\%$
	Market share of bonds trading volume ranking top 1, and $\geq 28\%$
	Market share of guaranteed issues of commercial paper 2 ranking top 1, and $\geq 28\%$
Securities subsidiary	Brokerage market share $\geq 4\%$
Property & casualty insurance subsidiary	Combined ratio $\leq 95\%$
	Proportion of automobile insurance premium $\geq 50\%$
	Market share of premium $\geq 5\%$
	Market share of marine insurance $\geq 10\%$
Securities investment trust subsidiary	Proportion of non-money market funds $\geq 30\%$
	Proportion of number of funds out-performing the market average $\geq 50\%$

Financial targets

The Company	ROE $\geq 12\%$
	Group capital adequacy ratio $\geq 110\%$
	Double leverage ratio $\leq 115\%$
Banking subsidiary	ROE $\geq 12\%$
	ROA $\geq 1\%$
	Cost / income ratio $\leq 40\%$
	NPL ratio $\leq 0.5\%$
	Coverage ratio $\geq 300\%$
	Capital adequacy ratio $\geq 12\%$
	Tier 1 capital ratio $\geq 10\%$
	Ratio of common shares equity $\geq 9\%$
Bills finance subsidiary	ROE $\geq 8\%$
	Capital adequacy ratio $\geq 12\%$
Securities subsidiary	ROE $\geq 8\%$
Property & casualty insurance subsidiary	ROE $\geq 10\%$
	Capital adequacy ratio $\geq 400\%$
Securities investment trust subsidiary	ROE $\geq 15\%$
Asset management subsidiary	ROE $\geq 13\%$
Life insurance agency subsidiary	ROE $\geq 80\%$
Venture capital subsidiary	ROE $\geq 8\%$

Mega International Commercial Bank

A. Short-term Business Development Plans

Wealth management business

1. Compliance mechanism will be enhanced and ties with existing wealth management clients will be consolidated.
2. Financial specialist will be continuously encouraged to obtain professional certification, and a wealth management team, with equal emphasis on the quality and quantity, will be created to boost the bank's corporate image in professional wealth management.
3. A smart fund investment service platform will be established to attract small investors and young customers who prefer trading on an automated platform.
4. The investment research team will be continuously enhanced, and internal and external information will be integrated into more valuable information to provide latest financial update and investment advice to clients.

Credit business

1. By exerting outstanding marketing capabilities and flexible pricing strategies, we will proactively attract customers with good credit or good guarantee conditions and encourage drawdown of the credit facility to promote the overall loans quality and income, raising market share of credit business.
2. The Bank will follow credit principles and honor "Equator Principles" by reviewing whether borrowers have fulfilled environmental protection, ethical management, and social responsibilities when conducting corporate credit business. In case of violation, no credit will be granted in order to fulfill the responsibility of promoting a sound society.
3. In line with government policies, the Bank will provide policy financing for return of Taiwan investment by Taiwanese businesses and the 5+2 innovative industries. By taking advantages of its widespread overseas network, the Bank will actively strive for foreign currency lending business to enhance the profitability.
4. Based on its expertise in industrial banking and foreign exchange, the Bank will assist manufacturers in financial planning and financing arrangement for large-scale plant construction, capital expenditure, public construction and project financing etc., to establish professional and competitive advantages.
5. Consumer financing products will be continued to be improved and innovated in order to expand customer base and lending interest spread.

Finance and financial market business

1. In response to the global economic slowdown and the consolidation of the stock market in the high level, the Bank will prudently conduct short-term stock trading and select investment timing to realize capital gains.
2. To respond to maturing of bond positions and enhance capital efficacy, the bond positions will be increased in installments when the yields are getting higher and the risk is within a controllable range.
3. The Bank will keep track of the trends and fluctuations of the financial market and adequately conduct short-term arbitrage trading of financial instruments to augment financial income.



4. Diverse funding channels will be developed to lower short-term funding cost. By utilization of the characteristics of the yield curve under the established interest rate risk, the Bank will operate flexibly in the money market to obtain interest spread between the short-term and long-term interest rate.
5. In response to the revision of regulations by the competent authority, the Bank will review and revise internal relevant operational specifications, strengthen KYC procedures and product suitability operation, and steadily promote TMU business.

Trust Business

1. To respond to the government's care trust policy, the Bank will continue to promote care trust business, and enact relevant preferential and incentive programs to achieve the business goal.
2. To work with the government in promotion of urban renewal, old housing reconstruction, major public construction, and a sound real estate market, the Bank will actively strives for real estate related trust business.
3. The real estate value trust business will be continuously standardized and the process will be simplified. In addition, related credit business will be promoted by cooperating with business units to increase customer adhesion.
4. In reference to changes in the international financial market, more types of domestic securities investment trust fund, overseas ETF and overseas bonds, and other wealth management products will be provided according to customer investment risk attributes to increase the business volume, market share and fee income of wealth management.

B. Long-term Business Development Plans

Wealth management business

1. A Consumer Banking Business Group has been established in 2018 to proactively promote fee income of consumer banking, creating double profit generating engines of corporate banking and consumer banking.
2. Digitalized marketing will be promoted by utilizing big data, social media, and smart financial platforms to attract young population and develop potential customers.
3. Preferential program exclusively available for customers with good business performance will be continuously optimized. Service quality for high-end customers will continue to be improved to enhance marketing efficiency.
4. In response to government policies, the product structure will be gradually adjusted, such as Long Term Care 2.0, product for low birthrate and aging society.

Credit business

1. By taking advantage of the increasingly complete service network in Southeast Asia, the Bank will develop the local market, deeply implement the New Southbound Policy, and increase customer base of credit business.
2. The collaboration mechanism among domestic business units, domestic business centers in respective regions, and overseas country heads will be strengthened to promote operational efficiency through joint professional services, and proactively explore new business opportunities in domestic and overseas market.

3. With the development of digital technology, the supply chain financing system will be optimized by using system analysis to seek and screen potential customers.

Finance and financial market business

1. Long-term investment portfolio of high yield dividend stock will be set up in due course to get steady dividend income and share investee's operation result.
2. Due to the fact that the US Fed interest rate hike process is near the final stage and the global economic outlook is slowing down, the Bank will establish bond portfolio for long-term investment in due course.
3. The long-term trend of the financial market will be analyzed so as to look for future niche products and establish trading strategies, and to take position in a timely fashion to improve overall business performance.
4. Product research capability will be enhanced, supplemented with upgrade of the functions of operation system, to strongly support the promotion of TMU business and strengthen the competitiveness in customer services.

Trust Business

1. In line with the changes in society, demographic structure, and technological development trends, new types of trust products will be planed and developed to strives for new-type trust business opportunities.
2. Staff training on trust business, study of trust-related laws and regulations, and innovation on asset management approaches will be continuously enhanced in order to improve professional competence and service, and achieve the goal of expanding the scale of trust assets.
3. The functions of the automatic financial service platform will be enhanced. The immediacy of transaction on the e-finance platform and the accessibility of online ordering will be strengthened to increase the intelligent value of the online financial platform. Preferential rates for investment transactions will also be provided, thereby increasing the utilization rate and popularity of the automatic financial services.

Mega Securities Company

A. Short-term Business Development Plans

1. Setup of security counters in Mega Bank will be enhanced to increase customer sources and heighten brokerage market share.
2. Risk control and trading flexibility in trading units will be emphasized to improve trading performance and reduce the position risk.
3. Through referral of the Group's resources, the company will jointly develop IPO business for return of Taiwanese business in Southeast Asia.
4. The warrant issuance strategy and related market making quality will be adjusted and distribution of the issued warrant will be increased.
5. The company will proactively take part in new business relaxed by the competent authority to seize business opportunities.

B. Long-term Business Development Plans

1. The company will increase fee income by improving the market share of securities brokerage business and developing customer sources.
2. The reform of business channels will be expedited and the integration of digital platform will be expanded.
3. In response to the market change and business opportunity in Asia Pacific, the company will strive for maintenance of is leading position in IPO business for return of Taiwanese business.



4. The company will promote the performance in proprietary trading, reduce the fluctuation in trading gain (or loss) and maintain the stability of profits.
5. In addition to enhancement of risk management skill, the company will strengthen the AML/CFT operation and cultivate compliance culture.
6. The business scale will be expanded and capital efficiency will be improved.

Mega Bills Finance Company

A. Short-term Business Development Plans

1. The company will seek to lead-manage syndicated loans and participate in joint underwriting of non-guarantee commercial paper to stabilize CP sources and income of bills business.
2. The company will proactively explore opportunities in underwriting or acquisition of NCD, guaranteed or non-guarantee bills to achieve portfolio growth and higher interest spread.
3. In addition to continued enhancement of information systems and operating efficiency, a common reporting and due diligence system (CRS) will be developed in response to the reporting requirements of the competent authority.
4. The paperless conference system and paperless report management system will be continuously promoted to cut back resource consumption and fulfill cooperate social responsibilities.
5. The information security protection measures and related staff training as means to reduce security threats will be strengthened.
6. Aside from persistent optimization of the AML/CFT management system, risk-based training will be organized to improve employee's AML risk awareness and ability of identifying suspicious activity.

B. Long-term Business Development Plans

1. An adequate bonds portfolio will be continuously adjusted and business scale of Repo transaction will be expanded, supplemented with trading of derivatives to maintain stable profits.
2. Regulatory compliance, internal controls and internal audit systems will be reinforced.
3. Through integration of the Group resources, the synergy of cross-selling will be exerted.
4. Operation efficacy of the information system, AML and information security will be promoted.
5. In addition to expanding business scope and funding sources, the company will proactively seek approval from the competent authority to open up new business or transaction counterparty.
6. Capital efficiency will be enhanced through reasonable capital allocation and the risk management system will be fortified.

Chung Kuo Insurance Company

A. Short-term Business Development Plans

1. Corporate governance, risk management and legal compliance will be improved.
2. To augment steady income, asset allocation and investment portfolio will be adjusted.
3. Business structure will be adjusted to increase underwriting profits.
4. In addition to promotion of e-commerce business, the relevant platform will be optimized.
5. Network platform of the Group's subsidiaries will be jointly shared.

B. Long-term Business Development Plans

1. Aside from consolidation of the commercial insurance business, the company will explore business opportunity of emerging industries.
2. Personal insurance business will be expanded and digital service channel will be developed.
3. Reform of business channels will be expedited and integration of digital platform will be expanded.

4. Integration of the Group's business will be enhanced and synergy of cross selling will be promoted.
5. A talent database will be cultivated to improve employee's value.
6. The asset allocation will be adjusted to improve the capital efficiency and increase stable income.

Mega International Investment Trust Company

A. Short-term Business Development Plans

1. Small amount investment will be promoted to strengthen sales performance.
2. The marketing network will be expanded widely to increase fund distribution with good performance.
3. Function of the online fund sales platform will be enhanced.

B. Long-term Business Development Plans

1. The company will explore customers of multi-currency investment.
2. The company will pursue the opportunity of distributing the company's mutual funds in overseas market.

Mega Asset Management Company

A. Short-term Business Development Plans

1. The company is seeking to acquire NPLs from its competitor and continues to seek the possibility of integrating NPL products in the secondary market.
2. In order to enhance service income, the company will provide services in creditor's rights integration and advance payment, based on the operating principles promulgated by the FSC, for reconstruction of unsafe building, sea sand houses and other building likely to cause harm to public safety under the Urban Renewal Act.

B. Long-term Business Development Plans

1. The company will acquire high value-added creditor's object or specific property for its own account or for its customers to create stable service fees or capital gains.
2. The company will seek to acquire real estate, among NPL assets, with steady rental income to create stable rental or capital gains.

Mega Life Insurance Agency Company

A. Short-term Business Development Plans

1. AML/CFT system will be built and relevant compliance operation will be reinforced.
2. On job training for insurance salesperson will be performed to promote professionalism and marketing skills, keeping its competitiveness.
3. Insurance process will be optimized and online insurance will be introduced by stages.
4. The company will make good use of insurance industry big data analysis to detect market trends and provide insurance products exclusively targeted towards Mega Bank's customers including high-net-worth clients, the general public, and specific public (such as payroll transfer clients).
5. The company will take the opportunity arising from government's annuity reform, low birthrates and aging society to explore new customer base.
6. The company will combine and cooperate with existing channels (life insurance companies) to provide a more diversified service tool for salespersons.

B. Long-term Business Development Plans

1. The company will continue to establish a full-product line and strengthen education and training of salesperson to ensure insurance sales process, administrative operations, and compliance concepts more solid and effective.

2. The company will assist salesperson in maintenance of high-net-worth customers to enlarge total assets and service width of wealth management business.
3. The information system will be enhanced to promote insurance convenience and mobile insurance will be developed.
4. The company will put a pragmatic, professional, and responsible business philosophy into practice, strengthen corporate governance and risk management mechanisms, build up ethical culture, and commit itself to environmental protection, human rights protection to achieve sustainability.

Mega Venture Capital Company

A. Short-term Business Development Plans

1. The company will participate in pre-listing book building of a cash capital increase as well as convertible corporate bonds, invest high-quality emerging stocks or buy back shares of those previously invested company in the stock markets to realize capital gains and earn stable investment returns at the same time.
2. The company will cooperate with government funds to enhance investment in SMEs to increase enterprise productivity and the added value of industry.

B. Long-term Business Development Plans

1. The company targets its investments at companies which are in the early stage or growth stage, extensively builds its investment portfolios, fully gets to grips with financial, business, and operation management of the invested company, and assists in the development of the invested company.
2. Foreign investment will be reinforced to promote global vision.

5.2 Benefits of Cross Selling

The benefits of cross-selling among the Company's subsidiaries reached achieved 100.77% of the goal in 2018 and reached NT\$793 million, increasing by 3.74% from NT\$765 million in 2017. Key cross-selling items are described as follows:

1. In 2018, the number of Mega International Commercial Bank credit cards distributed through the channels of other subsidiaries increased by 10,700. The proportion of new issued credit card through cross selling accounted for 7.90%, while the proportion of credit card in circulation from cross selling accounted for 7.55% in 2018. As a settlement bank for securities transaction of Mega Securities Company, the deposits in securities settlement accounts with the Bank amounted to NT\$22.0 billion generating cross selling benefits for NT\$101 million, increasing by 4.88% from NT\$96 million in 2017.
2. As of the end of 2018, Mega Securities Company has set up 75 securities counters in branches of Mega Bank compared to 26 branches at the end of 2017. The proportion of securities brokerage undertaken through the channels accounted for 3.60% in 2018, up from 2.25% in 2017. The cross-selling benefits of Mega Securities from domestic and overseas stock transaction introduced by other subsidiaries totalled NT\$27 million, increased by 4.63% from NT\$18 million in 2017.
3. In 2018, Mega Bills Finance Company acted as an underwriter for a total of NT\$615 million of commercial papers guaranteed by Mega International Commercial Bank.
4. In 2018, Chung Kuo Insurance Company reported insurance premium revenues of NT\$529 million through cross selling by other subsidiaries, up 17.97% from the NT\$449 million posted in 2017. The premium revenues from cross selling accounted for 8.55% of the domestic written premiums, rising from 7.78% in 2017.

5. In 2018, average outstanding amount of mutual funds managed by Mega International Investment Trust Company (MIIT) through cross-selling by other subsidiaries reached NT\$41.5 billion, representing an 8.08% growth from the NT\$38.4 billion posted in 2017. This accounted for 45.22% of average outstanding amount of funds managed by MIIT, compared to 42.51% in 2017. Mutual funds distributed through cross selling by other subsidiaries accounted for 36.39% of the total distributed amount, increasing from 29.98% of 2017. The total benefits of cross selling reduced by 29.64% to NT\$141 million from NT\$200 million in 2017, due to the decline in fee income from failure of issuing a new ETF as scheduled, affected by the poor market situation.

5.3 Market Overview

There are sixteen financial holding corporations in Taiwan by the end of 2018. 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 scale of operation, financial holding companies will accelerate mergers with financial institutions. Banks that have not yet joined financial holding companies face the enlargement of financial holding companies and an increasingly competitive environment caused by cross-sector sales. 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 income derived from its subsidiaries. Market condition of subsidiaries' industry is set forth as follows:

5.3.1 Banking Industry

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

Business items of the bank subsidiary include commercial banking, consumer banking, wealth management business, investment and various agency business, etc. The Bank has 108 domestic branches (including Foreign Department), 23 overseas branches, 5 overseas sub-branches and 3 overseas representative offices (including marketing representative offices). Added to the Bank network are its wholly-owned bank subsidiary in Thailand and its branches, bringing the number of overseas outposts to 36 in total.

B. Future market supply and demand

1. In loan business aspect, domestic banks' loans outstanding reached NT\$25,755.4 billion by the end of 2018, growing by 5.2% compared with the end of 2017. Among them, loans to private sector, including private enterprises and individuals, accounted for 93.1% and increased by 5.4% compared to 2017. In 2018, loans to state-owned enterprises stopped declining and increased from 2017, while the decrease in loans to government fell compared to 2017. Look into the future, the Directorate-General of Budget, Accounting, and Statistics, Executive Yuan forecasts domestic investment will grow rapidly in 2019 due to improvement of investment environment by the government. This will help maintain momentum of bank financing.



2. In consumer loans aspect, loans outstanding are NT\$8,304.4 billion by the end of 2018, up 4.4% compared to the end of 2017. This is the consecutive second year of speedy growth. Among them, mortgage loans, which account for 84.0% of total consumer loans, grew by 5.0%. Other personal consumer loans, which account for near 10% of total consumer loans, grew by 3.4%. In addition, construction loans outstanding totalled NT\$1,858.1 billion as of the end of 2018, an increase of 6.9% compared to the end of 2017. Look into the future, growth of consumer loans may slow down as private consumption momentum is modest and grace period of some mortgage loans is going to expire. However, the promotion of urban renewal and expansion of public transportation by the government is conducive to the market development.
3. As of the end of 2018, the number of credit cards in circulation reached 44,030 thousand, growing by 5.52% compared to 2017, while the effective card increased by only 5.49%. The number of effective cards accounted for 67.17% of all cards in circulation, a slight drop of 0.01% compared to 2017. This indicates that both promotion and use ratio are important to the efficiency of credit card issuance. The revolving credit outstanding balance posted NT\$113.9 billion, increasing by 2.51% from that of 2017. This is the third consecutive year of growth, indicating that scale of consumer financing is getting steady.

C. Operations targets

Item	2019 targets
Average outstanding of deposits (in thousands NTD)	2,442,924
Average outstanding of loans (in thousands NTD)	1,896,353
Foreign exchange business undertaken (in millions USD)	912,930

D. Positive and Negative Factors Influencing Future Operations

Positive Factors

1. The US-China trade tension may cause supply chain movement. In addition to the benefits of order transfer, some Taiwanese companies are expected to return to Taiwan to invest in or transfer to Southeast Asian countries, which will increase the utilization of domestic banks' funds, and increase the lending opportunities to emerging Asian countries outside China. This will help banks to diversify overseas investment and business risks.
2. In 2019, the government's public construction budget, science and technology budget, and urban renewal cases have continued to increase. Major semiconductor manufacturers have maintained the leading process and the development of emerging technologies such as 5G, which will help drive the growth momentum of Taiwan's investment and be conducive to bank lending and other business expansion.
3. In November 2018, the Asia/Pacific Group on Money Laundering (APG) evaluated Taiwan's financial institutions. The preliminary evaluation report affirmed Taiwan's efforts and substantial progress in the past two years. As Taiwanese banks gradually implements AML/CFT, risk management is expected to be improved and help overseas business development.

Negative Factors

1. US-China trade friction has not yet been resolved, and an international trade protection atmosphere still exists. This will weaken global economic momentum and inhibit the willingness of manufacturers to invest, which is harmful to long-term economic development.

2. China faces downward pressure on economic growth. If its economy slow down dramatically, negative spillover effects will damage regional economic stability.
3. The growth potential of new southbound countries is still large. However, most countries have weak financial situation and are easily vulnerable to the international financial situation. Some countries will hold general elections in the first half of 2019, and their future economic policies will affect investment performance.

5.3.2 Securities Industry

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

Mega Securities provides securities brokerage, proprietary trading, underwriting, stock registry, futures introducing brokerage services through its business units in northern, central and southern Taiwan. Its customers mainly include domestic and foreign institutions and general investors.

B. Future market supply and demand

1. With the maturing of Taiwanese concept in financial management and diversification of related products, investors are increasingly strict with the quality requirements of financial services. Securities firms face fierce competition in attracting investors to open securities account. The fee income of securities firms is difficult to grow under keen peer competition. In order to increase the market share of securities brokerage or remove the predicament of the overall investment environment in Taiwan, major securities firms have taken actions to reduce their business branches and actively negotiate M&A with peers in the industry to seek breakthroughs. The number of securities firms has decreased year by year, from the peak of more than 370 in the past compared to 108 at the end of 2018, and the current proportion of electronic orders in the whole market has exceeded 60%. Low-price or price-cut competition has become the norm, and it has also eroded the profitability of securities firms. Therefore, the government continues easing the existing product regulations or opening up new types of businesses to diversify profits of securities firms.
2. Generally speaking, although the securities industry faces the variables of the international financial environment and competition, the global economy continues to grow, the authorities continuously open up new business for securities firms and Fintech continues developing. There is still considerable room for growth of the security industry in the future.

C. Operations targets

Item	2019 targets
Market share of securities brokerage	3.30%

D. Positive and Negative Factors Influencing Future Operations

Positive Factors

1. The global economy is slowing down but not declining, the trading volume of the Taiwan stock market is sustainable.
2. The competent authority continues to release licenses of new business for security firms, which is favorable to business development and profit increase.

3. Investor's asset management concepts are more mature, which is conducive to financial products marketing, and business growth of securities firms.
4. The brand effect of Mega Financial Holding Company attracts outstanding talents, combined with the synergy of cross selling, which helps to enhance profitability and maintain the competitiveness of the company.

Negative Factors

1. Brokerage fee income is affected by market trading volume. Capital gains from securities proprietary trading are also greatly influenced by market fluctuations, resulting in unstable overall profit. Brokerage fees are difficult to rise due to business competition.
2. In domestic stock market, the proportion of trading volume of foreign investor is increasing, and local securities brokers lack the advantage of developing foreign customers.
3. With the diversification of financial products and expansion of business scope, the requirement and cost of compliance and risk management are relatively increasing.

5.3.3 Bills Finance Industry

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

Aside from the head office, Mega Bills Finance Company has 8 branches in Taiwan which are engaged in credit business, bills and bonds business.

B. Future market supply and demand

(1) Bills market

In 2018, the underwriting of CP2 in the primary market amounted to NT\$8,751.03 billion, increasing by NT\$462.99 billion or 5.59% compared to 2017. Bills trading volume in the secondary market amounted to NT\$28,721.27 billion, increasing NT\$2,387.61 billion or 9.07% compared to 2017. Looking to 2019, the monetary policies of major advanced economies have gradually normalized, international funds are possibly going to return to Europe and the United States, and the US-China trade conflict has not stopped. The global economic and trade situation is still tense. It is expected that the Central Bank of the R.O.C. (Taiwan) will maintain a monetary policy in a relatively easing pattern, in consideration of the overall economic development, monetary policy adjustment, and liquidity status. However, the short-term bills interest rate is expected to rise in 2019.

(2) Bonds market

According to the statistics of Taipei Exchange, the NWD bond average Repo interest rate in 2018 was 0.3584%, with a monthly average fluctuating between 0.3323% and 0.4213%. Average Repo interest rate of Mega Bills Finance Company was 0.3357% in 2018, lower than the market average. In foreign currency bond secondary market, the average USD Repo rate was 2.33% in 2018, compared to 1.4928% in 2017, causing reduction in interest spread. The 10 year domestic government bond yields fluctuated between 0.82% and 1.095%, while the 10 year US government bond yield fluctuated between 2.42% and 3.26%.

In terms of interest spread, the funding cost of NWD bonds was steady in 2018, and the interest spread between NWD Repo rate and bond yield was also steady. However, the interest spread between USD Repo rate of USD bond yield declined due to the hike in USD Repo rate and LIBOR.

Looking into the future, although the Taiwanese bond market is relatively stable, the short-term interest cost is higher than that in previous years. In the foreign currency bond market, due to the increase of credit risk, the trading of corporate bonds is not easy to make profit. Fortunately, the stability of the US dollar LIBOR will help maintain foreign currency bond revenue. Overall, the spread of the NWD bond business in 2019 is expected to be lower than the level in 2018, while the interest spread of foreign currency bond business will possibly not shrink any more.

C. Operations targets

Units: NT\$ million

Item	2019 targets
Underwriting and purchasing of bills	2,522,294
Underwriting amount of commercial paper issued for funding purpose (CP2)	2,280,294
Trading volume of bills	7,760,234
Trading volume of bonds	4,617,682
Repo outstanding balance of bills and bonds	207,274
Average outstanding balance of guaranteed issues of commercial paper	161,000

D. Positive and Negative Factors Influencing Future Operations

Positive Factors

- In response to the amendment to Article 8 of the "Regulations Governing Foreign Currency Bond Brokerage, Proprietary Trading, and Investment by Bills Finance Companies" on February 13, 2018, Mega Bills Finance had been approved by the Central Bank to raise the foreign currency exposure ceiling from the current US\$50 million to US\$100 million on July 20, 2018, which will increase the operation flexibility of foreign currency bond business.

Negative Factors

- As the global economic recovery weakening, domestic economic growth is likely to slow down. In addition, the US-China trade conflict continues to affect international economic and trade situation, and business operation environment is increasingly tough. Operation and financial situation of credit customers are easily affected by the market fluctuation, increasing the uncertainty about industrial competitiveness. There are signs of mounting credit risk.
- In addition to the increasingly diversified funding method in the financial market, banks continue to strive for domestic loan business at low interest rate and compete for non-guarantee CP underwriting business, hindering business expansion of professional bills companies in the primary market.
- As affected by capital adequacy ratio and liquidity coverage ratio, the interbank call-loan interest rate and trading in secondary market are conservative. Market liquidity is thereby affected, leading to great fluctuation in interest rate of short term bills at the end of each quarter and month.

5.3.4 Non-life Insurance Industry

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

Chung Kuo Insurance Company provides domestic non-life insurance service in Taiwan and Guan, supplemented with inward reinsurance. Aside from the Taipei head office, the company has 26 domestic branches and one overseas representative.



B. Future market supply and demand

1. Insurance is a mutually supportive economic system. In countries with high levels of economic development, the degree of dependence on insurance is also extremely high, because frequent commercial activities, high industrial development and continued technological innovation all cause risk factors. Due to the increase in consumer protection awareness as a consequence of economic growth and rise in income level, the demand for insurance has become more important.
2. The property and casualty insurance has short-tailed business characteristics. With the increase of consumer protection awareness, employers need to protect rights of themselves, their customers, employees by transferring risks. This will drive the premiums of public liability insurance, product liability insurance, director liability insurance, and employer's compensation insurance and other liability insurance to grow significantly. The e-commerce, insurance APP and coming of big data era will also bring the insurance industry a new blue ocean business opportunity.

C. Operations targets

Units: NT\$ thousand	
Item	2019 targets
Insurance premiums	7,167,243
Inward reinsurance premiums	663,310
Total	7,830,553

D. Positive and Negative Factors Influencing Future Operations

Positive Factors

- Online operating systems and online insurance have become a trend. This not only can reduce labor costs, but also accelerate various operational processes, such as online insurance platforms, online payment systems, online claims applications, access to various types of B2B insurance systems, etc.
- The government promotes the Forward-Looking Infrastructure Plan to drive public construction, which will be favorable to the growth of the property and casualty insurance market.
- With the development of insurance technology, new insurance products and new services have been developed, creating another blue ocean market for the property and casualty insurance industry, such as auto insurance UBI products, and flight delay claims applications using blockchain technology.
- The age of Taiwan's population is moving towards an aging society, which is favorable to development of medical care insurance products, long-term care, and aging insurance products.

Negative Factors

- As consumers' claim awareness has increased, the amount of liability insurance claims is increasing. Under the trend of price competition, it is more difficult to maintain a positive relationship for the rates of several types of insurance, which might be harmful to the underwriting profits.
- In recent years, international natural disasters and major accidents have occurred frequently, resulting in an increased cost of catastrophe reinsurance, relative increase in risk retention, and loss in catastrophe risk affecting underwriting performance.

5.3.5 Securities Investment Trust Industry

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

Aside from the Taipei head office, Mega International Investment Trust Company has no domestic or overseas branches. For customers in central and southern Taiwan, the company will appoint dedicated person to provide service if necessary.

B. Future market supply and demand

Due to the continued low interest rate and increased investor risk awareness, conservative products are favored by the market and investors. In 2018, the two types of funds, the "Target Maturity Bond Fund" and the "Bond Index Exchange Traded Fund (ETF)", attracted the attention of the domestic market. With the strategy of cooperation with life insurance companies, the accumulated assets of "Target Maturity Bond Fund", in 2018 increased by NT\$109.1 billion compared to 2017, while the size of the "Bond Index Exchange Traded Fund (ETF)" increased by NT\$337.9 billion. It is expected that these types of products will remain the market mainstream before the global economic environment clearly see growth.

C. Operations targets

Units: NT\$ million	
Item	2019 targets
Public funds under management	93,614
Private placement funds under management	6,220
Discretionary account	862

D. Positive and Negative Factors Influencing Future Operations

Positive Factors

- The FSC plans to adopt the measures for calculation of sales incentive based on AUM, which will help the company to commit itself to fund performance improvement and thus attract long-term investors, reducing the fund turnover rate. This is beneficial to the company not only in improving fund's investment performance, but also in reducing the operating costs.
- According to the regulations of the "Incentive Policy for Onshore Fund" set by the competent authority, securities investment trust companies meeting certain specific criteria, may enjoy preferential incentives in the fund application process, investment procedures and restrictions, which can enhance the size of asset management and develop internationalization.

Negative Factors

- Under strong support from foreign groups, the speed in product development of securities investment trust companies with foreign-invested background is faster than that of local investment trust companies.
- With a huge marketing budget and product advantages of its parent company group, foreign investment trust companies are actively advertising in the media to capture the market share, leading to intensive competition in domestic market.

5.3.6 Assets Management Industry

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

Mega Asset Management Company mainly operates in domestic market.

B. Future market supply and demand

Supply of NPL case is scarce due to the regulation restriction by the competent authority. Asset management industry shall seek other business opportunity under the operating principles set up by the authority.

C. Operations targets

The operating assets is expected to increase by about NT\$1 billion in 2019.

D. Positive and Negative Factors Influencing Future Operations

Positive Factors

The capability and experience in NPL asset management business including assisting the affiliated companies in handling the NPLs is conducive to other case development.

Negative Factors

The operating principles promulgated by the FSC only apply to asset management companies that are owned by financial control company or bank, hindering transformation of Mega Asset Management Company.

5.3.7 Life Insurance Agency Industry

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

Mega Life Insurance Agency Company mainly sells insurance products in domestic market.

B. Future Market Supply and Demand

Benefiting from the US dollar interest hike, US dollar policy still has its own selling niche. It is expected that the demand for "investment-linked policy" will sustain in 2019, and life insurance companies will continue to promote new products in line with market environment and customers' protection needs. The aging and declining birthrate risks are becoming more and more serious in the Taiwan. In addition, the problems of the government's insufficient labor pension reserve, long-term care, second-generation health insurance, and other issues have led to the rise of medical insurance, pension insurance products, "quasi-long-term care insurance", "disability insurance", "specific injury insurance", "in-kind payment policy", and "surplus insurance policy".

C. Operations targets

The 2019 budgeted commission income is NT\$1.85 billion.

D. Positive and Negative Factors Influencing Future Operations

Positive Factors

- The issues such as meager profit, aging society, declining birthrate, insufficient labor pension reserve, long-term care, medical quality, in-kind payment, and surplus insurance policies continue to drive demand for various life insurance products and medical insurance products.
- Insurance premium paid by using LINE PAY, Taiwan PAY, and other electronic payments not only brings convenience but also provides value added services such as credit card bonuses or cash rebates, improving the conditions of the products and driving the sales momentum of the insurance products.

Negative Factors

- In response to the implementation of the "Counter-Terrorism Financing Act" and the "Money Laundering Control Act", the insurance industry is required to conduct AML/CFT risk assessment for applicants, KYC (know your customer) and cash flow monitoring procedures, with OIU and corporate insurance as the major examination points. This has increased the regulation compliance cost and other operating costs.
- In order to protect customer right, the competent authorities require banks to record the entire sales process for the purchase of investment-linked products by people over the age of 70 from January 2019 which will affect customers' insurance willingness.

5.3.8 Venture Capital Industry

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

Mega Venture Capital Company mainly invests in domestic market, supplemented with foreign investment.

B. Future Market Supply and Demand

1. After the cancellation of the tax incentives for the shareholders of venture capital, the funds of the venture capital industry have largely lost, which has affected the survival and development of the venture capital industry.
2. Most Taiwanese enterprises are small and medium-sized enterprises. They are relatively insufficient in scale and R&D. It is difficult to obtain brand advantages and establish an international image. In addition, there are many venture capital companies in this small domestic market, and domestic economic development has been maturing. The uncertainty of the global financial market is increasing, and it is necessary to expand tentacles in the future to look for suitable targets to invest in, especially investing in domestic demand-driven industries in Asia.

C. Operations targets

Units: NT\$ million

Item	2019 targets
Drawdown of long-term investment	200
Long-term equity investment income	364



D. Positive and Negative Factors Influencing Future Operations

Positive Factors

- The effective integration of the Group's resource is conducive to exploration of investment case and assistance in corporate reconstruction.
- Taiwanese enterprises are heading towards economic transformation, emphasizing technological innovation and cultural creativity for future development, which is good for the company to expand industrial portfolios and increase investment diversification.

Negative Factors

- The development of Taiwan's technology industry is maturing, and the potential investment targets of venture capital reduced. It is necessary to diversify the investment portfolio in order to reduce investment risks.
- Although domestic economy is stable, it has also encountered increasing internal and external challenges. In addition to the increased uncertainty of international financial and economic situation, the US-China trade war has made an impact on Taiwan, and investment risks have relatively increased.

5.4 Human Resources

Item \ Year		2017	2018	Feb. 28, 2019
Number of Employees	Mega FHC	51	56	56
	Mega Int'l Commercial Bank	6,005	6,366	6,483
	Mega Bills Finance	193	203	204
	Mega Securities	1,384	1,433	1,429
	Chung Kuo Insurance	760	779	780
	Mega Int'l Investment Trust	99	95	96
	Mega Asset Management	27	26	26
	Mega Life Insurance Agency	26	25	26
	Total	8,122	8,545	9,100
Average Age	Mega FHC	50.53	50.70	50.87
	Mega Int'l Commercial Bank	41.29	40.84	40.58
	Mega Bills Finance	46.99	46.17	46.30
	Mega Securities	44.34	45.00	45.00
	Chung Kuo Insurance	41.50	41.80	41.70
	Mega Int'l Investment Trust	43.72	44.45	44.83
	Mega Asset Management	43.93	45.04	45.19
	Mega Life Insurance Agency	41.51	43.25	42.98
Average Years of Services	Mega FHC	12.84	12.52	12.68
	Mega Int'l Commercial Bank	15.20	14.37	14.06
	Mega Bills Finance	17.98	16.60	16.68
	Mega Securities	11.55	11.74	11.90
	Chung Kuo Insurance	11.00	11.20	11.30
	Mega Int'l Investment Trust	10.14	10.43	10.43
	Mega Asset Management	10.60	11.60	11.70
	Mega Life Insurance Agency	5.62	6.21	5.82

Academic background

Item \ Year		2017	2018	Feb. 28, 2019
Doctoral Degree	Mega FHC	3.92%	3.57%	3.57%
	Mega Int'l Commercial Bank	0.05%	0.06%	0.08%
	Mega Bills Finance	0.52%	0.49%	0.49%
	Mega Securities	0.14%	0.07%	0.07%
	Chung Kuo Insurance	0.26%	0.26%	0.26%
	Mega Int'l Investment Trust	0.00%	0.00%	0.00%
	Mega Asset Management	0.00%	0.00%	0.00%
	Mega Life Insurance Agency	0.00%	0.00%	0.00%
Master's Degree	Mega FHC	45.10%	46.43%	46.43%
	Mega Int'l Commercial Bank	24.15%	25.15%	25.16%
	Mega Bills Finance	46.63%	46.80%	46.57%
	Mega Securities	11.71%	11.79%	11.83%
	Chung Kuo Insurance	13.82%	13.35%	13.46%
	Mega Int'l Investment Trust	47.47%	47.37%	48.96%
	Mega Asset Management	33.33%	34.62%	34.62%
	Mega Life Insurance Agency	7.69%	8.00%	7.69%
Bachelor's Degree	Mega FHC	49.02%	48.21%	48.21%
	Mega Int'l Commercial Bank	71.79%	71.19%	71.36%
	Mega Bills Finance	50.26%	50.25%	50.49%
	Mega Securities	72.69%	73.55%	73.48%
	Chung Kuo Insurance	77.89%	79.20%	79.10%
	Mega Int'l Investment Trust	50.51%	50.53%	48.96%
	Mega Asset Management	66.67%	69.23%	69.23%
	Mega Life Insurance Agency	92.31%	92.00%	92.31%
High School	Mega FHC	0.00%	0.00%	0.00%
	Mega Int'l Commercial Bank	3.65%	3.27%	3.08%
	Mega Bills Finance	2.59%	2.46%	2.45%
	Mega Securities	15.46%	14.58%	14.63%
	Chung Kuo Insurance	7.89%	7.06%	7.05%
	Mega Int'l Investment Trust	2.02%	2.11%	2.08%
	Mega Asset Management	0.00%	0.00%	0.00%
	Mega Life Insurance Agency	0.00%	0.00%	0.00%
Below high school	Mega FHC	1.96%	1.79%	1.79%
	Mega Int'l Commercial Bank	0.37%	0.33%	0.32%
	Mega Bills Finance	0.00%	0.00%	0.00%
	Mega Securities	0.00%	0.00%	0.00%
	Chung Kuo Insurance	0.13%	0.13%	0.13%
	Mega Int'l Investment Trust	0.00%	0.00%	0.00%
	Mega Asset Management	0.00%	0.00%	0.00%
	Mega Life Insurance Agency	0.00%	0.00%	0.00%



Professional Certificates Held by Employees

Item	Year	2017	2018	Feb. 28, 2019
Trust personnel		4,832	5,299	5,323
Bank internal controller		4,147	4,324	4,332
Junior credit personnel		1,792	1,985	2,006
Advanced credit personnel		80	80	79
Junior foreign exchange personnel		2,122	2,616	2,678
Bills finance personnel		306	322	323
Bond personnel		239	250	250
Stock affairs personnel		206	212	210
Life insurance representative		4,983	5,421	5,475
Life insurance broker		7	5	5
Life insurance agent		12	12	12
Investment-linked insurance sales agent		1,671	1,851	1,876
Non-life insurance broker		15	13	12
Non-life insurance agent		16	15	15
Non-life insurance representative		3,399	3,913	3,936
Non-life insurance assessor		89	94	93
Non-life insurance claim adjuster		63	64	64
Securities specialist		1,946	2,077	2,073
Senior securities specialist		2,306	2,418	2,426
Securities margin trading specialist		385	393	391
Securities investment specialist		1,412	1,504	1,512
Securities analyst		112	121	118
Futures brokerage specialist		165	161	159
Futures brokerage specialist		1,916	1,996	1,990
Futures analyst		18	18	18
Certified public accountant (Domestic)		36	38	38
Certified public accountant (Foreign)		8	7	7
Professional and Technical Personnel Examinations -Attorney		15	24	24
Certified Management Accountant (CMA)		1	1	1
Financial Risk Manager (FRM)		45	48	48
Certified financial planning personnel		2,060	2,064	2,053
Certified Financial Planner (CFP)		98	126	129
CFA (level 1)		54	58	57
CFA (Level 2)		25	26	26
CFA (Level 3)		11	11	11
US CBA (Bank internal auditor)		1	1	1
Certified internal auditor		14	15	15
Actuary (Domestic)		2	2	2
CAMS		3,122	3,327	3,326
CAMS (English edition)		143	147	147

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 2018, please refer to page 45 in detail. For the moral behavior, refer to page 50 where there are descriptions of ethical management and measures adopted.

5.6 Employee Average Welfare of Non-management Officers

	2017	2018	Growth rate(%)
Number of non-supervisor employees	8,124	8,574	5.54
Non-supervisor employees' annual average employee benefit expenses	1,609,798	1,642,669	2.04

5.7 Information equipment

5.7.1 Major information system hardware, deployment of software and maintenance

- (1) Both IBM and HP are core hardware vendors of Mega Group' computer systems. The major operating systems include Unix, Microsoft Windows and those dedicated OS running on IBM Mainframe, IBM AS/400. With adopting CISCO as the network system, we have established Group's communication network which is linked by leased lines.
- (2) IBM, DB2, Oracle, SQL, etc. are main database systems. Weblogic and WebSphere provide the Web application platforms.
- (3) Respective hardware systems are maintained by dedicated personnel under the maintenance agreements with outsourcing business. Core equipment is insured.

5.7.2 Group information system to be developed or purchased

Mega International Commercial Bank

1. In 2019, a new z14 ZR1 mainframe will be set up in the Taipei Operation Center to establish a "dual-host same-site backup mechanism" in order to improve the backup capability of the host single point of failure and shorten the system's recovery time.
2. The Bank will continue to carry out a dual-center 100G network upgrade, network load balancing equipment automation control platform construction, VM Ware virtual server performance monitoring platform construction, and high-end FLASH hard disk upgrade, etc., to improve internet transaction connection efficiency and stability.

Mega Securities Company

1. To acquire software and hardware devices in line with the upgrade of WIN 7 to WIN 10.
2. To modify or acquire equipment in response to matching transaction promoted by the Taiwan Stock Exchange.
3. To acquire equipment for paperless account opening process.
4. To acquire information security related equipment.

Mega Bills Finance Company

1. To develop a common reporting and due diligence system (CRS) .
2. To enhance the AML information system.
3. To phase out the fire wall system.
4. To strengthen the information security management system.
5. To introduce visual analysis tools.

Chung Kuo Insurance Company

1. To integrate the B2B system platform.
2. To update the B2C online insurance system.
3. To update the health and injury insurance system.

Mega International Investment Trust Company

1. To move the mainframe system in line with the movement of the company in 2019 Q2.
2. To introduce information risk management tools and strengthen management measures, such as device management, hardware protection, security monitoring of application systems, internet access, and mobile security.
3. To build configuration of the “Safety Information and Event Management System” by phases and implement the “Vulnerability Scanner System”, intrusion detection, and social engineering regularly.

Mage Venture Capital Company

1. To phase out some personal computers and acquire antivirus software.
2. To upgrade the functions of the venture capital management information system.

5.7.3 Emergency backup and security protection measures

A. Emergency backup

1. Data backup and offsite storage: Important data are kept in magnetic tapes or backed up in other types of media periodically and stored in a safe place. Some of them will also be stored in a separate copy in a third place in order to prevent against simultaneous destruction of equipment and data during major catastrophes.
2. Real-time support system: For important information facilities, equipment, or servers, at least one set of the same system or an auxiliary system will be set up additionally as real-time support upon system abnormalities in order to fulfill the goal of non-interrupted services.

3. Internet access backup: In order to prevent against service interruption as a result of an abnormal network, the connection of important networks will be backed up by multiple lines or multiple routers, or networks provided by different fixed network operators will be adopted in order to enhance the backup capability. In order to address the condition where it is impossible to come into office for work due to disease outbreaks such as SARS, the secure and encrypted remote access backup solution based on VPN is also available at some branches for use in an emergency.
4. System offsite backup: In order to prevent against extended suspension of operation due to major catastrophes (such as war or natural disasters), for key systems required for current daily operations, the necessary software and hardware are also configured at a different site. This enables the systems to be recovered within a short period of time during major catastrophes so that the duration of suspension of operation may be minimized.

B. Security Protection Measures

1. Physical safeguard: All important information equipment is placed in a controlled area with access control, surveillance cameras, and control staff in order to control access of staff and objects. For the sake of maintaining a safe environment, there are environment monitoring facilities to detect abnormal incidents in real time (such as fires, abnormal electricity and abnormal temperatures, among others) and activate protective measures and notify related staff in order to avoid damage to the equipment.
2. Protection of cyber security: There are security measures such as the firewall, invasion detection, communication encryption, and separating networks with different purposes.
3. Equipment access control: There is necessary access control in place that is reflective of the varied importance of respective equipment or facilities. The basic account number/password mechanism, for example, is available to prevent access by unauthorized staff. The password used each time differs and is not available for repeated use in order to prevent against theft of the password. In addition, a software or hardware certificate is used in order to verify the actual identity of the staff or equipment.
4. Protection against viruses and malware: All information operating servers and personal computers are installed with anti-virus and invasion-proof software. Centralized management is also available for some of the said servers and computers. Therefore, monitors are able to discover invasion incidents and manage them or prevent against them adequately in the first moment.
5. Information security operations complied with international standards: In order to thoroughly realize information security, the Company gradually establishes respective information processes according to the international security standards (ISO/IEC 27001:2005) and has been certified according to the said standards so that the rights of investors and clients may be precisely protected.

