



Mega Financial Holding Co., Ltd.

Annual Report 2019

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Letter to Shareholders



After two years of US-China trade war, the shrink of global manufacturing industry and supply chain shift has dampened economic and trade momentum. Global trade volume decreased dramatically in 2019 to the fourth lowest in current 40 years. At beginning of this year, when there were finally some signs to reduce global uncertainty such as the ease of US-Iran tension, the signing of US-China phase one trade deal in January, and official Brexit in January, the spread of COVID-19 to the world deeply impacted industries such as travel, airline, dining, and manufacturing, plus their supply chains. Under the pandemic, many countries in the Asia Pacific region, emerging market, and western world have announced interest rate cut and numerous bailout measures to boost economy. However, global stock and financial markets crashed after the pandemic announcement by WHO on March 11th and the drop of oil price caused by failure on production cut negotiation. Many countries have closed the borders and stopped international trades to contain the virus outbreak. The panic index has increased dramatically. After slashing rates to a half a percentage point in the emergency cut on March 3rd, the Fed made another cut, slashing the federal funds rate by one percent to near zero on March 16th. The Fed also launched a massive US\$700 billion quantitative easing program and trillion cash injection plan. However, the stock market still plunged after those announcements. DowJones index dramatically fluctuated, ended bull market since 2009, and tumbled into bear market. Other stock markets suffered catastrophic loss as well. The above also deepened the worry about another financial crisis. On March 23rd, Fed announced unlimited QE and to provide unlimited fund support to the market. Since March, the leading international economic forecast organizations including OECD, IIF, EIU, IHS Markit, and IMF all cut their global economic growth forecast dramatically, showing the pandemic has a huge impact on global economy.

Domestic GDP growth rate of first quarter in 2019 decreased to the low point of 1.84% because of unresolved trade disputes between main countries, China's economic slowdown, and resurgent geopolitical risks. However, stable employment market and active wage raise promoted by corporates are conducive to stable private consumptions. Also, the demands of new technologies like 5G, Internet of Things, and AI have increased. Plus, semiconductor advanced manufacturing process has been further promoted. The exports of information, communication and audio-video products and electronic components have also increased. The above drove the growth momentum of our country's manufacturing and export activities. Furthermore, Taiwan government launched Three Major Investment Programs and Forward-Looking Infrastructure Plan to boost domestic demands, encourage the shift of orders to Taiwan, and attract



Chao-Shun Chang, Chairman of the Board

homecoming fund from Taiwanese businessmen. Thus, Taiwan's GDP growth was climbing up to 2.60%, 3.03%, and 3.31% in 2nd, 3rd, and 4th quarter respectively and as result year 2019 GDP growth rate was closed as 2.71%. However, recent COVID-19 outbreak has triggered breaks in global supply chain and seriously threatened normal economy running. Taiwan, which is highly connected to global economy while both USA and China are main export markets, will face headwinds on its economic performance while global economic growth rate is sliding.

Regarding compliance practice, Mega International Commercial Bank will continue to strengthen all compliance teams' expertise, optimize AML system, and cultivate a deeper compliance culture. Also, it will follow international compliance standard to promote strict Anti-Money-Laundering policies and procedures (GPS.) Despite the over NT\$ 1 billion spend on compliance related personnel and systems for continuous optimization of compliance practice, Mega Financial Holding Co., Ltd. (the Company) in 2019 still performed well and created a highest profit records over the last four years. The consolidated profit of 2019 reached NT\$28,955 million, an increase of NT\$862 million or 3.07% from NT\$28,093 million in 2018. The EPS was NT\$2.13. The operation results of the Company in 2019 are shown below:



Kuang-Hua Hu, President

1.1 Review of Business Operations in 2019

1.1.1 Changes in Financial Environment and Organization Structure

A. Change in Global and Domestic Financial Environment

In early 2019, the US-China trade conflict came to a truce. US slowed down its pace to raise interest rate. And China launched economic stimulus measures. All of these instilled confidence and contributed to a recovery of the global stock market. Most main currencies appreciated against USD. In May, the tariff clash between US and China made a comeback and reached to technology sector. Global financial market fluctuations worsened and RMB significantly depreciated. In light of the slowing global economy and the hindered trade momentum, the Fed decided to cut interest rates by 0.25% on July 31, the first cut of benchmark interest rate within ten years, and announced discontinuation of balance sheet reduction. Central banks of EU main countries also followed one another to relax their monetary policies. While the US cut interest rates three times in the second half of the year; the European Central Bank (ECB) reactivated

quantitative easing; and countries of multiple emerging markets continued to cut interest rates, the World Trade Outlook Indicator (WTOI) kept hitting new lows and the economic growth in every country was adjusted downwards. In October, the resumption of talks between US and China boosted the market and most main currencies appreciated against USD. However, the recent COVID-19 outbreak made funds shift into USD and triggered wild fluctuation of other foreign exchange markets. Market confidence took a hard blow.

In terms of the domestic financial environment, the NTD/USD exchange rate between January and April 2019 varied stably around \$30.8. However, as the US-China trade tension escalated in May and August, the RMB turned bearish and the hedging sentiment took over the market. As July and August are the main dividends distribution timing in Taiwan, foreign investors remitted outward a net value of near USD 10 billion between May and August, resulting NTD depreciated against USD to an average of \$31.413 in August. However, later because of the relatively sound economic performance in our country in addition to the three interest rate cuts by the Fed in the second half of the year, the bullish outlook drove net inward remittance of foreign capital and thus made NTD appreciated against USD to \$30.106 by the end of 2019. Overall, the average NTD/USD exchange rate in year 2019 was \$30.92, depreciated 2.4% from \$30.19 in 2018. In terms of interest rate, despite the relative active vibes in economic growth in our country, the output gap remained negative. In light of the fact that the real interest rate was adequate among main economies and that the inflation stress lessened, the Central Bank of Taiwan adhered to the same interest rate. The average overnight interbank call-loan rate in year 2019 was 0.182%, slightly lower than 0.183% in 2018; the interest rate level as a whole remained relatively low. However, later considering the impacts of COVID-19 on global economy worsened day by day and downward-modified economic growth rates, plus the significant interest rate cuts imposed by the Fed and the sluggish consumer confidence as a result of plummeting oil prices, the Central Bank of Taiwan ended its 14-quarter-frozen interest rate and announced an interest rate cut by 0.25% on March 19, 2020. The rediscount rate set a record low in history. Looking forward, as the COVID-19 pandemic continues, the resulting impacts on domestic and international economies and financial sectors, corporate productions, and the consumer and employment markets will inevitably influence subsequent policies to be considered by the Central Bank of Taiwan.

B. Change in Organization Structure

As of the end of 2019, the subsidiary companies, in which the Company has direct controlling interest, remains the same as those of 2018. 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 Co., Ltd.

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

Item	Year	2019	2018	Change (%)
Deposits (including due to Chunghwa Post Co., Ltd.)		2,406,806	2,354,393	2.23
Loans, Import/export bills negotiated		1,841,478	1,824,721	0.92
Corporate financing		1,436,729	1,405,758	2.20
Consumer financing (excluding credit card revolving credit balance)		404,749	418,963	(3.39)
Foreign exchange business		880,043	893,678	(1.53)
Securities purchased		564,119	529,031	6.63
Long-term equity investments		19,059	19,411	(1.81)
Credit card revolving credit balance		1,274	1,140	11.75

Note : 1.All figures above are in monthly average basis, except for foreign exchange business as in aggregation basis.

2.The non-performing loans outstanding at the end of 2019 amounted to NT\$2,614 million, representing a non-performing loan ratio of 0.14%, while the bad debt coverage ratio reached 1,120.08%.

3.Since January 2019, the balance of "personal land & construction loan-non self-use," which was categorized as consumer loan, has been re-categorized as corporate loan. The balance was NT\$26,819 million as of end of 2018.

Mega Securities Co., Ltd.

Item		2019	2018	Change (%)
Securities brokerage	Market share of brokerage	3.23%(Rank 9th)	3.22%(Rank 8th)	0.01
	Market share of margin loan	5.53%(Rank 6th)	5.37%(Rank 6th)	0.16
Equity underwriting	Number of issues lead managed by MSC	11(Rank 7th)	8(Rank 7th)	37.50
Bond underwriting	Number of corporate bond issues lead managed by MSC	2(Rank 10th)	1(Rank 8th)	100.00
	Amount of corporate bond issues lead managed by MSC (NT\$ billion)	10.5(Rank 9th)	6(Rank 7th)	75.00
New financial products	Number of warrants issued	1,243(Rank 10th)	1,238(Rank 12th)	0.40
	Amount of warrants issued (NT\$ billion)	10.5(Rank 10th)	10.4(Rank 13th)	0.96

Note : The ranking is among Taiwanese security companies in 2019.

Mega Bills Finance Co., Ltd.

Units: NT\$ million

Item	2019	2018	Change (%)
Underwriting and purchasing of bills	2,705,942	2,806,666	(3.59)
Underwriting amount of commercial paper issued for funding purpose (CP2)	2,472,063	2,369,796	4.32
Trading volume of bills	8,634,497	8,723,464	(1.02)
Trading volume of bonds	4,779,451	4,911,287	(2.68)
Average outstanding balance of issues of guaranteed commercial paper	165,614	161,271	2.69
Overdue credit amounts	0	0	-
Percentage of overdue credits (%)	0	0	-

Note : 1.The decrease of underwriting and purchasing, and trading volume of bills is due to the decrease of NCD which has lower interest margin.

2.The decrease of trading volume of bonds is due to less trading base and longer trading terms.



Chung Kuo Insurance Co., Ltd.

Unit: NT\$ million

Item	2019	2018	Change (%)
Written premium income	7,468	6,911	8.06
Reinsurance premium income	769	655	17.40
Total	8,237	7,566	8.87

Mega International Investment Trust Co., Ltd.

Unit: NT\$ million

Item	2019	2018	Change (%)
Public funds under management	92,398	79,274	16.56
Private placement funds under management	16,248	16,142	0.66
Discretionary account	795	902	(11.86)
Total	109,441	96,318	13.62

Note : The decrease of discretionary account is due to scheduled redemption.

Mega Asset Management Co., Ltd.

Unit: NT\$ million

Item	2019	2018	Change (%)
Gain from recovery of NPL purchased and the disposal of related collateral	79	12	558.33
Rental income	1	0	-
Interest income (Note1)	2	3	(33.33)
Service income (Note2)	330	387	(14.73)
Total	412	402	2.49

Note : 1.The decrease of interest income is due to the termination of a trust beneficial right.

2.The decrease in service income is due to the repayment from banks given two under asset-managed clients already got their construction licenses.

Mega Venture Capital Co., Ltd.

Unit: NT\$ million

Item	2019	2018	Change (%)
Drawdown of long term equity investment	214	234	(8.55)
Balance of long term equity investment	686	700	(2.00)

Note : The decrease on the above is due to cautious selection on investees, selling off investment with poor prospect, and lower budget considering USA-China tension.

Mega Life Insurance Agency Co., Ltd.

Unit: NT\$ million

Item	2019	2018	Change (%)
Commission income	1,806	1,415	27.63

1.1.3 Budget Implementation Status

A. The Company's 2019 budget is implemented as follows:

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

Item	Final accounting figure	Budget figure	Achievement Rate (%)
Revenues	29,504,366	28,640,379	103.02
Expenses and losses	473,373	497,154	95.22
Profit from continuing operations before tax	29,030,993	28,143,225	103.15
Profit	28,956,244	28,054,436	103.21
Earnings per share	2.13	2.06	103.40

Note : The figures are in unconsolidated basis.

B. The subsidiaries' 2019 budgets are implemented as follows:

Unit: NT\$1,000

Name of subsidiary	Profit from continuing operations before tax-actual	Profit from continuing operations before tax-budget	Achievement Rate (%)
Mega International Commercial Bank Co., Ltd.	28,301,654	28,200,015	100.36
Mega Securities Co., Ltd.	1,185,407	733,830	161.54
Mega Bills Finance Co., Ltd.	3,165,980	2,902,649	109.07
Chung Kuo Insurance Co., Ltd.	231,812	500,000	46.36
Mega Asset Management Co., Ltd.	271,708	253,897	107.02
Mega Life Insurance Agency Co., Ltd.	506,891	455,925	111.18
Mega Venture Capital Co., Ltd.	48,276	23,886	202.11
Mega International Investment Trust Co., Ltd.	109,685	106,190	103.29

Note : 1. Chung Kuo Insurance posted a budget achieving rate of 46.36% largely because of the offset from underwriting loss, despite the over-achievement of investment profit.

2. The figures are in unconsolidated basis.

1.1.4 Financial Results

The Company and its subsidiaries' consolidated profit before tax in 2019 amounts to NT\$33,654,274 thousand, an increase of NT\$2,574,314 thousand or 8.28% compared to 2018. The increase are mainly contributed by the below: revenue other than interest increased NT\$6,643,159 thousand, which is contributed by the increase of gain on financial assets and liabilities at fair value through profit or loss, and the increase of realized gain on financial assets at fair value through other comprehensive income, but offset by the decrease of service fee revenue and commissions, and decrease of foreign exchange gains; bad debts expense and provisions decreased by NT\$ 1,205,371 thousand; net interest income decreased NT\$2,977,704 thousand; operating expense increased NT\$2,296,512 thousand. The Company and its subsidiaries' consolidated profit after tax is NT\$ 28,954,800 thousand, an increase of NT\$861,355 thousand or 3.07% compared to 2018. The Company's consolidated ROA is 0.80%, and ROE reached 9.07%. A breakdown of the financial results of the Company and its subsidiaries in 2019 are shown in the table below:

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

Company	Profit from continuing operations Before Tax	Profit After Tax	Earnings Per Share	Return on Assets (%)	Return on Shareholders' Equity (%)
The Company & Its Subsidiaries (Consolidated)	33,654,274	28,954,800	2.13	0.80	9.07
The Company (Unconsolidated)	29,030,993	28,956,244	2.13	8.12	9.07
Mega International Commercial Bank Co., Ltd.	28,301,654	24,644,876	2.89	0.76	8.58
Mega Securities Co., Ltd.	1,185,407	1,089,660	0.94	1.84	6.84
Mega Bills Finance Co., Ltd.	3,165,980	2,625,352	2.00	1.00	7.10
Chung Kuo Insurance Co., Ltd.	231,812	181,466	0.60	1.06	2.63
Mega Asset Management Co., Ltd.	271,708	203,419	1.02	1.66	7.42
Mega Life Insurance Agency Co., Ltd.	506,891	405,513	202.76	68.04	95.41
Mega Venture Capital Co., Ltd.	48,276	48,276	0.48	6.55	6.55
Mega International Investment Trust Co., Ltd.	109,685	87,445	1.66	9.32	10.50

Note: 1. Return on assets = Profit after tax / Average balance of assets; Return on equity = Profit after tax / Average balance of equity
 2. Except for the consolidated financials of the Company & its subsidiaries, all figures are in unconsolidated basis.

1.1.5 Research and Development

The Company and its subsidiaries' research and development progress in 2019 are summarized as follows:

- (1) After the Company obtained the patent for market risk evaluation system in 2018, it obtained the utility model patent for management system of high-risk country's financial product in 2019 and the utility model patent for corporate financial warning system in 2020. The invention model patent application for corporate financial warning system is under review. Also, the Company has been evaluating the feasibility to merge with or acquire other domestic or international financial institutions. Furthermore, the Company is helping the whole group to implement CSR. To conform to IFRS 9, it revised the financial risk reporting system established under IFRS 7. The Company is also developing the warning system for negative news of corporates or industries. Last, the Company has put continuous efforts on optimization of the Group's equity valuation system, consolidated financial statement system, and financial performance management system, and IFRS 16 leasing measurement and reporting system.
- (2) The banking subsidiary, in order to facilitate various business developments, continues to develop respective new financial instruments or marketing projects that help address market dynamics and satisfy the needs of customers. New financial instruments developed throughout 2019 included the "Old Building Reconstruction Project Loan" and the "Mortgage e-System (online housing value calculation system)" in the loan business. For the credit card business, on the other hand, there is upgrade in features of the "Gogoro Card" and the smart key credit card, the first of its kind in the world, was introduced. It combines the features of a credit card and the electric scooter unlocking technology in

one. It won the “2019 Best Credit Card in Taiwan Award” from the International Business Magazine, too. In order to go with the trend of a digitalized age, efforts have also been made to strengthen various types of digital financing applications. The “STM Smart Teller Machine” was set up in 2019, for example, in order to enhance the account opening efficiency at respective branches. The “Corporate Banking Customer Correlation Analysis” was introduced to facilitate development of business at profit-making units. Optimization of the LINE official account “Business Connect” to provide preferred features continued. In addition, the “Mega Bank Fun Store” was connected to respective transaction services in order to optimize digital experience of customers and to increase current stickiness. While the company is putting resources on Fintech, it also actively applies for patents to protect its rights. As of December 31, 2019, it obtained 102 utility model patents and 42 invention patents approvals from the Ministry of Economic Affairs, and 8 utility model patents and 40 invention patents applications are under review.

- (3) The securities subsidiary followed the timeframe to broaden its scope of operation set by the competent authority by evaluating new business to begin, related systems and management mechanisms to be set up, cooperating in the overall planning of the holding group, promoting the e-banking policy, precisely implementing e-commerce, and continuing to create and boost respective features of the information system. In response to the new “case-by-case matching system” in March 2020, the information system was comprehensively optimized in 2019. Existing e-platform transaction interfaces were examined, modified, and tested. The LINE@wealth management trust fund inquiry was introduced in March and LINE@warrant screening and order placing feature - Mega Homerun in September. Also, the company introduced wealth management welcome robots in October and online account opening 2.0 to provide potential investors to open security account swiftly by using Mega bank debit card or online bank account name and password.
- (4) Mega Bills Finance has set up e-platform for non-guarantee commercial paper issuances, enhance risk monitoring on anti-money laundering and combating financing of terrorism (AML/CFT), optimize financial statement management and accounting standard platform and the system of electronic delivery of secondary market transaction documents, promote electronic bond deposit book and trade documents, and improve the existing self-assessment system for operational risk. Also, it continuously negotiates a wider range for derivatives transactions allowed for bill companies.
- (5) Chung Kuo Insurance has applied Fintech and digitalization to simplify the process and increase efficiency. It also uses data analysis on predicting consumer behaviors to develop insurance products with marketability, competitiveness and profitability. A total of 240 insurance products were filed with authority in 2019, including 1 product on a “prior approval” basis, 183 products on a “file for recordation” basis and 56 products on a “simple file for recordation” basis.



1.2 Business Plan for 2020

1.2.1 Operational Guidelines

- Optimizing oversea deployment and deepening customer relationships
- Strengthening existing profit base and diversifying revenue sources
- Cultivating risk management culture and implementing risk management
- Perfecting information security management and optimizing service innovation
- Fulfilling corporate social responsibility and adding Company's long term value
- Strengthening institutional investor relationship and increasing information transparency
- Fortifying anti-money laundering practice and optimizing legal compliance management

1.2.2 Business Objectives

We strive to maintain stable profitability and leadership in the market so as to maintain the Group's position as a leading financial institution in Taiwan. Our business objectives for 2020 are as follows:

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

Business	Item	Budget for 2020
Banking	Deposits	2,416,398
	Loans	1,957,245
	Foreign exchange	860,776
Bills Finance	Underwriting and purchasing of bills	2,718,365
	Trading volume of bills and bonds	13,125,151
	Average outstanding balance of issues of guaranteed commercial papers	168,000
Securities	Market share of brokerage	3.40%
P&C Insurance	Premium income	8,476

1.2.3 Major Management Goal

The Company strives to be an Asia Regional Financial Group.

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 advantages of corporate banking and foreign exchange 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 cross-selling synergy
- Cultivating international talents, motivating and promoting employee's value
- Expanding capital and assets scale and improving capital efficiency
- Adjusting global operating structure and optimizing risk management skills

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

- (1) The rise of Fintech and internet banking has replaced some functions of physical branches. In 2019, although the number of domestic banks' branches in Taiwan increased by 2, the number is still far less than it was in 2014 peak by 55. Also, Financial Supervisory Commission (FSC) has been expanding the FinTechSpace, promoting the development of insurance technology, and promoting open banking. This will create more diversified ways of payment and bring competitions to traditional digital banking.
- (2) In order to advance inclusive finance and Fintech, the "Digital Financial Environment 3.0 Program" was promoted. In light of the three pure online-banking sites that would be operative in 2020, the FSC revised the "Electronic Payment Institutions Governing Act" on July 2, 2019 to promote integration of regulatory systems for electronic payments, electronic notes, and certificates, and created the "Cross-institutional Payment Platform". Meanwhile, for the sake of reinforcing supervision over pure online-banking businesses, the FSC asked Central Deposit Insurance Corporation help stipulate the "Pure Online Banking Supervision Planning and Configuration Proposal" to facilitate monitoring of importance indicators for pure online-banking businesses and the liquidity risk in real time.
- (3) Facing the opportunities from shift of global supply chain and the fad of Taiwanese businesses shifting their production sites, the government launched "Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan" to proactively improve its investment environment, and help foreign capital to invest domestically. On August 15, 2019, the FSC set "Regulations Governing the Financial Investment, Management and Utilization of Repatriated Overseas Funds" to define the scope of financial investments available for repatriated offshore fund trust accounts or securities fiduciary accounts, to offer tax benefit to attract returning funds, and to direct funds towards the "5+2 Innovation Program", urban renewal, long-term care, and forward-looking infrastructure. Those funds can also park at banks. It not only drove industrial transformation and production capacity expansion but also help

broaden the international horizon of the financial sector by adapting the cross-industries integration global trend, creating a win-win situation for both the industry and banks.

- (4) In order to prevent systematic risk, the FSC modified the requirements in Article 7 Paragraph 3 of the “Regulations Governing the Capital Adequacy and Capital Category” of banks on December 23, 2019 and later set systematically important bank screening criteria and implementation requirements, too. Once designated as a systematically important bank, the bank shall meet the requirements to set aside additional capital starting in the next year following the date of designation, follow the second pillar - supervisory review principle each year, pass the pressure test once every two years, and follow the operation crisis response measures defined in current “Operating Guidelines to Handle Management Crisis at Financial Institutions” each year by adding response measures in cases of insufficient capital and declaring it, among other reinforced supervisory requirements.

1.5 Credit Ratings

Company	Credit Rating Agency	Long-Term	Short-Term	Outlook	Date of Issuance
Mega Financial Holding Co., Ltd.	Taiwan Ratings Corp.	twAA	twA-1+	Stable	Sep. 26, 2019
	Moody's	A3	-	Stable	Feb. 10, 2020
Mega International Commercial Bank Co., Ltd.	Taiwan Ratings Corp.	twAA+	twA-1+	Stable	Oct. 24, 2019
	Moody's	A1	P-1	Stable	Feb. 10, 2020
	S & P	A	A-1	Stable	Apr. 6, 2020
Mega Bills Finance Co., Ltd.	Taiwan Ratings Corp.	twAA+	twA-1+	Stable	Sep. 27, 2019
Mega Securities Co., Ltd.	Taiwan Ratings Corp.	twAA	twA-1+	Stable	Oct. 29, 2019
Chung Kuo Insurance Co., Ltd.	Taiwan Ratings Corp.	twAA	-	Stable	Nov. 1, 2019
	Moody's	A3	-	Stable	Aug. 15, 2019
	S & P	A-	-	Stable	Nov. 1, 2019

Year 2019 has been a challenging year for global economy. However in year 2020, the spread of COVID-19 further push global economy and financial market into precarious position, despite the monetary and fiscal policies every country has implemented. Besides, the still sluggish oil price triggered by failure of production cut negotiation between OPEC and Russia and price war started by Saudi Arab; the skyrocketed possibility of a trade war between the US and the European Union due to the US's scrutinization on European automobiles and its components, the dispute over tariffs for digital services provided by France, and the additional tariffs to be imposed on aircrafts imported from the European Union to the US; the fact that geopolitical uncertainties such as the US-Iraq clash and the demonstrations in Hong Kong remain; and the hard hit from global supply chain breaking crisis to already fragile industries and the financial market despite the temporarily eased trade disputes between the US and China, the possibility of a global-wise economic recession is rising. Although Taiwan

economy is relatively sound due to homecoming funds from Taiwanese businessmen and the shift of purchase orders, the fact that it is highly connected to the global economy makes it possible for all of the above-mentioned factors to soften the economic growth momentum in Taiwan. To deal with the speedy changes in domestic and international political and economic situations, the Company will not only closely watch the overall changes in the economic and financial situations, adjust its business structure accordingly, accelerate digitalization of physical branches, optimize customer digital experience, deepen AI big data capability, and continue digital financial services, hoping by the innovative development of the Fintech, the Company become more agile and active to create greater profits; but also the Company will continue with its effort to enhance its capital strength, strengthen compliance practice, implement anti-money laundering and countering financing of terrorism practice and internal audit/control operations, and upgrade related information and digital technology service systems for optimized information safety and risk management in response to stricter and stricter international supervisory and regulatory standards. Furthermore, the Company will integrate the Group's resources to engage in social welfare, promote green and eco-friendly policies, and fulfill corporate social responsibility. We will continue to thrive, create the maximum shareholder value, and achieve the goals entrusted with the support of all shareholders.

Thank you!



Chao-Shun Chang
Chairman of the Board



Kuang-Hua Hu
President

Company Profile



Company Profile

2.1 Date of Incorporation: February 4, 2002

2.2 Company History

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



Date	Milestones
June 11, 2015	Subscribed all 300 million shares of private placement offered by subsidiary Mega International Commercial Bank to improve its capital structure.
December 30, 2015	Subscribed all 536 million shares of private placement offered by subsidiary Mega International Commercial Bank to improve its capital structure.
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 participate in establishing Next Commercial Bank Co., Ltd.
April 23, 2019	The Board of Directors of the Company resolved to sell shares of its subsidiary Mega Life Insurance Agency to another subsidiary Mega International Commercial Bank.
June 24, 2019	The Company sold all shares possessed of Taiwan Business Bank in securities exchange market.
June 27, 2019	The Shareholder Meeting of the Company's subsidiary Mega I Venture Capital Co., Ltd. resolved to proceed with dissolution and liquidation.



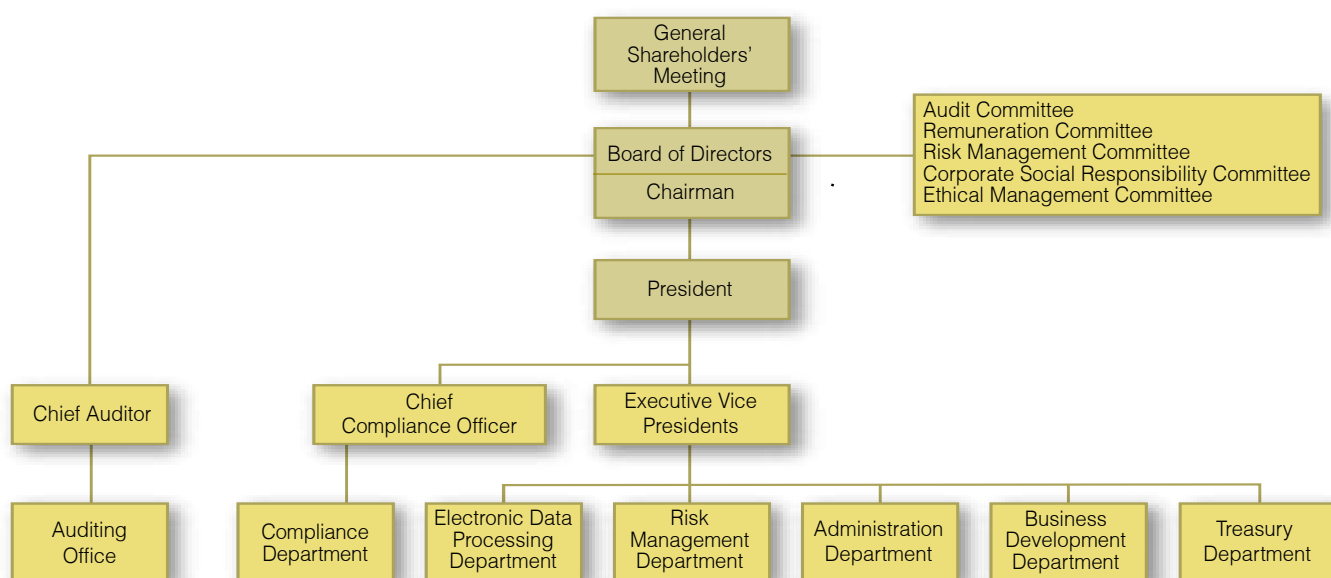
Corporate Governance Report



Corporate Governance Report

3.1 Organization

3.1.1 Organization Chart



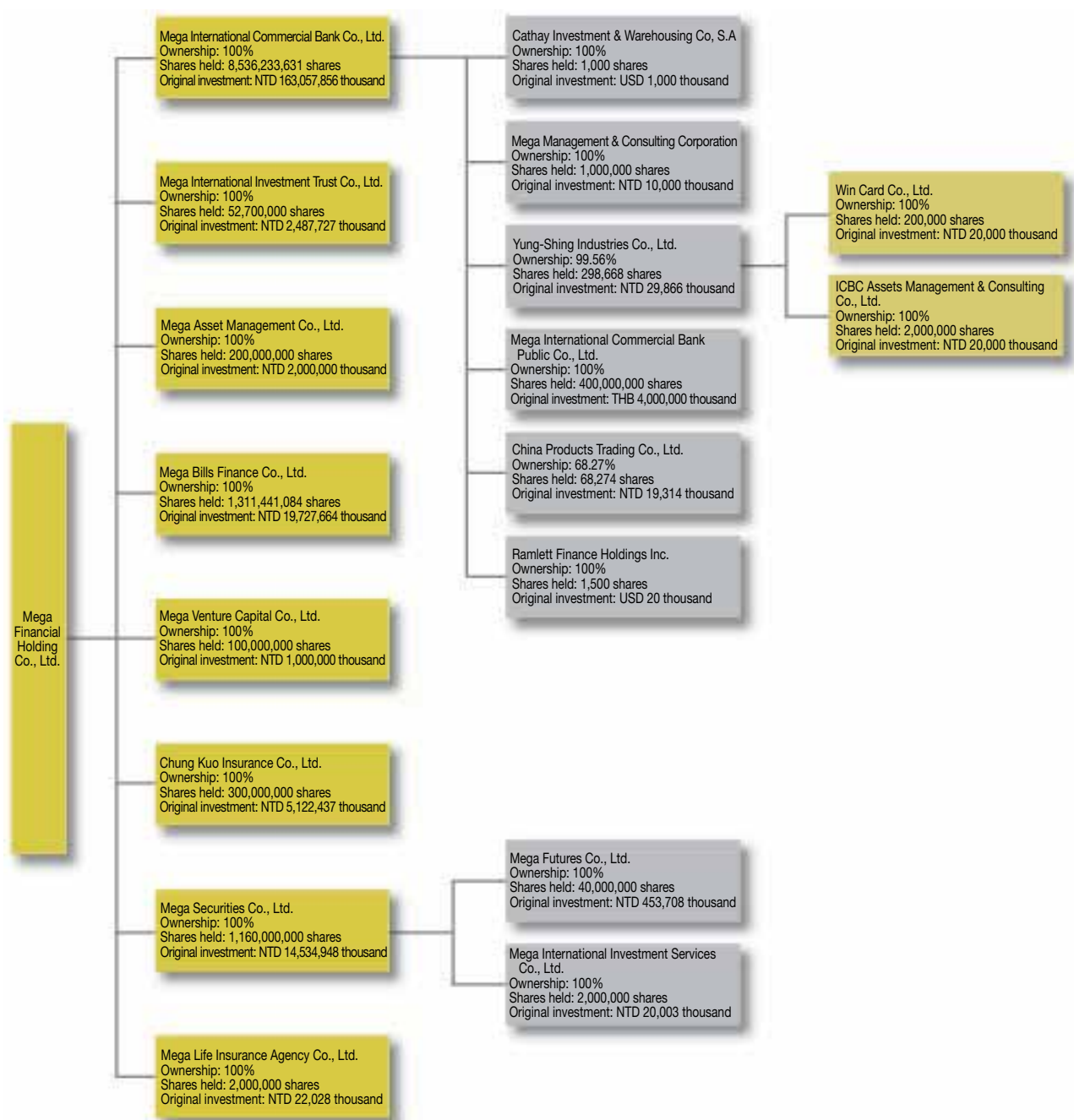
Major Corporate Functions

- Auditing Office: Planning and implementation of internal audit, examination of financial and business operation, internal control and legal compliance
- Compliance Department: Planning, management and implementation of legal compliance 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 statistic; 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 policy; 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: Handling of legal affairs of the Company; 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 March 1, 2020



3.2 Directors and Management Team

3.2.1 Directors

Title	Nationality or place of incorporation	Name	Gender	Date elected (month/date/year)	Term (Years)	Date first elected (month/date/year)	Shareholding when elected		Current shareholding		Spouse & minor children 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
President & 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.	Yong-Yi Tsai (Representative of the Ministry of Finance, R.O.C.)	Male	12/16/2019	1.54	12/16/2019	1,143,043,883	8.40	1,143,043,883	8.40	264,069 57,381	0.00194 0.00042	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



December 31, 2019

Experience & education	Other position	Executives, directors or supervisors who are spouses or within two degrees of kinship			Note
		Title	Name	Relation	
Vice chairman of Polaris financial group, Chairman of Oversea-Chinese Banking Corporation Limited, Chairman of Franklin Templeton SinoAm Securities Investment Management Inc., Chairman of Taiwan Business Bank, Supervisor of First Financial Holding Co., Ltd., Resident Supervisor of First Commercial Bank, Chairman of First Financial Holding Co., Ltd. & First Commercial Bank, CPA M.A. in Public Finance, National Chengchi University	Chairman of Mega International Commercial Bank, 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., Supervisor of Taiwan Capital Buffalo Fund Co., Ltd., Director of Taiwan Asset Management Corporation	None	None	None	Note 1
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 MBA, College of Business, 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 of Mega Charity Foundation, Director of Next Commercial Bank Co., Ltd.	None	None	None	Note 1
Vice President & General Manager of Lo Tung Branch of Mega Int'l Commercial Bank, Co., Ltd., Senior Vice President & General Manager of Hong Kong Branch of Mega Int'l Commercial Bank, Co., Ltd., Senior Vice President & Chief Representative of Suzhou Representative Office of Mega Int'l Commercial Bank, Co., Ltd., Senior Vice President & General Manager of Suzhou Branch of Mega Int'l Commercial Bank, Co., Ltd., Senior Executive Vice President & President of Mega Int'l Commercial Bank, Co., Ltd., Vice Chairman and CEO of Mega Bank Cultural and Educational Foundation, Director and CEO of Mega Charity Foundation, Director of Taiwan Finance Corporation, Supervisor of National Credit Card Center R.O.C. B.A., in International Trade, Fu Jen Catholic University Taipei, Taiwan	Managing Director and President of Mega International Commercial Bank Co., Ltd., Vice Chairman of Mega Bank Cultural and Educational Foundation, Director of Mega Charity Foundation, Director of Taiwan Finance Corporation, Director of Financial Information Service Co., Ltd.	None	None	None	None
Representative of New York Representative Office, Central Bank of the R.O.C., Deputy Director General, Department of Economic Research, Central Bank of the R.O.C. Associate Professor of Economics Department, Soochow University Ph. D. in Economics, University of Southern California, U.S.A.	Director of Taiwan Academy of Banking and Finance	None	None	None	None
Director of Research Department, Taiwan Insurance Institute, Vice President/Executive Vice President of Taiwan Insurance Institute President of Taiwan Insurance Institute M.A. in Public Finance, National Cheng-Chi University M.S. in Actuarial Science, University of Wisconsin-Madison, U.S.A. Ph.D. in Social Welfare, National Chung Cheng University	Chairman of Chung Kuo Insurance Co., Ltd. Supervisor of CR Classification Society, Director of DaoNan Charity Foundation, Director of Mega Charity Foundation	None	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	None
Manager of Yuanta Core Pacific Securities Co., Ltd. Senior Vice President of PineBridge Investments Management Taiwan Ltd. Legal Director of Prestige Law Firm Chief Auditor / President/Chairman of Mega Securities Co., Ltd. M.A. in Law, Boston University	Chairman of Mega Securities Co., Ltd. Chairman of Mega Futures Co., Ltd.	None	None	None	None



Corporate Governance Report

Title	Nationality or place of incorporation	Name	Gender	Date elected (month/date/year)	Term (Years)	Date first elected (month/date/year)	Shareholding when elected		Current shareholding		Spouse & minor children shareholding		Shareholding by nominee arrangement	
							Shares	%	Shares	%	Shares	%	Shares	%
Director	R.O.C.	Wen-Ling Hung (Representative of the Ministry of Finance, R.O.C.)	Female	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.	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	29,873,127	0.00022	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.	Hong-Mo Wu (Representative of Chunghwa Post Co., Ltd.)	Male	09/09/2019	1.83	09/09/2019	487,484,910	3.58	490,735,910	3.61	0	0	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 1: None of the chairman, president, or position equivalent are the same person, spouse, or within one degree of kinship.

Note 2: The director Ms. Ye-Chin Chiou (representative of Bank of Taiwan) was discharged on September 2, 2019. The successor is to be appointed by Bank of Taiwan.



December 31, 2019

Experience & education	Other position	Executives, directors or supervisors who are spouses or within two degrees of kinship			Note
		Title	Name	Relation	
Director of Police Policy Research Institute & Director of Administrative Police Department, Central Police University Adjunct Professor, Department of Law, National Chengchi University Ph.D. in Law, National Chengchi University	Director of Mega International Commercial Bank Professor of Central Police University, Supervisor of Association of Chinese Police Research, Taiwan	None	None	None	None
Assistant Vice President of Mega Int'l Commercial Bank Co., Ltd. Deputy Chairman of Mega Int'l Commercial Bank Co., Ltd. Labor Union Deputy Chairman of Mega Int'l Commercial Bank Co., Ltd. Staff Welfare Committee Director of Mega Int'l Commercial Bank M.A. in Business Management, National Taichung University of Science and Technology	Assistant Vice President of Mega Int'l Commercial Bank Co., Ltd.	None	None	None	None
Assistant Research Fellow, Taiwan Institute of Economic Research. Chief Economist, Citibank Taiwan Limited Adjunct Associate Professor, Department of Finance, National Chengchi University President, Taiwan Academy of Banking and Finance President, Agricultural Bank of Taiwan Vice Chairman, Financial Supervisory Commission M.A., Economics, University of Wisconsin-Madison, U.S.A.	Deputy Minister of National Development Council, Executive Yuan, R.O.C., Director of YangMing Marine Transport Corp., Director of Straits Exchange Foundation	None	None	None	None
Deputy Mayor of Kaohsiung City Government Minister without Portfolio, Executive Yuan & Minister, Public Construction Commission, Executive Yuan Chairman of Taiwan International Ports Corporation Minister of Ministry of Transportation and Communications Ph.D. in Marine Environment and Engineering, National Sun Yat-sen University	Chairman of Chunghwa Post Co., Ltd.	None	None	None	None
Committee Member, National Financial Stabilization Fund Independent Director, Taiwan Finance Corporation Ph.D. in Political Science, National Taiwan University	Research Fellow, Research Division II in Taiwan Institute of Economic Research, Director of Air Asia Company Limited	None	None	None	None
Assistant Professor, Associate Professor, Professor and Chairperson, Department of Finance, National Chung Hsing University Ph.D. in Finance, Department of Finance and Real Estate at the University of Texas at Arlington	Professor, Department of Finance, National Chung Hsing University Supervisor, Te Tan Ti Agri-Biotech Co., Ltd. Independent Director of Sunspring Metal Corporation	None	None	None	None
Assistant Research Fellow of Institute of Economics, Academia Sinica, Adjunct Assistant Professor of Department of Economics, National Central University, Adjunct Assistant Professor of Department of Economics, National Taiwan University, Associate Dean of College of Social Sciences, National Cheng Kung University Ph.D. in Economics, University of Michigan - Ann Arbor	Associate Professor, Department of Economics, National Cheng Kung University	None	None	None	None

Major shareholders of the institutional shareholders who are represented by directors

Dec. 31, 2019

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Ministry of Finance, ROC	The government
National Development Fund, Executive Yuan, ROC	The government
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, 2019

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, 2019

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	11	12	
Chao-Shun Chang	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Kuang-Hua Hu			✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓		0
Yong-Yi Tsai			✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓		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
Hong-Mo Wu				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Jiun-Wei Lu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Ying-Ko Lin	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
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 or any of its affiliates. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent.
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 of one percent or more of the total number of issued 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 a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent.
6. If over 50% of the company's director seats or voting shares and those of any other company are controlled by the same person: not a director, supervisor, or employee of that other company. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent.
7. If the chairperson, general manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses: not a director (or governor), supervisor, or employee of that other company or institution. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent.
8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent, if the specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the company.
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
10. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
11. Not been a person of any conditions defined in Article 30 of the Company Law.
12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

4. Diversification of the Board

- (1) The fourteen Board members of the Company include three independent directors and eleven directors. They have different professional experience and backgrounds. Among them, those specialize in leading, operation judgment, business management, crisis management, and have industry knowledge and insights of international market are Chairman Chao-Shun Chang, director Kuang-Hua Hu, director Yong-Yi Tsai, director Cheng-Te Liang, director Tzong-Yau Lin, director Pei-Chun Chen, director Chi-Hsu Lin, director Cheng-Mount Cheng, director Hong-Mo Wu, and Independent director Jiun-Wei Lu; Those who have contributed to public welfare are Chairman Chao-Shun Chang, director Kuang-Hua Hu, director Yong-Yi Tsai, and director Cheng-Te Liang; those specialize in legal affairs are director Wen-Ling Hung, director Pei-Chun Chen, and director Cheng-Mount Cheng ; Also the director Tzong-Yau Lin who is the Director General, Department of Economic Research, Central Bank of the R.O.C., the director Chun-Lan Yen who is the Deputy Director-General, National Treasury Administration, Ministry of Finance, R.O.C.; and the independent director Ying-Ko Lin who used to be Chairperson, Department of Finance, National Chung Hsing University and independent director Chang-Ching Lin who used to be Associate Dean, College of Social Sciences, National Cheng Kung University are professional in economy, financial affairs, and management, respectively.
- (2) The directors who also are the Group's employees are: director Kuang-Hua Hu, director Yong-Yi Tsai, and director Chi-Hsu Lin who is labor representative, account for 21%; three independent directors account for 21%; three female directors account for 21%. The three independent directors' terms of office are all less than three years. One director's age is above 70 years old; three directors' age is between 60 to 69 years old; and ten directors' age is under 60 years old.
- (3) The Company values the gender composition of the Board. We target to at least have four or above 25% of female directors. We also plan to increase female directors in the 8th or 9th term of Board to reach the target.

Diversification of the Board of Directors

Title	Name	Basic Composition								
		Nationality	Gender	Employee of the Company	Distribution of ages			Independent director job tenor (year)		
					≤50	51 to 60	≥61	<3	3 to 9	>9
Chairman	Chao-Shun Chang	R.O.C	Male				V			
Director and President	Kuang-Hua Hu	R.O.C	Male	V		V				
Director	Yong-Yi Tsai	R.O.C	Male				V			
Director	Cheng-Te Liang	R.O.C	Male			V				
Director	Chun-Lan Yen	R.O.C	Female			V				
Director	Tzong-Yau Lin	R.O.C	Male				V			
Director	Wen-Ling Hung	R.O.C	Female			V				
Director	Pei-Chun Chen	R.O.C	Female			V				
Director	Chi-Hsu Lin	R.O.C	Male			V				
Director	Cheng-Mount Cheng	R.O.C	Male			V				
Director	Hong-Mo Wu	R.O.C	Male				V			
Independent Director	Jiun-Wei Lu	R.O.C	Male		V			V		
Independent Director	Ying-Ko Lin	R.O.C	Male			V		V		
Independent Director	Chang-Ching Lin	R.O.C	Male		V			V		

Note : Director Yong-Yi Tsai and Director Chi-Hsu Lin are also employees of the Company's subsidiaries.

3.2.2 Management Team

Title	Nationality	Name	Gender	Date effective (month/date/year)	Shareholding		Spouse & minor children 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 (Chief Corporate Governance Officer)	R.O.C.	Jui-Yun Lin	Female	09/08/2006	208,762	0.00	0	0.00	0	0.00
Executive Vice President	R.O.C.	Yu-Mei Hsiao	Female	02/21/2017	200,000	0.00	0	0.00	0	0.00

Diversification Items							
Ability to make operational judgments	Ability to lead and make decisions	Knowledge of finance	International industry and economics	Accounting and finance	Public finance and taxation	Knowledge of law	
V	V	V	V	V	V		
V	V	V	V	V			
V	V	V	V	V	V		
V	V	V		V	V		
V	V	V	V	V	V		
V	V	V	V		V		
V	V	V			V	V	
V	V	V	V				V
V	V	V	V	V	V		V
V	V	V					
V	V	V	V		V		
V	V	V			V		
		V	V	V			
V	V	V	V		V		

March 31, 2020

Experience & education	Other position	Managers who are spouses or within two degrees of kinship			Note
		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 MBA, College of Business, 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 of Mega Charity Foundation, Director of Next Commercial Bank Co., Ltd.	None	None	None	Note 1
Senior Vice President & General Manager of Chiao Tung Bank, Senior Vice President of Mega Financial Holding Co., Ltd. Chairman of Chung Kuo Insurance Co., Ltd. M.A. in Public Finance, National Chengchi University	Director of Mega Bills Finance Co., Ltd., Chairman and President of Mega Venture Capital Co., Ltd., Supervisor of Chung Kuo Insurance Co., Ltd., Director of Next Commercial Bank Co., Ltd.	None	None	None	None
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. M.A. in Finance, University of Illinois at Urbana-Champaign, U.S.A.	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.	None	None	None	None

Corporate Governance Report

Title	Nationality	Name	Gender	Date effective (month/date/year)	Shareholding		Spouse & minor children shareholding		Shareholding by nominee arrangement	
					Shares	%	Shares	%	Shares	%
Executive Vice President	R.O.C.	Kuo-Pao Chen	Male	12/21/2018	1,697,437	0.00	45,693	0.00	0	0.00
Chief Compliance Officer	R.O.C.	Hui-Lin Wu	Female	01/26/2017	50,000	0.00	0	0.00	0	0.00
Chief Auditor	R.O.C.	Jui-Ying Tsai (Note 2)	Female	07/01/2019	262,766	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.	Chia-Min Hong	Female	11/22/2016	87,234	0.00	0	0.00	0	0.00
Senior Vice President	R.O.C.	Ching-Yi Li (Note 3)	Female	06/01/2019	41,133	0.00	0	0.00	0	0.00
Vice President	R.O.C.	Ming-Chih Lu (Note 4)	Male	03/01/2020	6,464	0.00	0	0.00	0	0.00
Acting Vice President	R.O.C.	Lan-Jong An (Note 5)	Male	08/28/2019	0	0.00	0	0.00	0	0.00

Note: 1. None of the chairman, president, or position equivalent are the same person, spouse, or within one degree of kinship.

2. Ms. Jui-Ying Tsai was acting as Chief Auditor since June 1, 2019 and was formal promoted as Chief Auditor on July 1, 2019.

3. Ms. Ching-Yi Li, the Senior Vice President of Accounting Department, Mega International Commercial Bank Co., Ltd. will concurrently act as the Senior Vice President of Treasury Department of the Company since June 1, 2019

4. Acting Vice President of Business Development Department Mr. Ming-Chih Lu became Vice President on March 1, 2020.

5. Mr. Lan-Jong An is acting as the Vice President of Risk Management Department since August 28, 2019.

3.2.3 Information and Compensation of consultants who are retired chairman or president from the Company or affiliate companies: None



Experience & education	Other position	Managers who are spouses or within two degrees of kinship			Note
		Title	Name	Relation	
Assistant Vice President, 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. Executive Master of Business Administration Program College of Commerce National Chengchi University	Senior Executive Vice President of Mega International Commercial Bank Co., Ltd., Director of Mega International Commercial Bank Public Co., Ltd., Director of Financial esolution C., Ltd., Director of Allied Biotech Corporation	None	None	None	None
SVP & GM, Shih-Mao Branch of First Commercial Bank SVP& Head of Compliance & Legal Division of First Financial Holding and First Commercial Bank B.A. in Laws,National Taiwan University	Chief Compliance Officer of Mega International Commercial Bank Co., Ltd.	None	None	None	None
Vice President & Head of Treasury Department of Mega Financial Holding Co., Ltd. B.A. in Business Administration, National Taiwan University	Supervisor of Mega Asset Management Co., Ltd.	None	None	None	None
Assistant Vice President of Mega International Commercial Bank Co., Ltd. Acting Chief Secretary, Chief Secretary of Mega International Commercial Bank Co., Ltd. B.A. in Finance, National Taiwan University	Chief Secretary of the board of Mega International Commercial Bank Co., Ltd. Director of Mega Securities Co., Ltd. Director of Overseas Investment & Development Corp.	None	None	None	None
Vice President & Head of Administration Department of Mega Financial Holding Co., Ltd. B.A. in Accounting, National Chung Hsing University	Director of Mega Securities Co., Ltd., Supervisor of Chung Kuo Insurance Co., Ltd.,	None	None	None	None
Deputy General Manager of Credit Management Department/ Central Branch, General Manager of Accounting Department, Mega International Commercial Bank Co., Ltd. M.A. in Accounting, University of Illinois at Urbana-Champaign, U.S.A.	Supervisor of Mega Securities Co., Ltd., Supervisor of Mega Venture Capital Co., Ltd., Supervisor of Win Card Co., Ltd., Director of Star Energy Power Corporation, Director of Next Commercial Bank Co., Ltd. Senior Vice President of Mega International Commercial Bank Co., Ltd.,	None	None	None	None
Vice President of Mega Financial Holding Co., Ltd. M.A. in Economics, National Taiwan University	Director of Mega Asset Management Co., Ltd. Director of Mega International Investment Trust Co., Ltd.	None	None	None	None
Chief Officer of Chung Kuo Insurance Co., Ltd., Deputy Vice President of Mega Financial Holding Co., Ltd. M.B.A, State University of New York at Buffalo,	Director of Mega Venture Capital Co., Ltd	None	None	None	None

3.2.4 Remuneration of Directors, President, and Executive Vice Presidents in 2019

Remuneration of Directors and Independent Directors

Title	Name	Compensations								Ratio of total remuneration (a+b+c+d) to net income after tax (%)	
		Base compensation (a)		Severance pay (b)		Compensation for directors (c)		Allowances (d)			
		From the Company	From all companies in the financial statement	From the Company	From all companies in the financial statement	From the Company	From all companies in the financial statement	From the Company	From all companies in the financial statement	From the Company	From all companies in the financial statement
Chairman	Ministry of Finance, R.O.C.	0	16,753	0	828	145,972	145,972	2,611	6,196	0.51	0.59
	Chao-Shun Chang (representative)										
Kuang-Hua Hu											
Tzong-Yau Lin											
Wen-Ling Hung											
Cheng-Te Liang											
Chun-Lan Yen											
Pei-Chun Chen											
Jui-Min Chen											
Yong-Yi Tsai											
Chi-Hsu Lin											
Director	National Development Fund										
	Cheng-Mount Cheng (representative)										
Director	Chunghwa Post Co., Ltd.										
	Chien-Hung Wei (representative)										
	Hong-Mo Wu (representative)										
Director	Bank of Taiwan										
	Ye-Chin Chiou (representative)										
Independent Director	Ying-Ko Lin	2,160	2,160	0	0	0	0	448	448	0.01	0.01
	Jiun-Wei Lu										
	Chang-Ching Lin										

1. Compensation policies, guide line, standards, and structure, and the correlation between the compensation paid and the duty, risk exposure, and time input for independent director: According to the company article, the compensation for independent directors is decided by Board of Directors base on the involvement of corporate operation, contribution value, the reference with peers. The total package include monthly compensation and research fee. The monthly compensation of NT\$60,000 per person is based on each independent director's duty. Also, considering the independent directors' time input and risk taken, for each attendance of the Remuneration Committee and Audit Committee, the chairman of the committee will be paid NT\$12,000 research fee, while committee member will be paid NT\$10,000 research fee. There is no director compensation or variable compensation to keep the independency.

2. Besides above disclosure, the compensation for directors for his/her service to consolidated entities (ex. consulting service as non-employee): N.A.

Note: 1. Mr. Jui-Min Chen succeeded the position on June 14, 2019 and stepped down on December 6, 2019. Since December 16, 2019, Mr. Yong-Yi Tsai succeeded the position. The representative of Chunghwa Post Co., Ltd. Mr. Chien-Hung Wei stepped down on May 17, 2019. Mr. Hong-Mo Wu succeeded on September 9, 2019.

2. Compensation paid to company drivers for NT\$2,043 thousand is not included in Allowances (d). "Salary, bonuses, and allowances (e)" does not include compensation paid to company drivers for NT\$1,444 thousand.

3. Compensation for Directors (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 after tax (%)		Compensation paid to directors from an invested company other than the company's subsidiary or from the parent company
Salary, bonuses, and allowances (e)		Severance pay (f)		Employee remuneration (g)						
From the Company	From all companies in the financial statement	From the Company	From all companies in the financial statement	From the Company		From all companies in the financial statement		From the Company	From all companies in the financial statement	
				Cash	Stock	Cash	Stock			
7,031	9,341	108	404	0	0	431	0	0.54	0.62	716
0	0	0	0	0	0	0	0	0.01	0.01	0

Directors' Compensations and Remuneration

Bracket	Name of Directors			
	Total of (a+b+c+d)		Total of (a+b+c+d+e+f+g)	
	The Company	The parent company and all investee companies	The Company	The parent company and all investee companies
Under NT\$ 1,000,000	Chao-Shun Chang, Kuang-Hua Hu, Tzong-Yau Lin, Wen-Ling Hung, Cheng-Te Liang, Chun-Lan Yen, Pei-Chun Chen, Chi-Hsu Lin, Jui-Min Chen, Yong-Yi Tsai, Cheng-Mount Cheng, Chien-Hung Wei, Hong-Mo Wu, Ye-Chin Chiou, Ying-Ko Lin, Jiun-Wei Lu, Chang-Ching Lin	Kuang-Hua Hu, Tzong-Yau Lin, Wen-Ling Hung, Chun-Lan Yen, Chi-Hsu Lin, Jui-Min Chen, Yong-Yi Tsai, Cheng-Mount Cheng, Chien-Hung Wei, Hong-Mo Wu, Ye-Chin Chiou, Ying-Ko Lin, Jiun-Wei Lu, Chang-Ching Lin	Chao-Shun Chang, Tzong-Yau Lin, Wen-Ling Hung, Cheng-Te Liang, Chun-Lan Yen, Pei-Chun Chen, Chi-Hsu Lin, Jui-Min Chen, Yong-Yi Tsai, Cheng-Mount Cheng, Chien-Hung Wei, Hong-Mo Wu, Ye-Chin Chiou, Ying-Ko Lin, Jiun-Wei Lu, Chang-Ching Lin	Tzong-Yau Lin, Wen-Ling Hung, Chun-Lan Yen, Chi-Hsu Lin, Jui-Min Chen, Yong-Yi Tsai, Cheng-Mount Cheng, Chien-Hung Wei, Hong-Mo Wu, Ye-Chin Chiou, Ying-Ko Lin, Jiun-Wei Lu, Chang-Ching Lin
NT\$1,000,000 ~ NT\$2,000,000				
NT\$2,000,000 ~ NT\$3,500,000				
NT\$3,500,000 ~ NT\$5,000,000		Cheng-Te Liang		Cheng-Te Liang
NT\$5,000,000 ~ NT\$10,000,000	Bank of Taiwan Chunghua Post Co., Ltd.	Chao-Shun Chang, Pei-Chun Chen, Bank of Taiwan Chunghua Post Co., Ltd.	Kuang-Hua Hu Bank of Taiwan Chunghua Post Co., Ltd.	Chao-Shun Chang, Kuang-Hua Hu, Pei-Chun Chen, Bank of Taiwan Chunghua Post Co., Ltd.
NT\$10,000,000 ~ NT\$15,000,000	National Development Fund	National Development Fund	National Development Fund	National Development Fund
NT\$15,000,000 ~ NT\$30,000,000				
NT\$30,000,000 ~ NT\$50,000,000				
NT\$50,000,000 ~ NT\$100,000,000				
NT\$100,000,000 or above	Ministry of Finance	Ministry of Finance	Ministry of Finance	Ministry of Finance
Total	21	21	21	21



Compensation of President and Executive Vice President

December 31, 2019 ; 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 after tax (%)		Compensation paid from an invested company other than the company's subsidiary or the parent
		From the Company	From all companies in the financial statement	From the Company	From all companies in the financial statement	From the Company	From all companies in the financial statement	From the Company		From all companies in the financial statement				
								Cash	Stock	Cash	Stock			
President	Kuang-Hua Hu													
Executive Vice President	Jui-Yun Lin													
	Yu-Mei Hsiao													
	Kuo-Pao Chen													
Chief Auditor	Tzong-Chi Hsu													
	Jui-Ying Tsai													
Chief Compliance Officer	Hui-Lin Wu													
Total		13,166	19,582	11,371	11,479	9,740	15,851	2,207	0	3,921	0	0.126	0.175	475

Note: 1. Mr. Tzong-Chi Hsu retired on June 1, 2019. Ms. Jui-Ying Tsai succeeded to his position.

2. Compensation paid to company drivers by all consolidated entities for NT\$5,960 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.

5. According to Article 10-3-8 of Requirement of Information To Be Disclosed In Annual Report for Financial Holding Companies, the compensation amount of the top five compensated managerial officers don't need to be disclosed.

Corporate Governance Report

Compensation Brackets

Bracket	Name of President and Executive Vice Presidents	
	The Company	Parent company and all invested companies
Under NT\$ 1,000,000	Kuo-Pao Chen, Yu-Mei Hsiao	
NT\$ 1,000,000 ~ NT\$ 2,000,000		
NT\$ 2,000,000 ~ NT\$ 3,500,000		
NT\$ 3,500,000 ~ NT\$ 5,000,000	Jui-Ying Tsai	
NT\$ 5,000,000 ~ NT\$ 10,000,000	Jui-Yun Lin, Kuang-Hua Hu, Hui-Lin Wu Jui-Ying Tsai, Kuo-Pao Chen, Yu-Mei Hsiao	
NT\$10,000,000 ~ NT\$ 15,000,000	Tzong-Chi Hsu	Tzong-Chi Hsu
NT\$15,000,000 ~ NT\$ 30,000,000		
NT\$30,000,000 ~ NT\$ 50,000,000		
NT\$50,000,000 ~ NT\$100,000,000		
NT\$ 100,000,000 or above		
Total	7	7

Employee Remuneration to Managerial Officers in 2019

Dec. 31, 2019 Unit: NT\$ thousands

Title	Name	Employee remuneration - in stock (Fair Market Value)	Employee remuneration - in cash	Total	Ratio of total amount to net income after tax(%)
Executive Vice President	Jui-Yun Lin				
Executive Vice President	Yu-Mei Hsiao				
Executive Vice President	Kuo-Pao Chen				
Chief Auditor	Tzong-Chi Hsu				
Chief Compliance Officer	Hui-Lin Wu				
Chief Auditor	Jui-Ying Tsai				
Chief Secretary	Han-Yin Ting				
Senior Vice President	Ching-Yi Li				
Senior Vice President	Chia-Min Hong				
Total		0	2,788	2,788	0.01

Note: Per the Company's regulation, the president Kuang-Hua Hu can't be paid with employee remuneration; Executive Vice President Yu-Mei Hsiao and Kuo-Pao Chen, Chief Secretary Han-Yin Ting, and Senior Vice President Ching-Yi Li are not paid with employee remuneration as they serve concurrently in the Company's subsidiaries.



3.2.5 Analysis of Remuneration for Directors, Presidents and Executive Vice Presidents

A. The ratio of total remuneration paid during the past two years to directors, president and executive vice presidents of the Company, to the net income after tax

	2018	2019	Analysis
The ratio of total remuneration paid to directors, president and executive vice presidents, relative to net income after tax, by the Company	0.599%	0.648%	Total remuneration paid, in 2019, by the Company to its directors, president and executive vice presidents as a percentage of net income after tax slightly increased compared to in 2018 is because of one time pension payment and adding one executive vice president.
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%	0.781%	

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

- a. Director: The compensation includes director compensation plus transportation allowance. Director remuneration will be distributed depending on the Company's profits according to the Company's Articles of Incorporations. 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. If the director is the representative of juridical person, the director's compensation will belong to the shareholders of that juridical person. Also there is a NT\$ 20,000 transportation allowance on monthly basis.
- b. Independent director: The compensation includes monthly compensation and research fee. In addition to the monthly compensation of NT\$60,000 per person, research fee is paid based on the times of attendance of the Remuneration Committee and Audit Committee meeting. The chairman of the committee will be paid NT\$12,000 per time, while committee member will be paid NT\$10,000 per time.
- c. Chairman: Compensation to the Chairman of the Board includes salary, pension, 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, pension, bonuses, employees' remuneration, and allowance including rent for housing, vehicles, and fuel expenses.

(2) The procedures for determining compensation

The compensations payable to directors, president, and executive vice president 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 and the contributions to the Company, and industry standards, according to the Articles of the Company, while also taking into account of the evaluation result of the director's performance, evaluation result of president's performance, and future risk of the Company.

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

The Company's unconsolidated net profit after tax for the year 2019 increased by 3.01% compared to 2018. In consideration of operating performance and future risk exposure, the remuneration paid to directors, president and executive vice presidents by the Company and by all companies in the consolidated financial statement increased by 11.39% and 15.00% respectively, compared to 2018, which is because the old pension fund payment to retired senior manager. The Company will depend on the actual operation result and relevant laws to review compensation guide line to operate in sustainable manner.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 12 (A) meetings of the board of directors were held in 2019. 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)	11	1	91.67	
Director & President	Kuang-Hua Hu (Representative of Ministry of Finance)	12	0	100.00	
Director	Jui-Min Chen (Representative of Ministry of Finance)	6	0	100.00	June 14, 2019 on board; left on December 6, 2019; Required attendance: 6
Director	Yong-Yi Tsai (Representative of Ministry of Finance)	1	0	100.00	December 16, 2019 on board; Required attendance: 1
Director	Cheng-Te Liang (Representative of Ministry of Finance)	12	0	100.00	
Director	Chun-Lan Yen (Representative of Ministry of Finance)	12	0	100.00	
Director	Tzong-Yau Lin (Representative of Ministry of Finance)	12	0	100.00	
Director	Wen-Ling Hung (Representative of Ministry of Finance)	12	0	100.00	
Director	Pei-Chun Chen (Representative of Ministry of Finance)	12	0	100.00	
Director	Chi-Hsu Lin (Representative of Ministry of Finance)	12	0	100.00	
Director	Cheng-Mount Cheng (Representative of National Development Fund, Executive Yuan)	12	0	100.00	
Director	Chien-Hung Wei (Representative of Chunghwa Post Co., Ltd.)	4	0	100.00	Left on May 17, 2019; Required attendance: 4
Director	Hong-Mo Wu (Representative of Chunghwa Post Co., Ltd.)	4	0	100.00	September 9, 2019 on board; Required attendance: 4
Director	Ye-Chin Chiou (Representative of Bank of Taiwan)	8	0	100.00	Left on September 2, 2019; Required attendance: 8
Independent director	Jiun-Wei Lu	12	0	100.00	
Independent director	Ying-Ko Lin	12	0	100.00	
Independent director	Chang-Ching Lin	12	0	100.00	

Other items:

1. If there is anything as below, the Company should state the date of the Board meeting, terms, content, all independent directors' opinion, and the Company's response and handling for the independent director's opinion:

- (1) Items 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) Items those where objected to by independent directors or subject to qualified opinion and recorded or declared in writing: NA.

2. Recusals of Directors due to conflicts of interests in 2019:

- (1) The 11th meeting of the 7th term of board of directors on April 23, 2019: the proposal of relieving the non-competition restrictions for the directors to be submitted to the shareholders' meeting for 2019 was discussed. The Chairman, Chao-Shun Chang; Director and President, Kuang-Hua Hu; Director, Chien-Hung Wei; and Director, Ye-Chin Chiou were the concerned parties and thus the stakeholders. They recused themselves from the discussion and voting.
- (2) The 11th meeting of the 7th term of board of directors on April 23, 2019: the proposal for establishing an office of insurance agent by the subsidiary, Mega International Commercial Bank, and merging the subsidiary Mega Life Insurance Agency Co., Ltd. with the same was discussed. The Chairman, Chao-Shun Chang; Director and President, Kuang-Hua Hu; and Director, Wen-Ling Hung are the directors of the Bank, and thus the stakeholders. They recused themselves from the discussion and voting.
- (3) The 11th meeting of the 7th term of board of directors on April 23, 2019: the proposals for the appraisal and remuneration increase of managerial personnel, the bonus for the top remuneration, the bonus for performance and remunerations for employees and operating incentives for the President were discussed. Director and President, Kuang-Hua Hu was the concerned party and thus the stakeholder. He recused himself from the discussion and voting.
- (4) The 14th meeting of the 7th term of board of directors on July 23, 2019: the proposal for reassigning the directors and supervisors of the 23rd Term, the Chairman of the Board and the President to the subsidiary, Chung Kuo Insurance was discussed. Director, Cheng-Te Liang was the concerned party and thus the stakeholder. He recused himself from the discussion and voting.
- (5) The 15th meeting of the 7th term of board of directors on August 27, 2019: the proposal of changing the Vice President of the Risk Management Department was discussed. Director and President, Kuang-Hua Hu was the concerned party and thus the stakeholder. He recused himself from the discussion and voting.
- (6) The 17th meeting of the 7th term of board of directors on October 22, 2019: the proposal for adjusting the wage standards and abolishing the current wage standards for each job level was discussed. Director and President, Kuang-Hua Hu was the concerned party and thus the stakeholder. He recused himself from the discussion and voting.
- (7) The 18th meeting of the 7th term of board of directors on November 26, 2019: the proposal of establishing the "Trust Committee for Employees' Shareholdings" and the "Charter of the Trust Committee for Employees' Shareholdings" and the Committee to trust Mega International Commercial Bank as the trustee of the employees' shareholdings was discussed. The Chairman, Chao-Shun Chang; Director and President, Kuang-Hua Hu; and Director, Wen-Ling Hung are the Chairman, managing director and director of the Bank, were the stakeholders. They recused themselves from the discussion and voting.
- (8) The 18th meeting of the 7th term of board of directors on November 26, 2019: the proposal for establishing the audit plan for 2020 was discussed. Director and President, Kuang-Hua Hu; Director, Cheng-Te Liang; and Director Pei-Chun Chen are the Representatives of the Company and the subsidiaries, and thus the stakeholders. They recused themselves from the discussion and voting.
- (9) The 19th meeting of the 7th term of board of directors on December 24, 2019: the proposal of establishing the goals of earning and budget for 2020 was discussed. Director Yong-Yi Tsai, Director, Cheng-Te Liang; and Director Pei-Chun Chen are the Presidents and Chairman of the subsidiaries and thus the stakeholders. They recused themselves from the discussion and voting.

3. Implementation of Board Evaluation::

The Company has established "Principles of the Performance Evaluation of the Board" which is approved by Board of Directors. According to the Principles, the evaluation should be conducted once a year and at least once every three years should be conducted by the external professional and independent institution.

Corporate Governance Report

(1) In year 2019:

Evaluation frequency	Evaluation period	Scope of evaluation	Measures of evaluation	Content of evaluation	Evaluation result	Better-performed aspects	Not-achieved aspect
Once a year	2018/11/01 ~2019/10/31	Board as a whole	Self-evaluation from board member	A. Involvement in the Company's management; B. Optimization of decision quality of the Broad; C. Composition and structure of the Board; D. Selection of the Board members and their continuous further training; E. Internal control	95.55% Above standard	B、E	1.The company has not established succession plan. 2. Some directors don't have enough further-training hours. (Note: Till Nov. 30,2019, all board members have completed the training hours required)
		Board members		A. Understanding of the Company's goals and tasks; B. Acknowledgment of the duty of the Board; C. Involvement in the Company's management; D. Internal communication and management; E. The director's expertise and further training; F. Internal control	100% Above standard	A、B	-
		Functional committees: 1. Audit Committee; 2.Remuneration Committee		A. Involvement in the Company's management; B. Acknowledgment of the duty of the committees; C. Decision quality of the committee; D. Composition and selection of the committee member ; E. Internal control	100% Above standard	A、C、D	-
					100% Above standard	A、B、D	-

Note: the evaluation result has been reported to Board of Directors on January 13, 2020 and will be used as reference for individual director's future reappointment and compensation.

(2) In year 2018:

The Company's board performance evaluation was conducted by Ernst & Young (EY) in October 2018. The team members of EY include the chairman Wen-Fun Fuh, executive vice president Yu-Tse Tseng, and partner lawyer Kuang-Wei Chueh. 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 period: May 2017 to October 2018.

b. Evaluation method:

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.

c. Evaluation standards:

The evaluation results will be: 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).

d. The date of the proposal of evaluation result:

The result has been reported to the 9th meeting of the 7th term Board of Directors held on February 26, 2019.

e. Evaluation result: After comprehensive evaluation, the Company's board performance reached "advanced" level in three dimensions.



Three dimensions	Evaluation result
(a)Structure of Board of Directors (including structure and process, and members composition)	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 supervision)	The Audit Committee highly emphasizes of the implementation of internal audit and internal control including human resource allocation, peer operations, corruption and efficiency improvement and requires all relevant units to engage in comprehensive and effective improvement.
<p>f. Suggestion and improvement plan:</p> <p>(a)To set up guidelines for nomination of diversified candidates of directors by corporate shareholders: The Company has established guidelines in relevant regulations for diversification nomination to promote functions and decision making effectiveness of the board of directors.</p> <p>(b)To invite external experts to offer group courses for the Board of Directors: The Company has arranged the annual training for directors on September 24, 2019.</p> <p>(c)Identification for issues relating to risks of mid-term and long-term sustainable management and report to the board: The Company has put the emerging risk management in Risk Management Policy and Guideline. Risk management status of the Group's sustainability will be reported to the Board of Directors periodically.</p> <p>4. Measures taken to strengthen the function of the Board and the implementation status:</p> <p>(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 implemented by supervisor according to the Securities and Exchange Act, Company Act, and other laws should be performed by the audit committee. The Audit Committee met 9 times in 2019.</p> <p>(2)The succession plan for the Board of Director members:</p> <p>a. Election of the members of the Board and high level managerial officers:</p> <p>(a)Candidate nomination is used for director election. The candidate is nominated by shareholders and the Board of Directors will review based on Corporate Act, Securities and Exchange Act, or other relevant regulations. Before the shareholder nominate the director (or chairman), the professional background (ex: legal, accounting, industry, finance, marketing, or technology), professional skills (ex: operation judgment, accounting/finance analysis, management, industrial knowledge, international market view, leading, and decision making), and diversity are considered. The election of high level managerial officers (including president and executive vice president) will be considered by if he or she qualified the criteria set by "Regulations Governing Qualification Requirements for the Founder or Responsible Persons of Financial Holding Companies and Concurrent Serving Restrictions and Matters for Compliance by the Responsible Persons of a Financial Holding Company" and also if he or she has abilities on leading, management, and international view, and the expertise of the Company's operation and business.</p> <p>(b)The Chairman of the Company is the representative of the stake from the Ministry of Finance. MOF, a major shareholder, has been guided by their governmental stake management and the "Regulations Governing Qualification Requirements for the Founder or Responsible Persons of Financial Holding Companies and Concurrent Serving Restrictions and Matters for Compliance by the Responsible Persons of a Financial Holding Company" issued by FSC, to evaluate, review and confirm the qualifications and related experience of the candidate of the Chairman from all aspects meeting the operational needs of the Company while being able to bear the responsibilities. The upmost principle of meritocracy and suitability. The President is also designated by Ministry of Finance based on the above regulation. The assignee has joined the professional training by high-level executive training program for government-owned institutions by Ministry of Finance.</p> <p>b. Succession plan:</p> <p>To foster chairman and high-level managerial officer candidates, the Company arranged high level managerial officers into the Board of Directors of the Company and subsidiary to let them familiar with the Board operations. Also the Company increases the officers' participation in every operation unit and also experience of job rotation and dispatch. To enhance the expertise of the directors to connect the international trends of corporation governance, the Company provide course information covering to finance, risk management, business, legal, CSR, internal control system, and financial report responsibilities related to the Company's industry to the directors for their continuing education. The directors shall arrange at least six-hour courses annually, to ensure them keeping up with the industry knowledge.</p>	

3.3.2 Audit Committee Meeting

The Audit Committee is constituted by three independent directors. Their focus include reviewing financial reports, evaluating effectiveness of internal control system (including legal compliance and the improvement situation for internal and external audit opinions), and the mandate and fee paid to the auditor.

Corporate Governance Report

The Company's Audit Committee held 9 (A) meetings in 2019, with the following attendance:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Independent Director	Jiun-Wei Lu	9	0	100%	
Independent Director	Ying-Ko Lin	8	1	88.89%	
Independent Director	Chang-Ching Lin	9	0	100%	
Other items: 1. If there is anything as below, the Company should state the date of the Board meeting, terms, content, all independent directors' opinion, and the Company's response and handling for the independent director's opinion: (1) Items 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	
January 8, 2019	The 6th meeting of the 3rd term	Reviews of the appointment and the compensation of the external auditor of the 2019 financial statements	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors.	
January 8, 2019	The 6th meeting of the 3rd term	Review partial amendments of accounting practice	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors.	
March 12, 2019	The 7th meeting of the 3rd term	Review of the Company's 2018 financial statements	Agenda was passed with amendment to wordings of agenda, financials and pre-meeting briefing 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 and acknowledged by Shareholders' Meeting.	
March 12, 2019	The 7th meeting of the 3rd term	Review of the 2018 Internal Control Statement	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors.	
March 12, 2019	The 7th meeting of the 3rd term	Review the partial amendment of acquisition or disposal of asset procedure guide line.	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors and Shareholders' Meeting.	
April 9, 2019	The 8th meeting of the 3rd term	Review the proposal of relieving the non-competition restrictions for the directors to be submitted to the shareholders' meeting	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors and Shareholders' Meeting.	
May 14, 2019	The 9th meeting of the 3rd term	Review the change of managers of financial, accounting, and internal audit.	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors.	
August 13, 2019	The 11th meeting of the 3rd term	Review of the Company's 2019 Q2 financial statements	Agenda was passed as proposed with resolution as below: 1. Please amend the wordings of net income or profit which should be for first half of 2018 per proposal 2. 2. Please confirm the actual reference of the macro-economic indication in the financial statements. 3. Please accelerate the establishment of internal evaluating model for non-rated discount or loans. 4. There is an big increase of other business and management expense. Please disclose in the financial statement.	1. After the amendment of wording on the financial statements per the resolution, the proposal has been submitted to and approved by the Board of Directors. 2. The forward looking information including interest rate and exchange rate, and the way of selection of the forward looking information for the expected loss of loan business by PricewaterhouseCoopers has been explained to the committee members. 3. The request to the Bank subsidiary's risk management department to accelerate the establishment of internal evaluating model for non-rated discount or loans is made. Also the request to the Company's risk management department to urge the Bank subsidiary has been made.	
November 5, 2019	The 13th meeting of the 3rd term	Review of the 2020 internal audit plan	Agenda was passed as proposed with amendment of the wording in the audit plan. The resolution also request the audit office to provide concrete proposal on committee members' opinion such as the fixed risk ways of market risk evaluation of security subsidiary is too loose, or the verification for the effectiveness of the methodologies applied in the plan, to list in the direction of improvement in next audit plan.	1. After the wording of the audit plan has been amended per the resolution, the proposal has been submitted to and approved by the Board of Directors. 2. The request in the resolution will be listed as the direction of improvement in next (2021) audit plan.	
December 31, 2019	The 14th meeting of the 3rd term	Reviews of the appointment and the compensation of the external auditor of the 2020 financial statements	Agenda was passed as proposed.	The proposal has been submitted to and approved by the Board of Directors.	



- (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 2019.
2. There were no recusals of independent directors due to conflicts of interests in 2019.
3. Descriptions of the communications between the Independent Directors, the internal auditors, and the external auditors (e.g. the important items, method, and/or results of the audits on the corporate finance and/or operations, etc.):
- (1) Communications between Independent Directors and the internal auditors
- The Company's auditing office submits its annual audit plans to the Audit Committee for review every year and executes the suggestions provided by the independent directors.
 - The Auditing Office of the Board of Directors reports the audit operations to the Audit Committee at least quarterly and carries out suggestions made by the independent directors.
 - The deficiencies identified the examination reports of the Financial Supervisory Commission and the status of improvement thereof were submitted to the Audit Committee aperiodically by the Auditing Office.
 - The Auditing Office of the Board of Directors delivers its internal audit report together with the status of improvement 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 invites independent directors to hold a symposium with senior management and internal auditors of the Group to review the deficiencies.

Date	Term/No. of the Meeting	Communication subjects	Communication result and responsive action
January 8, 2019	Symposium to review the Group's 2018 internal control system's deficiencies	Review of the Group's internal control system's deficiencies.	The meeting minutes has been reported to the Board of Directors and forwarded to subsidiaries.
January 8, 2019	The 6th meeting of the 3rd term Audit Committee	Regular report of the defects identified during special audits and the status of improvement. Instructions from the Independent Directors: 1. The counterparties of USD RP transactions undertaken by Mega Bills are over concentrated. Please collect information of concentration of the similar business among peers for comparison, as the reference to the defect rectification. 2. The related contracts of Chung Kuo Insurance have not been included under the information security confidentiality protocol pursuant to the regulations. Please coordinate with the vendors to add/supplement clauses to include the existing contracts. 3. The Holding evaluated the feasibility to procure some external database for the subsidiaries to use in the Group's AML meeting.	All attending committee members agreed and noted. 1. The bill subsidiary has found that the problem of RP transactions concentrated to one or two counterparties is seen in other peers. In the future, it seeks to reduce the funding cost and diversify funding source. 2. The property insurance subsidiary has signed a supplementary contract with relevant vendors. 3. On January 18, 2019, the Group's AML meeting was convened to discuss the feasibility to procure some external database for the subsidiaries to use.
March 12, 2019	The 7th meeting of the 3rd term Audit Committee	Report on Auditing Office's operations in the second half of 2018.	It is acknowledged by all attending members of the committee.
April 9, 2019	The 8th meeting of the 3rd term Audit Committee	Regular report of the defects identified during special audits and the status of improvement. Instructions from the Independent Directors: 1. Please notice CPA to refer to internal auditor's opinions, and review whether or not the presentation of the figures and notes in the financial reports of the Venture Capital is fair and report the outcomes in the next meeting. 2. It is recommended to re-assess the risk level of some defects.	It is agreed and noted. 1. A letter has been sent to the Venture Capital subsidiary to instruct them to follow the independent directors' instructions on April 15, 2019. 2. It is deemed that the risk level is low via a re-assessment.
July 9, 2019	The 10th meeting of the 3rd term Audit Committee	Regular report of the defects identified during special audits and the status of improvement. Instructions from the Independent Directors: Each subsidiary shall keep on improving their defects. The Auditing Office of the Holdings will continue following up and reviewing until full improvement is achieved. The recommendations provided by committee members shall be treated as the key points of improvement.	It is agreed and noted. 1. The defects of the subsidiaries will be followed up and reviewed by the Auditing Office of the Holdings until full improvement is achieved. 2. Other than sending letters to request subsidiaries to continue improving their defects, the recommendations provided by committee members have been requested to be treated as the key points of improvement.

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August 13, 2019	The 11th meeting of the 3rd term Audit Committee	Report on Auditing Office's operations in the first half of 2019. 1. The Auditing Office is recommended to supplement the written information regarding the defect rectifications of the Bank and the Holdings. 2. Securities and bank subsidiaries should take the improvement recommendations made by the committee members as their references. 3. The Auditing Office shall list the defect patterns of the credit control mechanism alleged in the Bill subsidiary whistleblowing report letter as one of the key audit items in the latter half of the year. Particularly the audit as to the rationality of the financing cases to the whole construction industry and individuals shall be strengthened.	It is agreed and noted. 1. The defect rectifications of the Bank and the Holdings have been added and presented to the Board of Directors. 2. The improvement recommendations by the committee members have been sent to the concerned subsidiaries to refer and proceed. 3. The audit toward the related defect status will be strengthened when conducting the business audit in the Bills subsidiary of the latter half of 2019.
October 8, 2019	The 12th meeting of the 3rd term Audit Committee	Regular report on the defects identified during special audits and the status of improvement.	It is agreed and noted.
November 5, 2019	The 13th meeting of the 3rd term Audit Committee	Proposal to hold year 2019 symposium to review the Group's internal control system's deficiencies. Independent Auditor's instruction: Please add the comparison of the internal control deficiencies in last three years in the meeting. Also please provide the inspected companies' deficiency frequency in 2018-2019.	It is agreed and noted. The instruction will be followed and handled.
		Proposal of the Company's audit plan of 2020. Instructions from the Independent Directors (with resolutions): The Audit Offices shall make the tangible recommendations provided by the committee members as the improvement directions for next year's audit plan, including that the existing market risk assessment of the Securities subsidiary is not rigorous enough, the verification for the effectiveness of the methodologies applied in the plan, among other things.	The proposal has been approved unanimously by the committee members and the Audit Offices shall revise some wordings in the plan as recommended by the committee members; other parts are passed as proposed. 1. The wordings in the plan have been revised as recommended by the committee members and presented to the Board's meeting on November 26, 2019. 2. The tangible recommendations provided by the committee members will be taken as the improvement directions for the next audit, as the resolution.
December 31, 2019	The 14th meeting of the 3rd term Audit Committee	Regular report on the defects identified during special audits and the status of improvement.	It is agreed and noted.
		Report on the status of improvement for FSC's inspection opinions.	It is agreed and noted besides the suggestion items per resolution (already request the subsidiaries to improve and report.)
(2) Communications between Independent Directors and the external auditors The audit committee meets with the external auditor at least two times a year, in which meeting the financial situation of the Company and its domestic and overseas subsidiaries, the overall operation situation, and the audit result on internal control are reported by the external auditor. Issues regarding major accounting entries adjustment and effects of amendments to the laws and regulations to the book are fully communicated.			

Date	Communication subjects	Communication result and responsive action
March 12, 2019	1. Report of auditing result of the 2018 consolidated financial statements and internal control. 2. Audit explanation for 2018 compliance and contingency item of Mega Bank's overseas branches and subsidiaries 3. Effect of IFRS 16 beginning account 4. Audit plan for the 2019 financial statements 5. Material laws, regulation and interpretive developed by the authority in connection with financial reports	1. The 2018 annual financial statements have been approved by the audit committee and board of directors, and publicly disclosed to competent authority and filed. 2. The explanation and opinion exchange for the questions raised by independent director is done.
August 13, 2019	1. Report of auditing result of the 2nd quarter of 2019 consolidated financial statement and internal control. 2. Audit explanation of compliance and contingency item of Mega Bank's overseas branches and subsidiaries of the 2nd quarter of 2019 3. 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 4. The investment situation of Next Bank and the accounting handling.	1. The 2nd quarter of 2019 financial statements have been approved by the audit committee and board of directors, and publicly disclosed to competent authority and filed. 2. The explanation and opinion exchange for the questions raised by independent director is done.

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

For other communication details, please log on to our website at <https://www.megaholdings.com.tw/tc/regulation.aspx>

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

Assessment	Implementation status			Deviation 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 get hold of the major shareholders and beneficial owners of these major shareholders?	V		In addition to analysis of the shareholding structures based on the register of shareholders on book closure date. Also the Company tracks the shareholdings of internal persons and major shareholders of the Company and the beneficial owners of these major shareholders via the change of shareholding disclosed per law.	None
(3) Has the company built and executed a risk management system and “firewall” between the company and its affiliates?	V		The Company clearly defines the right and responsibility between itself and the affiliated enterprise concerning the management of staff, assets and financial affairs. There are no loans or guarantee between the Company and its affiliated enterprises. Transactions with related parties are conducted in accordance with “Related Parties Transactions Guidelines”, and there are no non-arm's-length transactions between the Company and its affiliated enterprises. The “Rules for Monitoring Operations of the Subsidiaries” and “Risk Management Policy and Guidelines” are in place to strengthen the management of subsidiaries and risk management and firewall mechanism between the Company and its Subsidiaries.	None
2. Composition and responsibilities of the Board of Directors (1) Other than the Remuneration Committee and Audit Committee which are required by law, does the company plan to set up other functional 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. A Ethical Management Committee to set up and supervise ethical management policies.	None

Corporate Governance Report

Assessment	Implementation status			Deviation and its reasons																																						
	Yes	No	Explanation																																							
(2) If listed financial holding companies set up the evaluation guideline and method for the Board and conduct the evaluation annually? Also to propose the evaluation result the Board meeting and use as reference to individual director's re-appointment and compensation?	V		In order to implement corporate governance and strengthen the function of the Board, the Board of Directors approved on November 24, 2015 the "Guidelines Governing the Performance Evaluation of the Board" and amended three times afterwards and amend the name as "Principles of the Performance Evaluation of the Board on July 23, 2019." The Company conducts performance evaluation every year since 2016. The result of the evaluation has reported to Board of Directors and mailed to the institutional shareholder Ministry of Finance, and Remuneration Committee to use as reference on the individual director's reappointment and compensation.	None																																						
(3) Does the company regularly evaluate its external auditor's independence?	V		In addition to recognizing whether the external auditor is the related party under the Article 45 of the Financial Holding Company Act, the Company assesses the independence of its external auditor each year and submitting to the Audit Committee and Board for approval. Also, the mandate and compensation for the external auditor for year 2019 has been approved by the Board meeting on January 22nd, 2019. The criteria of assessment is as follows: 1. No material financial benefits between this Company and the external auditors. 2. No gifts given to the external auditors by this Company, its affiliated companies or directors. 3. External auditors not serving as directors, supervisors, or managerial officers of this Company or its affiliated entities. 4. Limitation on external auditors serving for this Company. 5. Limitation on previous employee serving for the external auditor's firm.	None																																						
3. Does the company assign corporate governance manager and establish corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors, handling matters relating to board meetings and shareholders' meetings according to laws, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders meetings, etc.)	V		<p>Ms. Jui-Yun Lin, Executive Vice President of the Company has been designated as the manager of corporate governance by the 10th meeting of the 7th term of Board of Directors held on March 26, 2019. Ms. Lin has served as the manager of treasury unit for over 3 years, qualified for the corporate governance manager position. 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' compliance of 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 manager of corporate governance'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><th>Total 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 case in the securities market</td><td>3</td><td rowspan="8">27</td></tr> <tr> <td>August 5, 2019</td><td>Securities & Futures Institute</td><td>Discussion on AML /CFT</td><td>3</td></tr> <tr> <td>August 14, 2019</td><td>Securities & Futures Institute</td><td>Corporate strategy and key performance benchmarks</td><td>3</td></tr> <tr> <td>September 3, 2019</td><td>Securities & Futures Institute</td><td>How to replace supervisor practice by audit committee</td><td>3</td></tr> <tr> <td>October 17, 2019</td><td>Taiwan Insurance Institute</td><td>Discussion on directors and supervisors' responsibilities and obligation and the duty insurance for directors, supervisors, and key employees</td><td>3</td></tr> <tr> <td>October 22, 2019</td><td>Taiwan Insurance Institute</td><td>The impacts of IFRS 17 for insurance companies' business strategy</td><td>3</td></tr> <tr> <td>October 25, 2019</td><td>Securities & Futures Institute</td><td>2019 insider trading prevention – the management course for corporate managers</td><td>3</td></tr> <tr> <td>November 27, 2019</td><td>Taiwan Corporate Governance Association</td><td>"The 15th international forum for corporate governance"-reinforce the corporate governance practice and implement independent director practice.</td><td>6</td></tr> </tbody> </table>	Date	Training Agency	Course	Training Hours	Total hours	April 18, 2019	Securities & Futures Institute	Discussion on responsibility of Directors and Supervisors – from illegal case in the securities market	3	27	August 5, 2019	Securities & Futures Institute	Discussion on AML /CFT	3	August 14, 2019	Securities & Futures Institute	Corporate strategy and key performance benchmarks	3	September 3, 2019	Securities & Futures Institute	How to replace supervisor practice by audit committee	3	October 17, 2019	Taiwan Insurance Institute	Discussion on directors and supervisors' responsibilities and obligation and the duty insurance for directors, supervisors, and key employees	3	October 22, 2019	Taiwan Insurance Institute	The impacts of IFRS 17 for insurance companies' business strategy	3	October 25, 2019	Securities & Futures Institute	2019 insider trading prevention – the management course for corporate managers	3	November 27, 2019	Taiwan Corporate Governance Association	"The 15th international forum for corporate governance"-reinforce the corporate governance practice and implement independent director practice.	6	None
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4. Has the company established a communication channel with its stakeholders (including but not limited to shareholders, employees, customers, etc.) and set up stakeholder section on company website? Also if the company replies properly the important CSR issues the stakeholders care?	V	<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 self-assessed earnings per share on the Market Observation Post System and the Company's website each month, issuing the annual report and releases the annual business 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, and labor-management meetings, employee meetings, among others. 3. With customers: Customer service and hotlines for filing complaints, and investment seminars, customer satisfaction survey, e-news and investment research reports are available at the subsidiaries. 4. With the government: Visits, official letters, phone calls, and online registration, among others. 5. With the community: meetings, volunteer service, charity events, among others. 6. With suppliers: project meetings, phone calls, and emails, among others. 7. With the media: press conferences, issuance of news letters or material information. 	None																
5. Information disclosure (1) Has the company established a corporate website to disclose information regarding its financials, business and corporate governance status?	V	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.	None																
(2) Does the company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle financial holdings information collection and disclosure, implementing spokespersons practice, webcasting investor conference etc.?)	V	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 2019, aside from holding 2 online investor conferences, the Company held 268 one-on-one investor meetings and conference calls with local and overseas institutional investors, and attended 3 investor roadshows hosted by foreign securities firms. The financial and business information announced in investor roadshows are disclosed on MOPS and the Company's website.	None																
(3) Does the company announce and report annual financial report after accounting year end according to Financial Holding Companies Act and Securities Exchange Act? And does the company report and announce first, second, and third quarter financial reports and monthly operation situation before the deadline?	V	<p>The quarterly consolidated financial report of the Company are signed or sealed by chairman, president, and accounting manager, audited (or reviewed) by external auditor, and approved by Board of Directors. Also, the second quarter and annual consolidated financial report were agreed by audit committee members, and the chairman of the audit committee will issue review report and then disclose and register. The announce and report deadline and date for the consolidated financial statements in 2019 is below:</p> <table border="1"> <thead> <tr> <th>Quarter</th><th>Disclose and register deadline</th><th>Date of disclose and register</th><th>Note</th></tr> </thead> <tbody> <tr> <td>First and third quarter 2019</td><td>Within 45 days after end of the quarter</td><td>First quarter: May 29, 2019 Third quarter: Nov. 28, 2019</td><td>According to the FSC commend number 10110002230 on May 18, 2012, the financial holding companies shall disclose and register the first and third quarter within 45 days after quarter end. However, if its because of the operation time needed, the company shall within 60 days disclose and register.</td></tr> <tr> <td>Second quarter 2019</td><td>Within 2 months after second quarter</td><td>August 30, 2019</td><td></td></tr> <tr> <td>Year 2019</td><td>Within 3 months after year end</td><td>March 31, 2020</td><td></td></tr> </tbody> </table> <p>The Company upload relevant information regarding last month operation situation including revenue, guarantee amount, loan amount, derivative transactions to MOPS before 10th of each month.</p>	Quarter	Disclose and register deadline	Date of disclose and register	Note	First and third quarter 2019	Within 45 days after end of the quarter	First quarter: May 29, 2019 Third quarter: Nov. 28, 2019	According to the FSC commend number 10110002230 on May 18, 2012, the financial holding companies shall disclose and register the first and third quarter within 45 days after quarter end. However, if its because of the operation time needed, the company shall within 60 days disclose and register.	Second quarter 2019	Within 2 months after second quarter	August 30, 2019		Year 2019	Within 3 months after year end	March 31, 2020		None
Quarter	Disclose and register deadline	Date of disclose and register	Note																
First and third quarter 2019	Within 45 days after end of the quarter	First quarter: May 29, 2019 Third quarter: Nov. 28, 2019	According to the FSC commend number 10110002230 on May 18, 2012, the financial holding companies shall disclose and register the first and third quarter within 45 days after quarter end. However, if its because of the operation time needed, the company shall within 60 days disclose and register.																
Second quarter 2019	Within 2 months after second quarter	August 30, 2019																	
Year 2019	Within 3 months after year end	March 31, 2020																	

Corporate Governance Report

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, rights of stakeholders, directors' and supervisor's training records, the implementation of risk management policies and risk measurement criteria, the implementation of customer policy, purchasing of duty insurance for directors, and the donation of political parties, related parties, and charity organization)?			
(1)Employee rights, employee wellness, investor relations, rights of stakeholders	V	<p>(1)Employee rights, employee wellness: Please refer to "Corporate Social Responsibilities" on page 53 and "Labor Relation" on page 127.</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 2019 CSR report" and page 59-60 of this annual report.</p>	None
(2)Directors' training records	V	Please refer to page 49 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 "Mega Financial Holding 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 "Mega Financial Holding 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 "Mega Financial Holding 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 Financial Holding 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 "Mega Financial Holding 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 duty insurance for directors and supervisors	V	The Company purchases duty insurance for directors, supervisors and key staff of the Group with an insurance coverage of US\$30 million every year. The 2019 insured amount, coverage, premium rate, and other major contents of the policy were submitted to the board of directors before signing of the insurance.	None
(6)Donation to political parties, related parties, and charity organizations	V	The Company and its subsidiaries does not make donations to political parties. There are two foundations to promote charity and culture/education activities. In 2019, the Mega International Commercial Bank donated NT\$19 million to the Mega Bank Cultural and Educational Foundation. The donation to Mega Charity Foundation, by Mega International Commercial Bank, Chung Kuo Insurance, Mega Bills Finance, Mega Securities, Mega Assets Management, and Mega International Investment Trust, amounted to NT\$3 million in total. The amount of the Company's donation and sponsorship to government, charity organizations and other legal entities (including related parties) reached NT\$9,735,041 in 2019.	None



7. The improvement status and unimproved items with prioritized reinforcement for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange	V	With regard to the 6th (2019) corporate governance evaluation systems evaluation results, those already improved and those pending improvement are as follows:	None
	V	<p>(1) Improved items: Indicator 2.14 "Besides those required by laws, does the company set up functional committee, of which the member should at least 3 persons and half of the members should be independent directors? Does the Company disclose the composition, duty, and operation status of those committees?": The Company has set up "ethical management committee" in March, 2020.</p> <p>(2) Unimproved items with prioritized reinforcement: a. Indicator 1.15 "Does the company set a clear principle and disclose on company website to forbidden the insiders like directors or employees to use inaccessible information from the market to make profit ?" : The Company has set up a stock management rule to clearly forbidden insider transactions. There will be insider transaction education training in 2020. b. Indicator 2.7 "Does the Company voluntarily set up more independent director seats than required by law?": The company plan to increase the seat of independent director in 2021 with the implementation of the natural person independent directors.</p>	None

Directors' training records in 2019

Title	Name	Date	Training Agency	Course	Training Hours
Chairman	Chao-Shun Chang	April 12, 2019	Mega International Commercial Bank	AML/CFT seminar	2.0
		July 8, 2019	Mega International Commercial Bank	AML/CFT seminar- knowledge of financial institutions for OFAC related laws	2.0
		September 19, 2019	Financial Ombudsman Institution	Financial Consumer Protection Act and introduction of cases	3.0
		October 17, 2019	Securities & Futures Institute	Warning of corporate financial crisis and type analysis	3.0
		November 19, 2019	Taiwan Stock Exchange Corporation	Effective exertion of director duty	3.0
Director & President	Kuang-Hua Hu	April 12, 2019	Mega International Commercial Bank	AML/CFT seminar	2.0
		July 8, 2019	Mega International Commercial Bank	AML/CFT seminar- knowledge of financial institutions for OFAC related laws	2.0
		July 10, 2019	Securities & Futures Institute	Corporate strategy and key performance benchmark	3.0
		August 28, 2019	Chinese National Association of Industry and Commerce, Taiwan	Analysis of the 2019 global corporate operation crisis report and the response	3.0
		September 19, 2019	Financial Ombudsman Institution	Financial Consumer Protection Act and introduction of cases	3.0
		November 27, 2019	Ministry of Finance	Corporate governance keynote speech	3.0
Director	Yong-Yi Tsai	April 12, 2019	Mega International Commercial Bank	AML/CFT seminar	2.0
		April 15, 2019	Taiwan Securities Association	Corporate's response under global anti-tax-avoidance trend	3.0
		May 8, 2019	Taiwan Securities Association	Cases analysis of China investment legal risk	3.0
		May 15, 2019	Taiwan Securities Association	How to analyze important corporate operation information in financial statements	3.0
		July 8, 2019	Mega International Commercial Bank	AML/CFT seminar- knowledge of financial institutions for OFAC related laws	2.0
		September 4, 2019	Taiwan Academy of Banking and Finance	Class of trust business supervisors	3.0
		November 27, 2019	Ministry of Finance	Corporate governance keynote speech	3.0

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Director	Cheng-Te Liang	February 22, 2019	Taiwan Corporate Governance Association	Seminar of corporate sustainable management and the increase of corporate's long term value	3.0
		June 12, 2019	Securities & Futures Institute	Judgment of corporate performance information	3.0
		June 18, 2019	Securities & Futures Institute	2019 corporate governance new regulation and trend that directors and supervisors should know	3.0
		October 22, 2019	Taiwan Insurance Institute	Impact of IFRS 17 to insurance industry	3.0
		November 27, 2019	Taiwan Corporate Governance Association	15th international forum for corporate governance	3.0
Director	Chun-Lan Yen	March 21, 2019	Securities & Futures Institute	Guide line for competition of corporate management and case study	3.0
		July 16, 2019	Securities & Futures Institute	How to supervise the corporate to strengthen internal control and internal audit by director and supervisor	3.0
Director	Tzong-Yau Lin	April 10, 2019	Securities & Futures Institute	Strategy of employee compensation and tools	3.0
		October 15, 2019	Securities & Futures Institute	Practice of remuneration committee and growth strategy committee	3.0
Director	Wen-Ling Hung	March 15, 2019	Taiwan Corporate Governance Association	Key information of annual report- from the director and supervisor's point of view	3.0
		April 19, 2019	Taiwan Corporate Governance Association	Practice of Fintech and financial supervision technology and case study	3.0
Director	Pei-Chun Chen	October 17, 2019	Securities & Futures Institute	Study if the corporate facing information safety management and case study	3.0
		November 27, 2019	Ministry of Finance	Corporate governance keynote speech	3.0
Director	Chi-Hsu Lin	March 13, 2019	Securities & Futures Institute	Human resource during corporate acquisition and the merge issue study	3.0
		March 27, 2019	Taiwan Academy of Banking and Finance	AMLCFT practice seminar	3.0
		April 10, 2019	Taiwan Academy of Banking and Finance	The impact of global political and economic situation to Taiwan and the risk	3.0
		October 8, 2019	Taiwan Stock Exchange Corporation	ESG investment forum	2.0
Director	Cheng-Mount Cheng	March 13, 2019	Securities & Futures Institute	Corporate strategy and key performance benchmark	3.0
		March 21, 2019	Securities & Futures Institute	Guide line for competition of corporate management and case study	3.0
Director	Hong-Mo Wu	June 28, 2019	Taiwan Academy of Banking and Finance	Corporate governance forum- international AML/CFT trend and relevant laws	3.0
		October 2, 2019	Securities & Futures Institute	Application of block chain	3.0
		October 15, 2019	Securities & Futures Institute	Application of AI	3.0
		November 19, 2019	Taiwan Stock Exchange Corporation	Effective exertion of director duty	3.0
Independent Director	Jiun-Wei Lu	July 4, 2019	Securities & Futures Institute	Study of AML and law compliance	3.0
		August 15, 2019	Securities & Futures Institute	Warning of corporate financial crisis and analysis	3.0
Independent Director	Ying-Ko Lin	July 24, 2019	Taiwan Corporate Governance Association	Risk management and internal control	3.0
		October 30, 2019	Taiwan Corporate Governance Association	How to design and manage to let corporate succeeding is not an obstacle for sustainable management	3.0
Independent Director	Chang-Ching Lin	September 3, 2019	Securities & Futures Institute	Application of AI	3.0
		September 4, 2019	Securities & Futures Institute	Application of 5G digital communication and block chain	3.0
		September 27, 2019	Securities & Futures Institute	Study of prevention of employee fraud	3.0



3.3.5 Operation Status of the Remuneration Committee

A. Members of the Remuneration Committee

Title (Note1)	Criteria Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note2)										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	9	10	
Independent Director	Ying-Ko Lin	V			V	V	V	V	V	V	V	V	V	V	1
Independent Director	Chang-Ching Lin	V			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	V	V	0

Note1: Please list the title as director, independent director, or others.