5.8 Labor Relations

A. Employer-employee negotiations and its implementation

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 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. Environmental disinfection is performed every half year to provide employees with a good working environment.

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. Workers' retirement preparation funds are set aside on a monthly basis and a Supervisory Committee of Workers' Retirement Preparation Funds has been established. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. In line with the new labor pension system implemented since July 1, 2005, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The new labor pension system applies to employees who select the new system or have joined the Company after July 1, 2005. Employees who are 60 years or older may choose to receive either monthly pension payments 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\$152,172 thousand in 2018, accounting for 0.84%, 0.53% and 0.25% of the Company's consolidated employee welfare expenses, operating expenses and net revenues, respectively. The number of trainee totaled 178,761 person-times.

5.8.4 Employee's Behavior and Ethical Principle

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

5.8.5 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	Counterpart	Contract beginning and ending date	Chief contents	Restrictive terms
Consent order	Mega International Commercial Bank (Mega 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 Bank in January to March of 2015 and provided its Report of Examination in February 2016. NYDFS signed a consent order with Mega Bank under New York Banking Law §§ 39 and 44 on August 19, 2016. In addition to paying a penalty to NYDFS in the amount of US\$180,000,000, Mega Bank and its New York Branch shall engage a Compliance Consultant and Independent Monitor of the NYDF's choosing, to consult about, and oversee the improvement of deficiencies in the New York Branch's AML compliance function.	None
Cease and desist order	Mega International Commercial Bank, Federal the Board of Governors of the Federal Reserve System (FED) and 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	According to the Report of Examination of 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 on January 17, 2018. 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 lookback 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	2018	2017	2016	2015	2014
Cash and cash equivalents, due from the Central Bank and call loans to banks		643,895,292	711,066,683	638,143,099	656,138,947	634,546,355
Financial assets at fair value through profit or loss		196,201,030	191,581,454	186,317,373	182,036,664	181,366,843
Available-for-sale financial assets, net		0	442,557,049	354,464,708	346,461,364	280,703,020
Financial assets at fair value through other comprehensive income		421,176,553	0	0	0	0
Investments in debt instruments at amortised cost		272,926,017	0	0	0	0
Bills and bonds purchased under resale agreements		2,623,231	2,553,228	2,855,885	7,079,210	11,874,327
Receivables, net		92,723,255	96,055,863	86,825,802	175,747,221	201,540,361
Current income tax assets		272,816	757,391	577,485	2,307,563	1,534,999
Non-current assets held for sale, net		328,350	0	0	0	2,739
Bills discounted and loans, net		1,864,447,103	1,762,160,756	1,715,278,766	1,773,269,054	1,733,994,271
Reinsurance contract assets, net		3,854,464	3,555,454	4,261,668	3,308,814	3,217,685
Held-to-maturity financial assets, net		0	284,687,657	280,997,362	201,233,939	163,708,076
Equity investments accounted for by the equity method, net		3,168,973	3,184,501	3,108,470	2,976,409	2,761,637
Other financial assets, net		5,112,210	15,089,381	14,955,209	17,189,576	20,626,729
Property and equipment, net		21,973,422	21,981,154	21,787,452	21,834,486	22,125,875
Investment property, net		1,500,403	1,696,863	1,711,561	1,368,553	1,976,764
Intangible assets, net		518,222	382,728	270,438	299,644	307,693
Deferred income tax assets		7,552,961	6,018,307	5,463,227	4,716,552	4,030,528
Other assets, net		3,785,059	3,964,038	2,772,911	2,550,310	6,320,035
Total assets		3,542,059,361	3,547,292,507	3,319,791,416	3,398,518,306	3,270,637,937
Due to the Central Bank and financial institutions		411,643,388	404,371,657	401,731,599	428,405,839	474,623,325
Funds borrowed from the Central Bank and other banks		53,920,881	29,632,968	39,974,427	45,459,094	53,906,541
Financial liabilities at fair value through profit or loss		27,357,462	9,966,779	12,105,231	22,980,692	29,582,637
Bills and bonds sold under repurchase agreements		252,298,265	237,706,429	231,191,763	192,936,650	221,809,530
Commercial paper payable, net		15,929,662	20,165,421	11,701,649	19,945,870	15,363,080
Payables		66,362,081	70,119,748	59,001,999	63,623,826	60,564,578
Current income tax liability		9,319,314	9,216,815	8,589,599	10,517,577	9,123,049
Deposits and remittances		2,320,637,263	2,386,555,016	2,171,287,924	2,230,143,429	2,036,403,864
Bonds payable		13,300,000	31,670,036	41,924,088	41,878,505	56,200,000
Other loans		4,934,529	1,325,368	5,954,030	2,280,000	5,926,763
Other financial liabilities		15,325,367	12,698,470	10,849,706	10,720,861	10,778,269
Provisions for liabilities		26,977,832	26,182,764	25,047,224	22,917,606	21,647,077
Deferred income tax liability		2,526,612	2,266,455	2,201,659	2,195,423	2,169,411
Other liabilities		7,271,276	7,319,019	6,203,075	11,057,626	11,640,531
Total liabilities	Before distribution	3,227,803,932	3,249,196,945	3,027,763,973	3,105,062,998	3,009,738,655
	After distribution	Note	3,269,596,681	3,047,075,723	3,125,462,734	3,027,168,409
Equity attributable to owners of parent		314,242,280	298,054,133	291,985,353	293,404,079	260,737,349
Capital stock		135,998,240	135,998,240	135,998,240	135,998,240	124,498,240
Capital surplus		68,194,233	68,194,233	68,194,233	68,194,233	55,270,198
Retained earnings	Before distribution	102,575,350	94,868,778	89,958,846	88,373,007	77,606,654
	After distribution	Note	74,469,042	70,647,096	67,973,271	60,176,900
Other equity interest		7,474,457	(1,007,118)	(2,165,966)	838,599	3,362,257
Non-controlling interest		13,149	41,429	42,090	51,229	161,933
Total Equity	Before distribution	314,255,429	298,095,562	292,027,443	293,455,308	260,899,282
	After distribution	Note	277,695,826	272,715,693	273,055,572	243,469,528

Note: The earnings distribution for 2018 has not been resolved by the shareholders' meeting.



6.1.2 Condensed Unconsolidated Balance Sheet

Unit: NT\$1,000

Item	Year	2018	2017	2016	2015	2014
Cash and cash equivalents		152,693	307,833	83,306	2,292,712	27,368
Financial assets at fair value through profit or loss		203,062	0	0	0	0
Financial assets at fair value through other comprehensive income		2,154,580	0	0	0	0
Available-for-sale financial assets, net		0	6,196,895	5,844,300	5,586,489	5,849,267
Receivables, net		0	389	0	0	463
Current income tax assets		1,259,321	1,669,679	225,605	0	630,319
Equity investments accounted for by the equity method, net		345,071,763	325,981,280	316,539,845	313,143,661	276,353,146
Other financial assets, net		100	758,293	758,293	758,293	758,293
Property and equipment, net		595,986	595,029	603,350	750,459	757,220
Investment property, net		134,104	135,615	137,126	0	0
Deferred income tax assets		4,734	8,092	8,092	8,092	8,092
Other assets, net		8,618	8,667	5,704	5,944	5,826
Total assets		349,584,961	335,661,772	324,205,621	322,545,650	284,389,994
Financial liabilities at fair value through profit or loss		0	183,860	156,600	155,440	0
Commercial paper payable, net		13,007,338	10,397,276	6,398,631	6,198,832	2,549,078
Payables		21,285,593	19,813,499	16,481,538	14,835,817	13,264,258
Current income tax liability		980,678	1,164,368	1,789,244	1,912,617	1,385,649
Bonds payable		0	5,770,036	5,724,088	5,678,505	6,000,000
Other loans		0	0	1,600,000	300,000	400,000
Provisions for liabilities		61,801	62,523	57,935	56,339	48,021
Deferred income tax liability		0	205	1,124	1,436	3,500
Other liabilities		7,271	215,872	11,108	2,585	2,139
Total liabilities	Before distribution	35,342,681	37,607,639	32,220,268	29,141,571	23,652,645
	After distribution	Note	58,007,375	51,532,018	49,541,307	41,082,399
Common stock		135,998,240	135,998,240	135,998,240	135,998,240	124,498,240
Capital surplus		68,194,233	68,194,233	68,194,233	68,194,233	55,270,198
Retained earnings	Before distribution	102,575,350	94,868,778	89,958,846	88,373,007	77,606,654
	After distribution	Note	74,469,042	70,647,096	67,973,271	60,176,900
Other equity		7,474,457	(1,007,118)	(2,165,966)	838,599	3,362,257
Total Equity	Before distribution	314,242,280	298,054,133	291,985,353	293,404,079	260,737,349
	After distribution	Note	277,654,397	272,673,603	273,004,343	243,307,595

Note: The earnings distribution for 2018 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	2018	2017	2016	2015	2014
Interest income	68,396,935	57,094,672	54,113,662	56,852,736	56,213,248
Less: interest expenses	(30,301,244)	(21,215,148)	(16,420,610)	(19,164,143)	(19,539,068)
Interest income, net	38,095,691	35,879,524	37,693,052	37,688,593	36,674,180
Revenues other than interest, net	23,513,716	23,780,864	17,371,068	22,539,713	23,830,787
Net revenue	61,609,407	59,660,388	55,064,120	60,228,306	60,504,967
Bad debts expense on loans and provisions for guarantee liabilities	(1,996,406)	(4,336,814)	(3,613,467)	426,459	(1,588,465)
Reversal of (provisions for) insurance reserve	68,884	152,758	(116,264)	(12,356)	207,527
Operating expenses	(28,601,925)	(26,195,605)	(23,417,176)	(25,533,427)	(23,771,195)
Income from continuing operations - before tax	31,079,960	29,280,727	27,917,213	35,108,982	35,352,834
Income tax expense	(2,986,515)	(3,551,632)	(5,474,318)	(5,835,713)	(5,093,190)
Net income from continuing operations – after tax	28,093,445	25,729,095	22,442,895	29,273,269	30,259,644
Profit for the year	28,093,445	25,729,095	22,442,895	29,273,269	30,259,644
Total other comprehensive income (after income tax)	(407,496)	(349,226)	(3,471,024)	(3,644,024)	3,176,516
Total comprehensive income	27,685,949	25,379,869	18,971,871	25,629,245	33,436,160
Profit attributable to owners of parent	28,109,164	25,734,515	22,456,183	29,417,211	30,278,591
Profit attributable to non-controlling interests	(15,719)	(5,420)	(13,288)	(143,942)	(18,947)
Comprehensive income attributable to owners of parent	27,701,668	25,380,530	18,981,010	25,672,449	33,455,988
Comprehensive income attributable to non-controlling interests	(15,719)	(661)	(9,139)	(43,204)	(19,828)
Earnings per share	2.07	1.89	1.65	2.35	2.43

6.1.4 Condensed Unconsolidated Income Statement

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

Item \ Year	2018	2017	2016	2015	2014
Share of profit of associates and joint ventures accounted for under equity method	27,913,508	25,926,293	23,132,410	30,416,201	30,871,359
Other revenues	255,974	188,208	166,501	131,964	68,761
Operating expenses	(384,452)	(371,553)	(365,275)	(441,434)	(404,463)
Other expenses and losses	(62,002)	(106,228)	(67,257)	(242,233)	(216,571)
Income before income tax from continuing operations	27,723,028	25,636,720	22,866,379	29,864,498	30,319,086
Income tax expense	386,136	97,795	(410,196)	(447,287)	(40,495)
Net income	28,109,164	25,734,515	22,456,183	29,417,211	30,278,591
Other comprehensive loss for the period, net of tax	(407,496)	(353,985)	(3,475,173)	(3,744,762)	3,177,397
Total comprehensive income for the period	27,701,668	25,380,530	18,981,010	25,672,449	33,455,988
Earnings per share	2.07	1.89	1.65	2.35	2.43

6.1.5 Independent Auditors' Name and Opinion

Year	CPA Firm	CPA's Name	Auditing Opinion
2018	PricewaterhouseCoopers, Taiwan	Shu-Mei Chi, Chung-Hsi Lai	Unqualified 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

6.2 Five-Year Financial Analysis

6.2.1 Financial Analysis

Consolidated

Unit: NT\$1,000; %

Item		Year	2018	2017	2016	2015	2014
Operating ability	Total assets turnover		0.02	0.02	0.02	0.02	0.02
	Loans to deposits ratio of bank subsidiary (%)		82.08	75.14	80.38	80.71	86.34
	NPL ratio of bank subsidiary (%)		0.15	0.13	0.11	0.09	0.07
	NPL ratio of bills finance subsidiary (%)		0.00	0.00	0.00	0.00	0.00
	Average operating revenue per employee of the Group		6,620	6,728	6,546	7,155	7,210
	Average profit per employee		3,019	2,902	2,668	3,477	3,603
Profitability	Return on total assets (%)		1.47	1.26	1.07	1.35	1.46
	Return on equity (%)		9.04	8.72	7.67	10.56	12.03
	Net income margin (%)		45.60	43.13	40.76	48.60	49.98
	Earnings per share (NT\$)		2.07	1.89	1.65	2.35	2.43
Financial structure (%)	Ratio of liabilities to assets		91.13	91.60	91.20	91.37	92.01
	Ratio of liabilities to net worth		1,027.13	1,089.99	1,036.81	1,058.10	1,152.22
	FHC's double leverage ratio		110.56	111.70	110.67	108.89	108.51
Leverage ratio (%)	Operating leverage ratio		1.09	1.17	1.16	1.01	1.06
	FHC's financial leverage ratio		1.00	1.00	1.00	1.01	1.01
Growth rates (%)	Growth rate of assets	(0.15)		6.85	(2.32)	3.91	5.04
	Growth rate of profit		6.14	4.88	(20.48)	(0.69)	30.85
Cash flow (%)	Cash flow ratio	(7.61)		29.06	2.94	8.02	15.62
	Cash flow adequacy ratio		276.18	481.10	336.01	385.78	273.10
	Cash flow coverage ratio		NA	NA	NA	7,598.82	NA
Operating scale (%)	Market share of assets		6.36	6.76	6.91	7.47	7.83
	Market share of net worth		8.52	8.02	8.69	9.37	8.81
	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		13.86	14.30	14.32	13.16	11.76
	Mega Securities Co., Ltd.		500.36	424.69	574.67	468.16	481.69
	Mega Bills Finance Co., Ltd.		13.57	13.64	13.53	13.88	13.84
	Chung Kuo Insurance Co., Ltd.		762.18	751.95	739.35	730.37	698.10
	Eligible capital of each subsidiary (in thousands)						
	Mega International Commercial Bank		293,769,063	282,955,080	281,087,158	283,117,215	246,656,769
	Mega Securities Co., Ltd.		12,775,462	12,831,508	12,154,901	12,357,542	12,051,480
	Mega Bills Finance Co., Ltd.		34,898,052	35,146,019	33,248,864	31,288,743	28,548,890
	Chung Kuo Insurance Co., Ltd.		7,132,025	6,765,462	6,581,472	6,655,210	6,290,905
	Mega Asset Management Co., Ltd.		2,731,316	2,775,707	2,857,728	2,884,898	2,757,557
	Mega Life Insurance Agency Co., Ltd.		383,543	441,841	570,476	421,028	217,608
	Mega Venture Capital Co., Ltd.		713,200	801,698	734,690	675,384	733,615
	Mega Int'l Investment Trust Co., Ltd.		820,145	841,988	828,451	812,300	862,076
	Group's net eligible capital (thousands)		319,151,058	309,989,545	306,394,970	307,966,244	269,748,822

Statutory capital requirements (thousands)						
Mega International Commercial Bank	209,367,448	183,050,518	169,355,378	172,111,231	167,851,387	
Mega Securities Co., Ltd.	3,829,847	4,532,031	3,172,652	3,959,397	3,752,892	
Mega Bills Finance Co., Ltd.	20,568,663	20,619,364	19,653,980	18,029,426	16,506,631	
Chung Kuo Insurance Co., Ltd.	1,871,472	1,799,450	1,780,334	1,822,432	1,802,296	
Mega Asset Management Co., Ltd.	6,435,398	5,967,847	6,046,569	8,312,887	5,619,304	
Mega Life Insurance Agency Co., Ltd.	260,048	286,246	397,714	318,567	151,517	
Mega Venture Capital Co., Ltd.	356,699	406,603	370,710	339,518	368,478	
Mega Int'l Investment Trust Co., Ltd.	467,823	478,050	431,685	406,080	427,864	
Group's total statutory capital requirement (thousands)	246,248,635	224,832,106	208,553,117	212,395,848	203,846,599	
Group capital adequacy ratio (%)	129.61	137.88	146.91	145.00	132.33	
The percentage of credit extension, guarantees or other transaction conducted by all subsidiaries of the Company to the same person, the same related party and the same affiliated enterprise that are subject to disclosure under article 46 of the FHC ACT (%)						
	961.70	1,071.44	646.69	640.09	757.44	
Analysis of change of 2018 vs. 2017 over 20% :						
1. The growth rate of assets fell by 102% due largely to the reduction in cash and cash equivalents, due from the Central Bank and call loans to banks, and equity and debt instrument investments compared to 2017.						
2. The growth rate of profit increased by 26% due mainly to the increase in net income before tax compared to 2017.						
3. The cash flow ratio declined by 126% mainly due to net cash outflows from operating activities.						
4. The cash flow adequacy ratio declined by 43% mainly due to the decrease in net cash provided by operating activities in the recent 5 years.						
5. The cash flow for operating to cash flow from investing is not available due primarily to the net cash outflow from operating activities.						

Financial Information

Unconsolidated

Unit: NT\$1,000; %

Item		Year	2018	2017	2016	2015	2014
Operating ability	Total assets turnover		0.08	0.08	0.07	0.10	0.11
	Loans to deposits ratio of bank subsidiary (%)		81.73	74.90	80.16	80.42	85.91
	NPL ratio of bank subsidiary (%)		0.14	0.12	0.09	0.08	0.06
	NPL ratio of bills finance subsidiary (%)		0.00	0.00	0.00	0.00	0.00
	Average operating revenue per employee		433,377	512,161	439,602	598,984	606,284
	Average profit per employee		432,449	504,598	423,702	576,808	593,307
Profitability	Return on assets (%)		8.13	7.83	6.96	9.76	11.06
	Return on equity (%)		9.05	8.72	7.67	10.62	12.05
	Net profit margin (%)		99.79	98.52	96.38	96.30	97.86
	Earnings per share (NT\$)		2.07	1.89	1.65	2.35	2.43
Financial structure (%)	Ratio of liabilities to assets		10.11	10.89	9.94	9.03	8.31
	Ratio of liabilities to net worth		11.25	12.23	11.03	9.93	9.06
	FHC's double leverage ratio		110.56	111.70	110.67	108.89	108.51
Leverage ratio (%)	Operating leverage ratio		0.99	0.99	0.99	1.00	1.00
	FHC's financial leverage ratio		1.00	1.00	1.00	1.01	1.01
Growth rates (%)	Growth rate of assets		4.15	3.17	0.51	13.42	7.20
	Growth rate of profit		8.14	12.12	(23.43)	(1.50)	30.85
Cash flow (%)	Cash flow ratio		103.19	124.46	176.33	170.50	353.05
	Cash flow adequacy ratio		90.40	92.36	98.16	106.00	113.69
	Cash flow coverage ratio		NA	NA	NA	NA	NA
Operating scale (%)	Market share of assets		8.21	8.20	8.67	9.28	8.70
	Market share of net worth		8.37	8.32	8.83	9.54	8.98
	Market share of deposits of bank subsidiary		5.48	5.81	5.50	5.89	5.73
	Market Share of loans of bank subsidiary		5.95	5.93	5.99	6.34	6.34

Analysis of change of 2018 vs. 2017 over 20% :

1. The growth rate of assets increased by 31% largely due to the growth in equity investments accounted for by the equity method compared to 2017.
2. The growth rate of profit fell by 33% as the increase of the net income before tax in 2018 compared to 2017 is lower than the increase of net income before tax in 2017 compared to 2016.



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 owners of parent - 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 of 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

Disclosures of the sum of amounts of endorsements and guarantees provided by all subsidiaries of the Company to the same natural person, same related natural person, or same related company for loans or other transactions:

December 31, 2018 unit: In thousands of NT Dollars;%

Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)	Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)
1. Same natural or juridical person			The Export-Import Bank of Korea	5,333,273	1.70
Central Bank of the Republic of China (Taiwan)	401,293,203	127.64	Inteplast Group Corporation	5,163,144	1.64
Ministry of Finance, R.O.C	124,500,146	39.60	Yieh United Steel Corp.	5,107,195	1.62
Taiwan Power Company	69,240,957	22.02	Wistron Corporation	5,094,918	1.62
Taiwan High Speed Rail Corporation	52,151,367	16.59	Sunrider Taiwan, Inc	5,076,920	1.61
CPC Corporation, Taiwan	51,751,892	16.46	Chow Tai Fook Enterprises Limited	5,034,800	1.60
Hon Hai Precision Industry Co., Ltd.	17,555,978	5.58	Formosa Ha Tinh (Cayman) Limited	4,917,280	1.56
Taiwan Semiconductor Manufacturing Co., Ltd.	15,215,467	4.84	Far EasTone Telecommunications Co., Ltd.	4,897,220	1.56
High Wealth Construction Corp.	13,469,748	4.28	Formosa Petrochemical Corp.	4,812,179	1.53
Taiwan Cement Corp.	9,717,951	3.09	Formosa Chemicals & Fiber Corp.	4,673,073	1.49
EVA Airways Corporation	9,428,875	3.00	Winwon Oil Trading Ptd Ltd.	4,632,284	1.47
United Microelectronics	9,350,129	2.97	Kingston Technology International Limited	4,609,950	1.47
Yuanlih Development Co., Ltd.	9,199,493	2.93	Junmen Co., Ltd.	4,557,000	1.45
Ruentex Development Co., Ltd.	8,295,500	2.64	Mayfull Enterprise Co., Ltd.	4,519,970	1.44
Yang Ming Marine Transport Corp.	8,251,277	2.62	Chailease Finance Co., Ltd.	4,483,985	1.43
Linyuan Investment Co., Ltd.	8,004,233	2.55	Easy Gain International L.L.C.	4,473,926	1.42
YFG Shopping Centres Pty Ltd. ATF The Fu Family	7,760,916	2.47	Oriental Petrochemical (Taiwan) Co., Ltd.	4,379,325	1.39
The Bank of Tokyo-Mitsubishi UFJ, Ltd. Taipei Branch	7,760,044	2.47	China Steel Corporation	4,313,279	1.37
Formosa Group Cayman Limited	7,573,797	2.41	Bank of China	4,286,486	1.36
Huei Hong Investment Co., Ltd.	7,268,640	2.31	Runlong Construction Corp.	4,245,997	1.35
The Export-Import Bank of China	7,098,455	2.26	Da Shen Development Co., Ltd.	4,237,780	1.35
China Development Bank	7,054,580	2.24	Commonwealth Bank of Australia	4,216,638	1.34
Pegatron Corporation	7,025,676	2.23	China Network Systems Co., Ltd.	4,170,741	1.33
Quanta Computer Inc.	6,531,845	2.08	Ruen Hua Dyeing & Weaving Co., Ltd.	4,155,000	1.32
Wan Bao Development Co., Ltd.	6,253,595	1.99	CTCI Corporation.	4,109,747	1.31
Sunworld Dynasty Europe Holdings B.V.	6,220,279	1.98	Kingston Technology Corporation	3,998,775	1.27
Wealth Media Co., Ltd.	6,156,629	1.96	Yi-Ta Investment Co., Ltd.	3,995,960	1.27
Westpac Banking Corporation	6,085,748	1.94	Nan Ya Plastics Corporation	3,945,466	1.25
Changchun Investment Co., Ltd.	6,030,400	1.92	Sunworld Dynasty US Holdings LLC	3,891,412	1.24
Far Eastern New Century Corporation	5,949,138	1.89	Reliance Industries Limited	3,841,625	1.22
Innolux Corp.	5,859,748	1.86	Huaku Development Co., Ltd.	3,763,212	1.20
King's Town Construction Co., Ltd.	5,697,997	1.81	U-Ming Marine Transport Corp.	3,752,838	1.19
Formosa Plastics Corp.	5,681,059	1.81	Hung Ching Development & Construction Co. Ltd.	3,719,142	1.18
Prince Housing & Development Corp.	5,560,440	1.77	Winson Oil Bunkering Pte Limited	3,709,106	1.18
Taiwan Mobile Co., Ltd.	5,557,843	1.77	Hong Han Investment Co., Ltd.	3,690,750	1.17
National Australia Bank Ltd., Melbourne	5,472,378	1.74	Evergreen Marine Corp. (Taiwan) Ltd.	3,683,274	1.17
Rich Development Inc.	5,339,252	1.70	Bank of Communications Co., Ltd.	3,672,915	1.17



Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)	Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)
Yieh Phui Enterprise Co., Ltd.	3,662,217	1.16	Mr./Ms. Lan	11,718,485	3.73
Ruen Chen Investment Holding Co., Ltd.	3,648,000	1.16	Mr./Ms. Li	11,184,246	3.56
AU Optronics Corp.	3,637,142	1.16	Mr./Ms. Tsai	10,947,977	3.48
Yuen Foong Yu Investment Holding Inc.	3,634,136	1.16	Mr./Ms. Chen	10,385,851	3.30
Lloyds Bank Plc	3,590,293	1.14	Mr./Ms. Wu	9,824,423	3.12
China Construction Bank Corporation Limited	3,588,403	1.14	Mr./Ms. Chien	9,529,893	3.03
China Government	3,534,295	1.12	Mr./Ms. Xie	9,165,333	2.92
Aerospace Industrial Development Corp	3,467,750	1.10	Mr./Ms. Lan	8,730,702	2.78
Nexcom International Co., Ltd.	3,420,630	1.09	Mr./Ms. Tsai	7,969,692	2.53
Penerbangan Malaysia Berhad	3,380,630	1.08	Mr./Ms. F	7,784,609	2.48
Cathay Financial Holdings Co., Ltd.	3,358,642	1.07	Mr./Ms. Chen	7,453,730	2.37
C.S. Aluminium Corporation	3,351,976	1.07	Mr./Ms. Miao	7,250,074	2.31
Central Investment Co., Ltd.	3,350,000	1.07	Mr./Ms. Guo	6,945,375	2.21
Kingboard Holdings Limited	3,327,400	1.06	Mr./Ms. Chang	6,882,050	2.19
Tatung Co.	3,293,143	1.05	Mr./Ms. Lai	6,580,809	2.09
Dezhao Construction Co., Ltd.	3,277,060	1.04	Mr./Ms. Wu	6,235,573	1.98
JPMorgan Chase & Co.	3,272,326	1.04	Mr./Ms. Chu	5,990,290	1.91
Credit Suisse AG Sydney Branch	3,168,454	1.01	Mr./Ms. Li	5,891,528	1.87
Wells Fargo Bank, Taipei Branch	3,145,655	1.00	Mr./Ms. Wu	5,796,799	1.84
Hong Da Di Construction Co., Ltd.	3,090,800	0.98	Mr./Ms. Lin	5,614,075	1.79
MediaTek Inc.	3,089,541	0.98	Mr./Ms. Huang	5,468,865	1.74
CNAC Century (HK) Company Limited	3,073,300	0.98	Mr./Ms. Li	5,361,137	1.71
Alibaba Group Holding Limited	3,073,300	0.98	Mr./Ms. Chen	5,297,322	1.68
Trondage Enterprises Pty Ltd.	3,063,234	0.97	Mr./Ms. Guo	5,112,687	1.63
Wei Sheng International Development Co., Ltd.	3,060,000	0.97	Mr./Ms. You	4,987,827	1.59
Mizuho Trust & Banking Co., Ltd.	3,055,883	0.97	Mr./Ms. Yeh	4,976,857	1.58
Lih Pao Construction Co., Ltd.	3,028,620	0.96	Mr./Ms. Zhan	4,938,143	1.57
RSEA Engineering Corporation	3,016,495	0.96	Mr./Ms. Chu	4,937,592	1.57
Hung Sheng Construction Co., Ltd.	3,012,500	0.96	Mr./Ms. Lai	4,747,675	1.51
J-M Manufacturing Company Inc.	3,000,797	0.95	Mr./Ms. Chen	4,692,603	1.49
2. Principal, his/her spouse, blood relatives within the second degree and enterprises in which the principal or his/her spouse is the responsible person			Mr./Ms. Guo	4,640,642	1.48
Mr./Ms. Chang	52,157,539	16.59	Mr./Ms. Li	4,580,860	1.46
Mr./Ms. Hsu	18,916,758	6.02	Mr./Ms. Chou	4,390,809	1.40
Mr./Ms. Lu	18,032,555	5.74	Mr./Ms. Kao	4,344,506	1.38
Mr./Ms. Tseng	17,556,267	5.58	Mr./Ms. Chen	4,315,426	1.37
Mr./Ms. Xie	15,801,369	5.03	Mr./Ms. Hsu	4,118,056	1.31
Mr./Ms. Chang	15,489,600	4.93	Mr./Ms. Zhuang	3,763,212	1.20
Mr./Ms. Ho	15,222,494	4.84	Mr./Ms. Chung	3,588,403	1.14
Mr./Ms. Li	14,900,462	4.74	Mr./Ms. Chen	3,401,000	1.08
Mr./Ms. Li	14,057,611	4.47	Mr./Ms. Huang	3,264,908	1.04
Mr./Ms. Tsai	12,641,164	4.02	Mr./Ms. Li	3,231,443	1.03
			Mr./Ms. Luo	3,159,204	1.00
			Mr./Ms. Chou	3,155,098	1.00
			Mr./Ms. You	3,089,541	0.98

Financial Information

Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)
Mr./Ms. Lin	3,036,596	0.97
Mr./Ms. Wu	3,017,114	0.96
3. Same affiliated enterprises		
Taipower Bengalla Pty Ltd.	69,434,109	22.09
Taiwan Cogeneration Corporation	51,949,892	16.52
Formosa Plastics Corp.	27,358,058	8.70
Ruen Chen Investment Holding Co., Ltd.	26,727,435	8.50
Hon Hai Precision Industry Co., Ltd.	24,099,844	7.67
Foxconn (Far East) Ltd.	23,558,950	7.49
China Steel Corporation	23,302,005	7.41
Huei Hong Investment Co., Ltd.	22,360,100	7.11
Changchun Investment Co., Ltd.	21,172,040	6.73
Ruentex Corporation	20,769,747	6.61
Far Eastern New Century Corporation	20,375,664	6.48
Nanya Technology Corporation	19,220,300	6.11
Formosa Environmental Technology Co., Ltd.	19,211,777	6.11
Ennoconn Corporation	18,633,674	5.93
Foxconn Ventures Pte. Ltd.	18,584,528	5.91
Runlong Construction Corp.	18,251,166	5.81
Fitipower Integrated Technology Inc.	18,124,774	5.77
Taiwan Intelligent Fiber Optic Network Consortium	17,728,799	5.64
Taiwan Cement Corp.	16,273,663	5.18
Global Unichip Co., Ltd.	15,222,494	4.84
International CSRC Investment Holdings Co., Ltd.	14,399,214	4.58
Linyuan Investment Co., Ltd.	14,257,828	4.54
Ruentex Development Co., Ltd.	13,776,122	4.38
Far Eastern Construction Co., Ltd.	13,342,330	4.24
China Steel Structure Co., Ltd.	13,037,672	4.15
Oriental Petrochemical (Taiwan) Co., Ltd.	12,480,387	3.97
Pegatron Corporation	12,056,186	3.83
Kai Yuan International Investment Co., Ltd.	12,040,108	3.83
Far EasTone Telecommunications Co., Ltd.	11,960,804	3.80
Yieh Hsing Enterprise Co., Ltd.	11,955,298	3.80
Chaillease Holding Company Limited	11,587,338	3.69
Yang Ming Marine Transport Corp.	11,389,138	3.62
Sunrider Taiwan, Inc.	11,297,199	3.59
Evergreen Marine Corp. (Taiwan) Ltd.	11,281,642	3.59
Topcell Solar International Co., Ltd.	11,014,683	3.50
Uni Airways Corp.	10,992,077	3.50
Chow Tai Fook Enterprises Limited	10,954,323	3.48

Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)
Uni-President Enterprises Corp.	10,885,418	3.46
Formosa Chemicals & Fiber Corp.	10,871,210	3.46
Onyx Ta-Ho Environmental Service Co., Ltd.	10,466,988	3.33
E-DA Development Corp.	10,039,407	3.19
Feng Sheng Enterprise Co., Ltd.	9,952,105	3.17
Advanced Semiconductor Engineering, Inc.	9,946,811	3.16
Eliter International Corp.	9,712,377	3.09
Asiazone Co., Limited	9,673,274	3.08
United Microelectronics Corp.	9,612,748	3.06
Yuanlih Development Co., Ltd.	9,199,493	2.93
Kingston Technology Corporation	9,087,725	2.89
Yieh Phui Enterprise Co., Ltd.	9,054,729	2.88
Winson Oil Bunkering Pte Ltd.	9,043,576	2.88
Lien Huei Development Co., Ltd.	8,954,412	2.85
Yieh United Steel Corp.	8,923,643	2.84
Ever Shine (Ningbo)	8,715,934	2.77
Lih Pao Construction Co., Ltd.	8,685,346	2.76
CTCI Corporation	8,550,858	2.72
United Steel Engineering & Construction Corp.	8,197,766	2.61
ASE Industrial Holding Co., Ltd.	8,146,159	2.59
Asia Cement Corporation	8,046,068	2.56
Prince Housing & Development Corp.	7,776,508	2.47
Anhe Garment Co., Ltd.	7,761,062	2.47
Wealth Media Co., Ltd.	7,757,495	2.47
King's Town Construction Co., Ltd.	7,754,997	2.47
Yuen Foong Yu Investment Holding Inc	7,626,921	2.43
Evergreen International Corp.	7,580,465	2.41
Rich Development Inc.	7,558,651	2.40
China Prosperity Development Corp.	7,142,848	2.27
Yong Li Investment Co., Ltd.	6,940,750	2.21
Farglory Land Development Co., Ltd.	6,932,198	2.20
Formosa Network Co., Ltd.	6,921,102	2.20
RoyalTek Company Ltd.	6,808,442	2.17
Shih Wei Navigation Co., Ltd.	6,688,213	2.13
JUNMEN Co., Ltd.	6,561,600	2.09
Reliance Industries	6,526,541	2.08
Walsin Lihwa Corp.	6,409,586	2.04
Evergreen International Storage & Transport Corp., Ltd.	6,335,694	2.02
MediaTek Inc.	6,304,469	2.01
Forest Water Environmental Engineering Co., Ltd.	6,288,303	2.00
Yue Ding Industry Co., Ltd.	6,244,038	1.99



Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)	Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)
Regiant Industrial Co., Ltd.	5,971,161	1.90	Yuanta Securities Co., Ltd.	4,250,199	1.35
Daxin Materials Corp.	5,965,076	1.90	Nexcom International Co., Ltd.	4,222,433	1.34
Dau Ying Co.	5,958,882	1.90	Da Yang Fishery & Refrigerating Co., Ltd.	4,173,490	1.33
Bank of Communications Co., Ltd.	5,895,422	1.88	YC Co., Ltd.	4,144,483	1.32
Qisda Corporation	5,876,755	1.87	Yi Jinn Industrial Co., Ltd.	4,134,872	1.32
Innolux Corp.	5,859,748	1.86	Ya Tung Ready Mixed Concrete Co., Ltd.	4,115,916	1.31
Mayfull Logistics Co., Ltd.	5,851,785	1.86	Ren Ying Industries Inc.	4,065,960	1.29
Lealea Enterprise Co., Ltd.	5,823,068	1.85	Chang Chun PetroChemical Co., Ltd.	4,048,429	1.29
Cheng Shin Rubber Ind. Co., Ltd.	5,809,886	1.85	Quartz Finance Pty Ltd.	3,951,285	1.26
Wistron Corporation	5,745,263	1.83	BoardTek Electronics Corp.	3,948,511	1.26
Mayfull Enterprise Co., Ltd.	5,744,742	1.83	E Ink Holdings Inc.	3,884,788	1.24
U-Ming Marine Transport Corp.	5,743,991	1.83	ACHEM Technology Corporation	3,842,508	1.22
Pou Chen Corporation	5,681,419	1.81	Huaku Development Co., Ltd.	3,763,212	1.20
Taiwan Mobile Co., Ltd.	5,593,162	1.78	Inventec Corp.	3,595,118	1.14
Sinopac Financial Holdings Company Ltd.	5,488,679	1.75	Kee Tai Properties Co., Ltd.	3,321,500	1.06
ICBC International Holdings Limited	5,483,341	1.74	WT Microelectronics Co., Ltd.	3,319,913	1.06
Chu Yuan Industrial Co., Ltd.	5,475,997	1.74	Radium Life Tech Co.	3,313,786	1.05
Jia Rui Development Company	5,399,686	1.72	Dezhao Construction Co., Ltd.	3,277,060	1.04
Te Chin Investments Ltd.	5,379,232	1.71	JihSun International Leasing & Finance Co., Ltd.	3,246,443	1.03
Tatung Co.	5,332,030	1.70	Ta Chen Stainless Pipe Co., Ltd.	3,229,120	1.03
Chung Fu Construction Co., Ltd.	5,303,418	1.69	Cal-Comp Electronics (Thailand) Public Company Limited	3,221,822	1.02
Fareast Land Development Co., Ltd.	5,297,399	1.68	Far Eastern Medical Foundation	3,208,556	1.02
Oriental Union Chemical Corporation	5,247,012	1.67	Powertech Technology Inc.	3,131,033	1.00
Formosa Petrochemical Corp.	5,194,445	1.65	Fong-Yi Department Corp. Ltd.	3,129,955	1.00
San Ching Engineering Co., Ltd.	5,162,370	1.64	CNAC Century (HK) Company Limited	3,073,300	0.98
CCB International (Holdings) Limited	5,155,796	1.64	Hung Sheng Construction Co., Ltd.	3,012,500	0.96
Aopen Inc.	5,101,327	1.62			
Shin Yang Steel Co., Ltd.	5,064,966	1.61			
Shin Kong Mitsukoshi Department Store Co., Ltd.	4,979,607	1.58			
Yulon Motor Co., Ltd.	4,954,442	1.58			
Lien Hwa Industrial Corp.	4,946,210	1.57			
AU Optronics Corp.	4,876,672	1.55			
Cheng Loong Corp.	4,804,230	1.53			
Zhong-Tai Binguang Co., Ltd.	4,734,570	1.51			
BOC Aviation Limited	4,726,583	1.50			
CMT Logistics Co., Ltd.	4,715,409	1.50			
Taiwan Rolling Stock Co., Ltd.	4,613,279	1.47			
L & K Engineering Co., Ltd.	4,594,822	1.46			
San Miguel Corporation	4,591,095	1.46			
WPG Holdings Co., Ltd.	4,449,425	1.42			
Yu Ding Resource Technology Co., Ltd.	4,379,290	1.39			
Taiwan Glass Ind. Corp.	4,322,852	1.38			
Nan Ya Plastics Corporation	4,297,719	1.37			

6.3 Audit Committee's Review Report

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

The Board of Directors has prepared and delivered this Company's 2018 Consolidated Financial Statements, audited by CPA Chi, Shu-Mei and Lai, Chung-Hsi of PricewaterhouseCoopers, Taiwan (PWC), Business Report and earning distribution proposal. The above statements and reports have been examined by the Audit Committee and considered in compliance with applicable laws and regulations. We hereby submit 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: 2019 General Shareholders Meeting

Mega Financial Holding Co., Ltd.

Chairman of Audit Committee : Jiun-Wei Lu

Date: May 14, 2019

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 subsidiaries (collectively the “Mega Group”) as of December 31, 2018 and 2017, 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, 2018 and 2017, 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 judgement, 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, 2018 are addressed as follows:

Recognition and measurement of expected credit losses on loans discounted

Description

The recognition and measurement of expected credit losses on loans discounted complies with the regulations under IFRS 9 “Financial Instruments” and relevant regulations issued by the competent authority. For the accounting policy of recognition and measurement of expected credit losses on loans discounted, please refer to Note 4(9); for critical accounting judgements, estimates, and assumption uncertainty of the recognition and measurement of expected credit losses on loans discounted, please refer to Note 5(2). For information on gross loans discounted and allowance for bad debts, which amounted to \$1,894,706,350 thousand and \$30,259,247 thousand, respectively, as at December 31, 2018, please refer to Note 6(7); for disclosures of related credit risks, please refer to Note 8(3).

The subsidiary Mega International Commercial Bank Co., Ltd. (“MIBC”) assesses the impairment of its loans discounted based on the expected credit loss model. At each financial reporting date, financial instruments are categorized into three stages based on the degree of change in its credit risk since initial recognition. Provision for impairment loss is measured either using 12-month expected credit losses (i.e. stage 1, there has been no significant increase in credit risk since initial recognition) or lifetime expected credit losses (i.e. stage 2, there has been a significant increase in credit risk since initial recognition; or stage 3, the credit has impaired). The measurement of expected credit losses is based on a complex model, which includes various parameters and assumptions and reflects reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. For example, the probability of default and loss given default are estimated using grouping and historical data and subsequently calibrated according to forward-looking information.

The aforementioned recognition and measurement of expected credit losses on loans discounted use a complex model, which involves various assumptions, estimates, and judgements, as well as predictions and assessments of future economic conditions and credit behaviour of debtors. The amounts, recognised in a manner consistent with regulations and interpretations, are directly subject to the measurement results. Thus, we have included recognition and measurement of expected credit losses on loans discounted as one of the key audit matters in our audit.

How our audit addressed the matter

We performed the following audit procedures on the key audit matter mentioned above:

1. Obtained an understanding and assessed the related written policies and internal control system of loans discounted, the expected credit loss impairment model and methodology (including various parameters and assumptions, reasonableness of the measurement criteria for the three stages of credit risk, and the relevancy of future economic condition criteria in forward-looking information), and the approval process.
2. Sampled and tested the implementation effectiveness of internal controls related to the recognition and measurement of expected credit losses, including management of collateral and its value assessment, controls for changes in parameters, and approval for provisioning of expected credit losses.
3. Sampled and tested the consistency of measurement criteria for the samples in the three stages of expected credit loss with the judgement results of the system.
4. Sampled and tested probability of default, loss given default, exposure at default, and the discount rate.
 - (1) Sampled and tested assumptions for the parameters of the expected credit loss model, including the reasonableness of historical data on probability of default, loss given default, and exposure at default.
 - (2) Sampled and tested whether the calculation method of the discount rate of loss given default is in accordance with existing policy.
5. Sampled and tested forward-looking information.
 - (1) Sampled and tested the reliability of data on historical economic conditions (economic growth rate, annual inflation rate, etc.) adopted by management to measure expected credit losses under IFRS 9.
 - (2) Assessed the reasonableness of the forward-looking scenarios and their respective weights adopted by the management.
6. Assessed cases in stage 3 (credit impaired) with material amounts that were previously assessed individually.

Assessed the reasonableness and calculation accuracy of the various assumed parameter values (including debtor due period, financial and operational conditions, guarantees by external parties and historical data) adopted in the estimation of future cash flows.

Fair value measurement of unlisted stocks without an active market

Description

For the accounting policy for unlisted stocks without an active market (included financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income), please refer to Note 4(7) ; for critical accounting

judgements, estimates, and assumption uncertainty of unlisted stocks without an active market, please refer to Note 5(1); for details on financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, please refer to Notes 6(3) and (4). The fair values of unlisted stocks without an active market were classified as financial assets at fair value through profit or loss amounting to \$5,793,751 thousand and financial assets at fair value through other comprehensive income amounting to \$14,646,816 thousand as at December 31, 2018.

The fair value of unlisted stocks is determined by valuation methods since these financial instruments have no quoted prices from active market. Management uses the market approach and net asset approach to measure the fair value. The market approach is based on the fair value of comparable listed companies in similar industries or recently published price-to-book ratios of industries in which the valuation target operates, and incorporates discounting according to market liquidity or specified risk.

The aforementioned fair value measurement involves various assumptions and significant inputs that are not observable. This leads to estimates that are highly uncertain and rely on the subjective judgement of management. Any changes to the judgements and estimates will affect the final measurement results, and in turn affect the financial condition of the Mega Group. Thus, we have included the fair value measurement of unlisted stock without active market as one of the key audit matters in our audit.

How our audit addressed the matter

We performed the following audit procedures on the key audit matter mentioned above:

1. Obtained an understanding and assessed the related written policies, internal control system, fair value measurement models, and approval process of the fair value measurement of stocks of unlisted companies.
2. Ascertained whether the measurement used by the management is commonly utilized by the industry.
3. Assessed the reasonableness of similar and comparable companies used by management.
4. Examined inputs and calculation formulas used in valuation methods and agreed such data to their supporting documents.

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.; for critical accounting judgements, estimates, and assumption uncertainty of claims reserve (including ceded reserves), please refer to Note 5(4); for details on claims reserve (and ceded reserves), please refer to Note 6(24).