Note2: 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. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent.
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 of one percent or more of the total number of issued 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 a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent.
6. If over 50% of the company's director seats or voting shares and those of any other company are controlled by the same person: not a director, supervisor, or employee of that other company. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent.
7. If the chairperson, general manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses: not a director (or governor), supervisor, or employee of that other company or institution. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. Not apply to independent directors appointed in accordance with Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent, if the specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the company.
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
10. Not been a person of any conditions defined in Article 30 of the Company Law.

B. Remuneration Committee's Operation Status and Responsibility

- (1) The Company's Remuneration Committee has 3 members.
- (2) The current Committee's tenure of office is July 1, 2018 to June 30, 2021. In 2019, the Committee held 5 (A) meetings with the following attendance:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Chair	Ying-Ko Lin	5	0	100%	
Member	Chang-Ching Lin	5	0	100%	
Member	Jiun-Wei Lu	5	0	100%	
Other items: a. The recommendation of the Remuneration Committee which was not adopted or was modified by the Board of Directors in 2019:					
Board of Directors	Remuneration Committee	Proposal	Resolution		Company's response and handling to remuneration committee's resolution
17th meeting in 7 term on October 22, 2019	7th meeting in 4th term on October 8, 2019	Proposal to renew the compensation standard	Difference: When the managers are dismissed, the manager compensation before the renewal should be recovered as recommended by the remuneration committee. But the board of directors decided not to recover. Reason: When the manager is dismissed, the manager compensation should be cancelled no matter its before or after the renewal.		Because Board's resolution is not more preferential than the remuneration committee's resolution, the Board's resolution will take effect.
b. 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 2019.

Date and term of Meeting	Agenda	Resolution	Response to Remuneration Committee's opinions
The 4th meeting of the 4th term of Remuneration Committee on March 12, 2019	Review of the 2018 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.
The 5th meeting of the 4th term of Remuneration Committee on April 9, 2019	Review of the amendment to the Regulations Governing the Group's Staff Exchange	Agenda was passed as proposed	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 of year 2018.	Agenda was passed as proposed except the president's top salary bonus will be submitted to Board for discussion.	The proposal has been submitted to the Board of Directors and approved by the Board except the proposal of president's top salary bonus is put on hold as the performance review is not amended.
The 6th meeting of the 4th term of Remuneration Committee on July 9, 2019	Review of the acting allowance for acting managerial officers and the compensation for new chief auditor	Agenda was passed as proposed, while the relevant party's current compensation should be stated in the Board meeting.	The proposal has been approved by the Board of Directors after the relevant party's current compensation was stated.
The 7th meeting of the 4th term of Remuneration Committee on October 8, 2019	Review of the renewal to the Company's compensation standards	Agenda was passed as proposed. But when managerial officer is dismissed, the managerial allowance before renewal should be recovered.	The proposal has been approved by the Board of Directors except the managerial allowance before renewal should be recovered. The Board decided when managerial officer is dismissed, the managerial allowance before renewal should not be recovered
The 8th meeting of the 4th term of Remuneration Committee on November 5, 2019	Review of Article of employee stock trust committee."	Agenda was passed as proposed with the amendment of the wording of section 4 & 8.	The proposal has been approved by the Board of Directors after the amendment of the wording of section 4 & 8.

(4) Regular review of remuneration and compensation:

The functions of the Company's Remuneration Committee, is to assess the remuneration policies and systems of the directors, supervisors and managerial personnel from the professional and objective perspective. The meetings shall be convened at least twice a year and/or whenever required, to provide recommendations to the Board of Directors as the references for their decision-making.

- a. The authorities of the Company's Remuneration Committee:
- (a) Establish the policies, systems, standards, and structures of performance evaluations and remunerations for the directors, supervisors, and managerial personnel, and regularly review the same.
 - (b) Regularly review and establish the remunerations for the directors, supervisors, and managerial personnel.
- b. The following standards shall be observed when the Remuneration Committee executes the authorities:
- (a) The performance evaluations and remunerations for the directors, supervisors, and managerial personnel shall be referred to the common level of payment among the peers, while taking into account of the related reasonableness of the personal performance, company's operational performance, and future risks.
 - (b) Not to solicit the directors and managerial personnel to seek the remuneration at the cost of exceeding the risks appetite of the Company.
 - (c) For the ratio of the bonus specifically for the short-term performance of the directors and key executives, and the timing to pay part of the variable remuneration, the decisions shall be made by referring the nature of the industry and the Company's business

3.3.6 The discrepancies between the Company's implementation of corporate social responsibility and "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies."

Assessment	Implementation status			The discrepancies and its reasons						
	Yes	No	Explanation							
1. Does the company conduct environment, society, and corporate governance risk assessment of the Company based on materiality principle, and set related risk management policy and /or strategy?	V		<div>The Company evaluate risk related to important issues according to corporate CSR materiality principle. Also the Company set relevant risk management policy according to risk evaluated as follow:</div> <table><tr><th>Item</th><th>Important issues</th><th>Risk management policy</th></tr><tr><td>Environment</td><td>Climate change management</td><td><div>The Company set “Risk Management Committee” under Board of Directors and appoint the risk management department in charge of risk management. To cope with the risk trend, The Board has approved to add risk of climate change into new risk and add into the Company’s “Risk Management Policy and Guide Line” in June, 2019. Every subsidiary company needs to report to the Board on important risk issues (including new risk).</div><div>In July 2019, Mega Bank and Mega Bills further add if the borrowers done their environment protection, or if jeopardize society welfare pr events, or if involve in jeopardizing human rights or events into the credit case due diligence system. If there is any negative information or other risk issues, they should full disclose the details and the improvement situation for further review in order to add restrictions/ covenants, reduce amount granted, or reject credit application. Also the above will be used as a reference or basis for risk management.</div></td></tr></table>	Item	Important issues	Risk management policy	Environment	Climate change management	<div>The Company set “Risk Management Committee” under Board of Directors and appoint the risk management department in charge of risk management. To cope with the risk trend, The Board has approved to add risk of climate change into new risk and add into the Company’s “Risk Management Policy and Guide Line” in June, 2019. Every subsidiary company needs to report to the Board on important risk issues (including new risk).</div> <div>In July 2019, Mega Bank and Mega Bills further add if the borrowers done their environment protection, or if jeopardize society welfare pr events, or if involve in jeopardizing human rights or events into the credit case due diligence system. If there is any negative information or other risk issues, they should full disclose the details and the improvement situation for further review in order to add restrictions/ covenants, reduce amount granted, or reject credit application. Also the above will be used as a reference or basis for risk management.</div>	None
Item	Important issues	Risk management policy								
Environment	Climate change management	<div>The Company set “Risk Management Committee” under Board of Directors and appoint the risk management department in charge of risk management. To cope with the risk trend, The Board has approved to add risk of climate change into new risk and add into the Company’s “Risk Management Policy and Guide Line” in June, 2019. Every subsidiary company needs to report to the Board on important risk issues (including new risk).</div> <div>In July 2019, Mega Bank and Mega Bills further add if the borrowers done their environment protection, or if jeopardize society welfare pr events, or if involve in jeopardizing human rights or events into the credit case due diligence system. If there is any negative information or other risk issues, they should full disclose the details and the improvement situation for further review in order to add restrictions/ covenants, reduce amount granted, or reject credit application. Also the above will be used as a reference or basis for risk management.</div>								

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		Item	Important issues	Risk management policy	
		Society	Information security and personal information protection	The Company has information security policy as the basis for the Company and its subsidiaries to implement the information security practice. Also "Information and digital business committee" has been set up with president as the chairman, the executive vice president of information department as vice-chairman, and every executive vice president in charge of the subsidiary's information and digital finance. The committee holds meetings at least once a year. Mega Bank and Chung Kuo Insurance continue to purchase insurance and continue with ISO 27001 information security verification. The Company and its subsidiaries complete periodical information security education training.	
		Corporate governance	Legal compliance	The Company sees legal compliance as the key to internal control system and set up "legal compliance system." Also according to "Guide line of implementation of internal control and audit for financial holdings and bank," the Company appoint one managerial person which hold equal position as executive vice president to be "Chief Compliance Officer for the Group." That person will manage the compliance issues and report to the Board and audit committee every half year. To strengthen the effectiveness of the subsidiary's compliance, the Company hold group compliance officer communication meeting quarterly, focusing on the implementation status of each subsidiary, audit opinion of internal and external auditors, and education training and promotion of legal compliance. In 2019 there are total 4 communication meeting held. Every compliance manager and officer of the Company and subsidiary have completed training hours as required. The completion rate is 100%.	
2. 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 (CSR). 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. In 2019 two directors were added as committee members to further enhance CSR practice. 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. In 2019, there were 5 CSR committee meetings held.			None



<p>3. Environment issues</p> <p>(1) Does the company establish proper environment management systems based on the characteristics of its industry?</p>	V	<p>As financial service providers, the Group's operation is unlike the production business where generation of noise, emission 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 14001:2015 Environmental Management System was introduced and it was verified in January 2018 (The certificate is validity from January 5, 2018 to January 4, 2021, and the latest validity review date is October 29, 2019).</p>	None
<p>(2) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have a low impact on the environment?</p>	V	<p>The Company and Subsidiaries periodically review electricity use, replace high-electricity-consumed air condition and light equipment, lease of company cars, and use of eco-marked computers and printing papers to support green-purchase by actual actions. In 2019, Mega Bank was awarded 2 years straight "Corporate Green Purchase Outstanding Prize" and "Energy Saving Leading Prize" by Department of Environmental Protection, Taipei Government.</p>	None
<p>(3) Does the company evaluate the potential risk and opportunities of climate change and also have measures for relevant climate change issues?</p>	V	<p>To cope with the risk trend, The Board has approved to add risk of climate change into emerging risk and add into the Company's "Risk Management Policy and Guide Line" and implement on Climate-related Financial Disclosures (TCFD.) The company also reviews and check the risk and opportunity of climate change and differentiate and manage to strengthen green finance practice. Also the Company signed to support TCFD in April 2020 to aggressively deal with the risk and opportunity from climate change.</p> <p>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 5 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 annually.</p> <p>Regarding sustainable environment investment policy, the Company 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. In 2019, the Company complete the renewable energy certificate transaction for the first time. At the end of 2019, there are total 146 certificates obtained, equivalent of 146,000 kwh. In 2019, the loans to green energy industries reached NT\$84.894 billion. The amount of green bond investment is NT\$ 8.8 billion. Mega Bank's NT\$ 1 billion green bond have FSC's approval in December 2019 and launched in March 2020.</p> <p>The risk and opportunities for loan, investment, and insurance from climate change include the direct/indirect financial impact from extreme weather, and the impacts to Company operation from change of laws, production technique, and market demand. Below is the potential risk and opportunities of climate change:</p> <ol style="list-style-type: none"> 1. The risks from climate change :include transform risk and actual risk, for example, the damage of loan collateral because of climate change disasters, systematic risk of those industries (ex. green energy) easily impacted by climate change, and client's higher operation cost from policy and regulation change, and further cause finance risk such as market risk, credit risk, systematic risk, liquidity risk, and insurance risk. Mega Bank has include the new climate risk during corporate and personal credit risk management include due diligence, review, maintenance of security, and management after granting the loan. The subsidiaries also consider economic, market, industry, individual prospect and risk under the investment risk management, including emerging risk like climate change to search for adequate investment opportunities. 2. The opportunities from climate change: Include low-carbon product and services such as green technology financing; energy-related policy encouragement such as urban renewal and in-danger building re-construction financing; the continuous digital finance innovation for customer behavior change; new market opportunities such as agricultural insurance targeting persimmon, and the investment and issuance of green bonds. <p>The Company closely watches global climate change and the development of related industries and hope by providing adequate financial products, the Company can help the stakeholders to lower the impacts of climate change and further help corporates to dig out new opportunities and ease the speed of global warming to drive the society to sustainable development.</p>	None

<p>(4) Does the company calculate greenhouse gas emission, water usage, and total weight of waste in last two years and set up policies regarding reducing carbon saving energy, water use reduction, and other waste management?</p>	<p>V</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), in July 2017, the Company set a 5 year target of more than 5% reduction from 2017 as the base year to 2022. The boundary covers domestic operating units. The Group has carried out greenhouse gas check since 2013. The 3 year project of ISO 14064-1 greenhouse gas check was activated in 2018. In 2019, total 139 operation units have completed the check and the Company plan to complete the check on all operation units in 2021. In 2019, the total carbon emission has decreased 349 tons, a 1.66% decrease compared to last year, achieving the annual 1% reduction on carbon emission goal.</p> <p>The Company mandate SGS to conduct ISO 14064-1 greenhouse gas emission verification. In 2018, the scope 1 and 2 emissions of 90 operating units in northern Taiwan, were 718.84 and 14,004.90 metric tons of CO₂e, respectively. In 2019, the scope 1 and 2 emissions of 139 operating units in northern and central Taiwan, were 2,527.63 and 16,232.62 metric tons of CO₂e, respectively. The greenhouse gas emissions increased in 2019 due to the increase in scope of verification of 49 operating units.</p> <p>Because of the industry characteristics, the main water usage is the usual water use in the office. Every operation unit has been implementing water saving. In 2018, total water use is 183,317 degrees, while in 2019 the water use is 187,616 degree. The reason of increase is because of the increase of employee by 460 people in 2019.</p> <p>The Company mandate qualified cleaning company to clean the wastes. Those recycle waste is sent to qualified resource re-use factories. Those trash is sent to garbage incineration. In 2018 and 2019, the total weight of waste of the Company's 5 main buildings is 195,481 kg and 213,051 kg, respectively. The increase is because of the increase of full-time employee number in 2019.</p> <p>The Company is devoted to sustainable environmental development and enforces the following measures for managing resources and energy:</p> <ol style="list-style-type: none"> 1. Paper: Administrative operations or notifications are done through email instead of paper-based documents. Notebook computers or tablets are used to realize paperless 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. 6. Waste management: The Company promotes plan to reduce wastes and implement "cancelling personal trash can." Also the promotion of implementation of trash categorization and reduction is irregularly done. 	<p>None</p>
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4. Social Issues			
(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	By reference to "the Universal Declaration of Human Rights", "UN Global Compact," and "International Labour Organization", the Company has set "Human right policy" on September 2018 approved by Board of Directors. The policy asks the Company to follow applicable labor laws, respect the rules over the basic rights of the workforce recognized by the international society, respect employee's freedom of gathering, provide a sound workplace, treats its employees fairly with no discrimination towards their races, religions, genders, marital statuses, etc., and protect employee, clients, and other stakeholders' privacy. To implement human right policy, the Company completed human right (including prevention of sexual harassment and work safety) training. In 2019, there has been no complaint regarding human right or discrimination filed.	None
(2) Does the Company set up and implement reasonable employee benefit (including compensation, annual leave, and other benefits) and reflect the operation performance or result in the employee compensation?	V	<p>The remuneration policy of the Company states the compensation includes salary, annual bonus, performance bonus, and employee compensation. The remuneration standards take reference of the peers, market competitiveness, and total remuneration plan. Every year the Company bases the profit situation, future risk, and peer reference to pay the compensation according to the performance. If there is a promotion, there will also be a raise of salary. The 2019 salary raise situation of managerial and non-managerial persons is disclosed on MOPS. 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. If there is a profit in that year, 0.02% to 0.15% should be employee remunerations.</p> <p>The Company's welfare including marriage subsidy, birth subsidy, funeral subsidy, retirement subsidy, hospital subsidy, travel subsidy, education scholarship, club activities, festival gifts, and employee health check which is better the labor law. Besides, the Company have employee stock trust since 2020. The Company will subsidize NT\$1,000 every month for employee to purchase Company shares.</p> <p>Regarding retirement system, the Company deposit 6% of the employee's total salary as retirement reserve, according to labor law, into specific account of Bank of Taiwan. Also the labor retirement reserve supervision committee is established, in charge of the reserve distribution, deposit, use, and pension payment. Also to cope with the new pension system implemented on July 1, 2005, for the employee use the new pension system, the Company deposit 6% of the salary every month into the employee's personal pension account.</p> <p>Employee whose age is over 65 should retire. Employee with the below situation can ask for retirement: (1) age over or equal to 55 and tenor of work over or equal to 15 years; (2) Tenor of work over or equal to 25 years; (3) age over or equal to 60 and tenor of work over or equal to 10 years. Those who fit in old pension system, the Company will pay pension according to the last 6 months average salary and service tenor, not over 15 years to give 2 basis point, over 15 years to give 1 basis point, total not to over 45 basis point.</p>	None

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(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 and personal safety protection for its employees, the Company implements access control, regular health examinations, visitor registration, office environment cleaning, regular maintenance on fire extinguisher, monthly check on fire prevention like water spread, stairway lights, and refuge taking, and mandate qualified fire prevention companies to conduct maintenance situation report to competent authority and obtain a pass on the re-check; The Company holds employee fire prevention rehearsal every half year and holds labor safety forum every 3 years; The Company also conduct environment sanitization in every two month for common area and every half year for the whole building to let the employee comfortable in good environment and thus work hard for the Company.	None
(4) Does the company set up an effective career development training plan for employees?	V	To strengthen employee's career development, the Company implement regulation and job related training; appoint employee to attend forum and seminar; and encourage employee to take professional or cross industries diversified learning base on their professional field.	None
(5) Does the company follow relevant laws, regulations and international guidelines on customer health and safety, customer privacy, marketing or labeling of their products and services and establish relevant consumer protection policy and compliant filing process?	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. The company value the privacy protection of each customer. Internal personal information protection regulation is based on the latest domestic and international regulation standard. 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. Mega Bank has established fair-treatment to customer guide line and customer protection guide line. In 2019, the fair-treatment to customer working group was established. The "fair treatment to customer principle section" was set up on the official website to provide customer channels of inquiry of their rights and integrate compliant channels for the customers.	None
(6) Does the company set up a supplier management policy to request the supplier to comply relevant regulations regarding environment, work place safety and sanitary, or labour right, and the implementation status?	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. Besides, the Company has enacted "Supplier CSR Guidelines" requiring suppliers to follow regulations relating to environment, safety and sanitary, or labor right issues in March 2019.	None
5. If the Company take reference of international report guide line to make non-financial information report like CSR report? If third verification party issues confirmation opinion on the above report	V	The 2019 CSR report has been verified by British Standards Institution (BSI) by the standards of GRI principle core items and AA1000 Type 1 medium guarantee level. Please refer to the disclose item in CSR report.	None
6. 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.			
7. Other important information to facilitate better understanding of the Company's corporate social responsibility practices: Please refer to the 2019 CSR Implementation Results and 2019 Action Plans as shown below.			



2019 CSR Action Plans and 2019 Implementation Results

Item	2019 CSR Action Plans	2019 Implementation Results
Corporate Governance	<ol style="list-style-type: none"> 1. In line with the government, the Company will appoint a corporate governance managerial person 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 consistent AML/CFT guidelines applicable for subsidiary. Training of AML and AML compliance tests will be continued to be organized. 	<ol style="list-style-type: none"> 1. In 2019 all directors' education training hours totaled 137 hours, which comply with at least 12 for newly on board directors and 6 for reappointed directors, according to the "Principles of directors and supervisors' education training for TWSE/GTSM listed companies." 2. The Company and its subsidiaries (except insurance agency and venture capital subsidiaries) has appoint a corporate governance managerial person to provide directors with more assistance since 2019. 3. The Company has completed the evaluation for Board of Directors based on the Principles of Performance Evaluation of Board of Directors. Also the result has been reported to Board of Directors in January 2020. 4. To cope with the trend of risks, in June 2019 the Board of Directors approved to include emerging risk (including climate change) to be added into the Group's "Risk Management Policy and Guidelines". 5. The compliance officers and compliance managerial person of the Company and its subsidiaries have completed education training hours required, totaled 1,532 persons and the completion rate is 100%. 6. All of the Company's directors and those position above or equal to executive vice president have signed "Declaration of following ethical management policy." The ethical management implementation situation has reported to the Board. The ethical management education training has been completed with total headcount 9,617 and the completion rate of 99.59%. 7. The Company continues to optimize the AML/CFT sharing platform. Mega Bank continues to optimize the AML/CFT guide line and system. 8. Mega Bank and other subsidiaries (except venture capital subsidiary) completed the AML education training of 2019. Average training hour per person is 14.92 hours with completion rate 100%.
Customer Commitment	<ol style="list-style-type: none"> 1. Mega Bank will continue to purchase insurance to protect against information security and internet security event. Mega Securities will introduce ISO 27001 information security verification, to enforce information security and personal information protection. 2. Continue to cope with Ministry of Finance to promote "Taiwan Pay" mobile payment to accelerate the common use of mobile payment. 3. In line with the "Green Finance Action Plan" of the government, Mega Bank and Mega Bills Finance will continue to promote solar photovoltaic, LED lightening, etc. Mega Securities will continue to help enterprises to raise funds for green technology development through participation in underwriting of green bank debentures or equity, and promote green financial products approved by the government. 4. In response to an aging society, continues to promote care trust and the commercial reverse mortgages for seniors. 5. To continue to provide young generation family preferential mortgage to provide preferential interest rate to lower the burden of first time house buyers. 6. SME loans will be strengthened to assist domestic SME to develop solidly. 	<ol style="list-style-type: none"> 1. The Company set up information security policy in March 2019. Mega Bank and Chung Kuo Insurance continue to purchase insurance to protect against information security and internet security event. The Company has held social engineering rehearsal to subsidiaries. The Company, Mega Bank, Mega Securities, Mega Bills, and Chung Kuo Insurance have completed the weak spots scan, invasion test, and social engineering rehearsal. 2. Mega Bank and Chung Kuo Insurance continue with the ISO 27001 information security verification. Mega Securities is on the way. 3. The online credit card application accounts for 53% for Mega Bank. The optimization project of the user experience is on the way. Mega Bank, Mega Securities, and Chung Kuo Insurance continue to develop digital marketing via website, community, and fan club. 4. The balance of green technology loan is NT\$ 84.894 billion. 5. Green bond investment is NT\$ 8.8 billion. The NT\$ 1billion green bond of Mega Bank has approved by FSC in December 2019 and launch in March 2020. 6. The balance of innovation industry loan is NT\$ 395.1 billion, an increase of NT\$ 10.9 billion compared to last year. 7. Till the end of 2019, the total granted cases of commercial reverse mortgages for seniors is 34 cases, an increase of 23 compared to 2018. Total amount approved is NT\$ 0.238 billion; Total beneficiaries of care trust is 773. The principal of the care trust is NT\$ 0.769 billion, an increase of NT\$ 0.207 billion compared to 2018. 8. Till the end of 2019, the cases of young generation family preferential mortgage totaled 19,752, an increase of 1,055 compared to 2018. The aggregation amount distributed is NT\$ 88.633 billion, ranked 5th among 8 government owned banks. 9. Total number of people insured by micro insurance is 109,771, an increase of 106,604 people compared to 2018. Total insurance premium is NT\$ 14.12 million. 10. Till the end of 2019, total balance of SME loans is NT\$ 504.3 billion, an increase of NT\$ 29.6 billion compared to last year.

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Environmental Protection	<ol style="list-style-type: none"> 1. The Group will continue to perform the "ISO14064-1 greenhouse gas check", the scope of which is expected to be expanded to the Group's northern and central operating sites around Taiwan by 2020. 2. The Mega JaoJi Building will continue to conduct the third year ISO 14001 environment management system verification. 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. 	<ol style="list-style-type: none"> 1. In 2019, the Company obtained total 146 renewable energy certificates, equivalent of 146,000 green kwh. Greenhouse gas emission has reduced 80,000 kg. 2. The Mega JaoJi Building has passed ISO 14001 environment management system verification in third year. 3. In 2019, total 139 operation units have completed the ISO 14064-1 greenhouse gas check in northern and central Taiwan and verified by the third party. The total carbon emission has decreased 1.66% compared to last year. 4. Garbage reduction, categorization, and recycle is promoted. Every subsidiary gradually replace the old lighting and air condition equipment. 5. The Company, Mega Bank, Mega Bills, Mega Securities, and Chung Kuo Insurance have set up relevant guide line of supplier management in 2019.
Employee Care	<ol style="list-style-type: none"> 1. In line with the government's birth encouragement policy, childbirth subsidy is distributed. 2. Hold employee team building, social welfare activities, and others. 3. By providing full or partial sponsorships for registration fee and license fee, employees are encouraged to obtain professional license or qualification tests reflective of their job responsibilities. 4. With the view of promoting employee health and thereby enhancing 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. 	<ol style="list-style-type: none"> 1. For childbirth subsidy, in 2019 total number of people subsidized is 186 with total amount NT\$ 13.75 million. 2. Mega Bank, Mega Bills, and Mega trust investment held team building activities and family day in 2019 to boost employee's coherence. 3. Employees are encouraged to obtain professional license or qualification tests. Total sponsorship is NT\$ 3.48 million in 2019. 4. The Company provide psychological consultation, health forum, and weight loss activities for employee.
Social Welfare	<ol style="list-style-type: none"> 1. Mega charity foundation continues to provide volunteer work at home for elderly every month. 2. 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, achieving tax payment, health and social welfare benefits. 3. Continue the training for sport talents, including junior basketball training in rural area, archery training, weight lifting training, and video game contest. 4. The Group will continue to sponsor adoption of disadvantaged family, provide the disadvantaged students with living, lunch and education subsidies, and sponsor nursing home activities. 	<ol style="list-style-type: none"> 1. The two foundation of the Group hold volunteer service for elder care facilities; volunteer activity on Mega baseball day; volunteer activity of Dong Ao elementary school flying fish pepper day. Mega Bank and Mega Investment Trust held saving the ocean cleaning activity and employee mountain cleaning activity, respectively. Number of employees and family attended as volunteer are 67 people and 69 people. 2. The Group and National Taxation Bureau of Kaohsiung, Ministry of Finance held government uniform invoice running activity in October, 2019. There were 10,000 runners attended. Total number of invoices collected is 269,988 and was donated to 4 social welfare organizations. 3. Regarding baseball, archery, weight lifting, and others, the Company long-time sponsors the training expense for students in rural area; held Mega archery elite contest; 2nd Mega Bank video game contest, to promote the special sport development in Taiwan. The Company obtain the 2019 sport promoter golden award-sponsorship. 4. Regarding the development of those vulnerable, the group and its two foundations donated NT\$ 28.25 million to support vulnerable group and emergency medical / funeral need.



3.3.7 Ethical Corporate Management and Approach Adopted

Ethical Corporate Management Implementation and The Discrepancies between Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and Its Reasons

Assessment	Implementation status			Discrepancies and its reasons
	Yes	No	Explanation	
1. Establishing 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 guide lines and external documents?	V		The Company's Ethical Corporate Management Principles and Code of Ethical Conduct, which are approved by the board of directors, reported to the shareholders meeting, and posted on the MOPS and the Company's website, 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 risk evaluation mechanism and periodically analyze and evaluate the operating activities with higher possibility of unethical conduct within operation scope, and set up unethical conduct prevention act accordingly and at least include the prevention measures in Article 7 section 2 of Ethical Corporate Management Best Practice Principles?	V		The Company and its subsidiaries enacted Ethical Corporate Management Principle 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 Principle. The Company periodically analyzes and evaluates the risk of unethical conduct of the operating activities with higher possibility of unethical conduct within operation scope and set up unethical conduct prevention act and internal control system accordingly.	None
(3) Does the Company explicitly set up operation procedures, conduct guideline, disciplinary rules for violations and appeal channel in the unethical conduct prevention act, and implement and periodically review and amend the act as mentioned?	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 by insiders or outsiders. Also the Company periodically evaluates the compliance status in relevant operations.	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 consideration 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

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Assessment	Implementation status			Discrepancies and its reasons
	Yes	No	Explanation	
(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/supervision to the board of directors periodically (at least once a year)?	V		<p>The CSR committee was appointed as the unit responsible for promotion of the ethical corporate management ideas. The committee is chaired by president, executive vice presidents of the Company as director general, and directors/executive vice presidents of the Company and the president/executive vice president of the subsidiaries are committee members. To strengthen the function of ethical management duty unit, the Board of Directors approved to establish Ethical Management Committee on March 24, 2020 and the three independent directors are the 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 and the unethical conduct prevention acts are submitted to the board meeting at least once every year.</p> <p>To implement ethical management policy, the Company had the below implementations in 2019:</p> <ol style="list-style-type: none"> 1. Education training: The education training regarding ethical management issue are held, including ethical management principle, risk management, legal compliance, AML, anti-corruption, and whistle blower protection. 2. Regular review: Every operating unit holds self-audit and self-evaluation on legal compliance every half year and self-audit on internal control and self-evaluate on personal data protection annually. The audit department implement internal audit twice each year to make sure the implementation of ethical management is followed. 3. Whistle-blowing system: Besides the report/inform system in the Corporate Governance Practice Guideline, "Ethical Management Guideline", and "Ethical Management Principle," The Company also set up Guidelines for Handling of Whistle-Blowing and disclose the report hotline and email on the company website and appoint legal compliance department as the unit taking the whistle blowing cases. The identity of the whistle blowers and the content will remain confidential. The Company promise the whistle blowers will not suffer un-justified treatment because of the information reported. 	None
(3) Does the company establish policies to prevent conflicts of interest, provides appropriate communication channels and implement the policies?	V		<p>The Company and its subsidiaries 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.</p>	None



Assessment	Implementation status			Discrepancies and its reasons
	Yes	No	Explanation	
(4) Does the company establish effective accounting systems and internal control systems for the implementation of policies, and the internal audit units forms relevant audit plan based on the risk evaluation result of unethical conduct to audit the implementation situation of unethical conduct prevention or mandate the external auditor to audit the matter?	V		The Company and its subsidiaries have 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 the external auditors. Additionally, to ensure adherence to the internal control system, aside from internal audits performed by the internal audit staff regularly, 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 ethical corporate management training. In 2019, a total of 9,617 employees participating in relevant internal and external training, completion rate of 99.59%, for a total of 6,344 hours. The training courses include ethical management principle, United Nations Convention against Corruption, whistle blower protection, corporate ethical management, employee's obligation to protect information, ethical management-case study of bank employee misappropriate client fund. When conducting commercial activities, the Company also promoted the ethical corporate management concept to suppliers.	None
3.The implementation of company's whistle blowing system				
(1) Does the company set up specific reporting and reward system, convenient reporting channel and assign appropriate and dedicated unit 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: law@megaholdings.com.tw or send to the legal compliance department at 17F, No.123, Sec. 2, Zhongxiao E. Rd, Taipei City. (3)Unit to handle whistle-blowing: Legal Compliance Department.	None
(2) Does the company establish standard operation procedures for the investigation, following measures, and confidentiality 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. The investigation process and result should be kept in paper and electronic form and preserve at least 7 years. If a litigation involves, the relevant data should be kept till the closure of the litigation. The result of the reported cases should be informed by paper or other ways to the whistle blowers.	None
(3) Does the company adopt protection measures of unfair treatment for whistle blowers?	V		The Company protects whistleblowers, including keeping their identity and report contents confidential. No unfair treatment or punishment will be given due to the content of the reports given by whistleblowers. In 2019, there are total 13 cases filed. After investigation, there are 3 cases established. Only one of them involve inappropriate behavior regarding inappropriate fund activities with client and relevant punishment has been done based on internal punishment rule.	None

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Assessment	Implementation status			Discrepancies and its reasons
	Yes	No	Explanation	
4.Enhancing disclosure of information Does the company disclose the content and the implementation status of the Ethical Corporate Management Principles on the Company's website and MOPS?	V		The Company discloses the content and the implementation status of its Ethical Corporate Management Principles on the Company's website. The implementation results including: training courses of ethical corporate management promoting the concept of integrity and ethical value, no transaction with counterparty having unethical record.	None
5. If the company has established Ethical Corporate Management 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." Every operation follows the above mentioned principles, procedures, and guidelines..				
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 every half year. (2) The Company at all times monitors the development of relevant local and international regulations concerning ethical corporate management and encourage the directors, managerial officers, and employees to make suggestions, based on which the adopted ethical corporate management policies and measures taken will be reviewed and improved with a view to achieve better implementation of ethical corporate management. (3) In 2019 the Company amend "Ethical Management Principle" to require the direct and managerial officers to give "declaration of following ethical management policy" to the Company.				

3.3.8 The Way for Searching the Company's Corporate Governance Principles and Related Guideline

For the Company's rules of corporate governance, please log on to the following website and MOPS:
<https://www.megaholdings.com.tw/tc/regulation.aspx>

3.3.9 Other Important Information: None.



3.3.10 Execution of Internal Control System

A. Internal Control Statement

Mega Financial Holding Co., Ltd.

Internal Control Statement

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

On behalf of Mega Financial Holding Co., Ltd., we hereby state that from January 1, 2019 to December 31, 2019, the Company has duly complied with the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” in establishing its internal control system, implementing risk management, designating an independent and objective audit 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 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, legal 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 : Jui-Ying Tsai

Chief Compliance Officer: Hui-Lin Wu

March 24, 2020

Schedule: Internal Control Weaknesses and Improvement Plans

(As of December 31, 2019)

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 has 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 related 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. And the third party consultant has been mandated to verify in order to make sure implementation of every improvement measure. 4. The introduction of anti-money laundering system, and continued strengthening the system adjustment and following implementation of functional sub-systems to help monitor and analyze money laundering and terrorism financing effectively. A consultant is hired to assist the system establishment. 5. The formulation of the Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards has been completed. It is planned to apply these policies and standards to the overseas units in stages to make the domestic and overseas anti-money laundering and counter-terrorism financing system in sync with the international standards. 6. Compliance and operations training based on various business categories are enhanced to improve employees' compliance capability. 7. Communication with overseas financial examination institutions and the relevant reporting mechanisms have been strengthened. 8. Compliance officers at overseas branches have been taken on by dedicated personnel, and compliance officers of branches in the U.S.A. have been adjusted to local professional. 9. The Bank has established the "Compliance Committee in the Territories of 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 territories of the U.S.A.. 10. The New York Branch has completed the re-examination on KYC regarding customers. 11. 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. 12. In addition to enhancement of the functions of internal audit, communications with outsourcing internal auditor will be strengthened and its examination quality will be controlled.	1. The Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards were introduced in overseas units except NY branch in 2019. The above policy is scheduled to be introduced to NY branch in first quarter 2020. 2. Continuous implementation of every improvement works.

<p>2. 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 accountants, 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. 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 continues to promote the Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards and amend internal regulations governing the overseas branch organization management in pursuit of a sound compliance and anti-money laundering system. The ultimate goal is to bring the bank in sync with international level and satisfy the requirements of the financial inspection authority of the U.S.A. 4. The Bank has upgraded the anti-money laundering monitoring systems for branches in the U.S.A., through independent verification to strengthen such functions as analysis, screening, and monitoring of anti-money laundering cases and validity thereof. 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 standing directors or boards of directors. 	<ol style="list-style-type: none"> 1. The Global Anti-Money Laundering and Counter-Terrorism Financing Policies and Standards were introduced in overseas units except NY branch in 2019. The above policy is scheduled to be introduced to NY branch in first quarter 2020. 2. Continuous implementation of every improvement works.
<p>3. The Manila Branch has committed the same deficiencies, namely failure to prepare the reports in accordance with the local competent authority's requirements. Its internal control operations including internal management and review mechanism should be enhanced.</p>	<ol style="list-style-type: none"> 1. The operating manual has been amended to include various financial statements and submission of these statements, and the responsible accountants and accounting supervisors are required to strengthen the review and control over submission of the financial statements. 2. The Bank has retained two additional responsible accountant and responsible account associate, who hold a CPA license and once worked for large CPA firms, to strengthen the accounting department's functions. 3. Job rotation inside same department is adopted to prevent impacts of personnel change on business operation and operational risk as errors in reporting to the Central Bank. 4. An automated system preparing the reports to the Central Bank is established and the verification software for reports to the Central Bank is purchased. Continuous test and verification is done. 	<p>Improvements specified in item 1□ 3 have been completed according to the improvement measure. The verification of automated reporting system was completed on January 21, 2020 for item 4.</p>

Corporate Governance Report

4. A former wealth management 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.

5. Deficiencies on identification and verification of beneficial ownership in customer due diligence and abnormal transaction inspection were not precise enough.

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 is added upon client's application.
2. "Phone recording system management note" is added to ask domestic business units to do transaction reference and random confirmation check.
3. Aside from enactment of operating guideline 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 outside of the bank collection of various documents, receipts, and payment by wealth management business personnel will be strengthened.
5. The self-inspection items shall include the inspection on the separate operating procedures of the front-end and back-end offices of wealth management to strengthen the control of transactions processed by wealth management specialists and whereabouts of the fund in the wealth management accounts.
6. The wealth management operations and personnel's management will be strengthened. Aside from implementation of the "Account Officer System" for wealth management operations also the identification and checking measures against the wealth management specialists' affiliated accounts will be enhanced.
7. The inspection mechanism during the wealth management specialists' on leave period is established. The inspection on wealth management's human resource matter and behavior management is strengthened.

1. A detailed operating procedure for the identification and verification of beneficial ownership has been established and efforts have been reinforced to understand if corporation clients have natural persons that exercise control in other ways.
2. The operational handbook was revised to boost continuing control and investigation of customers' accounts and transactions.
3. Suspicious transactions in deposit accounts have been switched to be monitored by the system and the Anti-Money Laundering and Counter-Financial Crimes Office is now responsible for investigating cases. Related inspection analysis reports and supporting documents that have been verified are all kept track of in the transaction monitoring system.
4. For non-profit group customers and transactions through remittance that have a value of NTD500 thousand or above, the purpose and reason of the remittance shall be noted in the remittance form.
5. Reinforce educational training and video communications for operation sites on anti-money laundering operations and examples of deficiencies.

Improvements are done according to the improvement plans.

Improvements have been completed according to the improvement measures.



<p>6. For loan business, credit investigation and loan approval, loan release review, and post-loan management shall be precisely enforced.</p>	<ol style="list-style-type: none"> 1. It is specified that the loan limits approved for a specific customer must take into consideration the existing limits already approved by the Bank for the affiliated companies' account and the total credit limit for all affiliated enterprises shall be combined to be the criteria for deciding the approving authority. 2. The limits available for respective levels to authorize are defined under the Negotiation Limits for Defective Documents, with the control mechanism added for advance money for export bills negotiation defective documents and the for new customers to continue bill negotiation deals for the first year. 3. Loan granting and due diligence deficiency patterns have been included in teaching materials and communications for the operation units and educational training have been reinforced. The operation units are asked to precisely examine respective tasks of post-loan management and precautions for domestic Letter of Credit business. 4. Apply for modifications of respective system and add loan reviews, due diligence reminding and inspection mechanism to reinforce due diligence and loan approval operations. 5. The bank stipulated, planned and established the "Bank-wide Customer Counterpart Database" to facilitate understanding of abnormal situation of customers' transactions and fund flow. 	<p>Improvements specified in item 1□ 3 have been completed according to the improvement measure. Improvements in item 4-5 are underway.</p>
<p>Chung Kuo Insurance Co., Ltd.</p> <p>With regard to the budget allocation procedure for sponsorship of external events, failure to define sponsorship management regulations in compliance with the "Implementation of Internal Control and Auditing System of Insurance Enterprises", the failure to confirm the authenticity of sponsorship application documents, and failure to set up the registry to control delivery of gift certificates or retain and sign off event final reports were found; related internal control is not rigid enough</p>	<ol style="list-style-type: none"> 1. Sponsorship management guidelines and public relations management guidelines were established. 2. The review of external sponsorship cases covers the cause, counterpart, method, value and how to hand-over. The sponsorships are summarized each year and reported to the Board of Directors. 3. When the sponsorship is in the form of gift certificate, the procurement is to be done centrally by the Management Department according to details of the request and the sponsorship overview is completed (that shows the date, sponsor, cause of sponsorship, the sponsored unit, sponsor amount, decision-making level, start and end numbers of gift certificates, signature of the end user at the sponsored unit, sponsorship delivery method, etc.) for control purpose. 4. The sponsored unit must fill out the receipt or issue an invoice, with related supporting documents enclosed (such as original documents of events applied for, pictures of the event, event expenditure breakdown, etc.) to be archived for record by the sponsor. 	<p>Improved</p>

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

3.3.11 Punishment of Major Unlawful Practice and Major Deficiencies and Remedial Measures Adopted of the Company and its Subsidiaries in the Past Two Years

A. Legal action involving executives or employees: NA

B. Fines imposed, correction, or punishment by competent authority for violating laws and regulations that reach the disclosure benchmark set by competent authority:

The deficiency that a former wealth management specialist of Feng Yuan Branch of Mega Bank misappropriated clients' funds has violated Article 45-1-1 of the Banking Act of Republic of China and hindered sound operation. The Bank was imposed by the FSC a fine of NT\$6 million on March 26, 2019 and corrected by FSC according to article 61-1-1 of the Banking Act of Republic of China.

Improvements: The deficiencies have been improved and the improvement measures are listed in item 4 of "Internal Control Weaknesses and Improvement Plans" as above.

C. Disclosures of financial losses caused by corruptions by employees, major incidental cases or security incidents from breaches of financial institution security regulations, with annual losses exceeding NT\$50 million in individual and /or combined cases:

A former wealth management specialist of Feng Yuan Branch of Mega Bank misappropriated clients' funds for NT\$64,343,955 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 listed in item 4 of "Internal Control Weaknesses and Improvement Plans" as above.

D. Other mandatory disclosures as instructed: None.

3.3.12 Major Resolutions of Shareholders' Meeting and Board Meetings in 2019

A. Important resolution of 2019 shareholders' meeting:

- Approved the 2018 Business Report and Financial Statements
Implementation: The 2018 Business Report and Financial Statements have been filed with FSC on June 28, 2019.
- Approved the 2018 earning distribution proposal
Implementation: The meeting resolved to pay cash dividend of \$1.70 per share with an aggregate amount of NT\$23,119,700,771. The dividend record date was set on August 17, 2019, and the dividend was paid on September 5, 2019.
- Approved the amendment of the Company's Articles of Incorporation
Implementation: The amended Articles of Incorporation have been filed with FSC on August 20, 2019 with consent to file #10801308610 and on September 9, 2019 obtained the consent letter #10801123310 from Ministry of Economic Affairs on the approval of the amendment registration while also been published on company website.
- Approved the amendment of Procedures for Acquisition and Disposal of Assets.
Implementation: The amended "Procedures for Acquisition and Disposal of Assets" has been uploaded on MOPS on June 21, 2019 and published on company website.
- Released the prohibition on directors from participation in competitive business
Implementation: The Company announced material information on June 21, 2019.