The subsidiary, Chung Kuo Insurance Co., Ltd (CKI)'s claims reserve (including ceded reserve) uses the loss development triangle to estimate the reasonable amount of ultimate claims according to the Actuarial Department's historical claim experience and expenses by insurance type. As of December 31, 2018, subsidiary CKI's claims reserve and ceded claims reserve was \$3,416,365 thousand and \$1,670,738 thousand, respectively. Because the calculation method and assumptions for claims reserve involve the professional judgment of management, and because claims reserve is material to the financial statements, we have thus included the estimation of claims reserve and ceded claims reserve as a key audit matter in our audit.

How our audit addressed the matter

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

1. Understood and assessed subsidiary CKI's policies, internal controls and processing procedures related to claims reserve (including ceded reserve), and tested the effectiveness of controls related to the calculation of claims reserve on sample basis.
2. Sampled and inspected the consistency of financial values used in calculating claims reserve (including those prior to and after reinsurance) with the recorded amounts in the books in order to confirm the accuracy and completeness.
3. Used the work of actuarial expert to assist us in assessing the reasonableness of the claims reserve (including those prior to and after reinsurance). This included the following procedures:

- (1) Sampled and inspected the reasonableness of method used in the estimation of claims reserve;
- (2) Established a range of estimates of incurred but not reported claims reserve. On a sampling basis, compared the range of estimates and the account balances of the reserve for any significant differences in order to confirm the reasonableness of the reserves.

4. Sampled and inspected significant reported but not paid cases to assess the reasonableness of the estimated amount.

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

Management is responsible for the preparation and fair representation of the consolidated financial statements in accordance with “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 Bill 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 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 judgement and maintain professional skepticism throughout the audit. We also:

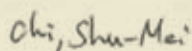
1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mega Group’s internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Mega Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Mega Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Mega Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



Chi, Shu-Mei

For and on behalf of PricewaterhouseCoopers, Taiwan

March 26, 2019



Lai, Chung-Hsi

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

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

Financial Information

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Expressed in Thousands of New Taiwan Dollars)

Assets		Notes	December 31, 2018		(adjusted) December 31, 2017		(adjusted) January 1, 2017	
			Amount	%	Amount	%	Amount	%
Assets								
11000	Cash and cash equivalents	6(1)	\$ 129,675,778	4	\$ 143,864,749	4	\$ 98,131,357	3
11500	Due from the Central Bank and call loans to banks	6(2) and 11	514,219,514	14	567,201,934	16	540,011,742	16
12000	Financial assets at fair value through profit or loss, net	6(3), 11, 12 and 16(13)	196,201,030	5	191,581,454	5	186,317,373	6
12100	Available-for-sale financial assets, net	12 and 16(13)	-	-	442,557,049	13	354,464,708	11
12150	Financial assets at fair value through other comprehensive income	6(4) and 12	421,176,553	12	-	-	-	-
12200	Investments in debt instruments at amortised cost	6(5) and 12	272,926,017	8	-	-	-	-
12500	Securities purchased under resell agreements		2,623,231	-	2,553,228	-	2,855,885	-
13000	Receivables, net	6(6) and 16(13)	92,723,255	3	96,055,863	3	86,825,802	3
13200	Current income tax assets		272,816	-	757,391	-	528,037	-
13300	Assets classified as held for sale, net	6(8)	328,350	-	-	-	-	-
13500	Loans discounted, net	6(7), 11 and 16(13)	1,864,447,103	53	1,762,160,756	50	1,715,278,766	52
13700	Reinsurance contract assets, net	6(9)(24)	3,854,464	-	3,555,454	-	4,261,668	-
14500	Held-to-maturity financial assets, net	12 and 16(13)	-	-	284,687,657	8	280,997,362	8
15000	Equity investments accounted for under the equity method, net	6(10)	3,168,973	-	3,184,501	-	3,108,470	-
15500	Other financial assets, net	6(11), 12 and 16(13)	5,112,210	-	15,089,381	-	14,955,209	-
18000	Investment property, net	6(12) and 12	1,500,403	-	1,696,863	-	1,711,561	-
18500	Property and equipment, net	6(13) and 12	21,973,422	1	21,981,154	1	21,787,452	1
19000	Intangible assets, net		518,222	-	382,728	-	270,438	-
19300	Deferred income tax assets	6(39)	7,552,961	-	6,018,307	-	5,463,227	-
19500	Other assets, net	6(14) and 12	3,785,059	-	3,964,038	-	2,772,911	-
Total Assets			\$ 3,542,059,361	100	\$ 3,547,292,507	100	\$ 3,319,741,968	100

(Continued)



OUR VISION—To Become Asia Regional Financial Group

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in Thousands of New Taiwan Dollars)

Liabilities and Stockholders' equity		Notes	December 31, 2018		(adjusted) December 31, 2017		(adjusted) January 1, 2017	
			Amount	%	Amount	%	Amount	%
Liabilities								
21000	Due to the Central Bank and financial institutions	6(15) and 11	\$ 411,643,388	12	\$ 404,371,657	12	\$ 406,014,997	12
21500	Funds borrowed from the Central Bank and other banks	6(16)	53,920,881	2	29,632,968	1	35,691,029	1
22000	Financial liabilities at fair value through profit or loss	6(17)	27,357,462	1	9,966,779	-	12,105,231	1
22500	Securities sold under repurchase agreements	6(18)	252,298,265	7	237,706,429	7	231,191,763	7
22600	Commercial paper payable, net	6(19) and 11	15,929,662	-	20,165,421	1	11,701,649	-
23000	Payables	6(20)	66,362,081	2	70,119,748	2	57,212,755	2
23200	Current income tax liabilities		9,319,314	-	9,216,815	-	10,329,395	-
23500	Deposits and remittances	6(21)	2,320,637,263	66	2,386,555,016	67	2,171,287,924	66
24000	Bonds payable	6(22)	13,300,000	-	31,670,036	1	41,924,088	1
24400	Other loans	6(23)	4,934,529	-	1,325,368	-	5,954,030	-
24600	Provisions for liabilities	6(24) and 16(13)	26,977,832	1	26,182,764	1	25,047,224	1
25500	Other financial liabilities	6(25)	15,325,367	-	12,698,470	-	10,849,706	-
29300	Deferred income tax liabilities	6(39)	2,526,612	-	2,266,455	-	2,201,659	-
29500	Other liabilities	6(26)	7,271,276	-	7,319,019	-	6,203,075	-
Total liabilities			<u>3,227,803,932</u>	<u>91</u>	<u>3,249,196,945</u>	<u>92</u>	<u>3,027,714,525</u>	<u>91</u>
Equity								
Equity attributable to owners of parent								
31100	Share capital							
31101	Common stock	6(27)	135,998,240	4	135,998,240	4	135,998,240	4
31500	Capital surplus	6(27)	68,194,233	2	68,194,233	2	68,194,233	2
Retained earnings								
32001	Legal reserve	6(27)	35,255,784	1	32,682,332	1	30,436,714	1
32003	Special reserve	6(27)	2,545,151	-	3,004,318	-	2,545,158	-
32011	Unappropriated retained earnings	6(28)	64,774,415	2	59,182,128	1	56,976,974	2
Other equity interest		6(29) and 16(13)						
32500	Other equity interest		7,474,457	-	(1,007,118)	-	(2,165,966)	-
39500	Non-controlling interests		13,149	-	41,429	-	42,090	-
Total Equity			<u>314,255,429</u>	<u>9</u>	<u>298,095,562</u>	<u>8</u>	<u>292,027,443</u>	<u>9</u>
TOTAL LIABILITIES AND EQUITY			<u>\$ 3,542,059,361</u>	<u>100</u>	<u>\$ 3,547,292,507</u>	<u>100</u>	<u>\$ 3,319,741,968</u>	<u>100</u>

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)

			Year ended December 31				Change percentage (%)
			2018		2017		
			Amount	%	Amount	%	
	Items	Notes					
41000	Interest income	6(30) and 11	\$ 68,396,935	111	\$ 57,094,672	96	20
51000	Less: interest expense	6(30) and 11	(30,301,244)	(49)	(21,215,148)	(36)	43
	Interest income, net		38,095,691	62	35,879,524	60	6
	Revenues other than interest, net						
49800	Service fee revenue and commissions, net	6(31)	9,659,224	16	9,527,247	16	1
49810	Insurance revenue, net		1,805,936	3	1,773,954	3	2
49820	Gain on financial assets and liabilities at fair value through profit or loss	6(32) and 11	6,269,698	10	7,588,210	13	(17)
49825	Gain on investment property		18,121	-	18,462	-	(2)
49830	Realized gain on available-for-sale financial assets, net	16(13)	-	-	1,918,710	3	(100)
49835	Realized gain on financial assets at fair value through other comprehensive income	6(4)(33)	1,567,007	3	-	-	-
49850	Net gain arising from derecognition of financial assets measured at amortised cost	6(5)	1,432	-	-	-	-
49870	Foreign exchange gains		2,668,324	4	1,705,046	3	56
49890	Share of profit of associates and joint ventures accounted for under equity method	6(10)	188,574	-	212,015	-	(11)
49898	Gain on reclassification under the overlay approach	6(3)(29)	111,585	-	-	-	-
48000	Other revenue other than interest income	6(35)	1,236,710	2	1,240,223	2	-
55000	Loss on asset impairment	6(34) and 16(13)	(12,895)	-	(203,003)	-	(94)
	Net revenue		61,609,407	100	59,660,388	100	3
58100	Bad debts expense and guarantee liability provisions	6(9)(11), 8(3) and 16(13)	(1,996,406)	(3)	(4,336,814)	(7)	(54)
58300	Net change in provisions for insurance liabilities	6(24)	68,884	-	152,758	-	(55)
	Operating expenses						
58501	Employee benefit expense	6(36)	(18,096,204)	(29)	(16,933,655)	(29)	7
58503	Depreciation and amortization	6(37)	(845,876)	(1)	(761,012)	(1)	11
58599	Other business and administrative expenses	6(38)	(9,659,845)	(16)	(8,500,938)	(14)	14
61000	Income before income tax		31,079,960	51	29,280,727	49	6
61003	Income tax expense	6(39)	(2,986,515)	(5)	(3,551,632)	(6)	(16)
69000	Profit for the year		\$ 28,093,445	46	\$ 25,729,095	43	9
	Other comprehensive income (after income tax)						
	Non-reclassifiable to profit or loss subsequently						
69561	Loss on remeasurement of defined benefit plan		(\$ 844,542)	(1)	(\$ 1,822,689)	(3)	(54)
69563	Share of other comprehensive income of associates and joint ventures accounted for using equity method		(2,634)	-	-	-	-
69567	Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income	6(4)(29)	462,883	1	-	-	-
69569	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(39)	345,487	-	309,856	1	11
	Potentially reclassifiable to profit or loss subsequently						
69571	Cumulative translation differences of foreign operations	6(29) and 16(13)	1,148,351	2	(1,890,094)	(3)	(161)
69572	Unrealized gain on valuation of available-for-sale financial assets	16(13)	-	-	3,037,736	5	(100)
69575	Share of other comprehensive income (loss) of associates and joint ventures accounted for under equity method	6(10)(29) and 16(13)	(35,210)	-	15,965	-	(321)
69587	Impairment loss from investments in debt instruments measured at fair value through other comprehensive income	6(4)(29)	(34,947)	-	-	-	-
69585	Gain (losses) on valuation of investments in debt instruments measured at fair value through other comprehensive income	6(4)(29)	(1,666,858)	(3)	-	-	-
69590	Other comprehensive losses on reclassification under the overlay approach	6(3)(29)	(111,585)	-	-	-	-
69579	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(29)(39)	331,559	-	-	-	-
69500	Total other comprehensive loss (after income tax)		(\$ 407,496)	(1)	(\$ 349,226)	-	17
69700	Total comprehensive income		\$ 27,685,949	45	\$ 25,379,869	43	9
	Profit (loss) attributable to:						
69901	Owners of parent		\$ 28,109,164	46	\$ 25,734,515	43	9
69903	Non-controlling interests		(15,719)	-	(5,420)	-	190
			\$ 28,093,445	46	\$ 25,729,095	43	9
	Comprehensive income (loss) attributable to:						
69951	Owners of parent		\$ 27,701,668	45	\$ 25,380,530	43	9
69953	Non-controlling interests		(15,719)	-	(661)	-	2278
			\$ 27,685,949	45	\$ 25,379,869	43	9
	Earnings per share						
70000	Basic and diluted earnings per share (in dollars)	6(40)	\$ 2.07		\$ 1.89		

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



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

(Expressed in Thousands of New Taiwan Dollars)

	Years ended December 31,	
	2018	2017
Cash flows from operating activities		
Profit before tax	\$ 31,079,960	\$ 29,280,727
Adjustments		
Adjustments to reconcile profit (loss)		
Depreciation	767,974	696,276
Amortization	77,902	64,736
Bad debts expense and guarantee liability provision	1,996,406	4,336,814
Interest expense	31,079,431	21,525,218
Interest income	(70,322,834)	(59,200,791)
Dividend income	(1,859,861)	(1,459,735)
Net change in provisions for insurance liabilities	(68,884)	(152,759)
Loss on asset impairment	12,895	203,003
Loss (gain) on disposal of property and equipment	2,388	(1,266)
Gain on disposal of investment property	(254)	(221)
Share of profit of associates accounted for under equity method	(188,574)	(212,015)
Reserve of overlay approach	(111,585)	-
Changes in operating assets and liabilities		
Changes in operating assets		
Decrease in due from Central Bank and call loans to other banks	17,384,939	34,914,999
Decrease (increase) in financial assets at fair value through profit or loss	8,615,222	(5,264,081)
Increase in available-for-sale financial assets	-	(85,192,365)
Decrease (increase) in receivables	3,978,979	(8,516,076)
Increase in assets classified as held for sale	(328,350)	-
Increase in discounts and loans	(104,663,089)	(50,940,398)
Increase in financial assets at fair value through other comprehensive income	(18,771,899)	-
Decrease in investments in debt instruments measured at amortised cost	52,215,093	-
(Increase) decrease in reinsurance contract assets	(299,010)	706,214
Increase in held-to-maturity financial assets	-	(3,690,295)
Increase in other financial assets	(1,761,601)	(637,457)
Decrease (increase) in other assets	825,877	(1,152,259)
Changes in operating liabilities		
Increase (decrease) in due to the Central Bank and financial institutions	11,096,323	(1,643,340)
Increase (decrease) in financial liabilities at fair value through profit or loss	17,390,683	(2,138,452)
Increase in bills and bonds purchased under resale agreements	14,591,836	6,514,666
(Decrease) increase in payables	(8,169,400)	8,909,720
(Decrease) increase in deposits and remittances	(65,917,753)	215,267,092
Increase in other financial liabilities	2,626,897	1,848,764
Increase (decrease) in liabilities reserve	464,646	(542,200)
Decrease in other liabilities	(358,454)	(79,220)
Cash (outflow) inflow generated from operations	(78,614,097)	103,445,299
Interest received	69,585,726	58,218,582
Cash dividend received	2,026,120	1,614,856
Interest paid	(30,023,083)	(20,864,314)
Income tax paid	(1,594,240)	(3,284,750)
Net cash flows (used in) from operating activities	38,619,574	139,129,673
Cash flows from investing activities		
Proceeds from capital reduction of investments measured at cost	-	410,894
Acquisition of property and equipment	(748,867)	(912,318)
Proceeds from disposal of property and equipment	38,583	30,150
Acquisition of intangible assets	(378,793)	(283,478)
Acquisition of investment property	(148,235)	(825)
Proceeds from disposal of investment property	1,621	1,209
Net cash flows used in investing activities	(1,235,691)	(754,368)
Cash flows from financing activities		
Increase (decrease) in due to the Central Bank and financial institutions	20,463,321	(6,058,061)
Decrease (increase) in commercial papers payable	(4,231,000)	8,465,000
Repayments of bank notes payable	(12,600,000)	(10,300,000)
Repayments of bonds	(16,700)	-
Increase (decrease) in other loans	3,609,161	(4,628,662)
Increase in guarantee deposits received	316,628	1,192,790
Cash dividends paid	(18,739,395)	(17,719,905)
Net cash flows used in financing activities	(11,197,985)	(29,048,838)
Effect of exchange rate changes on cash and cash equivalents	1,336,024	(1,790,543)
Net (decrease) increase in cash and cash equivalents	(49,717,226)	107,535,924
Cash and cash equivalents at beginning of year	536,876,729	429,341,320
Cash and cash equivalents at end of year	\$ 487,159,503	\$ 536,877,244
The components of cash and cash equivalents		
Cash and cash equivalents reported in the balance sheet	\$ 129,675,778	\$ 143,864,749
Due from central bank and call loans to other banks qualified as cash and cash equivalents as defined by IAS 7	354,860,494	390,459,267
Investments in bills and bonds under resale agreements qualified as cash and cash equivalents as defined by IAS 7	2,623,231	2,553,228
Cash and cash equivalents at end of year	\$ 487,159,503	\$ 536,877,244

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

(Expressed in Thousands of New Taiwan Dollars)

	Share capital- common stock	Capital Surplus
<u>For the year ended December 31, 2017</u>		
Balance at January 1, 2017	\$ 135,998,240	\$ 68,194,233
Profit (loss) for the year	-	-
Other comprehensive (loss) income for the year	-	-
Total comprehensive income (loss)	-	-
Earnings distribution for 2016		
Legal reserve	-	-
Special reserve	-	-
Cash dividends	-	-
Balance at December 31, 2017	\$ 135,998,240	\$ 68,194,233
<u>For the year ended December 31, 2018</u>		
Balance at January 1, 2018	\$ 135,998,240	\$ 68,194,233
Effects of retrospective application and retrospective restatement	-	-
Balance at January 1 after adjustments	135,998,240	68,194,233
Profit (loss) for the year	-	-
Other comprehensive (loss) income for the year	-	-
Total comprehensive income (loss)	-	-
Earnings distribution for 2017		
Legal reserve	-	-
Special reserve	-	-
Cash dividends	-	-
Disposal of investment in equity instruments designated at fair value through other comprehensive income	-	-
Balance at December 31, 2018	\$ 135,998,240	\$ 68,194,233

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



Equity attributable to owners of the parent										
Retained Earnings				Other equity interest						
Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Available-for-sale assets unrealized gain or loss	Unrealised gains (losses) on financial assets measured at fair value through other comprehensive income	Reserve of overlay approach	Other equity, others	Total	Non-controlling interest	Total equity
\$ 30,436,714	\$ 2,545,158	\$ 56,976,974	(\$ 853,382)	(\$ 1,312,584)	\$ -	\$ -	\$ -	\$ 291,985,353	\$ 42,090	\$ 292,027,443
-	-	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)
-	-	24,221,682	(1,899,975)	3,058,823	-	-	-	25,380,530	(661)	25,379,869
2,245,618	-	(2,245,618)	-	-	-	-	-	-	-	-
-	459,160	(459,160)	-	-	-	-	-	-	-	-
-	-	(19,311,750)	-	-	-	-	-	(19,311,750)	-	(19,311,750)
\$ 32,682,332	\$ 3,004,318	\$ 59,182,128	(\$ 2,753,357)	\$ 1,746,239	\$ -	\$ -	\$ -	\$ 298,054,133	\$ 41,429	\$ 298,095,562
\$ 32,682,332	\$ 3,004,318	\$ 59,182,128	(\$ 2,753,357)	\$ 1,746,239	\$ -	\$ -	\$ -	\$ 298,054,133	\$ 41,429	\$ 298,095,562
-	-	755,917	-	(1,746,239)	9,902,554	8,911	(34,928)	8,886,215	(12,561)	8,873,654
32,682,332	3,004,318	59,938,045	(2,753,357)	-	9,902,554	8,911	(34,928)	306,940,348	28,868	306,969,216
-	-	28,109,164	-	-	-	-	-	28,109,164	(15,719)	28,093,445
-	-	(499,055)	1,152,878	-	(929,483)	(111,088)	(20,748)	(407,496)	-	(407,496)
-	-	27,610,109	1,152,878	-	(929,483)	(111,088)	(20,748)	27,701,668	(15,719)	27,685,949
2,573,452	-	(2,573,452)	-	-	-	-	-	-	-	-
-	(459,167)	459,167	-	-	-	-	-	-	-	-
-	-	(20,399,736)	-	-	-	-	-	(20,399,736)	-	(20,399,736)
-	-	(259,718)	-	-	259,718	-	-	-	-	-
\$ 35,255,784	\$ 2,545,151	\$ 64,774,415	(\$ 1,600,479)	\$ -	\$ 9,232,789	(\$ 102,177)	(\$ 55,676)	\$ 314,242,280	\$ 13,149	\$ 314,255,429

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in Thousands of New Taiwan Dollars)

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 9,307 and 8,867 as of December 31, 2018 and 2017, 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 26, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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 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. The quantitative impact will be disclosed when the assessment is complete:

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 IFRS 17, '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, or to use overlay approach under IFRS 9 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 by 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 Mega Group 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.
- (d) The Mega Group applied the new rules under IFRS 9 retrospectively from January 1, 2018. The significant effects of applying the standard as of January 1, 2018 is provided in Note 16(13).

Please refer to Note 8(3) for detailed information on credit risk related to the application of IFRS 9 on January 1, 2018. Please refer to Note 16(13) for detailed information on credit risk related to the application of IAS 39 for the periods before December 31, 2017.

Information on the first application of IFRS 9 on December 31, 2018 and for the year then ended are disclosed in Note 6. Information on December 31, 2017, and the year ended December 31, 2017, is provided in Note 16(13).

(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 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact on the Mega Group's financial condition and financial performance based on the Mega Group's assessment:

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.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the prior period financial statements (collectively referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that right-of-use asset and lease liability will be increased by \$1,316,263 and \$1,316,263, respectively.

(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 IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
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 17, 'Insurance contracts'	January 1, 2021

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

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, judgements 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 Mega 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 Financial Supervisory Commission.

(2) Basis for preparation

- 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.
- Except for financial assets and financial liabilities (including derivative instruments) recognised at fair value, financial assets at fair value through other comprehensive income, 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.
- 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.
- In adopting IFRS 9 effective January 1, 2018, the Mega Group has applied the rules retrospectively whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with IAS 39 and related financial reporting interpretations. Please refer to Note 16(13) for details of significant accounting policies.



(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, 2018	December 31, 2017	
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")	-	-	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
MICB, MS and CKI	Mega I Venture Capital	40.00	40.00	Note 14

- (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. MICB Canada was transformed into a full-function commercial bank branch following an approval from the local competent authority on March 13, 2018. The bank was fully opened on April 16, 2018.
- (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. On April 26, 2017, the company has processed the liquidation as resolved by the Board of Directors of MS, which has been approved by FSC on May 15, 2017. The liquidation was completed on June 7, 2017.
- (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) 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, 2018	December 31, 2017	
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 Mega Group's consolidated financial statements although the Mega Group 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 Mega Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Mega 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 Mega 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 Mega Group loses control of a subsidiary, the Mega 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 recognised 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 securities under resell agreements satisfying the definition of cash and cash equivalents in IAS 7 as approved by FSC.

(6) Securities under repurchase or resell agreements

The transactions of securities 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

Financial assets owned by the Mega Group are classified based on both the Mega Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset into 'loans discounted, net', 'receivables', 'financial assets at fair value through profit or loss', 'financial assets at fair value through comprehensive income', and 'investments in debt instrument at amortised cost'.

Business model refers to the method by which the Mega Group manages the financial assets to generate cash flows, which originates from collecting contractual cash flows, selling financial assets, or both. When determining whether the contractual cash flows of the asset are solely payments of principal and interest on principal amount outstanding, the Mega Group assesses whether the contractual cash flows

are consistent with those required in a basic loan agreement. In other words, the Mega Group determines whether interest is solely based on the time value of money, credit risk related to the principal amount outstanding on specified dates, other risks and costs associated with the basic loan agreement, and marginal profits consideration.

(A) A regular way purchase or sale

The Mega Group recognises a regular way purchase or sale of financial assets using trade date accounting based on their category and accounting classification.

(B) Loans discounted, net

Loans discounted consist of export bills negotiation, export bills discount, loans, and overdue receivables arising from loans. Loans discounted are measured at amortised cost using the effective interest rate method. Measurement at initial investment amount is allowed if effect of discounting is immaterial.

If a loan discounted held by the Mega Group is renegotiated or has its terms modified due to financial difficulties of the borrower, so that it is required to be derecognised, entirely or partially, in accordance with IFRS 9, the old financial asset is derecognised, and a new financial asset and related gains or losses are recognised.

If a loan discounted held by the Mega Group is renegotiated or has its terms modified due to financial difficulties of the borrower, but is not required to be derecognised, or if renegotiations or modification of terms are for reasons other than financial difficulties, which rarely results in the derecognition of the asset, the carrying amount of the asset is recalculated and resulting gains or losses are recognised in profit or loss.

Interest arising from loans discounted is recognised as 'interest income'.

(C) Receivables, net

Receivables include receivables originated and not originated by the Mega Group. Receivables originated by the entity arising from a direct provision of money, goods or services to debtors while receivables not originated by the Mega Group include otherwise.

Receivables are measured at amortised cost using the effective interest method. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

The Mega Group determines whether the receivables that has been discounted or transferred qualify derecognition under IFRS 9 based on how much control over the risks and rewards of the receivables it has retained.

Significant amounts of receivables due from related parties are shown separately.

Interest arising from receivables are recognised as 'interest income'.

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

Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income. Financial assets at amortised cost or fair value through other comprehensive income are designated as at fair value through profit or loss at initial recognition when they eliminate or significantly reduce a measurement or recognition inconsistency.

At initial recognition, Mega Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. Mega Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

Dividends are recognised as gain (loss) on financial assets or liabilities at fair value through profit or loss - dividend revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and its subsidiaries and the amount of the dividend can be measured reliably.

(E) Investments in debt instruments at amortised cost

a. Financial assets at amortised cost are those that meet all of the following criteria:

(a) The objective of the Mega Group's business model is achieved by collecting contractual cash flows.

(b) The assets' contractual cash flows represent solely payments of principal and interest.

b. At initial recognition, the Mega Group measure the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in derecognition designated as gain (loss) on financial assets at amortised cost when the asset is derecognised or impaired.

(F) Financial assets at fair value through other comprehensive income

a. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Mega Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

- (a) The objective of the Mega Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and
- (b) The assets' contractual cash flows represent solely payments of principal and interest.

b. At initial recognition, the Mega Group measures the financial assets at fair value plus transaction costs. The Mega Group subsequently measures the financial assets at fair value:

- (a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as realised gains (losses) on financial assets at fair value through other comprehensive income-dividend revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Mega Group and the amount of the dividend can be measured reliably.
- (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(G) Reclassification of financial assets

When, and only when, the Mega Group changes its business model for managing financial assets it reclassifies all affected financial assets except for equity instruments at fair value through comprehensive income and financial assets designated as at fair value through profit or loss. The Mega Group applies the reclassification prospectively from the reclassification date and does not restate any previously recognised gains, losses or interest.

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

i. 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 Mega Group 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 Mega Group, the margin deposits and proceeds from the short sales are returned to the customers accordingly.

ii. Loans borrowed by the Mega Group from other securities lenders when the Mega Group 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.

iii. When the Mega Group 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

Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges. Or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

- a. Hybrid (combined) contracts; or
- b. They eliminate or significantly reduce a measurement or recognition inconsistency; or

c. They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

At initial recognition, Mega Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. Mega Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognised in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognising in profit or loss for loan commitments or financial guarantee contracts.

(B) Financial liabilities measured at amortised 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. Decision of fair value

Please refer to Note 7, 'Fair value and level information of financial instruments' for details.

D. 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 Mega 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) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Mega Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Mega Group recognises the impairment provision for lifetime ECLs.

The Mega Group measures expected credit losses in a way that reflects:

- A. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- B. The time value of money; and
- C. Reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

For loan assets, the Mega Group assesses the loss allowance at the balance sheet date in accordance with "Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" as issued by the FSC, "Financial-Supervisory-Banks Letter No. 10300329440" issued on December 4, 2014 relating to the strengthening of domestic banks' risk endurance to real estate loans, "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 and "Regulation Governing the Procedures for Bill Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" as well as IFRS 9 requirements. The loss allowance is provisioned at the higher of the amounts assessed in compliance with the aforementioned domestic regulations and IFRS 9 and then presented at net value.

Impairment assessment of reinsurance contract assets and recognition of the appropriate amount of bad debt allowance are required at the financial reporting date in accordance with "Regulations Governing the Procedures for Insurance Companies to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" and IFRS 4.



(10) Non-hedging and embedded derivatives

- A. Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.
- B. Under the financial assets, the hybrid contracts embedded with derivatives are initially recognized as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost based on the contract terms.
- C. Under the non-financial assets, whether the hybrid contracts embedded with derivatives are accounted for separately at initial recognition is based on whether the economic characteristics and risks of an embedded derivative are closely related in the host contract. When they are closely related, the entire hybrid instrument is accounted for by its nature in accordance with the applicable standard. When they are not closely related, the derivative is accounted for differently from the host contract as derivative while the host contract is accounted for by its nature in accordance with the applicable standard. Alternatively, the entire hybrid instrument is designated as a derivative instrument included in financial liabilities at fair value through profit or loss upon initial recognition, and no separate accounting is required.

(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 reserve

The minimum liability reserve for health insurance policies with over 1-year coverage term is assessed and modified annually. Reserve for specialised health insurance is recognised in compliance with statutory standard approved by the competent authority.

(F) 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.

(G) 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 and loan commitments

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.

A loan commitment is an agreement to provide credit under predetermined terms and conditions.

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.

Loss provisions are recognised for financial guarantee contracts and loan commitments, and the amounts of loss allowance are determined by expected credit losses.

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

A. The amount of loss allowance is determined by using an expected-credit-loss model; and

B. The initially recognised amount less the cumulative gains that were recognised under IFRS 15 'Revenue from contracts with customers'.

Loss allowance for the aforementioned reserve for guarantee liabilities is assessed in accordance with "Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" as issued by the FSC and IFRS 9 requirements. A provision is then recognised at the higher of the amounts assessed in compliance with the aforementioned domestic regulations and IFRS 9.

The Mega Group determines loss allowance for the loan commitments based on expected credit loss.

The loss allowance is recognized as provision for loan commitments and financial guarantee contracts. If the financial instrument contains both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and the Mega Group is unable to identify the expected credit losses (ECLs) of the financial asset and loan commitment component, the ECLs of loan commitment is recognised together with the loss allowance for financial asset. A provision is recognised for the aggregate ECLs exceeding the carrying amount of the financial asset.

The increase in liabilities due to financial guarantee contracts and loan commitments is recognised in 'bad debts expense, commitment and guarantee liability provision'.

(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 rate for current employees and flat preferential savings rate 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.
- d. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

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) 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.

(23) 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.

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 (18) for related details of provision for liabilities.

(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

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the following year after the Board of Directors make resolution in respect of earnings appropriation proposal on behalf of stockholders.

The earnings appropriation from 2018 is imposed with an additional 5% tax on unappropriated retained earnings in accordance with the amendments to the Income Tax Act enacted on February 7, 2018.

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.
- E. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- F. If a change in tax rate is enacted or substantively enacted in an interim period, the Company recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

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

The assumptions and estimates made by the 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 judgements in applying the Mega Group's accounting policies that have significant impact on the consolidated financial statements are outlined below:

(1) Fair value measurement of investment in unlisted stock

The fair value of unlisted stocks without an active market is determined by using valuation techniques such as market approach and net asset

approach. The measurement of fair value may adopt observable information or models of similar financial instruments or use assumptions in an appropriate manner if the observable parameters are unavailable in the market. Observable information is the primary source of reference. When valuation models are used for the measurements, calibration are performed to ensure its accountability in reflecting real information and market price.

In the fair value measurement, the Mega Group primarily uses reference of the latest updated market multipliers of similar listed stocks in the industry alike and takes into account marketability discount and discount in the specialised risks. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 7 for the financial instruments fair value information.

(2) Expected credit losses

For financial assets at amortised cost and financial assets at fair value through other comprehensive income, the measurement of expected credit losses (ECLs) involves complex model and various assumptions associated with macro-economic projections and borrowers' situation in terms of the probability of default and losses-given-default. Information relating to parameters, assumptions, methods of estimation, ECL's sensitivity analysis corresponding to the aforementioned factors is provided in Note 8(3).

The measurement of ECLs in accordance with the framework of accounting principles involves several significant judgements, such as:

- A. Criteria in determining whether there has been a significant increase in credit risk;
- B. A selection of appropriate models and assumptions in ECLs measurement;
- C. Forward-looking information to be taken into consideration in terms of different products; and
- D. Grouping the financial instruments to include financial assets with the same credit risk characteristics into one group.

Please refer to Note 8(3) for the aforementioned judgements and estimates with respect of ECLs.

(3) 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.

(4) Claims reserve and ceded claims reserve

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, 2018	December 31, 2017
Cash on hand and petty cash	\$ 15,374,905	\$ 14,938,497
Bank deposits	5,751,622	5,170,596
Cash equivalents	735,458	980,093
Checks for clearance	805,723	520,444
Due from banks	107,008,070	122,256,412
Subtotal	129,675,778	143,866,042
Less: Allowance for doubtful accounts – due from banks	-	(1,293)
Total	\$ 129,675,778	\$ 143,864,749

Information relating to credit risk is provided in Note 8(3).



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

	December 31, 2018	December 31, 2017
Reserve for deposits-category A	\$ 16,741,743	\$ 11,516,365
Reserve for deposits-category B	39,410,360	41,465,157
Reserve for deposits-general	291	281
Reserve for deposits-foreign currency	754,965	587,701
Deposits of overseas branches with foreign Central Banks	247,344,272	258,376,119
Interbank settlement fund of Fund Center	5,878,089	6,237,279
Call loans to banks and bank overdrafts	202,350,426	246,017,328
Import and export loans from banks	202,838	958,904
Participate in interbank financing with risk	1,536,650	2,042,800
Subtotal	514,219,634	567,201,934
Less: Allowance for doubtful accounts– import and export loans from banks	(120)	-
Total	\$ 514,219,514	\$ 567,201,934

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, 2018 and 2017, 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 \$354,860,494 and \$390,459,267, respectively.

C. Information relating to credit risk is provided in Note 8(3).

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

	December 31, 2018
<u>Financial assets mandatorily measured at fair value through profit or loss</u>	
Stocks	\$ 17,279,986
Commercial papers	101,311,830
Beneficiary certificates	2,109,163
Negotiable certificates of deposit	17,800,000
Corporate bonds	22,345,717
Government bonds	3,543,133
Financial bonds	9,390,469
Derivative instruments	5,054,076
Other securities	45,607
Convertible corporate bond asset swaps	18,180,863
Subtotal	197,060,844
Valuation adjustment	(859,814)
Total	\$ 196,201,030

A. Gain or loss on financial assets mandatorily measured at fair value through profit or loss for the year ended December 31, 2018 are provided in Note 6(32).

B. Please refer to Note 12 for details of the aforementioned financial assets provided as collaterals as of December 31, 2018.

C. As of December 31, 2018, the above financial assets used as underlying assets for repurchase agreements held by the Mega Group were \$92,303,109.

D. Information relating to the CKI's reclassification for the designated financial assets applying overlay approach is as follows:

	December 31, 2018
<u>Financial assets mandatorily measured at fair value through profit or loss</u>	
Listed stocks	\$ 238,354
Beneficiary certificates	1,327,052
	1,565,406
Valuation adjustment	(102,176)
	\$ 1,463,230

E. Information relating to the CKI's reclassification between profit or loss and other comprehensive income for the designated financial assets applying overlay approach is as follows:

	For the year ended December 31, 2018
Profit or loss recognised in accordance with IFRS 9	(\$ 74,181)
Less: Profit or loss that would have been recognised under IAS 39	37,404
Loss from adopting reclassification under the overlay approach	(\$ 111,585)
Income gain on reclassification under the overlay approach	(\$ 497)

F. Information relating to credit risk is provided in Note 8(3).

(4) Financial assets at fair value through other comprehensive income

	December 31, 2018
Debt instruments	
Government bonds	\$ 134,591,571
Financial bonds	123,849,667
Corporate bonds	131,726,868
Bank's certificates of deposit	9,726,068
Treasury securities	671,415
Subtotal	400,565,589
Valuation adjustment	727,267
Debt instruments, net	401,292,856
Equity instruments	
Stocks	11,539,167
Other marketable securities	300,000
Valuation adjustment	8,044,530
Equity instruments, net	19,883,697
Total	\$ 421,176,553

A. The Mega Group has elected to classify investments that are considered to be strategic investments and with steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$19,883,697 as at December 31, 2018.

B. The subsidiaries-MICB, MS and CKI sold equity investments for rising uncertainty of the global situation, in order to avoid short-term market fluctuation, the fair value of the equity investments sold were \$4,288,950, \$30,085 and \$2,149,134, and the cumulative gain was \$1,825, and cumulative loss were \$3,115 and \$118,259, respectively. The investee of the subsidiaries-MICB has processed the liquidation, the cumulative loss on disposal was \$132,523. Additionally, since another investee might be heading towards liquidation, for a fast return on investment, the subsidiary sold \$8,346 of equity investments at fair value and resulted in cumulative losses on disposal amounting to \$41,512. The subsidiary-MBF sold equity investments for raising capital adequacy ratio, the fair value of the equity investments sold was \$181,103 and the cumulative gain on disposal was \$33,866.

C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	For the year ended December 31, 2018
<u>Equity instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	\$ 462,883
Cumulative loss reclassified to retained earnings due to derecognition	\$ 259,718
Dividend income recognised in profit or loss	
Held at end of year	\$ 920,533
Derecognised during the year	85,519
	\$ 1,006,052
<u>Debt instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	(\$ 1,105,903)
Cumulative other comprehensive income reclassified to profit or loss	
Reversal due to impairment recognition	(\$ 34,947)
Reclassified due to derecognition	(560,955)
	(\$ 595,902)
Interest income recognised in profit or loss	\$ 7,884,172

D. Please refer to Note 12 for details of the aforementioned financial assets provided as collateral as of December 31, 2018.

E. As of December 31, 2018, financial assets at fair value through other comprehensive income undertaken for repurchase agreements were \$160,823,446.

F. Information relating to credit risk is provided in Note 8(3).

(5) Investments in debt instruments at amortised cost, net

	December 31, 2018
Central Bank's certificates of deposit	\$ 157,480,933
Bank's certificates of deposit	6,535,759
Financial bonds	19,118,740
Government bonds	3,571,594
Corporate bonds	1,225,949
Commercial papers	85,007,066
Subtotal	272,940,041
Valuation adjustment	(14,024)
Total	\$ 272,926,017

A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	For the year ended December 31, 2018
Interest income	\$ 2,268,607
(Loss) gains on reversal of impairment	380
Gains on disposal	1,432
	\$ 2,270,419

B. Because of the issuer's credit downgrade, the Mega Group sold the investments in debt instrument and recognised a gain of \$1,432 for the year ended December 31, 2018.

C. Please refer to Note 12 for details of the aforementioned financial assets provided as collateral as of December 31, 2018.

D. Please refer to Note 8(3) for the movement information on accumulated loss for the year ended December 31, 2018.

E. Information relating to credit risk is provided in Note 8(3).

(6) Receivables, net

	December 31, 2018
Accounts receivable	\$ 17,396,897
Factoring receivable	36,041,881
Notes receivable	153,049
Accrued income and interest	9,342,653
Acceptances receivable	7,586,118
Insurance receivable	550,128
Margin loans and securities business money lending receivable	9,619,059
Recovery of accounts receivable	75,000
Purchase of obligor receivable for acting as assignee	24,028
Credit card receivables	5,338,509
Usance outright receivable	244,807
Receivable accounts for settlement	6,239,850
Other receivables	2,028,726
Subtotal	94,640,705
Less: Allowance for bad debts	(1,917,450)
Receivables, net	\$ 92,723,255

A. Please refer to Note 8(3) for the movement information on loss allowance for the year ended December 31, 2018.

B. Information relating to credit risk is provided in Note 8(3).

(7) Loans discounted, net

	December 31, 2018
Bills and notes discounted	\$ 11,987
Overdrafts	1,844,152
Short-term loans	566,576,301
Medium-term loans	721,009,290
Long-term loans	591,959,717
Import/export bills negotiated	11,196,406
Loans transferred to non-accrual loans	2,108,497
Subtotal	1,894,706,350
Less: Allowance for bad debts	(30,259,247)
Loans, net	\$ 1,864,447,103

A. As of December 31, 2018, the amount reclassified from non-performing loans to overdue loans was \$2,108,497, including interest receivable of \$14,362.

B. Please refer to Note 8(3) for the movement information on loss allowance for the year ended December 31, 2018.

C. The amount of recovery of write-off for the year ended December 31, 2018 was \$993,366.

D. Information relating to credit risk is provided in Note 8(3).

(8) Non-current assets held for sale

The Board of Directors of subsidiary-MS during its meeting on November 26, 2018, resolved to sell its asset “Metropolitan International Center” recorded under ‘investment property’ for assets activation and transferred the relevant asset to non-current assets held for sale amounting to \$328,350 as of December 31, 2018.

(9) Reinsurance contract assets-net

A. Details are as follows:

	December 31, 2018	December 31, 2017
Reinsurance claims and payment receivables	\$ 499,117	\$ 315,679
Reinsurance transaction receivables	155,989	244,912
Overdue reinsurance		
-Claims and payment receivables	4,855	1,342
-Transaction receivables	24,897	36,624
Less: Allowance for bad debts	(15,127)	(19,378)
Subtotal	669,731	579,179
Reinsurance reserve assets		
Ceded unearned premium reserve	1,477,383	1,267,530
Ceded claim reserve	1,670,738	1,670,558
Ceded premium deficiency reserve	36,140	37,890
Ceded liability reserve	472	297
Subtotal	3,184,733	2,976,275
Total	\$ 3,854,464	\$ 3,555,454

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

	For the year ended December 31,	
	2018	2017
Balance at January 1,	\$ 19,378	\$ 19,384
Reversal of provision	(4,270)	2,845
Write-off-net	-	(2,809)
Foreign currency translation adjustments	19	(42)
Balance at December 31,	\$ 15,127	\$ 19,378



(10) Equity investments accounted for under the equity method, net

Individually Immaterial Associates	December 31, 2018		December 31, 2017	
	Amount	Percentage of Shareholding	Amount	Percentage of Shareholding
Mega Management Consulting Corporation	\$ 68,089	100.00	\$ 79,160	100.00
Cathay Investment & Development Corporation (Bahamas)	73,363	100.00	58,808	100.00
Cathay Investment & Warehousing Ltd.	49,438	100.00	51,135	100.00
Ramlett Finance Holdings Inc.	5,654	100.00	7,500	100.00
Yung Shing Industries Co.	689,681	99.56	684,534	99.56
China Products Trading Company	27,819	68.27	27,048	68.27
An Feng Enterprise Co., Ltd.	11,914	25.00	11,901	25.00
Taiwan Bills Finance Corporation	1,650,156	24.55	1,646,941	24.55
Ever Strong Iron & Foundry & Mfg. Corporation	46,049	22.22	44,637	22.22
Mega Growth Venture Capital Co., Ltd.	243,463	20.08	247,535	20.08
China Real Estate Management Co., Ltd.	179,080	20.00	182,814	20.00
Universal Venture Capital Investment Corporation	124,267	11.84	142,488	11.84
Total	<u>\$ 3,168,973</u>		<u>\$ 3,184,501</u>	

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

	For the year ended December 31,	
	2018	2017
Profit for the period	\$ 188,574	\$ 212,015
Other comprehensive loss (income) (after income tax)	(35,210)	15,965
Total comprehensive income	<u>\$ 153,364</u>	<u>\$ 227,980</u>

B. 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.

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

D. The Company's and its subsidiaries' investments under the equity method as of December 31, 2018 and 2017 have not been pledged or provided as collateral.

(11) Other financial assets, net

	December 31, 2018
Remittance purchased	\$ 4,144
Purchase of obligor receivable	5,117
Non-accrual loans transferred from accounts other than loans	147,721
Pledged time deposits	400,000
Customer margin account	4,129,775
Others	539,759
Subtotal	<u>5,226,516</u>
Less: Allowance for bad debts-remittance purchased	(41)
Allowance for bad debts-non-accrual loans transferred from accounts other than loans	(114,265)
Total	<u>\$ 5,112,210</u>

A. As of December 31, 2018 and 2017, for the aforesaid financial assets pledged as collaterals, please refer to Note 12.

B. Information relating to credit risk is provided in Note 8(3).

(12) Investment property, net

For the years ended December 31, 2018 and 2017, the movement of the Mega Group's investment property is as follows:

January 1, 2018	Land and land improvements	Buildings and structures	Total
Cost	\$ 1,239,703	\$ 697,881	\$ 1,937,584
Accumulated depreciation	-	(188,075)	(188,075)
Accumulated impairment	(28,630)	(24,016)	(52,646)
	<u>1,211,073</u>	<u>485,790</u>	<u>1,696,863</u>
For the year ended December 31, 2018			
Opening net book amount as at January 1	\$ 1,211,073	\$ 485,790	\$ 1,696,863
Additions	105,100	43,135	148,235
Disposals	(560)	(807)	(1,367)
Transfers	(252,375)	(75,975)	(328,350)
Reversal of impairment	(430)	17	(413)
Depreciation	-	(14,542)	(14,542)
Foreign exchange differences	-	(23)	(23)
December 31, 2018	<u>\$ 1,062,808</u>	<u>\$ 437,595</u>	<u>\$ 1,500,403</u>
December 31, 2018			
Cost	\$ 1,091,868	\$ 627,511	\$ 1,719,379
Accumulated depreciation	-	(165,917)	(165,917)
Accumulated impairment	(29,060)	(23,999)	(53,059)
	<u>\$ 1,062,808</u>	<u>\$ 437,595</u>	<u>\$ 1,500,403</u>

January 1, 2017	Land and land improvements	Buildings and structures	Total
Cost	\$ 1,240,263	\$ 697,932	\$ 1,938,195
Accumulated depreciation	-	(174,108)	(174,108)
Accumulated impairment	(28,501)	(24,025)	(52,526)
	<u>1,211,762</u>	<u>499,799</u>	<u>1,711,561</u>
For the year ended December 31, 2017			
Opening net book amount as at January 1	\$ 1,211,762	\$ 499,799	\$ 1,711,561
Additions	-	825	825
Disposals	(560)	(428)	(988)
Transfers	-	1,481	1,481
Depreciation	-	(15,743)	(15,743)
Reversal of impairment	(129)	9	(120)
Foreign exchange differences	-	(153)	(153)
December 31, 2017	<u>\$ 1,211,073</u>	<u>\$ 485,790</u>	<u>\$ 1,696,863</u>
December 31, 2017			
Cost	\$ 1,239,703	\$ 697,881	\$ 1,937,584
Accumulated depreciation	-	(188,075)	(188,075)
Accumulated impairment	(28,630)	(24,016)	(52,646)
	<u>\$ 1,211,073</u>	<u>\$ 485,790</u>	<u>\$ 1,696,863</u>

A. The fair values of the investment property held by the Mega Group as of December 31, 2018 and 2017 were \$4,877,700 and \$5,343,885, 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, 2018 and 2017, Level 2 within the fair value hierarchy was \$3,125,373 and \$3,755,152, respectively, and Level 3 within the fair value hierarchy was \$1,752,327 and \$1,588,733, respectively.

B. Rental income from the lease of the investment property for the years ended December 31, 2018 and 2017 was \$61,954 and \$63,040, respectively.

C. For the aforesaid investment property pledged as collaterals as of December 31, 2018 and 2017, please refer to Note 12.



(13) Property and equipment, net

Details of property and equipment are as follows:

January 1, 2018	Land and land improvements	Buildings	Equipment	Leasehold improvements	Prepayments for equipment	Total
Cost	\$ 14,835,914	\$ 12,900,617	\$ 6,514,658	\$ 251,749	\$ 4,455	\$ 34,507,393
Accumulated depreciation	-	(6,790,083)	(5,278,682)	(236,286)	-	(12,305,051)
Accumulated impairment	(160,125)	(61,063)	-	-	-	(221,188)
Total	\$ 14,675,789	\$ 6,049,471	\$ 1,235,976	\$ 15,463	\$ 4,455	\$ 21,981,154
For the year ended December 31, 2018						
At January 1,	\$ 14,675,789	\$ 6,049,471	\$ 1,235,976	\$ 15,463	\$ 4,455	\$ 21,981,154
Additions	36,622	96,939	598,708	382	16,216	748,867
Disposals	(31,263)	(4,784)	(4,924)	-	-	(40,971)
Transfers	-	-	6,994	168	(8,833)	(1,671)
Depreciation	-	(270,565)	(474,403)	(8,464)	-	(753,432)
Reversal of impairment	58,858	3,473	-	-	-	62,331
Foreign exchange differences	1,058	(26,274)	2,360	-	-	(22,856)
December 31, 2018	\$ 14,741,064	\$ 5,848,260	\$ 1,364,711	\$ 7,549	\$ 11,838	\$ 21,973,422
At December 31, 2018						
Cost	\$ 14,842,331	\$ 12,904,925	\$ 6,666,253	\$ 252,219	\$ 11,838	\$ 34,677,566
Accumulated depreciation	-	(6,999,075)	(5,301,542)	(244,670)	-	(12,545,287)
Accumulated impairment	(101,267)	(57,590)	-	-	-	(158,857)
Total	\$ 14,741,064	\$ 5,848,260	\$ 1,364,711	\$ 7,549	\$ 11,838	\$ 21,973,422

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	-	(6,655,461)	(5,213,632)	(224,446)	-	(12,093,539)
Accumulated impairment	(184,900)	(63,575)	-	-	-	(248,475)
Total	\$ 14,652,929	\$ 6,072,754	\$ 1,022,920	\$ 26,507	\$ 12,342	\$ 21,787,452
For the year ended December 31, 2017						
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
At December 31, 2017						
Cost	\$ 14,835,915	\$ 12,900,616	\$ 6,514,658	\$ 251,749	\$ 4,456	\$ 34,507,394
Accumulated depreciation	-	(6,790,083)	(5,278,683)	(236,286)	-	(12,305,052)
Accumulated impairment	(160,125)	(61,063)	-	-	-	(221,188)
Total	\$ 14,675,790	\$ 6,049,470	\$ 1,235,975	\$ 15,463	\$ 4,456	\$ 21,981,154

Please refer to Note 12 for details of the property and equipment pledged as collateral as of December 31, 2018 and 2017.

(14) Other assets, net

	December 31, 2018	December 31, 2017
Prepayments	\$ 223,854	\$ 235,474
Refundable deposits	1,575,720	1,986,142
Guarantee deposits held for operation and funds for security settlements	939,484	922,699
Temporary payments	913,456	694,186
Others	132,545	125,537
Total	\$ 3,785,059	\$ 3,964,038

As of December 31, 2018 and 2017, for details of the other assets pledged as collaterals, please refer to Note 12.

(15) Due to the Central Bank and financial institutions

	December 31, 2018	December 31, 2017	January 1, 2017
Call loans from banks (Note)	\$ 155,422,534	\$ 155,899,800	\$ 236,664,538
Due to Chunghwa Post	820,113	2,374,693	2,818,812
Overdrafts on banks	6,045,512	4,711,419	6,781,442
Due to the financial institutions	56,656,601	45,003,496	44,551,667
Due to the Central Bank	192,698,628	196,382,249	115,198,538
Total	\$ 411,643,388	\$ 404,371,657	\$ 406,014,997

Note: The fund transfers between MICB's-overseas branches and the Central Bank are call loans in nature. Therefore, the amount of 'funds borrowed from the Central Bank and other banks' was reclassified to 'call loans from banks'. The amounts were adjusted from \$0 to \$3,824,592 and \$4,283,398, respectively.

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

	December 31, 2018	December 31, 2017	January 1, 2017
Funds borrowed from the Central Bank	\$ 4,712,615	\$ 5,398,742	\$ 5,909,170
Call loan from other banks	49,208,266	24,234,226	29,781,859
Total	\$ 53,920,881	\$ 29,632,968	\$ 35,691,029

For details on reclassification of 'other funds borrowed from the Central Bank', please refer to Note 6(15).

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

	December 31, 2018	December 31, 2017
<u>Financial liabilities held for trading</u>		
Derivative instruments	\$ 2,393,385	\$ 2,138,724
Liabilities on sale of borrowed securities	245,253	122,280
Issuance of call (put) warrants	152,583	431,045
Bonds purchased under resale agreements	96,070	353,976
Others	5,892	632
Subtotal	2,893,183	3,046,657
<u>Financial liabilities designated as at fair value through profit or loss</u>		
Financial bonds	24,488,891	6,883,503
Valuation adjustment	(24,612)	36,619
Subtotal	24,464,279	6,920,122
Total	\$ 27,357,462	\$ 9,966,779

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, 2018 and 2017, please refer to the explanations in Note 6(32).

B. For subsidiary-MICB, financial liabilities designated at fair value through profit or loss is for the purpose of eliminating recognition inconsistency.

(18) Securities sold under repurchase agreements

	December 31, 2018	December 31, 2017
Short-term bills	\$ 83,084,665	\$ 86,133,133
Bonds	169,213,600	151,549,316
Others	-	23,980
Total	\$ 252,298,265	\$ 237,706,429



(19) Commercial papers payable, net

	December 31, 2018	December 31, 2017
Domestic commercial papers	\$ 15,939,000	\$ 20,170,000
Less: unamortized discount	(9,338)	(4,579)
Net	\$ 15,929,662	\$ 20,165,421

As of December 31, 2018 and 2017, none of the aforementioned commercial papers payable was provided for guarantees, and the interest rate ranged from 0.42% to 0.87% and 0.32% to 0.71%, respectively.

(20) Payables

	December 31, 2018	December 31, 2017
Notes and accounts payable	\$ 8,386,295	\$ 8,221,665
Settlement amounts payable	7,188,015	10,467,991
Accrued expenses	6,233,668	5,436,262
Interest payable	4,088,431	3,057,288
Dividends payable	25,515,030	23,647,800
Acceptances	7,648,114	10,445,175
Collections for others	1,636,010	1,324,497
Commissions payable	110,780	106,951
Due from other insurers	763,526	737,214
Securities financing refundable deposits	1,143,433	1,313,144
Deposits payable for securities financing	1,260,050	1,433,578
Other payables	2,388,729	3,928,183
Total	\$ 66,362,081	\$ 70,119,748

(21) Deposits and remittances

	December 31, 2018	December 31, 2017
Checking account deposits	\$ 28,453,703	\$ 32,921,336
Demand deposits	624,660,632	685,562,016
Time deposits	932,165,433	932,559,093
Demand savings deposits	454,457,238	469,471,766
Time savings deposits	264,706,605	258,313,660
Negotiable certificates of deposits	2,023,000	1,332,800
Remittances	14,170,652	6,394,345
Total	\$ 2,320,637,263	\$ 2,386,555,016

(22) Bonds payable

	December 31, 2018	December 31, 2017
Unsecured exchangeable corporate bonds	\$ -	\$ 5,800,000
Less: Exchangeable corporate bond discount	-	(29,964)
Subtotal	-	5,770,036
Financial bonds, net	13,300,000	25,900,000
Total	\$ 13,300,000	\$ 31,670,036

A. The Company:

Name of bond	Issuing period	Interest rate	Total issued amount	December 31, 2018	December 31, 2017
Second issue of domestic unsecured exchangeable bonds	2015.8.25-2018.8.25	0%	\$ 5,800,000	\$ -	\$ 5,770,036

The Company's second issuance of domestic exchangeable corporate bonds had total par value of 5,800,000 thousand, of which 5,783,300 thousand were exchanged for 701,856 thousand shares of the common stock of Taiwan Business Bank by the bondholders. The remaining exchangeable bonds with par value of 16,700 thousand were redeemed at 100% par value by the Company at the maturity date on August 25, 2018.

B. Financial bonds issued by MICB were as follows:

Name of bond (Note 1)	Issuing period	Interest rate	Total issued amount	December 31, 2018	December 31, 2017
100-1 Development Financial bond	2011.04.15-2018.04.15	1.65%	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
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>\$ 13,300,000</u>	<u>\$ 25,900,000</u>

Note 1 : The interests on the bonds were paid yearly, the principals were repaid at maturity.

Unit: In thousands of US Dollars

Name of bond (Note 2)	Issuing period	Interest rate	Total issued amount	December 31, 2018	December 31, 2017
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
107-1 Development financial bond	2018.03.01-2048.03.01	0.00%	330,000	330,000	-
107-2 Development financial bond	2018.05.17-2048.05.17	0.00%	164,000	164,000	-
107-3 Development financial bond	2018.11.28-2048.11.28	0.00%	45,000	45,000	-
Total				<u>\$ 744,000</u>	<u>\$ 205,000</u>

Note 2 : The principals of the bonds were repaid at maturity.

As of December 31, 2018 and 2017, the unpaid balance of financial bonds issued by the subsidiary, amounted to US\$744,000 and US\$205,000, and NT\$13,300,000 and NT\$25,900,000, respectively. The financial bonds are senior bonds of US\$744,000 and US\$205,000, 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.

(23) Other loans

	December 31, 2018	December 31, 2017
Credit loans	<u>\$ 4,934,529</u>	<u>\$ 1,325,368</u>

As of December 31, 2018 and 2017, the interest rates ranged from 0.70% to 3.58% and 0.67% to 2.44%, respectively.

(24) Reserves for liabilities

	December 31, 2018	December 31, 2017
Insurance liabilities	\$ 8,438,737	\$ 8,194,654
Liabilities reserve for employee benefits	12,969,798	12,038,574
Reserve for guarantee liabilities	5,465,214	5,949,536
Provisions for loan commitments	104,083	-
Total	<u>\$ 26,977,832</u>	<u>\$ 26,182,764</u>

A. Details of reserves for insurance liabilities as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Reserve for unearned premiums	\$ 3,678,778	\$ 3,364,416
Reserve for outstanding losses	3,416,365	3,512,496
Reserve for catastrophic losses	1,306,865	1,279,481
Deficiency reserve	36,140	37,890
Liability reserve	589	371
Total	<u>\$ 8,438,737</u>	<u>\$ 8,194,654</u>



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

For the year ended December 31, 2018			
	Total	Ceded	Net
Balance at January 1	\$ 3,364,416	\$ 1,267,530	\$ 2,096,886
Provision	3,678,778	1,477,383	2,201,395
Recovery	(3,364,416)	(1,267,530)	(2,096,886)
Balance at December 31	<u>\$ 3,678,778</u>	<u>\$ 1,477,383</u>	<u>\$ 2,201,395</u>

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	<u>\$ 3,364,416</u>	<u>\$ 1,267,530</u>	<u>\$ 2,096,886</u>

(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, 2018	December 31, 2017
Claims reported but not paid	\$ 2,616,912	\$ 2,743,363
Claims incurred but not reported	799,453	769,133
	<u>\$ 3,416,365</u>	<u>\$ 3,512,496</u>

b. Detail of ceded claim reserve:

	December 31, 2018	December 31, 2017
Claims reported but not paid	\$ 1,368,405	\$ 1,380,313
Claims incurred but not reported	302,333	290,245
	<u>\$ 1,670,738</u>	<u>\$ 1,670,558</u>

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

For the year ended December 31, 2018			
	Total	Ceded	Net
Balance at January 1	\$ 3,512,496	\$ 1,670,558	\$ 1,841,938
Provision	3,416,365	1,670,738	1,745,627
Recovery	(3,512,496)	(1,670,558)	(1,841,938)
Balance at December 31	<u>\$ 3,416,365</u>	<u>\$ 1,670,738</u>	<u>\$ 1,745,627</u>

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	<u>\$ 3,512,496</u>	<u>\$ 1,670,558</u>	<u>\$ 1,841,938</u>

(C) Changes in special reserve are as follows:

For the year ended December 31, 2018			
	Compulsory insurance	Others	Total
Balance at January 1	\$ 205,480	\$ 1,074,001	\$ 1,279,481
Provision	27,384	-	27,384
Balance at December 31	<u>\$ 232,864</u>	<u>\$ 1,074,001</u>	<u>\$ 1,306,865</u>

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

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, 2018				
	Net income	Earnings per share	Total liability	Equity
Applicable amount	\$ 351,906	\$ 1.17	\$ 1,306,865	\$ 6,713,771
Non-applicable amount	351,906	1.17	232,864	7,572,972
Affected amount	\$ -	\$ -	\$ 1,074,001	(\$ 859,201)

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)

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

For the year ended December 31, 2018			
	Total	Ceded	Net
Balance at January 1	\$ 37,890	\$ 37,890	\$ -
Provision	36,140	36,140	-
Recovery	(37,890)	(37,890)	-
Balance at December 31	\$ 36,140	\$ 36,140	\$ -

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	\$ -

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

For the year ended December 31, 2018			
	Total	Ceded	Net
Balance at January 1	\$ 371	\$ 297	\$ 74
Provision	589	472	117
Recovery	(371)	(297)	(74)
Balance at December 31	\$ 589	\$ 472	\$ 117



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

B. Liabilities reserve for employee benefits are as follows:

	December 31, 2018	December 31, 2017
Recognized in consolidated balance sheet:		
- Defined benefit plans	\$ 8,654,766	\$ 8,036,825
- Employee preferential savings plans	4,315,032	4,001,749
Total	<u>\$ 12,969,798</u>	<u>\$ 12,038,574</u>

(A) Defined contribution plan

Effective July 1, 2005, the Mega 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 Mega 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, 2018 and 2017 were \$215,216 and \$193,242, respectively.

Pursuant to relevant government regulations in the country where the entity operates, local staff of the Mega Group's overseas subsidiaries, recognised pension expenses of \$32,332 and \$19,276 applying defined contribution plans for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 were \$615,662 and \$553,312, respectively.

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ 18,575,284	\$ 18,073,421
Fair value of plan assets	(9,930,748)	(10,046,275)
Net defined benefit liability	<u>\$ 8,644,536</u>	<u>\$ 8,027,146</u>

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, 2018			
Balance at January 1	\$ 18,073,421	(\$ 10,046,275)	\$ 8,027,146
Current service cost	537,755	-	537,755
Interest expense (income)	177,359	(99,654)	77,705
Past service cost	-	(92)	(92)
	<u>18,788,535</u>	<u>(10,146,021)</u>	<u>8,642,514</u>

Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(305,760)	(305,760)
Change in demographic assumptions	(2)	-	(2)
Change in financial assumptions	360,589	-	360,589
Experience adjustments	793,941	(4,226)	789,715
	1,154,528	(309,986)	844,542
Pension fund contribution	-	(829,449)	(829,449)
Paid pension	(1,367,964)	1,354,708	(13,256)
Effect of business combination	185	-	185
Balance at December 31	\$ 18,575,284	(\$ 9,930,748)	\$ 8,644,536

	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

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, 2018 and 2017 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,	
	2018	2017
Discount rate	0.71%~1.21%	0.8%~1.4%
Future salary increases	1.16%~3.21%	1.16%~3%

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, 2018				
Effect on present value of defined benefit obligation	(\$ 430,820)	\$ 446,915	(\$ 364,896)	\$ 353,573
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 424,913)	\$ 441,146	\$ 430,223	(\$ 416,705)

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 \$536,789 for defined benefit plan in 2019.

(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,	
	2018	2017
Present value of defined benefit obligation	\$ 4,315,032	\$ 4,001,749
Less: employee preferential savings fair value of plan asset	-	-
	\$ 4,315,032	\$ 4,001,749

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
For the year ended December 31, 2018			
Balance at January 1	\$ 4,001,749	\$ -	\$ 4,001,749
Interest expense	152,747	-	152,747
	4,154,496	-	4,154,496
Remeasurements:			
Change in demographic assumptions	457,576	-	457,576
Experience adjustments	492,165	-	492,165
	949,741	-	949,741
Pension fund contribution	-	(789,205)	(789,205)
Paid pension	(789,205)	789,205	-
Balance at December 31	\$ 4,315,032	\$ -	\$ 4,315,032

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

c. Actuarial assumptions are as follows:

	2018	2017
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		Deposit cost rate	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 86,997)	\$ 90,263	(\$ 31,099)	\$ 31,099
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 81,596)	\$ 84,691	(\$ 28,522)	\$ 28,522

Subsidiary-MICB recognized employee benefit expenses of \$1,326,021 and \$1,376,912 for the years December 31, 2018 and 2017, respectively.

(25) Other financial liabilities

	December 31, 2018	December 31, 2017
Structured instruments	\$ 10,331,269	\$ 8,727,350
Appropriated loan fund	898,051	1,307,089
Futures traders' equity	4,096,047	2,664,031
Total	\$ 15,325,367	\$ 12,698,470

(26) Other liabilities

	December 31, 2018	December 31, 2017
Deposits received	\$ 3,180,175	\$ 2,849,335
Advance receipt	1,581,713	1,657,525
Receipts under custody from customers' security subscription	440,968	205,746
Other liabilities to be settled	426,053	402,773
Temporary receipts and suspense accounts	1,069,917	1,621,716
Others	572,450	581,924
Total	\$ 7,271,276	\$ 7,319,019

(27) Equity

A. Common stock

As of December 31, 2018, 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, 2018	December 31, 2017
Consolidation surplus arising from share conversion	\$ 43,047,306	\$ 43,047,306
Changes in additional paid-in capital of investees accounted for under the equity method	375,908	375,908
Capital increase by cash – additional paid-in capital	24,161,500	24,161,500
Share-based payment (Note)	609,519	609,519
	\$ 68,194,233	\$ 68,194,233

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

(B) As of December 31, 2018, 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.

(28) 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 2017 and 2016 were resolved at the Board meeting dated April 24, 2018 and March 28, 2017, respectively, and were approved by the stockholders at the stockholders' meeting dated June 15, 2018 and June 16, 2017. Details of the earnings appropriation for 2017 and 2016 are set forth below:

	Appropriated Amount		Dividend Per Share (in dollars)	
	2017	2016	2017	2016
Dividends – cash	\$ 20,399,736	\$ 19,311,750	\$ 1.50	\$ 1.42

(29) Other equity items

	Exchange differences on translation of foreign financial statements	Gain (loss) on financial assets at fair value through other comprehensive income	Gain (loss) on reclassification under the overlay approach through other comprehensive income	Other equity-other	Total
At January 1, 2018	(\$ 2,753,357)	\$ 9,902,554	\$ 8,911	(\$ 34,928)	\$ 7,123,180
Financial assets at fair value through other comprehensive income					
Evaluation adjustment in the period	-	(643,020)	-	-	(643,020)
Changed in accumulated impairments in the period	-	(34,947)	-	-	(34,947)
Realized gain and loss in the period	-	(301,237)	-	-	(301,237)
Translation gain and loss on the financial statements of foreign operating entities in the period	1,148,351	-	-	-	1,148,351
Share of the other comprehensive income of associates and joint ventures accounted for under the equity method in the period	4,527	(21,623)	-	(20,748)	(37,844)
Gain (loss) on reclassification under the overlay approach through other comprehensive income	-	-	(111,585)	-	(111,585)
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	331,062	497	-	331,559
At December 31, 2018	(\$ 1,600,479)	\$ 9,232,789	(\$ 102,177)	(\$ 55,676)	\$ 7,474,457

(30) Interest income, net

	For the years ended December 31,	
	2018	2017
<u>Interest income</u>		
Interest income of bills discounted and loans	\$ 44,424,272	\$ 38,535,880
Interest income of deposits and call loans from the other banks	11,951,141	8,363,618
Interest income of securities investment	10,246,324	8,817,199
Interest income of securities purchased under resale agreements	36,321	12,908
Interest income of usance outright receivable	91,500	24,651
Credit card interest income	176,345	172,411
Interest income of financing	690,969	598,269
Interest income of accounts receivable	515,643	323,540
Other interest income	264,420	246,196
Subtotal	68,396,935	57,094,672
<u>Interest expense</u>		
Interest expense of deposits	(20,676,091)	(14,704,356)
Interest expense of interbank overdraft and call loans	(6,914,820)	(4,465,428)
Interest expense of issuance of bills and bonds	(437,339)	(665,909)
Interest expense of securities payable under repurchase agreements	(2,037,047)	(1,212,193)
Other interest expense	(235,947)	(167,262)
Subtotal	(30,301,244)	(21,215,148)
Total	\$ 38,095,691	\$ 35,879,524

(31) Service fee and commission income, net

	For the years ended December 31,	
	2018	2017
<u>Service fee income and commission income</u>		
Service fee income from export and import business	\$ 519,497	\$ 531,859
T/T service fee income	805,831	858,168
Loans service fee income	1,582,271	1,528,782
Guarantee service fee income	1,424,232	1,443,438
Brokerage fee income	2,076,025	1,829,788
Service fee income of trust and ancillary business	1,658,367	1,610,887
Agency service fee income	266,591	240,827
Reinsurance commission income	513,059	509,341
Commission income of insurance agent	1,414,599	1,344,324
Underwriting fee income	399,684	362,051
Other service fee income	1,714,159	1,623,260
Subtotal	12,374,315	11,882,725
<u>Service fee expense and commission expense</u>		
Insurance commission expense	(974,549)	(946,436)
Agency service fee expense	(924,827)	(695,730)
Brokerage handling fee expense	(191,767)	(152,744)
Other commission expense	(209,216)	(156,992)
Other service fee expense	(414,732)	(403,576)
Subtotal	(2,715,091)	(2,355,478)
Total	\$ 9,659,224	\$ 9,527,247



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.

(32) Financial assets or financial liabilities at fair value through profit or loss

	For the years ended December 31,	
	2018	2017
<u>Gain and loss from disposal of financial assets and liabilities at fair value through profit or loss</u>		
Short-term notes and bills	\$ 449,059	\$ 495,487
Bonds	83,652	63,918
Stocks	(549,627)	648,361
Derivative instruments	3,914,224	3,207,089
Negotiable certificate of deposits	21,001	13,914
Beneficiary certificates	(122,421)	(406)
Warrant	591,952	251
Others	43,385	-
Subtotal	4,431,225	4,428,614
<u>Valuation gains and losses on financial assets and liabilities at fair value through profit or loss</u>		
Short-term notes and bills	(2,934)	23,092
Bonds	(634,248)	(76,335)
Stocks	(194,461)	108,158
Derivative instruments	1,033,994	823,900
Negotiable certificate of deposits	898	(631)
Beneficiary certificates	(119,441)	(1,468)
Others	(246,856)	160,428
Subtotal	(163,048)	1,037,144
Interest income on financial assets at fair value through profit or loss	1,925,899	2,106,119
Interest expense on financial liabilities at fair value through profit or loss	(778,187)	(310,070)
Dividend and bonus from financial assets at fair value through profit or loss	853,809	326,403
Total	\$ 6,269,698	\$ 7,588,210

(33) Realized gain (loss) on financial assets at fair value through other comprehensive income

	For the years ended December 31, 2018
Dividend income	\$ 1,006,052
Gain on bonds disposal	560,955
Total	\$ 1,567,007

(34) Impairment of assets

	For the years ended December 31, 2018
Reversal of gain on debt instrument at fair value through other comprehensive income	\$ 34,947
Reversal of gain on investments in debt instruments at amortised cost	380
Impairment loss on other financial assets	(48,222)
Total	(\$ 12,895)

(35) Revenues other than interest, net

	For the years ended December 31,	
	2018	2017
Gain on financial assets measured at cost, net	\$ -	\$ 618,990
Gain on rental, net	201,904	201,349
Advisory income	824,165	771,445
Gain on sales of property and equipment	(2,389)	1,266
Gain on sales of nonperforming loans	21,336	158,726
Penalty paid to Board of Governors of the Federal Reserve System(Note 2)	-	(878,506)
Others	191,694	366,953
Total	\$ 1,236,710	\$ 1,240,223

A. 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 MICB NY Branch's suspicious transaction activity can be recognised appropriately and be declared in accordance with relevant reporting regulations, and transactions are inconsistent with or in violation of the OFAC Regulations.

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 of reporting date, MICB and the MICB NY Branch have been overseen and consulting with the compliance consultant during the stipulated term of six months. The MICB NY Branch is conducting a comprehensive review of effective compliance with BAS/AML requirements, laws and regulations by the independent monitor in July, 2017. Whereas a review of MICB NY Branch's U.S. dollar clearing transaction activity are still under investigation.

B. 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 imposed 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, the MICB NY Branch has engaged an independent third party to conduct a retrospective investigation of U.S. dollar clearing transaction activity during the abovementioned period. Additionally, FED and NYDFS conducted a joint investigation on the MICB NY Branch's overall risk management, operational controls, compliance and asset quality (ROCA). The MICB and MICB NY Branch have submitted the written action plans relating to the above events in March 2018 and March 2019, respectively, and are subsequently improving its risk management and addressing compliance issues in line with the plan.



(36) Employee benefit expense

	For the years ended December 31,	
	2018	2017
Wages and salaries	\$ 13,907,358	\$ 12,932,987
Labor and health insurance fees	926,387	868,687
Pension costs	2,189,231	2,142,742
Other personnel expenses	1,073,228	989,239
Total	\$ 18,096,204	\$ 16,933,655

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, 2018 and 2017, employees' compensation was accrued at \$14,518 and \$10,713, respectively; directors' remuneration was accrued at \$139,595 and \$133,336, respectively. The aforementioned amounts were recognised in wages and salaries.

The actual distributed amount of employees' and directors' remuneration for 2017 resolved at the Board of Directors' annual meeting in 2018 were \$13,406 and \$128,904, respectively. Compared to the 2017 consolidated financial statements, there was an increase of \$2,693 and decrease of \$4,433, respectively. The amount was due to estimated differences and is treated as a change in accounting estimate, where the difference was recognised as profit or loss in 2018.

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,	
	2018	2017
Depreciation	\$ 767,974	\$ 696,276
Amortization	77,902	64,736
Total	\$ 845,876	\$ 761,012

(38) Other business and administrative expenses

	For the years ended December 31,	
	2018	2017
Rental expenses	\$ 877,190	\$ 778,597
Information technology expenses	671,856	605,339
Tax and official fee	2,574,349	2,546,588
Donations	167,177	222,579
Insurance	425,820	410,367
Office supplies and printing expenses	3,944,045	2,909,181
Other operating expenses	999,408	1,028,287
Total	\$ 9,659,845	\$ 8,500,938

(39) Income taxes

A. The income taxes comprise the following:

(A) The income taxes comprise the following:

	For the years ended December 31,	
	2018	2017
Current tax		
Current tax on profits for the year	\$ 4,244,748	\$ 4,324,152
Income tax of adjustments for over provisions of prior years' income tax	(877,219)	(603,491)
Separate income tax	58	41
Tax on undistributed earnings	202,417	962
Total current tax	3,570,004	3,721,664
Deferred income tax		
Impact of change in tax rate	(586,908)	-
Origination and reversal of temporary differences	3,419	(170,032)
Total deferred income tax	(583,489)	(170,032)
Income tax expense	\$ 2,986,515	\$ 3,551,632

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

	For the years ended December 31,	
	2018	2017
Changes in fair value of financial assets at fair value through other comprehensive income	\$ 331,062	\$ -
Gain on reclassification under the overlay approach through comprehensive income	497	-
Remeasurement of defined benefit plan	345,487	309,856
	\$ 677,046	\$ 309,856

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

	For the years ended December 31,	
	2018	2017
Income tax from pre-tax income calculated at statutory tax rate	\$ 6,215,992	\$ 4,977,724
Effects of items not recognized under relevant regulations	6,078	(59,617)
Tax on undistributed earnings	202,417	962
Effect of alternative minimum tax	-	815,009
Income tax of adjustments for over provisions of prior years' income tax	(877,219)	(603,491)
Effects of income tax exemption and adjustment of other income	(1,973,845)	(1,578,955)
Effect of changing tax rate	(586,908)	-
Income tax expense	\$ 2,986,515	\$ 3,551,632

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

	For the years ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income or loss	December 31
Temporary differences:				
Deferred tax assets				
Reserve for bad debts expense in excess of limit	\$ 2,960,891	\$ 495,829	\$ -	\$ 3,456,720
Reserve for guarantee liabilities in excess of limit	199,597	35,223	-	234,820
Unpaid liabilities reserve for employee benefits	1,668,850	(101,653)	345,803	1,913,000
Unrealized loss on impairment	724,510	150,458	-	874,968
Others	464,459	278,082	330,912	1,073,453
	<u>\$ 6,018,307</u>	<u>\$ 857,939</u>	<u>\$ 676,715</u>	<u>\$ 7,552,961</u>

	For the years ended December 31, 2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income or loss	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
	<u>\$ 5,463,227</u>	<u>\$ 245,421</u>	<u>\$ 309,659</u>	<u>\$ 6,018,307</u>

	For the years ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income or loss	December 31
Temporary differences:				
Deferred tax liabilities				
Land revaluation increment tax	(\$ 1,053,300)	\$ -	\$ -	(\$ 1,053,300)
Unrealized exchange gain	(426,278)	(102,201)	-	(528,479)
Share of profit of associates and joint ventures accounted for under equity method	(601,117)	(164,938)	-	(766,055)
Others	(185,760)	6,651	331	(178,778)
	<u>(\$ 2,266,455)</u>	<u>(\$ 260,488)</u>	<u>\$ 331</u>	<u>(\$ 2,526,612)</u>

	For the years ended December 31, 2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income or loss	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>

D. Assessment of income tax returns

The Company's profit-seeking enterprise income tax return through 2014 was assessed by the Tax Authority.

- (A) MICB: The income tax returns of 2014 are under reinvestigation.
 - (B) MS: The income tax returns during the period 2010 to 2014 are under reinvestigation.
 - (C) MBF: The income tax returns of 2010 and 2011 are under reinvestigation.
 - (D) MTIC: The income tax return of 2012 and 2013 is under reinvestigation.
 - (E) Mega Venture Capital: The income tax returns during the period 2010 to 2012 are under reinvestigation.
- E. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Mega Group's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Mega Group has assessed the impact of the change in income tax rate.

(40) Earnings per share

Basic and diluted earnings per share

	For the years ended December 31,	
	2018	2017
Profit attributable to ordinary stockholders of the Company	\$ 28,109,164	\$ 25,734,515
Weighted-average number of shares outstanding (In thousands of shares)	13,599,824	13,599,824
Basic earnings per share (In dollars)	\$ 2.07	\$ 1.89

(41) Change in liability from financing activities

During the year ended December 31, 2018, the bondholders converted 57,833 bonds issued by the Company into 701,856 thousand shares of common stock of Taiwan Business Bank. There was no movement in convertible bonds of the Company during the year ended December 31, 2017.

The subsidiaries-MICB repaid the financial bonds with book value \$12,600,000 and \$10,300,00, respectively, during the years ended December 31, 2018 and 2017.

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 a financial instrument traded is not active, the Mega Group then adopts a valuation technique or uses pricing information provided by Bloomberg, Reuters, or counterparties to measure the fair value of the instrument, incorporating credit risk information on the counterparties in relation to the Mega Group.

(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, securities purchased under resell agreement, receivables, loans discounted, refundable deposits, financial assets at amortised cost-central bank's certificate of deposit and short-term note and bill, deposits from the Central Bank and banks, due to Central Bank and other banks, securities 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, 2018	
	Carrying Value	Fair Value
Investments in debt instruments at amortised cost	\$ 23,916,283	\$ 23,891,434

	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

For the above-mentioned investments in debt instruments at amortised cost and 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.

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. Emerging stocks: The fair value is determined by the object's transaction price if there is a recent representative transaction. Alternatively, the fair value is measured by transaction price of a comparative listed stock during the latest one-month period using an appropriate market approach such as price earnings multiple method, price-book-value multiple method, corporate value to net profit before interest and tax method or net profit or revenue before interest, tax, depreciation and amortisation to corporate value multiple method relative to the comparative issuer's business condition after considering the liquidity discount of the object. If the fair value cannot be estimated with comparative issuer's information or market approach, other valuation techniques such as net asset method or income approach are adopted.

G. 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.

H. Funds: Net fund value is adopted.

I. 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 the quoted prices from Bloomberg and Standard Barrier 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, securities purchased under resell 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, securities 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' loans discounted (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 financial assets measured at amortised cost 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.

(6) Level information of financial instruments at fair value

A. Three definitions of the Mega 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. (Example of an unobservable input: an option pricing model that uses historical volatility; historical volatility does not reflect expected future volatility of all market participants). 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

December 31, 2018				
Recurring fair value measurements	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets mandatorily measured at fair value through profit or loss				
Investment in stocks	\$ 16,918,146	\$ 8,071,649	\$ 3,705,694	\$ 5,140,803
Investment in bonds	52,998,917	3,553,010	49,445,907	-
Investment in bills	119,170,343	-	119,170,343	-
Others	2,059,548	2,059,548	-	-
Financial assets at fair value through other comprehensive income				
Investment in stocks	19,582,197	4,935,380	5,981,732	8,665,085
Investment in bonds	390,889,167	27,956,448	362,932,719	-
Investment in bills	10,403,689	-	10,403,689	-
Others	301,500	301,500	-	-
Liabilities				
Financial liabilities held for trading	(499,798)	(397,836)	(101,962)	-
Financial liabilities designated as at fair value through profit or loss	(24,464,279)	-	(24,464,279)	-
Derivative financial instruments				
Assets				
Financial assets mandatorily measured at fair value through profit or loss	5,054,076	166,768	4,887,308	-
Liabilities				
Financial liabilities at fair value through profit or loss	(2,393,385)	-	(2,393,068)	(317)

December 31, 2017				
Recurring fair value measurements	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
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	-
Available-for-sale financial assets				
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	-
Liabilities				
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)	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	3,571,029	210,685	3,360,285	59
Liabilities				
Financial liabilities at fair value through profit or loss	(2,138,724)	-	(2,138,376)	(348)

C. The transfer between Level 1 and Level 2.

On December 31, 2018, the MICB has no transfer between Level 1 and Level 2.

On December 31, 2018, certain financial instruments held by MS were transferred into Level 2 because trading volumes of such instruments decreased, resulting in less information on quotes prices from active markets; certain financial instruments held by MS were transferred into Level 1 because trading volumes of such instruments increased, resulting in more information on quoted prices from active markets.

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.

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, 2018

Item	January 1, 2018	Valuation gain or loss		Addition		Reduction		December 31, 2018
		Recognized as profit or loss	Recognized as other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
<u>Non-derivative financial instruments</u>								
Financial assets at fair value through profit or loss								
Financial assets mandatorily measured at fair value through profit or loss	\$ 5,396,312	(\$ 281,741)	\$ -	\$ 48,648	\$ 285,668	(\$ 125,544)	(\$ 182,540)	\$ 5,140,803
Financial assets at fair value through other comprehensive income	14,010,846	49,539	493,456	6,598	400,000	(530,804)	(5,764,550)	8,665,085
<u>Derivative financial instruments</u>								
Financial assets mandatorily measured at fair value through profit or loss	59	13	-	888	-	(960)	-	-
Total	\$ 19,407,217	(\$ 232,189)	\$ 493,456	\$ 56,134	\$ 685,668	(\$ 657,308)	(\$ 5,947,090)	\$13,805,888

The fair value of unlisted stocks held by the Mega Group amounting to \$5,947,090 as of January 1, 2018, was measured based on recent transaction prices within one year and hence the classification was transferred from Level 3 to Level 2.

For the year ended December 31, 2017

Item	January 1, 2017	Valuation gain or loss		Addition		Reduction		December 31, 2017
		Recognized as profit or loss	Recognized as other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
<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

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

For the year ended December 31, 2018

Item	January 1, 2018	Valuation gain or loss		Addition		Reduction		December 31, 2018
		Recognized as profit or loss	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	(\$ 348)	(\$ 75)	\$ -	(\$ 3,354)	\$ -	\$ 3,460	\$ -	(\$ 317)

For the year ended December 31, 2017

Item	January 1, 2017	Valuation gain or loss		Addition		Reduction		December 31, 2017
		Recognized as profit or loss	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)

Transfers into or out from level 3 (for example, transfers resulted from changes in the observability of market data) and the reasons for those transfers: significant transfers out from level 3 mainly resulted from certain emerging stocks whose trading volume of current month did not meet the definition of active market and being transferred from level 2. Significant transfers out from level 3 mainly resulted from certain emerging stocks whose trading volume of current month meets the definition of active market and being transferred into level 2.



(C) The 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, 2018	Changes in the fair value recognized in the current profit or loss		Changes in the fair value recognized in the comprehensive income or loss	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
The level 3 of financial instruments	\$ 514,080	(\$ 514,080)	\$ 866,509	(\$ 866,509)

December 31, 2017	Changes in the fair value recognized in the current profit or loss		Changes in the fair value recognized in the comprehensive income or loss	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
The level 3 of financial instruments	\$ 3,018	(\$ 3,017)	-	-

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 Mega Group belongs to level 3 because of financial assets mandatorily measured at fair value through profit or loss-equity investments, financial assets at fair value through other comprehensive income-equity investments and derivative instruments-structured products.

Fair value of the subsidiary-MS belongs to equity investments 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.

(E) Table below summarises quantitative information of significant unobservable inputs:

December 31, 2018	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 mandatorily measured at fair value through profit or loss					
Equity investment	\$ 4,655,026	Market approach	Lack of liquidity discount	15%~30%	The higher liquidity discount, the lower fair value.
	271,264	Net asset approach	Price-book value ratio multiple	0.53%~7.82%	The higher price-book value ratio multiple, the lower fair value.
	214,513	Sale price in the most recent year or rights offering price	N/A	N/A	N/A
			N/A	N/A	N/A
Financial assets at fair value through other comprehensive income					
Equity investment	6,030,092	Market approach	Lack of liquidity discount	10%~50%	The higher liquidity discount, the lower fair value.
			Price-book value ratio multiple	0.73%~2.06%	The higher price-book value ratio multiple, the lower fair value.
	2,634,993	Net asset approach	N/A	N/A	N/A
Derivative financial liabilities					
Structured products	(317)	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. Issuance of PGN was for the sale of options, thus the higher the price volatility, the higher the fair value.

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.
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.
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.

(F)Fair value measurement process for instruments classified in Level 3

The financial instrument assessment team is in charge of valuation procedures for fair value measurements, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

8. The management objectives and policies of financial risks

(1) Overview

The 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,

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.

Classifying credit ratings based on clients' probability of default or behavior scoring with management put in practice.

Controlling concentration of credit risk by setting credit limits for individuals, corporate groups, industries, areas, and different types of collaterals.

Setting credit risk limits by reference to external ratings and prospects with attention to changes in market credit spread and risk concentration of counterparties.

Establishing the pre-warning list of credit and reporting system.

Assessing assets quality regularly and setting aside sufficient reserve for losses.

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.

C. Expected credit losses calculation

In the assessment of impairment and calculation of expected credit losses, the Group considers reasonable and supportable information (including forward-looking information that can be obtained without costing excessive costs or inputs) about past events, current conditions and reasonable and supportable forecasts of future economic conditions. The Mega Group determines at the reporting date whether there has been a significant increase in credit risk since initial recognition or whether credit impairment has occurred, and recognises expected credit loss according to which stage the asset belongs: no significant increase in credit risk or low credit risk at balance sheet date (Stage 1), significant increase in credit risk (Stage 2), and credit impaired (Stage 3). 12-month expected credit losses are recognised for assets in Stage 1, and lifetime expected credit losses are recognised for assets in Stage 2 and Stage 3.

The definition of each stage and the recognition of expected credit loss are as follows:

Low credit risk (Stage 1)

The Group estimates the 12 months expected credit losses if financial assets which has low credit risk at reporting date, or there has not been a significant increase in credit risk since initial recognition.

Significant increase in credit risk (Stage 2)

The Group estimates the lifetime expected credit losses (ECLs) if such credit risk has significant increased since initial recognition but not impaired after taking into consideration all reasonable and verifiable information.

Credit-impaired (Stage 3)

The credit is impaired when expected future cash flows of the financial assets have one or more events that occurred with adverse effects, and the Group shall estimate the lifetime expected credit losses (ECLs).

(1) Determination of a significant increase in credit risk after initial recognition

(A). Loan business

Subsidiary, MICB, assesses the changes in default risk over the lifetime of each category of credit assets at each reporting date to determine whether there has been a significant increase in credit risk. The assessment takes into account reasonable and supportable information including forward-looking information that demonstrates a significant increase in credit risk after initial recognition. The main indicators taken into consideration include:

a. Qualitative indicators

(a) Changes in internal/external credit ratings

The credit risk of the financial instrument is assessed to be significantly increased after initial recognition if its external credit rating were lowered over 2 to 3 grades and it qualified other conditions at the reporting date. A financial instrument that is not externally rated whose internal credit rating needs to be mapped with an external grade and then determined based on its external credit rating. A no-rated financial instrument is determined by default events and qualitative indicators.

The credit assets are allocated in 13 scales of internal rating. The scales corresponds to the ratings of Standard & Poor's as follows:

Internal risk rating	1~3	4~6	7~9	10~13
Corresponding to S&P	AA-or better~A-	BBB+~ BBB-	BB+~B+	B +and below

(b) Default events

The repayment of principal and interest is later 1 to 3 months over when contractually dues, and not included in credit-impaired (Stage 3).

b. Quantitative indicators:

(a) The subsidiary, MICB, reported a dishonored check issued by debtor.

- (b) Debtor was notified as a dishonoured account by Taiwan clearing house.
- (c) The pledged collateral of the debtor is seized by another bank.
- (d) Debtor's loans from other financial institutions have been reclassified as overdue loan or written off as bad debt.
- (e) The independent accountant issues an opinion expressing material uncertainty over the company's ability to continue as a going concern.
- (f) The debtor has other records of bad credit that has affected its capital procurement and normal operation.

The loan assets of the Mega Group and its subsidiaries are assumed to have no significant increase in credit risk since initial recognition if they are of low credit risk at the reporting date.

(B). Bond investments and counterparty transactions

The Mega Group assesses the changes in default risk over the lifetime of bond investments and counterparty transactions at each reporting date to determine whether there has been a significant increase in credit risk. The assessment takes into account reasonable and supportable information including forward-looking information that demonstrates a significant increase in credit risk after initial recognition. The main indicators taken into consideration include:

- a. The repayment including interests is over 30 days past due.
- b. The fair value and cost are lower than a certain percentage.
- c. A change in internal/external credit ratings.