B. Important resolution of the Board meetings held in 2019

Meeting sate	No. of meeting and terms	Agenda and resolution
January 22, 2019	The 8th meeting of the 7th term	Approved the engagement of the external auditor for 2019 financial statements
March 26, 2019	The 10th meeting of the 7th term	Approved the 2018 consolidated financial statements, 2018 internal control statement, agenda of convening of the 2019 general shareholders' meeting, allocation of 2018 employee and directors' compensation, appointment of managerial officer of corporate governance, and appointment of director of bank subsidiary.
April 23, 2019	The 11th meeting of the 7th term	Approved 2018 earnings distribution proposal and 2018 Business Report
May 28, 2019	The 12th meeting of the 7th term	Approved reappointment of directors/supervisors of 3 subsidiaries including securities subsidiary, appointment of president of insurance agency subsidiary, the change of the financial managerial officer, accounting managerial officer and chief auditor.
July 23, 2019	The 14th meeting of the 7th term	Approved the record date for the 2018 earning distribution, reappointment of directors/supervisors of 3 subsidiaries including securities subsidiary, reappointment of 23th term of directors/supervisors of insurance subsidiary, reappointment of 6th term of directors/supervisors of asset management subsidiary
August 27, 2019	The 15th meeting of the 7th term	Approved 2019 Q2 consolidated financial statements
November 26, 2019	The 18th meeting of the 7th term	Approved the 2020 audit plan
December 24, 2019	The 19th meeting of the 7th term	Approved the budget target of 2020
March 24, 2020	The 22nd meeting of the 7th term	Approved the application to issue NT\$ 10 billion unsecured corporate bond, 2020 general shareholder meeting related issues, and the employee and directors' compensation of 2019.



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 in 2019: None.

3.3.14 Resignation or Dismissal of Personnel Related to Financial Reports (Including Chairman, President, Financial Managerial Officer, Accounting Managerial Officer, Chief Auditor, and Corporate Governance Managerial Officer):

Title	Name	Date of appointed	Date of termination	Reasons for resignation or dismissal
Chief Auditor	Tzong-Chi Hsu	August 1, 2002	June 1, 2019	Retirement
Accounting and Financial Managerial Officer	Jui-Ying Tsai	August 1, 2002	June 1, 2019	Acting as Chief Auditor

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.

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, 2019-December 31, 2019	

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	NT\$10,000,000 or above			

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	2,582,800	0	0	0	220,000	220,000	1/1/2019 – 12/31/2019	1. Translation fee of the financial statements is NT\$200,000 2. Fee for review of non-managerial position employee salary information filing is NT\$ 20,000

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 10% 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 27, 2018		
Reason for reappointment	King-Tse Huang is replaced by Shu-Mei Chi as the external auditor of the 2018 financial statements due to internal job rotation in CPA firm		
Was the termination of audit services initiated by the principal or by the CPA	Counterparty		CPA
	Situation		Principal
	Service terminated by		N.A.
	Service no longer accepted (continued) by		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	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 Disclosures of changes in the shareholding (equity transfers and pledges) of directors, managerial officers and shareholders as required by law in 2019

3.7.1 Changes in Shareholding of Directors, Executives and Major Shareholders

Unit: Share

Title	Name	2019		As of March 31, 2020	
		Increase (Decrease) of shares held	Increase (Decrease) of shares pledged	Increase (Decrease) of shares held	Increase (Decrease) of shares pledged
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.	-	-	-	-
Chairman	Chao-Shun Chang	-	-	-	-
Director and President	Kuang-Hua Hu	-	-	-	-
Independent Director	Jiun-Wei Lu	-	-	-	-
	Ying-Ko Lin	-	-	-	-
	Chang-Ching Lin	-	-	-	-
Executive Vice President	Jui-Yun Lin	-	-	-	-
Executive Vice President	Yu-Mei Hsiao	80,000	-	-	-
Executive Vice President	Kuo-Pao Chen	-	-	-	-
Chief Auditor	Tzong-Chi Hsu (Note 1)	-	-	-	-
Chief Auditor	Jui-Ying Tsai (Note 1)	-	-	-	-
Chief Compliance Officer	Hui-Lin Wu	10,000	-	-	-
Chief Secretary of the Board	Han-Yin Ting	-	-	-	-
Senior Vice President	Ching-Yi Li (Note 2)	-	-	-	-
Senior Vice President	Chia-Min Hong	-	-	-	-
Vice President	Ming-Chih Lu (Note 3)	-	-	-	-
Vice President	Hui-Ling Yu (Note 4)	-	-	-	-
Acting Vice President	Lan-Jong An (Note 5)	-	-	-	-

Note:

1. Mr. Tzong-Chi Hsu retired on June 1, 2019. Ms. Jui-Ying Tsai was acting as Chief Auditor since and was formal promoted as Chief Auditor on July 1, 2019.
2. Ms. Ching-Yi Li, the Senior Vice President of Accounting Department, Mega International Commercial Bank Co., Ltd. will concurrently act as the Senior Vice President of Treasury Department of the Company since June 1, 2019.
3. Acting Vice President of Business Development Department Mr. Ming-Chih Lu became Vice President on March 1, 2020.
4. Ms. Hui-Ling Yu step down from the Vice President of Risk Management Department on July 30, 2019.
5. Mr. Lan-Jong An is acting as the Vice President of Risk Management Department since August 28, 2019.

3.7.2 Shares Transferred: N/A.

3.7.3 Shares Pledged: None.

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

As of April 20, 2020

Name	Shareholding		Spouse & Minor children		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, R.O.C.	None
National Development Fund, Executive Yuan, R.O.C. (Representative: Mei-Ling Chen)	830,973,202	6.11	0	0	0	0	None	None	None
Chunghwa Post Co., Ltd. (Representative: Hong-Mo Wu)	490,735,910	3.61	0	0	0	0	None	None	None
Fubon Life Insurance Co., Ltd. (Representative: Richard M. Tsai)	486,594,138	3.58	0	0	0	0	None	None	None
Bank of Taiwan Co., Ltd. (Representative: Jye-Cherng Lyu)	334,951,379	2.46	0	0	0	0	Ministry of Finance, R.O.C.	Taiwan Financial Holding Co., Ltd. is wholly owned by the Ministry of Finance, R.O.C.	None
Taiwan Life Insurance Co., Ltd. (Representative: Su-Kuo Huang)	282,900,771	2.08	0	0	0	0	None	None	None
China Life Insurance Co., Ltd. (Representative: Yu-Ling Kuo)	267,021,254	1.96	0	0	0	0	None	None	None
Cathay Life Insurance Co., Ltd. (Representative: Tiao-Kuei Huang)	216,466,141	1.59	0	0	0	0	None	None	None
New Labor Pension Fund (Representative: Feng-Ching Tsay)	215,598,344	1.59	0	0	0	0	None	None	None
Old Labor Pension Fund (Representative: Feng-Ching Tsay)	209,450,714	1.54	0	0	0	0	None	None	None

3.9 Ownership share amount and percentage to the same company invested by the Company and its subsidiaries, by the Company's director and management, and by the companies directly/indirectly control by the Company

As of December 31, 2019

Long-term Investment	Ownership by the Company (1)		Directors, Supervisors, Management, and companies directly/indirectly controlled by the Company (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.	1,574,965	0.41	4,561,240	1.20	6,136,205	1.61
Taipei Financial Center Corp.	73,500,000	5.00	50,375,227	3.43	123,875,227	8.43
Mega International Commercial Bank Public Co., Ltd.	0	0	400,000,000	100.00	400,000,000	100.00
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 & Warehousing S.A	0	0	1,000	100.00	1,000	100.00
Mega Management & Consulting Co., Ltd.	0	0	1,000,000	100.00	1,000,000	100.00
Yung-Shing Industries Co., Ltd.	0	0	298,668	99.56	298,668	99.56
China Products Trading Co., Ltd.	0	0	68,274	68.27	68,274	68.27
Ramlett Finance Holdings Inc.	0	0	1,500	100.00	1,500	100.00
Win Card Co., Ltd.	0	0	200,000	100.00	200,000	100.00
ICBC Assets Management & Consulting Co., Ltd.	0	0	2,000,000	100.00	2,000,000	100.00
Mega Growth Venture Capital Co., Ltd.	0	0	25,500,000	20.08	25,500,000	20.08
An Fang Co., Ltd.	0	0	750,000	25.00	750,000	25.00
Taiwan Finance Corporation	0	0	126,713,700	24.55	126,713,700	24.55
Everstrong Iron & Steel Foundry & Mfg Corp.	0	0	1,760,000	22.22	1,760,000	22.22
China Real Estate Management Co., Ltd.	0	0	9,000,000	20.00	9,000,000	20.00
Universal Venture Capital Investment Corporation	0	0	51,000,000	42.36	51,000,000	42.36

Note: Mega I Venture Capital Co., Ltd has been liquidated and dissolved on Nov. 20, 2019. The court issued liquidation file letter on Feb 10, 2020.

Capital Overview



4.1 Capital and Shares

4.1.1 Issued Shares

As of Dec. 31, 2019

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	Increase capital of NT\$ 1,692,092,210 through earnings capitalization	Note 1
Dec. 2013	10	14,000,000,000	140,000,000,000	12,449,823,983	124,498,239,830	Cash capital increase of NT\$ 10,000,000,000	Note 2
Dec. 2015	10	22,000,000,000	220,000,000,000	13,599,823,983	135,998,239,830	Cash capital increase of NT\$ 11,500,000,000	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, 2019

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 20, 2020

Type of shareholders	Government agencies	Financial institutions	Other juridical persons	Domestic natural persons	Foreign institutions & natural persons	Total
Number of shareholders	12	32	965	323,151	990	325,150
Shareholding (shares)	2,640,857,489	2,693,635,023	1,469,068,500	2,073,514,875	4,722,748,096	13,599,823,983
Percentage (%)	19.42	19.81	10.80	15.25	34.72	100.00

4.1.3 Distribution Profile of Share Ownership

Par value per share: NT\$10 As of April 20, 2020

Shareholder ownership (Unit: Share)	Number of shareholders	Shareholding (Shares)	Percentage (%)
1 ~ 999	95,838	27,386,399	0.20
1,000 ~ 5,000	155,808	342,354,658	2.52
5,001 ~ 10,000	34,335	259,509,939	1.91
10,001 ~ 15,000	13,261	162,591,221	1.20
15,001 ~ 20,000	6,780	122,146,281	0.90
20,001 ~ 30,000	6,807	169,428,549	1.25
30,001 ~ 40,000	3,253	113,792,093	0.84
40,001 ~ 50,000	2,111	96,370,265	0.71
50,001 ~ 100,000	3,798	267,401,790	1.97
100,001 ~ 200,000	1,673	229,890,977	1.69
200,001 ~ 400,000	657	180,201,787	1.33
400,001 ~ 600,000	167	83,222,264	0.61
600,001 ~ 800,000	103	71,507,622	0.53
800,001 ~ 1,000,000	76	68,851,674	0.51
1,000,001 or above	483	11,405,168,464	83.83
Total	325,150	13,599,823,983	100.00

4.1.4 Major Shareholders

As of April 20, 2020

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.	486,594,138	3.58	3.99
Bank of Taiwan Co., Ltd.	334,951,379	2.46	2.75
Taiwan Life Insurance Co., Ltd.	282,900,771	2.08	2.32
China Life Insurance Co., Ltd.	267,021,254	1.96	2.19
Cathay Life Insurance Co., Ltd.	216,466,141	1.59	1.77
New Labor Pension Fund	215,598,344	1.59	1.77
Old Labor Pension Fund	209,450,714	1.54	1.72
Government of Singapore	205,062,385	1.51	1.68
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	192,141,675	1.41	1.58
Pou Chen Corporation	191,730,486	1.41	1.57
Taiwan Tobacco & Liquor Corporation	191,596,563	1.41	1.57
Shin Kong Life Insurance Co., Ltd.	183,425,324	1.35	1.50
Norges Bank	162,409,233	1.19	1.33
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	159,490,503	1.17	1.31

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

Unit: NT\$

Item		Year	2019	2018
Market price per share (Note 1)	High		32.50	27.80
	Low		25.20	23.70
	Average		29.27	26.05
Net worth per share (Note 2)	Before distribution		23.83	23.11
	After distribution		Note 6	21.41
Earnings per share	The weighted average of outstanding shares (in thousands of shares)		13,599,824	13,599,824
	Earnings per share	Before adjustment	2.13	2.07
		After adjustment	2.13	2.07
Dividends per share	Cash dividends		1.70	1.70
	Stock dividends	Earnings	None	None
		Capital surplus	None	None
	Cumulative undistributed dividends		None	None
Investment return analysis	PE ratio (Note 3)		13.74	12.58
	Price-dividend ratio (Note 4)		17.22	15.32
	Cash dividend yield (%) (Note 5)		5.81%	6.53%

Note: 1. Average market price = annual trading value / annual trading volume

2. Net worth per share = net worth / total number of shares outstanding

3. PE ratio = average closing price / earnings per share

4. Price-dividend ratio = average closing price / cash dividends per share

5. Cash dividend yield = cash dividends per share / average closing price

6. The proposal for distribution of 2019 profits will be submitted to the annual shareholders' meeting on June 19, 2020.



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 2019 Profits

It is proposed to submit to the Company's Annual Shareholders' Meeting, to be held on June 19, 2020, 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 36.12% of the 2019 distributable earnings of NT\$64,010,087,158, or 88.72% of the net balance of NT\$26,060,620,002, less 10% legal reserve from the net income after tax in 2019 .

4.1.7 Impact to Business Performance and EPS of Stock Dividend Distribution

The Company will not distribute any stock dividend for 2019 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 2019

The Company's 2019 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 24, 2020 approved to distribute employees' and directors' remuneration for 2019 in cash for NT\$18,012,975 and NT\$145,972,241, respectively. The aggregate amount increased by NT\$529,767 compared to the expenses recognized due to estimation difference. Both employees' and directors' remuneration were distributed in cash, and no employees' remuneration was distributed in stock.

D. Distribution of employees' and directors' remuneration for the year 2018

The employees' and directors' remuneration for 2018 amounted to NT\$16,726,285 and NT\$139,385,707, respectively. The aggregate amount of the employees' and directors' remuneration increased by NT\$1,998,598 compared to the expenses recognized due to estimation difference. Both employees' and directors' remuneration were distributed in cash, and no employees' remuneration was distributed in stock.

4.1.9 Share Buyback: None

The Company did not buy back any company shares or punished by competent authority by restriction measures for buying back shares which were transferred within 3 years 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 follow.

5.1.1 Business Scope

Mega Financial Holding Co., Ltd.

A. Major business

A financial holding company shall be limited to invest in and manage of specific scope of businesses including financial holding, banking, bills finance, credit card, trust, insurance, securities, futures, and venture capital. The Company may also apply for the investment in finance-related businesses or foreign financial institutions, subject to the approval of the competent authority.

B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2019		2018	
		Amount	%	Amount	%
Investment income from equity investments accounted for by the equity method		29,345,776	99.46	27,913,508	99.09
Other operating revenue		158,590	0.54	255,974	0.91
Total		29,504,366	100.00	28,169,482	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 box 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, oversea student loan, 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	2019		2018	
		Amount	%	Amount	%
Net interest income		33,433,903	61.43	36,002,845	69.23
Revenue other than interest income, net		20,989,184	38.57	16,002,923	30.77
Fee income – net		6,533,589	12.00	6,877,209	13.22
Gains on financial assets and liabilities at fair value through profit or loss		9,081,885	16.69	4,707,750	9.05
Realized gain on financial assets at fair value through other comprehensive income		2,262,424	4.16	955,315	1.84
Gains (loss) on derecognition of investments in debt instruments at amortized cost		(4)	0.00	1,064	0.00
Foreign exchange gain – net		2,091,636	3.84	2,561,956	4.93
Gain on reverse of (loss on) asset impairment		(82,507)	(0.15)	82,888	0.16
Share of profit of associates and joint ventures accounted for under equity method		445,946	0.82	470,429	0.90
Other		656,215	1.21	346,312	0.67
Net revenue		54,423,087	100.00	52,005,768	100.00

C. New products and services planned for the future

The Bank will launch loan products such as “Mega bank as trustee Money trust beneficiary right as security loan“. As for the development of Fintech, the e-banking business will be continuously expanded, the membership point accumulation platform will be developed to interface with the respective digital channels of the Bank, and digital customer experience will be optimized. The Bank will launch the services for wiring money via cellphone number and establish video ID verification system.

Mega Securities Co., Ltd.

A. Major business

- Securities brokerage, underwriting and proprietary trading
- Agency for stock affairs
- Margin trading and short-selling services
- Derivatives business
- Brokerage trading of foreign securities
- Introducing brokerage of securities-related futures
- Futures proprietary trading of securities-related futures
- Agency for lending and borrowing in connection with securities
- Other services approved by the competent authority

B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2019		2018	
		Amount	%	Amount	%
Brokerage fee revenue		1,568,454	42.30	1,780,924	61.28
Fee income from margin loans		74	0.00	55	0.00
Commission income from securities borrowing		54,208	1.46	43,481	1.50
Revenue from underwriting business		88,142	2.38	99,398	3.42
Net income from wealth management business		15,916	0.43	15,142	0.52
Net gains (loss) on sale of securities held for operations		900,541	24.29	(376,966)	(12.97)
Income from providing stock registration services		35,890	0.97	36,183	1.24
Interest income		837,044	22.57	977,255	33.63
Dividend income		185,376	5.00	160,886	5.54
Valuation Gains (loss) of trading securities at fair value through profit and loss		151,063	4.07	(73,635)	(2.53)
Gain (loss) on covering on securities borrowings and bond purchased under resale agreement		(12,962)	(0.35)	43,384	1.49
Gains (loss) on borrowed securities and bonds with resale agreements at fair value through profit or loss, net		(28,657)	(0.77)	7,011	0.24
Gains on debt instruments at fair value through other comprehensive income		71,931	1.94	16,931	0.58
Loss on issuance of Exchange Traded Note, net		(82)	(0.00)	-	-
Gain on issuance of stock warrants, net		29,450	0.79	338,086	11.63
Futures commission income		39,857	1.07	54,841	1.89
Loss on derivative financial instruments - Futures, net		(255,370)	(6.89)	(98,821)	(3.40)
Gain (loss) on derivative financial instruments - OTC, net		(3,512)	(0.09)	(8,262)	(0.29)
Expected credit reversal gain or impairment loss		1,089	0.03	(62,316)	(2.14)
Other operating income (loss)		29,649	0.80	(47,465)	(1.63)
Total		3,708,101	100.00	2,906,112	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 supportive information system or enhancing its service function.

Mega Bills Finance Co., Ltd.

A. Major business

- Bills Business:** underwriting, brokerage and proprietary trading of short-term bills (including USD-denominated instruments), 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	2019		2018	
		Amount	%	Amount	%
Bill business		2,545,939	43.19	2,419,982	44.82
Bond business		3,074,570	52.16	2,667,555	49.41
Equity investments		94,650	1.61	72,712	1.35
Others		179,632	3.04	238,847	4.42
Total revenue		5,894,791	100.00	5,399,096	100.00

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

Chung Kuo Insurance Co., Ltd.

A. Major business

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

B. Revenue Breakdown

Unit: NT\$1,000

Item	Year	2019		2018	
		Amount	%	Amount	%
Fire insurance premium		1,748,613	23.42	1,693,972	24.51
Marine cargo insurance premium		271,821	3.64	270,440	3.91
Marine hull insurance premium		395,205	5.29	321,213	4.65
Automobile insurance premium		3,561,162	47.69	3,363,882	48.68
Aviation insurance premium		115,598	1.55	99,314	1.44
Engineering insurance premium		236,679	3.17	203,149	2.94
Accident insurance premium		409,669	5.49	247,009	3.57
Health insurance premium		43,992	0.59	31,245	0.45
Other insurance premium		685,024	9.17	680,511	9.85
Total direct written premium income		7,467,764	100.00	6,910,735	100.00
Reinsurance premium income		769,640	-	655,574	-
Total		8,237,404	-	7,566,309	-

C. New products and services planned for the future

- Insurance notary
- Motorcycle vehicle to vehicle accident limited compensation insurance
- Eco-friendly car insurance
- Shared motorcycle accident insurance
- Middle-age long-term care health insurance
- Umbrella Liability Insurance
- Typhoon wind and rain index peach insurance

Operational Overview

Mega International Investment Trust Co., Ltd.

A. Major business

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

B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2019		2018	
	Amount	%	Amount	%
Public issued funds	428,302	95.80	417,439	95.23
Private equity funds	16,487	3.69	17,821	4.06
Discretionary account	2,298	0.51	3,110	0.71
Total	447,087	100.00	438,370	100.00

C. New products and services planned for the future

Foreign fixed income fund and REITs fund.

Mega Asset Management Co., Ltd.

A. Major business

- Financial institution creditor's right (money) purchase: acquisition, valuation, auction and management services of creditor's right (money), as well as management service of overdue accounts receivable
- Real estate related business: trade, lease, development and sale/lease, brokerage, urban renewal, investment consulting, management consulting, etc.
- Other business related to financial, insurance and real estate industry and business approved by the competent authority

B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2019		2018	
	Amount	%	Amount	%
Net proceeds from recovery of purchased NPL and disposal of collaterals	78,663	19.09	11,902	2.96
Rental income	1,059	0.26	263	0.07
Interest income	1,908	0.46	3,172	0.79
Service income	330,514	80.19	386,225	96.18
Total	412,144	100.00	401,562	100.00

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



Mega Life Insurance Agency Co., Ltd.

A. Major business : Life insurance agency services

B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2019		2018	
	Amount	%	Amount	%
Commission income - traditional policies	1,141,245	63.19	1,327,153	93.82
Commission income - investment policies	664,782	36.81	87,446	6.18
Total	1,806,027	100.00	1,414,599	100.00

C. New products and services planned for the future

To meet market's demand for protection against longevity, the company will co-work with Mega Bank to introduce protection type of insurance products such as care trust for the elderly, value-added mortgage insurance, and pension insurance linked with reverse mortgage loan; and also products bundled with credit card bonus.

Mega Venture Capital Co., Ltd.

A. Major business

- a. Provide capital to investees
- b. Provide business administration, management and consulting services to investees

B. Revenue Breakdown

Unit: NT\$1,000

Item \ Year	2019		2018	
	Amount	%	Amount	%
Revenue from disposal of financial assets	3,810	5.81	14,399	33.15
Dividend income	20,050	30.61	27,893	64.21
Director's or supervisor's remuneration income	2,101	3.21	1,147	2.64
Gain on financial assets at fair value through profit or loss	39,550	60.37	0	0
Total	65,511	100.00	43,439	100.00

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 appointed by the Small and Medium Enterprise Administration, Ministry of Economic Affairs on the "Investment Management Plan for Enhanced Investment in Small and Medium Enterprise". Investment in small and medium enterprise will be able to match with funds provided by the Small and Medium Enterprise Administration, Ministry of Economic Affairs. This will increase Mega Venture Capital's use of fund.

5.1.2 Operating Policies in 2020

The Company

1. Optimizing oversea deployment and deepening customer relationships

- (1) Maintain existing client relations, develop new customer base, and continue to heighten the quality of products and services
- (2) Strengthen resource integration and increase client penetration of the Group's products
- (3) Connect APAC branches to provide total solution and explore business opportunities on local industries
- (4) Develop Fintech and provide premium online services to optimize client experience

2. Strengthening existing profit base and diversifying revenue sources

- (1) Strengthen existing corporate finance base to maximize shareholders' interest.
- (2) Expand customer finance and wealth management business and innovate to optimize revenue growth model.
- (3) Allocate the investment portfolio efficiently and conduct agile finance management.
- (4) Strengthen business of other non-bank subsidiaries to establish second profit generating engine
- (5) Adjust asset structure to cope with the implementation of "D-SIBs"

3. Cultivating risk management culture and implementing risk management

- (1) Closely watch domestic and international economy and politics to control mid and long term management risk.
- (2) Enhance collection and analysis of internal and external risk information for better grips with the Group's risk profile
- (3) Strengthen risk management mechanism and effectively put into practice
- (4) Enhance risk awareness culture in line with international financial supervisory

4. Perfecting information security management and optimizing service innovation

- (1) Strengthen information security mechanism in order to ensure information security
- (2) Upgrade system security to provide safe and stable web environment.
- (3) Introduce automatic management platform to simply process and increase efficiency
- (4) Develop and apply business related technology to create tech services value

5. Fulfilling corporate social responsibility and adding Company's long term value

- (1) Optimize the Board's function and strengthen corporate governance.
- (2) Advance employee's proficiency and implement employee care
- (3) Implement internal whistleblower mechanism and strengthen honest culture
- (4) Promote environmental sustainability via finance core business

6. Strengthening institutional investor relationship and increasing information transparency

- (1) Strengthen ties with investors and establish a sound relationship based on mutual trust

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

7. Fortifying anti-money laundering practice and optimizing legal compliance management

- (1) Develop the trace system of any regulation change or amendment to promptly cope with the change of external laws and regulation
- (2) Reinforce regulatory compliance training
- (3) Strengthen the Group's practice for anti-money laundering and countering financing of terrorism
- (4) Conduct continuously compliance test to verify and evaluate the effectiveness of the subsidiary's anti-money laundering practice

Mega International Commercial Bank Co., Ltd.

- 1. Ensure the effectiveness of the law compliance system and continue to improve anti-money laundering and countering financing of terrorism mechanism
- 2. Strengthen the risk management mechanism to balance return and risk
- 3. Enhance the supervision and management functions of the Head Office to continuously improve the management of overseas business units
- 4. Strengthen the niche advantages of corporate finance and foreign exchange business to expand business scope and keep net interest margin
- 5. Conduct agile finance practice and optimize asset allocation to create stable investment income
- 6. Expand consumer finance business to optimize revenue model and increase revenue sources
- 7. Develop customer-oriented digital financial service, strengthen information systems and its application
- 8. Implement the corporate governance practice and optimize corporate image

Mega Securities Co., Ltd.

- 1. Increase the performance of security counters via marketing campaign to increase customer sources and increase brokerage market share
- 2. Strengthen sub-brokerage business and expand securities lending/borrowing business and to lift wealth management income
- 3. Develop proactively IPO business for return of Taiwanese business in Southeast Asia through referral of the Group's resources
- 4. Optimize continuously the warrant issuance strategy as well as related market making quality, and to increase distribution of the issued warrant
- 5. Emphasize risk control and trading flexibility in trading units in order to enhance trading performance and reduce risk
- 6. Take part proactively in new business opened by the competent authority so as to catch business opportunities

Mega Bills Finance Co., Ltd.

1. Actively search for opportunities to lead-arrange syndicated loans and joint underwriting of non-guarantee commercial papers; hence expand portfolio and increase fee income
2. Adjust credit consumer structure and maintain appropriate size and margin on bill guarantee service
3. Actively explore opportunities in NCD, acquisition of guaranteed or non-guarantee bills and securities underwriting to achieve portfolio growth and higher gains
4. Focus on the Central Bank's monetary policy and movements of the financial market to enable flexible adjustment of primary and secondary deal rates; manage and expand bills portfolio at increased margin to secure a leading position in the market
5. Improve trade performance by executing outright purchases and sales in line with NTD bond maturity
6. Position foreign currency bonds cautiously, with country and industry risks diversified and the overall position spread enhanced
7. Engage credit customers in secondary deals of foreign currency bonds; secure source of foreign currency capital from domestic financial institutions ; reduce cost of capital and increase returns on holding positions without compromising liquidity risks
8. Purchase convertible bonds issued by companies with good credit ratings and fixed income component of CBAS, in order to increase profits

Chung Kuo Insurance Co., Ltd.

1. Cope with government policy and group's strategy planning to implement corporate governance to fulfill CSR and sustainable future
2. Increase the efficiency of fund using of Guam representative office to increase income
3. Enhance cooperation with potential insurance brokers and agents and to properly arrange reinsurance. It will work with international insurance brokers for more opportunities. Also it will continuously adjust business model to increase the proportion of better business to stabilize profit
4. Adapt to shifts of the market demand and consuming patterns, it will continue to innovate personal insurance products, promote internet insurance business, and optimize the e-platform
5. Integrate the insurance channels and introduce mobile insurance platform to streamline the insurance process and expand business channel opportunities
6. Increase marketing channels through the Group's cross selling and promotion campaign to reach mutual benefit
7. Use electronic insurance policy to reduce the use of paper to protect the environment
8. Adjust asset allocation to improve the capital efficiency and increase income
9. Optimize risk management mechanism to align with the Group's integrated risk management system and skills



Mega International Investment Trust Co., Ltd.

1. Explore customers of multi-currency investment and continuously promote small amount investment
2. Expand marketing network to increase fund distribution with good performance
3. Enhance new products and market research capability to diversity product lines
4. Cooperate and communicate with foreign peers to catch market trend
5. Implement the mechanism of anti-money laundering and counter financing of terrorism
6. Co-work with other government-owned financial institutions to create mutual benefit

Mega Asset Management Co., Ltd.

1. Keep exploring the business of urban renewal and old building rebuild. Work with the targets under urban redevelopment related policies and to help to consolidate the debt, provide advance payment, and be the executor of the urban renewal. Also based on different redevelopment phases, to work with partners, and increase the scope of the services to create win-win
2. Invest in the real estate, movable assets, and rights from foreclosure or from government auction to expand fixed income source and stabilize revenue
3. Utilize its expertise on handling NPL to win the business opportunities of debt consolidation services

Mega Life Insurance Agency Co., Ltd.

1. Sell premium insurance products to satisfy clients' needs
2. Cultivate customer base to increase sell volume
3. Promote policy related insurance to implement CSR
4. Increase employee's proficiency to form a professional image
5. Consolidate the process of relevant services and back office operation to increase the quality of client service.

Mega Venture Capital Co., Ltd.

1. 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. 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. Continue to explore investment opportunity in New Southbound and other Asia-Pacific countries
4. Invest in quality companies, in the semiconductor/AI, industry 4.0/IoT, electric car/self-driving, mobile device, 5G/Netcom, biotech sectors, and those unlisted

5.1.3 Industry Overview

A. International and Domestic Financial Environment

International Economic and Financial Environment

The report of the International Monetary Fund (IMF) on the outlook of the world economy estimated that the economic growth rate would be 2.9% around the world for 2019, a slide of 0.7% from that in 2018 and that simultaneous slow-downs would be noted in both advanced and developing countries. The estimates were made primarily on the basis that the US-China trade war impacted and weakened the global trade momentum, that the effect brought by the financial stimulus imposed in the US softened, that credit loans issued by non-banking financial institutions in China and in India were reduced, and that some countries and societies were experiencing turmoil or were hit by natural disasters. Primary risks associated with the outlook of the global economy for the time being include that: (1) despite the signing of the phase one trade agreement between the US and China, the tariff remains high and it is uncertain if China will fulfill the goal of purchasing commodities worth US\$ 200 billion in the coming two years; (2) the global economy will be significantly impacted by the COVID-19 pandemic as it continues to spread around the world and countries are experiencing great consequences in all respects; and (3) the monetary policies in major economies start to show drastic changes at the same time to maximize the volatility on the foreign exchange market. Given the high uncertainties with each of the risks mentioned above, international institutions are forecasting that growths around the world and in major economies will be worse than those last year yet it is still early to precisely determine the margins involved now.

Domestic Economic and Financial Environment

Taiwan central bank forecasts that the economic growth rate in 2019 would be 2.60% and it would be primarily driven by domestic demand. People have been spending money moderately and the money has primarily been spent on automobiles, retails, and dining, which has to do with the maximized domestic stimulus packages introduced by the government. Private investment momentum showed a slight increase, primarily because of the pro-active expansion of capital equipment by semi-conductor and off-shore wind power corporates. The global trade volume and the estimated economic growth have been adjusted downward each quarter; as a result, exports of local products have slowed down. The restrictions imposed by China over the number of their people that could visit Taiwan inhibited the output growth and performance. Because of the increase in the ratio of information and communication products manufactured in Taiwan and the continued benefit of order shift, however, exports of information and communication as well as audio-visual products have been strong to drive the demand for integrated circuits and to help maintain the export momentum. Looking forward, the investments in advanced processes and the expansion of existing throughput by major semi-conductor and related supply chain businesses as well as the continued investments in 5G-related infrastructures and off-shore wind power will help continue with the growths in private investments. The Central Bank and domestic and foreign research institutes were originally optimistic about the economic growth rate this year. The quick escalation of the COVID-19 outbreak after the Spring Festival, however, significantly added uncertainties to the domestic economic growth rate this year. The government, however, intends to provide bailouts and revitalizing measures worth up to NT\$210 billion in order to reduce losses borne by related sectors in the nation and help them recover so that the impacts of this outbreak may have minimal impacts on the domestic economic growth. As a result, domestic and international institutions forecast that the national economic growth for 2020 may be slightly below that of last year yet it is impossible to predict precisely the actual impacts.

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 every bank under these financial holding corporations account for less than 10%. This shows local banks are still relatively small in size and lack of economies of scale. As a consequence, overbanking hinders the development of the industry. 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, respectively 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. However, in recent years those bank-centered financial holding companies are performing well with good asset quality, increasing profit, and satisfied price to equity, the possible selling price is not attractive to potential buyers. Also, those insurance-centered financial holding companies are facing the adaption of IFRS17 thus there is a gap on expected price between potential buyers and sellers. Till 2019, 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. Taiwan's traditional financial institutions also regard themselves as an important subversion. An estimated total of NT\$21.93 billion have been invested in financial technology in 2019, an increase of 86.9% compared to 2018.
3. The FSC announced on July 30, 2019 that all of the 3 pure online banking business applications were approved, including the "Next Bank" jointly formed by the banking subsidiary of our Company, Chunghwa Telecom, Shin Kong Financial Holding, and PX Mart Co., Ltd. The competent authority hopes that with the new operational model and new technologies, online banking businesses can drive innovations on the market and the development of related sectors by exercising the catfish effect to realize inclusive finance.
4. In order to accelerate the cooperation between the financial services industry and the non-financial services industry and to employ financial technology business opportunities, FSC have asked Taiwan Financial Services Roundtable Co., Ltd to establish the "FinTechSpace", which was opened on September 18, 2018, to provide resources to Fintech startups. So far there are already some good results on international cooperation and startups growth: one team registered in GISA; five teams won USD million investments; eleven companies' market value exceeds NTD 100 million; twenty patent applications; forty cooperation with financial institutions; and sixty-one international and domestic awards. Also it has signed Fintech MOU with seven international partners and already become the connecting point with international Fintech world.

Banking Industry

1. Fierce domestic competition harms interest spread

Due to overbanking and excessive liquidity in Taiwan, the banks face low domestic interest spread. Thus, oversea markets become increasingly important. However, as USA and other countries cut interest rate in 2019, the domestic and international interest margin gap narrowed. The banks should diversify their revenue sources to maintain profit. On the other hand, the loan growth in all monetary institutions

in Taiwan has been greater than the growth in deposits for four consecutive years, indicating excessive liquidity pressure has been slightly eased.

2. The development of Fintech lowers the number of branches.

The rise of Fintech and internet banking has replaced some functions of physical branches. In 2019, although the number of domestic banks' branches in Taiwan increased by 2, the number is still far less than it was in 2014 by 55. Banks need to optimize user's experience, considering the use habits of different groups, and increasing the adhesion of existing customers, to enhance the competitiveness of digital financial services.

3. US-China Trade Clash Shifts Regional Supply Chain

Despite the reduced global economy and trade momentum as a result of the US-China trade clash, the transfer of orders and Taiwanese businesses returning to make investments contributed to relatively optimum performance in our exports and domestic investments. In fact, major organizations, including the United Nations are indicating that we are one of the major beneficiaries of the US-China trade war. Since the US-China disputes do not show signs of a solution yet, such strengths will hopefully continue.

4. Domestic demand continue to be the drive of economy growth under soft international demand

In light of the persistent slow recovery of the global economy in addition to the impacts from COVID-19 of the 2019, domestic demand will continue to be the growth engine. The winning of the current administration party in the January national election is conducive to the continuity of policies. The investments in public constructions, in particular, are growing by nearly 20% a year, which is accordingly likely to help keep the investment momentum going.

Securities industry

1. The profitability of the securities industry was deeply affected by the trading volume and the index of the Taiwan stock market. In 2019, the Taiwan stock market was interfered with international political and economic issues. However it still benefited from the ease of US-China tension, increase of domestic needs under government push, and the fund inflow from overseas Taiwanese corporates. 2019 TAIEX index reached the highest in last 29 years with 23.3% growth, while TPEx Index reached 20.9% growth. However under unsolved US-China tension, the average daily trading volume NT\$156.3 billion and the average financing balance of NT\$178.4 billion are both lower than 2018.
2. The brokerage revenue of all securities companies decreased 8.39% because of the decrease of trading volume. But because the rise of the stock index, the profit from proprietary trading business and from underwriting business increased 109.38% and 132.29%, respectively, compared to 2018. Net income after tax grew 38.11% compared to 2018. The research companies suggest in 2020, the drivers of global consumption and trade are still not enough although US-China tension seems to ease. Furthermore, the impact of COVID-19 already made international forecast institution amend down global GDP growth. In domestic market, although the development of the green energy, 5G, and semiconductor advanced process plus inbound investment from overseas Taiwanese corporates can boost domestic needs, the impact of COVID-19 will reduce the needs and thus annual GDP growth may be adjusted downwards.

Bills Finance Industry

1. Apart from 39 banks and 4 securities companies engaging 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 2019, commercial papers outstanding of the whole market reached NT\$2,034.1 billion, increasing NT\$1,760.6 billion or 15.53% compared to 2018.

2. The government bonds maturing in 2020 amount to NT\$493.8 billion, of which NT\$165 billion will mature in the first quarter. However, government bonds to be issued in the first quarter 2020 estimated by the Ministry of Finance total NT\$150 billion. This shows that the supply of the government bonds is relatively insufficient compared to the demand side. In first half of 2020, central bank's monetary policy will probably remain unchanged, but under other central banks' expanding fiscal policies and interest cut, Taiwan central bank may cut interest. Financial institutions face lower bond yield and lower bond yield proportion.

Non-Life Insurance Industry

1. At the end of December 2019, there were a total of 19 property and casualty insurance companies in Taiwan, including 14 domestic companies and 5 foreign 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 domestic insurance industry accounted for 96.96% of the industry's total premium income. The market share of foreign non-life insurance companies' branches in Taiwan accounts for only about 3.04%.
2. In 2019, benefiting from the growth in auto insurance, fire insurance, ship insurance, airline insurance, construction insurance, injury insurance, and health insurance business, overall premium income in domestic property and casualty insurance market continued to grow.
3. In 2019, the auto insurance overall market premium income was NT\$94.06212 billion, accounting for 53.33% 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 14.22%, and injury insurance accounted for 11.04%. These are the top three kinds of insurance, while other insurance (including liability insurance, credit insurance and bond insurance, etc.) accounts for 11.35%.
4. The insurance market is impacted by the uncertainty of politics, economy, consumption market, liberation of insurance fee, and weak international reinsurance market. Also, since the outbreak of COVID-19, the uncertainty of global economic activities rises and further impacts trade expansion. This will increase the competition on both product line and fee income.

Securities Investment Trust Industry

As of the end of 2019, there are 39 domestic securities investment trust enterprises in Taiwan which manage a total of 978 mutual funds for NT\$4,000 billion and 65 private funds totaling NT\$39.5 billion. The number of discretionary investment account reached 518 with a total business of NT\$1,610 billion. There are 11 securities investment trust companies 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 to push urban renewal.

The FSC revised the principles again on May 24, 2019, to add that the asset companies are allowed to make advance payment, inject funds, and purchase real estate to further push urban renewal and hopefully to improve quality of the living environment for the people, boost the value of social resources, and expedite socio-economic developments, creating a multi-win situation.

Insurance Agency Industry

In 2019, the first year premiums (FYP) of all life insurance companies in Taiwan amount to NT\$1,274.733 billion, a decrease of 7.6% compared to NT\$1,379.936 billion in 2018. The FYP generated through bank-related insurance agents (or brokers) channels amounted to NT\$682.825 billion, down by 10.2% from NT\$760.792 billion in 2018. However, the proportion of FYP generated through bank-related insurance agents (or brokers) channels accounted for 53.57% of total insurance sales, only down by 1.56% and still more than 50%, indicating bank-related insurance agents (or brokers) channel is the main channel of insurance sales.

Mega Venture Capital Industry

According to the Taiwan Venture Capital Association, till the end of 2019, there are 269 venture capital companies. In terms of the amount invested, IT industry is the largest, followed by the bio-tech, pharmaceutical, pan-manufacturing industry. Also, venture capital companies continue to support traditional industries. The government has been promoting 5+2 new industries to boost industries transfer and upgrade. This will help to expand the investment business.

5.1.4 Research and Development

Mega Financial Holding Co., Ltd.

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

The Company's R&D expenses incurred in 2018 and 2019 were NT\$1,405 thousand and NT\$1,987 thousand, respectively, mainly for project consulting, establishment and services as well as staff training. 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 systems 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 16
6. Obtaining patents for market risk evaluation system on September 11, 2018
7. Improvement of IFRS 7 financial risk reporting system based on new IFRS 9
8. Development of negative news alert system for corporates and industries
9. Optimization of the consolidated financial system
10. Completion of the high risk countries' financial products management system and its patent approved on April 21, 2019
11. Completion of corporate financial alert system and its patent approved on January 1, 2020

B. Future R&D Projects

In 2020, estimated R&D expense, including employee training and project services expense, is NT\$ 3,000 thousand.

1. Evaluation on the feasibility of merger with or acquisition of other domestic or foreign financial institutions
2. Continued optimization of corporate social responsibility systems
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. Establishment of operation risk self-evaluation system for Chung Kuo Insurance Company.
6. Strengthen internet structure to reinforce information security capacity

Mega International Commercial Bank Co., Ltd.

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

The Bank's R&D expenses incurred in 2018 and 2019 are NT\$3,326 thousand and NT\$2,661 thousand, respectively, mainly for purchase of professional publications, electronic data base, and publishing of Mega Bank Monthly. 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
2. The Bank periodically and non-periodically provide research reports about international and domestic economic and financial development
3. In terms of loan services, the Bank introduced "Project loan for old and dangerous buildings" and "Mortgage e-services (online payment calculation system)".
4. In terms of credit card business, the Bank launched upgraded "Gogoro card" as World's First Smart Key Credit Card Combines Credit Card and Electric Scooter Unlocking Technology in One. This card is awarded "2019 Best Credit Card in Taiwan" by International Business Magazine.
5. In terms of enhancement of digital finance applications, to go with the trend of a digitalized age, the STM Smart Teller Machine was set up in 2019, for example, in order to enhance the account opening efficiency at the respective branches. The Corporate Banking Customer Correlation Analysis was introduced to facilitate development of business at profit-making units. Also, the Bank continues to optimize services of the LINE official account "Business Connect" to provide preferred features. In addition, the Mega Bank Fun Store was connected to the respective transaction services in order to optimize digital experience of customers and to increase client stickiness.
6. In terms of digital finance innovation, the Bank continued to be devoted to digital finance R&D and applied for various financial services patents. As of December 31, 2019, it obtained 102 utility model patents, and 42 invention patents approval from the Ministry of Economic Affairs, and 8 utility model patents and 40 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\$4,685 thousand in 2020.

Mega Securities Co., Ltd.

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

The Company's new products developed in 2018 and 2019 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. The achievements of R&D are as follows:

1. Online Account Opening 2.0, the wealth management greeting robot, and securities API optimization were introduced.
2. There are also the natural person securities borrowing online application, the mobile facial log-in recognition feature for order placers, the addition of the port for placing orders while on the move, and real-time quotation for the US stock market.
3. For LINE@ "Mega Wealth Management Assistant," natural person securities borrowing, unrestricted borrowing and lending, market intelligence push notification, wealth management trust fund inquiry, and warrant screening, among other features, are added

B. Future R&D Projects

1. In line with the pace of business scope opened by the competent authority, the company will evaluate introduction of new business together with related system and management mechanism.
2. The company will promote digital services and strengthen e-commerce business development.
3. Functions of various information systems will be continuously established or upgraded

Mega Bills Finance Co., Ltd.

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

The company's R&D expenses incurred in 2018 and 2019 are NT\$1,636 thousand and NT\$1,912 thousand, respectively, mainly for employee training. The achievements of R&D are as follows:

1. Application to competent authority for opening up the business scope of derivatives for bills finance companies
2. Established personal data inventory and related risk analysis system
3. Executed compliance plan for due diligence and report practice
4. Established relevant information system in response to the Bills Finance Association's promotion of non-physical short-term bills in the primary market. The non-guaranteed CP and transaction documents are issued and sent via e-platform.
5. Built e-learning system
6. Optimization the implementation of anti-money laundering and combating financing of terrorism (AML/CFT) system and relevant risk monitoring.
7. Introduction of visual analysis tool and strengthen information security management



B. Future R&D Projects

1. To introduce of black list data base and risk rating, deal management software. To continue to optimize the implementation of anti-money laundering and combating financing of terrorism (AML/CFT) practice
2. The company will seek the authority's approval for engaging life insurance companies in USD RP deals.
3. To build relevant information system in line with promotion of short-term bills' transaction slip dematerialization in the secondary market
4. To strengthen macro economy study and industry research. To cautiously allocate the portion of NT\$/Foreign bond, convertible bond, stock, and fix income swapped portion of convertible bond in order to diversify the risk and grasp profit opportunity.
5. To cope with Taiwan Information Services Corporation to promote financial block chain confirmation business.

The R&D expenses in 2020 are estimated at NT\$1,800 thousand.

Chung Kuo Insurance Co., Ltd.

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

The company's R&D expenses incurred in 2018 and 2019 are NT\$3,473 thousand and NT\$4,360 thousand, respectively. The R&D achievements are as follows:

The company launched the mobile app in mid-2018 and continues to upgrade. Except for "self-service on the scene of the accident", "application for claims", and "online convenience spot examination" function, in 2019, the feature to store the "Compulsory Automobile Liability Electronic Insurance Certificate" was further added and the log-in mechanism was changed to adopt a dynamic password so that the insured may be entitled to more convenient services. The mobile insurance purchase platform was activated in 2019 so that sales representatives who visit customers in person may provide quotations and apply for insurance directly through mobile devices such as a tablet. Meanwhile, automatic underwriting was added to certain types of coverage in order to reduce the time needed to complete the underwriting process and to accordingly enhance the efficiency demonstrated by sales representatives in expanding their business landscape.

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 electronic policies or other platform construction as well as operations, and strengthen the operation of social media such as "Line@" etc., in order to increase the adhesion of policyholders and the development of potential customers. In terms of the increasing important risk management of the insurance industry, it is also expected to build up and conduct risk and liquidity self-assessment mechanisms. The estimated R&D expenses for the year 2020 is NT\$5,000 thousand.

Mega International Investment Trust Co., Ltd.

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

The company's R&D expenses incurred in 2018 and 2019 are NT\$3,237 thousand and NT\$2,421 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 Danish Covered Mortgage Bond Index Fund and Mega China Domestic Demand A Share 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 internet transaction platform will also be promoted. The R&D expenses for the year 2020 is estimated at NT\$2,539 thousand.

Mega Asset Management Co., Ltd.

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

The company's R&D expenses incurred in 2018 and 2019 are NT\$300 thousand and NT\$280 thousand, respectively, mainly for enhancement and upgrade of business and financial information systems, which will make the system function more complete and promote information as well as system integration to provide more efficient and flexible management tools.

B. Future R&D Projects

The operation and practice of asset management are closely related to many legal issues, such as the Compulsory Enforcement Act, the Company Act, the Statute for Expediting Reconstruction of Urban Unsafe and Old Buildings, the Urban Renewal Act, the Business Tax Act and the Personal Data Protection Act. Besides continuing with project-based research and exchange with and learning from counterparts, newly established or revised applicable laws and regulations were explored at a depth. Meanwhile, educational training was provided to colleagues in order to fulfill regulatory requirements. Close attention was paid to the trends and fluctuations in the real estate sector. The impacts of the economy on the real estate sector in respective stages are followed up on and diversified management strategies are adjusted flexibly to hopefully reduce the impact from economic fluctuations to a minimum. The R&D expenses for the year 2020 is estimated at NT\$1,500 thousand.

Mega Life Insurance Agency Co., Ltd.