At the reporting date, if the external credit rating of the financial instrument has decreased by more than 3 grades since initial recognition, or if the instrument is not investment grade, it is determined to have significant increase in credit risk. If the financial instrument only has an internal credit rating, the assessment is based on the equivalent external credit rating.

- d. The CDS spread of bond issuer/counterparty is over certain basis points.
- e. Fluctuation rate of individual stock price relative to the overall market price.

The fluctuation rate of individual stock price of the bond issuer/ counterparty relative to the overall market price is lower than a certain percentage in consecutive months.

(2) Definition of default and credit impaired financial asset

(A). Credit business

The Mega Group uses the credit-impaired indicators as follows:

- a. Qualitative indicator: Except for the accounts receivable factoring without recourse resulting from a non-financial factor, the repayment of principal and interest is over 90 days past due.
- b. Quantitative indicators:
 - (a) The accounts receivable factoring without recourse has been recorded as non-performing loans.
 - (b) Overdue receivables.
 - (c) The amount cannot be expected to be recovered because of the debtor's financial difficulties.
 - (d) A modification of the contractual terms led by the debtor's financial difficulties, including an extended repayment term of principal and a punctual repayment of interests, extended repayment term of interests, debt negotiations for agreed settlement administered by the Bank Association.
 - (e) The debtor has filed for bankruptcy or is likely to file for bankruptcy.
 - (f) The debtor entered into reorganisation or is likely to file for reorganisation.

(B). Bond investments and counterparty transactions

The Mega Group uses the credit-impaired indicators as follows:

- a. The repayment is over 90 days past due.
- b. Overdue receivables.
- c. Bad debts.
- d. The issuer or debtor encounters financial difficulties.
- e. A modification of the contractual terms led by the debtor's financial difficulties.
- f. The debtor has filed for bankruptcy or is likely to file for bankruptcy.
- g. The debtor entered into reorganisation or is likely to file for reorganization.
- h. Externally rated as in default.

(3) Write-off policy

The Group writes-off the financial assets partially or entirely to the extent of the amount which cannot be reasonably expected to be recovered.

The indicators for reasonably expected to be unrecoverable include:

- (A). The recourse procedures has ceased.
- (B). The debtor's assets or income is evaluated to be insufficient to repay outstanding payments.

The Mega Group may proceed recourse activities for the written-off financial assets and undergo recourse procedures in accordance with related policies.

(4) Measurement of expected credit loss

The Mega Group recognises the impairment provision for 12 months expected credit losses (ECLs) if there has not been a significant increase in credit risk since initial recognition and recognises the impairment provision for the lifetime expected credit losses if such credit risk has increased since initial recognition.

(A). Credit business

Expected credit loss are measured based on probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD").

a. Probability of default ("PD"):

The estimation of PD is based on the rated financial assets and no-rated financial assets of the Mega Group, with the 12-month PD and lifetime PD estimated separately.

- (a) Calculate the actual 12-month PD from historical data, which is adjusted by using forward-looking information, and use it to estimate the future 12-month PD parameter.
- (b) Lifetime PD: The Mega Group adopts Markov Chain to estimate lifetime PD, which is obtained by a matrix multiplication from rating transition matrix.

In addition, probability of default of externally rated financial assets is measured by the same method with "Bond investments and counterparty transactions".

b. Loss given default ("LGD"):

Loans are grouped according to type (corporate or consumer) and whether they are secured with collateral, and the LGD of each group is calculated based on historical recovery experience.

c. Exposure at default ("EAD"):

- (a) On balance sheet: calculated from the total book value at the reporting date (including interest receivable).
- (b) Off balance sheet: off balance sheet figures multiplied by the credit conversion factor (CCF). The CCF is estimated according to the rules described in the "Calculation Method of Equity Capital and Risky Assets and Accompanying Forms-Credit Risk Standard Rules."

(B). Bond investments and counterparty transactions

- a. PD is calculated based on external credit ratings data, which takes into consideration forward-looking information.
- b. LGD is an average LGD obtained from external credit ratings.
- c. EAD:
 - (a) Stage 1 and Stage 3: calculated from total book value (including interest receivable)
 - (b) Stage 2: used the cash flows of bonds during its duration.

(5) Consideration of forward-looking information

(A). Credit business

The Mega Group incorporates forecastable information when determining whether there has been a significant increase in credit risk since initial recognition and measuring expected credit losses.

a. For determining significant increase in credit risk

Clients' financial condition, repayment ability, corporate governance and forward-looking information such as industry's prospects are taken into consideration.

b. For measuring expected credit losses

Consideration of forward-looking information are reflected by PD and LGD. Consideration of forward-looking information classifies loans into three types: loans with (a) external credit ratings (b) with internal credit ratings and (c) without credit ratings:

- (a). Loans with external credit ratings: ECLs are measured by the same approach by considering the same forward-looking information adopted for bond investments and counterparty transactions.
- (b). Loans with internal credit ratings:

To measure the PD of internally rated financial assets, the Mega Group considers forward-looking information by assessing corporate and individual customers sequentially, referring to academic literatures across the countries and employing statistical methods to screen relevant macro-economic factors (including economic growth rate, unemployment rate, consumer price index, interest rate, exchange rate and real estate price index) in order to assess the effects on each rating level while

the macro-economic changes, and use it to be the forward-looking information adjustment of future PD. In addition, the Mega Group's adjustment of forward-looking information is including the analysis under the different macroeconomic environments, which are appropriated the weight in accordance with its incidence. As a result, the weighted average was calculated based on different economic environments, and it reflects the non-linear system between the incidence of different macroeconomic environments and the existence of credit loss.

(c). No-rated financial assets

To measure the PD of no-rated financial assets, the Mega Group considers forward-looking information by complying with the impairment estimation methodology guidelines released by the Bankers Association of the Republic of China.

(B). Bond investments and counterparty transactions

To measure the forecastable estimation of PD, the PDs under different ratings and limits are obtained by constructing the regression model and combining the result of regression with the assessment of macroeconomy.

D. Policies of hedging or 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. In addition, 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.

E. The maximum exposure to credit risk

The maximum exposure to credit risk is presented with the book amounts for the financial assets in balance sheet, undrawn loan facilities for the irrevocable commitments off balance sheet, and the issued but not used balance for letters of credit and guarantees provided.

The maximum exposure of the financial assets on the balance sheets of the Company and its subsidiaries, not taking into account collateral or other credit enhancements, is approximately the carrying value of these assets.

(A) The total carrying amount of financial assets held by the Mega Group that has the maximum exposure to credit risk is as follows:

a. Loans discounted, net

December 31, 2018

Loans discounted, net	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Credit ratings					
- excellent	\$ 831,764,348	\$ 100,031	\$ 134,480	\$ -	\$ 831,998,859
- good	469,478,580	33,480,718	91,084	-	503,050,382
- acceptable	272,814,116	20,453,589	856,078	-	294,123,783
- weak	88,009,347	17,679,105	6,204,468	-	111,892,920
- no rated	148,601,688	2,920,522	2,118,196	-	153,640,406
Total carrying amount	1,810,668,079	74,633,965	9,404,306	-	1,894,706,350
Allowance for bad debt	(2,625,625)	(700,461)	(2,956,493)	-	(6,282,579)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(23,976,668)	(23,976,668)
Total	\$ 1,808,042,454	\$ 73,933,504	\$ 6,447,813	(\$ 23,976,668)	\$1,864,447,103

Financial Information

b. Receivables

December 31, 2018

Receivables	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Credit ratings					
- excellent	\$ 34,699,120	\$ 88	\$ 48	\$ -	\$ 34,699,256
- good	7,240,580	563,261	3	-	7,803,844
- acceptable	6,905,968	546,898	1,486	-	7,454,352
- weak	1,281,182	56,311	259,904	-	1,597,397
- no rated	42,274,006	15,344	796,506	-	43,085,856
Total carrying amount	92,400,856	1,181,902	1,057,947	-	94,640,705
Allowance for bad debt	(628,399)	(4,685)	(91,376)	-	(724,460)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(1,192,990)	(1,192,990)
Total	\$ 91,772,457	\$ 1,177,217	\$ 966,571	(\$ 1,192,990)	\$ 92,723,255

c. Debt instruments

December 31, 2018

Debt instruments	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Credit ratings				
- excellent	\$ 670,673,380	\$ -	\$ -	\$ 670,673,380
- good	3,218,959	-	-	3,218,959
- weak	330,933	-	-	330,933
- no rated	9,625	-	-	9,625
Total carrying amount	674,232,897	-	-	674,232,897
Allowance for bad debt	(14,024)	-	-	(14,024)
other equity	(153,879)	-	-	(153,879)
Total	\$ 674,064,994	\$ -	\$ -	\$ 674,064,994

(B) The maximum exposure to credit risk in relation to the items off balance sheet is as follows:

December 31, 2018

Loan commitments and financial guarantee contracts	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Credit ratings					
- excellent	\$ 219,952,884	\$ -	\$ -	\$ -	\$ 219,952,884
- good	151,039,721	5,766,302	-	-	156,806,023
- acceptable	74,686,390	1,060,681	-	-	75,747,071
- weak	16,798,542	3,265,030	462,955	-	20,526,527
- no rated	108,842,312	1,090,619	30,269	-	109,963,200
Total carrying amount	571,319,849	11,182,632	493,224	-	582,995,705
Provisions for liabilities and loan commitments	(368,080)	(92,538)	(41,094)	-	(501,712)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(5,067,585)	(5,067,585)
Total	\$ 570,951,769	\$ 11,090,094	\$ 452,130	(\$ 5,067,585)	\$ 577,426,408



(C) The analysis of risk exposure by the asset's counterparty and category is as follows:

December 31, 2018

	Cash and cash equivalents, Due from the Central Bank and call loans to banks	Loans discounted, net	Reinsurance contract assets	Receivables, net	Securities purchased under resell agreements and debt instruments	Derivatives	Other on balance sheet	Loan commitments and financial guarantee contracts	Total
Government institution	\$ 326,313,246	\$ 9,590,241	\$ -	\$ 1,295,225	\$ 161,231,635	\$ 37	\$ 2,618	\$ 17,997,463	\$ 516,430,465
Finance, investment and insurance	317,582,166	201,014,440	3,869,591	6,928,779	455,603,541	4,419,846	5,082,355	69,970,159	1,064,470,877
Enterprise and commerce	-	1,249,992,842	-	61,759,714	231,910,797	111,344	33,884	420,415,823	1,964,224,404
Individuals	-	428,650,895	-	23,094,414	-	29,943	107,614	71,135,488	523,018,354
Other	-	5,457,932	-	1,562,573	279,415	492,906	46	3,476,772	11,269,644
Total	643,895,412	1,894,706,350	3,869,591	94,640,705	849,025,388	5,054,076	5,226,517	582,995,705	4,079,413,744
Less: allowance for bad debt, accumulated impairment and provisions for liabilities	(120)	(30,259,247)	(15,127)	(1,917,450)	(167,903)	-	(114,306)	(5,569,297)	(38,043,450)
Net	\$ 643,895,292	\$ 1,864,447,103	\$ 3,854,464	\$ 92,723,255	\$ 848,857,485	\$ 5,054,076	\$ 5,112,211	\$ 577,426,408	\$ 4,041,370,294

The trade financing for corporates and businesses accounts for 11.72%, equivalent to \$146,533,386 while the housing loans for individuals accounts for 76.34%, equivalent to \$327,219,821.

(D) 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, 2018	Collateral	Net settlement master netting arrangements	Guarantee	Total
On-Balance-Sheet Items				
Cash and cash equivalents	\$ 735,458	\$ -	\$ -	\$ 735,458
Financial assets mandatorily measured at fair value through profit or loss				
- debt instrument	-	-	16,218,379	16,218,379
- derivative instrument	1,906,620	676,494	-	2,583,114
Financial assets at fair value through other comprehensive income-debt instrument	-	-	17,038,027	17,038,027
Investments in debt instruments at amortised cost	-	-	22,031,905	22,031,905
Securities purchased under resell agreements	2,623,231	-	-	2,623,231
Receivables	21,788,257	-	-	21,788,257
Loans discounted	1,163,114,203	-	61,119,129	1,224,233,332
Other assets	270,500	-	-	270,500
Off-Balance-Sheet Items				
Irrevocable commitments	22,575,791	-	1,396,401	23,972,192
Guarantees	145,170,237	-	1,583,282	146,753,519
Letters of credit	9,857,909	-	439,616	10,297,525

(Note 1) : Collaterals include property, movable property, certification of authorization, securities, certificates of deposits, notes receivable and rights in property.

i. 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.

ii. 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) D. (C) and D. (D).

(E) The Company and its subsidiaries closely monitor the value of the collateral of financial instruments and considers the credit-impaired financial assets that require impairment recognition. Information on credit-impaired assets and the value of collateral used to offset potential losses is as follows:

December 31, 2018	Total carrying amount	Allowance for impairment	Total risk exposure	Collateral/Guarantee credit enhancement
Receivables				
- Credit card business	\$ 75,181	\$ 59,861	\$ 15,320	\$ -
- Other	982,766	676,485	306,281	139,915
Loan discounted, net	9,404,306	3,101,154	6,303,152	5,190,095
Reinsurance contract assets	29,752	15,126	14,626	-
Other financial assets	147,721	114,264	33,457	-
Impaired financial assets on balance sheet	\$ 10,639,726	\$ 3,966,890	\$ 6,672,836	\$ 5,330,010
Irrevocable loan commitments	\$ 394,989	\$ 3,997	\$ 390,992	\$ -
All types of guarantees	63,875	46,861	17,014	49,776
Letters of credit	34,360	6,128	28,232	179,545
Impaired financial assets off balance sheet	\$ 493,224	\$ 56,986	\$ 436,238	\$ 229,321

F. Movements in allowance for bad debts, accumulated impairment and provisions for financial assets are as follows:

a. The reconciliation from the beginning balance to ending balance of the allowance for bad debts arising from loan discounted for the year ended December 31, 2018, is shown below:

Loans discounted, net	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total impairment recognised under IFRS 9	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Balance at the beginning of the year	\$ 2,825,429	\$ 709,417	\$ 2,309,183	\$ 5,844,029	\$ 22,511,523	\$ 28,355,552
Changes from financial instruments recognised at the beginning of the year:						
- Transferred to lifetime expected credit loss	(30,712)	33,268	(2,556)	-	-	-
- Transferred to credit impaired financial asset	(4,110)	(25,943)	30,053	-	-	-
- Transferred to 12-month expected credit losses	143,851	(107,482)	(36,369)	-	-	-
- Derecognised financial assets	(1,285,842)	(225,466)	(122,487)	(1,633,795)	-	(1,633,795)
- Additional provision and reversal	(286,219)	115,164	875,950	704,895	-	704,895
Originated or purchased new financial assets:	1,288,540	220,648	548,227	2,057,415	-	2,057,415
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	1,465,145	1,465,145
Write-off of uncollectible amount	-	-	(1,745,175)	(1,745,175)	-	(1,745,175)
Foreign exchange and other changes	(25,312)	(19,145)	1,099,667	1,055,210	-	1,055,210
Balance at the end of the year	\$ 2,625,625	\$ 700,461	\$ 2,956,493	\$ 6,282,579	\$ 23,976,668	\$ 30,259,247

b. The reconciliation from the beginning balance to ending balance of the allowance for bad debts arising from loan receivables for the year ended December 31, 2018, is shown below:

Receivables	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total impairment recognised under IFRS 9	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Balance at the beginning of the year	\$ 641,242	\$ 2,402	\$ 388,330	\$ 1,031,974	\$ 1,152,248	\$ 2,184,222
Changes from financial instruments recognised at the beginning of the year:						
- Transferred to lifetime expected credit losse	(246)	1,283	(1,037)	-	-	-
- Transferred to credit impaired financial asset	(46)	(108)	154	-	-	-
- Transferred to 12-month expected credit losses	1,634	(875)	(759)	-	-	-
- Derecognised financial assets	(174,088)	(1,861)	(369,885)	(545,834)	-	(545,834)
- Additional provision and reversal	10,523	778	(1,358)	9,943	-	9,943
Originated or purchased new financial assets	130,425	14,750	12,151	157,326	-	157,326
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	40,752	40,752
Write-off of uncollectible amount	(8,265)	(11,683)	50,207	30,259	-	30,259
Foreign exchange and other changes	27,210	(2)	13,574	40,782	-	40,782
Balance at the end of the year	\$ 628,389	\$ 4,684	\$ 91,377	\$ 724,450	\$ 1,193,000	\$ 1,917,450

c. The reconciliation from the beginning balance to ending balance of the allowance for bad debts arising from debt instruments for the year ended December 31, 2018, is shown below:

(a). Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the year	\$ 187,488	\$ -	\$ -	\$ 187,488
Changes from financial instruments recognised at the beginning of the year:				
- The impairment allowance for financial assets derecognised in the current year	(15,524)	-	-	(15,524)
- Additional provision and reversal	(50,130)	-	-	(50,130)
Originated or purchased new financial assets	31,364	-	-	31,364
Foreign exchange and other changes	681	-	-	681
Balance at the end of the year	\$ 153,879	\$ -	\$ -	\$ 153,879

(b). Investments in debt instruments at amortised cost

Investments in debt instruments at amortised cost	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the year	\$ 14,257	\$ -	\$ -	\$ 14,257
Changes from financial instruments recognised at the beginning of the year:				
- The impairment allowance for financial assets derecognised in the current year	(7,587)	-	-	(7,587)
- Additional provision and reversal	(1,354)	-	-	(1,354)
Originated or purchased new financial assets	8,006	-	-	8,006
Change of models/risk parameters	-	-	-	-
Foreign exchange and other changes	702	-	-	702
Balance at the end of the year	\$ 14,024	\$ -	\$ -	\$ 14,024

d. The reconciliation from the beginning balance to ending balance of the provisions for loan commitments and guarantee liabilities for the year ended December 31, 2018, is shown below:

Provisions for loan commitments and guarantee liabilities	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total impairment recognised under IFRS 9	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Balance at the beginning of the year	\$ 325,778	\$ 74,576	\$ 94,833	\$ 495,187	\$ 5,494,067	\$ 5,989,254
Changes from financial instruments recognised at the beginning of the year:						
- Transferred to lifetime expected credit loss	(3,698)	3,698	-	-	-	-
- Transferred to 12-month expected credit losses	13,418	(13,418)	-	-	-	-
- The impairment allowance for financial assets derecognised in the current year	(78,655)	(5,607)	(68,400)	(152,662)	-	(152,662)
- Additional provision and reversal	(24,864)	25,524	2,580	3,240	-	3,240
Originated or purchased new financial assets	142,530	28,320	11,141	181,991	-	181,991
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	(426,482)	(426,482)
Foreign exchange and other changes	(6,429)	(20,555)	940	(26,044)	-	(26,044)
Balance at the end of the year	\$ 368,080	\$ 92,538	\$ 41,094	\$ 501,712	\$ 5,067,585	\$ 5,569,297



G. Movements in the total carrying amount of financial asset

a. The movement in the total carrying amount of loan discounted for the year ended December 31, 2018, is shown below:

Loan discounted, net	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the year	\$ 1,712,445,224	\$ 68,892,409	\$ 9,178,628	\$1,790,516,261
Changes from financial instruments recognised at the beginning of the year:				
- Transferred to lifetime expected credit losses	(20,496,617)	20,523,763	(27,146)	-
- Transferred to credit impaired financial asset	(1,734,901)	(760,828)	2,495,729	-
- Transferred to 12-month expected credit losses	11,755,438	(11,692,477)	(62,961)	-
- Derecognition(including recovery, write-off bad debt not included)	(658,325,310)	(25,794,971)	(1,361,508)	(685,481,789)
- Increased(decreased)	(64,513,727)	(1,512,203)	(484,013)	(66,509,946)
Originated or purchased new financial assets	829,144,256	24,976,772	1,412,822	855,533,850
Write-off of uncollectible amount	-	-	(1,745,175)	(1,745,175)
Foreign exchange and other changes	2,393,716	1,503	(2,070)	2,393,149
Balance at the end of the year	\$ 1,810,668,079	\$ 74,633,965	\$ 9,404,306	\$1,894,706,350

b. The movement in the total carrying amount of receivables for the year ended December 31, 2018, is shown below:

Receivables, net	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the year	\$ 96,297,767	\$ 702,721	\$ 1,259,506	\$ 98,259,994
Changes from financial instruments recognised at the beginning of the year:				
- Transferred to lifetime expected credit losses	(113,569)	115,091	(1,522)	-
- Transferred to credit impaired financial asset	(24,771)	(12,397)	37,168	-
- Transferred to 12-month expected credit losses	316,908	(315,792)	(1,116)	-
- Increased(decreased)	941,531	8,510	(33,580)	916,461
Originated or purchased new financial assets	47,547,947	877,840	172,849	48,598,636
Write-off of uncollectible amount	(8,265)	(11,683)	(30,084)	(50,032)
Derecognition(including recovery, write-off bad debt not included)	(53,815,192)	(182,390)	(436,816)	(54,434,398)
Foreign exchange and other changes	1,258,500	2	91,542	1,350,044
Balance at the end of the year	\$ 92,400,856	\$ 1,181,902	\$ 1,057,947	\$ 94,640,705

c. The movement in the total carrying amount of debt instruments for the year ended December 31, 2018, is shown below:

(a). Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the year	\$ 385,265,337	\$ -	\$ -	\$ 385,265,337
Originated or purchased new financial assets	102,240,132	-	-	102,240,132
Derecognition(including recovery, write-off bad debt not included)	(87,419,527)	-	-	(87,419,527)
Change in valuation adjustment	(1,457,726)	-	-	(1,457,726)
Foreign exchange and other changes	2,664,640	-	-	2,664,640
Balance at the end of the year	\$ 401,292,856	\$ -	\$ -	\$ 401,292,856

(b). Investments in debt instruments at amortised cost

Investments in debt instruments at amortised cost	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the year	\$ 325,154,987	\$ -	\$ -	\$ 325,154,987
Originated or purchased new financial assets	252,249,090	-	-	252,249,090
Derecognition(including recovery, write-off bad debt not included)	(304,727,826)	-	-	(304,727,826)
Change in valuation adjustment	16,233	-	-	16,233
Foreign exchange and other changes	247,557	-	-	247,557
Balance at the end of the year	\$ 272,940,041	\$ -	\$ -	\$ 272,940,041

H. 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, 2018		December 31, 2017	
		Amount	Percentage (%)	Amount	Percentage (%)
Individuals	Individuals	\$ 499,786,383	20.17%	\$ 469,885,151	19.85%
Corporation	Government institution	27,587,704	1.11%	95,409,141	4.03%
	Finance, investment and insurance	270,984,599	10.94%	252,166,182	10.65%
	Enterprise and commerce	1,670,408,665	67.42%	1,537,332,305	64.94%
	- Manufacturing	661,490,691	26.70%	585,731,536	24.74%
	- Electricity and gas supply	76,196,232	3.08%	86,934,980	3.67%
	- Wholesale and retail	186,056,771	7.51%	170,400,003	7.20%
	- Transportation and storage	163,104,210	6.58%	166,899,325	7.05%
	- Real estate	345,335,907	13.94%	325,344,624	13.74%
	- Others	238,224,854	9.61%	202,021,837	8.54%
	Others	8,934,704	0.36%	12,643,288	0.53%
Total		\$ 2,477,702,055	100.00%	\$ 2,367,436,067	100.00%

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

		Loans and credit commitments			
		December 31, 2018		December 31, 2017	
		Amount	Percentage (%)	Amount	Percentage (%)
ROC		\$ 1,889,894,020	76.28%	\$ 1,884,316,704	79.59%
Asia		385,517,977	15.56%	303,204,321	12.81%
North America		96,422,300	3.89%	82,687,000	3.49%
Others		105,867,758	4.27%	97,228,042	4.11%
Total		\$ 2,477,702,055	100.00%	\$ 2,367,436,067	100.00%



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

	Loans and credit commitments			
	December 31, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Unsecured	\$ 1,072,445,486	43.28%	\$ 925,099,312	39.08%
Secured				
- Secured by stocks	70,675,797	2.85%	171,872,987	7.26%
- Secured by bonds	91,523,120	3.69%	87,149,314	3.68%
- Secured by real estate	973,717,388	39.30%	916,370,393	38.71%
- Secured by movable property	96,114,606	3.88%	96,494,268	4.07%
- Letter of guarantee	64,538,428	2.61%	54,752,245	2.31%
- Others	108,687,230	4.39%	115,697,548	4.89%
Total	\$ 2,477,702,055	100.00%	\$ 2,367,436,067	100.00%

I. Foreclosed properties management policy

As of December 31, 2018 and 2017, 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.

J. 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, 2018				
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	\$ 684,772	\$ 659,713,048	0.10%	\$ 9,883,164	1443.28%
	Unsecured loans	1,305,229	806,342,408	0.16%	13,985,258	1071.48%
Consumer banking	Residential mortgage loans (Note 4)	667,735	327,578,553	0.20%	4,899,646	733.77%
	Cash card services	-	-	-	-	-
	Small amount of credit loans (Note 5)	337	14,142,004	0.00%	205,599	61008.61%
	Others (Note 6) Secured loans	146,801	86,888,239	0.17%	1,284,875	875.25%
	Unsecured loans	341	42,098	0.81%	705	206.74%
Gross loan business		\$ 2,805,215	\$ 1,894,706,350	0.15%	\$ 30,259,247	1078.68%
		Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services		\$ 8,768	\$ 5,304,444	0.17%	\$ 64,890	740.08%
Without recourse factoring (Note 7)		\$ -	\$ 36,041,881	-	\$ 517,373	-

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	-

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, 2018	
	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)	292	2,417
Total	\$ 292	\$ 2,417

	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

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, 2018	
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	\$ 49,843,216	17.62%
2	B Group—Manufacture of plastic films and bags	40,705,135	14.39%
3	C Group—Real Estate Development	35,943,083	12.71%
4	D Group—Manufacture of liquid crystal panel and components	26,657,693	9.42%
5	E Group—Air Transport	22,752,579	8.04%
6	F Group—Steel and Smelting	19,492,055	6.89%
7	G Group—Computer Manufacturing	18,420,802	6.51%
8	H Group—Chemical Materials Manufacturing	17,554,153	6.21%
9	I Group—Rolling and Extruding of Iron and Steel	16,905,262	5.98%
10	J Group—Other Financial Service Activities Not Elsewhere Classified	15,188,612	5.37%

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%

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.

Note 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.

Note 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, 2018	December 31, 2017
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	2,178,118	2,152,284
Provision for bad debts and guarantees actually reserved	2,217,157	2,289,701

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, 2018	December 31, 2017
Total guarantees and endorsement for short-term bills	\$ 164,692,100	\$ 156,971,100
Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment)	4.93	5.06
Total securities sold under repurchase agreements	202,310,405	208,414,735
Securities sold under repurchase agreements / Net amount (after deducting final accounts allotment)	6.06	6.72

(c) Credit risk concentration

Item	December 31, 2018		December 31, 2017	
Amount of credit extensions to interested parties	\$	97,000	\$	97,000
Ratio of credit extensions to interested parties (%) (Note 1)		0.06		0.06
Ratio of credit extensions secured by stocks (%) (Note 2)		18.02		17.98
	Industry	Ratio (%)	Industry	Ratio (%)
Industry concentration (%)	Real estate	27.60	Real estate	26.66
(Top 3 industries with highest ratio of credit extension amount) (Note 3)	Financial & Insurance	27.51	Financial & Insurance	28.77
	Manufacturing	20.60	Manufacturing	22.80

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 Company and its subsidiaries primarily operate in the financial industry, and emphasis is placed on the management of capital liquidity. The management objective are as follows: (1) be in compliance with the liquidity requirements of the competent authority; (2) maintain a reasonable liquidity level according to business development plans in order to meet daily payment obligations and business expansion needs; hold a sufficient amount of highly liquid assets and maintain the ability to secure external funding in emergencies.

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 assets that can be used to repay matured debt and fund loan commitments include cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets measured at fair value through profit or loss, securities purchased under resell agreements, receivables, loans discounted, available-for-sale financial assets, held-to-maturity financial assets, and other financial assets.

The liquidity management policies of the Mega Group include:

- (A) Maintain the ability to perform all payment obligations immediately.
- (B) Maintain solid assets/liabilities structure to ensure medium and long-term liquidity safety.
- (C) Diversify capital sources and absorb stable core depositors to avoid depending on certain large-sum depositors or minor borrowers.
- (D) Avoid potential unknown loss risk which will increase capital cost and capital procurement pressure.
- (E) Conduct due date management to ensure that cash inflow is greater than cash outflow in short term.
- (F) Keep liquidity ratio regulated by the supervision authority.
- (G) Awareness of high-quality, high-liquidity assets.
- (H) Awareness of the liquidity, safety and diversity of financial instruments.
- (I) The Mega Group has capital emergency plans, which are reviewed regularly.
- (J) 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.124 of the Consolidated Financial Statements.)
- (B) Structure analysis for maturity of derivative financial assets and liabilities (settled by gross amount)
(Please refer to p.126 of the Consolidated Financial Statements.)
- (C) Structure analysis for maturity of derivative financial assets and liabilities (settled by net amount)
(Please refer to p.127 of the Consolidated Financial Statements.)



(D) Maturity analysis for contracts off the balance sheet

(Please refer to p.128 of the Consolidated Financial Statements.)

(E) Analysis for maturity leasing contractual commitments

	December 31, 2018			
	Not later than one year	1 year-5 years	Over 5 years	Total
Leasing contractual commitments				
- Non-cancellable aggregate minimum lease payments	\$ 621,456	\$ 1,205,465	\$ 694,554	\$ 2,521,475
- Non-cancellable aggregate minimum lease income	343,228	551,010	-	894,238

	December 31, 2017			
	Not later than one year	1 year-5 years	Over 5 years	Total
Leasing contractual commitments				
- Non-cancellable aggregate minimum lease payments	\$ 635,745	\$ 910,130	\$ 590,893	\$ 2,136,768
- Non-cancellable aggregate minimum lease income	345,889	288,970	-	634,859

Note: Leasing contractual commitments: lease's future minimum lease income/payments under the terms of a non-cancellable operating lease.

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.130 of the Consolidated Financial Statements)

(B) Maturity analysis of USD of subsidiary-MICB

(Please refer to p.130 of the Consolidated Financial Statements)

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

(Please refer to p.130 of the Consolidated Financial Statements)

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

(Please refer to p.131 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

securities, 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 Mega 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 Mega 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 Mega 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, 2018				
	USD	AUD	RMB	EUR	JPY
Assets					
Cash and cash equivalents	\$ 73,491,535	\$ 320,510	\$ 23,959,862	\$ 2,480,812	\$ 9,491,958
Due from the Central Bank and call loans to banks	428,715,142	1,452,319	6,739,005	467,540	8,147,853
Financial assets at fair value through profit or loss	38,563,354	3,854,136	13,184	7,726	2,059
Financial assets at fair value through other comprehensive income	95,037,865	74,683,965	11,675,992	2,943,621	-
Investments in debt instruments at amortised cost	21,705,046	1,298,107	1,946,693	581,675	555,788
Securities purchased under resell agreements	898,049	-	-	-	-
Receivables	33,621,882	7,172,202	1,039,105	311,809	2,510,284
Current income tax assets	-	-	-	-	-
Loans discounted, net	520,635,235	50,181,957	17,913,187	20,129,485	34,166,702
Reinsurance contract asset	168,133	-	-	1	175
Equity investments accounted for under the equity method	128,456	-	-	-	-
Other financial assets	599,139	162	9,820	11,483	38,788
Property and equipment	172,167	22,512	7,613	41,031	25,475
Intangible assets	34,616	1,390	14,995	189	1,089
Deferred income tax assets	282,127	-	1,950	-	-
Other assets	1,012,524	3,469	54,222	29,847	33,268
Total assets	\$1,215,065,270	\$ 138,990,729	\$ 63,375,628	\$ 27,005,219	\$ 54,973,439
Liabilities					
Due to the Central Bank and financial institutions	\$ 307,667,521	\$ 2,624,929	\$ 19,821,370	\$ 1,511,247	\$ 38,929,323
Funds borrowed from the Central Bank and other banks	51,734,091	-	-	1,759,006	-
Financial liabilities at fair value through profit or loss	25,684,207	5,406	608	5,890	1,461
Securities sold under repurchased agreements	46,427,814	19,092,751	-	-	-
Payables	14,417,893	272,332	1,263,100	428,289	2,349,371
Current income tax liabilities	-	-	-	-	-
Deposits and remittances	866,531,484	38,154,098	98,094,237	28,877,238	27,159,864
Other loans	399,529	-	-	-	-
Provisions for liabilities	604,785	4,809	-	799	34,601
Other financial liabilities	6,167,149	943,549	1,280,868	983,458	171,548
Deferred income tax liabilities	-	-	3,580	-	-
Other liabilities	3,281,015	250,260	(35,606)	296,924	212,979
Total liabilities	\$1,322,915,488	\$ 61,348,134	\$ 120,428,157	\$ 33,862,851	\$ 68,859,147
On-balance sheet foreign exchange gap	(\$ 107,850,218)	\$ 77,642,595	(\$ 57,052,529)	(\$ 6,857,632)	(\$ 13,885,708)
Off-balance sheet commitments	\$ 95,005,634	\$ 2,316,440	\$ 4,102,921	\$ 13,199,335	\$ 4,365,793

	December 31, 2017				
	USD	AUD	RMB	EUR	JPY
Assets					
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	-
Securities 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	-	-	-	-
Loans discounted, net	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
Total assets	\$1,197,498,250	\$ 130,287,810	\$ 66,836,627	\$ 30,845,868	\$ 73,104,130
Liabilities					
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
Securities 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
Total liabilities	\$1,297,398,508	\$ 42,227,231	\$ 102,586,630	\$ 34,559,692	\$ 56,795,127
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

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 β value, and reporting to the Risk Management Committee quarterly.



L. Sensitivity Analysis

Sensitivity analysis of the Mega 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 β value of purchased stocks, convertible bonds and the portfolio of subsidiary issued stock warrants in respect to the weighted stock index.

December 31, 2018

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%	(\$ 65,860)	\$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	65,860	-
Interest rate risk (not including deposits and loans)	Major increases in interest rates 1BP	(50,490)	(102,530)
Interest rate risk (not including deposits and loans)	Major decline in interest rates 1BP	63,022	132,450
Equity securities risk	TAIEX declined by 1%	(37,811)	(105,820)
Equity securities risk	TAIEX increased by 1%	32,651	92,520

December 31, 2017

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

M. Value at Risk analysis of the Mega Group's financial instruments

The following table indicates measurement positions of the Mega Group's financial products on the report date, the maximum potential loss under a 99% confidence interval.

December 31, 2018

Value at risk of primary market	Average	Maximum	Minimum
Value at risk of equity securities	\$ 386,055	\$ 538,600	\$ 233,510
Value at risk of interest products	1,531,185	1,945,600	1,116,770
Value at risk of foreign exchange products	305,790	471,160	140,420
Value at risk of credit products	141,722	173,140	110,304
Total VaR	\$ 2,364,752	\$ 3,128,500	\$ 1,601,004

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

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, 2018

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	\$ 558,902,865	\$ 899,190,180	\$ 4,358,505	\$ 109,856,695	\$ 1,572,308,245
Interest rate sensitive liabilities	483,807,476	672,422,365	59,938,189	18,486,744	1,234,654,774
Interest rate sensitive gap	\$ 75,095,389	\$ 226,767,815	(\$ 55,579,684)	\$ 91,369,951	\$ 337,653,471
Net worth					\$ 271,669,355
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					127.35%
Ratio of interest rate sensitivity gap to net worth					124.29%

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%

- 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, 2018

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	\$ 35,707,396	\$ 732,547	\$ 290,516	\$ 281,240	\$ 37,011,699
Interest rate sensitive liabilities	35,991,078	2,171,658	1,434,465	-	39,597,201
Interest rate sensitive gap	(\$ 283,682)	(\$ 1,439,111)	(\$ 1,143,949)	\$ 281,240	(\$ 2,585,502)
Net worth					\$ 420,926
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					93.47%
Ratio of interest rate sensitivity gap to net worth					(614.24%)

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%)

- 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, 2018

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$ 120,580,458	\$ 6,771,822	\$ 6,224,624	\$ 123,937,758	\$ 257,514,662
Interest rate sensitivity liabilities	223,806,788	1,529,700	48,196	-	225,384,684
Interest-rate sensitivity gap	(\$ 103,226,330)	\$ 5,242,122	\$ 6,176,428	\$ 123,937,758	\$ 32,129,978
Net worth					\$ 35,628,751
Interest rate sensitivity assets and liabilities ratio					114.26%
Interest rate sensitivity gap and net worth ratio					90.18%

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%

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, 2018	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	\$ 1,096,095	0.19
Financial assets at fair value through profit or loss	125,689,438	0.85
Securities purchased under resell agreements	771,851	0.40
Financial assets at fair value through other comprehensive income	132,144,109	1.76
Investments in debt instruments at amortised cost	172,345	4.31
Liabilities		
Interbank call loans and overdrafts	24,606,113	0.76
Securities sold under repurchase agreements	203,847,525	0.69
	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
Securities purchased under resell 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

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



(6) Transfer of financial assets

A. Transferred financial assets that are not derecognised 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, 2018		
Financial assets category	Carrying amount of financial assets transferred	Carrying amount of associated financial liabilities
Securities purchased under resell agreements		
Repurchase agreement	\$ 681,168	\$ 650,000
Financial assets measured at fair value through profit or loss		
Repurchase agreement	86,230,503	86,135,278
Financial assets at fair value through other comprehensive income		
Repurchase agreement	82,573,297	78,556,144
Investments in debt instruments at amortised cost		
Repurchase agreement	440,070	406,330

December 31, 2017		
Financial assets category	Carrying amount of financial assets transferred	Carrying amount of associated financial liabilities
Securities purchased under resell 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

B. Transferred financial assets that are derecognised in their entirety

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

(7) 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, 2018						
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)		
				Financial instruments (Note)	Cash collateral pledged	Net amount (e)=(c)-(d)
Derivative instruments	\$ 5,054,212	\$ 136	\$ 5,054,076	\$ 2,525,273	\$ 57,841	\$ 2,470,962
Resell agreement	95,149	-	95,149	95,149	-	-
Total	\$ 5,054,212	\$ 136	\$ 5,054,076	\$ 2,525,273	\$ 57,841	\$ 2,470,962

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)		
				Financial instruments (Note)	Cash collateral pledged	Net amount (e)=(c)-(d)
Derivative instruments	\$ 2,393,521	\$ 136	\$ 2,393,385	\$ 676,494	\$ 11,686	\$ 1,705,205
Repurchase agreement	57,234,735	-	57,234,735	56,033,500	1,201,235	-
Total	\$ 59,628,256	\$ 136	\$ 59,628,120	\$ 56,709,994	\$ 1,212,921	\$ 1,705,205



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 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 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

Note : Including net settlement master netting arrangements and non-cash collaterals.

9. Insurance risk management

In order to effectively recognise, measure and monitor the risks CKI 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, CKI 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. CKI 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, CKI excludes high risk clients through strict underwriting policy. CKI disperses risks through fire reinsurance contract, over-insurance per risk unit reinsurance contract, over-insurance for catastrophe losses reinsurance contract or coinsurance. Also, CKI 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 includes engineering insurance businesses targeting non-renewal contracts to cover the risks encountered in the process of engineering construction and equipment installation. Higher risks are resulted from typhoons, floods and earthquakes due to Taiwan's geographic location. CKI disperses risks through reinsurance contract and coinsurance with the Engineering Insurance Association; if CKI 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. For large and concentrated losses from natural disasters such as typhoons or earthquakes, the excessive amount of self-retained risk beyond the losses in combination with fire insurance covered by the reinsurance contracts will transfer to the reinsurers in an effort to control risk within the affordable limit.

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, CKI 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, CKI 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, 2018 and 2017, 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, 2018		For the year ended December 31, 2017	
	Premium Income	Self-retained Premium	Premium Income	Self-retained Premium
Earthquake insurance	\$ 709,138	\$ 190,004	\$ 691,583	\$ 172,962
Fire insurance	747,770	357,960	719,458	322,194
Engineering insurance	227,136	140,011	196,485	106,988

(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 as follows:

Type	December 31, 2018		December 31, 2017	
	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	\$ 55,043	\$ 20,967	\$ 52,145	\$ 18,431
Marine Insurance	30,480	8,027	30,160	8,489
Automobile Insurance	172,885	132,924	165,926	128,131
Accident Insurance	82,126	36,624	86,133	34,263
Injury Insurance	17,438	10,952	15,000	12,245
Offshore Branches	4,626	4,624	4,261	4,259

Sensitivity testing calculates the impact a 5% increase in the final loss rate has on the Company's profit or loss based on the retained earned premium within 1 year as of the financial report's year-end date. If the movement of the final loss rate is inversely, the above-mentioned claims reserve held is also inversed.

(4) Claim development trend

As of December 31, 2018 and 2017, the subsidiary-CKI's claim development trend is as follows:



A. Accumulative claim amounts (Before reinsurance ceding)

December 31, 2018											
Year of Accident	2013.12.31	2014.12.31	2015.12.31	2016.12.31	2017.12.31	2018.12.31	Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
2013 and before	28,733,815	29,043,272	28,971,459	28,926,458	28,848,752	28,815,777	28,815,777	28,497,351	318,426		
2014		2,440,160	2,672,619	2,688,537	2,700,257	2,677,896	2,677,896	2,578,662	99,234		
2015			2,773,168	3,075,182	3,105,290	3,102,556	3,102,556	2,977,847	124,709		
2016				4,325,180	4,617,426	4,538,979	4,538,979	4,183,804	355,175		
2017					2,717,118	3,176,160	3,176,160	2,820,657	355,503		
2018						2,841,225	2,841,225	1,599,525	1,241,700		
Total							45,152,593	42,657,846	2,494,747	921,618	3,416,365

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

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, 2018											
	Day of evaluation						Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
Year of Accident	2013.12.31	2014.12.31	2015.12.31	2016.12.31	2017.12.31	2018.12.31					
2013 and before	17,458,768	17,713,131	17,725,174	17,729,133	17,656,349	17,645,412	17,645,412	17,481,536	163,876		
2014		1,411,247	1,634,777	1,673,889	1,685,070	1,668,967	1,668,967	1,606,503	62,464		
2015			1,487,394	1,728,447	1,766,948	1,755,185	1,755,185	1,689,088	66,097		
2016				1,971,815	2,281,993	2,289,463	2,289,463	2,160,477	128,986		
2017					1,578,405	1,905,701	1,905,701	1,732,346	173,355		
2018						1,691,109	1,691,109	1,113,008	578,101		
Total							26,955,837	25,782,958	1,172,879	572,748	1,745,627

December 31, 2017											
	Day of evaluation						Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
Year of Accident	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

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, 2018 and 2017:

	December 31, 2018	December 31, 2017
Below 1 year	\$ 3,065,929	\$ 3,278,389
From 1 year to 5 year	350,436	234,107
Total	\$ 3,416,365	\$ 3,512,496

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 net premiums are as follows:

For the year ended December 31, 2018						
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	\$ 435,344	\$ 170,661	\$ 185,161	\$ 420,844	(\$ 1,721)	\$ 419,123
Non-compulsory insurance	6,475,391	484,913	2,994,274	3,966,030	(102,788)	3,863,242
Total	\$ 6,910,735	\$ 655,574	\$ 3,179,435	\$ 4,386,874	(\$ 104,509)	\$ 4,282,365

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

The subsidiaries had no premium income from compulsory insurance in Guam and \$717,791 and \$730,619 from non-compulsory insurance for the years ended December 31, 2018 and 2017, respectively.

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

Type	For the year ended December 31, 2018			
	Claims incurred (1)	Reinsurance claims incurred (2)	Claims recovered from reinsurers (3)	Net claims(4)=(1)+(2)-(3)
Compulsory insurance	\$ 289,687	\$ 158,496	\$ 173,735	\$ 274,448
Non-compulsory insurance	3,035,306	320,748	1,200,611	2,155,443
Total	\$ 3,324,993	\$ 479,244	\$ 1,374,346	\$ 2,429,891

Type	For the year ended December 31, 2017			
	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

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

	December 31, 2018	December 31, 2017
Assets		
Cash and bank deposits	\$ 590,402	\$ 548,777
Notes receivable	276	-
Premiums receivable	8,560	8,319
Claims recoverable from Reinsurers	33,564	55,553
Due from reinsurers and ceding companies	28,393	28,092
Ceded unearned premium reserve	100,135	98,376
Ceded claims reserve	147,470	151,014
Temporary payments	659	322
Total	\$ 909,459	\$ 890,453
Liabilities		
Due to reinsurers and ceding companies	\$ 31,128	\$ 30,659
Unearned premium reserve	262,915	259,435
Reserve for outstanding losses	381,156	392,023
Reserve for catastrophic losses	232,864	205,480
Temporary receipts	268	1,302
Other liabilities	1,128	1,554
Total	\$ 909,459	\$ 890,453

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

	For the years ended December 31,	
	2018	2017
Operating revenues		
Direct written premiums	\$ 308,604	\$ 301,497
Reinsurance premiums	170,661	169,407
Less: Reinsurance premiums ceded	(185,161)	(180,905)
Net change in reserve for unearned premiums	(1,721)	(2,764)
Net premiums written	292,383	287,235
Interest income	2,126	1,836
Total	\$ 294,509	\$ 289,071

	For the years ended December 31,	
	2018	2017
Operating costs		
Claims incurred	\$ 289,687	\$ 314,135
Reinsurance Claims incurred	158,496	123,519
Less: claims recovered from reinsurers	(173,735)	(182,060)
Net claims	274,448	255,594
Net change in reserve for claims	(7,323)	5,354
Net change in special reserve	27,384	28,123
Total	\$ 294,509	\$ 289,071

E. Net premiums

Net premiums of the respective insurances are as follows:

Items	2018	2017
General fire insurance	\$ 1,700,000	\$ 1,600,000
Fire & allied perils insurance	1,700,000	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	2,000,000	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	400,000	300,000
Group accident insurance	20,000	20,000
Personal accident insurance	25,000	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
Reaal Schadeverzekeringen	Marine hull insurance: Facultative reinsurance
Lemma	Marine hull insurance: Facultative reinsurance
Asian Re Bangkok	Marine hull insurance: Treaty reinsurance
Santam LTD	Marine hull insurance: Treaty reinsurance
Schwarzmeer Und Ostsee Versicherungs-AKT	Fire insurance: Facultative reinsurance
	Fire insurance: Treaty reinsurance
Milli Reasurans T.A.S	Marine hull insurance: Treaty reinsurance
	Cargo insurance: Treaty reinsurance



Insurance company / insurance agent	Type of outward reinsurance contract
Tugu Insurance (Hong Kong)	Cargo insurance: Treaty reinsurance Marine hull insurance: Treaty reinsurance Fire insurance: Treaty and facultative reinsurance
TRUST RE	Engineering insurance: Treaty and facultative reinsurance Hull insurance: Treaty reinsurance Cargo insurance: Treaty reinsurance

(B) The unqualified reinsurance expense was \$724 and \$1 for the years ended December 31, 2018 and 2017, respectively.

(C) As of December 31, 2018 and 2017, the unqualified reinsurance reserves are unearned premium reserve. Details are set forth as follows:

	December 31, 2018	December 31, 2017
Unearned premium reserve	\$ 362	\$ -
Ceded claim reserve-reported	10,598	6,792
Claims recoverable from reinsurers	2,708	-

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, 2018

	Ownership	Eligible capital	Minimum capital
The Company	100.00%	\$ 314,232,333	\$ 348,163,000
MICB	100.00%	293,769,063	209,367,448
MS	100.00%	12,775,462	3,829,847
MBF	100.00%	34,898,052	20,568,663
CKI	100.00%	7,132,025	1,871,472
MAM	100.00%	2,731,316	6,435,398
Mega Life Insurance Agency	100.00%	383,543	260,048
Mega Venture Capital	100.00%	713,200	356,699
MITC	100.00%	820,145	467,823
Deduction item		348,304,081	345,071,763
Subtotal	(A)	\$ 319,151,058	(B) \$ 246,248,635
Capital adequacy ratio of the Consolidated Company (C)=(A)÷(B)		(C)	129.61%

Mega Financial Holding Co., Ltd. and its Subsidiaries

Capital adequacy ratio

December 31, 2017

	Ownership	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%

B. As of December 31, 2018 and 2017, the financial holding's net eligible capital

Mega Financial Holding Co., Ltd. and its Subsidiaries

Financial Holding's net eligible capital

Item	December 31, 2018	December 31, 2017
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	35,255,784	32,682,332
Special reserve	2,545,151	3,004,318
Accumulated earnings	64,774,415	59,182,128
Equity adjustment number	7,474,457	(1,007,118)
Less: goodwill and other intangible assets	5,213	2,863
deferred assets	4,734	8,120
treasury stocks	-	-
Total net eligible capital	\$ 314,232,333	\$ 298,043,150

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, 2018	December 31, 2017
Others (individual amounts accounting for less than 10% of the total amount)	\$ 5,081,791	\$ 7,354,911



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, 2018	December 31, 2017
Others (individual amounts accounting for less than 10% of the total amount)	\$ 253,366	\$ 65,890

C. Bank deposits

	December 31, 2018	December 31, 2017
Chunghwa Post	\$ 2,463	\$ 1,886
BOT	125,258	140,699
Total	\$ 127,721	\$ 142,585

D. Refundable deposits

	Collaterals	December 31, 2018	December 31, 2017
BOT	Financial assets at fair value through other comprehensive income - bonds	\$ 50,915	\$ -
BOT	Available-for-sale financial assets - bonds	\$ -	\$ 51,131

E. Purchases of securities and bonds

	December 31, 2018	December 31, 2017
Chunghwa Post	\$ 50,645	\$ -

F. Sales of securities and bonds

	For the years ended December 31,	
	2018	2017
BOT	\$ 91,263,790	\$ 41,836,724
Chunghwa Post	220,314,917	251,333,418
Total	\$ 311,578,707	\$ 293,170,142

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

G. Transactions with other financial institutions

(A) Due from banks and call loans to banks

	December 31, 2018	December 31, 2017
BOT	\$ 14,013,362	\$ 20,025,740

(B) Overdraft on banks

	December 31, 2018	December 31, 2017
Chunghwa Post	\$ 5,320,114	\$ 4,674,693
BOT	6,716,079	15,302,086
Total	\$ 12,036,193	\$ 19,976,779

H. Commercial paper payable

Institutions of guarantee or acceptance	December 31, 2018	December 31, 2017
TFC	\$ -	\$ 370,000

I. Collaterals

	Collaterals	December 31, 2018	December 31, 2017
BOT	Financial assets at fair value through profit or loss - negotiable certificate of deposits	\$ -	\$ 700,263
	Financial assets at fair value through other comprehensive income - bonds	\$ 2,818,667	-
	Available-for-sale financial assets - bonds	-	2,015,046
Total		\$ 2,818,667	\$ 2,715,309

J. Loans

December 31, 2018

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	5	\$ 3,702	\$ 2,982	V		None	None
Home mortgage loans	86	734,852	642,559	V		Real estate	None
Other loans	6	141,519	141,168	V		Real estate	None

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 / Time deposit	None

K. Interest revenue

	For the years ended December 31,			
	2018		2017	
	Amount	% of the Account	Amount	% of the Account
BOT	\$ 2,777	-	\$ 1,021	-

L. Interest expense

	For the years ended December 31,			
	2018		2017	
	Amount	% of the Account	Amount	% of the Account
BOT	\$ 41,669	0.14	\$ 40,059	0.19
Chunghwa Post	19,578	0.06	36,416	0.17
TFC	792	-	-	-
Total	\$ 62,039	0.20	\$ 76,475	0.36

M. Income and losses of financial assets and liabilities measured at fair value through profit or loss (sales of securities and bonds and derivative transaction)

	For the years ended December 31,			
	2018		2017	
	Amount	% of the Account	Amount	% of the Account
BOT	\$ 4,910	0.08	\$ 1,688	0.02
Chunghwa Post	36,580	0.58	62,718	0.83
Total	\$ 41,490	0.66	\$ 64,406	0.85

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

	For the years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	\$ 375,861	\$ 345,085
Post-employment benefits	5,969	7,810
Termination benefits	648	637
Total	\$ 382,478	\$ 353,532



12. PLEDGED ASSETS

Asset	Purpose of pledge	December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss	Collaterals for Central Bank and bank overdrafts	\$ 12,803,642	\$ 9,003,333
Financial assets at fair value through other comprehensive income	Guarantees or money lodged at Courts, Collaterals for bank overdrafts, Operation guarantee deposits of bills firm and securities firm, Electronic bond trading system settlement reserve, Bank overdraft collateral and court collateral for credit cases	14,809,376	-
Investments in debt instruments at amortised cost	Central Bank deposit	6,450,860	-
Available-for-sale financial assets	Guarantees or money lodged at Courts, Collaterals for bank overdrafts, Operation guarantee deposits of bills firm and securities firm, Electronic bond trading system settlement reserve	-	16,387,589
Held-to-maturity financial asset	Guarantees or money lodged at Courts	-	5,262,900
Other financial assets	Collaterals for short-term borrowings, Collaterals for bank overdrafts	400,100	402,100
Property and equipment	Collaterals for short-term borrowings	2,439,674	2,446,153
Investment property	Collaterals for short-term borrowings	446,334	451,682
Other assets	Guarantee of insurance business, performance guarantee	519,938	513,830
		<u>\$ 37,869,924</u>	<u>\$ 34,467,587</u>

13. COMMITMENTS AND CONTINGENT LIABILITIES

(1) The subsidiaries-MICB

A. Contingent Liabilities

Please refer to Note 6(35) for details on the contingencies regarding the consent order entered into by MICB and MICB NY Branch with NYDFS and the consent Order to Cease and Desist and Order of Assessment of a Civil Money Penalty entered by MICB, MICB NY Branch, MICB Chicago Branch, and MICB Silicon Valley Branch, with FED, and IDFPB, Division of Banking.

B. As of December 31, 2018 and 2017, MICB and its subsidiaries' commitments and contingent liabilities were as follows:

	December 31, 2018	December 31, 2017
Irrevocable arranged financing limit	\$ 106,262,607	\$ 107,752,677
Securities sold under repurchase agreement	26,988,236	848,352
Securities purchased under resell agreement	3,997,958	1,698,567
Credit card line commitments	72,164,865	61,044,582
Guarantees issued	173,965,112	182,968,272
Letters of credit	58,777,320	60,185,575
Customers' securities under custody	241,506,923	221,738,214
Properties under custody	3,304,009	3,228,472
Guarantee received	115,254,645	212,814,538
Collections for customers	91,890,545	91,916,408
Agency loans payable	619,034	763,880
Travelers' checks consigned-in	1,153,653	1,288,056
Gold coins consigned-in	240	404
Trustee sales license	807	698
Payables on consignments-in	1,710	2,433
Agent for government bonds	162,582,200	156,997,800
Short-dated securities under custody	61,895,381	64,572,117
Trust liability	470,035,199	492,615,177
Certified notes paid	5,103,628	5,775,950
Exposures	-	9,343
Total	<u>\$ 1,595,504,072</u>	<u>\$ 1,666,221,515</u>



(2) The subsidiaries-MBF

As of December 31, 2018 and 2017, the company's commitments and contingent liabilities arising from its normal course of business were as follows:

	December 31, 2018	December 31, 2017
Securities bought under repurchase agreements	\$ -	\$ 501,259
Securities sold under repurchase agreements	202,310,405	208,414,735
Guarantees for commercial papers	164,692,100	156,971,100
Buy fixed rate financial paper	20,050,000	17,050,000
Sell fixed rate financial paper	-	500,000
Buy index rate financial paper	44,459,000	33,310,000
Sell index rate financial paper	1,500,000	4,500,000
Total	\$ 433,011,505	\$ 421,247,094

(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, 2018, 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.163 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, 2018



The promotion bonus paid to other subsidiaries by MITC, MICB, CKI and MS amounted to \$39,530, \$33,770, \$26,510 and \$11,840 respectively. As a result of cross-selling by other subsidiaries, the insurance premium income increased by \$141,840 for MITC; \$69,780 for MICB; \$529,360 for CKI; \$26,800 for MS.

For the year ended December 31, 2017

The promotion bonus paid to other subsidiaries by MITC, MICB, CKI and MS amounted to \$25,380, \$35,000, \$23,710 and \$5,870, respectively. As a result of cross-selling by other subsidiaries, the revenue of MITC, MICB, CKI, and MS increased by \$156,300, \$64,460, \$448,710, and \$17,040, respectively.

(8) Information for private placement securities: None.

(9) Financial information by business segments

For the year ended December 31, 2018	Bank division	Insurance division	Bills division	Securities division	Total other divisions	Consolidation
Interest income, net	\$ 36,464,457	\$71,832	\$ 845,368	\$ 818,491	(\$ 104,457)	\$ 38,095,691
Revenues other than interest, net	14,987,808	1,433,524	2,927,060	1,906,496	2,258,828	23,513,716
Net revenue	51,452,265	1,505,356	3,772,428	2,724,987	2,154,371	61,609,407
(Provisions for) reversal of bad debts expense, commitment and guarantee liability	(2,045,773)	6,321	54,058	-	(11,012)	(1,996,406)
Net change in provisions for insurance liabilities	-	68,884	-	-	-	68,884
Operating expenses	(23,486,223)	(1,145,962)	(733,254)	(2,379,123)	(857,363)	(28,601,925)
Income before income tax from continuing operations	25,920,269	434,599	3,093,232	345,864	1,285,996	31,079,960
Income tax expense	(2,546,739)	(117,446)	(504,516)	(46,308)	228,494	(2,986,515)
Consolidated net income from continuing operations	\$ 23,373,530	\$ 317,153	\$ 2,588,716	\$ 299,556	\$ 1,514,490	\$ 28,093,445

For the year ended December 31, 2017	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	(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

Financial Information

(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,		
	2018	2017	%		2018	2017	%
Assets				Liabilities			
Cash and cash equivalents	\$ 152,693	\$ 307,833	(50.40)	Financial liabilities at fair value through profit or loss	\$ -	\$ 183,860	(100.00)
Financial assets at fair value through profit or loss	203,062	-	100.00	Commercial paper payable, net	13,007,338	10,397,276	25.10
Financial assets at fair value through other comprehensive income	2,154,580	-	100.00	Payables	21,285,593	19,813,499	7.43
Receivables	-	389	(100.00)	Current income tax liabilities	980,678	1,164,368	(15.78)
Current income tax assets	1,259,321	1,669,679	(24.58)	Bonds payable	-	5,770,036	(100.00)
Available-for-sale financial assets, net	-	6,196,895	(100.00)	Provisions for liabilities	61,801	62,523	(1.15)
Equity investments accounted for under the equity method, net	345,071,763	325,981,280	5.86	Deferred tax liabilities	-	205	(100.00)
Other financial assets, net	100	758,293	(99.99)	Other liabilities	7,271	215,872	(96.63)
Investment property	134,104	135,615	(1.11)	Total liabilities	35,342,681	37,607,639	
Property and equipment, net	595,986	595,029	0.16	Equity			
Deferred tax assets	4,734	8,092	(41.50)	Common stock	135,998,240	135,998,240	-
Other assets, net	8,618	8,667	(0.57)	Capital surplus	68,194,233	68,194,233	-
				Retained earnings			
				Legal reserve	35,255,784	32,682,332	7.87
				Special reserve	2,545,151	3,004,318	(15.28)
				Unappropriated retained earnings	64,774,415	59,182,128	9.45
				Other equity interest	7,474,457	(1,007,118)	(842.16)
				Total equity	314,242,280	298,054,133	
TOTAL ASSETS	\$349,584,961	\$335,661,772	4.15	TOTAL LIABILITIES AND EQUITY	\$349,584,961	\$335,661,772	4.15



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, 2018	For the year ended December 31, 2017
Revenues		
Interest income	\$ 843	\$ 11,307
Gain on financial assets and liabilities at fair value through profit	140,548	-
Foreign exchange gain	-	5
Share of profit of associates and joint ventures accounted for under equity method	27,913,508	25,926,293
Other revenue except for interest income	114,583	176,896
Total revenue	28,169,482	26,114,501
Expenses and losses		
Interest expense	(61,997)	(78,968)
Financial assets and liability at fair value through loss	-	(27,260)
Foreign exchange loss	(5)	-
Employee benefit expense	(310,085)	(288,562)
Depreciation and amortization	(11,874)	(13,353)
Other business and administrative expenses	(62,493)	(69,638)
Total expenses and losses	(446,454)	(477,781)
Income before income tax	27,723,028	25,636,720
Income tax benefit	386,136	97,795
Profit for the year	28,109,164	25,734,515
Other comprehensive income		
Non-reclassifiable to profit or loss subsequently		
Loss on remeasurement of defined benefit plans	(2,714)	(5,402)
Share of other comprehensive income of associates and joint ventures accounted for under the equity method	(472,247)	(1,508,349)
Revaluation gains on investments in equity instruments measured at fair value through other comprehensive income	435,649	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	507	918
Potentially reclassifiable to profit or loss subsequently		
Unrealized gain on valuation of available-for-sale financial assets	-	352,594
Share of other comprehensive income of associates and joint ventures accounted for under the equity method	(368,691)	806,254
Other comprehensive loss for the year, (after income tax)	(407,496)	(353,985)
Total comprehensive income (after income tax)	\$ 27,701,668	\$ 25,380,530
Earnings Per Share (in dollars)		
Basic and Diluted Earnings Per Share (in dollars)	\$ 2.07	\$ 1.89

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

 OUR VISION—To Become Asia Regional Financial Group

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

	For the year ended December 31, 2018	For the year ended December 31, 2017
Cash Flows from Operating Activities		
Profit before tax	\$ 27,723,028	\$ 25,636,720
Income and expenses having no effect on cash flows		
Income and expenses		
Depreciation	10,063	11,566
Amortization	1,811	1,787
Interest expense	61,997	78,968
Interest revenue	(843)	(11,308)
Dividend income	(110,565)	(171,475)
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(140,548)	27,260
Share of profit of associates accounted for under equity method	(27,913,508)	(25,926,293)
Changes in assets/liabilities relating to operating activities		
Changes in assets relating to operating activities:		
Decrease in financial assets at fair value through profit or loss	178,159	-
Decrease (increase) in receivables	389	(389)
Decrease (increase) in other assets	2,342	(4,750)
Changes in liabilities relating to operating activities:		
Increase in payables	1,320,166	1,740,414
(Decrease) increase in provisions for liabilities	(2,929)	104
Increase in other liabilities	936	204,764
Cash provided by operations	1,130,498	1,587,368
Interest received	843	11,308
Cash dividend received	16,018,131	15,954,237
Interest paid	(50,611)	(34,673)
Income tax paid	(1,104,292)	(1,972,074)
Net cash provided by operating activities	15,994,569	15,546,166
Cash Flows from Investing Activities		
Acquisition of property and equipment	(9,509)	(1,734)
Acquisition of intangible assets	(4,105)	-
Net cash used in investing activities	(13,614)	(1,734)
Cash Flows from Financing Activities		
Increase in commercial papers payable	2,620,000	4,000,000
Decrease in other loans	-	(1,600,000)
Decrease in bonds payable	(16,700)	-
Cash dividends paid	(18,739,395)	(17,719,905)
Net cash used in financing activities	(16,136,095)	(15,319,905)
Net (decrease) increase in cash and cash equivalents	(155,140)	224,527
Cash and cash equivalents at beginning of year	307,833	83,306
Cash and cash equivalents at end of year	\$ 152,693	\$ 307,833

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

Assets	December 31, 2018	December 31, 2017	Liabilities	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 121,851,667	\$ 134,573,043	Due to the Central Bank and financial institutions	\$ 391,833,101	\$ 369,280,814
Due from the Central Bank and call loans to banks	520,043,934	568,191,492	Funds borrowed from the Central Bank and other banks	53,920,881	33,049,531
Financial assets at fair value through profit or loss	63,083,937	41,615,571	Financial liabilities at fair value through profit or loss	26,692,448	8,774,635
Financial assets at fair value through other comprehensive income	263,821,804	-	Securities sold under repurchase agreements	26,921,643	848,125
Investments in debt instruments at amortised cost	267,773,373	-	Payables	34,185,408	35,363,073
Securities purchased under resell agreements	3,994,470	1,697,586	Current income tax liabilities	7,787,642	7,100,532
Receivables, net	60,679,755	59,097,182	Deposits and remittances	2,311,019,303	2,375,199,023
Current income tax asset	98,117	99,432	Financial bonds payable	13,300,000	25,900,000
Loans discounted, net	1,847,344,912	1,746,168,423	Other financial liabilities	10,529,402	8,969,641
Available-for-sale financial assets, net	-	278,090,000	Provisions for liabilities	15,412,291	14,819,979
Held-to-maturity financial assets, net	-	280,013,940	Deferred tax liabilities	2,436,593	2,216,847
Investments accounted for under equity method, net	9,273,021	9,025,778	Other liabilities	6,116,557	6,356,448
Other financial assets, net	29,338	9,336,419	Total liabilities	2,900,155,269	2,887,878,648
Property and equipment, net	14,919,392	14,859,167	Equity		
Investment property, net	584,291	584,646	Common stock	85,362,336	85,362,336
Deferred tax assets	6,706,827	5,525,907	Capital surplus	62,219,540	62,219,540
Other assets, net	2,811,165	2,882,935	Retained earnings	130,016,615	118,719,341
			Other equity interest	5,262,243	(2,418,344)
			Total equity	282,860,734	263,882,873
TOTAL ASSETS	\$ 3,183,016,003	\$ 3,151,761,521	TOTAL LIABILITIES AND EQUITY	\$ 3,183,016,003	\$ 3,151,761,521



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

Assets	December 31, 2018	December 31, 2017	Liabilities	December 31, 2018	December 31, 2017
Current assets	\$ 49,227,347	\$ 58,900,517	Current liabilities	\$ 38,844,151	\$ 48,660,068
Financial assets at fair value through other comprehensive income-non current	669,376	-	Provisions for liabilities - non-current	137,533	128,576
Financial assets measured at cost - non-current	-	215,757	Deferred tax liabilities	2,033	1,463
Investments accounted for under equity method	770,501	653,317	Other liabilities - non-current	11,424	11,433
Property and equipment	2,474,086	2,505,898	Total liabilities	38,995,141	48,801,540
Investment property	161,963	497,256	Equity		
Intangible assets	57,413	80,085	Common stock	11,600,000	11,600,000
Deferred tax assets	97,703	85,317	Capital surplus	971,161	971,161
Other assets - non-current	911,528	879,399	Retained earnings	2,213,355	2,410,211
			Other equity interest	590,260	34,634
			Total equity	15,374,776	15,016,006
TOTAL ASSETS	\$ 54,369,917	\$ 63,817,456	TOTAL LIABILITIES AND EQUITY	\$ 54,369,917	\$ 63,817,546

Financial Information

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

Assets	December 31, 2018	December 31, 2017	Liabilities	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 326,207	\$ 793,634	Interbank overdraft and call loans	\$ 23,074,279	\$ 31,124,272
Financial assets at fair value through profit or loss	126,577,565	136,554,017	Financial liabilities at fair value through profit or loss	5,892	632
Financial assets at fair value through other comprehensive income	131,955,095	-	Securities sold under repurchase agreements	202,310,405	208,414,735
Investments in debt instruments at amortised cost	440,070	-	Payables	560,256	947,769
Available-for-sale financial assets, net	-	135,888,342	Current income tax liabilities	69,738	40,412
Securities purchased under resell agreements	-	501,259	Provisions for liabilities	2,696,915	2,759,489
Receivables, net	1,534,617	1,651,477	Deferred tax liabilities	86,060	45,675
Held-to-maturity financial assets	-	100,000	Other liabilities	356,264	151,008
Other financial assets, net	497,703	875,137	Total liabilities	229,159,809	243,483,992
Property and equipment, net	363,438	363,606	Equity		
Investment property, net	2,507,096	2,517,760	Common stock	13,114,411	13,114,411
Intangible assets	4,140	4,920	Capital surplus	320,929	320,929
Deferred tax assets, net	532,673	222,666	Retained earnings	22,012,449	21,013,426
Other assets, net	49,956	49,031	Other equity interest	180,962	1,589,091
			Total equity	35,628,751	36,037,857
TOTAL ASSETS	\$ 264,788,560	\$ 279,521,849	TOTAL LIABILITIES AND EQUITY	\$ 264,788,560	\$ 279,521,849



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

Assets	December 31, 2018	December 31, 2017	Liabilities	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 4,938,861	\$ 5,275,016	Payables	\$ 1,191,227	\$ 1,124,649
Receivables	741,040	719,863	Current income tax liabilities	106,827	55,618
Current income tax assets	158,020	181,452	Insurance liabilities	8,438,737	8,194,654
Financial assets at fair value through profit or loss	1,463,230	157,856	Provisions for liabilities	193,003	192,379
Financial assets at fair value through other comprehensive income	1,282,065	-	Deferred tax liabilities	-	497
Investments in debt instruments at amortised cost	2,371,028	-	Other liabilities	52,991	23,059
Available-for-sale financial assets	-	1,917,802	Total liabilities	9,982,785	9,590,856
Financial assets measured at cost	-	145,000	Equity		
Investment in bonds without active markets	-	295,382	Common stock	3,000,000	3,000,000
Held-to-maturity financial assets	-	1,792,318	Capital surplus	1,084,811	1,084,811
Investments accounted for under equity method	36,459	37,434	Retained earnings	2,583,930	2,367,500
Investment property	305,623	310,620	Other equity interest	45,030	(114,969)
Reinsurance contracts assets	3,854,464	3,555,454	Total equity	6,713,771	6,337,342
Property and equipment	817,727	830,830			
Intangible assets	58,898	49,287			
Deferred tax assets	45,429	40,123			
Other assets	623,712	619,761			
TOTAL ASSETS	\$ 16,696,556	\$ 15,928,198	TOTAL LIABILITIES AND EQUITY	\$ 16,696,556	\$ 15,928,198

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

Assets	December 31, 2018	December 31, 2017	Liabilities	December 31, 2018	December 31, 2017
Current assets	\$ 764,954	\$ 554,271	Current liabilities	\$ 95,176	\$ 93,572
Financial assets at fair value through profit or loss	-	8,850	Liabilities - non-current	20,325	20,540
Financial assets at fair value through other comprehensive income	1,077	-	Total liabilities	115,501	114,112
Available-for-sale financial assets	-	221,109	Equity		
Financial assets measured at cost	-	-	Common stock	527,000	527,000
Other financial assets	-	1,137	Capital surplus	3,675	3,675
Property and equipment	5,414	5,309	Retained earnings	289,893	325,854
Investment property	109,946	110,610	Other equity interest	(423)	(14,541)
Intangible assets	2,608	2,185	Total equity	820,145	841,988
Deferred tax assets	3,875	4,844			
Other assets - non-current	47,772	47,785			
TOTAL ASSETS	\$ 935,646	\$ 956,100	TOTAL LIABILITIES AND EQUITY	\$ 935,646	\$ 956,100

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

Assets	December 31, 2018	December 31, 2017	Liabilities	December 31, 2018	December 31, 2017
Current assets	\$ 12,191,683	\$ 11,349,349	Current liabilities	\$ 9,207,763	\$ 9,126,773
Other financial assets	-	65,000	Long-term loans	899,012	-
Property and equipment	489	749	Other liabilities - non-current	32,705	33,214
Investment property	559,795	418,648	Total liabilities	10,139,480	9,159,987
Intangible assets	593	2,846	Equity		
Deferred tax assets	113,674	92,815	Common stock	2,000,000	2,000,000
Other assets - non-current	4,562	6,287	Capital surplus	1,261	1,261
			Retained earnings	730,055	774,446
			Total equity	2,731,316	2,775,707
TOTAL ASSETS	\$ 12,870,796	\$ 11,935,694	TOTAL LIABILITIES AND EQUITY	\$ 12,870,796	\$ 11,935,694



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

Assets	December 31, 2018	December 31, 2017	Liabilities	December 31, 2018	December 31, 2017
Current assets	\$ 408,149	\$ 563,967	Current liabilities	\$ 136,552	\$ 130,632
Property and equipment	1,527	623	Other liabilities - non-current	-	19
Intangible assets	6,500	3,017	Total liabilities	136,552	130,651
Other financial assets- non-current	99,300	-	Equity		
Other assets - non-current	4,619	4,885	Common stock	20,000	20,000
			Capital surplus	804	804
			Retained earnings	362,739	421,037
			Total equity	383,543	441,841
TOTAL ASSETS	\$ 520,095	\$ 572,492	TOTAL LIABILITIES AND EQUITY	\$ 520,095	\$ 572,492

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

Assets	December 31, 2018	December 31, 2017	Liabilities	December 31, 2018	December 31, 2017
Current assets	\$ 322,780	\$ 11,226	Current liabilities	\$ 198	\$ 11,507
Financial assets at fair value through profit or loss	390,618	-	Total liabilities	198	11,507
Available-for-sale financial assets	-	493,238	Equity		
Financial assets measured at cost	-	302,863	Common stock	1,000,000	1,000,000
Other assets, net	-	5,878	(Accumulated deficit) retained earnings	(286,800)	2,975
			Other equity interest	-	(201,277)
			Total equity	713,200	801,698
TOTAL ASSETS	\$ 713,398	\$ 813,205	TOTAL LIABILITIES AND EQUITY	\$ 713,398	\$ 813,205

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

Item	For the year ended December 31, 2018	For the year ended December 31, 2017
Interest income	\$ 64,295,176	\$ 53,202,794
Less: Interest expense	(28,292,331)	(19,650,049)
Interest income, net	36,002,845	33,552,745
Revenues other than interest income, net	16,002,923	16,029,323
Net revenue	52,005,768	49,582,068
Bad debts expense, commitment and guarantee liability provision	(2,083,618)	(4,371,190)
Operating expenses	(23,285,154)	(20,973,389)
Income before income tax from continuing operations	26,636,996	24,237,489
Income tax expense	(2,464,784)	(2,714,079)
Net income	24,172,212	21,523,410
Other comprehensive income (loss)	632,746	(2,400,434)
Total comprehensive income	\$ 24,804,958	\$ 19,122,976
Earnings per share		
Basic earnings per share (after taxes)	\$ 2.83	\$ 2.52

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

Item	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenues	\$ 2,906,112	\$ 3,088,640
Service fee expenditure	(153,113)	(123,261)
Employee benefit expense	(1,491,983)	(1,481,916)
Other operating expenditures	(263,265)	(157,182)
Operating expenses	(812,556)	(811,113)
Other gains and losses	153,177	151,964
Share of income of associates and joint ventures accounted for under equity method	20,241	25,551
Income before income tax from continuing operations	358,613	692,683
Income tax expense	(42,845)	(95,852)
Net income	315,768	596,831
Other comprehensive income	(1,468)	114,102
Total comprehensive income	\$ 314,300	\$ 710,933
Earnings per share		
Basic earnings per share (after taxes)	\$ 0.27	\$ 0.51



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, 2018	For the year ended December 31, 2017
Interest income	\$ 3,446,303	\$ 3,382,516
Less: Interest expense	(1,603,543)	(1,209,251)
Interest income, net	1,842,760	2,173,265
Revenues other than interest income, net	1,934,919	1,792,655
Net revenue	3,777,679	3,965,920
(Provisions) reversal	54,058	11,068
Operating expenses	(769,140)	(765,467)
Income before income tax from continuing operations	3,062,597	3,211,521
Income tax expense	(504,516)	(506,292)
Net income	2,558,081	2,705,229
Other comprehensive income (loss)	(1,386,976)	(1,586,304)
Total comprehensive income	<u>\$ 1,171,105</u>	<u>\$ 4,291,533</u>
Earnings per share		
Basic earnings per share (after taxes)	<u>\$ 1.95</u>	<u>\$ 2.06</u>

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, 2018	For the year ended December 31, 2017
Operating revenue	\$ 5,106,870	\$ 4,833,715
Operating cost	(3,507,329)	(3,303,113)
Operating expense	(1,128,354)	(1,066,380)
Operating income	471,187	464,222
Non-operating income and expense	(1,835)	1,375
Income before income tax from continuing operations	469,352	465,597
Income tax expense	(117,446)	(114,954)
Net income	351,906	350,643
Other comprehensive loss	(84,777)	(56,947)
Total comprehensive income	<u>\$ 267,129</u>	<u>\$ 293,696</u>
Earnings per share		
Basic earnings per share (after taxes)	<u>\$ 1.17</u>	<u>\$ 1.17</u>

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, 2018	For the year ended December 31, 2017
Operating revenue	\$ 438,370	\$ 401,463
Operating expense	(345,970)	(337,455)
Operating income	92,400	64,008
Non-operating income and expense	9,253	28,092
Income before income tax	101,653	92,100
Income tax expense	(46,929)	(13,642)
Net income	54,724	78,458
Other comprehensive (loss) income	(154)	(6,241)
Total comprehensive income	<u>\$ 54,570</u>	<u>\$ 84,699</u>
Earnings per share		
Basic earnings per share (after taxes)	<u>\$ 1.04</u>	<u>\$ 1.49</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, 2018	For the year ended December 31, 2017
Operating revenue	\$ 401,562	\$ 480,668
Operating cost	(6,190)	(5,149)
Gross profit	395,372	475,519
Operating expense	(98,359)	(92,137)
Operating income	297,013	383,382
Non-operating income and expense	(65,326)	(55,388)
Income before income tax	231,687	327,994
Income tax expense	(29,776)	(55,691)
Net income	201,911	272,303
Other comprehensive income (loss)	(310)	(629)
Total comprehensive income	<u>\$ 201,601</u>	<u>\$ 272,932</u>
Earnings per share		
Basic earnings per share (after taxes)	<u>\$ 1.01</u>	<u>\$ 1.36</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, 2018	For the year ended December 31, 2017
Operating revenue	\$ 1,414,599	\$ 1,344,324
Operating expense	(1,013,761)	(887,999)
Operating income	400,838	456,325
Non-operating income and expense	2,362	2,541
Income before income tax from continuing operations	403,200	458,866
Income tax expense	(80,640)	(78,007)
Net income	<u>\$ 322,560</u>	<u>\$ 380,859</u>
Earnings per share		
Basic earnings per share (after taxes)	<u>\$ 161.28</u>	<u>\$ 190.43</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, 2018	For the year ended December 31, 2017
Operating revenue	\$ 43,438	\$ 58,866
Operating cost	(89,082)	(12,378)
Gross (loss) profit	(45,644)	46,488
Operating expense	(17,463)	(27,490)
Operating (loss) income	(63,107)	18,998
Non-operating income and expense	190	207
(Loss) income before income tax	(62,917)	19,205
Income tax expense	(298)	(206)
Net (loss) income	(63,215)	18,999
Other comprehensive income	-	(48,009)
Total comprehensive (loss) income	<u>(\$ 63,215)</u>	<u>(\$ 67,008)</u>
Earnings per share		
Basic earnings per share (after taxes)	<u>(\$ 0.63)</u>	<u>\$ 0.19</u>

(11) Profitability of the Company and its subsidiaries:

A. Profitability

(a) The Company

UNIT : %

Items		MEGA FINANCIAL HOLDING CO., LTD	
		For the year ended December 31, 2018	For the year ended December 31, 2017
Return on assets	Pre-tax	8.00	7.78
	After-tax	8.11	7.81
Return on equity	Pre-tax	8.93	8.69
	After-tax	9.05	8.72
Net profit margin		99.79	98.52

UNIT : %

Items		MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES	
		For the year ended December 31, 2018	For the year ended December 31, 2017
Return on assets	Pre-tax	0.88	0.85
	After-tax	0.79	0.75
Return on equity	Pre-tax	10.01	9.92
	After-tax	9.04	8.72
Net profit margin		45.60	43.13

(b) The subsidiary

UNIT : %

Items		MICB	
		For the year ended December 31, 2018	For the year ended December 31, 2017
Return on assets	Pre-tax	0.84	0.79
	After-tax	0.76	0.70
Return on equity	Pre-tax	9.62	9.30
	After-tax	8.73	8.26
Net profit margin		46.48	43.41

UNIT : %

Items		MS	
		For the year ended December 31, 2018	For the year ended December 31, 2017
Return on assets	Pre-tax	0.60	1.27
	After-tax	0.53	1.10
Return on equity	Pre-tax	2.32	4.72
	After-tax	2.04	4.07
Net profit margin		10.87	19.32

UNIT : %

Items		MBF	
		For the year ended December 31, 2018	For the year ended December 31, 2017
Return on assets	Pre-tax	1.12	1.18
	After-tax	0.94	0.99
Return on equity	Pre-tax	8.51	9.20
	After-tax	7.11	7.75
Net profit margin		67.72	68.21



UNIT : %

Items		CKI	
		For the year ended December 31, 2018	For the year ended December 31, 2017
Return on assets	Pre-tax	2.87	2.88
	After-tax	2.15	2.17
Return on equity	Pre-tax	7.13	7.52
	After-tax	5.35	5.66
Net profit margin		6.89	7.25

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, 2018 and 2017.

Note 5: Beginning balance of average asset and equity are based on the amount after IFRS 9 adjustment for the year ended December 31, 2018.

- (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.187 of the Consolidated Financial Statements)

(13) Effects on initial application of IFRS 9

A. Summary of significant accounting policies adopted in 2017:

(a). Financial assets and financial 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.

i. 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.

(i). 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.

(ii). 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.

(iii). 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:

1. 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
2. Their performance is evaluated on a fair value basis; or
3. 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.

(iv). 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.

(v). 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.

(vi). 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.

1. 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.

2. 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'.

ii. 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.



(i). 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.

(ii). Financial liabilities measured at amortised 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.

iii. Financial liabilities measured at amortised cost

Please refer to Note 7 for fair value and level information of financial instruments.

iv. Derecognition of financial assets

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

- (i) The contractual rights to receive cash flows from the financial asset expire;
- (ii) 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;
- (iii) 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.

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

- i. 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.
- ii. The criteria that the Mega Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (i) Significant financial difficulty of the issuer or debtor;
 - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (iii) 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;
 - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (v) The disappearance of an active market for that financial asset because of financial difficulties;
 - (vi) 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;

(vii) 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;

(viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and

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

iii. 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.

iv. 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.

v. 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.

vi. 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.

(c). 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:

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

ii. 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.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Amount under IAS 39 at December 31, 2017	Reclassification	Remeasurement	Amount under IFRS 9 at January 1, 2018	Effect from retained earnings at January 1, 2018	Effect from other equity at January 1, 2018	Effect from non- controlling interests at January 1, 2018	Note
Financial assets at fair value through profit or loss	\$ 191,581,454	\$ -	\$ -	\$ 191,581,454	\$ -	\$ -	\$ -	
Addition-debt instrument:								
From available-for-sale (IAS 39)	-	221,108	-	221,108	(14,541)	14,541	-	(3)
Addition-equity instrument:								
From available-for-sale (IAS 39)	-	12,989,702	-	12,989,702	(511,850)	511,850	-	(5)
From measured at cost (IAS 39)	-	4,861,333	828,320	5,689,653	828,320	-	-	(5)
From accrued interest (IAS 39)	-	16,021	26	16,047	26	-	-	(7)
Financial assets at fair value through profit or loss	<u>\$ 191,581,454</u>	<u>\$ 18,088,164</u>	<u>\$ 828,346</u>	<u>\$ 210,497,964</u>	<u>\$ 301,955</u>	<u>\$ 526,391</u>	<u>\$ -</u>	
Financial assets at fair value through other comprehensive income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Addition-debt instrument:								
From available-for-sale (IAS 39)	-	385,163,705	-	385,163,705	(187,488)	187,488	-	(2)
From held-to-maturity (IAS 39)	-	100,000	1,632	101,632	-	1,632	-	(2)
Addition-equity instrument:								
From available-for-sale (IAS 39)	-	4,015,741	-	4,015,741	-	-	-	(4)
From measured at cost (IAS 39)	-	6,306,853	8,110,272	14,417,125	727,117	7,395,716	(12,561)	(4)
Financial assets at fair value through other comprehensive income	<u>\$ -</u>	<u>\$ 395,586,299</u>	<u>\$ 8,111,904</u>	<u>\$ 403,698,203</u>	<u>\$ 539,629</u>	<u>\$ 7,584,836</u>	<u>(\$ 12,561)</u>	
Investments in debt instruments at amortised cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Addition								
From available-for-sale (IAS 39)	-	40,166,793	(452)	40,166,341	(5,561)	5,109	-	(1)
From held-to-maturity (IAS 39)	-	284,587,657	(8,696)	284,578,961	(8,696)	-	-	(1)
From debt instruments without active market (IAS 39)	-	395,428	-	395,428	-	-	-	(1)
Investments in debt instruments at amortised cost	<u>\$ -</u>	<u>\$ 325,149,878</u>	<u>(\$ 9,148)</u>	<u>\$ 325,140,730</u>	<u>(\$ 14,257)</u>	<u>\$ 5,109</u>	<u>\$ -</u>	

	Amount under IAS 39 at December 31, 2017	Reclassification	Remeasurement	Amount under IFRS 9 at January 1, 2018	Effect from retained earnings at January 1, 2018	Effect from other equity at January 1, 2018	Effect from non- controlling interests at January 1, 2018	Note
Receivables	\$ 96,055,863	\$ -	\$ -	\$ 96,055,863	\$ -	\$ -	\$ -	
Deduction:								
To fair value through profit or loss (IFRS 9)	-	(16,021)	-	(16,021)	-	-	-	(6)
From debt instruments without active market (IAS 39)	-	65,000	-	65,000	-	-	-	
To other liabilities	-	(64)	-	(64)	-	-	-	(6)
Adjustment of loss on impairment	-	-	(29,006)	(29,006)	(29,006)	-	-	
Receivables	<u>\$ 96,055,863</u>	<u>\$ 48,915</u>	<u>(\$ 29,006)</u>	<u>\$ 96,075,772</u>	<u>(\$ 29,006)</u>	<u>\$ -</u>	<u>\$ -</u>	(7)
Cash and cash equivalents	<u>\$ 143,864,749</u>	<u>\$ -</u>	<u>(\$ 516)</u>	<u>\$ 143,864,233</u>	<u>(\$ 516)</u>	<u>\$ -</u>	<u>\$ -</u>	(7)
Due from the Central Bank and call loans to banks	<u>\$ 567,201,934</u>	<u>\$ -</u>	<u>(\$ 2,122)</u>	<u>\$ 567,199,812</u>	<u>(\$ 2,122)</u>	<u>\$ -</u>	<u>\$ -</u>	(7)
Loans and bills discounted	<u>\$ 1,762,160,756</u>	<u>\$ -</u>	<u>(\$ 47)</u>	<u>\$ 1,762,160,709</u>	<u>(\$ 47)</u>	<u>\$ -</u>	<u>\$ -</u>	(7)
Provisions	<u>\$ 26,182,764</u>	<u>\$ -</u>	<u>\$ 39,719</u>	<u>\$ 26,222,483</u>	<u>(\$ 39,719)</u>	<u>\$ -</u>	<u>\$ -</u>	(7)
Deferred tax liabilities	<u>\$ 2,266,455</u>	<u>\$ -</u>	<u>(\$ 13,962)</u>	<u>\$ 2,252,493</u>	<u>\$ -</u>	<u>\$ 13,962</u>	<u>\$ -</u>	(2)
Other liabilities	<u>\$ 3,220,776,533</u>	<u>(\$ 64)</u>	<u>\$ -</u>	<u>\$ 3,220,776,469</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(6)

- (a) Under IAS 39, because the cash flows of debt instruments, which were classified as: available-for-sale financial assets, held-to-maturity financial assets and debt instruments without active market, amounting to \$40,166,793, \$284,587,657 and \$395,428, respectively, met the criteria wherein the asset's contractual cash flows represent solely payment of principal and interest, they were reclassified as "financial assets at amortised cost" amounting to increase of \$325,205,730, resulting in a decrease in retained earnings of \$14,257 and increase in other interest of \$5,109 on initial application of IFRS 9.
- (b) Under IAS 39, because the cash flows of debt instruments, which were classified as: available-for-sale financial assets and held-to-maturity financial assets, amounting to \$385,163,705 and \$100,000, respectively, met the criteria wherein the asset's contractual cash flows represent solely payment of principal and interest, they were reclassified as "financial assets at fair value through other comprehensive income (debt instruments)" amounting to \$385,265,337, resulting in a decrease in retained earnings, increase in other equity interest, decrease in deferred income tax liabilities and increase in other equity interest in the amounts of \$187,488, \$189,120, \$13,962 and \$13,962 on initial application of IFRS 9, respectively.
- (c) Under IAS 39, because the cash flows of debt instruments, which were classified as: available-for-sale financial assets, amounting to \$221,108, do not meet the criteria wherein the asset's contractual cash flows represent solely payment of principal and interest, they were reclassified as "financial assets at fair value through profit or loss" amounting to \$221,108, resulting in a decrease in retained earnings and increase in other equity interest in the amounts of \$14,541 and \$14,541 on initial application of IFRS 9.
- (d) Under IAS 39, the equity instruments, which were classified as: available-for-sale financial assets and financial assets at cost, amounted to \$4,015,741 and \$6,306,853, respectively. The Mega Group has made an irrevocable election to designate certain equity investments including strategic investments and stable dividend yield stocks, with the initial application of IFRS 9, these investments are classified as "financial assets at fair value through profit or loss (equity instruments)" in the amount of \$18,432,866 and increased retained earnings, other equity interest and decreased non-controlling interest in the amounts of \$727,117, \$7,395,716 and \$12,561, respectively.
- (e) Under IAS 39, the equity instruments, which were classified as: available-for-sale financial assets and financial assets at cost, amounting to \$12,989,702 and \$4,861,333, respectively, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to \$18,679,355, resulting in an increase in retained earnings and other equity interest in the amounts of \$316,470 and \$511,850, respectively, under IFRS 9.
- (f) Under IAS 39, the debt instruments, which were classified as "debt instrument without active market", amounting to \$65,000, were reclassified as "accounts receivable" amounting to \$65,000 under IFRS 9.
- (g) Under IAS 39, the interests receivable, which were classified as: receivables, amounting to \$16,085, were reclassified as "financial assets at fair value through profit or loss (debt instruments)" amounting to \$16,047, resulting in an increase in retained earnings and decrease in other liabilities in the amounts of \$26 and \$64, respectively, under IFRS 9.
- (h) In line with the regulation under IFRS 9 on provision for impairment, accounts receivable decreased by \$29,006, loan discounted decreased by \$47, cash and cash equivalents decreased by \$516, due from the Central Bank and call loans to banks decreased by \$2,122, provisions increased by \$39,719 and retained earnings decreased by \$71,410.
- C. The reconciliation of allowance for impairment and provision from December 31, 2017, as these are impaired under IAS 39, to January 1, 2018, as these are expected to be impaired under IFRS 9, are as follows:

	Allowance for impairment under IAS 39 at December 31, 2017, and provision under IAS 37	Reclassification	Remeasurement	Allowance for impairment under IFRS 9 at January 1, 2018	Note
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)					
Cash and cash equivalents	\$ 1,293	\$ -	\$ 516	\$ 1,809	(7)
Due from the Central Bank and call loans to banks	-	-	2,122	2,122	(7)
Receivables	2,155,216	-	29,006	2,184,222	(7)
Loans discounted, net	28,355,505	-	47	28,355,552	(7)
Available-for-sale financial instruments (IAS 39)/ Financial assets at fair value through other comprehensive income (IFRS 9)					
Investments in bonds	-	-	187,488	187,488	(2)
Available-for-sale financial instruments (IAS 39)/ Financial assets at amortised cost (IFRS 9)					
Investments in bonds	-	-	5,561	5,561	(1)
Held to maturity (IAS 39)/ Financial assets at amortised cost (IFRS 9)					
Investments in bonds	-	-	8,696	8,696	(1)
Provisions	26,182,764	-	39,719	26,222,483	(7)

D. The significant accounts as of December 31, 2017 are as follows:

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

	December 31, 2017
<u>Financial assets held for trading</u>	
Stocks	\$ 7,543,033
Commercial papers	102,682,813
Beneficiary certificates	372,134
Negotiable certificates of deposit	28,981,755
Bonds	44,865,780
Derivative instruments	3,571,029
Other securities	43,178
Subtotal	188,059,722
<u>Financial assets designated as at fair value through profit or loss</u>	
Convertible corporate bond asset swaps	3,521,732
Total	\$ 191,581,454

i. 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 year ended December 31, 2017 are provided in Note 6(32).

ii. Please refer to Note 12 for details of the aforementioned financial assets provided as collaterals as of December 31, 2017.

iii. As of December 31, 2017, the above financial assets used as underlying assets for repurchase agreements held by the Mega Group was \$96,198,926.