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

The company's R&D expenses incurred in 2018 and 2019 are NT\$3,888 thousand and NT\$1,823 thousand, respectively, mainly for promotion of e-learning system. Information security system, and establishment of AML system.

B. Future R&D Projects

The company will continue to promote e-learning system, upgrade information security control system, and the automation of administrative operation. The R&D expenses for the year 2020 is estimated at NT\$3,561 thousand.

Mega Venture Capital Co., Ltd.

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

The company's R&D expenses incurred in 2018 and 2019 are NT\$76 thousand and NT\$476 thousand, respectively, mainly for venture information system, upgrade and maintenance of information software and hardware, and employee training.

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 enhance development of Asia Pacific investment. The R&D expenses for the year 2020 is estimated at NT\$226 thousand.

5.1.5 Long-term and Short-term Business Development Plans

Mega Financial Holding Co., Ltd.

A. Short-Term Business Development Plans

For facilitating sustainability of the Group, establishes a competitive edge in core businesses, integrating as well as developing operations of subsidiaries, and strengthening resources sharing, the Company has set up short-term business development plans and 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 2020 operating policies as shown on page 88 of this annual report.

B. Long-Term Business Development Plans

The Company'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. In terms of 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 plan encompasses the Group vision, medium- and long-term development strategies, and operational objectives as specified below:

1. Group Vision: To become an Asia regional financial group
2. Medium- and long-term development strategy:
 - 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 advantages of corporate banking and foreign exchange 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 cross-selling synergy
 - Cultivating international talents, motivating and promoting employee's value
 - Expanding capital and assets scale and improving capital efficiency
 - Adjusting global operating structure and promoting risk management skills
3. Medium and Long term operational target

Business targets

Banking subsidiary	Proportion 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 underwriting 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 $\geq 12\%$
	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 $\geq 12.5\%$
	Tier 1 capital ratio $\geq 10.5\%$
	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 Co., Ltd.

A. Short-term Business Development Plans

Wealth management business

1. Compliance mechanism will be enhanced and ties with existing wealth management clients will be strengthened.
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. Optimize wealth management operation process and accelerate digital transformation and innovation to increase client satisfactory
4. Enrich robot wealth management services and educate investment concept to younger generation. Lower down cost and implement CSR
5. Strengthen research team and integrate the quantity data from wealth management system to provide in-time financial trend and investment advices and combination



Credit business

1. Attract customers with good credit or good guarantee conditions and encourage drawdown of the credit facility to promote the overall loans quality and stable income by exerting outstanding marketing capabilities and flexible pricing strategies. And therefore increase market share
2. Follow the 5P (People, Purpose, Payment, Protection, and Prospect) and honor "Equator Principles" by deliberating 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. Cope with government policies to provide financing for three major investment programs, SME, and the 5+2 innovative industries. By taking the advantages of its widespread overseas network, the Bank will actively strive for foreign currency lending business to enhance the profitability.
4. Keep the Bank's competitiveness in domestic syndication market and expand international syndicated loan business. Closely watch global economic and political situation and carefully choose to participate in lower risk and higher return deals to increase profit base.
5. 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, based on its expertise in industrial banking and foreign exchange
6. Use big data to precisely target customers and marketing differently to expand consumer finance base and loan interest margin
7. To simplify internal consumer financing process under acceptable risk control through information system optimization and digital platform building to increase efficiency and accelerate approval process

Finance and financial market business

1. Cope with the impact on global economy from COVID-19, prudently conduct short-term stock trading, and select better prospect stock and investment timing to realize capital gains
2. Respond to maturity of bond positions and enhance capital utilization efficiency, the bond positions will be increased by installments when the yields are getting higher and the risk is within a controllable range
3. Invest in green bonds to implement CSR and optimize corporate image
4. 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
5. Diversify funding channels to lower funding cost. By utilization of the characteristics of the yield curve under the established interest rate risk, operate flexibly in the money market to obtain interest spread between the short-term and long-term interest rate
6. Review and revise internal relevant operational specifications, strengthen KYC procedures and product suitability operation, and steadily promote TMU business in response to the revision of the relevant regulations by the competent authority

Trust Business

1. Promote care trust business, and enact relevant preferential and incentive programs to achieve the business goal to implement the government's promotion of the care trust policy
2. Grasp real estate related trust business opportunities by utilizing the Group's resources and cope with the government to promote urban renewal, old housing reconstruction, major public construction, and a sound real estate market
3. Strengthen business units' marketing on trust business. To utilize digital financial services to find potential clients. Also by utilizing Group resources, strengthen the cross sell and cooperation with other subsidiaries. By using other subsidiaries' channels to promote business and create overall Group profit.
4. Attract customers to utilize their funds in financial investments through the trust account or the securities fiduciary account (with an upper limit of 25%) after the promulgation and enforcement of the Management, Utilization and Taxation of Repatriated Offshore Funds Act in August 2019.
5. Provide a more diversified wealth management product portfolio based on clients need and the change of international financial market to increase wealth management volume, market share, and fee income.
6. Increase customized trust and wealth management options that are available and work with the business operation unit to secure the customer base featuring high net-value assets so that they are even more loyal and have more confidence in the professional wealth management services of the bank. In addition, plan integrated marketing proposals (such as preferred transaction fees for investing in funds from salary accounts) in order to enhance the willingness of customers to do business with the bank.
7. Keep track of the revisions made by the competent authority to applicable laws and regulations on wealth management and specific monetary trust business, communicate and review additions and revisions of internal requirements in real time to help reinforce compliance among wealth management business-related staff and enforce them while promoting business.
8. Hold wealth management promotional campaigns and preferred deals periodically or from time to time and combine the digital deposit account while promoting scheduled (un-)fixed amount transactions and provide referred trust and management rates to help gradually improve the sales of financial instruments and enrich the asset scale.
9. Maintain amicable partnerships with investment managers in order to explore new fund and ETF custodianship business that involves special materials, with relatively optimal investment performance and of a relatively large scale and carefully select funds to be placed in custodianship and promote them in the effective re-launch approach so that the fund custodianship scale may be maximized. In addition, work with insurance agents to seek collaboration with life insurance companies where the bank serves as the custodian of the funds featuring their placed investment-oriented insurance policies linked to IPO.
10. Work closely with venture capital companies, securities companies, law firms, accounting firms, insurance companies, financial holding subsidiaries, insurance agencies, and bank branches to grasp the custody business opportunities of foreign fund, discretionary investment, venture capital, and investment insurance.

B. Long-term Business Development Plans

Wealth management business

1. Optimize preferential program exclusively available for premium customers and upgrade service quality for high-end customers
2. Create a panoramic 360-degree view of customers to effectively keep track of, analyze, and manage revenue created by customers.
3. Engage in optimized referral-based precision marketing through the marketing automation procedure.
4. Provide “high-value asset customers” with more diversified financial products and services and continue to develop high-end wealth management talent in response to the “new wealth management solution” introduced by the Financial Supervisory Commission.
5. Cultivate brand value and continue to communicate with the market and investors to create an optimal wealth management bank image.
6. Integrate financial holding resources and provide customers with diversified wealth management options in a continuous effort to optimize experiences for wealth management customers

Credit business

1. Develop overseas business opportunities. By expanding network in high-potential overseas location and integrating years of experience to help Taiwanese entrepreneurs expand their overseas business to strengthen overseas loan business competitiveness
2. Strengthen the collaboration mechanism among domestic and overseas business units and jointly provide professional services to explore domestic and overseas business opportunities and increase operation efficiency
3. Strengthen the development of Fintech and develop online financing services. Use system analysis to seek and screen potential premium customers
4. Reinforce jumbo corporate financing and continue to expand SME market to enhance a balanced corporate finance business development. Also lower loan credit weight to optimize risk asset allocation
5. Center on customer needs and continue to plan credit products for different customer groups. Use online loan and evaluation platform plus integrated marketing to increase client satisfaction to gradually increase customer financing proportion

Finance and financial market business

1. Set up long-term investment positions for high dividend yield stocks for steady dividend income
2. Closely watch the Fed monetary guideline, considering the worry of global economy outlook due to US-China trade war and COVID-19 outbreak. Establish long term bond portfolio and build a better bond asset allocation
3. Issue green bond to support corporate's green loan need and implement CSR. Cope with the government's green industry development policy; Also to issue NT\$ 30 billion or equivalent bond to support mid and long term capital need
4. Study and analyze long-term trend of the financial market so as to look for future niche products and establish trading strategies, and take position in a timely manner to improve overall business performance

5. Enhance product research capability, supplemented with upgrade of operation system, to strongly support the promotion of TMU business and strengthen the competitiveness in customer services
6. Timely evaluate and enhance internal operation process and the risk management of asset allocation, focusing on legal compliance and AML/CFT, to make healthy business development under controllable risk

Trust Business

1. Plan new types of trust products in line with the changes in society, demographic structure, and technological development trends to grasp new-type trust business opportunities
2. Promote continuously staff training for the promotion of trust business, study of trust-related laws and regulations, and innovation on asset management approaches to achieve the goal of expanding the scale of trusted assets
3. Enhance the functions of automated wealth management platform. Strengthen the immediacy of transaction on the e-finance platform and the accessibility of online ordering to increase the intelligent value of the online financial platform. Provide preferential rates for investment transactions, thereby increasing the utilization rate and popularity of the automatized wealth management business
4. Continue with the amicable partnerships with investment management and consulting companies, keep track of opportunities appearing on the market at all times and plan more unique and innovative wealth management products that are hopefully introduced ahead of competition in order to strengthen product uniqueness and to accordingly increase the business volume.
5. Spontaneously keep track of related information, proactively enhance system features for bank trust and custodian services, and develop related professionals in response to the constant introduction of new financial instruments in order to boost the service efficiency, to provide differential quality service, and to accordingly strengthen the competitive advantages in the future

Mega Securities Co., Ltd.

A. Short-term Business Development Plans

1. Launch timely marketing campaign to increase securities counters performance, customer sources, and brokerage market share
2. Strengthen sub brokerage business and securities lending business to increase wealth management income
3. Develop jointly the IPO business for return of Taiwanese business from Southeast Asia through referral of the Group's resources
4. Adjust continuously the warrant issuance strategy and related market making quality to increase distribution of the issued warrant
5. Emphasize risk control and trading flexibility in trading units to improve trading performance and reduce the position risk
6. Participate proactively in new business relaxed by the competent authority to catch business opportunities.

B. Long-term Business Development Plans

1. Build sound broad supervision and management mechanism and strengthen corporate governance.
2. Increase fee income by increasing the market share of securities brokerage business and customer sources.



3. Cultivate wealth management business to increase non-securities revenue
4. Accelerate the revolution of channels and expand the integration of digital platform
5. Maintain the leading position in IPO business by grasping business opportunity in Asia Pacific and adapting market change
6. Promote the performance in proprietary trading, reduce the fluctuation in trading gain (or loss) and maintain the stability of profits.
7. Enhance risk management skill, implement AML/CFT practice, and cultivate compliance culture.
8. Expand business scale and optimize capital efficiency

Mega Bills Finance Co., Ltd.

A. Short-term Business Development Plans

1. Watch closely client's operation and financial, industry prospects, and capital management for credit approval reference
2. Seek to lead syndicated loans and joint underwriting of non-guarantee commercial paper to stabilize CP sources and increase income of bills business
3. Explore proactively opportunities in underwriting or acquisition of NCD, guaranteed or non-guarantee bills to achieve portfolio growth and higher interest spread.
4. Watch central bank's monetary policy and financial situation to manage primary/secondary interest rate and manage bill transaction, in order to increase interest margin of CP issuance and trade to maintain market leading position
5. Watch closely international and domestic financial and political trend to adjust domestic and foreign bond position. Diversify to stable domestic and foreign bond position to earn maximum bond yields
6. Position shares that offer good credibility and yield to replace corporate bonds of relatively low interest. Search for quality CB and CBAS while at the same time building up equity trading positions that are suitable given TAIEX's relatively high level
7. Enhance continuously information systems and operating efficiency. Develop a common reporting and due diligence system (CRS) for the reporting requirements of the competent authority
8. Promote paperless conference system and paperless report management system to cut back resource consumption and fulfill corporate social responsibilities
9. Strengthen information security protection practice and implement related employee training to reduce security threats
10. Optimize AML/CFT management system and organize relevant training to improve employee's AML risk sense and capacity in identifying suspicious activity

B. Long-term Business Development Plans

1. Maintain leading market position in bill/bond business
2. Adjust loan client proportion to maintain adequate CP guarantee business scale and profit
3. Adjust adequate bonds portfolio and expand business scale of Repo transaction, supplemented with trading of derivatives to maintain stable profits
4. Reduce funding cost, increase interest margin, and increase performance
5. Reinforce corporate governance and implement CSR
6. Exert cross-sell synergies through integration of the Group resources
7. Increase operation efficiency of information system and strengthen information security

8. Seek approval from the competent authority to open up new business or transaction counterparty to expand business scope and funding sources
9. Continue to develop talents
10. Enhance capital efficiency through adequate allocation of capital and fortify risk management system.

Chung Kuo Insurance Co., Ltd.

A. Short-term Business Development Plans

1. Strengthen corporate governance, risk management and legal compliance
2. Increase Guam representative office's capital use efficiency
3. Adjust asset allocation and investment portfolio to increase income
4. Adjust business structure to increase underwriting profits.
5. Promote e-commerce business and optimize platform system
6. Share internet platform resources across each Group subsidiary to increase cross sell benefit
7. Optimize corporate image and implement CSR.

B. Long-term Business Development Plans

1. Uplift corporate governance standards and implement CSR
2. Cultivate Guam business and create profit base
3. Strengthen commercial insurance business and strive for business opportunity of emerging industries
4. Expand personal insurance business and develop digital service channel
5. Expedite revolution of business channels and integrate digital platform
6. Enhance integration of the Group's business and promote synergy of cross selling
7. Cultivate talent database and improve employee value.
8. Adjust asset allocation and improve the capital efficiency
9. Strengthen risk management skill and compliance practice

Mega International Investment Trust Co., Ltd.

A. Short-term Business Development Plans

1. Promote small amount investment business and strengthen sales performance
2. Expand marketing network and increase fund distribution with good performance.
3. Enhance online fund sales function
4. Build co-work mechanism with other government-owned financial institutions.

B. Long-term Business Development Plans

1. Expand private fund and discretionary investment business
2. Explore potential customers doing multi-currency investment
3. Pursue the opportunity of distributing the company funds in overseas market

Mega Asset Management Co., Ltd.

A. Short-term Business Development Plans

1. Acquire NPLs from peers and continues to seek consolidation of secondary NPLs
2. Enhance service income by providing services in integration of creditor's rights and advance payment reimbursements, based on the operating principles promulgated by the FSC.

B. Long-term Business Development Plans

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

Mega Life Insurance Agency Co., Ltd.

A. Short-term Business Development Plans

Gradually introduce the banking management system on the premise to becoming a bank with insurance dealership, such as one for related personnel, general affairs and system operations so that retention of staff and business promotion may take place seamlessly in the future once they are combined as part of the Bank.

B. Long-term Business Development Plans

1. Promote corporate governance and fulfill corporate social responsibility
2. Strengthen employee quality and develop digital service channels
3. Expedite the Fintech reform and enhance digital platforms integration
4. Strengthen business integrations to increase cross-selling synergy
5. Adjust global operating structure and promoting risk management skills

Mega Venture Capital Co., Ltd.

A. Short-term Business Development Plans

1. Participate in pre-listing capital raising auction, participate in circling convertible corporate bonds, invest in 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
2. Cooperate with government funds for investment in SMEs to increase enterprise productivity and value added.

B. Long-term Business Development Plans

1. Invest in companies which are in the early stage or growth stage and extensively build its investment portfolios. Fully grasp investees' financial, business, and operation management, and assist in the development of the investees
2. Strengthen foreign investment to broaden international vision

5.2 Cross Selling Synergies

Cross selling synergies among the Company's subsidiaries achieved 100.37% of 2019 goal and reached NT\$867 million, an increase of 9.31% from NT\$793 million in 2018. Key cross-selling results are described as follows:

1. In 2019, the number of Mega International Commercial Bank credit cards sold through the channels of other subsidiaries increased by 11,390. The proportion of new issued credit card through cross selling accounted for 5.74%, while the proportion of credit card outstanding through cross selling accounted for 6.91%. As a settlement bank for securities transaction of Mega Securities Company, the bank's deposits in

securities settlement accounts amounted to NT\$24.88 billion, generating cross selling benefits for NT\$110 million, an increase of 9.39% from NT\$101 million in 2018.

2. As of the end of 2019, Mega Securities Company has set up 100 securities counters in branches of Mega Bank compared to 75 branches at the end of 2018. The proportion of securities brokerage undertaken through the channels accounted for 4.48% in 2019, up from 3.60% in 2018. The cross-selling benefits of Mega Securities from domestic and overseas stock transaction introduced by other subsidiaries increased by 13.16% to NT\$30 million from NT\$27 million.
3. In 2019, Mega Bills Finance Company acted as an underwriter for a total of NT\$56.9 billion of commercial papers guaranteed by Mega International Commercial Bank.
4. In 2019, Chung Kuo Insurance Company reported insurance premium revenues of NT\$549 million through cross selling by other subsidiaries, up 3.9% from the NT\$529 million in 2018. The premium revenues from cross selling accounted for 8.16% of the domestic written premiums, falling from 8.53% in 2018.
5. In 2019, average outstanding amount of mutual funds managed by Mega International Investment Trust Company (MIIT) through cross-selling by other subsidiaries reached NT\$43.8 billion, an 5.09% increase from the NT\$41.7 billion in 2018. This accounted for 47.94% of average outstanding amount of funds managed by MIIT, compared to 45.19% in 2018. Mutual funds distributed through cross selling by other subsidiaries accounted for 37.3% of the total distributed amount, increasing from 36.39% of 2018. The total benefits of cross selling increased by 10.39% to NT\$157 million from NT\$141 million in 2018.

5.3 Market Overview

There are sixteen financial holding corporations in Taiwan by the end of 2019. The market share of each bank under the financial holding companies accounts for less than 10%, showing that local banks are still relatively small in size and lack of economies of scale. In order to increase market share, reduce operating expenses and expand business scope, financial holding companies will accelerate mergers with financial institutions. Banks that have not yet joined financial holding companies face the constant enlargement of financial holding companies and an increasingly competitive environment caused by cross-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 revenues derived from its subsidiaries. Market condition of subsidiary's industry is set forth as follows:

5.3.1 Banking Industry

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

The business scope of banking subsidiary includes commercial banking, consumer banking, wealth management, investment, and various agency business. The Bank has 108 branches (including Oversea Business Department), 23 overseas branches, 5 overseas sub-branches, and 3 representative (including

marketing representative) offices. If added the subsidiary in Thailand and its branches, total number of oversea units is 36.

B. Future Market Supply and Demand

1. For loan business, domestic banks' loans outstanding reached NT\$27,005.6 billion by the end of 2019, growing by 5.0% compared with the end of 2018. Among them, loans to private sector, including private enterprises and individuals, accounted for 93.4%, an increase of 5.5% compared to last year. In 2019, loans to state-owned enterprises slightly shrunk, while loans to government agencies slightly increased, compared to 2018. Look forward, although the uncertainty if COVID-19 outbreak will slow down corporate investment, the bailout program of the government and Central Bank will help to mitigate the impacts.
2. For consumer finance business, loans outstanding are NT\$8,773.4 billion by the end of 2019, up 5.6% compared to the end of 2018. This is the third year of speedy growth. Among them, mortgage loans which account for 84.0% of total consumer loans grew by 6.2%. Other personal consumer loans which account for near 10% of total consumer loans grew by 4.7%. In addition, construction loans amounted to NT\$2,944 billion as of the end of 2019, growing 12.7% compare to last year end, the highest growth within 9 years. Look forward, although the current macro economy is unfavorable to housing development, the Central Bank's interest rate cut to ease mortgage burden is conducive to the market development.
3. As of the end of 2019, the number of credit cards in circulation reached 47.39 million, growing by 7.6% compared to 2018, while the effective card increased by 7.9%. The number of effective cards accounted for 67.4% of all cards in circulation, a slight increase of 0.2% compared to 2018, indicating the increase of efficiency of credit card issuance. The revolving credit outstanding balance remained similar to 2018 and cash advance outstanding was down 5.1%, showing individual customers are getting cautious on financing.

C. Business targets

Item	2020 budgets
Outstanding of deposits (in million NTD)	2,416,398
Outstanding of loans (in million NTD)	1,957,245
Foreign exchange business undertaken (in million USD)	860,776

D. Positive and Negative Factors Influencing Banks' Future Operations

Positive Factors

1. The trend of supply chain shift is expected to continue because of COVID-19 outbreak and the unsolved US-China trade war, despite US and China signed the phase one trade agreement. Thus, our country will still be benefited from the shift, which will increase the utilization of domestic banks' funds, and increase the lending opportunities to emerging Asian countries outside China. This will help the Bank to diversify overseas investment and business risks.

2. Global AI development and 5G application will boost the need of electronic end products and drive export growth of Taiwan related supply chains.
3. In the Round 3 peer review preliminary report released by the Asia-Pacific Group on Money Laundering (APG) in June 2019, Taiwan was determined to require only general tracking. In addition, during its annual meeting in August, member countries agreed to adopt the peer review report about Taiwan. In technical compliance, in particular, Taiwan won unanimous support during the meeting in three items and successfully upgraded from partially compliant in preliminary evaluation to mostly compliant. Among the current 41 member countries, the same “general tracking” was fulfilled by only Macao, Indonesia, Hong Kong and the Cook Islands. While perfecting the prevention against money laundering, it helps the development of our financial sector internationally.

Negative Factors

1. Our export activities will be impacted by the softer growth rate of USA and China, uncertainty between US/China interactions including USA may restrict to export high tech products to China.
2. It is still uncertain about the economic impacts from COVID-19 and it will hurt regional economy stability.
3. The growth potential of new southbound countries is still large. However, most countries have weak financial institutions and are easily vulnerable to the international financial situation. Plus, 15 nations including China and Japan schedule to sign RCEP in 2020 and this will harm our export competitiveness.

5.3.2 Securities Industry

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

Mega Securities’ businesses include securities brokerage, proprietary trading, underwriting of, stock registry services, futures introducing brokerage, etc. through its business units in north, central and south Taiwan. Its customers include domestic and foreign institutions and general investors.

B. Future Market Supply and Demand

1. Securities firms face fierce competition in attracting investors to open securities account. The fee revenue of the 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 to 106 firms at the end of 2019. The competition for low prices or price cuts has become the norm, and it has also eroded the profitability of securities firms. Thus, the competent authority continued easing of existing product regulations or opening up of new types of businesses to diversify profit sources of securities firms.
2. As far as demand is concerned, as ideas about wealth management get popularized and the needs of investors grow diversified, respective security firms are introducing various types of wealth management products and services to meet the needs of customers. The enforcement of the measure to cut current stock day-trading transfer tax in half in April 2017 helped heat up transactions. The implementation of continuous trading and the new wealth management proposal of the FSC in March 2020 will attract even more incoming funds. Thus there is still room to grow for security companies.

C. Business targets

Item	2020 budgets
Market share of securities brokerage	3.40%

D. Positive and Negative Factors Influencing Banks' Future Operations

Positive Factors

1. The competent authority continues to release licenses of new business for security firms, which is favorable to business development and profit increase.
2. Investor's asset management concepts are more mature, which is conducive to financial products marketing, and business growth of securities firms.

Negative Factors

1. Brokerage, underwriting, and proprietary business are highly connected to global financial and political situations and the economy. Brokerage fee income and investment gain are also deeply affected by market trading volume, resulting in unstable overall profitability of the company.
2. Brokerage fees are difficult to rise due to business competition and unfavorable to long term business growth.
3. The proportion of trading volume of foreign investor is increasing, and local securities brokers lack the advantage of developing foreign customers.
4. With the aging of population, investors' overall appetite are turning conservative. Plus for the young and middle age group, their average salary grows in a slow pace, weakening their investment ability.
5. With the diversification of financial products and expansion of business scope, the compliance and risk management expenses are relatively increasing.

5.3.3 Bills Finance Industry

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

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

B. Future Market Supply and Demand

(1) Bills market

Impacted by uncertainties brought about by the US-China trade clash and the slowing global economy, the FED activated interest rate cuts three times throughout 2019. The European Central Bank announced maximization of its quantitative easing policy in September. The Japanese Central Bank kept its decision over a negative interest rate. Our Central Bank remained unchanged with its interest rate policy. The financial situation as a whole was still at ease. Short-term rates on the market appeared to be steady with slight sliding. In 2019, the underwriting of CP2 in the primary bills market amounted to NT\$9,089.13 billion, increasing by NT\$338.104 billion or 3.86% compared to 2018. Bills trading volume in the secondary bills market amounted to NT\$28,649.253 billion, a decrease of NT\$72.014

billion or 0.25% compared to 2018. Looking to 2020, monetary policies of major advanced countries and economies were getting gradually normalized. The yet-to-cease US-China trade clash, Brexit, and geopolitical risks, among other uncertainties, however, make the global economic and trade outlook remain tense. In addition, regarding the rampant COVID-19 outbreak that began in China in the beginning of this year, the Fed warns of a new threat to the economic outlook and the global market. In light of the overall economic developments and financial stability, it is estimated that the Central Bank of Taiwan will continue with its moderately and adequately easing interest rate policy.

(2) Bonds market

The interest spread for foreign bonds can be maintained although the spread of both primary and secondary market is declining. The interest spread for domestic bonds are dramatically declining given under the relaxing monetary policy and strong need, the bond yields are declining to new low.

Regarding the market, in terms of foreign currency bonds, the phase one deal has been sealed between the US and China to ease the trade war while the technological containment war will continue. The Fed will closely monitor capital flows on the money market to ensure stability in short-term interest rate. It is widely expected on the market at the moment that the US bond yield will appear to be experiencing interval corrections. For NTD bonds, on the other hand, they benefit as the New Taiwan Dollar is growing strong; there are limited supplies available; and the demand for banks to replenish securities is high, among others. The persistently low interest rates for NTD bonds have driven the whole yield curve downward and flattening. As fund concentrations remain high and the issue volume of NTD bonds cannot meet the demand, it is expected that the NTD bond yield will continue with the volatile situation at low prices.

Looking forward, under various uncertainties such as US China trade war and COVID-19 outbreak, global financial market fluctuates and downward economy risk deepen. Main central banks maintain relaxing monetary policies. Bond sentiment is high. Expected interest spread of domestic and foreign bond in 2020 will be lower than in 2019.

(3) Stock investment business

In 2019, domestic stock index are gradually increasing, benefiting by global relaxing monetary policy. Looking forward, under various uncertainties such as US China trade war, COVID-19 outbreak, and following impacts of Brexit, risk asset such as stock market will still dramatically fluctuate under short term hot money investment. In 2020, global market will dramatically fluctuate.

C. Business targets

Units: NT\$ million

Item	2020 budgets
Underwriting and purchasing of bills	2,718,365
Underwriting amount of commercial paper issued for funding purpose (CP2)	2,477,948
Trading volume of bills	8,469,151
Trading volume of bonds	4,656,000
Repo outstanding balance of bills and bonds	207,477
Average outstanding balance of guaranteed issues of commercial paper	168,000

D. Positive and Negative Factors Influencing Banks' Future Operations

Positive Factors

The authority now permits bill financing companies to trade interest rate and exchange rate derivatives as customers, which is beneficial to do highly liquid trades such as U.S. government bond futures and USD interest rate swaps.

Negative Factors

1. As the global economic growth is weakening, domestic economic growth is likely to slow down. In addition, the US-China trade conflict continues to have impact on 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 volatility, increasing the uncertainty about industrial competitiveness. There are signs of mounting credit risk.
2. In addition to the increasingly diversified funding channel 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 bills companies' business expansion.
3. USD is highly connected to International political and financial situation. Hardness to control will compress funding cost of domestic and foreign bond and will restrict bond business future growth.
4. US-China trade tension and Covid-19 outbreak impact global political and economic situation. In the future, it's hard to predict the impacts on the market. The fluctuation of financial products is expected to be huge and thus it's more difficult to operate.

5.3.4 Non-life Insurance Industry

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

Chung Kuo Insurance provides domestic non-life insurance service in Taiwan and Guan, supplemented with inward reinsurance. Head office resides in Taipei. The company has 29 domestic branches and 1 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. Risks arise from frequent commercial activities, high industrial development and continued technological innovation. Under personal and household income growth because of economic growth, the risk awareness arises. People have been focusing more on insurances.
- (2) The property and casualty insurance has short-tailed business characteristics. With the improvement of consumer protection awareness, to protect customers, employees, and corporates themselves and to transfer the risk to maintain sustainable operation, the insurance premium for information security insurance, public liability insurance, product liability insurance, director liability insurance, and employer's compensation insurance and other liability insurance has been growing significantly. E-commerce, insurance APP and big data will also bring to insurance industry a new blue ocean business opportunity.

C. Business targets

Unit: NT\$ thousand

Item	2020 budgets
Insurance underwriting premiums	7,766,184
Reinsurance premiums	709,464
Total	8,475,648

D. Positive and Negative Factors Influencing Banks' Future Operations

Positive Factors

1. Online insurance has become a trend and people have embraced the change. Plus the development of insurance Fintech and big data analysis, the insurance companies are able to optimize operational processes, increase service quality, and develop new types of insurance products. Also, insurance companies can accelerate the process by using online insurance platforms, online payment block chain platform, online claims applications, B2B insurance systems, and strengthen social media management, etc.
2. 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.
3. The number of Taiwanese tourists is increasing and so is insurance awareness. This is beneficial for travel insurance.
4. The aging of Taiwanese is favorable to medical care insurance products, long-term care, and other development of aging insurance products.

Negative Factors

1. 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.
2. Hotain Insurance and Nansan Insurance are growing fast. Other insurance peers are aggressively exploring other insurance products to maintain their growth.
3. As consumers' compensation awareness has increased, the amount of liability insurance claims has increased. 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.
4. Profit for fire insurance is harmed by coping with government's policy to maintain residence fire insurance rate and expand scope insured.
5. COVID-19 outbreak has impacted global economy and will further impact insurance industries.

5.3.5 Securities Investment Trust Industry

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

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

B. Future Market Supply and Demand

Under the market sentiment in last two years, the "Target Maturity Bond Fund" and the "Bond Index Equity Fund (ETF) Fund" attracted the attention of the market and fund size have been growing fast. The market share has been over 40% and incurred the doubt of overheating. Considering the higher risk of the above products, the competent authority has set up new investment restriction to make fund products more fit in fix income purpose. Also the authority expects various types of products to be developed for a sound market.

C. Business targets

Units: NT\$ million

Item	2020 budgets
Public funds under management	90,440
Private placement funds under management	17,076
Discretionary account	869

D. Positive and Negative Factors Influencing Banks' Future Operations

Positive Factors

1. The FSC intends 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.
2. The competent authority has set up new investment restriction to "Target Maturity Bond Fund" and the "Bond Index Equity Fund (ETF) Fund" and to help the companies to develop various types of products for a sounder market.

Negative Factors

1. 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.
2. 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)

Operations of Mega Asset Management is mainly in Taiwan.

B. Future Market Supply and Demand

Supply of NPL is scarce due to the regulation restriction by FSC. Asset management companies shall seek other business opportunities under the operation guideline set by the authority.

C. Operations targets

The operating assets is expected to increase by NT\$2.9 billion in 2020.

D. Positive and Negative Factors Influencing Banks' Future Operations

Positive Factors

To promote urban renewal policy, the government open the business to asset management companies. Based on Urban Renewal Act or Old/Dangerous Building Act, the asset management companies can be the implementer or applicant for re-construction license, inject funds, and purchase real estate properties to increase the business scope and diversify revenue source.

Negative Factors

The operating guideline promulgated by the FSC are only applicable to asset management companies that are owned by financial control company or bank, and not applicable to all asset management companies. This will cause unfair competition and hinder transformation of asset management subsidiary Companies.

5.3.7 Life Insurance Agency Industry

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

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

B. Future Market Supply and Demand

1. The essence of insurance as protection: The competent authority is expected to announce the threshold law for general life insurance in the second half of this year. The components of protection will be increased for life insurance products (traditional and investment-oriented). Savings will not be a focus during the sale of insurance products.
2. Diversification of investment-oriented policies: Although target maturity bond funds that were a fad in the preceding two years have been completely discontinued due to the interest rate on the market and the fact that they can no longer bring income according to credit ratings set by the competent authority, given the extreme flexibility associated with investment-oriented products in terms of the possibility to meet contemporary market demand with their fee structure, product framework and characteristics, or the investment targets and the diversification of investment-oriented products, they can still be the mainstream of sales.
3. Diversification of innovative products: While insurance products tend to return to their protective nature, there will be even more diversified options in the future. Besides the emphasis over protection, there will be the annuity insurance, medical care insurance, disability support insurance, small-amount whole life insurance, and micro-injury insurance as well as old-age insurance. It is expected that insurance products will grow more diversified in the midst of competition on the market.

C. Operations targets

The 2020 budgeted commission income is NT\$1.856 billion.



D. Positive and Negative Factors Influencing Banks' Future Operations

Positive Factors

1. The shift of population structure has bring the below issues: meager profit, aging society, declining birthrate, lack of preparation for long-term care, medical quality, in-kind payment, and spillover policies. The change drives demand for various life insurance products and medical insurance products.
2. The unique and differentiation services will create 3 wins: More and different values added, clients' recognition, and client stickiness to other bank products.

Negative Factors

1. Related regulations derived from avoiding complaints: Since January 2019, for those aged 70 years and above trying to purchase investment-oriented products, the whole sales procedure needs to be recorded or videotaped and the competent authority expects to maximize the scope in early 2020 to not only include investment-oriented products but also traditional insurance with policy account values (penalty for early cancellation) in terms of recording or videotaping and parts that tend to give rise to complaints for which a reminder shall be reinforced. Such regulations will increase the operating procedure for the sale of an insurance policy for sure.
2. Variation in insurance products: For the domestic insurance policies, the variable interest rate policy declared interest rate stabilization mechanism started in April 2019 and the liability reserve interest rate dropped in January 2020. In addition, it is expected that for the second half of 2020, all insurance products have to fulfill a certain death protection ratio and the service margin needs to be calculated for the contract in honor of IFRS17. It will impact insurance products directly and hence one can expect that insurance products will develop towards the protective nature as they originally were of.

5.3.8 Venture Capital Industry

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

Mega Venture Capital mainly invests in Taiwan, with some foreign investments.

B. Future Market Supply and Demand

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

C. Business targets

Units: NT\$ million

Item	2020 budgets
long-term investment amount	300
Stock selling income	246

D. Positive and Negative Factors Influencing Banks' Future Operations

Positive Factors

1. The effective integration of the Group's resource is conducive to exploration of investment case and assistance in corporate reconstruction.
2. 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

1. In the past venture capital companies focused on technology industry, creating concentration risk. With the upgrade of traditional industries' techniques, Rise of AI, 5G, and bio-tech industry, venture capital companies can diversify investments and lower down concentration risk.
2. Although domestic economy is stable, it has also encountered increasing internal and external challenges. Recent international financial fluctuations increased economic uncertainty and the US-China trade war has impact on Taiwan, and investment risks have increased.

5.4 Human Resources

Unit: Number of person

Item \ Year		2018	2019	Feb. 29, 2020
Number of Employees	Mega FHC	56	57	54
	Mega Int'l Commercial Bank	6,366	6,762	6,796
	Mega Bills Finance	203	206	202
	Mega Securities	1,433	1,470	1,471
	Chung Kuo Insurance	779	800	804
	Mega Int'l Investment Trust	95	100	97
	Mega Asset Management	26	25	24
	Mega Life Insurance Agency	25	25	26
	Total	8,983	9,445	9,474
Average Age	Mega FHC	50.70	51.31	51.13
	Mega Int'l Commercial Bank	40.84	40.15	40.09
	Mega Bills Finance	46.17	45.89	45.70
	Mega Securities	45.00	46.00	46.00
	Chung Kuo Insurance	41.80	41.70	41.80
	Mega Int'l Investment Trust	44.45	45.17	45.28
	Mega Asset Management	45.04	46.00	46.00
	Mega Life Insurance Agency	43.25	43.17	42.08
Average Years of Services	Mega FHC	12.52	13.20	13.39
	Mega Int'l Commercial Bank	14.37	13.45	13.32
	Mega Bills Finance	16.60	16.30	16.16
	Mega Securities	11.74	11.96	12.06
	Chung Kuo Insurance	11.20	11.30	11.40
	Mega Int'l Investment Trust	10.43	10.68	11.00
	Mega Asset Management	11.60	12.20	11.70
	Mega Life Insurance Agency	6.21	6.75	6.59



Academic background

Item \ Year		2018	2019	Feb. 29, 2020
Doctoral Degree	Mega FHC	3.57%	3.51%	3.70%
	Mega Int'l Commercial Bank	0.06%	0.03%	0.03%
	Mega Bills Finance	0.49%	0.49%	0.50%
	Mega Securities	0.07%	0.07%	0.07%
	Chung Kuo Insurance	0.26%	0.25%	0.25%
	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	46.43%	47.37%	44.44%
	Mega Int'l Commercial Bank	25.15%	25.60%	25.90%
	Mega Bills Finance	46.80%	48.06%	49.01%
	Mega Securities	11.79%	11.90%	12.23%
	Chung Kuo Insurance	13.35%	13.38%	13.31%
	Mega Int'l Investment Trust	47.37%	46.00%	43.30%
	Mega Asset Management	33.33%	28.00%	28.00%
	Mega Life Insurance Agency	8.00%	8.00%	7.69%
Bachelor's Degree	Mega FHC	48.21%	47.37%	50.00%
	Mega Int'l Commercial Bank	71.19%	71.15%	70.94%
	Mega Bills Finance	50.25%	49.03%	48.51%
	Mega Securities	73.55%	74.01%	73.51%
	Chung Kuo Insurance	79.20%	79.75%	79.98%
	Mega Int'l Investment Trust	50.53%	52.00%	54.64%
	Mega Asset Management	66.67%	72.00%	72.00%
	Mega Life Insurance Agency	92.00%	92.00%	92.31%
High School	Mega FHC	0.00%	0.00%	0.00%
	Mega Int'l Commercial Bank	3.27%	2.88%	2.80%
	Mega Bills Finance	2.46%	2.43%	1.98%
	Mega Securities	14.58%	14.01%	14.20%
	Chung Kuo Insurance	7.06%	6.50%	6.34%
	Mega Int'l Investment Trust	2.11%	2.00%	2.06%
	Mega Asset Management	0.00%	0.00%	0.00%
	Mega Life Insurance Agency	0.00%	0.00%	0.00%
Below high school	Mega FHC	1.79%	1.75%	1.85%
	Mega Int'l Commercial Bank	0.33%	0.34%	0.34%
	Mega Bills Finance	0.00%	0.00%	0.00%
	Mega Securities	0.00%	0.00%	0.00%
	Chung Kuo Insurance	0.13%	0.13%	0.12%
	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

Unit: Number of person

Item	Year	2018	2019	Feb. 29, 2020
Trust personnel		5,274	5,728	5,766
Bank internal controller		4,326	4,464	4,493
Junior credit personnel		1,979	2,146	2,172
Advanced credit personnel		79	74	76
Junior foreign exchange personnel		2,611	3,200	3,307
Bills finance personnel		319	335	335
Bond personnel		246	253	255
Stock affairs personnel		208	207	205
Life insurance representative		5,396	5,920	5,918
Life insurance broker		5	4	3
Life insurance agent		8	8	8
Investment-linked insurance sales agent		1,836	2,115	2,101
Non-life insurance broker		14	13	13
Non-life insurance agent		14	13	13
Non-life insurance representative		3,893	4,128	4,100
Non-life insurance assessor		94	93	93
Non-life insurance claim adjuster		64	66	66
Securities specialist		2,071	2,195	2,187
Senior securities specialist		2,407	2,607	2,589
Securities margin trading specialist		393	388	383
Securities investment specialist		1,603	1,692	1,591
Securities analyst		119	120	121
Futures brokerage specialist		158	154	153
Futures brokerage specialist		1,991	2,067	2,036
Futures analyst		17	17	18
Certified public accountant (Domestic)		34	35	34
Certified public accountant (Foreign)		7	8	8
Professional and Technical Personnel Examinations -Attorney		24	31	33
Certified Management Accountant (CMA)		1	1	1
Financial Risk Manager (FRM)		47	48	48
Certified financial planning personnel		2,050	2,038	2,018
Certified financial planner (CFP)		126	146	139
CFA(level1)		58	59	59
CFA(Level2)		26	25	24
CFA(Level3)		9	9	9
US CBA(Bank internal auditor)		1	1	1
Certified internal auditor		15	14	14
Actuary (Domestic)		2	2	2
CAMS		3,327	3,284	3,275
CAMS (English edition)		147	144	144

5.5 Corporate responsibility and ethical conduct

1. Corporate Responsibility (Please refer to the annual report page 53)

Mega Financial Holding, in honor of its principles of integrity, transparency, and sustainable development, fulfills corporate social responsibilities. While pursuing sustainable management and profitability, it values the environment, society and corporate governance and discloses to stakeholders the corporate sustainability planning and implementation status at Mega. The developmental status of corporate sustainability of Mega Financial Holding is reported to respective stakeholders through the Annual Report, the Corporate Social Responsibility Report, and the devoted section on its official website.

Mega Financial Holding had splendid CSR accomplishments and sustainability performance. It has consecutively been chosen as component stocks of the Taiwan Employment Creation 99 Index, Taiwan High Compensation 100 Index, Corporate Governance 100 Index, and FTSE4Good TIP Taiwan ESG Index of the Taiwan Stock Exchange. The Company also won the “Golden Award for Corporate Sustainability Report in the 2019” Taiwan Corporate Sustainability Awards and the BSI “Excellence Award”. The Culture and Education Fund of Mega Bank received the “Gold Quality Award in both sponsorship and promotion” of physical education from the Sports Administration, Ministry of Education.

Mega Bank was recognized by the Overseas Credit Guarantee Fund for its outstanding performance in the total underwriting and financing amount, in the growth in financing amount for new southbound countries and in the underwriting and financing amount of branches and was recognized by the FSC as an excellent bank in SME loan solutions, a Class A bank in loan solutions for the new and prioritized industries, with the special award in the smart machinery industry and as an excellent bank with its performance as accredited in property trust service for old-age and physically/mentally disabled people, was chosen as the 2019 Best Credit Card in Taiwan by the International Business Magazine, and was honored by the Silver Medal for the Energy-saving Signature Award from the Bureau of Energy, Ministry of Economic Affairs. Mega Securities won the second place as security firm that treats customers equally, an honor from the FSC. Chung Kuo Insurance Company won the “Outstanding Performance Award during the Micro-Insurance Contest” from the FSC.

2. Ethical behavior: to help the directors, managers, and employees of respective companies within the Group understand the ethical behavioral standards of the Group and precisely follow them, there are regulations such as the “Ethical Corporate Management Best Practice Principles”, “Procedures for Ethical Management and Guidelines for Conduct”, “Procedures for Handling Material Inside Information”, “Codes of Ethical Conduct”, and “Employee Code of Conduct” available at the Company and respective subsidiaries that directors, managers, and employees must precisely follow. They cover the prohibition against bribery, accepting bribery, providing unlawful political contributions, engaging in inappropriate charity donations or sponsorships, offering or accepting unreasonable gifts, receptions, and other illegitimate benefits; creating a fair employment environment; preventing against insider trading; and protecting the workplace and the health and safety of staff, among others. In addition, the Company and respective subsidiaries define their own rigid accounting, internal control, and audit systems to protect against dishonest behavior and have a reporting system in place to encourage reporting of unlawful and dishonest behaviors internally and externally. Meanwhile, related operating procedures are evaluated periodically for compliance. As of the end of 2019, the Company had never had transactions with any party with a history of dishonest behaviors and none of its directors, managers, and employees had been reported of violating the ethical management principle.

5.6 Number of non-managerial officer employees and average and median salary for full time employee

	2019	2018	difference
Number of non-managerial officer employees	7,575	7,008	567
Non-managerial officer full-time employees ' salary- average (in NTD thousand)	1,435	1,441	(6)
Non-managerial officer full-time employees ' salary- median (in NTD thousand)	1,138	1,151	(13)

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. And the major operating systems are 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 specific lines.
2. DB2, Oracle, SQL, and IBM 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. And core equipment is insured.

5.7.2 Group information system to be developed or purchased

Mega International Commercial Bank Co., Ltd.

For 2020, the network structure will continue to be reinforced. The following projects are planned: (1) improve the security of the AD domain control sites and create the file audit trail system in order to strengthen information safety and protection. (2) complete the creation of the Web Application Firewall (WAF) in order to reinforce safety when connected to external service sites. (3) enhance the access gateway safety control equipment between Taipei and Linkou to perfect effective safety protection for dual-center network access. (4) enhance the dual-center ACI SDN network and set up the automation control platform for network load balance equipment in order to enhance connection efficacy and stability for transactions. (5) continue with Stage 2 for the construction of the virtual server efficacy monitoring platform. (6) enhance the dual-center storage control. (7) finish constructing the network flow management system that can spontaneously monitor connection of the e-banking system.

To ensure stability and safety of operations, the system framework will continue to be adjusted; the infrastructure will be reinforced; the application system will be rewritten; and respective emergency response plans will be rehearsed. Network monitoring and management systems will continue to be optimized throughout 2020. The backup media for respective systems of the RS/6000 and AS/400 platforms will be changed from traditional magnetic tapes to the dual-center tapeless backup system in order to integrate system resources and enhance overall benefits. In order to reinforce the protection for the e-banking system against the distributed denial of service (DDoS) attacks and to minimize the risk of ill-intentioned invasion and attacks that will undermine customer rights, the protective features of the Akamai Information Safety Platform Network Service for external connections will be enhanced.

Mega Securities Co., Ltd.

1. Acquire software and hardware devices in line with the upgrade of WIN 2008 to WIN 2019
2. Modify or acquire equipment in response to matching transaction promoted by the Taiwan Stock Exchange
3. Acquire equipment for paperless account opening process
4. Acquire information security related equipment.

Mega Bills Finance Co., Ltd.

1. Develop a common reporting and due diligence system (CRS)
2. Replace the back up internet equipment
3. Replace audit software host computer
4. Upgrade Oracle database to Weblogic
5. Upgrade Win7 to Win10
6. Upgrade Windows Server 2008 to 2016

Chung Kuo Insurance Co., Ltd.

1. Establish new construction accident insurance system
2. Establish reinsurance booking system
3. Establish and transform microservice platform
4. Expand virtualization system
5. Establish core firewall system

Mega International Investment Trust Co., Ltd.

1. Enhance various information risk control procedures in order to continuously optimize the company's information security such as device management, hardware protection, security monitoring via application systems, internet access, and mobile security.
2. Establish "Safety Information and Event Management System" by phases.

Maga Venture Capital Co., Ltd.

Replace person computers and upgrade the functions of venture capital management information system.

5.7.3 Emergency backup and security protection measures

In order to be able to quickly restore all key operational information to an acceptable level after an accident, the Company continues to perform technical and management-related inspections, improve its software and hardware equipment resources and improve operating procedures. In addition, remote host backup and remote data backup mechanisms for important systems are in place. System recovery rehearsals take place periodically to ensure validity of the restoration mechanism, to minimize the risk of possible system interruptions as a result of unwarned natural disasters and manned negligence, and to keep the data intact.

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 network anomaly, 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, 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 protection: 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 network safety: 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.



5.8 Labor Relations

A. Labor-management agreements and employee benefits

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

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

5.8.2 Pension Scheme

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

5.8.3 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\$100,892 thousand in 2019, accounting for 0.52%, 0.33% and 0.15% of the Company's consolidated employee welfare expenses, operating expenses and profit, respectively. The number of trainee totaled 221,487.

5.8.4 Employee's Behavior and Ethical Principles

The Company has set the Ethical Management Principle, Moral Behavior Principle, Ethical Management Operation Procedure and Behavior Guideline, and Employee Code of Conduct to regulate employee's self-discipline

on their behavior and integrity and also have correspondent punishment and improvement measures to those violate relevant regulations. The above principles and guidelines say the employees should obey regulations while doing their job, avoid conflict of interest, avoid unethical behavior, legally use others' intelligent property rights, follow confidentiality obligation, avoid discrimination, avoid to provide illegal political donation, avoid insider transaction. Relevant regulation is published on internal Company website and promoted during employee training.

5.8.5 Other labor management negotiations

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

B. Loss on labor-management disputes: None

The Company and its subsidiaries in the most recent financial year and till the date of publishing this annual report, there is no loss or potential loss due to labor-management disputes (including disobey of Labor Standard Act under labor related audit).

5.9 Important Contract

Contract type	Principals	Contract beginning and ending date	Main contents	Restrictive terms
Consent order	Mega International Commercial Bank (MICB) and New York State Department of Financial Services (NYDFS)	Signed on August 19, 2016 Ending date of the contract: to be designated by NYDFS	NYDFS conducted an examination of the New York Branch of Mega International Commercial Bank in January to March of 2015 and provided its Report of Examination in February 2016. NYDFS signed a consent order with MICB under New York Banking Law §§ 39 and 44. In addition to paying a penalty to NYDFS in the amount of US\$180,000,000, MICB and its New York Branch shall engage a Compliance Consultant and Independent Monitor of NYDFS's choosing, to consult about, and oversee/review the improvements of deficiencies in the New York Branch's BSA/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 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
Consolidation Agreement	Mega International Commercial Bank Co., Ltd., and Mega Life Insurance Agency Co., Ltd. (Mega Life Insurance Agency)	Signed on: April 23, 2019 Termination date: N/A	The parties agree on consolidation in the form of cash merger, with Mega International Commercial Bank Co., Ltd. as the surviving company after consolidation and Mega Life Insurance Agency will cease to exist. The name of the surviving company will remain as Mega International Commercial Bank Co., Ltd.	None

Financial Information



Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Consolidated Balance Sheet

Unit: NT\$1,000

Item	Year	2019	2018	2017	2016	2015
Cash and cash equivalents, due from the Central Bank and call loans to banks		633,642,673	643,895,292	711,066,683	638,143,099	656,138,947
Financial assets at fair value through profit or loss, net		208,313,130	196,201,030	191,581,454	186,317,373	182,036,664
Available-for-sale financial assets		0	0	442,557,049	354,464,708	346,461,364
Financial assets at fair value through other comprehensive income		536,232,599	421,176,553	0	0	0
Investments in debt instruments at amortised cost, net		275,214,156	272,926,017	0	0	0
Securities purchased under resell agreements		3,584,364	2,623,231	2,553,228	2,855,885	7,079,210
Receivables, net		99,308,276	92,723,255	96,055,863	86,825,802	175,747,221
Current tax assets		483,744	272,816	757,391	577,485	2,307,563
Assets classified as held for sale, net		276,900	328,350	0	0	0
Loans discounted, net		1,873,677,834	1,864,447,103	1,762,160,756	1,715,278,766	1,773,269,054
Reinsurance contract assets, net		3,984,617	3,854,464	3,555,454	4,261,668	3,308,814
Held-to-maturity financial assets		0	0	284,687,657	280,997,362	201,233,939
Investments accounted for using equity method, net		3,115,829	3,168,973	3,184,501	3,108,470	2,976,409
Other financial assets, net		7,418,321	5,112,210	15,089,381	14,955,209	17,189,576
Property and equipment, net		22,080,894	21,973,422	21,981,154	21,787,452	21,834,486
Investment property, net		1,025,375	1,500,403	1,696,863	1,711,561	1,368,553
Right-of-use assets, net		1,777,500	0	0	0	0
Intangible assets, net		610,731	518,222	382,728	270,438	299,644
Deferred income tax assets		5,801,886	7,552,961	6,018,307	5,463,227	4,716,552
Other assets, net		6,998,951	3,785,059	3,964,038	2,772,911	2,550,310
Total assets		3,683,547,780	3,542,059,361	3,547,292,507	3,319,791,416	3,398,518,306
Deposits from the Central Bank and banks		420,833,162	411,643,388	404,371,657	401,731,599	428,405,839
Due to the Central Bank and banks		21,161,321	53,920,881	29,632,968	39,974,427	45,459,094
Financial liabilities at fair value through profit or loss		22,115,709	27,357,462	9,966,779	12,105,231	22,980,692
Securities sold under repurchase agreements		259,192,262	252,298,265	237,706,429	231,191,763	192,936,650
Commercial papers issued, net		19,963,897	15,929,662	20,165,421	11,701,649	19,945,870
Payables		75,207,489	66,362,081	70,119,748	59,001,999	63,623,826
Current tax liabilities		9,149,946	9,319,314	9,216,815	8,589,599	10,517,577
Deposits and remittances		2,459,457,135	2,320,637,263	2,386,555,016	2,171,287,924	2,230,143,429
Bonds payable		12,000,000	13,300,000	31,670,036	41,924,088	41,878,505
Other borrowings		3,464,909	4,934,529	1,325,368	5,954,030	2,280,000
Other financial liabilities		15,818,346	15,325,367	12,698,470	10,849,706	10,720,861
Provisions		28,110,114	26,977,832	26,182,764	25,047,224	22,917,606
Lease liabilities		1,801,315	0	0	0	0
Deferred income tax liabilities		3,164,054	2,526,612	2,266,455	2,201,659	2,195,423
Other liabilities		8,046,873	7,271,276	7,319,019	6,203,075	11,057,626
Total liabilities	Before distribution	3,359,486,532	3,227,803,932	3,249,196,945	3,027,763,973	3,105,062,998
	After distribution	Note	3,250,923,633	3,269,596,681	3,047,075,723	3,125,462,734
Equity attributable to owners of parent		324,061,248	314,242,280	298,054,133	291,985,353	293,404,079
Common stock		135,998,240	135,998,240	135,998,240	135,998,240	135,998,240
Capital surplus		68,194,233	68,194,233	68,194,233	68,194,233	68,194,233
Retained earnings	Before distribution	107,511,364	102,575,350	94,868,778	89,958,846	88,373,007
	After distribution	Note	79,455,649	74,469,042	70,647,096	67,973,271
Other equity interests		12,357,411	7,474,457	(1,007,118)	(2,165,966)	838,599
Non-controlling interests		0	13,149	41,429	42,090	51,229
Total Equity	Before distribution	324,061,248	314,255,429	298,095,562	292,027,443	293,455,308
	After distribution	Note	291,135,728	277,695,826	272,715,693	273,055,572

Note: The earnings distribution for 2019 has not been resolved by the shareholders' meeting.



6.1.2 Condensed Unconsolidated Balance Sheet

Unit: NT\$1,000

Item	Year	2019	2018	2017	2016	2015
Cash and cash equivalents		87,474	152,693	307,833	83,306	2,292,712
Financial assets at fair value through profit or loss, net		0	203,062	0	0	0
Financial assets at fair value through other comprehensive income		2,687,373	2,154,580	0	0	0
Available-for-sale financial assets		0	0	6,196,895	5,844,300	5,586,489
Receivables, net		0	0	389	0	0
Current tax assets		1,582,395	1,259,321	1,669,679	225,605	0
Investments accounted for using equity method, net		358,254,779	345,071,763	325,981,280	316,539,845	313,143,661
Other financial assets, net		100	100	758,293	758,293	758,293
Property and equipment, net		593,195	595,986	595,029	603,350	750,459
Investment property, net		132,593	134,104	135,615	137,126	0
Right-of-use asset, net		3,267	0	0	0	0
Deferred income tax assets		9,651	4,734	8,092	8,092	8,092
Other assets, net		6,474	8,618	8,667	5,704	5,944
Total assets		363,357,301	349,584,961	335,661,772	324,205,621	322,545,650
Financial liabilities at fair value through profit or loss		0	0	183,860	156,600	155,440
Commercial paper issued, net		13,338,100	13,007,338	10,397,276	6,398,631	6,198,832
Payables		23,220,100	21,285,593	19,813,499	16,481,538	14,835,817
Current tax liability		1,256,310	980,678	1,164,368	1,789,244	1,912,617
Bonds payable		0	0	5,770,036	5,724,088	5,678,505
Other borrowings		1,400,000	0	0	1,600,000	300,000
Provisions		74,076	61,801	62,523	57,935	56,339
Lease liabilities		3,278	0	0	0	0
Deferred income tax liability		0	0	205	1,124	1,436
Other liabilities		4,189	7,271	215,872	11,108	2,585
Total liabilities	Before distribution	39,296,053	35,342,681	37,607,639	32,220,268	29,141,571
	After distribution	Note	58,462,382	58,007,375	51,532,018	49,541,307
Common stock		135,998,240	135,998,240	135,998,240	135,998,240	135,998,240
Capital surplus		68,194,233	68,194,233	68,194,233	68,194,233	68,194,233
Retained earnings	Before distribution	107,511,364	102,575,350	94,868,778	89,958,846	88,373,007
	After distribution	Note	79,455,649	74,469,042	70,647,096	67,973,271
Other equity		12,357,411	7,474,457	(1,007,118)	(2,165,966)	838,599
Total Equity	Before distribution	324,061,248	314,242,280	298,054,133	291,985,353	293,404,079
	After distribution	Note	291,122,579	277,654,397	272,673,603	273,004,343

Note: The earnings distribution for 2019 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	2019	2018	2017	2016	2015
Interest income	71,681,244	68,345,796	57,094,672	54,113,662	56,852,736
Less: interest expenses	(36,614,396)	(30,301,244)	(21,215,148)	(16,420,610)	(19,164,143)
Net interest revenue	35,066,848	38,044,552	35,879,524	37,693,052	37,688,593
Net revenue other than interest	30,208,014	23,564,855	23,780,864	17,371,068	22,539,713
Net revenue	65,274,862	61,609,407	59,660,388	55,064,120	60,228,306
Bad debts expense, commitment, guarantee liability provision	(687,183)	(1,996,406)	(4,336,814)	(3,613,467)	426,459
Net change in provision for insurance liabilities	(34,968)	68,884	152,758	(116,264)	(12,356)
Operating expenses	(30,898,437)	(28,601,925)	(26,195,605)	(23,417,176)	(25,533,427)
Profit from continuing operations before tax	33,654,274	31,079,960	29,280,727	27,917,213	35,108,982
Income tax expense	(4,699,474)	(2,986,515)	(3,551,632)	(5,474,318)	(5,835,713)
Profit from continuing operations after tax	28,954,800	28,093,445	25,729,095	22,442,895	29,273,269
Profit	28,954,800	28,093,445	25,729,095	22,442,895	29,273,269
Total other comprehensive income	3,982,425	(407,496)	(349,226)	(3,471,024)	(3,644,024)
Total comprehensive income	32,937,225	27,685,949	25,379,869	18,971,871	25,629,245
Profit attributable to owners of parent	28,956,244	28,109,164	25,734,515	22,456,183	29,417,211
Profit attributable to non-controlling interests	(1,444)	(15,719)	(5,420)	(13,288)	(143,942)
Comprehensive income attributable to owners of parent	32,938,669	27,701,668	25,380,530	18,981,010	25,672,449
Comprehensive income attributable to non-controlling interests	(1,444)	(15,719)	(661)	(9,139)	(43,204)
Earnings per share (EPS)	2.13	2.07	1.89	1.65	2.35

6.1.4 Condensed Unconsolidated Income Statement

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

Item \ Year	2019	2018	2017	2016	2015
Share of profit of associates and joint ventures accounted for using equity method	29,345,776	27,913,508	25,926,293	23,132,410	30,416,201
Other revenues	158,590	255,974	188,208	166,501	131,964
Operating expenses	(412,436)	(384,452)	(371,553)	(365,275)	(441,434)
Other expenses and losses	(60,937)	(62,002)	(106,228)	(67,257)	(242,233)
Profit from continuing operations before tax	29,030,993	27,723,028	25,636,720	22,866,379	29,864,498
Income tax expense	(74,749)	386,136	97,795	(410,196)	(447,287)
Profit	28,956,244	28,109,164	25,734,515	22,456,183	29,417,211
Other comprehensive income (loss)	3,982,425	(407,496)	(353,985)	(3,475,173)	(3,744,762)
Total comprehensive income	32,938,669	27,701,668	25,380,530	18,981,010	25,672,449
Earnings per share	2.13	2.07	1.89	1.65	2.35



6.1.5 Independent Auditors' Name and Opinion

Year	CPA Firm	CPA's Name	Auditing Opinion
2019	PricewaterhouseCoopers, Taiwan	Shu-Mei Chi, Chung-Hsi Lai	Unqualified 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

6.2 Five-Year Financial Analysis

Consolidated

Item		Year	2019	2018	2017	2016	2015
Operating ability	Total assets turnover (times)		0.02	0.02	0.02	0.02	0.02
	Loans to deposits ratio of bank subsidiary (%)		77.62	82.08	75.14	80.38	80.71
	NPL ratio of bank subsidiary (%)		0.14	0.15	0.13	0.11	0.09
	NPL ratio of bills finance subsidiary (%)		0.00	0.00	0.00	0.00	0.00
	Average operating revenue per employee of the Group (NT\$1,000)		6,676	6,620	6,728	6,546	7,155
	Average profit per employee (NT\$1,000)		2,962	3,019	2,902	2,668	3,477
Profitability	Return on total assets (%)		1.61	1.47	1.26	1.07	1.35
	Return on equity (%)		9.07	9.04	8.72	7.67	10.56
	Profit margin (%)		44.36	45.60	43.13	40.76	48.60
	Earnings per share (NT\$)		2.13	2.07	1.89	1.65	2.35
Financial structure (%)	Ratio of liabilities to assets		91.20	91.13	91.60	91.20	91.37
	Ratio of liabilities to net worth		1,036.68	1,027.13	1,089.99	1,036.81	1,058.10
	FHC's double leverage ratio		111.38	110.56	111.70	110.67	108.89
	The financial ratio set by FHC Act §41		-	-	-	-	-
Leverage ratio (%)	Operating leverage ratio		1.06	1.09	1.17	1.16	1.01
	FHC's financial leverage ratio		1.00	1.00	1.00	1.00	1.01
Growth rates (%)	Growth rate of assets		3.99	(0.15)	6.85	(2.32)	3.91
	Growth rate of profit		8.28	6.14	4.88	(20.48)	(0.69)
Cash flow (%)	Cash flow ratio		11.69	(7.61)	29.06	2.94	8.02
	Cash flow adequacy ratio		234.15	276.18	481.10	336.01	385.78
	Cash flow coverage ratio		NA	NA	NA	NA	7,598.82
Operating scale (%)	Market share of assets		6.13	6.36	6.76	6.91	7.47
	Market share of net worth		7.29	8.52	8.02	8.69	9.37
	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 Co., Ltd.	13.92	13.86	14.30	14.32
	Mega Securities Co., Ltd.	447.81	500.36	424.69	574.67
	Mega Bills Finance Co., Ltd.	13.58	13.57	13.64	13.53
	Chung Kuo Insurance Co., Ltd.	720.14	762.18	751.95	739.35
	Eligible capital of each subsidiary (in NTD thousands)				
	Mega International Commercial Bank Co., Ltd.	299,282,941	293,769,063	282,955,080	281,087,158
	Mega Securities Co., Ltd.	13,024,144	12,775,462	12,831,508	12,154,901
	Mega Bills Finance Co., Ltd.	36,622,230	34,898,052	35,146,019	33,248,864
	Chung Kuo Insurance Co., Ltd.	7,189,577	7,132,025	6,765,462	6,581,472
	Mega Asset Management Co., Ltd.	2,753,530	2,731,316	2,775,707	2,857,728
	Mega Life Insurance Agency Co., Ltd.	466,496	383,543	441,841	570,476
	Mega Venture Capital Co., Ltd.	761,477	713,200	801,698	734,690
	Mega Int'l Investment Trust Co., Ltd.	845,920	820,145	841,988	828,451
	Group's net eligible capital	324,651,590	319,151,058	309,989,545	306,394,970
	Statutory capital requirement (in NTD thousands)				
	Mega International Commercial Bank Co., Ltd.	225,757,313	209,367,448	183,050,518	169,355,378
	Mega Securities Co., Ltd.	4,362,605	3,829,847	4,532,031	3,172,652
	Mega Bills Finance Co., Ltd.	21,575,707	20,568,663	20,619,364	19,653,980
	Chung Kuo Insurance Co., Ltd.	1,996,730	1,871,472	1,799,450	1,780,334
	Mega Asset Management Co., Ltd.	5,823,786	6,435,398	5,967,847	6,046,569
	Mega Life Insurance Agency Co., Ltd.	335,961	260,048	286,246	397,714
	Mega Venture Capital Co., Ltd.	380,772	356,699	406,603	370,710
	Mega Int'l Investment Trust Co., Ltd.	470,897	467,823	478,050	431,685
	Group's total statutory capital requirement	264,121,493	246,248,635	224,832,106	208,553,117
	Group capital adequacy ratio (%)	122.92	129.61	137.88	146.91
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 (%)		968.98	961.70	1,071.44	649.69
Analysis of over 20% change of 2019 compared to 2018 :					
1. The growth rate of assets increased by 2,760% because of the increase of financial assets at fair value through other comprehensive income.					
2. The growth rate of profit increased by 35% because of the increase in profit before tax in 2019 compared to 2018 is higher than it was in 2018 compared to 2017.					
3. The cash flow ratio increased by 254% is mainly because of the increase of net cash inflow of operating activities.					

Unconsolidated

Unit: NT\$1,000; %

Item		Year	2019	2018	2017	2016	2015
Operating ability	Total assets turnover (times)		0.08	0.08	0.08	0.07	0.10
	Loans to deposits ratio of bank subsidiary (%)		77.21	81.73	74.90	80.16	80.42
	NPL ratio of bank subsidiary (%)		0.14	0.14	0.12	0.09	0.08
	NPL ratio of bills finance subsidiary (%)		0.00	0.00	0.00	0.00	0.00
	Average operating revenue per employee (NT\$1,000)		453,913	433,377	512,161	439,602	598,984
	Average profit per employee (NT\$1,000)		445,481	432,449	504,598	423,702	576,808
Profitability	Return on assets (%)		8.14	8.13	7.83	6.96	9.76
	Return on equity (%)		9.07	9.05	8.72	7.67	10.62
	Profit margin (%)		98.14	99.79	98.52	96.38	96.30
	Earnings per share (NT\$)		2.13	2.07	1.89	1.65	2.35
Financial structure (%)	Ratio of liabilities to assets		10.81	10.11	10.89	9.94	9.03
	Ratio of liabilities to net worth		12.13	11.25	12.23	11.03	9.93
	FHC's double leverage ratio		111.38	110.56	111.70	110.67	108.89
	The financial ratio set by FHC Act §41		-	-	-	-	-
Leverage ratio (%)	Operating leverage ratio		1.00	0.99	0.99	0.99	1.00
	FHC's financial leverage ratio		1.00	1.00	1.00	1.00	1.01
Growth rates (%)	Growth rate of assets		3.94	4.15	3.17	0.51	13.42
	Growth rate of profit		4.72	8.14	12.12	(23.43)	(1.50)
Cash flow (%)	Cash flow ratio		117.29	103.19	124.46	176.33	170.50
	Cash flow adequacy ratio		87.09	90.40	92.36	98.16	106.00
	Cash flow coverage ratio		NA	NA	NA	NA	NA
Operating scale (%)	Market share of assets		7.51	8.21	8.20	8.67	9.28
	Market share of net worth		7.56	8.37	8.32	8.83	9.54
	Market share of deposits of bank subsidiary		5.50	5.48	5.81	5.50	5.89
	Market share of loans of bank subsidiary		5.72	5.95	5.93	5.99	6.34

Analysis of over 20% change of 2019 compared to 2018 :

1. The growth rate of profit fell by 42% as the increase of the profit before tax in 2019 compared to 2018 is lower than the it was in 2018 compared to 2017; Also the compared basis 2018 profit before tax is much higher than 2017.

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 = Profit / Total number of employee

2. Profitability

- (1) Return on assets = [Profit + Interest expense \times (1 - Tax rate)] / Average total assets
- (2) Return on equity = Profit / Average equity
- (3) Profit margin = Profit / Net revenue
- (4) Earnings per share = (Profit 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) / Profit before tax
- (2) Financial leverage ratio of financial holding company = (Profit before tax + Interest expense) / Profit 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 = (Profit before tax - Profit before tax of previous year) / Profit 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 requirement

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, 2019 unit: In thousand 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			Linyuan Investment Co., Ltd.	5,667,315	1.75
Central Bank of the Republic of China (Taiwan)	433,223,144	133.63	Changchun Investment Co., Ltd.	5,580,400	1.72
Ministry of Finance, R.O.C	131,220,653	40.48	China Development Bank	5,502,937	1.70
Taiwan Power Company	67,721,418	20.89	SUNWORLD DYNASTY EUROPE HOLDINGS B.V.I	5,502,707	1.70
Taiwan High Speed Rail Corporation	50,573,838	15.60	GREENCOMPASS MARINE S.A.	5,365,466	1.66
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	46,906,565	14.47	Formosa Petrochemical Corp	5,282,771	1.63
CPC Corporation, Taiwan	23,264,470	7.18	ASIA CEMENT CORPORATION	5,100,027	1.57
Hon Hai Precision Ind. Co., Ltd.	15,426,066	4.76	Formosa Plastics Corp.	5,064,083	1.56
UNITED STATES TREASURY DEPT.	15,200,646	4.69	The Export-Import Bank Of Korea	5,061,503	1.56
Taiwan Semiconductor Manufacturing Co., Ltd.	13,195,641	4.07	Rich Development Inc.	5,008,375	1.54
High Wealth Construction Corp.	12,824,507	3.96	U-Ming Marine Transport Corp.	4,999,774	1.54
Yuanli Development Co., Ltd.	12,572,804	3.88	Sunrider Taiwan, Inc	4,907,100	1.51
Nan Ya Plastics Corporation	10,942,700	3.38	AU Optonics Corp.	4,845,681	1.49
Quanta Computer Inc.	10,309,506	3.18	Central Investment Co., Ltd.	4,838,359	1.49
GOVERNMENT OF JAPAN	9,601,619	2.96	Lloyds Bank Plc	4,626,601	1.43
United Microelectronics	9,130,704	2.82	Prince Housing & Development Corp.	4,579,396	1.41
Ruentex Development Co., Ltd.	8,855,162	2.73	CHANG CHUN PETROCHEMICAL CO., LTD.	4,552,552	1.40
The Bank of Tokyo-Mitsubishi UFJ, Ltd. Taipei Branch	8,370,176	2.58	RELIANCE INDUSTRIES LTD.	4,498,050	1.39
Huei Hong Investment Co., Ltd.	7,678,640	2.37	Chailease Finance Co., Ltd.	4,472,983	1.38
EVA AIRWAYS Corporation	7,651,210	2.36	Yieh United Steel Corp.	4,447,775	1.37
Westpac Banking Corporation	7,600,965	2.34	Commonwealth Bank of Australia	4,339,095	1.34
YFG SHOPPING CENTRES PTY LTD. ATF THE FU	7,530,615	2.32	Sumitomo Mitsui Banking Corporation, Taipei Branch	4,294,064	1.32
The Export-Import Bank of China	7,361,306	2.27	KEB HANA BANK	4,187,902	1.29
Far EasTone Telecommunications Co., Ltd.	7,131,069	2.20	China Steel Corporation	4,158,370	1.28
Taiwan Cement Corp.	7,038,729	2.17	King's Town Construction Co., Ltd.	4,153,070	1.28
Pegatron Corporation	6,957,142	2.15	HUAKU DEVELOPMENT CO., Ltd.	4,059,292	1.25
FORMOSA HA TINH (CAYMAN) LTD.	6,597,140	2.03	FARGLORY LAND DEVELOPMENT CO., LTD.	4,026,661	1.24
CHOW TAI FOOK ENTERPRISES LTD.	6,530,825	2.01	Mayfull Enterprise Co., Ltd.	4,011,970	1.24
Yang Ming Marine Transport Corp.	6,434,532	1.98	Bank of China	3,938,772	1.21
Wan Bao Development Co., Ltd.	6,385,968	1.97	Oriental Petrochemical (Taiwan) Co., Ltd.	3,913,837	1.21
Runlong Construction Corp.	6,366,687	1.96	Winbond Electronics Corporation	3,669,701	1.13
CHANG HWA COMMERCIAL BANK, LTD.	6,261,543	1.93	CHINA PETROCHEMICAL DEVELOPMENT CORPORATION	3,667,819	1.13
Wealth Media Co., Ltd.	5,839,503	1.80	Powerchip Semiconductor Manufacturing Corporation	3,664,701	1.13
JUNMEN Co., Ltd.	5,835,347	1.80	Ruen Chen Investment Holding Co., Ltd.	3,648,000	1.13
NATIONAL AUSTRALIA BANK LTD.	5,783,365	1.78	SUNWORLD DYNASTY US HOLDINGS LLC	3,633,225	1.12
Far Eastern New Century Corporation	5,755,668	1.78			
Taiwan Mobile Co., Ltd.	5,715,800	1.76			

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 (%)
EVERGREEN MARINE(SINGAPORE) PTE. LTD.	3,630,759	1.12	Mr./Ms.Li	11,110,544	3.43
Ruen Hua Dyeing & Weaving Co., Ltd	3,565,000	1.10	Mr./Ms.Tsai	11,045,107	3.41
Yi-Ta Investment CO., Ltd.	3,545,960	1.09	Mr./Ms. Xie	11,008,216	3.40
EASY GAIN INTERNATIONAL LLC	3,520,654	1.09	Mr./Ms. Chien	9,351,363	2.88
Innolux Corp.	3,482,425	1.07	Mr./Ms.Lan	8,089,506	2.50
Fubon Land Co., Ltd.	3,471,109	1.07	Mr./Ms. Miao	7,890,430	2.43
Australia and New Zealand Banking Group Limited Taipei Branch	3,459,277	1.07	Mr./Ms.Chen	7,555,685	2.33
CHINA GOVERNMENT	3,448,505	1.06	Mr./Ms. F	7,552,593	2.33
Taiyuan Assets Co., Ltd.	3,445,000	1.06	Mr./Ms. Ho	7,337,416	2.26
Inteplast Group Corporation	3,418,518	1.05	Mr./Ms. Chen	7,319,690	2.26
RABOBANK NEDERLAND AUSTRALIA	3,400,209	1.05	Mr./Ms. Chang	7,204,500	2.22
Yieh Phui Enterprise Co.,Ltd.	3,393,810	1.05	Mr./Ms. Guo	6,952,026	2.14
Evergreen Marine Corp. (Taiwan) Ltd.	3,387,298	1.04	Mr./Ms.Tsai	6,543,533	2.02
Yuen Foong Yu Investment Holding Inc	3,268,720	1.01	Mr./Ms.Chiu	6,366,687	1.96
CHINA CONSTRUCTION BANK CORPORATION	3,249,181	1.00	Mr./Ms.Wu	6,130,347	1.89
Nexcom International Co., Ltd.	3,248,187	1.00	Mr./Ms.Wu	5,688,595	1.75
Dezhao Construction Co., Ltd.	3,237,820	1.00	Mr./Ms. Chu	5,555,550	1.71
MediaTek Inc.	3,226,859	1.00	Mr./Ms. Zhan	5,202,403	1.60
INDUSTRIAL AND COMMERCIAL BANK OF CHINA	3,196,541	0.99	Mr./Ms. Lai	4,995,496	1.54
Lih Pao Construction Co., Ltd.	3,185,938	0.98	Mr./Ms. You	4,624,350	1.43
Mizuho Trust & Banking Co., Ltd.	3,174,969	0.98	Mr./Ms. Zhan	4,587,978	1.42
CHINESE MARITIME TRANSPORT LTD.	3,170,088	0.98	Mr./Ms.Chen	4,292,504	1.32
BPCE SA PARIS	3,140,292	0.97	Mr./Ms.Chen	4,241,909	1.31
BANK OF COMMUNICATIONS HONG KONG	3,122,391	0.96	Mr./Ms. Guo	4,211,138	1.30
Hung Sheng Construction Co., Ltd.	3,082,470	0.95	Mr./Ms.Chen	4,161,183	1.28
International Bills Finance Corporation	3,054,482	0.94	Mr./Ms. Yeh	4,098,117	1.26
China Network Systems Co., Ltd.	3,041,914	0.94	Mr./Ms. Zhuang	4,059,292	1.25
Wei Sheng International Development Co., Ltd.	3,020,000	0.93	Mr./Ms. Chang	3,959,357	1.22
Uni-President Enterprises Corp.	3,019,384	0.93	Mr./Ms.Wu	3,953,061	1.22
Bank of Communications Co., Ltd.	3,010,069	0.93	Mr./Ms.Huang	3,939,506	1.22
K. WAH FINANCIAL SERVICES LTD.	3,005,077	0.93	Mr./Ms. Chou	3,924,454	1.21
2. Same natural person, his /her spouse, blood relatives within the second degree and enterprises of which the principal or his/her spouse is the responsible person			Mr./Ms.Luo	3,502,865	1.08
Mr./Ms. Chang	50,578,933	15.60	Mr./Ms. Kao	3,330,724	1.03
Mr./Ms. Lu	16,852,106	5.20	Mr./Ms. Lin	3,293,898	1.02
Mr./Ms.Tseng	15,426,331	4.76	Mr./Ms.Chen	3,263,500	1.01
Mr./Ms.Lan	14,711,796	4.54	Mr./Ms.Han	3,248,376	1.00
Mr./Ms.Hsu	14,222,229	4.39	Mr./Ms. You	3,226,859	1.00
Mr./Ms.Tsai	13,728,246	4.23	Mr./Ms. Chao	3,207,960	0.99
Mr./Ms.Li	13,097,117	4.04	Mr./Ms.Huang	3,188,834	0.98
Mr./Ms.Chen	11,817,575	3.65	3. Same affiliated enterprises		
			TAIPOWER BENGALLA PTY LTD.	67,908,838	20.95
			Formosa Plastics Corp.	39,078,573	12.05
			Ruen Chen Investment Holding Co., Ltd.	28,184,578	8.69
			Formosa Chemicals & Fiber Corp.	27,977,878	8.63
			Huei Hong Investment Co., Ltd.	26,643,176	8.22



Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)
Nan Ya Plastics Corporation	26,451,800	8.16
FORMOSA HEAVY INDUSTRIES CORPORATION	25,414,630	7.84
Formosa Petrochemical Corp.	24,828,872	7.66
Formosa Environmental Technology Co., Ltd.	24,489,901	7.55
FU-DA Transport Corporation	23,325,601	7.20
CPC Corporation, Taiwan	23,264,470	7.18
Ruentex Corporation	22,366,978	6.90
HON HAI PRECISION IND. CO., Ltd.	21,627,340	6.67
Far Eastern New Century Corporation	20,591,779	6.35
FOXCONN(FAR EAST) LTD.	20,531,856	6.33
Runlong Construction Corp.	19,656,615	6.06
China Steel Corporation	19,101,026	5.89
SHARP CORPORATION	18,315,066	5.65
FOXCONN VENTURES PTE. LTD.	17,828,186	5.50
Ennoconn Corporation	17,106,855	5.28
ASIA PACIFIC TELECOM CO., LTD.	16,857,106	5.20
Taiwan Intelligent Fiber Optic Network Consortium	15,615,815	4.82
FOXSEMICON INTEGRATED TECHNOLOGY INC.	15,553,206	4.80
Fitipower Integrated Technology Inc.	15,486,040	4.78
Ruentex Development Co., Ltd.	15,054,274	4.64
Evergreen Marine Corp. (Taiwan) Ltd.	14,828,205	4.57
Far EasTone Telecommunications Co., Ltd.	13,708,558	4.23
Linyuan Investment Co., Ltd.	13,512,783	4.17
Far Eastern Construction Co., Ltd.	13,379,822	4.13
Taiwan Semiconductor Manufacturing Co., Ltd.	13,250,170	4.09
CHAILEASE HOLDINGS CO.	13,047,264	4.02
Times Winner Investment Co., Ltd.	13,024,507	4.02
Evergreen Air Cargo Services Corp..	12,721,561	3.92
Yuanlih Development Co., Ltd.	12,572,804	3.88
Taiwan Cement Corp.	12,299,370	3.79
Pegatron Corporation	11,918,778	3.68
International CSRC Investment Holdings Co., Ltd.	11,697,609	3.61
Quanta Computer Inc.	11,395,243	3.52
Yieh Hsing Enterprise Co., Ltd.	11,374,432	3.51
Oriental Petrochemical (Taiwan) Co., Ltd.	11,177,505	3.45
Uni-President Enterprises Corp.	11,147,462	3.44
Chow Tai Fook Enterprises Limited	11,072,606	3.42
Kai Yung International Investment Co., Ltd.	10,902,505	3.36
China Steel Structure Co., Ltd.	10,782,210	3.33
Chailease Finance Co., Ltd.	10,585,774	3.27
CHAILEASE ROYAL FINANCE PLC	10,540,073	3.25
TRONDAGE ENTERPRISES	10,502,950	3.24

Name	Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act	Percentage of net Worth of the Company (%)
Sunrider Taiwan, Inc.	10,409,807	3.21
EVER SHINE (NINGBO)	10,282,101	3.17
Asia Cement Corporation	9,837,039	3.03
Yang Ming Marine Transport Corp.	9,328,984	2.88
Uni Airways Corp.	9,303,909	2.87
United Microelectronics	9,246,851	2.85
Lih Pao Construction Co., Ltd.	9,241,369	2.85
E-DA Development Corp.	9,091,556	2.80
ASIAZONE CO., LIMITE	8,723,312	2.69
Eliter International Corp.	8,444,485	2.60
Yieh Phui Enterprise Co., Ltd.	8,431,802	2.60
Asia Investment Co., Ltd.	8,257,343	2.55
Farglory Dome Co., Ltd.	8,247,169	2.54
Prince Housing & Development Corp.	8,065,687	2.49
Lien Hwei Development Co., Ltd.	8,036,585	2.48
Onyx Ta-Ho Environmental Service Co., Ltd.	7,993,773	2.47
Yieh United Steel Corp.	7,955,452	2.45
WISDOM MARINE INTERNATIONAL INC.	7,854,857	2.42
JUNMEN Co., Ltd.	7,749,547	2.39
RELIANCE INDUSTRIES	7,719,181	2.38
Feng Sheng Enterprise Co., Ltd.	7,600,414	2.34
Rich Development Inc.	7,492,949	2.31
United Steel Engineering & Construction Corp.	7,323,818	2.26
WEALTH MEDIA CO., Ltd.	7,300,952	2.25
Qisda Corporation	7,296,929	2.25
Farglory International Investment Co., Ltd.	7,075,345	2.18
YA TUNG READY MIXED CONCRETE CO., LTD.	6,873,443	2.12
Yuen Foong Yu Investment Holding Inc.	6,843,306	2.11
King's Town Construction Co., Ltd.	6,837,951	2.11
ASE Industrial Holding Co Ltd.	6,747,209	2.08
Cheng Shin Rubber Ind., Co., Ltd.	6,725,400	2.07
Daxin Materials Corp.	6,654,572	2.05
U-Ming Marine Transport Corp.	6,614,989	2.04
AU Optronics Corp.	6,608,010	2.04
Fareast Land Development Co., Ltd.	6,574,595	2.03
Chang Chun PetroChemical Co., Ltd.	6,449,488	1.99
Walsin Lihwa Corp.	6,384,766	1.97
Shih Wei Navigation Co., Ltd.	6,373,189	1.97
Evergreen International Storage&Transport Corp., Ltd.	6,321,240	1.95
Dau Ying Corp.	6,219,317	1.92
China Prosperity Development Corp.	6,194,038	1.91
Central Investment Co., Ltd.	6,075,359	1.87
IMA FOODS CORPORATION	5,975,567	1.84

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 (%)
Forest Water Environmental Engineering Ltd.	5,914,211	1.82
LEALEA ENTERPRISE CO., LTD.	5,899,375	1.82
Chu Yuan Industrial Co., Ltd.	5,852,987	1.81
LIEN HWA INDUSTRIAL CORP.	5,814,785	1.79
Taiwan Mobile Co., Ltd.	5,766,309	1.78
YULON MOTOR CO.,Ltd	5,696,429	1.76
International Bills Finance Corporation	5,567,709	1.72
Long Yuan Investment Development Co., Ltd.	5,516,814	1.70
Winbond Electronics Corporation	5,324,495	1.64
Pou Chen Corporation	5,284,926	1.63
EVERLASTING CABLE TV CO., LTD.	5,277,914	1.63
ICBC INTERNATIONAL HOLDINGS LIMITED	5,250,583	1.62
Advanced Semiconductor Engineering, Inc.	5,186,926	1.60
SIO INTERNATIONAL HOLDINGS LIMITED	5,163,469	1.59
Jia Rui Development Company	5,062,988	1.56
BANK OF COMMUNICATIONS CO.	5,060,496	1.56
SOFTBANK GROUP CORP.	5,023,170	1.55
Oriental Union Chemical Corporation	5,004,873	1.54
ZHONG-TAI BINGUAN CO.,Ltd.	4,982,985	1.54
President International Development Corp.	4,799,276	1.48
WPG HOLDINGS Co., Ltd	4,718,067	1.46
CMT Logistics Co., Ltd.	4,694,888	1.45
MACQUARIE GROUP LTD.	4,650,944	1.43
SAN MIGUEL CORPORATION	4,608,490	1.42
Shin Yang Steel Co., Ltd.	4,559,815	1.41
Nexcom International Co., Ltd.	4,551,824	1.40
YC Co., Ltd.	4,509,392	1.39
Taiwan Glass Ind. Corp.	4,441,139	1.37
YI JINN INDUSTRIAL CO., LTD,	4,432,610	1.37
CTCI Corporation.	4,388,394	1.35
Shin Kong Mitsukoshi Department Store Co., Ltd.	4,379,451	1.35
L & K Engineering Co., Ltd.	4,240,764	1.31
Guanhong Development Co., Ltd.	4,168,000	1.29
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION	4,117,819	1.27
IBF Venture Capital Co., Ltd.	4,114,157	1.27
HUAKU DEVELOPMENT CO., Ltd.	4,079,292	1.26
Hsiang Ho Fishery Co., Ltd.	4,076,704	1.26
United Anfeng Co., Ltd.	4,071,990	1.26
JSL ENTERTAINMENT CO., LTD.	3,870,107	1.19
Radium Life Tech Corp.	3,784,370	1.17
San Ching Engineering Co., Ltd.	3,782,538	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 (%)
CAL-COMP ELECTRONICS (THAILAND) PUBLIC COMPANY LIMITED	3,761,407	1.16
ASSOCIATED TRANSPORT INC.	3,730,088	1.15
President Tokyo Corporation	3,703,608	1.14
Boclh Industrial Gases Co., Ltd.	3,685,596	1.14
Bai An Investment Co., Ltd.	3,683,000	1.14
Powerchip Semiconductor Manufacturing Corporation	3,664,701	1.13
Hengshang Investment Co., Ltd.	3,573,291	1.10
E Ink Holdings Inc.	3,556,208	1.10
Innolux Corp.	3,482,425	1.07
Taiyuan Assets Co., Ltd.	3,445,000	1.06
UNI-PRESIDENT SOUTHEAST ASIA HOLDINGS LIMITED	3,413,862	1.05
CHENG UEI PRECISION INDUSTRY CO., LTD.	3,413,083	1.05
FE21' Corp.	3,397,133	1.05
CNRC CAPITAL LTD	3,383,818	1.04
FABULOUS DEVELOPMENT INTERNATIONAL CO., LTD.	3,379,976	1.04
CCB INTERNATIONAL (HOLDINGS) LTD.	3,370,245	1.04
Shin An transportation co., Ltd.	3,336,632	1.03
GARUDA TECHNOLOGY CO., LTD.	3,298,570	1.02
Tatung Corp.	3,269,183	1.01
MediaTek Inc.	3,264,845	1.01
KINPO ELECTRONICS, INC.	3,243,052	1.00
Dezhao Construction Co., Ltd.	3,237,820	1.00
TA CHEN STAINLESS PIPE CO., LTD.	3,219,807	0.99
STARLUX AIRLINES CO., LTD.	3,200,000	0.99
Kee Tai Properties Co.,Ltd.	3,194,000	0.99
Inventec Corp.	3,187,894	0.98
I-Sunny Co., Ltd.	3,185,520	0.98
President Securities Corporation	3,139,485	0.97
TAIWAN COGENERATION CORPORATION	3,134,203	0.97
KING YUAN ELECTRONICS CO., LTD.	3,111,124	0.96
Hung Sheng Construction Co., Ltd.	3,082,470	0.95
TTET UNION CORPORATION	3,025,491	0.93
Jih Sun International Leasing and Finance Co., Ltd	3,013,722	0.93
K. WAH FINANCIAL SERVICES LTD.	3,005,077	0.93
INDIAN SYNTHETIC RUBBER LTD.	3,004,802	0.93
YEASHIN INTER. DEVELOPMENT CO., LTD.	3,000,503	0.93

Note : The amount is calculated with the unaudited net value as of December 31, 2019.



6.3 Audit Committee's Review Report

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

The Board of Directors has prepared the Company's 2019 Consolidated Financial Statements, audited by Certified Public Accountants Shu-Mei Chi and Chung-Hsi Lai of PricewaterhouseCoopers, Taiwan (PWC), Business Report and proposal for distribution of earnings to Audit Committee. The abovementioned statements and reports have been reviewed and determined no specific discrepancy. We hereby submit this report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

To: Mega Financial Holding Co., Ltd.
2020 General Shareholders Meeting.

Mega Financial Holding Co., Ltd.

Chairman of Audit Committee: Jiun-Wei Lu

Date: May 12, 2020

6.4 Consolidated Financial Statements

Report of Independent Accountants

To the Board of Directors and Shareholders of 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, 2019 and 2018, 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, 2019 and 2018, 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

For the year ended December 31, 2019, we conducted our audit in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants”, Jin-Guan-Yin-Fa-Zi Letter No.10802731571 and generally accepted auditing standards in the Republic of China (ROC GAAS), for the year ended December 31, 2018, we conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants” and 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 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, 2019 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 \$ 1,903,261,265 thousand and \$ 29,583,431 thousand, respectively, as at December 31, 2019, 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 \$5,773,588 thousand and financial assets at fair value through other comprehensive income amounting to \$16,715,952 thousand as at December 31, 2019.

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(21)4 and (27); 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(27).

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, 2019, subsidiary CKI's claims reserve and ceded claims reserve was \$3,481,888 thousand and \$1,692,166 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. Obtained an understanding and assessed CKI's policies, internal controls and processing procedures for the calculation of the Company's claims reserves (included ceded reserves). Also, on a sampling basis tested the effectiveness of internal controls for provisions.
2. Sampled and inspected whether there were differences between the numbers referred to claims reserves (including those prior to and after reinsurance) and carrying amount in order to confirm the accuracy and completeness.
3. Used the work of actuarial specialists to assist us in assessing the reasonableness of the claims reserves (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 reserves;
- (2) Sampled and inspected how provision were calculated to ensure the accuracy of Company's contributed provision.