(b) Receivables, net

	December 31, 2017
Accounts receivable	\$ 14,654,328
Factoring receivable	33,152,887
Notes receivable	177,591
Accrued income and interest	8,521,129
Acceptances receivable	10,344,104
Insurance receivable	361,036
Margin loans and securities business money lending receivable	11,981,235
Recovery of accounts receivable	87,058
Purchase of obligor receivable for acting as assignee	92,022
Credit card receivables	4,860,248
Usance outright receivable	3,038,711
Receivable accounts for settlement	9,372,118
Other receivables	1,568,612
Total	98,211,079
Less: Allowance for bad debts	(2,155,216)
Receivables, net	\$ 96,055,863

(c) Loans discounted, net

	December 31, 2017
Bills and notes discounted	\$ 9,660
Overdrafts	3,180,332
Short-term loans	509,194,785
Medium-term loans	690,056,078
Long-term loans	576,100,312
Import/export bills negotiated	9,895,964
Loans transferred to non-accrual loans	2,079,130
Total	1,790,516,261
Less: Allowance for bad debts	(28,355,505)
Loans, net	\$ 1,762,160,756

i. As of December 31, 2017, the amounts of reclassified non-performing loans to overdue loans was \$2,079,130, including interest receivable of \$8,236.

ii. 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 was as follows:

a. Loans:

Item		Loans	Allowance for credit losses
		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

b. Receivables:

Item		Receivables	Allowance for credit losses
		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

The Mega Group considers asset quality in respect of accounts receivable, loans discounted, 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 year ended December 31, 2017, details of recognised allowance for bad debts and relevant movement are as follows:

For the year ended December 31, 2017					
	Accounts receivable	Loans discounted, net	Non-accrual loans transferred from overdue receivables		Total
			receivables	Remittance acquired	
Balance at January 1,	\$ 1,916,078	\$ 26,694,232	\$ 18,356	\$ 155	\$ 28,628,821
(Reversal) provision	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 at December 31,	\$ 2,155,216	\$ 28,355,505	\$ 10,733	\$ 16	\$ 30,521,470

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

December 31, 2017	
Stocks	\$ 16,548,026
Commercial papers	39,161,670
Bonds	373,057,158
Beneficiary certificates	857,234
Beneficiary securities	227,935
Certificates of deposit	12,883,735
Subtotal	442,735,758
Less: Accumulated impairment	(178,709)
Total	\$ 442,557,049

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

ii. Please refer to Note 12 for details of the aforementioned financial assets provided as collateral as of December 31, 2017.

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

December 31, 2017	
Central Bank's certificates of deposit	\$ 251,900,000
Bank's certificates of deposit	11,199,845
Financial bonds	15,226,010
Government bonds	3,652,658
Corporate bonds	2,709,144
Total	\$ 284,687,657

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

ii. The Mega Group recognised interest income of \$31,954 on holding held-to-maturity financial assets for the year ended December 31, 2017.

(f) Other financial assets, net

	December 31, 2017
Remittance purchased	\$ 4,089
Purchase of obligor receivable	5,417
Debt investments with no active market	460,428
Equity investments carried at cost	12,461,719
Non-accrual loans transferred from accounts other than loans	23,097
Pledged time deposits	400,000
Customer margin account	2,687,825
Securities lending guarantee deposits	130,322
Securities lending refundable deposits	117,950
Others	102,815
Subtotal	16,393,662
Less: Allowance for bad debts - remittance purchased	(16)
Allowance for bad debts - non-accrual loans transferred from accounts other than loans	(10,733)
Accumulated impairment - equity investments carried at cost	(1,293,532)
Total	\$ 15,089,381

i. 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.

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

iii. As of December 31, 2017, for the aforesaid financial assets pledged as collaterals, please refer to Note 12.

iv. The company and its subsidiary's investees have been incurring operating losses for many years. Thus, the Mega Group recognised impairment loss for the year ended December 31, 2017. Please refer to Note 16(13) for details.

v. For information regarding the Mega Group's profit or loss related to the disposal of their investee or dividend income for the year ended December 31, 2017, please refer to the explanation in Note 6(35).

(g) Reserves for liabilities

i. 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 year ended December 31, 2017 are as follows:

	For the year ended December 31, 2017
Balance at January 1	\$ 5,946,779
Provision	7,810
Effects of exchange rate changes and others	(5,053)
Balance at December 31	\$ 5,949,536

(h) Other equity items

	Exchange differences on translation of foreign financial statements	Unrealised 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 period	-	1,439,766	1,439,766
Realized gain and loss in the period	-	1,593,211	1,593,211
Translation gain and loss on the financial statements of foreign operating entities in the period	(1,890,094)	-	(1,890,094)
Share of the other comprehensive income of associates accounted for under the equity method in the period	(9,881)	25,846	15,965
At December 31, 2017	(\$ 2,753,357)	\$ 1,746,239	(\$ 1,007,118)

(i) Realised gain on available-for-sale financial assets, net

	For the year ended December 31, 2017	
Income from dividend and bonus	\$	325,500
Bonds		116,198
Stocks		1,458,926
Beneficiary certificates		12,618
Others		5,468
Total	\$	1,918,710

(j) Impairment of assets

	For the year ended December 31, 2017	
Impairment loss on financial assets measured at cost	\$	92,391
Reversal of gain on property and equipment	(27,287)
Impairment loss on available-for-sale financial assets		137,760
Reversal of on investment property		139
Total	\$	203,003

E. The management objectives and policies of financial risks-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,

i. 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.

ii. Classifying credit ratings based on clients' probability of default or behavior scoring with management put in practice.

iii. Controlling concentration of credit risk by setting credit limits for individuals, corporate groups, industries, areas, and different types of collaterals.

iv. Setting credit risk limits by reference to external ratings and prospects with attention to changes in market credit spread and risk concentration of counterparties.

v. Establishing the pre-warning list of credit and reporting system.

vi. Assessing assets quality regularly and setting aside sufficient reserve for losses.

vii. 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:

I. 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.

II. 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 Mega 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 Mega 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

I. 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.

II. 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 Mega 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 reorganisation;
- (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 Mega Group reviews the assumptions and methods for estimation of the future cash flows regularly.

III. 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 or mitigation of credit risk

To reduce credit risk, the Mega Group adopts the following policies.

i. 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.

ii. 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.

iii. 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.

iv. 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		
Government organisation	\$	85,422,512
Finance, investment and insurance		65,829,531
Corporate and commerce		362,335,873
Personal		61,148,036
Others		2,183,854
Total	\$	576,919,806



- i. 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
On-Balance-Sheet Items				
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
Securities purchased under resell agreements	2,551,301	-	-	2,551,301
Receivables	23,277,373	-	-	23,277,373
Loans discounted, net	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
Off-Balance-Sheet Items				
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

Note 1: Collaterals include property, movable property, certification of authorization, securities, certificates of deposits, notes receivable and rights in property.

(i) 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.

(ii) 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).

(e) Financial assets credit quality and analysis of past due and impairment

i. The Mega Group's financial assets credit quality and analysis of past due and impairment

(Please refer to p.211 of the Consolidated Financial Statements.)

ii. 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				Total
	Overdue for less than 1 month	Overdue for 1~3 months	Overdue for 3~6 months	Overdue for more than 6 months	
Receivables	\$ 14,227	\$ 6,934	\$ -	\$ 62	\$ 21,223
Loans discounted, net					
- 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

iii. The Mega Group's provisions for doubtful accounts analysis of impaired loans

December 31, 2017									
Items	Loans				Total	Provisions for doubtful accounts			Loans net amount
	Not impaired		Impaired			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

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.213 of the Consolidated Financial Statements.)

(2) Information on the investees:

(Please refer to p.216 of the Consolidated Financial Statements.)

(3) Information on investments in Mainland China

(Please refer to p.223 of the Consolidated Financial Statements.)

(4) Significant transactions between parent company and subsidiaries

(Please refer to p.225 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.228 of the Consolidated Financial Statements)

(6) The Prospective Risk For Futures Trading

(Please refer to p.229 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 pages 11-12 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, 2018							
Items	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Interest income, net	\$ 36,538,387	\$ 74,186	\$ 770,840	\$814,398	(\$ 102,120)	\$ -	\$ 38,095,691
Revenues other than interest income, net	15,875,614	1,465,484	3,006,839	1,951,317	29,405,021	(28,190,559)	23,513,716
Net revenue	52,414,001	1,539,670	3,777,679	2,765,715	29,302,901	(28,190,559)	61,609,407
(Provision for) reversal of bad debts expense, commitment and guarantee liabilities reserve	(2,045,773)	6,321	54,058	-	(11,012)	-	(1,996,406)
Provisions and bad debts expenses of guarantee liability	-	68,884	-	-	-	-	68,884
Operating expenses	(23,649,277)	(1,145,523)	(769,140)	(2,403,639)	(921,437)	287,091	(28,601,925)
Income before income tax from continuing operations	26,718,951	469,352	3,062,597	362,076	28,370,452	(27,903,468)	31,079,960
Income tax expense	(2,546,739)	(117,446)	(504,516)	(46,308)	228,494	-	(2,986,515)
Net Income (loss)	\$ 24,172,212	\$ 351,906	\$ 2,558,081	\$ 315,768	\$ 28,598,946	(\$ 27,903,468)	\$ 28,093,445

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 liabilities 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	(21,328,752)	(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, 2018							
Items	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Segment assets	\$ 3,197,584,779	\$ 16,696,556	\$ 264,788,560	\$ 58,519,779	\$ 364,646,932	(\$ 360,177,245)	\$ 3,542,059,361
Segment liabilities	\$ 2,914,724,045	\$ 9,982,785	\$ 229,159,809	\$ 43,145,003	\$ 45,734,531	(\$ 14,942,241)	\$ 3,227,803,932

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	(\$ 331,708,174)	\$ 3,547,292,504
Segment liabilities	\$ 2,904,305,222	\$ 9,590,856	\$ 243,483,992	\$ 51,502,548	\$ 45,859,568	(\$ 5,545,241)	\$ 3,249,196,945

(6) Geographical information about net revenue and identifiable assets

For the years ended December 31,			
	2018		2017
Asia	\$ 57,821,009	\$	56,725,947
America	2,623,608		1,744,047
Other	1,164,790		1,190,394
Total net revenue	\$ 61,609,407	\$	59,660,388

	December 31, 2018		December 31, 2017
Asia	\$ 3,182,372,905	\$	3,184,350,546
America	277,201,521		289,355,703
Other	82,484,935		73,586,258
Total identifiable assets	\$ 3,542,059,361	\$	3,547,292,507



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	2018	2017	Difference	
				Amount	%
Cash and cash equivalents, due from the Central Bank and call loans to banks		643,895,292	711,066,683	(67,171,391)	(9.45)
Financial assets at fair value through profit or loss, net		196,201,030	191,581,454	4,619,576	2.41
Available-for-sale financial assets, net		0	442,557,049	(442,557,049)	(100.00)
Financial assets at fair value through other comprehensive income		421,176,553	0	421,176,553	-
Investments in debt instruments at amortized cost		272,926,017	0	272,926,017	-
Bills and bonds purchased under resale agreements		2,623,231	2,553,228	70,003	2.74
Receivables, net		92,723,255	96,055,863	(3,332,608)	(3.47)
Current income tax assets		272,816	757,391	(484,575)	(63.97)
Non-current assets held for sale, net		328,350	0	328,350	-
Bills discounted and loans, net		1,864,447,103	1,762,160,756	102,286,347	5.80
Reinsurance contract assets, net		3,854,464	3,555,454	299,010	8.41
Held-to-maturity financial assets, net		0	284,687,657	(284,687,657)	(100.00)
Equity investments accounted for by the equity method, net		3,168,973	3,184,501	(15,528)	(0.49)
Other financial assets, net		5,112,210	15,089,381	(9,977,171)	(66.12)
Property and equipment, net		21,973,422	21,981,154	(7,732)	(0.04)
Investment property, net		1,500,403	1,696,863	(196,460)	(11.58)
Intangible assets, net		518,222	382,728	135,494	35.40
Deferred income tax assets		7,552,961	6,018,307	1,534,654	25.50
Other assets		3,785,059	3,964,038	(178,979)	(4.52)
Total assets		3,542,059,361	3,547,292,507	(5,233,146)	(0.15)
Due to the Central Bank and financial institutions		411,643,388	404,371,657	7,271,731	1.80
Funds borrowed from the Central Bank and other banks		53,920,881	29,632,968	24,287,913	81.96
Financial liabilities at fair value through profit or loss		27,357,462	9,966,779	17,390,683	174.49
Bills and bonds sold under repurchase agreements		252,298,265	237,706,429	14,591,836	6.14
Commercial paper payable, net		15,929,662	20,165,421	(4,235,759)	(21.01)
Payables		66,362,081	70,119,748	(3,757,667)	(5.36)
Current income tax liability		9,319,314	9,216,815	102,499	1.11
Deposits and remittances		2,320,637,263	2,386,555,016	(65,917,753)	(2.76)
Bonds payable		13,300,000	31,670,036	(18,370,036)	(58.00)
Other loans		4,934,529	1,325,368	3,609,161	272.31
Other financial liabilities		15,325,367	12,698,470	2,626,897	20.69
Provisions for liabilities		26,977,832	26,182,764	795,068	3.04
Deferred income tax liabilities		2,526,612	2,266,455	260,157	11.48
Other liabilities		7,271,276	7,319,019	(47,743)	(0.65)
Total liabilities		3,227,803,932	3,249,196,945	(21,393,013)	(0.66)
Equity attributable to owners of parent		314,242,280	298,054,133	16,188,147	5.43
Common stock		135,998,240	135,998,240	0	0
Capital surplus		68,194,233	68,194,233	0	0
Retained earnings		102,575,350	94,868,778	7,706,572	8.12
Other equity items		7,474,457	(1,007,118)	8,481,575	(842.16)
Non-controlling interest		13,149	41,429	(28,280)	(68.26)
Total Equity		314,255,429	298,095,562	16,159,867	5.42



Change analysis:

1. The available-for-sale financial assets is reclassified according to the IFRS 9 adopted in 2018.
2. The financial assets at fair value through other comprehensive income is a new accounting item according to IFRS 9 adopted in 2018.
3. The investments in debt instruments at amortized cost is a new accounting item according to IFRS 9 adopted in 2018.
4. The reduction in current income tax assets is due mainly to the reduction in prepaid income tax.
5. To activate the assets, the investment property was transferred to non-current assets held for sale, resulting in the increase of non-current assets held for sale.
6. The held-to-maturity financial assets is reclassified according to the IFRS 9 adopted in 2018.
7. Other financial assets declined mainly because the accounting item "financial assets at cost" was deleted and reclassified according to IFRS 9 adopted in 2018.
8. The increase in intangible assets is mainly due to the increase in computer software.
9. Deferred income tax assets increased due largely to the accumulated bad debts exceeding the limit specified by tax laws.
10. The funds borrowed from the Central Bank and other banks increased, mainly from increase of funds borrowed from other banks.
11. Financial liabilities at fair value through profit or loss increased mainly due to the increase in designated financial liabilities at fair value through profit or loss to eliminate the inconsistency of accounting recognition.
12. The reduction in commercial paper payable is largely due to repayment of domestic commercial papers payable.
13. The reduction in bonds payable is primarily due to the repayment of domestic exchangeable bonds and subordinated bank debentures.
14. The increase in other loans is mainly due to the rise in credit loans.
15. The rise in other financial liability is mainly due to the increase in equity of structured products and futures trader right.
16. The increase in other equity items is primarily due to the increase in the translation gain and loss on the financial statements of foreign operating entities and valuation adjustment of financial assets at fair value through other comprehensive income.
17. Non-controlling interest decrease due mainly to the rise in net loss of the investee, Mega I Venture Capital Company

7.2 Analysis of Financial Performance

Unit: NT\$1,000

Item	2018	2017	Difference	%
Interest income	68,396,935	57,094,672	11,302,263	19.80
Less: interest expenses	(30,301,244)	(21,215,148)	(9,086,096)	42.83
Interest income, net	38,095,691	35,879,524	2,216,167	6.18
Revenues other than interest, net	23,513,716	23,780,864	(267,148)	(1.12)
Net revenue	61,609,407	59,660,388	1,949,019	3.27
Bad debts expense on loans and provisions for guarantee liabilities	(1,996,406)	(4,336,814)	2,340,408	(53.97)
Reversal of (provisions for) insurance reserve	68,884	152,758	(83,874)	(54.91)
Operating expenses	(28,601,925)	(26,195,605)	(2,406,320)	9.19
Income from continuing operations before tax	31,079,960	29,280,727	1,799,233	6.14
Income tax (expense) benefit	(2,986,515)	(3,551,632)	565,117	(15.91)
Profit for the year	28,093,445	25,729,095	2,364,350	9.19
Total other comprehensive income (after income tax)	(407,496)	(349,226)	(58,270)	16.69
Total comprehensive income	27,685,949	25,379,869	2,306,080	9.09
Profit attributable to owners of parent	28,109,164	25,734,515	2,374,649	9.23
Profit attributable to non-controlling interests	(15,719)	(5,420)	(10,299)	190.02
Comprehensive income attributable to owners of parent	27,701,668	25,380,530	2,321,138	9.15
Comprehensive income attributable to non-controlling interests	(15,719)	(661)	(15,058)	2,278.06

Change analysis:

1. The increase in interest expense is largely due to the rise in interest expense of deposits, interbank overdraft and call loans.
2. The reduction in bad debts expense on loans and provisions for guarantee liabilities is mainly due to the decrease in bad debt.
3. The decline in reversal of (provisions for) insurance reserve is mainly due to reversal of insurance reserve.
4. The decrease in both profit attributable to non-controlling interests and comprehensive income attributable to non-controlling interests is mainly attributable to the rise in net loss of the investee, Mega I Venture Capital Company.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for 2018

Item \ Year	2018	2017	Variance
Cash flow ratio	(7.61%)	29.06%	(126.19%)
Cash flow adequacy ratio	276.18%	481.10%	(42.59%)
Cash reinvestment ratio	(111.55%)	243.76%	(145.76%)

Change Analysis:

1. The decline in cash flow ratio is mainly due to the net cash outflow from operating activities.
2. The reduction in cash flow adequacy ratio is primarily due to the decrease in net cash flow provided by operating activities over the past five years.
3. The decrease in cash reinvestment ratio is mainly due to the net cash outflow from operating activities.



7.3.2 Cash Flow Analysis for 2019

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
129,675,778	45,353,984	47,492,256	127,537,506	None	None

Analysis of Cash Flow:

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

7.4 Influences from Major Capital Expenditures in 2018: None.

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

7.5.1 Investment Policies in 2018

- 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 achieve the completeness of 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 2018 of NT\$24,172,212 thousand, a growth of 12.31% from the NT\$21,523,410 thousand in 2017. It is largely attributed to a 7.3% increase in net interest income compared to 2017, offset by a 0.16% decline in the revenues other than interest. Its fee and commission income remained at the same level as in 2017, while income from financial operation declined slightly compared to 2017.

Mega Securities Co., Ltd. (MSC)

MSC's net profit after tax in 2018 reached NT\$315,768 thousand, a decrease of 47.09% from the NT\$596,831 thousand in 2017, as its securities proprietary trading performed poorly resulting from dramatic fluctuation in domestic stock market, affected by factors such as the US interest rate hike, the US-China trade

war, and political and economic crisis in Europe. In 2019, the company will not only continue expanding brokerage businesses but also flexibly conducting bond trading in response to market changes. In addition, the company will adjust its warrants issuance strategy and improve its warrant market making mechanism. It will also modify the strategy of securities proprietary trading and expand futures proprietary trading to improve operation performance.

Mega Bills Finance Co., Ltd. (MBF)

MBF posted a net profit after tax in 2018 for NT\$2,558,081 thousand, falling 5.44% from NT\$2,705,229 thousand in 2017 largely due to the decline in net income from bills and bonds business. The company will continue to closely watch the Central Bank's monetary policies and keep track of the financial situation to timely regulate the interest rate of bills transaction in primary and secondary markets. It will also properly manage the bills positions in order to maximize interest spread in issuance and trading of bills. In addition, it will pay close attention to trends of domestic and international politics, economy, and interest rates to flexibly adjust its NT dollar or foreign currency denominated bond position.

Chung Kuo Insurance Co., Ltd. (CKI)

CKI reported a net profit after tax in 2018 for NT\$351,906 thousand, a 0.36% increase compared to NT\$350,643 thousand in 2017 due mainly to an increase of NT\$102,399 thousand in financial revenue, arising from profit taking of domestic financial products. Its underwriting profits declined by NT\$98,644 thousand mainly resulting from the increase in net claims of auto insurance and fire insurance as well as overall operating expense compared to 2017.

Mega Assets Management Co., Ltd.

In 2018, the company reported a net profit after tax of NT\$201,911 thousand, a 25.85% decline compared to NT\$272,303 thousand in 2017 due mainly to the decline in its NPL portfolio, resulting from falling NPL ratio of financial institutions and the restriction on sale of NPL by financial institutions as specified by the competent authority. Besides from continuously 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, urban unsafe and old buildings, 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 2018 of NT\$322,560 thousand, a 15.31% decrease from NT\$380,859 thousand in 2017 due largely to more bonus paid to Mega International Commercial Bank for its promotion of policies compared to 2017, which are available exclusively for Mega Bank's customers.

Mega Venture Capital Co., Ltd. (MVC)

MVC recorded a net loss after tax in 2018 of NT\$63,215 thousand, falling 432.73% from net income of NT\$18,999 thousand in 2017 because, after introduction of IFRS 9 in 2018, the valuation gain/loss of equity

investment is booked in “Gain/loss on financial assets and liabilities at fair value through profit or loss” and domestic stock market plunged, impacted by the US-China trade war. In order to improve the investment portfolio and profitability, aside from cutting loss on those investments with poor prospect, the company will continue to invest in those companies with good quality and international competitive advantage.

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

MIIT posted a net profit after tax in 2018 of NT\$54,724 thousand, a 30.25% drop from the NT\$78,458 thousand in 2017 largely due to supplemental tax payments required by the National Taxation Bureau. The company therefore recognized additional tax expense of NT\$27,000 thousand for year 2012 and 2013, leading to the failure to achieve budgeted net income after tax. In 2012 and 2013, the company had mistakenly deducted taxes by loss carryforward on the loss of 2006 from International Securities Investment for 10 years according to the newly modified the Income Tax Act. As the Financial Institutions Merger Act failed to amend the relevant taxation article until 2015, the company is not allowed to deduct the tax by loss carryforward for 10 years but only for 5 years to 2011. To improve its profits, the company plans to expand AUM by launching 2 issues of new funds in 2019.

Taipei Financial Center Corporation (TFCC)

TFCC posted a net profit in 2018 for NT\$2,070,117 thousand, slightly down NT\$59,543 thousand or 2.80%, from NT\$2,129,660 thousand recorded in 2017, primarily owing to the increase in income tax expense for NT\$141,060 thousand resulting from the income tax rate hike from 17% to 20%. In 2018, its lease ratio, rent collection ratio and the average monthly rent rose compared to 2017.

Taiwan Depository & Clearing Corporation (TDC)

TDC recorded a net profit after tax in 2018 of NT\$2,594,320 thousand, surging by NT\$498,717 thousand or 23.8% from NT\$2,095,603 thousand in 2017. Benefiting from the significant rise in trading volume of domestic equity market, the company's securities service revenues grew by NT\$807,154 thousand, while the operating expenses only increased NT\$187,926 thousand.

Taiwan Business Bank (TBB)

TBB posted a net profit after tax in 2018 of NT\$7,640,542 thousand, a significant growth of NT\$2,600,618 thousand or 51.60% from NT\$5,039,924 thousand in 2017. The net profit rose due mainly to the increase in net revenue of NT\$2,164,252 thousand and reduction in bad debts expense of NT\$2,234,517 thousand, while the operating expense only increase by NT\$1,071,513 thousand. As of the end of 2018, its NPL ratio declined to 0.30% from 0.33% in 2016, and the coverage ratio rose to 394.08% from 327.57% recorded in 2017.

7.5.3 Investment Plans for 2019

- 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, weighing, 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.

Subsidiaries

As the highest authority for the Group's risk management, the Board of Directors of the each subsidiary takes ultimate responsibility for establishing the Company's risk management system and ensuring its effective operation.

Mega International Commercial Bank

Under the Board of Directors are the Risk Management Committee, which helps the Board supervise the operations of the risk management system and several other committees, and other managing units that are responsible for 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, the Compliance Department, Information Security 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.

Mega Bills Finance Company

The Risk Management Committee take the responsibility to review business risk management reports, the allocation of risk quota and the deployment of risk assets, risk management objectives and implementation status. The Risk Management Department is responsible for enacting the risk management-related regulations, enforcing the plans under the risk management mechanism pursuant to the New Basel Capital Accord, organizing the risk management objectives and reviewing the enforcement results, controlling the company's capital adequacy, compiling and reporting the risk management reports.



Mega Securities Company

Mega Securities Company set up the Risk Management Committee in charge of risk management policy planning, performance monitoring, asset allocation policy, setting up or adjustment of risk management objectives, and reviewing relevant risk management rules. Risk Management Office is in charge of management of market risks, credit risks and operational risks. Legal Affairs and Compliance Office is in charge of matters related to compliance risks.

Other subsidiaries

Chung Kuo Insurance Company set up the Risk Management Committee in charge of the overall risk management, and its Risk Management Office is in charge of implementation of risk management. Mega Assets Management Company has a Risk Management Committee in charge of various risk management, while Mega International Investment Trust Company set up the Risk Management Department in charge of risk management. Both Mega Life Insurance Agency Company and Mega Venture Capital Company have designated a dedicated unit to monitor and management various risks.

B. Risk Management Policy

The risk management policies of the Company and its subsidiaries have established a mechanism reflective of their business and sufficient to identify, supervise and control risks. The policies emphasize systematic prevention, reduction and response to foreseeable operating risks, and consolidate the capital in order to address unforeseeable risks and to ensure that operating risks are controlled within a tolerable range. Capital adequacy ratio shall be ensured to achieve the goal of rationalized risk and return.

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 consolidated and hence is the third line of defense.

The Company has established regulations for monitoring respective risks throughout the Group in accordance with the “Risk Management Policy and Operating Guidelines” approved by the Board of Directors. 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 and the Board of Directors. 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 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 incident reporting mechanisms are established and the improvement status are followed up.

(1) Credit risk

The Company uniformly defines operations, exposure object and statistical methods with respect to credit risk management, which applies to all subsidiaries within the Group; the subsidiaries will then periodically upload operational data to the Company. The Risk Management Department periodically monitors the extent of concentration of respective credit exposures throughout the Group for out-of-limit levels, if any, and reports to the 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 evaluate the gains and losses from valuation of interest rate products as a result of variation in the yield to maturity. For interest rate sensitive assets and liabilities in non-trading book, the possible impacts of the interest rate sensitivity gap on the net interest income (expense) 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 required upload loss events with respect to the operational risk and penalty 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 appointed dedicated departments to take charge of managing the daily liquidity. According to respective gap limits approved by the Board of Directors, they monitor liquidity risk indicators, perform funding, report liquidity status from time to time, and periodically review the gap limits. Subsidiaries periodically upload cash in-flow and out-flow profiles to the Company so that the management can keep track of the cash flow 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 quantitative 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 compiled 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, remediation 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 objectives 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. The intra-day liquidity positions and risks of domestic units' NTD and foreign currencies 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 adequate liquidity.

Mega Bills Finance Company

(1) Credit risk

In addition to defining the credit limit ratio by industry sector and specific guarantee conditions, and credit risk limit, the company defines the risk concentration ratio based on customers, industry, and country. An alert standard and control mechanism are in place to prevent excessive risk concentration.

(2) Market risk

The "Market Risk Management Guidelines" are stipulated to control adverse movement resulted from market price. Based on domestic and foreign economic data, the company measures economic status, predicts interest rate, and drafts up trading strategies. In addition to monitoring of risk management objectives including the relevant position limit, loss limit, and sensitivity limit of bills, bonds, equities, and derivatives, sensitivity analysis of bills, and bonds position and verification of derivatives and equities valuation are conducted.

(3) Operational risk

For the establishment of a sound operational risk management framework, internal control and management measures of operational risk are formulated. It stipulates operational risk's identification, assessment, measurement, communication, and monitoring processes. Risk management information framework is established to systematically collect individual loss event frequency, severity, and related information. Emergency response and business continuity plans are also set up to ensure the resumption of operations promptly during an emergency or disaster and to maintain business operations normally.

(4) Liquidity risk

The company's cash flow gap limits of each maturity interval are monitored daily to appropriately avoid capital liquidity risk. A capital emergency response management mechanism is established to activate an emergency response mechanism promptly upon the occurrence of a liquidity crunch, soaring interest rates or unexpected financial events causing serious impacts on liquidity.

Mega Securities Company

(1) Credit risk

For securities positions, credit status of transaction counterparties are regularly reviewed according to the "Enforcement Rules of Credit Monitoring and Management". Measures of various credits enhancement (including collateral) are also periodically evaluated and monitored.

(2) Market risk

Annual loss limit of operating securities plus financial derivatives, and value at risk (VaR 99%, 1 day) of equity securities acquired through proprietary trading plus underwriting and fix income securities are allocated according to risk limit of each department or product line and other quantitative indicators, which shall not exceed a certain percentage of net worth of the company and be decided by the meeting of relevant business units chaired by the President. The result shall be reported to the Risk Management Committee for approval.

(3) Operational risk

Database of operational risk loss events are built and developed to analyze loss events and enact improvement measures. By business unit and loss type, data shall be kept for the reference of internal control procedure of business units.

(4) Liquidity risk

To meet funding requirement and ensure payment capability, enforcement rules is enacted to manage cash flow gap, to maintain appropriate liquidity, and to control the ratio within the specified range.

(5) Other risk

The Rules and Regulations Compiling System is maintained periodically and from time to time to update in line with the amendment to the laws and regulations of the competent authority. The impact of changes in laws and regulations on the company is followed up. The channel for legal consultation, coordination, and communication is enhanced and compliance training shall be organized.

Chung Kuo Insurance Company

(1) Credit risk

Before conducting a transaction, the company shall check the credit rating of counterparty, issuers, guarantee institutions and reinsurers, which shall reach a certain level. The legitimacy of the transaction, credit level quota management, and credit monitoring after transaction is assured. Credit exposure limits are set up for single transaction, a same person, same affiliates, a same business group and those in the US and China to avoid excessive concentration.

(2) Market risk

In terms of risk factors such as change of market interest rate, foreign exchange rate, and equity price, investment assets with market risk are evaluated regularly. According to risk of financial product, operational models including investment principle, positions limit, concentration limit, and stop loss mechanism are set up. Value at risk (VaR) is adopted to measure possible maximum loss in a specific period and confidence levels.

(3) Operational risk

Internal control system, legal compliance system, and various operational procedures and business rules such as legal compliance manual, internal operation manual, separate authorization are set up to avoid occurrence of operational risk or reduce loss. Information of direct and indirect loss caused by mal-operation of internal operation process, personnel and system or external event are collected, recorded and analyzed. The database for loss from operational risk is constructed and regular self-evaluation of operational risk is conducted to identify potential operational risk. Proper operating procedures for operational risk management are further developed.

(4) Insurance risk

According to the risk features, loss experience and policy objectives of the company, underwriting and claim principles are set up to effectively maintain business quality and reduce potential risk. A reinsurance risk management plan is developed, and a maximum retained line for each risk unit is set up based on the factors such as company's risk tolerance, predictable probable maximum loss of each kind of insurance, and possible accumulated risk quota. Catastrophe reinsurance is properly arranged to control risk of self-retained insurance.

Mega International Investment Trust Company

Internal control systems for fund management and corporate business have been enacted according to the laws and regulations of the competent authority and various internal risk management guidelines.

Mega Assets Management Company

Various operation procedures, working division and asset valuation standard have been enacted as a basis for business operation and asset maintenance. For liquidity risk management, Rules for Liquidity Management are set up and liquidity gap limit management is also implemented.

Mega Life Insurance Agency Company

The company has established standard operation manual for each business unit to follow.

Mega Venture Capital Company

The company has formulated investment operation and evaluation procedures according to relevant laws and regulations, and entrust the management with Mega Management & Consulting Company.



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 deliberate non-performing loans and related policies. 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 the Risk Management Report to the Board of Directors and the parent 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 formulating 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 the parent 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 objectives 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 underlying asset, 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 Risk Management Department and the Credit Control Department are responsible for asset securitization handled in accordance with the applicable requirements for loan operations and risk control.

(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 Fund Management Committee, the Asset & Liability Management Committee, and the (Managing) Board of Directors.

Mega Bills Finance Company

(1) Credit risk

With respect to the credit risk in the Company's granting of loans and various financial instruments, the Loan Committee and Risk Management Committee are responsible for supervising and reviewing granting of loans and business risk management objectives. Meanwhile, the Bills Department, Bond Department and all branches are the main operational units for credit risk control.

(2) Market risk

The Risk Management Committee reviews the risk management objectives of all financial instruments. The Bills Department, Bond Department, and all branches are the main operational units for market risk control.

(3) Operational risk

The company enacts various operational manuals and performs self-assessment periodically according to relevant regulations. The affairs relating to operational risk are periodically reported to the Risk Management Committee and Board of Directors. The auditing unit shall review the effective implementation of risk management mechanisms independently and objectively according to the internal auditing procedures, and report to the Board of Directors regularly.

(4) Asset securitization risk

Liquidity risks are supervised by the Risk Management Department while the Bills Department and the Bond Department are responsible for day-to-day trading. TWD and foreign currency liquidity gaps are managed. The Treasury Department is responsible for reporting the monitoring status of liquidity risks.

Mega Securities Company

(1) Credit risk

According to feature of product line, alert and stop loss mechanism and rules governing proper risk management are enacted by each department, which cover authorization structure of each level and reporting procedure and operational contents, credit evaluation before transaction, and graded credit management, credit monitoring after transaction and over-the-limit handling. Risk Management Office supervises risk management mechanism and system implementation of each department according to "Rules of Risk Management" and "Enforcement Rules Governing Credit Supervision and Management."

(2) Market risk

According to feature of product line, alert and stop loss mechanism and enforcement rules governing risk management are enacted by each department, which cover authorization structure of each level and reporting procedure and operational contents, transaction scope, market risk measurement method, market risk limit, authorization level, and over-the-limit handling. Risk Management Office supervises risk management mechanism and system implementation of each department according to the “Rules of Risk Management.”

(3) Operational risk

According to feature of product risk and operation procedures, each department and product line enacted “standard operational procedure” covering internal control specification and control point. Each department and product line additionally set up “Inspection Item of Business Autonomous Management” for necessary supervision, management and anomaly tracking and improvement.

(4) Liquidity risk

Fund utilization risk is supervised and executed by Risk Management Committee and Financial Department, respectively. According to the “Rules of Risk Management,” Risk Management Office is in charge of measurement and supervision of liquidity positions.

(5) Other risk

The Auditing Office takes charge according to relevant rules of internal auditing and internal control of the company. The legal risk management is the duties of Legal Compliance Office. In order to improve abilities to respond to occurrence of significant accidental event, Public Relationship Department set up “Rules Governing Handling Operation of Significant Accidental Event” to develop notice management system. In order to enhance information security management and protect the company’s assets, relevant information security measures are the duties of Information Department.

Chung Kuo Insurance Company

The risk management objectives for market risk, credit risk, operational risk and insurance risk are deliberated by the Risk Management Committee and executed by each business unit. The Risk Management Office compiles the risk information, provided by each department, and reports to the top management, followed by reporting to the Risk Management Committee and Board of Directors periodically.

Mega International Investment Trust Company

Internal control system relating to funds and business management is served as the operation guidance. Before transaction, each department and Risk Management Department take charge of risk management. After transaction, the Auditing Office is in charge of auditing and periodically reports to the Board of Directors and Supervisors.

Mega Assets Management Company

The company set up the Risk Management Committee in charge of various risk management mechanism and formulation of risk management objectives.

C. Scope and characteristics of reporting and measuring system

Mega International Commercial Bank

(1) Credit risk

In order to control risks associated with the affiliated enterprises (group), sectors and countries, and to prevent the over-concentration of risks, credit and investment limits for affiliated (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 and tracing 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. Operation analysis of investee companies is also submitted to the Managing Board of Directors. Long-term equity investments are regularly valued at fair value by the unit other than the investment unit, adopting suitable methods based on the characteristics of investee companies. If borrowers or invested businesses are showing irregular operations and 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 the parent 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 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, occurrence of operational risk loss event, the implementation of legal compliance system, and audits and self-inspections status are submitted to the Board of Directors periodically. Discussions and improvements are made on as soon as deficiencies are found with the respective units. The competent unit at the Head Office is to follow up on and trace the improvements as well. The domestic and overseas operational units and the administration units at the Head Office 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

Securitization investment positions are documented in the bank book. According to the internal management guidelines, the risk management report is produced periodically, with contents including detailed information such as the types, amount, credit rating and valuation of beneficiary securities or asset-backed securities invested, as well as the performance of underlying assets of the securitization.

(5) Liquidity risk

The liquidity risk report estimates the impacts of future cash flows on funding and keeps 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. Once the liquidity indicators reach the standard for activating the response plan, an interim fund management meeting is called to deliberate the liquidity response plan. The response plan approved by the President will be executed by the Treasury Department. 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.

Mega Bills Finance Company

The business management units report implementation of risk management to Risk Management Committee and Board of Directors on a quarterly basis by functions:

(1) Capital adequacy ratio

Analysis on changes in eligible capital and various risk assets is performed to control the capital adequacy ratio.

(2) Credit risk

The reports include the summary of total credit risk exposures by customer, industry and country, NPL ratio, maximum limit of credit extension by industry, maximum limit by guarantee type, and maximum limit of credit extension to a single enterprise, same affiliate and same related party.

(3) Market risk

The reports include bills, bonds, equities, and derivatives positions, profit and loss, duration, stress tests and sensitivity analysis.

(4) Operational risk

The execution units report the important operational risk loss events and relevant corrective actions, annual operational risk map, and analyze the operational risk event loss data to follow the frequency, seriousness and other information of each individual loss event.

(5) Liquidity risk

The liquidity risk report covers management status of the major liabilities, limit on cash flow gap in each maturity interval.

Mega Securities Company

(1) Credit risk

Weekly Reports of Risk Management shall be regularly reported to the President and Chairman for approval with contents including securities held and transaction counterparties listing on negative list and its follow-ups as well as concentration ratio of brokerage clients and individual stock held as collateral from customer's security margin trading and follow-ups on customer's material default. Regular reports on companies recently added on the margin credit risk list, securities position issued by companies on the said list, and transaction counterparty on the said list are submitted to Risk Management Committee, Board of Directors, and the parent company's Risk Management Committee and follow-ups are made.

(2) Market risk

Risk management system is utilized for daily monitoring to check profit/loss, over the limit of each product, product line, and department. Implementation of recent overall market risk management is regularly reported to Risk Management Committee, Board of Directors and the parent company's Risk Management Committee. Valuation information of financial derivatives transaction is compiled quarterly to report to Board of Directors.

(3) Operational risk

The summary and implementation of operational risk loss event are reported to the Risk Management Committee and Board of Directors regularly by the Risk Management Office.

(4) Liquidity risk

Periodical reports are submitted to Risk Management Committee, Board of Directors and the parent company.

(5) Other risks

Legal risk management is handled by the Legal Affairs and Compliance Office.

Chung Kuo Insurance Company

(1) Credit risk

In terms of fund utilization business, the periodic credit risk management reports include the summary of banking deposits, securities holding and long-term equity investment by transaction counterparty, issuer, and guarantee institution to control the credit risk concentration. The credit rating of the outward reinsurers and reinsurers are periodically inspected. Impact from unqualified ceded reinsurance is also assessed to manage credit risk of reinsurance business.

(2) Market risk

For risk factors including market interest rate, foreign exchange rate, price change, each investment asset is evaluated on a monthly basis based on market price or net asset value. VaR of each financial product is regularly calculated and stress test is simulated to assess possible impact of market special changes on total market value of investment asset.

(3) Operational risk

Information of loss event, impact, and follow-up initiatives are documented and operational risk reports are regularly compiled and reported to Risk Management Committee, Board of Directors and the parent company's Risk Management Committee.

(4) Insurance risk

Reports of total insured amount, net retention, retained earned premium, net claims and operational reserves are compiled by risk management unit and reported to the management.

Mega International Investment Trust Company

Evaluation results of interest rate risk and liquidity risk are reported to risk management meeting by units in charge of bond and stock investment on a weekly basis. The examination result of internal control system is reported to the Board of Directors by the auditing office on a yearly basis.



D. Hedging or mitigation policy and strategies and procedures

Mega International Commercial Bank

(1) Credit risk

The prudent credit investigation and case review process as well as follow-up review mechanism help us sufficiently understand 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 volatilities in prices, efforts will be made to periodically monitor and maintain the loan-to-value ratios within the safety range.

(2) Market risk

The bank's hedging strategy is to make use of spot or derivatives to mitigate market price 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 prudently selected for signing the contract in order to transfer the possible operational risks. The Auditing Office of the Board of Directors is responsible for conducting inspections to ensure legal compliance by the contractors.

(4) Asset securitization risk

Asset securitization is embarked on taking into consideration the industrial concentration, economic cycle risk and capital utilization efficiency. Cost-effectiveness is verified 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.

Mega Bills Finance Company

(1) Credit risk

When granting loans, the company evaluates requiring of collaterals and guarantor in accordance with a defined investigation and credit extension procedure. Meanwhile, the post-credit extension management is enhanced. The financial instruments held are managed by periodically monitoring, tracing and evaluating credit ratings of issuers and trading counterparties.

(2) Market risk

The Company uses derivatives hedging strategy to avoid price risk and periodically evaluate gain and loss.

(3) Operational risk

For operational risk event, the company assesses the probability of risk losses and the size of potential losses, and adopts response strategies including avoidance, control, transfer or offset. Business monitoring reports are established to check whether the risk exposures exceed the limit to ensure compliance.

(4) Liquidity risk

Due to the business characteristics, the Company's liquid assets include government bonds, treasury bills, Central Bank Certificate of Deposits, and short-term commercial paper, which have low credit risk and high liquidity.

Mega Securities Company

(1) Credit risk

Before making investment, in addition to compliance with rules governing credit risk, the company requires that credit rating of investment target and transaction counterparty should reach a certain level, or otherwise, requires credit enhancement. Credit risk is periodically followed up after investment. In terms of brokerage risk management, besides regulatory listing for those on the negative list, those listed on research reports or alert list proposed by market supervisory institutions are controlled. Credit status of transaction counterparty is regularly reviewed and through collateral and guarantees, credit strength is improved to effectively lower the credit risk of brokerage businesses.