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

cg-ck. Lai

Chi, Shu-Mei

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 24, 2020

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

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

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

			December 31, 2019		December 31, 2018	
	Items	Notes	Amount	%	Amount	%
	Assets					
11000	Cash and cash equivalents	6(1)	\$ 146,189,216	4	\$ 129,675,778	4
11500	Due from the Central Bank and call loans to banks	6(2) and 11	487,453,457	13	514,219,514	14
12000	Financial assets at fair value through profit or loss	6(3), 11 and 12	208,313,130	6	196,201,030	5
12150	Financial assets at fair value through other comprehensive income	6(4) and 12	536,232,599	15	421,176,553	12
12200	Investments in debt instruments at amortised cost	6(5) and 12	275,214,156	7	272,926,017	8
12500	Securities purchased under resell agreements		3,584,364	-	2,623,231	-
13000	Receivables, net	6(6)	99,308,276	3	92,723,255	3
13200	Current tax assets		483,744	-	272,816	-
13300	Assets classified as held for sale, net	6(8) and 12	276,900	-	328,350	-
13500	Loans discounted, net	6(7) and 11	1,873,677,834	51	1,864,447,103	53
13700	Reinsurance contract assets, net	6(9)(26)	3,984,617	-	3,854,464	-
15000	Investments accounted for using equity method, net	6(10)	3,115,829	-	3,168,973	-
15500	Other financial assets, net	6(11) and 12	7,418,321	-	5,112,210	-
18000	Investment property, net	6(14) and 12	1,025,375	-	1,500,403	-
18500	Property and equipment, net	6(15) and 12	22,080,894	1	21,973,422	1
18600	Right-of-use asset, net	6(12)	1,777,500	-	-	-
19000	Intangible assets, net		610,731	-	518,222	-
19300	Deferred income tax assets	6(41)	5,801,886	-	7,552,961	-
19500	Other assets, net	6(16) and 12	6,998,951	-	3,785,059	-
	Total Assets		\$ 3,683,547,780	100	\$ 3,542,059,361	100
	Liabilities					
21000	Deposits from the Central Bank and banks	6(17) and 11	\$ 420,833,162	11	\$ 411,643,388	12
21500	Due to the Central Bank and banks	6(18)	21,161,321	1	53,920,881	2
22000	Financial liabilities at fair value through profit or loss	6(19)	22,115,709	1	27,357,462	1
22500	Securities sold under repurchase agreements	6(20)	259,192,262	7	252,298,265	7
22600	Commercial paper issued, net	6(21) and 11	19,963,897	1	15,929,662	-
23000	Payables	6(22)	75,207,489	2	66,362,081	2
23200	Current tax liabilities		9,149,946	-	9,319,314	-
23500	Deposits and remittances	6(23)	2,459,457,135	67	2,320,637,263	66
24000	Bonds payable	6(24)	12,000,000	-	13,300,000	-
24400	Other borrowings	6(25)	3,464,909	-	4,934,529	-
24600	Provisions	6(26)	28,110,114	1	26,977,832	1
25500	Other financial liabilities	6(27)	15,818,346	-	15,325,367	-
26000	Lease liabilities		1,801,315	-	-	-
29300	Deferred income tax liabilities	6(41)	3,164,054	-	2,526,612	-
29500	Other liabilities	6(28)	8,046,873	-	7,271,276	-
	Total liabilities		3,359,486,532	91	3,227,803,932	91
	Stockholders' equity					
	Equity attributable to owners of parent					
31100	Capital					
31101	Common stock	6(29)	135,998,240	4	135,998,240	4
31500	Capital surplus	6(29)	68,194,233	2	68,194,233	2
	Retained earnings					
32001	Legal reserve	6(29)	38,066,701	1	35,255,784	1
32003	Special reserve	6(29)	2,545,151	-	2,545,151	-
32011	Unappropriated earnings	6(30)	66,899,512	2	64,774,415	2
	Other equity interest	6(31)				
32500	Other equity interest		12,357,411	-	7,474,457	-
39500	Non-controlling interests		-	-	13,149	-
	Total Stockholders' equity		324,061,248	9	314,255,429	9
	TOTAL LIABILITIES AND EQUITY		\$ 3,683,547,780	100	\$ 3,542,059,361	100

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)

			Year ended December 31				Change percentage (%)
			2019		2018		
			Amount	%	Amount	%	
	Items	Notes					
41000	Interest income	6(32) and 11	\$ 71,681,244	110	\$ 68,345,796	111	5
51000	Less: interest expense	6(32) and 11	(36,614,396)	(56)	(30,301,244)	(49)	21
	Net interest revenue		35,066,848	54	38,044,552	62	(8)
	Net revenue other than interest						
49800	Net service fee revenue and commissions	6(33)	9,236,835	14	9,710,363	16	(5)
49810	Net insurance revenue		1,700,648	3	1,805,936	3	(6)
49820	Gain on financial assets and liabilities at fair value through profit or loss	6(34) and 11	12,022,391	19	6,269,698	10	92
49825	Gain on investment property		91,876	-	18,121	-	407
49835	Realized gain on financial assets at fair value through other comprehensive income	6(4)(35)	3,427,508	5	1,567,007	3	119
49850	Gain arising from derecognition of financial assets measured at amortised cost	6(5)	(4)	-	1,432	-	(100)
49870	Foreign exchange gains		2,175,522	3	2,668,324	4	(18)
49890	Share of profit of associates and joint ventures accounted for using equity method	6(10)	145,443	-	188,574	-	(23)
49898	Gain on reclassification under the overlay approach	6(3)(31)	(104,084)	-	111,585	-	(193)
48000	Net other revenue other than interest income	6(37)	1,542,353	2	1,236,710	2	25
55000	Impairment losses on assets	6(36)	(30,474)	-	(12,895)	-	136
	Net revenue		65,274,862	100	61,609,407	100	6
58100	Bad debts expense, commitment and guarantee liability provision	6(9)(11) and 8(3)	(687,183)	(1)	(1,996,406)	(3)	(66)
58300	Net change in provisions for insurance liabilities	6(26)	(34,968)	-	68,884	-	(151)
	Operating expenses						
58501	Employee benefit expenses	6(38)	(19,538,641)	(30)	(18,096,204)	(29)	8
58503	Depreciation and amortization expense	6(39)	(1,456,326)	(3)	(845,876)	(1)	72
58599	Other general and administrative expenses	6(40)	(9,903,470)	(15)	(9,659,845)	(16)	3
61000	Profit from continuing operations before tax		33,654,274	51	31,079,960	51	8
61003	Income tax expense	6(41)	(4,699,474)	(7)	(2,986,515)	(5)	57
69000	Profit		\$ 28,954,800	44	\$ 28,093,445	46	3
	Other comprehensive income						
	Components of other comprehensive income that will not be reclassified to profit or loss, net of tax						
69561	Loss on remeasurement of defined benefit plans		(\$ 934,867)	(1)	(\$ 844,542)	(1)	11
69563	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		1,493	-	(2,634)	-	(157)
69567	Revaluation gains on investments in equity instruments measured at fair value through other comprehensive income	6(4)(31)	1,921,689	3	462,883	1	315
69569	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(41)	187,272	-	345,487	-	(46)
	Components of other comprehensive income that will be reclassified to profit or loss, net of tax						
69571	Exchange differences on translation	6(31)	(809,797)	(1)	1,148,351	2	(171)
69575	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	6(10)(31)	23,110	-	(35,210)	-	(166)
69585	Revaluation gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	6(4)(31)	3,973,149	6	(1,666,858)	(3)	(338)
69587	Impairment loss (reversal of impairment loss) from investments in debt instruments measured at fair value through other comprehensive income	6(4)(31)	29,568	-	(34,947)	-	(185)
69590	Other comprehensive income (losses) on reclassification under the overlay approach	6(3)(31)	104,084	-	(111,585)	-	(193)
69579	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(31)(41)	(513,276)	(1)	331,559	-	(255)
69500	Other comprehensive income		\$ 3,982,425	6	(\$ 407,496)	(1)	(1077)
69700	Total comprehensive income		\$ 32,937,225	50	\$ 27,685,949	45	19
	Profit (loss) attributable to:						
69901	Owners of parent		\$ 28,956,244	44	\$ 28,109,164	46	3
69903	Non-controlling interests		(1,444)	-	(15,719)	-	(91)
			\$ 28,954,800	44	\$ 28,093,445	46	3
	Comprehensive income (loss) attributable to:						
69951	Owners of parent		\$ 32,938,669	50	\$ 27,701,668	45	19
69953	Non-controlling interests		(1,444)	-	(15,719)	-	(91)
			\$ 32,937,225	50	\$ 27,685,949	45	19
	Earnings per share						
70000	Basic and diluted earnings per share (in NT dollars)	6(42)	\$ 2.13		\$ 2.07		

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



MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of New Taiwan dollars)

		For the years ended December 31	
	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 33,654,274	\$ 31,079,960
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(39)	1,384,068	767,974
Amortization expense	6(39)	72,258	77,902
Bad debts expense and guarantee liability provision		687,183	1,996,406
Interest expense	6(32)(34)	37,616,720	31,079,431
Interest income	6(32)(34)	(73,790,790)	(70,271,695)
Dividend income	6(34)(35)	(1,896,440)	(1,859,861)
Net change in provisions for insurance liabilities		34,968	(68,884)
Impairment losses on assets	6(36)	30,474	12,895
(Gain) loss on disposal of property and equipment		(35)	2,388
Gain on disposal of investment property		(81,179)	(254)
Gain on disposal of assets classified as held for sale	6(8)	(55,980)	-
Share of profit of associates accounted for using equity method		(145,443)	(188,574)
Loss (profit) reclassified by applying overlay approach	6(3)	104,084	(111,585)
Changes in operating assets and liabilities			
Changes in operating assets			
Decrease in due from Central Bank and call loans to other banks		19,115,755	17,384,939
(Increase) decrease in financial assets at fair value through profit or loss		(12,112,100)	8,615,222
Increase in financial assets at fair value through other comprehensive income		(109,190,792)	(18,771,899)
(Increase) decrease in investments in debt instruments measured at amortised cost		(2,297,550)	52,215,093
(Increase) decrease in receivables		(6,998,218)	3,978,979
Increase in assets classified as held for sale		-	(328,350)
Increase in discounts and loans		(10,377,993)	(104,663,089)
Increase in reinsurance contract assets		(130,153)	(299,010)
Increase in other financial assets		(2,256,431)	(1,761,601)
(Increase) decrease in other assets		(3,615,295)	825,877
Changes in operating liabilities			
Increase in deposits from the Central Bank and banks		9,189,774	11,096,323
(Decrease) increase in financial liabilities at fair value through profit or loss		(5,241,753)	17,390,683
Increase in bills and bonds purchased under resale agreements		6,893,997	14,591,836
Increase (decrease) in payables		6,073,690	(8,169,400)
Increase (decrease) in deposits and remittances		138,819,872	(65,917,753)
Increase in other financial liabilities		492,979	2,626,897
Increase in liabilities reserve		427,476	464,646
Increase (decrease) in other liabilities		621,512	(358,454)
Cash inflow (outflow) generated from operations		27,028,932	(78,562,958)
Interest received		74,397,322	69,534,587
Cash dividend received		2,044,738	2,026,120
Interest paid		(37,230,691)	(30,023,083)
Income tax paid		(2,503,981)	(1,594,240)
Net cash flows from (used in) operating activities		63,736,320	(38,619,574)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(\$ 876,055)	(\$ 748,867)
Proceeds from disposal of property and equipment		774	38,583
Acquisition of intangible assets		(461,912)	(378,793)
Acquisition of investment property		(549)	(148,235)
Proceeds from disposal of investment property		481,990	1,621
Proceeds from disposal of assets classified as held for sale	6(8)	110,050	-
Proceeds from capital reduction of liquidation		75,754	-
Net cash flows used in investing activities		(669,948)	(1,235,691)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) increase in due to the Central Bank and banks	6(18)	(32,759,560)	20,463,321
Increase (decrease) in commercial papers payable	6(21)	4,038,000	(4,231,000)
Repayments of bank notes payable	6(24)	(1,300,000)	(12,600,000)
Repayments of bonds		-	(16,700)
(Decrease) increase in other borrowings	6(25)	(1,469,620)	3,609,161
Increase in guarantee deposits received	6(28)	152,040	316,628
Cash dividends paid	6(30)	(20,737,777)	(18,739,395)
Payment of lease liabilities	6(12)	(557,437)	-
Changes in non-controlling interests	4(3)	(11,705)	-
Net cash flows used in financing activities		(52,646,059)	(11,197,985)
Effect of exchange rate changes on cash and cash equivalents		(581,672)	1,336,024
Net increase (decrease) in cash and cash equivalents		9,838,641	(49,717,226)
Cash and cash equivalents at beginning of year		487,159,503	536,876,729
Cash and cash equivalents at end of year		\$ 496,998,144	\$ 487,159,503
The components of cash and cash equivalents			
Cash and cash equivalents reported in the statement of financial position		\$ 146,189,216	\$ 129,675,778
Due from central bank and call loans to other banks qualified as cash and cash equivalents as defined by IAS 7	6(2)	347,224,564	354,860,494
Investments in bills and bonds under resale agreements qualified as cash and cash equivalents as defined by IAS 7		3,584,364	2,623,231
Cash and cash equivalents at end of reporting period		\$ 496,998,144	\$ 487,159,503

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)

	Notes	Share capital- common stock	Capital Surplus
<u>For the year ended December 31, 2018</u>			
Equity at beginning of year		\$ 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)		-	-
Other comprehensive (loss) income	6(31)	-	-
Total comprehensive income (loss)		-	-
Earnings distribution for 2017	6(30)		
Legal reserve		-	-
Special reserve		-	-
Cash dividends		-	-
Disposal of investment in equity instruments designated at fair value through other comprehensive income	6(4)	-	-
Equity at end of year		\$ 135,998,240	\$ 68,194,233
<u>For the year ended December 31, 2019</u>			
Equity at beginning of year		\$ 135,998,240	\$ 68,194,233
Profit (loss)		-	-
Other comprehensive (loss) income	6(31)	-	-
Total comprehensive income (loss)		-	-
Earnings distribution for 2018	6(30)		
Legal reserve		-	-
Cash dividends		-	-
Disposal of investment in equity instruments designated at fair value through other comprehensive income	6(4)	-	-
Changes in non-controlling interests		-	-
Equity at end of year		\$ 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 interests	Total equity
\$ 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
\$ 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
-	-	28,956,244	-	-	-	-	-	28,956,244	(1,444)	28,954,800
-	-	(747,595)	(813,101)	-	5,413,454	104,084	25,583	3,982,425	-	3,982,425
-	-	28,208,649	(813,101)	-	5,413,454	104,084	25,583	32,938,669	(1,444)	32,937,225
2,810,917	-	(2,810,917)	-	-	-	-	-	-	-	-
-	-	(23,119,701)	-	-	-	-	-	(23,119,701)	-	(23,119,701)
-	-	(152,934)	-	-	152,934	-	-	-	-	-
-	-	-	-	-	-	-	-	-	(11,705)	(11,705)
\$ 38,066,701	\$ 2,545,151	\$ 66,899,512	(\$ 2,413,580)	\$ -	\$ 14,799,177	\$ 1,907	(\$ 30,093)	\$ 324,061,248	\$ -	\$ 324,061,248

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(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 9,777 and 9,307 as of December 31, 2019 and 2018, 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 24, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

New standards, interpretations and amendments endorsed by FSC effective from 2019 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’

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



B. The Mega Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Mega Group increased ‘right-of-use asset’ by \$1,316,263 and increased ‘lease liability’ by \$1,316,263 with respect to the lease contracts of lessees on January 1, 2019.

C. The Mega Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

- (a) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- (b) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

D. The Mega Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate range from 0.6950%~1.4343%.

E. The Mega Group recognised lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at

December 31, 2018	\$ 1,382,492
Less: Short-term leases	(5,573)
Less: Low-value assets	(16,566)
Add: Prepaid Rents	559
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019	\$ 1,360,912
Incremental borrowing interest rate at the date of initial application	0.6950%~1.4343%
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	\$ 1,316,263

(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 2020 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment 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 9, IAS 39 and IFRS7, ‘Interest rate benchmark reform’	January 1, 2020

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.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 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
Amendments to IAS 1, ‘Classification of liabilities as current or non-current’	January 1, 2022

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

- A. The consolidated financial statements consist of the consolidated balance sheet, consolidated statement of comprehensive income (showing components of profit or loss and components of other comprehensive income.), consolidated statement of changes in equity, consolidated statement of cash flows and the related notes.
- B. Except for financial assets and financial liabilities (including derivative instruments) recognised at fair value, 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.
- C. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Mega Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis for preparation of consolidated financial statements

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

Investor	Subsidiary	Ownership (%)		Remark
		December 31, 2019	December 31, 2018	
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	Note 9
MICB	Mega International Commercial Bank Public Co., Ltd (“MICBPC”)	100.00	100.00	Note 10
MS	Mega Futures Co., Ltd (“MF”)	100.00	100.00	Note 11
MS	Mega International Securities Investment Consulting Co.Ltd.	100.00	100.00	Note 12
MICB, MS and CKI	Mega I Venture Capital	-	40.00	Note 13

- (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. On April 23, 2019, the Board of Directors of the Company during its meeting resolved to merge MLIAC into the subsidiary-MICB.
- (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. MICB Canada was dissolved on April 29, 2019.
- (10) MICBPC is mainly engaged in accepting deposits, negotiation of import/export bills, collections and exchange of foreign currencies and extension of credits.
- (11) 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.
- (12) Mega International Securities Investment Consulting Co., Ltd. is 100% owned by MS, and is mainly engaged in investment consulting services.
- (13) 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. On May 13, 2019, the Board of Directors of the subsidiary during its meeting resolved to dissolve and liquidate of the subsidiary, and the liquidation was completed on November 20, 2019.

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, 2019	December 31, 2018	
MICB	Cathay Investment & Development Corporation (Bahamas)(Note)	-	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

Note: In 2018, the investee was dissolved as resolved by the stockholders at their meeting, and the liquidation was completed on February 27, 2019.

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 Mega 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. Translation of foreign operations

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 loans discounted, receivables, debt instruments measured at fair value through other comprehensive income, financial assets at amortised cost, loan commitments and financial guarantee contracts, 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) Leasing arrangements (lessor) □ lease receivables/ 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.

(12) Assets (or disposal groups) held for sale

Assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.



(13) Investments accounted for using 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 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 Mega 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 Mega Group's ownership percentage of the associate, the Mega Group recognises the Mega Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- E. When the Mega 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.

(14) 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

(15) Investment properties

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.

(16) Leasing arrangements (lessee)—right-of-use assets/ lease liabilities

Effective 2019

A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Mega Group. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate.

Lease payments are comprised of the following:

- (A) Fixed payments, less any lease incentives receivable;
- (B) Variable lease payments that depend on an index or a rate;
- (C) Amounts expected to be payable by the lessee under residual value guarantees;
- (D) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- (E) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Mega Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

- (A) The amount of the initial measurement of lease liability;
- (B) Any lease payments made at or before the commencement date;
- (C) Any initial direct costs incurred by the lessee; and
- (D) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(17) Leased assets/ operating leases (lessee)

Prior to 2019

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(18) 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.

(19) 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.

(20) 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.

(21) Provisions, 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 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.

(22) 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.

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’.

(23) 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 Mega 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

- i. 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 Mega 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 Mega Group uses market yields on government bonds (at the balance sheet date) instead.
- ii. Actuarial gains and losses arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise.
- iii. Past service costs are recognised immediately in profit or loss if vested immediately.

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

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

(24) 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.

(25) 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.

(26) 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.

(27) 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 Mega 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 Mega 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 Mega 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.

(28) 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.

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.

(29) 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.

(30) 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, 2019	December 31, 2018
Cash on hand and petty cash	\$ 20,361,656	\$ 15,374,905
Bank deposits	4,403,989	5,751,622
Cash equivalents	946,584	735,458
Checks for clearance	1,037,136	805,723
Due from banks	119,439,851	107,008,070
Total	\$ 146,189,216	\$ 129,675,778

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



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

	December 31, 2019	December 31, 2018
Reserve for deposits-category A	\$ 12,811,817	\$ 16,741,743
Reserve for deposits-category B	39,604,012	39,410,360
Reserve for deposits-general	284	291
Reserve for deposits-foreign currency	631,211	754,965
Deposits of overseas branches with foreign Central Banks	228,656,079	247,344,272
Interbank settlement fund of Fund Center	4,005,092	5,878,089
Call loans to banks and bank overdrafts	201,759,527	202,350,426
Import and export loans from banks	-	202,838
Participate in interbank financing with risk	-	1,536,650
Subtotal	487,468,022	514,219,634
Less: Allowance for doubtful accounts–interbank call loans banks	(14,565)	-
Less: Allowance for doubtful accounts–import and export loans from banks	-	(120)
Total	\$ 487,453,457	\$ 514,219,514

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, 2019 and 2018, 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 \$347,224,564 and \$354,860,494, 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, 2019	December 31, 2018
<u>Financial assets mandatorily measured at fair value through profit or loss</u>		
Stocks	\$ 22,491,619	\$ 17,279,986
Commercial papers	103,046,904	101,311,830
Beneficiary certificates	2,114,524	2,109,163
Negotiable certificates of deposit	16,900,000	17,800,000
Corporate bonds	22,232,640	22,345,717
Government bonds	9,101,795	3,543,133
Financial bonds	8,543,118	9,390,469
Derivative instruments	5,464,283	5,054,076
Other securities	6,810	45,607
Convertible corporate bond asset swaps	14,370,743	18,180,863
Subtotal	204,272,436	197,060,844
Valuation adjustment	4,040,694	(859,814)
Total	\$ 208,313,130	\$ 196,201,030

A. Gain or loss on financial assets mandatorily measured at fair value through profit or loss for the years ended December 31, 2019 and 2018 are provided in Note 6(34).

B. Please refer to Note 12 for details of the aforementioned financial assets provided as collaterals as of December 31, 2019 and 2018.

C. As of December 31, 2019 and 2018, the above financial assets used as underlying assets for repurchase agreements held by the Mega Group were \$111,039,096 and \$92,303,109, respectively.

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

	December 31, 2019	December 31, 2018
<u>Financial assets mandatorily measured at fair value through profit or loss</u>		
Listed stocks	\$ 387,414	\$ 238,354
Beneficiary certificates	1,595,919	1,327,052
	1,983,333	1,565,406
Valuation adjustment	1,907	(102,176)
	\$ 1,985,240	\$ 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, 2019	For the year ended December 31, 2018
Profit or loss recognised in accordance with IFRS 9	\$ 216,065	(\$ 74,181)
Less: Profit or loss that would have been recognised under IAS 39	111,981	37,404
Profit or loss from adopting reclassification under the overlay approach	\$ 104,084	(\$ 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, 2019	December 31, 2018
Debt instruments		
Government bonds	\$ 156,079,667	\$ 134,591,571
Financial bonds	129,327,013	123,849,667
Corporate bonds	164,219,945	131,726,868
Bank's certificates of deposit	11,176,373	9,726,068
Beneficiary securities	46,438,486	-
Treasury securities	-	671,415
Subtotal	507,241,484	400,565,589
Valuation adjustment	4,603,463	727,267
Debt instruments, net	511,844,947	401,292,856
Equity instruments		
Stocks	13,968,524	11,539,167
Other marketable securities	300,000	300,000
Valuation adjustment	10,119,128	8,044,530
Equity instruments, net	24,387,652	19,883,697
Total	\$ 536,232,599	\$ 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 \$24,387,652 and \$19,883,697 as at December 31, 2019 and 2018, respectively.

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 \$1,930,261, \$370,999 and \$1,640,128, and the cumulative loss was \$59,504 and cumulative gain was \$675 and \$240, respectively. The investee of the subsidiaries-MICB has processed the liquidation, the cumulative loss on disposal was \$91,302. The subsidiary-MBF sold equity investments for raising capital adequacy ratio, the fair value of the equity investments sold was \$92,611 and the cumulative gain on disposal was \$266 for the year ended December 31, 2019.

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 for the year ended December 31, 2018.

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,	
	2019	2018
Equity instruments at fair value through other comprehensive income		
Fair value change recognised in other comprehensive income	\$ 1,921,689	\$ 462,883
Cumulative loss reclassified to retained earnings due to derecognition	\$ 152,934	\$ 259,718
Dividend income recognised in profit or loss		
Held at end of year	\$ 986,069	\$ 920,533
Derecognised during the year	44,570	85,519
	<u>\$ 1,030,639</u>	<u>\$ 1,006,052</u>
Debt instruments at fair value through other comprehensive income		
Fair value change recognised in other comprehensive income	\$ 6,370,018	(\$ 1,105,903)
Cumulative other comprehensive income reclassified to profit or loss		
Reclassified due to impairment recognition (reversal)	\$ 29,568	(\$ 34,947)
Reclassified due to derecognition	(2,396,869)	(560,955)
	<u>(\$ 2,367,301)</u>	<u>(\$ 595,902)</u>
Interest income recognised in profit or loss	<u>\$ 8,757,694</u>	<u>\$ 7,884,172</u>

D. Please refer to Note 12 for details of the aforementioned financial assets provided as collateral as of December 31, 2019 and 2018.

E. As of December 31, 2019 and 2018, financial assets at fair value through other comprehensive income undertaken for repurchase agreements were \$149,534,909 and \$160,823,446, respectively.

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

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

	December 31, 2019	December 31, 2018
Central Bank's certificates of deposit	\$ 179,271,045	\$ 157,480,933
Bank's certificates of deposit	6,302,756	6,535,759
Financial bonds	29,034,722	19,118,740
Government bonds	3,600,692	3,571,594
Corporate bonds	2,069,705	1,225,949
Commercial papers	54,958,282	85,007,066
Subtotal	<u>275,237,202</u>	<u>272,940,041</u>
Valuation adjustment	(23,046)	(14,024)
Total	<u>\$ 275,214,156</u>	<u>\$ 272,926,017</u>

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

	For the year ended December 31,	
	2019	2018
Interest income	\$ 2,484,203	\$ 2,268,607
(Loss) gains on reversal of impairment	(9,411)	380
(Loss) gains on disposal	(4)	1,432
	<u>\$ 2,474,788</u>	<u>\$ 2,270,419</u>

B. Because of the issuer's credit downgrade, the Mega Group sold the investments in debt instrument and recognised a (loss) gain of (\$4) and \$1,432 for the years ended December 31, 2019 and 2018, respectively.

C. Please refer to Note 12 for details of the aforementioned financial assets provided as collateral as of December 31, 2019 and 2018.

D. Please refer to Note 8(3) for the movement information on accumulated loss for the years ended December 31, 2019 and 2018.

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

(6) Receivables, net

	December 31, 2019	December 31, 2018
Accounts receivable	\$ 25,416,213	\$ 17,396,897
Factoring receivable	28,218,088	36,041,881
Notes receivable	163,161	153,049
Accrued income and interest	8,797,100	9,342,653
Acceptances receivable	5,638,677	7,586,118
Insurance receivable	637,689	550,128
Margin loans and securities business money lending receivable	10,641,593	9,619,059
Recovery of accounts receivable	49,096	75,000
Purchase of obligor receivable for acting as assignee	18,856	24,028
Credit card receivables	7,597,716	5,338,509
Usance outright receivable	-	244,807
Receivable accounts for settlement	12,468,690	6,239,850
Other receivables	1,463,817	2,028,726
Subtotal	101,110,696	94,640,705
Less: Allowance for bad debts	(1,802,420)	(1,917,450)
Receivables, net	\$ 99,308,276	\$ 92,723,255

A. Please refer to Note 8(3) for the movement information on loss allowance for the years ended December 31, 2019 and 2018.

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

(7) Loans discounted, net

	December 31, 2019	December 31, 2018
Bills and notes discounted	\$ 12,949	\$ 11,987
Overdrafts	1,320,257	1,844,152
Short-term loans	559,609,907	566,576,301
Medium-term loans	727,534,712	721,009,290
Long-term loans	604,855,982	591,959,717
Import/export bills negotiated	7,613,470	11,196,406
Loans transferred to non-accrual loans	2,313,988	2,108,497
Subtotal	1,903,261,265	1,894,706,350
Less: Allowance for bad debts	(29,583,431)	(30,259,247)
Loans, net	\$ 1,873,677,834	\$ 1,864,447,103

A. As of December 31, 2019 and 2018, the amount reclassified from non-performing loans to overdue loans was \$2,313,988 and \$2,108,497, including interest receivable of \$14,229 and \$14,362, respectively.

B. Please refer to Note 8(3) for the movement information on loss allowance for the years ended December 31, 2019 and 2018.

C. The amount of recovery of write-off for the years ended December 31, 2019 and 2018 was \$459,473 and \$993,366, respectively.

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

(8) Assets classified as held for sale, net

On December 18, 2019, the Board of Directors of subsidiary-MS during their meeting resolved to sell its land located in Yibao, Liugui Dist. which was initially recorded under 'investment property' for assets activation, and the relevant assets were transferred to assets classified as held for sale. On November 26, 2018, the Board of Directors of subsidiary-MS during their meeting resolved to sell its asset, 'Metropolitan International Center', which was initially recorded under 'investment property' for assets activation, and the relevant assets were transferred to assets classified as held for sale. As of December 31, 2019 and 2018, the balance of assets classified as held for sale amounted to \$276,900 and \$328,350, respectively. MS's assets held for sale are valued using comparative method and income approach by external appraiser. As of December 31, 2019 and 2018, the fair value of assets held for sale were \$590,311 and \$670,334, respectively, and were included in Level 2.



On April 3, 2019, the subsidiary-MS disposed certain non-current assets classified as held for sale amounting to \$113,000. In addition, MS recognised gain on disposal, net of the related costs, amounting to \$55,980, which was recorded in net gains on disposals of investment property.

(9) Reinsurance contract assets-net

A. Details are as follows:

	December 31, 2019	December 31, 2018
Reinsurance claims and payment receivables	\$ 365,423	\$ 499,117
Reinsurance transaction receivables	288,512	155,989
Overdue reinsurance		
-Claims and payment receivables	2,441	4,855
-Transaction receivables	48,880	24,897
Less: Allowance for bad debts	(25,917)	(15,127)
Subtotal	679,339	669,731
Reinsurance reserve assets		
Ceded unearned premium reserve	1,587,492	1,477,383
Ceded claim reserve	1,692,166	1,670,738
Ceded premium deficiency reserve	24,720	36,140
Ceded liability reserve	900	472
Subtotal	3,305,278	3,184,733
Total	\$ 3,984,617	\$ 3,854,464

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 twAAA and twBBB of the Taiwan Ratings, so it expects that the probability of counterparty default is remote. There is no collateral held by CKI for security.

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

	For the year ended December 31,	
	2019	2018
Balance at January 1,	\$ 15,127	\$ 19,378
Impairment loss (reversal of provision)	10,806	(4,270)
Foreign currency translation adjustments	(16)	19
Balance at December 31,	\$ 25,917	\$ 15,127

(10) Equity investments accounted for using equity method, net

Individually Immaterial Associates	December 31, 2019		December 31, 2018	
	Amount	Percentage of Shareholding	Amount	Percentage of Shareholding
Mega Management Consulting Corporation	\$ 60,680	100.00	\$ 68,089	100.00
Cathay Investment & Development Corporation (Bahamas) (Note)	-	-	73,363	100.00
Cathay Investment & Warehousing Ltd.	41,043	100.00	49,438	100.00
Ramlett Finance Holdings Inc.	5,396	100.00	5,654	100.00
Yung Shing Industries Co.	695,046	99.56	689,681	99.56
China Products Trading Company	28,057	68.27	27,819	68.27
An Feng Enterprise Co., Ltd.	11,918	25.00	11,914	25.00
Taiwan Bills Finance Corporation	1,676,448	24.55	1,650,156	24.55
Everstrong Iron & Steel Foundry & Mfg. Corporation	45,156	22.22	46,049	22.22
Mega Growth Venture Capital Co., Ltd.	252,008	20.08	243,463	20.08
China Real Estate Management Co., Ltd.	177,461	20.00	179,080	20.00
Universal Venture Capital Investment Corporation	122,616	11.84	124,267	11.84
Total	\$ 3,115,829		\$ 3,168,973	

Note: In 2018, the investee was dissolved as resolved by the stockholders at their meeting, and the liquidation was completed on February 27, 2019.

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,	
	2019	2018
Profit for the year	\$ 145,443	\$ 188,574
Other comprehensive loss (income) (after income tax)	23,110	(35,210)
Total comprehensive income	\$ 168,553	\$ 153,364

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 using equity method.

D. The Company's and its subsidiaries' investments for using equity method as of December 31, 2019 and 2018 have not been pledged or provided as collateral.

(11) Other financial assets, net

	December 31, 2019	December 31, 2018
Prepaid investments	\$ 2,510,000	\$ -
Exchange bills negotiated	2,485	4,144
Purchase of obligor receivable	4,817	5,117
Non-accrual loans transferred from accounts other than loans	173,477	147,721
Pledged time deposits	400,000	400,000
Customer margin account	4,381,082	4,129,775
Others	73,655	539,759
Subtotal	7,545,516	5,226,516
Less: Allowance for bad debts-exchange bills negotiated	(25)	(41)
Allowance for bad debts-non-accrual loans transferred from accounts other than loans	(127,170)	(114,265)
Total	\$ 7,418,321	\$ 5,112,210

A. As of December 31, 2019 and 2018, for the aforesaid financial assets pledged as collaterals, please refer to Note 12.

B. In January 2019, the Board of Directors of the subsidiary-MICB resolved to establish an internet-only bank, Next Bank, with Chunghwa Telecom, which has been approved by FSC in July 2019, and completed the registration on January 31, 2020. As of December 31, 2019, the prepayment for this investment amounted to \$2,510,000. In addition, the subsidiary- MICB has provided the necessary financial support letter to Next Bank and promised to maintain the equity interest at 25.1%.

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

(12) Leasing arrangements-lessee

Effective 2019

A. The Mega Group leases various assets including land, buildings, machinery and equipment, business vehicles, multifunction printers. Rental contracts are typically made for periods of 1 to 30.3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. The carrying amount of right-of-use assets and the depreciation expense are as follows:

	December 31, 2019
	Carrying amount
Land	\$ 498,451
Buildings	1,139,360
Machinery and equipment	138,360
Other equipment	1,329
Total	\$ 1,777,500
	For the year ended December 31, 2019
	Depreciation expense
Land	\$ 26,122
Buildings	464,120
Machinery and equipment	64,518
Other equipment	1,089
Total	\$ 555,849

C. The information on income and expense accounts and cashflow relating to lease contracts is as follows:

	For the year ended December 31, 2019
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 29,198
Expense on short-term lease contracts	12,554
Expense on leases of low-value assets	7,898
<u>Other disclosures</u>	
Addition of right-of-use assets	\$ 1,000,889
Cash outflow for leases	(607,087)

D. Variable lease payments

(A) Some of the Mega Group's lease contracts contain variable lease payment terms that are linked to consumer price index. For buildings, up to 11.84% of lease payments are on the basis of variable payment terms and are accrued based on the consumer price index.

(B) A 1% increase in consumer price index with such variable lease contracts would increase MICB and MS' total lease payments by approximately 0.1%.

(13) Leasing arrangements – lessor

Effective 2019

A. The Mega Group leases various assets including land, buildings, machinery and equipment, business vehicles, multifunction printers. Rental contracts are typically made for periods of 1 and 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes, or a residual value guarantee was required.

B. For the year ended December 31, 2019, the Mega Group recognised rental income in the amount of \$178,108 based on the operating lease agreement, of which variable lease payments amounted to \$1,616.

C. The maturity analysis of the lease payments under the operating leases is as follows:

	December 31, 2019
Within 1 year	\$ 215,569
1-2 years	189,062
2-3 years	85,063
3-4 years	43,210
4-5 years	19,705
After 5 years	17,853
Total	\$ 570,462

(14) Investment property, net

For the years ended December 31, 2019 and 2018, the movement of the Mega Group's investment property is as follows:

January 1, 2019	Land and land improvements	Buildings and structures	Total
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>
For the year ended December 31, 2019			
Opening net book amount as at January 1	\$ 1,062,808	\$ 437,595	\$ 1,500,403
Additions	-	549	549
Disposals	(220,817)	(179,994)	(400,811)
Transfers	(91,335)	(25,097)	(116,432)
Reversal of impairment	29,060	23,999	53,059
Depreciation expense	-	(11,410)	(11,410)
Foreign exchange differences	-	17	17
December 31, 2019	<u>\$ 779,716</u>	<u>\$ 245,659</u>	<u>\$ 1,025,375</u>
December 31, 2019			
Cost	\$ 779,716	\$ 389,473	\$ 1,169,189
Accumulated depreciation	-	(143,814)	(143,814)
	<u>\$ 779,716</u>	<u>\$ 245,659</u>	<u>\$ 1,025,375</u>

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 expense	-	(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>

A. The fair values of the investment property held by the Mega Group as of December 31, 2019 and 2018 were \$4,143,681 and \$4,877,700, 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, 2019 and 2018, Level 2 within the fair value hierarchy was \$3,167,687 and \$3,125,373, respectively, and Level 3 within the fair value hierarchy was \$ 975,994 and \$1,752,327, respectively.

B. Rental income from the lease of the investment property for the years ended December 31, 2019 and 2018 was \$18,792 and \$18,042, respectively.

C. For the aforesaid investment property pledged as collaterals for the years ended December 31, 2019 and 2018, please refer to Note 12.

(15) Property and equipment, net

Details of property and equipment are as follows:

January 1, 2019	Land and land improvements	Buildings	Equipment	Leasehold improvements	Prepayments for equipment	Total
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
For the year ended December 31, 2019						
At January 1,	\$ 14,741,064	\$ 5,848,260	\$ 1,364,711	\$ 7,549	\$ 11,838	\$ 21,973,422
Additions	-	142,615	681,489	3,437	48,514	876,055
Disposals	-	-	(739)	-	-	(739)
Transfers	86,723	22,422	9,652	5,179	(31,815)	92,161
Depreciation expense	-	(280,205)	(530,988)	(5,616)	-	(816,809)
Reversal of impairment	(47,852)	5,629	-	-	-	(42,223)
Foreign exchange differences	(590)	(327)	(56)	-	-	(973)
December 31, 2019	\$ 14,779,345	\$ 5,738,394	\$ 1,524,069	\$ 10,549	\$ 28,537	\$ 22,080,894
At December 31, 2019						
Cost	\$ 14,928,464	\$ 13,036,831	\$ 7,078,861	\$ 243,133	\$ 28,537	\$ 35,315,826
Accumulated depreciation	-	(7,246,476)	(5,554,792)	(232,584)	-	(13,033,852)
Accumulated impairment	(149,119)	(51,961)	-	-	-	(201,080)
Total	\$ 14,779,345	\$ 5,738,394	\$ 1,524,069	\$ 10,549	\$ 28,537	\$ 22,080,894

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 expense	-	(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
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

Please refer to Note 12 for details of the property and equipment pledged as collateral as of December 31, 2019 and 2018.

(16) Other assets, net

	December 31, 2019	December 31, 2018
Prepayments	\$ 248,097	\$ 223,854
Refundable deposits	4,740,112	1,575,720
Guarantee deposits held for operation and funds for security settlements	922,971	939,484
Temporary payments	882,528	913,456
Others	205,243	132,545
Total	\$ 6,998,951	\$ 3,785,059

As of December 31, 2019 and 2018, for details of the other assets pledged as collaterals, please refer to Note 12.

(17) Deposits from the Central Bank and banks

	December 31, 2019	December 31, 2018
Call loans from banks (Note)	\$ 182,542,231	\$ 155,422,534
Due to Chunghwa Post	71,410	820,113
Overdrafts on banks	4,533,459	6,045,512
Deposits from the banks	58,859,396	56,656,601
Due to the Central Bank	174,826,666	192,698,628
Total	\$ 420,833,162	\$ 411,643,388

(18) Due to the Central Bank and banks

	December 31, 2019	December 31, 2018
Due to the Central Bank	\$ 3,768,861	\$ 4,712,615
Call loan from other banks	17,392,460	49,208,266
Total	\$ 21,161,321	\$ 53,920,881

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

	December 31, 2019	December 31, 2018
<u>Financial liabilities held for trading</u>		
Derivative instruments	\$ 3,006,942	\$ 2,393,385
Liabilities on sale of borrowed securities	34,130	245,253
Issuance of call (put) warrants	218,323	152,583
Bonds purchased under resell agreements	332,673	96,070
Others	3,945	5,892
Subtotal	3,596,013	2,893,183
<u>Financial liabilities designated at fair value through profit or loss</u>		
Financial bonds	17,362,339	24,488,891
Valuation adjustment	1,157,357	(24,612)
Subtotal	18,519,696	24,464,279
Total	\$ 22,115,709	\$ 27,357,462

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, 2019 and 2018, please refer to the explanations in Note 6(34).

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

(20) Securities sold under repurchase agreements

	December 31, 2019	December 31, 2018
Short-term bills	\$ 91,436,423	\$ 83,084,665
Bonds	167,755,839	169,213,600
Total	\$ 259,192,262	\$ 252,298,265

(21) Commercial papers issued, net

	December 31, 2019	December 31, 2018
Domestic commercial papers	\$ 19,977,000	\$ 15,939,000
Less: Unamortised discount	(13,103)	(9,338)
Net	\$ 19,963,897	\$ 15,929,662

As of December 31, 2019 and 2018, none of the aforementioned commercial papers issued was provided for guarantees, and the interest rate ranged from 0.43% to 0.87%, and 0.42% to 0.87%, respectively.

(22) Payables

	December 31, 2019	December 31, 2018
Notes and accounts payable	\$ 13,007,302	\$ 8,386,295
Settlement amounts payable	11,401,089	7,188,015
Accrued expenses	6,545,644	6,233,668
Interest payable	4,478,225	4,088,431
Dividends payable	27,398,604	25,515,030
Acceptances	5,670,515	7,648,114
Collections for others	1,267,229	1,636,010
Commissions payable	111,665	110,780
Due from other insurers	792,795	763,526
Securities financing refundable deposits	1,009,494	1,143,433
Deposits payable for securities financing	1,156,090	1,260,050
Other payables	2,368,837	2,388,729
Total	<u>\$ 75,207,489</u>	<u>\$ 66,362,081</u>

(23) Deposits and remittances

	December 31, 2019	December 31, 2018
Checking account deposits	\$ 26,398,219	\$ 28,453,703
Demand deposits	655,764,866	624,660,632
Time deposits	1,018,183,955	932,165,433
Demand savings deposits	466,103,601	454,457,238
Time savings deposits	282,924,395	264,706,605
Negotiable certificates of deposits	859,500	2,023,000
Remittances	9,222,599	14,170,652
Total	<u>\$ 2,459,457,135</u>	<u>\$ 2,320,637,263</u>

(24) Bonds payable

	December 31, 2019	December 31, 2018
Financial bonds, net	<u>\$ 12,000,000</u>	<u>\$ 13,300,000</u>

Financial bonds issued by MICB were as follows:

Name of bond (Note 1)	Issuing period	Interest rate	Total issued amount	December 31, 2019	December 31, 2018
101-1 Development Financial bond	2012.05.18-2019.05.18	1.48%	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>\$ 12,000,000</u>	<u>\$ 13,300,000</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, 2019	December 31, 2018
103-5 Development financial bond	2014.11.19-2034.11.19	0.00%	130,000	\$ -	\$ 130,000
103-7 Development financial bond	2014.11.19-2044.11.19	0.00%	75,000	-	75,000
107-1 Development financial bond	2018.03.01-2048.03.01	0.00%	330,000	330,000	330,000
107-2 Development financial bond	2018.05.17-2048.05.17	0.00%	164,000	164,000	164,000
107-3 Development financial bond	2018.11.28-2048.11.28	0.00%	45,000	45,000	45,000
Total				<u>\$ 539,000</u>	<u>\$ 744,000</u>

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

As of December 31, 2019 and 2018, the unpaid balance of financial bonds issued by the subsidiary, amounted to US\$539,000 and US\$744,000, and NT\$12,000,000 and NT\$13,300,000, respectively. The financial bonds are senior bonds of US\$539,000 and US\$744,000, 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.

(25) Other borrowings

	December 31, 2019	December 31, 2018
Credit borrowings	\$ 3,464,909	\$ 4,934,529

As of December 31, 2019 and 2018, the interest rates ranged from 0.68% to 2.63% and 0.70% to 3.58%, respectively.

(26) Provisions

	December 31, 2019	December 31, 2018
Insurance liabilities	\$ 8,812,271	\$ 8,438,737
Liabilities reserve for employee benefits	14,090,808	12,969,798
Reserve for guarantee liabilities	5,107,614	5,465,214
Provisions for loan commitments	97,542	104,083
Other provisions	1,879	-
Total	\$ 28,110,114	\$ 26,977,832

A. Details of reserves for insurance liabilities as of December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Reserve for unearned premiums	\$ 4,006,908	\$ 3,678,778
Reserve for outstanding losses	3,481,888	3,416,365
Reserve for catastrophic losses	1,296,484	1,306,865
Deficiency reserve	25,810	36,140
Liability reserve	1,181	589
Total	\$ 8,812,271	\$ 8,438,737

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

For the year ended December 31, 2019			
	Total	Ceded	Net
Balance at January 1	\$ 3,678,778	\$ 1,477,383	\$ 2,201,395
Provision	4,006,908	1,587,492	2,419,416
Recovery	(3,678,778)	(1,477,383)	(2,201,395)
Balance at December 31	\$ 4,006,908	\$ 1,587,492	\$ 2,419,416

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	\$ 3,678,778	\$ 1,477,383	\$ 2,201,395

(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, 2019	December 31, 2018
Claims reported but not paid	\$ 2,548,738	\$ 2,616,912
Claims incurred but not reported	933,150	799,453
	\$ 3,481,888	\$ 3,416,365



b. Detail of ceded claim reserve:

	December 31, 2019	December 31, 2018
Claims reported but not paid	\$ 1,340,241	\$ 1,368,405
Claims incurred but not reported	351,925	302,333
	<u>\$ 1,692,166</u>	<u>\$ 1,670,738</u>

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

	For the year ended December 31, 2019		
	Total	Ceded	Net
Balance at January 1	\$ 3,416,365	\$ 1,670,738	\$ 1,745,627
Provision	3,481,888	1,692,166	1,789,722
Recovery	(3,416,365)	(1,670,738)	(1,745,627)
Balance at December 31	<u>\$ 3,481,888</u>	<u>\$ 1,692,166</u>	<u>\$ 1,789,722</u>

	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>

(C) Changes in special reserve are as follows:

	For the year ended December 31, 2019		
	Compulsory insurance	Others	Total
Balance at January 1	\$ 232,864	\$ 1,074,001	\$ 1,306,865
Net change	(10,381)	-	(10,381)
Balance at December 31	<u>\$ 222,483</u>	<u>\$ 1,074,001</u>	<u>\$ 1,296,484</u>

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

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, 2019			
	Net income	Earnings per share	Total liability	Equity
Applicable amount	\$ 181,466	\$ 0.60	\$ 1,296,484	\$ 7,066,409
Non-applicable amount	181,466	0.60	222,483	7,925,610
Affected amount	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,074,001</u>	<u>(\$ 859,201)</u>

	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)

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

	For the year ended December 31, 2019		
	Total	Ceded	Net
Balance at January 1	\$ 36,140	\$ 36,140	\$ -
Provision	25,810	24,720	1,090
Recovery	(36,140)	(36,140)	-
Balance at December 31	\$ 25,810	\$ 24,720	\$ 1,090

	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	\$ -

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

	For the year ended December 31, 2019		
	Total	Ceded	Net
Balance at January 1	\$ 589	\$ 472	\$ 117
Provision	1,181	900	281
Recovery	(589)	(472)	(117)
Balance at December 31	\$ 1,181	\$ 900	\$ 281

	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

B. Liabilities reserve for employee benefits are as follows:

	December 31, 2019	December 31, 2018
Recognised in consolidated balance sheet:		
- Defined benefit plans	\$ 9,359,229	\$ 8,654,766
- Employee preferential savings plans	4,731,579	4,315,032
Total	\$ 14,090,808	\$ 12,969,798

(A) Defined benefit plans

- 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 2% 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, 2019 and 2018 were \$843,804 and \$615,662, respectively.

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

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	\$ 19,203,212	\$ 18,575,284
Fair value of plan assets	(9,853,400)	(9,930,748)
Net defined benefit liability	\$ 9,349,812	\$ 8,644,536

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

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
For the year ended December 31, 2019			
Balance at January 1	\$ 18,575,284	(\$ 9,930,748)	\$ 8,644,536
Current service cost	550,015	-	550,015
Interest expense (income)	180,801	(98,223)	82,578
Past service cost	163,077	(85)	162,992
	<u>19,469,177</u>	<u>(10,029,056)</u>	<u>9,440,121</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	(349,575)	(349,575)
Change in demographic assumptions	106	-	106
Change in financial assumptions	757,102	-	757,102
Experience adjustments	533,583	(4,853)	528,730
	<u>1,290,791</u>	<u>(354,428)</u>	<u>936,363</u>
Pension fund contribution	-	(1,008,990)	(1,008,990)
Paid pension	(1,556,756)	1,539,074	(17,682)
Balance at December 31	<u>\$ 19,203,212</u>	<u>(\$ 9,853,400)</u>	<u>\$ 9,349,812</u>
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
	<u>1,154,528</u>	<u>(309,986)</u>	<u>844,542</u>
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	<u>\$ 18,575,284</u>	<u>(\$ 9,930,748)</u>	<u>\$ 8,644,536</u>

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, 2019 and 2018 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,	
	2019	2018
Discount rate	0.6%~0.95%	0.71%~1.21%
Future salary increases	1.16%~3.36%	1.16%~3.21%

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, 2019				
Effect on present value of defined benefit obligation	(\$ 444,843)	\$ 461,276	\$ 446,966	(\$ 433,532)
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 430,820)	\$ 446,915	(\$ 364,896)	\$ 353,573

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 \$536,873 for defined benefit plan in 2020.

(B) 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,	
	2019	2018
Present value of defined benefit obligations	\$ 4,731,579	\$ 4,315,032
Less: employee preferential savings fair value of plan assets	-	-
	\$ 4,731,579	\$ 4,315,032

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, 2019			
Balance at January 1	\$ 4,315,032	\$ -	\$ 4,315,032
Interest expense	164,618	-	164,618
	<u>4,479,650</u>	<u>-</u>	<u>4,479,650</u>
Remeasurements:			
Change in demographic assumptions	545,544	-	545,544
Experience adjustments	574,868	-	574,868
	<u>1,120,412</u>	<u>-</u>	<u>1,120,412</u>
Pension fund contribution	-	(868,483)	(868,483)
Paid pension	(868,483)	868,483	-
Balance at December 31	<u>\$ 4,731,579</u>	<u>\$ -</u>	<u>\$ 4,731,579</u>

	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
	<u>4,154,496</u>	<u>-</u>	<u>4,154,496</u>
Remeasurements:			
Change in demographic assumptions	457,576	-	457,576
Experience adjustments	492,165	-	492,165
	<u>949,741</u>	<u>-</u>	<u>949,741</u>
Pension fund contribution	-	(789,205)	(789,205)
Paid pension	(789,205)	789,205	-
Balance at December 31	<u>\$ 4,315,032</u>	<u>\$ -</u>	<u>\$ 4,315,032</u>

c. Actuarial assumptions are as follows:

	2019	2018
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, 2019				
Effect on present value of defined benefit obligation	<u>(\$ 94,797)</u>	<u>\$ 98,340</u>	<u>(\$ 34,433)</u>	<u>\$ 34,433</u>
December 31, 2018				
Effect on present value of defined benefit obligation	<u>(\$ 86,997)</u>	<u>\$ 90,263</u>	<u>(\$ 31,099)</u>	<u>\$ 31,099</u>

Subsidiary-MICB recognized employee benefit expenses of \$1,533,094 and \$1,326,021 for the years December 31, 2019 and 2018, respectively.

(C) Defined contribution plans

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, 2019 and 2018 were \$198,762 and \$215,216, 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 \$47,453 and \$32,332 applying defined contribution plans for the years ended December 31, 2019 and 2018, respectively.

(27) Other financial liabilities

	December 31, 2019	December 31, 2018
Structured instruments	\$ 10,846,094	\$ 10,331,269
Appropriated loan fund	620,221	898,051
Futures traders' equity	4,352,031	4,096,047
Total	<u>\$ 15,818,346</u>	<u>\$ 15,325,367</u>

(28) Other liabilities

	December 31, 2019	December 31, 2018
Deposits received	\$ 3,405,043	\$ 3,180,175
Advance receipt	1,472,015	1,581,713
Receipts under custody from customers' security subscription	-	440,968
Other liabilities to be settled	425,622	426,053
Temporary receipts and suspense accounts	2,134,565	1,069,917
Others	609,628	572,450
Total	<u>\$ 8,046,873</u>	<u>\$ 7,271,276</u>

(29) Equity

A. Common stock

As of December 31, 2019, the Company's authorised capital were all \$140 billion. The Company's issued capital were all \$135,998,240, and all consisting of 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, 2019	December 31, 2018
Consolidation surplus arising from share conversion	\$ 43,047,306	\$ 43,047,306
Changes in additional paid-in capital of investees accounted for using equity method	375,908	375,908
Capital increase by cash – additional paid-in capital	24,161,500	24,161,500
Share-based payment (Note)	609,519	609,519
	<u>\$ 68,194,233</u>	<u>\$ 68,194,233</u>

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

(B) As of December 31, 2019, the capital reserve of the Company provided by unappropriated 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.