(2) Market risk

To lower market risk, authorized limit for each kind of product, annual loss limit, and VaR limit are enacted and allocated to each business unit and product line. For any product line that requires hedging, hedging position is evaluated. To ensure operation is made with authorization, daily inspection is conducted. Additionally, to respond to unexpected events, interest rate and equity derivatives are used to hedge and reduce loss resulting from market abnormal movement.

(3) Operational risk

According to internal control system, standard operation procedure and "Inspection Item of Business Autonomous Management" enacted by each unit based on its professional management requirement, necessary supervision, management and improvement tracking are conducted. Auditing Office from time to time tracks implementation of each unit.

(4) Liquidity risk

If there is continuous liquidity contraction, interest rate hike, or incidental financial event that seriously affects liquidity, the company's responsive measures include early termination of commercial paper purchased under resale agreement, immediate sale of asset with better liquidity or short-term investment, and borrowing from financial institutions by taking advantage of resources of this Group or issuing commercial papers. If it is a significant liquidity risk event, the emergency handling mechanism will be activated according to relevant operation procedures.



Chung Kuo Insurance Company

For credit risk, credit change of insurance company for outward reinsurance business is monitored. For market risk, based on economic and market situation, investment portfolio is flexibly adjusted to mitigate market risk arising from interest rate, exchange rate, and price change. Gain and loss are evaluated periodically. In terms of operational risk, self-inspection on internal control and self-assessment on legal compliance are conducted periodically. The auditing office also regularly examined implementation of operational risk management system. For insurance risk, insurance underwriting principle and retention limit of each risk unit are enacted. Exposure in excess of the retention limit should to be arranged properly for reinsurance before issuing any policy to divert business 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, 2018; Unit: NT\$ thousand

Exposure types	Exposures after credit mitigation	Capital requirement
Sovereigns	546,935,167	665,532
Non-central government public sector entities	1,261,764	20,188
Banks (including multilateral development banks)	481,727,170	12,745,503
Enterprises (including securities firms and insurance companies)	1,661,333,810	115,558,246
Regulatory retail portfolios	223,154,557	15,003,770
Residential property	267,197,181	10,550,077
Equity investment	16,232,295	1,298,584
Other assets	35,978,826	2,103,204
Total	3,233,820,770	157,945,104

(2) Market risk

The Capital Requirement for Market Risk

December 31, 2018; Unit: NT\$ thousand

Risk type	Capital requirement
Interest rate risk	2,650,731
Equity risk	631,810
Foreign risk	526,840
Product risk	0
Total	3,809,381

(3) Operational risk

The Capital Requirement for Operational Risk

December 31, 2018; Unit: NT\$ thousand

Year	Gross profits	Capital requirement
2018	50,966,501	
2017	49,253,517	
2016	49,299,524	
Total	149,519,542	
		7,575,977

(4) Securitization Risk:None

(5) Liquidity Risk

Analysis of the Maturity Structure-NT Dollar

December 31, 2018; 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	\$1,847,329,522	\$ 257,675,113	\$ 236,753,293	\$ 169,819,077	\$ 206,535,977	\$ 157,381,317	\$ 819,164,745
Major Outflows of Matured Funds	2,384,413,673	123,880,474	185,756,784	330,375,891	245,907,911	387,365,435	1,111,127,178
Period Gap	(\$ 537,084,151)	\$ 133,794,639	\$ 50,996,509	(\$ 160,556,814)	(\$ 39,371,934)	(\$ 229,984,118)	(\$ 291,962,433)

Note: The above table reports the N.T. dollars position held by the Bank.

Analysis of the Maturity Structure-US Dollar

December 31, 2018; 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	\$ 56,534,405	\$ 25,579,158	\$ 8,084,179	\$ 3,895,261	\$ 1,769,138	\$ 17,206,669
Major Outflows of Matured Funds	65,768,134	26,907,531	10,629,841	5,342,397	6,800,810	16,087,555
Period Gap	(\$ 9,233,729)	(\$ 1,328,373)	(\$ 2,545,662)	(\$ 1,447,136)	(\$ 5,031,672)	\$ 1,119,114

Note: The above table reports the U.S. dollars position held by the Bank.

Analysis of the Maturity Structure of Overseas Branches-US Dollar

December 31, 2018; Unit: US\$ thousand

Item	Total	Amount Outstanding by Remaining Time to Maturity				
		0~30 days	31~90 days	91~180 days	181days~1 year	over 1 year
Major inflows of matured funds	\$ 19,756,020	\$ 11,220,306	\$ 2,087,792	\$ 644,532	\$ 609,495	\$ 5,193,895
Major outflows of matured funds	21,095,065	10,345,450	1,362,985	916,441	985,287	7,484,902
Period gap	(\$ 1,339,045)	\$ 874,856	\$ 724,807	(\$ 271,909)	(\$ 375,792)	(\$ 2,291,007)



Mega Bills Finance Co., Ltd.

(1) Credit risk

The Capital Requirement for Credit Risk under Standard Approach

December 31, 2018; Unit: NT\$ thousand

Exposure types	Capital requirement	Risk assets
Sovereigns	0	0
Non-central government public sector entities	3,365	42,060
Banks (including multilateral development banks)	173,691	2,171,140
Corporations (including securities firms and insurance companies)	12,773,364	159,667,049
Regulatory retail portfolios	101,176	1,264,698
Equity investment	61,483	768,533
Other assets	277,084	3,463,546
Total	13,390,162	167,377,026

(2) Market risk

The Capital Requirement for Market Risk under Standard Approach

December 31, 2018; Unit: NT\$ thousand

Exposure type	Capital requirement	Risk assets (Note)
Interest rate risk	6,230,804	77,885,050
Equity risk	286,116	3,576,450
Foreign exchange risk	42,419	530,238
Product risk	0	0
Option adopted sensitive analysis method	0	0
Total	6,559,339	81,991,738

Note: Capital charge times 12.5

(3) Operational risk

The Capital Requirement for Operational Risk under Basic Indicators Method

December 31, 2018; Unit: NT\$ thousand

Year	Gross profits	Capital requirement	Risk assets
2018	3,750,340		
2017	3,952,352		
2016	4,287,851		
Total	11,990,543	599,527	7,494,088

(4) Liquidity risk

Analysis of the Maturity Structure of Assets and Liability

December 31, 2018; 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	259,569	63,932	57,402	7,438	6,425	124,372
Major outflows of matured funds	226,731	201,828	22,631	2,111	145	16
Period gap	32,838	(137,896)	34,771	5,327	6,280	124,356
Cumulative gap		(137,896)	(103,125)	(97,798)	(91,518)	32,838

Mega Securities Co., Ltd.

(1) Market risk

The company has set up quantitative model to measure risk, which covers risk factor analysis and VaR calculation and management, in addition to traditional position or nominal principal limits and gain/loss information. The transaction limit, loss limit, VaR limit and other quantitative indicators of respective business unit are calculated based on the capital adequacy ratio. The business units are required to operate according to the company's Implementation Guidelines of Market Risk Management.

(2) Credit risk

Credit risk analysis of Mega Securities Company and its subsidiaries

December 31, 2018; Unit: NT\$ thousand

	Mega Securities Co., Ltd.	Mega Futures Co., Ltd.	Mega International Investment Services Co., Ltd.	Total
Due from banks and deposits	1,191,437	424,632	20,334	1,636,404
Marketable Securities	29,487,920	0	8,504	29,496,424
Financial Derivatives	338,555	0	0	338,555
Long-term Investments	785,452	9,280	0	794,732
Total	31,803,364	433,912	28,839	32,266,115

Country credit risk analysis

December 31, 2018; Unit: NT\$ million

Country Exposure	Deposits	Securities	Derivatives	Total	As a percentage of shareholder's equity
China	53	1,812,063	-	1,812,117	12.07%
Hong Kong	0	985,327	-	985,327	6.56%
USA	0	586,450	-	586,450	3.91%
New Zealand	0	521,769	-	521,769	3.48%
France	0	307,330	-	307,330	2.05%
Belgium	204,658	0	-	204,658	1.36%
Ireland	0	183,521	-	183,521	1.22%
Cayman Islands	0	127,638	-	127,638	0.85%
Japan	0	92,252	-	92,252	0.61%
Korea	0	92,199	-	92,199	0.61%
Australia	0	30,853	-	30,853	0.21%

(3) Liquidity risk

The company performs cumulative interval structure analysis regularly to follow up implementation status of risk control objectives, and reports to the Risk Management Committee.

December 31, 2018; 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	48,393	16,793	24,751	32,339	36,865	45,029	48,393
Major outflows of matured funds	38,466	14,843	27,193	35,805	35,968	37,425	38,466
Cumulative gap	-	1,950	(2,442)	(3,466)	897	7,604	9,927



Chung Kuo Insurance Co., Ltd.

The company calculates the risk-based capital and capital adequacy ratio according to the "Regulations Governing Capital Adequacy of Insurance Companies" of the authorities to monitor the change trend of the capital adequacy ratio. If the capital adequacy ratio falls below the alert standard, the company will review the business risk status and risk-weighted asset portfolio and make necessary adjustment.

December 31, 2018; Unit: NT\$ thousand

Exposure	Risk requirement	As a percentage of the risk capital before adjustment
R0 : Asset risk – Related party risk	138,384	4.31%
R1 : Asset risk – Unrelated party risk	630,461	19.62%
R2 : Credit risk	189,567	5.90%
R3a : Underwriting risk – Reserve risk	801,564	24.94%
R3b : Underwriting risk – Premium risk	1,379,805	42.94%
R3c : Underwriting risk – Long-term insurance risk	4	0.00%
R4 : Asset & liability allocation risk	2,984	0.09%
R5 : Other risk	70,801	2.20%
Risk-based capital before adjustment	3,213,569	100.00%
Risk-based capital	933,688	
Adjusted net capital	7,155,225	
Capital Adequacy Ratio	766.34%	

7.6.3 Impact on the Company's financial standing due to changes in domestic or foreign policies and laws, and corresponding countermeasures

A. Impact of changes in domestic or foreign policies and laws

- To facilitate inclusive financing and financial technology development, the Financial Supervisory Commission on January 31, 2018 modified Article 22-1 of the Banking Act regulating that anyone, without limitation to banks, may apply for innovative experiments of banking business pursuant to the Rules of Financial Technology Development and Innovative Experimentation Act. This opens up application for internet only bank by all sorts of industrial operators.
- Referring to the principle of common reporting and due diligence of "Automatic Exchange of Information in Tax Matters" announced by the Organization for Economic Co-operation and Development (OECD), the Ministry of Finance set up "Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions" to align with international standard and to improve international cooperative efficiency. To comply with the laws, financial institutions may lose business as a result of rejecting uncooperative clients and the operating costs might be increased.
- To promote consolidation among financial institutions, the Financial Supervisory Commission on November 28, 2018 modified Article 2 of "Regulations Governing the Investing Activities of a Financial Holding Company" in which the initial shareholding of financial holding company, banks, insurance companies, and securities firms was modified from "controlled shareholding" (25%) to "more than 10%" of the total shares with voting right or paid-in capital of the invested financial institutions. This provides financial institutions with options to conduct equity participation first and then seek the possibility of merger discussion.

- In November, 2018, the “Money Laundering Control Act” and the “Counter-Terrorism Financing Act” were modified to keep up with the times, making financial institutions to attach importance to legal compliance, anti-money laundering and countering financing of terrorism.
- To respond to a shift in the regional supply chain due to the US-China trade dispute, Executive Yuan in 2019 introduced the 3-year “Welcome Taiwanese Companies abroad to Invest in Taiwan Action Plan”. The Plan is oriented for the needs of homecoming enterprises, actively assisting Taiwanese companies to return and invest in Taiwan in an effort to promote domestic investment momentum.
- In December 2018, the Legislative Yuan passed the amendment to the “Urban Renewal Act” and the Financial Supervisory Commission in August 2018 relaxed the recognition standards of residential construction and construction for business purpose and the relevant loans exempted from the limitation with the aim to improve the momentum of domestic investment in construction.

B. Countermeasures

The Company will continuously optimize user’s experience, consider different habits of user groups and increase customer adhesion to boost the competitiveness of its digital financial services. To conform to the laws and regulations of the competent authority, it will seize opportunities to expand business and to modify internal rules. In addition, it will enhance anti-money laundering and countering financing of terrorism system to comply with internal and external rules and improve the compliance and risk management mechanism.

7.6.4 Impact on the Company’s financial standing due to technological or industrial changes, and corresponding countermeasures

A. Impacts of technological changes and countermeasures

a. Impact of technological or industrial changes

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 operation and finance of banks are described as follows:

- Increasing demand for mobile banking: The use volume of mobile phones or tablets continues to grow. Banks are, therefore, required to develop mobile services in terms of product, advertisement design, and their operating procedures to meet client needs. Additionally, to respond to the government’s policy goals of e-payment and mobile payment ratios, banks also need to develop mobile payment and integrate peripheral service functions to replace the physical payment tools, enhancing the convenience of mobile financing services. Furthermore, banks may work with other sectors and integrate resources of each other by connecting payment tools of the financial industry to jointly promote the mobile payment services.

- Increasing needs for digital management and personalized marketing: The banking industry, compared with other industries, owns more digital data. Therefore banks should make use of technology skills to create a highly efficient database framework integrating internal data and linking up with external data to develop diverse database. Through data analysis, data value can be extracted to facilitate internal research, development of new products or optimization of services to improve the understanding on client needs. For applications of marketing channels, it also goes beyond conventional media to cover digital or social media which incorporates with collection of digital behavior track. Supplemented with internal data analysis, behaviors and habits of clients can be grasped to properly develop personalized marketing services and to improve product sales effectiveness. In long-term development, the investment in data analysis has become one of 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 various financial services will gradually drop each year. In order to address this trend early on, banks should establish a digital transformation plan on their branches' operations to accommodate the overall digital development.
- Continuously updating the information system: With bank's promotion of digital developments, the ratio of clients taking advantages 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, introducing new information technologies and promoting information security mechanism in order to ensure service stability, security and extensibility.

b. Countermeasures

- User's experience has been adopted in design of Mega Bank's website. Based on customer demand, Mega Bank develops website structure and functions, which support browsing services of the webpage via mobile devices to respond to client's needs in digital finance. With bright, refreshing design style and optimized operating experiences, the young digital brand image is built.
- Mega Bank promotes the "Taiwan Pay" QR Code Financial Card Mobile Payment Service, such as account transfer, shopping, expense payment, tax payment, e-invoice. Besides, the credit card payment function is added, making payment functions more diversified. In order to expand the overall effectiveness of mobile payments development, aside from establishing the financial card collection service system, Mega Bank continuously strive for providing specific stores with collection service, assisting its branches to attract new customers. By cooperating with JKOS and EASYCARD Corporation, Mega Bank provides shopping payments from saving accounts and value store services to increase the applications of mobile payment.
- Mega Bank enhances "online foreign exchange service" functions by linking up with digital saving accounts and increasing the debit and withdrawal functions of foreign currency saving accounts. It enhances digital channel marketing to promote product reputation. The process, purchasing foreign currency via online ordering and picking up at physical branches service, fulfills O2O financing and brings into full play in the Bank's advantages in foreign exchange business.

- Mega Bank optimizes user's experience in opening digital savings accounts and continuously provides incentives, including high interest rates for New Taiwan Dollars and foreign currencies deposits and handling fees discount. The credit card application function has been added into the digital saving account opening process and wealth management functions will be continuously added therein. Through integration of multiple account opening services, it can provide one-stop service experiences. In the future, the Bank will continue to offer online financial product incentives and integrate consumer financial products to attract potential customers.
- In terms of digital marketing, Mega Bank works with LINE in business marketing through official account services. At present, membership verification mechanism has been activated to provide real-time personalized message notification functions including transaction notice, credit card consumption, loan notice, and financing and investment notice. This helps boost customer adhesion and reinforce the digital brand image of Mega Bank.
- Mega Bank provides online real estate appraisal services linked with external information of actual transaction price registration and neighborhood facilities. Trial calculation of property values online is made available for customers. Existing mortgage loans clients may apply for additional amount of loan according to the result of the trial calculation. Other clients leaving a contact message can be contacted by bank employee and experience the digital service of housing loans.
- The Smart Teller Machine (STM) is introduced in service counters at Mega Bank's branches to assist clients to open accounts and apply for online banking services as well as chip financial cards on their own. This reduces the workloads of clerks and saves form filling and account opening time to synchronically improve digital service quality and fulfill corporate social responsibility, achieving paperless goal.
- Point platform of "Mega Points" is built to provide point reward for main digital transaction channels including online banking, mobile banking, online ATM, digital saving account, online foreign currency exchange to increase customer adhesion.
- Smart customer services are made available by providing online real-time Q&A services. When a client inputs a question, the system can immediately identify the question and provide relevant replies, improving service quality and efficiency. At present, the system is deployed in channels including the official website of the Bank, online banking, mobile banking, and LINE official account.
- Focusing on the five technical dimensions for cloud-computing, information security, mobile applications, big data, and the Internet of Things, Mega Bank proactively invests in related applications, innovations and R&D, and make best use of data value to create a brand new financial service platform that helps explore various potential customers and business opportunities.
- In order to strengthen big data infrastructure and its analytical applications, Mega Bank in 2018 has created the "Big Data Management Platform" consisting the "consistent data marketplace" to meet various internal need in data utilization. In addition to the "Data Lake" that stores enormous data to support all channels' data application requirement, the "ETL Management Tool" can execute and monitor the schedule of various operations. In 2019, the application platform of customer view and digital analysis will be introduced to improve client relationship management and data analysis effectiveness.



- To strengthening application of LINE official account, Mega Bank adopts LINE Business Connect service to provide personalized, foreign exchange, and credit card services. In order to improve client experience, quick logging is added to mobile banking (combining with mobile phone bio-identification and graphical password) and LINE notification functions (account credit and debit notice, credit card consumption, payment alert, financing and investment, loan payment reminding, meet price target notice). Additionally, to optimize digital financing services, online banking and mobile banking systems are upgraded.

B. Impacts of changes in the industry and responsive measures

a. Impacts of changes in the industry on banks' finance and business

- After Industry 4.0 proposed by Germany and Trump's Return of American Manufacturing and America First policies, global industrial development is now restructuring. The global shift in manufacturing industry is heading for the development model of integration of balanced manufacturing and consuming market, which may probably hinder Taiwan's economic growth. The US-China trade war reduce the trade momentum that results in delayed business investments and reduces bank's lending opportunities. However, the shift of the supply chain to South East Asia or return to Taiwan will increases the service opportunities outside of China for Taiwanese banks.
- With the provision of tax incentives to attract funds return to Taiwan by the government, banks provide a harbor of capitals and divert capitals to invest in physical industries such as "five plus two plus two plus one industries," "urban renewal," "long-term care" and "Forward-looking Infrastructure Development Program" to promote economic transformation and upgrading. The government has focused on four dimensions including optimization of investment environment, spurring private investment, enhancing state-owned and pan state-owned enterprises' investment, and strengthening digital innovation. It is aimed to stimulate economy in the short term and develop the next generation industry in the mid- and long-run for overall economic potential growth.
- The government selected "biomedicine," "Asia Silicon Valley," "smart machinery," "green technology," and "the national defense industry" as the five innovative industries plus two sustainable industries, "new agriculture" and "circular economy" plus "digital country innovative economy" and "cultural technology" development initiatives and "promotion of chip design and the IC visionary technology" to provide the drive for Taiwan's next generation industrial growth and to realize visions of a digital country, smart island, value-added service sector, non-nuclear homeland and energy saving and carbon reduction. Development opportunities will be brought for companies in relevant fields and development of the banking industry. .

b. Responsive measures

In order to strengthen industrial analysis and to keep track of industrial dynamics, we not only subscribe to professional industrial economy databases for our staff 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 undertaking limits for major industries and business group, respectively, in order to disperse the impacts of industrial change on the operation of the bank subsidiary.

7.6.5 Impact of changes in the corporate identity of crisis management of the company

Since 2013, the Company has published reports of corporate social responsibility (CSR) which is certified by the third independent review institution to improve the credibility and transparency of the report. Because the Company over the past five years in a row has been devoted to CSR and demonstrated good performance, we received the Taiwan Corporate Sustainability Report Awards from the Taiwan Institute for Sustainability Foundation and “CSR Sustainability Awards” of the British Standards Institution (BSI) in 2018.

To cooperate with the “Work Study Program of Economically Independent Youth” promoted by the Youth Development Administration, the Ministry of Education, the Company between 2012 and 2018 provided 300 work study posts for the youth to assist them to develop work skills and competitiveness for future careers. The Company successfully cooperates with this Program and has received a “Letter of Appreciation” from the Ministry of Education for six years in a row.

In addition, the Company has long been taking care of the disadvantaged to fulfill the corporate social responsibility and advocating a peaceful society. 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 technological level, among others. In addition, with M&A, the assessment will also be focused on how much the additional synergistic effect will be with addition of the said company or group for the Company or what will be the outcome for both parties following acquisition.
2. Possible risks associated with M&A include: (a) The M&A strategies and goals are inadequate; (b) The industry where the Company to be merged and acquired is not promising and the Company’s profitability cannot be effectively improved; (c) The target company’s real value is overestimated; (d) The target company’s liabilities from legal lawsuits exceed expectations; (e) Major members of the management have left the company one after another in large numbers before and after the consolidation.
3. In order to avoid or reduce risks brought about by M&A, the Company will review and adjust M&A strategies 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 generated by 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 companies and related parties of the bank as required by the Banking Act; in addition, it classifies enterprise groups based on their credit rating and set the overall credit limits and limits for unsecured credits. According to the operating strategy and in consideration of factors such as changes in the overall economic performance and industrial prospects, separate credit risk 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 and respective risk level. 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 high positions in interest rate sensitive assets and is faced with relatively high interest rate volatility risks. As such, control over risk positions and risk durations are particularly reinforced. As far as the loan and guarantee business is concerned, control over the credit risks of business group is strengthened. The operations, financial standing, and financial liabilities of enterprise groups are analyzed according to their credit outstanding, enterprise group profile and highlights of the main enterprise, 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 over-concentration is relatively low. Aside from providing property insurance business for large corporations, the subsidiary is proactively 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 2018, 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 2018, the government, state-owned enterprises and government-run pension funds totally hold around 26% 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\$5,761,953 thousand	September 30, 2016	Mr. Tsai and Mr. Wu	Mega International Commercial Bank has already engaged attorneys to file a civil lawsuit against both Mr. Tsai and Mr. Wu with the Taiwan Taipei District Court on September 30, 2016 for NT\$5,761,953,509 and apply for provisional seizure of their properties. The case is currently being handled at the court.

7.6.11 Other important risks and response measures

Besides monitoring, managing business and financial risks, the Company and each of the subsidiaries are gradually adjusting their risk management strategies and establishing related operational mechanisms to deal with the increasingly important risk in compliance, information system incident, personal data protection, regional politics and climate change, among others, and to improve the overall business competitive advantages and ability to safeguard against risks.

To respond to the increasing changes in trends of the information security risks, the Company describes relevant information of security operations below:

a. Information security policy, information security risk management structure

To realize and continuously strengthen risk management of information security, the Company has an information security policy in place as the basis of various information security measures of the Company and its subsidiaries. This policy is at least evaluated once a year or when there is a significant change to laws and regulations, technologies, organizations and operations.

Through regular meetings of the Group Information and Digital Business Committees, issues on information technology development, risk management of information security of the Group are discussed. The unit in charge, Electronic Data Processing Department, is responsible for executing or coordinating relevant resolutions decided by the committee; important issues or resolutions are reported to higher levels of risk management organization (the Board of Directors, Risk Management Committee).



b. Evaluation and management initiatives of information security and cyber risk

The Company has enacted information security management procedures and cyber security-related rules in place. Employees and third-party service providers are required to sign non-disclosure affidavit (but we are not able to guarantee each employee or the third-party service provider will perform or obey these obligations).

Relatively complete Internet or computer security protection system has been established to maintain operation of important systems of the Company. Through operations such as annual social engineering drill and educational training, system weakness scanning, penetration testing and auditing, adequacy and effectiveness of information security and Internet risk management are ensured. However, it is not guaranteed that the Company will not be affected by the ever changing cyber security threats or completely refrain from any cyber-attacks by the third party that cause breakdown at the system. If the website is seriously attacked or hacked, the Company may interrupt services, lose important or confidential information (for example client information, information of related parties, information of employee, financial information) or fail to control the computer and is threatened, or get involved in relevant legal case, or be investigated due to violation of its confidentiality obligation or disclosure of the third party information and shall take legal responsibilities.

The Company has backup computer equipped in other locations and data backup mechanism. Backup media are sent to be preserved in other places. Regular system restoration drills are conducted to ensure the effectiveness of restoration mechanism and to avoid system interruption resulting from human negligence and to protect information. System software and hardware and data inventory checks are regularly conducted to identify each business and important data (for example, personal information) and corresponding supportive system services for proper improvement of software and hardware equipment resources, operational process, information security, and reduction of risk involved.

c. Information Security Management System (ISMS) Certification

The Company has established Information Security Management System according to ISO 27001:2005. Both Mega Bank and Chung Kuo Insurance have been certified with ISO 27001:2013 which continued be valid. Mega Securities plans to introduce ISMS in 2019 and Mega Insurance Agency has passed the pre-evaluation of ISO 27001:2013.

d. Arrangement of information security insurance

For sustainability and reputation, Mega Bank has purchased “E-commerce and Information Security Liabilities” policy to cover cyber risks and information risk brought by application of emerging technology.

e. Impact and responsive measures of significant information security event occurred

Up until the printing date of this annual report and in 2018, there is no significant Internet attack or event that has or might have significant adverse impact on businesses and operations of the Company. In addition, the Company is not involved in any legal case or under relevant investigation in this regard.

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, accountable 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 judgment 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 emergency event.

7.8 Other Significant Events: None.



Special Disclosure



8.1 Affiliated Companies Information

8.1.1 Affiliated Companies Chart

Please refer to page 19 of this annual report.

8.1.2 Summary of Affiliated Companies

Dec. 31, 2018 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 agency business
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 guarantee 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 business
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	Securities investment trust business, discretionary investment management
Mega Management & Consulting Corp.	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, human resource dispatch



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, management of past due accounts receivable, human resource dispatch
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. (Note)	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 ICBC, No. 74, Panama	USD 20	Investment of real estate

Note: Mega International Commercial Bank (Canada) has been restructured into a branch with full banking business license since April 16, 2018 and will be dissolved upon approval by the competent authority.

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, so both Mega Securities Company and Mega Futures Company are 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 involved in securities introducing brokerage business, but in 2018 nearly 100% of the securities brokerage business is conducted by Mega Securities since Mega Futures Company has no branches.

8.1.6 Directors, Supervisors and Presidents of Affiliated Companies

Dec. 31, 2018

Company	Title	Name	Shareholding	
			No. of Shares	%
Mega Securities Co., Ltd.	Chairman President Independent Director Independent Director Director Director Director Supervisor Supervisor	Pei-Chun Chen (Representative of Mega Financial Holding Co., Ltd.) Chin-Chuan Chen Yih-Ray Hwang (Representative of Mega Financial Holding Co., Ltd.) Chin-Ling Hsu (Representative of Mega Financial Holding Co., Ltd.) Chia-Min Hong (Representative of Mega Financial Holding Co., Ltd.) Han-Yin Ting (Representative of Mega Financial Holding Co., Ltd.) Tzu-Yuan Yang (Representative of Mega Financial Holding Co., Ltd.) Chiao-Hsiang Chang (Representative of Mega Financial Holding Co., Ltd.) Tzong-Chi Hsu (Representative of Mega Financial Holding Co., Ltd.) Yu-Chun Liu (Representative of Mega Financial Holding Co., Ltd.)	1,160,000,000	100
Mega Bills Finance Co., Ltd.	Chairman Director & President Independent Director Independent Director Director Director Director Director Supervisor Supervisor Supervisor	Mei-Chu Liao (Representative of Mega Financial Holding Co., Ltd.) Chi-Fu Lin (Representative of Mega Financial Holding Co., Ltd.) Jean-Yue Chen (Representative of Mega Financial Holding Co., Ltd.) Yih-Ray Hwang (Representative of Mega Financial Holding Co., Ltd.) Jui-Yun Lin (Representative of Mega Financial Holding Co., Ltd.) Ruey-Yuan Fu (Representative of Mega Financial Holding Co., Ltd.) Ya-Ting Chang (Representative of Mega Financial Holding Co., Ltd.) Yu-Mei Hsiao (Representative of Mega Financial Holding Co., Ltd.) Yung-Chen Huang (Representative of Mega Financial Holding Co., Ltd.) Shao-Pin Lin (Representative of Mega Financial Holding Co., Ltd.) Chi-Ho Chen (Representative of Mega Financial Holding Co., Ltd.)	1,311,441,084	100
Mega International Commercial Bank Co., Ltd.	Chairman Managing Director Managing Director & President Managing Director Managing Independent Director Independent Director Independent Director Director Director Director Director Director Director Director Director Managing Supervisor Supervisor Supervisor Supervisor Supervisor	Chao-Shun Chang (Representative of Mega Financial Holding Co., Ltd.) Kuang-Hua Hu (Representative of Mega Financial Holding Co., Ltd.) Yong-Yi Tsai (Representative of Mega Financial Holding Co., Ltd.) Chien-Liang Chiu (Representative of Mega Financial Holding Co., Ltd.) Fu-Long Chen (Representative of Mega Financial Holding Co., Ltd.) Shyue-Shing Liao (Representative of Mega Financial Holding Co., Ltd.) Chih-Jen Hsu (Representative of Mega Financial Holding Co., Ltd.) Ching-Wen Lin (Representative of Mega Financial Holding Co., Ltd.) Shao-Pin Lin (Representative of Mega Financial Holding Co., Ltd.) Chao-Huang Kuo (Representative of Mega Financial Holding Co., Ltd.) Sui-Chang Liang (Representative of Mega Financial Holding Co., Ltd.) Jhy-Yuan Shieh (Representative of Mega Financial Holding Co., Ltd.) Wen-Ling Hung (Representative of Mega Financial Holding Co., Ltd.) Chuen-Wen Jung (Representative of Mega Financial Holding Co., Ltd.) Cheng-Chiang Hsu (Representative of Mega Financial Holding Co., Ltd.) Sheng-Chang Liu (Representative of Mega Financial Holding Co., Ltd.) Tai-long Lee (Representative of Mega Financial Holding Co., Ltd.) Tzyy-Jane, Lai (Representative of Mega Financial Holding Co., Ltd.) Yu-ling Hung (Representative of Mega Financial Holding Co., Ltd.) Jiin-Feng Chen (Representative of Mega Financial Holding Co., Ltd.)	8,536,233,631	100
Chung Kuo Insurance Co., Ltd.	Chairman Director & President Independent Director Independent Director Director Director Director Director Director Supervisor Supervisor Supervisor	Cheng-Te Liang (Representative of Mega Financial Holding Co., Ltd.) Chia-Hsiang Wei (Representative of Mega Financial Holding Co., Ltd.) To-Far Wang (Representative of Mega Financial Holding Co., Ltd.) Shih-Hsin Huang (Representative of Mega Financial Holding Co., Ltd.) Jing Su (Representative of Mega Financial Holding Co., Ltd.) Wen-Jui Huang (Representative of Mega Financial Holding Co., Ltd.) Wang-Chung Ko (Representative of Mega Financial Holding Co., Ltd.) Shiow Lin (Representative of Mega Financial Holding Co., Ltd.) Wen-Yeong Hsieh (Representative of Mega Financial Holding Co., Ltd.) Tai-Shin Dai (Representative of Mega Financial Holding Co., Ltd.) Muh-Tarng Hsieh (Representative of Mega Financial Holding Co., Ltd.) Chun-Hsiang Lee (Representative of Mega Financial Holding Co., Ltd.)	300,000,000	100



Company	Title	Name	Shareholding	
			No. of Shares	%
Mega Asset Management Co., Ltd.	Chairman Director & President Director Director Director Supervisor	Yuan-Chung Lee (Representative of Mega Financial Holding Co., Ltd.) Pei-Chun Chen (Representative of Mega Financial Holding Co., Ltd.) Yu-Mei Hsiao (Representative of Mega Financial Holding Co., Ltd.) Yu-Chuan Lu (Representative of Mega Financial Holding Co., Ltd.) Ming-Chih Lu (Representative of Mega Financial Holding Co., Ltd.) Tsung-Chih Hsu (Representative of Mega Financial Holding Co., Ltd.)	200,000,000	100
Mega Life Insurance Agency Co., Ltd.	Chairman Director & President Director Supervisor	Chao-Jung Chen (Representative of Mega Financial Holding Co., Ltd.) Yu-Hsiu Liu (Representative of Mega Financial Holding Co., Ltd.) Chun-Ju Lin (Representative of Mega Financial Holding Co., Ltd.) Shu-Yuan Chen (Representative of Mega Financial Holding Co., Ltd.)	2,000,000	100
Mega Venture Capital Co., Ltd.	Chairman & President Director Director Supervisor	Jui-Yun Lin (Representative of Mega Financial Holding Co., Ltd.) Ping-Kuan Lo (Representative of Mega Financial Holding Co., Ltd.) Mu-Ping Chiang (Representative of Mega Financial Holding Co., Ltd.) Ching-Yi Li (Representative of Mega Financial Holding Co., Ltd.)	100,000,000	100
Mega International Investment Trust Co., Ltd.	Chairman Director & President Director Director Director Director Supervisor Supervisor	Tsung-Jen Cheng (Representative of Mega Financial Holding Co., Ltd.) Chun-Hsien Chen (Representative of Mega Financial Holding Co., Ltd.) Kuang-Hua Hu (Representative of Mega Financial Holding Co., Ltd.) Jui-Ying Tsai (Representative of Mega Financial Holding Co., Ltd.) Chien-Pin Lee (Representative of Mega Financial Holding Co., Ltd.) Ping-Kuan Lo (Representative of Mega Financial Holding Co., Ltd.) Li-Ling Tzuo (Representative of Mega Financial Holding Co., Ltd.) Shiow Lin (Representative of Mega Financial Holding Co., Ltd.) Ta-Sheng Chen (Representative of Mega Financial Holding Co., Ltd.)	52,700,000	100
Mega Management & Consulting Corp.	Chairman (Note 2) Director Director Supervisor	Tsung-Jen Cheng (Representative of Mega International Commercial Bank) Ming-Fang Yang (Representative of Mega International Commercial Bank) Shih-Chung Huang (Representative of Mega International Commercial Bank) Jin-Chieh Lee (Representative of Mega International Commercial Bank)	1,000,000	100
Mega I Venture Capital Co., Ltd.	Chairman President Director	Ming-Fang Yang (Representative of Mega International Commercial Bank) Yin-I Lo Ming-Chih Weng (Representative of Mega International Commercial Bank)	8,437,500	25
	Director (Note 3) Director (Note 3)	Wo-Chiang Lee (Representative of Mega International Commercial Bank) Li-Chung Lee (Representative of Mega International Commercial Bank)	5,062,000	15
	Director	Chia-Hung Wong (Representative of Cathay Venture Capital Inc.)	338	0.001
	Supervisor	Ting-Fang Lee (Representative of Mega Securities Co., Ltd.)	3,375,000	10
Mega Futures Co., Ltd.	Chairman Director & President Director Director Director Supervisor	Pei-Chun Chen (Representative of Mega Securities Co., Ltd.) Mei-Fang Lee (Representative of Mega Securities Co., Ltd.) Chin-Chuan Chen (Representative of Mega Securities Co., Ltd.) Pei-Chen Yang (Representative of Mega Securities Co., Ltd.) Cheng-Chung Shao (Representative of Mega Securities Co., Ltd.) Ching-Hsien Kung (Representative of Mega Securities Co., Ltd.)	40,000,000	100
Mega International Investment Services Co., Ltd.	Chairman & President (Note 4) Director Director Supervisor	Ing-Ming Lin (Representative of Mega Securities Co., Ltd.) Ching-Yi Ku (Representative of Mega Securities Co., Ltd.) Kuo-En Huang (Representative of Mega Securities Co., Ltd.) Yu-Yen Huang (Representative of Mega Securities Co., Ltd.)	2,000,000	100
China Products Trading Corp., Ltd.	Chairman Director Director Director Director	Chen-Shan Lee (Representative of Mega International Commercial Bank) Ta-Sheng Chen (Representative of Mega International Commercial Bank) Shaw Hwa Su (Representative of Mega International Commercial Bank) Chang-Weng Kuo (Representative of Mega International Commercial Bank) Shih-Chih Lin (Representative of Mega International Commercial Bank)	68,274	68.27
	Supervisor	Li-Li Lee	0	0

Company	Title	Name	Shareholding	
			No. of Shares	%
Yung-Shing Industries Co., Ltd.	Chairman Director Director Director Director	Hui-Ling Chou (Representative of Mega International Commercial Bank) Yue-Gean Kuo (Representative of Mega International Commercial Bank) Daniel H.C. Liu (Representative of Mega International Commercial Bank) Yen-San Chang (Representative of Mega International Commercial Bank) Guo-Jyh Tang (Representative of Mega International Commercial Bank)	298,668	99.56
	Supervisor	Hung Tseng	0	0
Win Card Co., Ltd.	Chairman Director & President Director Director Director (Note 5) Supervisor	Chao-Jung Chen (Representative of Yung-Shing Industries Co., Ltd.) Chung-Hsiang Lin (Representative of Yung-Shing Industries Co., Ltd.) Jen-Fu Chang (Representative of Yung-Shing Industries Co., Ltd.) Yu-Mei Chiu (Representative of Yung-Shing Industries Co., Ltd.) Miarn-Shur Juang (Representative of Yung-Shing Industries Co., Ltd.) Ching-Yi Li (Representative of Yung-Shing Industries Co., Ltd.)	200,000	100
ICBC Assets Management & Consulting Co., Ltd.	Chairman Director & President Director Director Supervisor	Jian-Pyng Lee (Representative of Yung-Shing Industries Co., Ltd.) Shih-Chung Huang (Representative of Yung-Shing Industries Co., Ltd.) Te-Jen Hsu (Representative of Yung-Shing Industries Co., Ltd.) Te-Shao Chen (Representative of Yung-Shing Industries Co., Ltd.) Hui-Ling Yu (Representative of Yung-Shing Industries Co., Ltd.)	2,000,000	100
Mega International Commercial Bank (Canada)	Chairman Director & President Director	Ying-Ying Chang (Representative of Mega International Commercial Bank) Chung-Shin Loo (Representative of Mega International Commercial Bank) Cheng-Chian Tsao (Representative of Mega International Commercial Bank)	230,000	100
	Independent Director Independent Director Independent Director Independent Director	Stanley Kwan Caesar C.C. Cheng Nae-Yee Lung Bernard P.Y. Hu	0	0
Mega International Commercial Bank Public Co., Ltd.	Chairman Director & President Director Director Director Director	Yu-Mei Hsiao (Representative of Mega International Commercial Bank) Juei-Heng Chia (Representative of Mega International Commercial Bank) Kuo-Pao Chen (Representative of Mega International Commercial Bank) Wan-Ling Jwang (Representative of Mega International Commercial Bank) Lien-Chang Lin (Representative of Mega International Commercial Bank) Chin-Chen (Representative of Mega International Commercial Bank)	400,000,000	100
	Independent Director Independent Director Independent Director	Wittaya Supatanakul Adisorn Pinijkulviwat Niramorn Asavamanee	0	0
Cathay Investment & Warehousing Ltd.	Chairman Director (Note 6) Director	Cheng-Chian Tsao (Representative of Mega International Commercial Bank) Fan-Tsan Kon (Representative of Mega International Commercial Bank) Wan-Ling Jwang (Representative of Mega International Commercial Bank)	1,000	100
Cathay Investment & Development Corp. (Bahamas)	Chairman Director Director Director	Cheng-Chian Tsao (Representative of Mega International Commercial Bank) Chen-Shan Lee (Representative of Mega International Commercial Bank) Chien-Chuang Chien (Representative of Mega International Commercial Bank) Wei-Yao Chen (Representative of Mega International Commercial Bank)	5,000	100
Ramlett Finance Holdings Inc.	Chairman Director & President Director	Cheng-Chian Tsao (Representative of Mega International Commercial Bank) Fan-Tsan Kon (Representative of Mega International Commercial Bank) Wan-Ling Jwang (Representative of Mega International Commercial Bank)	1,500	100

- Note: 1. Mr. Jhy-Yuan Shie resigned on January 31, 2019 and Mr. Chia-Feng Leou takes his position as Director of Mega International Commercial Bank from March 27, 2019.
2. Starting from February 19, 2019, Mr. Tsung-Jen Cheng is replaced by Ms. Pi-Tien Chen as the Chairman of Mega Management Consulting Co., Ltd.
3. Trust Department of Mega International Commercial Bank is entrusted by National Development Fund, Executive Yuan, R.O.C to manage its investment in Mega I Venture Capital Co., Ltd.
4. Mr. Ing-Ming Lin is replaced by Ms. Huis-Li Lee as the Chairman and President of the Mega International Investment Services Co., Ltd. effective from March 5, 2019.
5. Ms. Miarn-Shur Juang is replaced by Mr. Pin Shao as the Director of Win Card Co., Ltd. effective January 18, 2019.
6. Mr. Fan-Tsan Kon is replaced by Mr. Shih-Kuan Chuang as the Director of Cathay Investment & Warehousing Ltd. effective March 8, 2019.
7. Mega International Commercial Bank (Canada) will be dissolved upon approval by the competent authority as it has been restructured into a branch with full banking business license since April 16, 2018



8.1.7 Operational Highlights of Affiliated Companies

As of December 31, 2018 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	3,183,016,003	2,900,155,269	282,860,734	52,005,768*	26,636,996*	24,172,212	2.83
Mega Securities Co., Ltd.	11,600,000	54,369,917	38,995,141	15,374,776	2,906,112	185,195	315,768	0.27
Mega Bills Finance Co., Ltd.	13,114,411	264,788,560	229,159,809	35,628,751	3,777,679*	3,062,597*	2,558,081	1.95
Chung Kuo Insurance Co., Ltd.	3,000,000	16,696,556	9,982,785	6,713,771	5,106,870	471,187	351,906	1.17
Mega Asset Management Co., Ltd.	2,000,000	12,870,796	10,139,480	2,731,316	401,562	297,013	201,911	1.01
Mega Life Insurance Agency Co., Ltd.	20,000	520,095	136,552	383,543	1,414,599	400,838	322,560	161.28
Mega Venture Capital Co., Ltd.	1,000,000	713,398	198	713,200	43,438	(63,107)	(63,215)	(0.63)
Mega International Investment Trust Co., Ltd.	527,000	935,646	115,501	820,145	438,370	92,400	54,724	1.04
Mega Management & Consulting Corporation	10,000	83,797	8,477	75,320	59,340	37,686	32,202	32.20
Mega I Venture Capital Co., Ltd.	337,500	22,036	121	21,915	0	(26,225)	(26,199)	(0.78)
Mega Futures Co., Ltd.	400,000	4,981,524	4,311,092	670,432	262,022	(23,252)	18,333	0.46
Mega International Investment Services Co., Ltd.	20,000	36,879	11,310	25,569	32,381	1,247	1,122	0.56
China Products Trading Corp., Ltd.	5,000	47,192	28,532	18,660	1,977	1,052	1,131	11.31
Yung-Shing Industries Co., Ltd.	30,000	1,023,935	253,624	770,310	210,836	8,966	46,702	155.67
Win Card Co., Ltd.	20,000	57,227	19,129	38,098	194,781	7,982	6,036	30.18
ICBC Assets Management & Consulting Co., Ltd.	20,000	24,041	344	23,698	3,593	3,339	2,790	1.40
Mega International Commercial Bank Public Co., Ltd.	3,792,000	21,250,470	16,046,555	5,203,915	789,795*	355,327*	284,089	0.71
Cathay Investment & Warehousing Ltd.	30,733	47,163	150	47,013	1,411	(3,501)	(3,501)	(3,500.66)
Cathay Investment & Development Corp. (Bahamas)	154	73,160	0	73,160	12,499	12,240	12,240	2,448.02
Ramlett Finance Holdings Inc.	615	54,542	53,416	1,126	6,680	(2,243)	(2,243)	(1,495.33)

Note: 1. Par value of common stocks of Yung-Shing Industries Co., Ltd. is NT\$100 per share.

2. Exchange rates are as follows:

Balance Sheet Items	Income Statement Items	Company Name
USD 1 = NTD30.7330	USD1 = NTD30.1539	Cathay Investment & Warehousing Limited, Cathay Investment & Development Corp. (Bahamas), and Ramlett Finance Holdings Inc.
THB 1 = NTD0.9480	THB1 = NTD0.9331	Mega International Commercial Bank Public Co., Ltd.

3. The accounting item "income before tax" applies to Mega International Commercial Bank, Mega Bills Finance Co., Ltd., and Mega International Commercial Bank Public Co., Ltd., while the accounting item "operating income" applies to the remaining companies.

4. Mega International Commercial Bank (Canada) will be dissolved upon approval by the competent authority as it has been restructured into a branch with full banking business license since April 16, 2018.

8.1.8 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 enterprise.

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: None.

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