(30) 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 2018 and 2017 were resolved at the Board meeting dated April 23, 2019 and April 24, 2018, respectively, and were approved by the stockholders at the stockholders' meeting dated June 21, 2019 and June 15, 2018. Details of the earnings appropriation for 2018 and 2017 are set forth below:

	Appropriated Amount		Dividend Per Share (in dollars)	
	2018	2017	2018	2017
Dividends – cash	\$ 23,119,701	\$ 20,399,736	\$ 1.70	\$ 1.50

(31) 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, 2019	(\$ 1,600,479)	\$ 9,232,789	(\$ 102,177)	(\$ 55,676)	\$ 7,474,457
Financial assets at fair value through other comprehensive income					
Evaluation adjustment in the period	-	8,291,707	-	-	8,291,707
Changed in accumulated impairments in the period	-	29,568	-	-	29,568
Realized gain and loss in the period	-	(2,243,935)	-	-	(2,243,935)
Translation gain and loss on the financial statements of foreign operating entities in the period	(809,797)	-	-	-	(809,797)
Share of the other comprehensive income of associates and joint ventures accounted for using equity method in the period	(3,304)	2,324	-	25,583	24,603
Gain (loss) on reclassification under the overlay approach through other comprehensive income	-	-	104,084	-	104,084
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	(513,276)	-	-	(513,276)
At December 31, 2019	(\$ 2,413,580)	\$ 14,799,177	\$ 1,907	(\$ 30,093)	\$12,357,411

	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 using 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



(32) Net interest revenue

	For the years ended December 31,	
	2019	2018
Interest income		
Interest income of loans discounted	\$ 45,564,938	\$ 44,424,272
Interest income of deposits and call loans from the other banks	13,149,585	11,951,141
Interest income of securities investment	11,364,674	10,246,324
Interest income of securities purchased under resell agreements	30,001	36,321
Interest income of usance outright receivable	2,305	91,500
Credit card interest income	172,644	176,345
Interest income of securities purchased under resell agreements income	508,318	639,830
Interest income of accounts receivable	484,244	515,643
Other interest income	404,535	264,420
Subtotal	71,681,244	68,345,796
Interest expense		
Interest expense of deposits	(25,226,492)	(20,676,091)
Interest expense of interbank overdraft and call loans	(8,067,835)	(6,914,820)
Interest expense of issuance of securities	(320,217)	(437,339)
Interest expense of bonds payable under repurchase agreements	(2,769,295)	(2,037,047)
Other interest expense	(230,557)	(235,947)
Subtotal	(36,614,396)	(30,301,244)
Total	\$ 35,066,848	\$ 38,044,552

(33) Net service fee and commission income

	For the years ended December 31,	
	2019	2018
Service fee income and commission income		
Service fee income from export and import business	\$ 486,669	\$ 519,497
T/T service fee income	745,611	805,831
Loans service fee income	1,273,492	1,582,271
Guarantee service fee income	1,495,691	1,424,232
Brokerage fee income	1,888,576	2,076,025
Service fee income of trust and ancillary business	1,538,448	1,658,367
Agency service fee income	370,162	266,591
Reinsurance commission income	564,965	513,059
Commission income of insurance agent	1,806,027	1,414,599
Underwriting fee income	380,791	399,684
Other service fee income	1,719,911	1,765,298
Subtotal	12,270,343	12,425,454
Service fee expense and commission expense		
Insurance commission expense	(1,085,601)	(974,549)
Agency service fee expense	(901,989)	(924,827)
Brokerage handling fee expense	(177,904)	(191,767)
Other commission expense	(275,996)	(209,216)
Other service fee expense	(592,018)	(414,732)
Subtotal	(3,033,508)	(2,715,091)
Total	\$ 9,236,835	\$ 9,710,363

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.



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

	For the years ended December 31,	
	2019	2018
<u>Gain and loss from disposal of financial assets and liabilities at fair value through profit or loss</u>		
Short-term notes and bills	\$ 493,772	\$ 449,059
Bonds	120,301	83,652
Stocks	340,773	(549,627)
Derivative instruments	5,986,539	3,914,224
Negotiable certificates of deposit	5,321	21,001
Beneficiary certificates	36,144	(122,421)
Warrant	666,078	591,952
Others	(12,820)	43,385
Subtotal	7,636,108	4,431,225
<u>Valuation gains and losses on financial assets and liabilities at fair value through profit or loss</u>		
Short-term notes and bills	19,844	(2,934)
Bonds	1,006,948	(634,248)
Stocks	2,630,892	(194,461)
Derivative instruments	(678,163)	1,033,994
Negotiable certificates of deposit	(87)	898
Beneficiary certificates	99,334	(119,441)
Others	(665,508)	(246,856)
Subtotal	2,413,260	(163,048)
Interest income on financial assets at fair value through profit or loss	2,109,546	1,925,899
Interest expense on financial liabilities at fair value through profit or loss	(1,002,324)	(778,187)
Dividend and bonus from financial assets at fair value through profit or loss	865,801	853,809
Total	\$ 12,022,391	\$ 6,269,698

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

	For the years ended December 31,	
	2019	2018
Dividend income	\$ 1,030,639	\$ 1,006,052
Gain on bonds disposal	2,396,869	560,955
Total	\$ 3,427,508	\$ 1,567,007

(36) Impairment losses of assets

	For the years ended December 31,	
	2019	2018
Loss (reversal of gain) on debt instrument at fair value through other comprehensive income	(\$ 29,568)	\$ 34,947
Loss (reversal of gain) on investments in debt instruments at amortised cost	(9,411)	380
Loss on receivables	(320)	(110,158)
Loss on other financial assets	(17)	45
Gains of reversal on impairment of property and equipment	8,842	61,891
Total	(\$ 30,474)	(\$ 12,895)

(37) Net other revenue other than interest income

	For the years ended December 31,	
	2019	2018
Gain on rental, net	\$ 178,108	\$ 201,904
Advisory income	777,258	824,165
Gain (loss) on sales of property and equipment	35	(2,389)
Gain on sales of nonperforming loans	81,480	21,336
Others	505,472	191,694
Total	<u>\$ 1,542,353</u>	<u>\$ 1,236,710</u>

(38) Employee benefit expense

	For the years ended December 31,	
	2019	2018
Wages and salaries	\$ 14,700,287	\$ 13,907,358
Labor and health insurance fees	1,005,948	926,387
Pension costs	2,623,113	2,189,231
Other personnel expenses	1,209,293	1,073,228
Total	<u>\$ 19,538,641</u>	<u>\$ 18,096,204</u>

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, 2019 and 2018, employees' compensation was accrued at \$17,513 and \$14,518, respectively; directors' remuneration was accrued at \$145,942 and \$139,595, respectively. The aforementioned amounts were recognised in wages and salaries.

The actual distributed amount of employees' and directors' remuneration for 2018 resolved at the Board of Directors' annual meeting in 2019 were \$16,726 and \$139,386, respectively. Compared to the 2018 consolidated financial statements, there was an increase of \$2,208 and decrease of \$209, 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 2019.

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.

(39) Depreciation and amortization expense

	For the years ended December 31,	
	2019	2018
Depreciation expense	\$ 1,384,068	\$ 767,974
Amortisation expense	72,258	77,902
Total	<u>\$ 1,456,326</u>	<u>\$ 845,876</u>

(40) Other general and administrative expenses

	For the years ended December 31,	
	2019	2018
Rental expenses	\$ 50,632	\$ 877,190
Information technology expenses	1,009,759	671,856
Tax and official fee	2,518,864	2,574,349
Donations	85,458	167,177
Insurance expense	427,502	425,820
Office supplies and printing expenses	2,108,058	2,081,821
Service expense	2,729,160	1,862,224
Other operating expenses	974,037	999,408
Total	<u>\$ 9,903,470</u>	<u>\$ 9,659,845</u>



(41) Income taxes

A. The income taxes comprise the following:

(A) The income taxes comprise the following:

	For the years ended December 31,	
	2019	2018
Current tax		
Current tax on profits for the year	\$ 3,663,978	\$ 4,576,940
Income tax of adjustments for over provisions of prior years' income tax	(33,976)	(1,209,411)
Separate income tax	6	58
Additional tax on distributed earnings	91,045	202,417
Total current tax	3,721,053	3,570,004
Deferred income tax		
Impact of change in tax rate	-	(586,908)
Origination and reversal of temporary differences	978,421	3,419
Total deferred income tax	978,421	(583,489)
Income tax expense	\$ 4,699,474	\$ 2,986,515

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

	For the years ended December 31,	
	2019	2018
Changes in fair value of financial assets at fair value through other comprehensive income	(\$ 513,276)	\$ 331,062
Gain on reclassification under the overlay approach through comprehensive income	-	497
Remeasurement of defined benefit plans	187,272	345,487
	(\$ 326,004)	\$ 677,046

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

	For the years ended December 31,	
	2019	2018
Income tax from pre-tax income calculated at statutory tax rate	\$ 6,730,855	\$ 6,215,992
Effects of items not recognized under relevant regulations	(137,566)	6,078
Tax on undistributed earnings	91,045	202,417
Effect of alternative minimum tax	242,527	-
Income tax of adjustments for over provisions of prior years' income tax	(33,976)	(877,219)
Effects of income tax exemption and adjustment of other income	(2,193,411)	(1,973,845)
Effect of changing tax rate	-	(586,908)
Income tax expense	\$ 4,699,474	\$ 2,986,515

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

	For the years ended December 31, 2019			
	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	\$ 3,456,720	(\$ 1,078,006)	\$ -	\$ 2,378,714
Reserve for guarantee liabilities in excess of limit	234,820	-	-	234,820
Unpaid liabilities reserve for employee benefits	1,913,000	123,285	187,272	2,223,557
Unrealized loss on impairment	874,968	(851,711)	-	23,257
Unrealized valuation gains on foreign bond	331,062	-	(331,062)	-
Others	742,391	199,147	-	941,538
	<u>\$ 7,552,961</u>	<u>(\$ 1,607,285)</u>	<u>(\$ 143,790)</u>	<u>\$ 5,801,886</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 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, 2019			
	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	(528,479)	(11,780)	-	(540,259)
Share of profit of associates and joint ventures accounted for under equity method	(766,055)	-	-	(766,055)
Unrealized valuation gains on foreign bond	-	-	(182,214)	(182,214)
Others	(178,778)	(443,448)	-	(622,226)
	<u>(\$ 2,526,612)</u>	<u>(\$ 455,228)</u>	<u>(\$ 182,214)</u>	<u>(\$ 3,164,054)</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>

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 2012 to 2014 are under reinvestigation.

(C) MTIC: The income tax return of 2012 and 2013 is under reinvestigation.

(D) Mega Venture Capital: The income tax returns of 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.



(42) Earnings per share

Basic and diluted earnings per share

	For the years ended December 31,	
	2019	2018
Profit attributable to ordinary stockholders of the Company	\$ 28,956,244	\$ 28,109,164
Weighted-average number of shares outstanding (In thousands of shares)	13,599,824	13,599,824
Basic earnings per share (In dollars)	\$ 2.13	\$ 2.07

(43) 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 liabilities from financing activities during year ended December 31, 2019.

The subsidiaries-MICB repaid the financial bonds with book value \$1,300,000 and \$12,600,000 respectively during the years ended December 31, 2019 and 2018.

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 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, 2019	
	Carrying Value	Fair Value
Investments in debt instruments at amortised cost	\$ 34,705,119	\$ 34,997,226

	December 31, 2018	
	Carrying Value	Fair Value
Investments in debt instruments at amortised cost	\$ 23,916,283	\$ 23,891,434

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, deposits from the Central Bank and banks, due to the Central Bank and 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

Recurring fair value measurements	December 31, 2019			
	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	\$ 24,773,010	\$ 14,944,225	\$ 4,638,585	\$ 5,190,200
Investment in bonds	55,928,619	3,205,220	52,723,399	-
Investment in bills	120,021,716	-	120,021,716	-
Others	2,125,502	2,125,502	-	-
Financial assets at fair value through other comprehensive income				
Investment in stocks	24,080,152	7,364,200	5,151,767	11,564,185
Investment in bonds	500,651,572	31,907,659	468,743,913	-
Investment in bills	11,193,375	-	11,193,375	-
Others	307,500	307,500	-	-
Liabilities				
Financial liabilities held for trading	(589,071)	(253,923)	(335,148)	-
Financial liabilities designated as at fair value through profit or loss	(18,519,696)	-	(18,519,696)	-
Derivative financial instruments				
Assets				
Financial assets mandatorily measured at fair value through profit or loss	5,464,283	564,167	4,900,116	-
Liabilities				
Financial liabilities at fair value through profit or loss	(3,006,942)	-	(3,006,380)	(562)

Recurring fair value measurements	December 31, 2018			
	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)

C. The transfer between Level 1 and Level 2.

On December 31, 2019, the balance of MICB's held 2018 Fiscal Year Order 9 Category 1 Central Government Construction Bonds was \$865,000. Due to the bonds becoming inactive securities in the Index, thus the bonds were transferred from Level 1 to Level 2.

On December 31, 2018, the MICB has no transfer between Level 1 and 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, 2019

Item	January 1, 2019	Valuation gain or loss		Addition		Reduction		December 31, 2019
		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	\$ 5,140,803	\$ 135,474	\$ -	\$ 151,831	\$ 413,234	(\$ 146,111)	(\$ 505,031)	\$ 5,190,200
Financial assets at fair value through other comprehensive income	8,665,085	-	1,691,348	-	1,746,046	(247,294)	(291,000)	11,564,185
<u>Derivative financial instruments</u>								
Financial assets mandatorily measured at fair value through profit or loss	-	-	-	93	-	(93)	-	-
Total	\$ 13,805,888	\$ 135,474	\$ 1,691,348	\$ 151,924	\$ 2,159,280	(\$ 393,498)	(\$ 796,031)	\$16,754,385

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.

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

For the year ended December 31, 2019

Item	January 1, 2019	Valuation gain or loss		Addition		Reduction		December 31, 2019
		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	(\$ 317)	\$ 31	\$ -	(\$ 2,607)	\$ -	\$ 2,331	\$ -	(\$ 562)

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	
Liabilities								
Financial liabilities at fair value through profit or loss	(\$ 348)	(\$ 75)	\$ -	(\$ 3,354)	\$ -	\$ 3,460	\$ -	(\$ 317)

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, 2019	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	\$ 519,020	(\$ 519,020)	\$ 1,156,419	(\$ 1,156,419)

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)

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, 2019	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	\$ 4,501,251	Market approach	Lack of liquidity discount	15%~40%	The higher liquidity discount , the lower fair value.
	549,620	Net asset approach	Price-book value ratio multiple	0.53~2.85	The higher price-book value ratio multiple , the lower fair value.
	139,329	Recent transaction price 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	8,915,149	Market approach	Lack of liquidity discount	10%~30%	The higher liquidity discount , the lower fair value.
			Price-book value ratio multiple	0.78~3.18	The higher price-book value ratio multiple , the lower fair value.
	2,268,508	Net asset approach	N/A	N/A	N/A
	380,528		Lack of liquidity discount	20%	The higher liquidity discount, the lower fair value.
Derivative financial liabilities					
Structured products	(562)	Determined using the Option Pricing Model verified by the subsidiary - MS	Price volatility	20%	The higher the price volatility, the higher the fair value.

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	Recent transaction price 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 lower 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 Mega 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 Mega 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 Mega Group is completely established.

The Board of Directors is the highest decision-making unit of the Mega 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 Mega Group's risk management department is responsible for supervision of the Mega 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 collaterals and 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:

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
Corresponding to S&P	AAA~BBB-	BB+~ BB-	B+	B and below

(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.

C. Expected credit losses calculation

In the assessment of impairment and calculation of expected credit losses, the Mega 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 Mega 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 Mega 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 Mega 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) TThe 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 Mega 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 separately, 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, 2019

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	\$ 858,600,604	\$ 94,564	\$ 119,597	\$ -	\$ 858,814,765
- good	493,218,432	30,695,221	60,995	-	523,974,648
- acceptable	269,148,634	21,940,794	248,357	-	291,337,785
- weak	92,394,474	12,773,535	8,988,527	-	114,156,536
- no rated	113,231,932	1,203,030	542,569	-	114,977,531
Total carrying amount	1,826,594,076	66,707,144	9,960,045	-	1,903,261,265
Allowance for bad debt	(2,736,126)	(599,373)	(2,350,961)	-	(5,686,460)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(23,896,971)	(23,896,971)
Total	\$ 1,823,857,950	\$ 66,107,771	\$ 7,609,084	\$ 23,896,971	\$ 1,873,677,834



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

b. Receivables

December 31, 2019

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	\$ 30,677,997	\$ 89	\$ 2	\$ -	\$ 30,678,088
- good	8,143,758	425,106	17	-	8,568,881
- acceptable	7,192,457	316,528	81	-	7,509,066
- weak	418,415	25,664	311,024	-	755,103
No rated	52,811,016	9,645	778,897	-	53,599,558
Total carrying amount	99,243,643	777,032	1,090,021	-	101,110,696
Allowance for bad debt	(622,332)	(3,197)	(131,770)	-	(757,299)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(1,045,121)	(1,045,121)
Total	\$ 98,621,311	\$ 773,835	\$ 958,251	(\$ 1,045,121)	\$ 99,308,276

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

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c. Debt instruments

December 31, 2019

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	\$ 779,147,306	\$ -	\$ -	\$ 779,147,306
- good	6,693,798	-	-	6,693,798
- acceptable	-	-	-	-
- weak	1,241,045	-	-	1,241,045
No rated	-	-	-	-
Total carrying amount	787,082,149	-	-	787,082,149
Allowance for bad debt	(23,046)	-	-	(23,046)
other equity	(182,477)	-	-	(182,477)
Total	\$ 786,876,626	\$ -	\$ -	\$ 786,876,626

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
- acceptable	-	-	-	-
- 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, 2019

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	\$ 288,769,838	\$ -	\$ -	\$ -	\$ 288,769,838
- good	162,589,523	6,095,455	-	-	168,684,978
- acceptable	69,577,859	2,686,088	37,060	-	72,301,007
- weak	20,967,843	3,109,776	429,068	-	24,506,687
No rated	28,744,898	-	25,903	-	28,770,801
Total carrying amount	570,649,961	11,891,319	492,031	-	583,033,311
Provisions for liabilities and loan commitments	(355,583)	(126,283)	(16,295)	-	(498,161)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(4,706,995)	(4,706,995)
Total	\$ 570,294,378	\$ 11,765,036	\$ 475,736	(\$ 4,706,995)	\$ 577,828,155



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, 2019

	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	\$ 307,368,283	\$ 8,017,535	\$ -	\$ 1,581,644	\$ 235,583,742	\$ -	\$ 4,391	\$ 18,400,195	\$ 570,955,790
Finance, investment and insurance	326,288,955	182,067,939	4,010,534	5,024,292	489,974,655	4,843,169	7,404,370	65,927,894	1,085,541,808
Enterprise and commerce	-	1,254,182,896	-	61,078,404	240,231,469	345,854	32,519	408,204,822	1,964,075,964
Individuals	-	455,042,162	-	31,846,427	-	23,577	104,237	87,984,371	575,000,774
Other	-	3,950,733	-	1,579,929	826,982	251,683	-	2,516,029	9,125,356
Total	633,657,238	1,903,261,265	4,010,534	101,110,696	966,616,848	5,464,283	7,545,517	583,033,311	4,204,699,692
Less: allowance for bad debt, accumulated impairment and provisions for liabilities	(14,565)	(29,583,431)	(25,917)	(1,802,420)	(205,523)	-	(127,195)	(5,205,156)	(36,964,207)
Net	\$ 633,642,673	\$ 1,873,677,834	\$ 3,984,617	\$ 99,308,276	\$ 966,411,325	\$ 5,464,283	\$ 7,418,322	\$ 577,828,155	\$ 4,167,735,485

The trade financing for corporates and businesses accounts for 10.21%, equivalent to \$128,000,397 while the housing loans for individuals accounts for 75.84%, equivalent to \$345,086,507.

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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, 2019	Collateral	Net settlement master netting arrangements	Guarantee	Total
On-Balance-Sheet Items				
Cash and cash equivalents	\$ 946,584	\$ -	\$ -	\$ 946,584
Financial assets mandatorily measured at fair value through profit or loss				
- debt instrument	-	-	13,257,248	13,257,248
- derivative instrument	1,973,425	372,276	-	2,345,701
Financial assets at fair value through other comprehensive income-debt instrument	-	-	21,193,368	21,193,368
Investments in debt instruments at amortised cost	-	-	16,236,544	16,236,544
Securities purchased under resell agreements	3,581,190	-	-	3,581,190
Receivables	21,983,521	-	-	21,983,521
Loans discounted, net	1,187,179,159	-	73,314,001	1,260,493,160
Other assets	32,193	-	-	32,193
Off-Balance-Sheet Items				
Irrevocable loan commitments	31,956,442	-	4,148,331	36,104,773
Guarantees	159,993,048	-	1,580,884	161,573,932
Letters of credit	10,185,273	-	314,212	10,499,485
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, net	1,163,114,203	-	61,119,129	1,224,233,332
Other assets	270,500	-	-	270,500
<u>Off-Balance-Sheet Items</u>				
Irrevocable loan 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, 2019	Total carrying amount	Allowance for impairment	Total risk exposure	Collateral/Guarantee credit enhancement
Receivables				
- Credit card business	\$ 80,117	\$ 63,838	\$ 16,279	\$ -
- Other	1,009,904	700,065	309,839	125,318
Loan discounted, net	9,960,045	2,539,266	7,420,779	5,394,191
Reinsurance contract assets	51,321	25,917	25,404	-
Other financial assets	173,477	127,170	46,307	-
Impaired financial assets on balance sheet	\$ 11,274,864	\$ 3,456,256	\$ 7,818,608	\$ 5,519,509
Irrevocable loan commitments	\$ 386,132	\$ 107	\$ 386,025	\$ -
All types of guarantees	70,709	42,907	27,802	13,838
Letters of credit	35,190	5,707	29,483	10,185
Impaired financial assets off balance sheet	\$ 492,031	\$ 48,721	\$ 443,310	\$ 24,023

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 years ended December 31, 2019 and 2018, is shown below:

Financial Information

For the year ended December 31, 2019

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	\$ 2,625,625	\$ 700,461	\$ 2,956,493	\$ 6,282,579	\$ 23,976,668	\$ 30,259,247
Changes from financial instruments recognised at the beginning of the year:						
- Transferred to lifetime expected credit losses	(22,819)	28,018	(5,199)	-	-	-
- Transferred to credit impaired financial asset	(13,770)	(13,117)	26,887	-	-	-
- Transferred to 12-month expected credit losses	127,987	(127,475)	(512)	-	-	-
- Derecognised financial assets	(1,076,827)	(201,197)	(908,237)	(2,186,261)	-	(2,186,261)
- Additional provision and reversal	(135,124)	53,653	1,579,524	1,498,053	-	1,498,053
Originated or purchased new financial assets	1,270,122	138,170	160,800	1,569,092	-	1,569,092
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	(79,697)	(79,697)
Write-off of uncollectible amount	-	-	(2,038,889)	(2,038,889)	-	(2,038,889)
Foreign exchange and other changes	(39,068)	20,860	580,094	561,886	-	561,886
Balance at the end of the year	\$ 2,736,126	\$ 599,373	\$ 2,350,961	\$ 5,686,460	\$ 23,896,971	\$ 29,583,431

For the year ended 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)	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 losses	(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 receivables for the years ended December 31, 2019 and 2018, is shown below:

For the year ended December 31, 2019

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	\$ 628,399	\$ 4,684	\$ 91,377	\$ 724,460	\$ 1,192,990	\$ 1,917,450
Changes from financial instruments recognised at the beginning of the year:						
- Transferred to lifetime expected credit losse	(184)	729	(545)	-	-	-
- Transferred to credit impaired financial asset	(96)	(251)	347	-	-	-
- Transferred to 12-month expected credit losses	1,019	(601)	(418)	-	-	-
- Derecognised financial assets	(112,553)	(3,195)	(86,159)	(201,907)	-	(201,907)
- Additional provision and reversal	1,497	740	31,473	33,710	-	33,710
Originated or purchased new financial assets	115,890	12,416	45,071	173,377	-	173,377
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	(147,869)	(147,869)
Write-off of uncollectible amount	(11,626)	(11,327)	52,063	29,110	-	29,110
Foreign exchange and other changes	(13)	-	(1,438)	(1,451)	-	(1,451)
Balance at the end of the year	\$ 622,333	\$ 3,195	\$ 131,771	\$ 757,299	\$ 1,045,121	\$ 1,802,420

For the year ended 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)	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 years ended December 31, 2019 and 2018, is shown below:

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

For the year ended December 31, 2019

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	\$ 153,879	\$ -	\$ -	\$ 153,879
Changes from financial instruments recognised at the beginning of the year:				
- The impairment allowance for financial assets derecognised in the current year	(18,049)	-	-	(18,049)
- Additional provision and reversal	(17,920)	-	-	(17,920)
Originated or purchased new financial assets	64,090	-	-	64,090
Foreign exchange and other changes	477	-	-	477
Balance at the end of the year	\$ 182,477	\$ -	\$ -	\$ 182,477

For the year ended December 31, 2018

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

For the year ended December 31, 2019

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	\$ 14,024	\$ -	\$ -	\$ 14,024
Changes from financial instruments recognised at the beginning of the year:				
- The impairment allowance for financial assets derecognised in the current year	(8,197)	-	-	(8,197)
- Additional provision and reversal	(1,263)	-	-	(1,263)
Originated or purchased new financial assets	18,560	-	-	18,560
Change of models/risk parameters	(74)	-	-	(74)
Foreign exchange and other changes	(4)	-	-	(4)
Balance at the end of the year	\$ 23,046	\$ -	\$ -	\$ 23,046

For the year ended December 31, 2018

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 years ended December 31, 2019 and 2018, is shown below:

For the year ended December 31, 2019

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	\$ 368,080	\$ 92,538	\$ 41,094	\$ 501,712	\$ 5,067,585	\$ 5,569,297
Changes from financial instruments recognised at the beginning of the year:						
- Transferred to lifetime expected credit losses	(3,398)	17,916	(14,518)	-	-	-
- Transferred to credit impaired financial asset	(15)	(50)	65	-	-	-
- Transferred to 12-month expected credit losses	14,564	(14,564)	-	-	-	-
- The impairment allowance for financial assets derecognised in the current year	(89,067)	(12,589)	(8,305)	(109,961)	-	(109,961)
- Additional provision and reversal	(46,881)	28,848	(3,262)	(21,295)	-	(21,295)
Originated or purchased new financial assets	104,751	15,263	5,183	125,197	-	125,197
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	(360,590)	(360,590)
Foreign exchange and other changes	7,549	(1,079)	(3,962)	2,508	-	2,508
Balance at the end of the year	\$ 355,583	\$ 126,283	\$ 16,295	\$ 498,161	\$ 4,706,995	\$ 5,205,156

For the year ended December 31, 2018

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 losses	(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 assets

a. The movement in the total carrying amount of loans discounted for the years ended December 31, 2019 and 2018, is shown below:

For the year ended December 31, 2019

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	\$ 1,810,668,079	\$ 74,633,965	\$ 9,404,306	\$1,894,706,350
Changes from financial instruments recognised at the beginning of the year:				
- Transferred to lifetime expected credit losses	(16,674,461)	16,693,674	(19,213)	-
- Transferred to credit impaired financial asset	(3,288,999)	(649,337)	3,938,336	-
- Transferred to 12-month expected credit losses	10,261,087	(10,257,186)	(3,901)	-
- Derecognition(including recovery, write-off bad debt not included)	(693,635,495)	(30,531,719)	(1,948,411)	(726,115,625)
- Increased(decreased)	(76,048,854)	(5,075,421)	(151,528)	(81,275,803)
Originated or purchased new financial assets	799,516,951	21,915,239	779,839	822,212,029
Write-off of uncollectible amount	-	-	(2,038,889)	(2,038,889)
Foreign exchange and other changes	(4,204,232)	(22,071)	(494)	(4,226,797)
Balance at the end of the year	\$ 1,826,594,076	\$ 66,707,144	\$ 9,960,045	\$1,903,261,265



For the year ended December 31, 2018

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 years ended December 31, 2019 and 2018, is shown below:

For the year ended December 31, 2019

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	\$ 92,400,856	\$ 1,181,902	\$ 1,057,947	\$ 94,640,705
Changes from financial instruments recognised at the beginning of the year:				
- Transferred to lifetime expected credit losses	(150,103)	150,880	(777)	-
- Transferred to credit impaired financial asset	(53,151)	(13,708)	66,859	-
- Transferred to 12-month expected credit losses	38,118	(37,529)	(589)	-
- Derecognition(including recovery, write-off bad debt not included)	(63,148,064)	(925,339)	(198,766)	(64,272,169)
- Increased(decreased)	8,493,812	(224)	16,671	8,510,259
Originated or purchased new financial assets	62,847,033	432,377	182,602	63,462,012
Write-off of uncollectible amount	(60,759)	(11,327)	(20,001)	(92,087)
Foreign exchange and other changes	(1,124,099)	-	(13,925)	(1,138,024)
Balance at the end of the year	\$ 99,243,643	\$ 777,032	\$ 1,090,021	\$ 101,110,696

For the year ended December 31, 2018

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)	-
- Derecognition(including recovery, write-off bad debt not included)	(53,815,192)	(182,390)	(436,816)	(54,434,398)
- 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)
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 years ended December 31, 2019 and 2018, is shown below:

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

For the year ended December 31, 2019

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	\$ 401,292,856	\$ -	\$ -	\$ 401,292,856
Originated or purchased new financial assets	203,286,445	-	-	203,286,445
Derecognition	(94,119,054)	-	-	(94,119,054)
Change in valuation adjustment	3,948,128	-	-	3,948,128
Foreign exchange and other changes	(2,563,428)	-	-	(2,563,428)
Balance at the end of the year	\$ 511,844,947	\$ -	\$ -	\$ 511,844,947

For the year ended December 31, 2018

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	(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

For the year ended December 31, 2019

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	\$ 272,940,041	\$ -	\$ -	\$ 272,940,041
Originated or purchased new financial assets	255,582,281	-	-	255,582,281
Derecognition	(253,255,473)	-	-	(253,255,473)
Foreign exchange and other changes	(29,647)	-	-	(29,647)
Balance at the end of the year	\$ 275,237,202	\$ -	\$ -	\$ 275,237,202

For the year ended December 31, 2018

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	(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, 2019		December 31, 2018	
		Amount	Percentage (%)	Amount	Percentage (%)
Individuals	Individuals	\$ 543,026,533	21.84%	\$ 499,786,383	20.17%
Corporation	Government institution	26,417,729	1.06%	27,587,704	1.11%
	Finance, investment and insurance	247,995,833	9.97%	270,984,599	10.94%
	Enterprise and commerce	1,662,387,718	66.87%	1,670,408,665	67.42%
	- Manufacturing	664,014,756	26.71%	661,490,691	26.70%
	- Electricity and gas supply	65,047,189	2.62%	76,196,232	3.08%
	- Wholesale and retail	174,545,172	7.02%	186,056,771	7.51%
	- Transportation and storage	161,839,673	6.51%	163,104,210	6.58%
	- Real estate	360,207,217	14.49%	345,335,907	13.94%
	- Others	236,733,711	9.52%	238,224,854	9.61%
	Others	6,466,763	0.26%	8,934,704	0.36%
Total		\$ 2,486,294,576	100.00%	\$ 2,477,702,055	100.00%

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

	Loans and credit commitments			
	December 31, 2019		December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
ROC	\$ 1,905,107,215	76.62%	\$ 1,889,894,020	76.28%
Asia	374,917,569	15.08%	385,517,977	15.56%
North America	94,063,181	3.78%	96,422,300	3.89%
Others	112,206,611	4.52%	105,867,758	4.27%
Total	\$ 2,486,294,576	100.00%	\$ 2,477,702,055	100.00%

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

	Loans and credit commitments			
	December 31, 2019		December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Unsecured	\$ 1,017,623,226	40.93%	\$ 1,072,445,486	43.28%
Secured				
- Secured by stocks	69,556,333	2.80%	70,675,797	2.85%
- Secured by bonds	97,911,562	3.94%	91,523,120	3.69%
- Secured by real estate	1,021,896,137	41.10%	973,717,388	39.30%
- Secured by movable property	85,775,427	3.45%	96,114,606	3.88%
- Letter of guarantee	79,357,428	3.19%	64,538,428	2.61%
- Others	114,174,463	4.59%	108,687,230	4.39%
Total	\$ 2,486,294,576	100.00%	\$ 2,477,702,055	100.00%

I. Foreclosed properties management policy

As of December 31, 2019 and 2018, 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, 2019				
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	\$ 1,251,075	\$ 650,715,921	0.19%	\$ 9,586,843	766.29%
	Unsecured loans	619,858	797,503,182	0.08%	13,303,482	2146.21%
Consumer banking	Residential mortgage loans (Note 4)	719,382	345,499,682	0.21%	5,096,522	708.46%
	Cash card services	-	-	-	-	-
	Small amount of credit loans (Note 5)	25,223	17,615,811	0.14%	255,537	1013.11%
	Others (Note 6) Secured loans	135,908	91,894,180	0.15%	1,340,578	986.39%
	Unsecured loans	137	32,489	0.42%	469	342.34%
Gross loan business		\$ 2,751,583	\$ 1,903,261,265	0.14%	\$ 29,583,431	1075.14%
		Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services		\$ 13,812	\$ 7,542,405	0.18%	\$ 75,367	545.66%
Without recourse factoring (Note 7)		\$ -	\$ 28,218,088	-	\$ 460,750	-

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	-

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, 2019	
	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)	220	2,149
Total	\$ 220	\$ 2,149

	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

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, 2019		
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the current year (%)
1	A Company –Transport via Railways	\$ 49,843,216	17.09%
2	B Group –Real Estate Development Activities	35,655,512	12.22%
3	C Group –Other Financial Service Activities Not Elsewhere Classified	31,184,710	10.69%
4	D Group –Air Transport	24,154,365	8.28%
5	E Group –Computer Manufacturing	23,143,632	7.93%
6	F Group –Ocean Freight Transportation Forwarding Services	18,874,575	6.47%
7	G Group –Steel and Smelting	17,084,103	5.86%
8	H Group –Rolling and Extruding of Iron and Steel	15,246,809	5.23%
9	I Group –Other Financial Service Activities Not Elsewhere Classified	14,043,033	4.81%
10	J Group –Real Estate Development Activities	13,441,553	4.61%

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 year (%)
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 Activities	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%

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, 2019	December 31, 2018
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	2,077,011	2,178,118
Provision for bad debts and guarantees actually reserved	2,151,208	2,217,157

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, 2019	December 31, 2018
Total guarantees and endorsement for short-term bills	\$ 169,807,100	\$ 164,692,100
Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment)	5.18	4.93
Total securities sold under repurchase agreements	204,173,461	202,310,405
Securities sold under repurchase agreements / Net amount (after deducting final accounts allotment)	6.23	6.06

(c) Credit risk concentration

Item	December 31, 2019		December 31, 2018	
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)		20.08		18.02
Industry concentration (%) (Top 3 industries with highest ratio of credit extension amount) (Note 3)	Industry	Ratio (%)	Industry	Ratio (%)
	Financial & Insurance	28.48	Financial & Insurance	27.51
	Real estate	27.61	Real estate	27.60
	Manufacturing	19.97	Manufacturing	20.60

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, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income 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 page 141~142 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

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

(Please refer to page 143 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

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

(Please refer to page 144~145 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

(D) Maturity analysis for contracts off the balance sheet

(Please refer to page 145 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

(E) Analysis for maturity leasing contractual commitments

(Please refer to page 146 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

D. Disclosure requirements in the “Regulations Governing the Preparation of Financial Reports by Public Banks”

(A) Maturity analysis of NTD of subsidiary-MICB

	December 31, 2019						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$1,915,318,243	\$ 275,175,039	\$ 198,450,965	\$ 152,407,863	\$ 224,375,175	\$ 166,861,754	\$ 898,047,447
Primary funds outflow upon maturity	2,459,536,895	107,110,773	180,406,137	321,925,179	252,697,632	428,131,098	1,169,266,076
Gap	(\$ 544,218,652)	\$ 168,064,266	\$ 18,044,828	(\$ 169,517,316)	(\$ 28,322,457)	(\$ 261,269,344)	(\$ 271,218,629)

	December 31, 2018						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$1,847,329,522	\$ 257,675,113	\$ 236,753,293	\$ 169,819,077	\$ 206,535,977	\$ 157,381,317	\$ 819,164,745
Primary funds outflow upon maturity	2,384,413,673	123,880,474	185,756,784	330,375,891	245,907,911	387,365,435	1,111,127,178
Gap	(\$ 537,084,151)	\$ 133,794,639	\$ 50,996,509	(\$ 160,556,814)	(\$ 39,371,934)	(\$ 229,984,118)	(\$ 291,962,433)

(B) Maturity analysis of USD of subsidiary-MICB

Unit: In thousand of US dollars

	December 31, 2019					
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 59,161,168	\$26,065,330	\$8,661,893	\$3,825,506	\$3,370,008	\$17,238,431
Primary funds outflow upon maturity	68,087,117	25,567,497	12,994,797	6,958,351	6,962,965	15,603,507
Gap	(\$ 8,925,949)	\$497,833	(\$4,332,904)	(\$3,132,845)	(\$3,592,957)	\$1,634,924

	December 31, 2018					
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 56,534,405	\$ 25,579,158	\$ 8,084,179	\$ 3,895,261	\$ 1,769,138	\$ 17,206,669
Primary funds outflow upon maturity	65,858,134	26,907,531	10,629,841	5,432,397	6,800,810	16,087,555
Gap	(\$ 9,323,729)	(\$ 1,328,373)	(\$ 2,545,662)	(\$ 1,537,136)	(\$ 5,031,672)	\$ 1,119,114

Note 1 : The funds denominated in US dollars means the amount of all US dollars of subsidiary MICB.

Note 2 : If overseas assets exceed 10% of subsidiary MICB total assets, supplementary information shall be disclosed.

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

Unit: In thousand of US dollars

	December 31, 2019					
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 19,125,697	\$ 9,301,792	\$ 2,543,455	\$ 751,666	\$ 1,017,276	\$ 5,511,508
Primary funds outflow upon maturity	20,741,754	10,026,119	1,514,538	1,227,448	1,006,878	6,966,771
Gap	(\$ 1,616,057)	(\$ 724,327)	\$ 1,028,917	(\$ 475,782)	\$ 10,398	(\$ 1,455,263)

	December 31, 2018					
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 19,756,020	\$ 11,220,306	\$ 2,087,792	\$ 644,532	\$ 609,495	\$ 5,193,895
Primary funds outflow upon maturity	21,095,065	10,345,450	1,362,985	916,441	985,287	7,484,902
Gap	(\$ 1,339,045)	\$ 874,856	\$ 724,807	\$ 271,909	(\$ 375,792)	(\$ 2,291,007)



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

Utilization and Sources of Capital
December 31, 2019

Unit: In millions of NT dollars

Item	Gap	1-30 days	31-90 days	91-180 days	181 days to 1 year	Over 1 year
Utilization of Capital	Bills	46,601	68,126	7,499	-	-
	Bonds	201	1,746	2,649	5,618	118,943
	Bank deposits	356	-	-	400	-
	Total	47,158	69,872	10,148	6,018	118,943
Sources of Capital	Loans borrowed	14,132	-	-	-	-
	Securities sold under repurchased agreements	153,364	49,455	1,213	141	-
	Own capital	-	-	-	-	38,277
	Total	167,496	49,455	1,213	141	38,277
Net flow of capital		(120,338)	20,417	8,935	5,877	80,666
Accumulated net flow of capital		(120,338)	(99,921)	(90,986)	(85,109)	(4,443)

Utilization and Sources of Capital
December 31, 2018

Unit: In millions of NT dollars

Item	Gap	1-30 days	31-90 days	91-180 days	181 days to 1 year	Over 1 year
Utilization of Capital	Bills	62,376	55,861	3,903	-	-
	Bonds	935	1,083	2,869	5,824	123,938
	Bank deposits	326	-	-	400	-
	Total	63,637	56,944	6,772	6,224	123,938
Sources of Capital	Loans borrowed	23,074	-	-	-	-
	Securities sold under repurchased agreements	178,110	22,622	1,530	48	-
	Own capital	-	-	-	-	35,629
	Total	201,184	22,622	1,530	48	35,629
Net flow of capital		(137,547)	34,322	5,242	6,176	88,309
Accumulated net flow of capital		(137,547)	(103,225)	(97,983)	(91,807)	(3,498)

(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, 2019				
	USD	AUD	RMB	EUR	JPY
Assets					
Cash and cash equivalents	\$ 91,421,404	\$ 363,470	\$ 17,357,095	\$ 1,890,735	\$ 12,283,401
Due from the Central Bank and call loans to banks	380,402,426	3,495,475	9,294,280	356,215	27,434,206
Financial assets at fair value through profit or loss	36,274,806	2,681,798	12,016	499,712	524
Financial assets at fair value through other comprehensive income	160,787,598	78,736,145	14,753,549	4,499,053	9,155,888
Investments in debt instruments at amortised cost	30,770,574	844,746	4,853,456	420,330	552,474
Securities purchased under resell agreements	1,438,626	-	-	245,337	-
Receivables	30,697,049	9,429,516	1,363,737	1,166,034	1,474,251
Loans discounted, net	473,653,541	57,195,287	17,341,313	31,143,294	32,294,330
Reinsurance contract asset	181,304	-	-	42	891
Investments accounted for using the equity method	46,439	-	-	-	-
Other financial assets	738,297	421	7,721	11,114	43,498
Right of use asset, net	272,821	64,506	32,262	5,851	37,140
Property and equipment	156,035	21,120	9,676	37,728	27,888
Intangible assets	39,507	1,151	18,455	47	797
Deferred income tax assets	429,583	-	147,039	-	-
Other assets	3,533,791	3,449	48,188	667,115	33,390
Liabilities					
Deposits from the Central Bank and banks	\$ 327,003,756	\$ 3,357,858	\$ 13,305,132	\$ 3,033,681	\$ 39,175,827
Due to the Central Bank and banks	21,161,321	-	-	-	-
Financial liabilities at fair value through profit or loss	19,645,423	9,329	754	278,857	546
Securities sold under repurchased agreements	52,715,436	14,686,716	-	687,225	-
Payables	16,608,641	269,673	1,704,548	676,559	1,106,531
Deposits and remittances	951,662,036	36,636,223	95,792,969	30,471,713	26,049,106
Other borrowings	209,909	-	-	-	-
Provisions	541,399	3,922	-	314	30,034
Other financial liabilities	5,839,677	1,813,867	1,167,318	941,477	81,828
Lease liabilities	291,617	66,890	30,622	5,039	37,879
Other liabilities	4,589,300	129,133	14,956	197,215	208,813
Off-balance sheet commitments	90,507,888	1,574,650	3,884,941	13,123,161	3,542,948

	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
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
Investments accounted for using 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
Liabilities					
Deposit from the Central Bank and banks	\$ 307,667,521	\$ 2,624,929	\$ 19,821,370	\$ 1,511,247	\$ 38,929,323
Due to the Central Bank and 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
Deposits and remittances	866,531,484	38,154,098	98,094,237	28,877,238	27,159,864
Other borrowings	399,529	-	-	-	-
Provisions	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
Off-balance sheet commitments	95,005,634	2,316,440	4,102,921	13,199,335	4,365,793

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, 2019

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%	(\$ 64,121)	\$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	64,121	-
Interest rate risk (not including deposits and loans)	Major increases in interest rates 1BP	(60,939)	(119,461)
Interest rate risk (not including deposits and loans)	Major decline in interest rates 1BP	69,137	153,870
Equity securities risk	TAIEX declined by 1%	(42,812)	(121,196)
Equity securities risk	TAIEX increased by 1%	48,880	139,120

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

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, 2019

Value at risk of primary market	Average	Maximum	Minimum
Value at risk of equity securities	\$ 536,928	\$ 773,042	\$ 300,815
Value at risk of interest products	1,701,678	2,196,755	1,206,600
Value at risk of foreign exchange products	305,082	466,752	143,413
Value at risk of credit products	185,527	239,190	131,864
Total VaR	\$ 2,729,215	\$ 3,675,739	\$ 1,782,692

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

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, 2019

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	\$ 555,584,995	\$ 913,074,565	\$ 22,892,052	\$ 154,092,044	\$ 1,645,643,656
Interest rate sensitive liabilities	481,824,600	726,722,387	53,519,867	18,785,106	1,280,851,960
Interest rate sensitive gap	\$ 73,760,395	\$ 186,352,178	(\$ 30,627,815)	\$ 135,306,938	\$ 364,791,696
Net worth					\$ 278,923,929
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					128.48%
Ratio of interest rate sensitivity gap to net worth					130.79%

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%

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, 2019

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	\$ 35,667,502	\$ 1,158,572	\$ 396,606	\$ 297,548	\$ 37,520,228
Interest rate sensitive liabilities	37,941,456	3,756,806	1,798,327	7,509	43,504,098
Interest rate sensitive gap	(\$ 2,273,954)	(\$ 2,598,234)	(\$ 1,401,721)	\$ 290,039	(\$ 5,983,870)
Net worth					\$ 479,434
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					86.25%
Ratio of interest rate sensitivity gap to net worth					(1,248.11%)

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%)

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. 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, 2019

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$ 117,029,746	\$ 10,147,551	\$ 6,018,385	\$ 118,942,884	\$ 252,138,566
Interest rate sensitivity liabilities	216,951,364	1,213,297	140,831	-	218,305,492
Interest-rate sensitivity gap	(\$ 99,921,618)	\$ 8,934,254	\$ 5,877,554	\$ 118,942,884	\$ 33,833,074
Net worth					\$ 38,277,225
Interest rate sensitivity assets and liabilities ratio					115.50%
Interest rate sensitivity gap and net worth ratio					88.39%



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%

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, 2019	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	\$ 937,583	0.24
Interbank call loans	1,644	0.19
Financial assets at fair value through profit or loss	129,868,666	0.90
Financial assets at fair value through other comprehensive income	129,203,448	1.77
Securities purchased under resell agreements	435,251	0.49
Investments in debt instruments at amortised cost	443,692	4.41
Liabilities		
Interbank call loans and overdrafts	20,656,690	0.86
Securities sold under repurchase agreements	208,789,330	0.84

	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
Financial assets at fair value through other comprehensive income	132,144,109	1.76
Securities purchased under resell agreements	771,851	0.40
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

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, 2019		
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	100,535,908	100,213,611
Financial assets at fair value through other comprehensive income Repurchase agreement	69,063,586	66,021,560
Investments in debt instruments at amortised cost Repurchase agreement	201,391	211,262

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	406,303

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, 2019						
Financial assets that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements						
Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities offset in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative instruments	\$ 5,464,283	\$ -	\$ 5,464,283	\$ 2,270,374	\$ 75,328	\$ 3,118,581
Resell agreement	245,337	-	245,337	239,633	-	5,704
Total	\$ 5,709,620	\$ -	\$ 5,709,620	\$ 2,510,007	\$ 75,328	\$ 3,124,285
Financial liabilities that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements						
Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets offset in the balance sheet (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral pledged	
Derivative instruments	\$ 3,006,942	\$ -	\$ 3,006,942	\$ 372,276	\$ 12,128	\$ 2,622,538
Repurchase agreement	54,065,986	-	54,065,986	52,783,474	1,281,468	1,044
Total	\$ 57,072,928	\$ -	\$ 57,072,928	\$ 53,155,750	\$ 1,293,596	\$ 2,623,582



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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
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	\$ 5,149,361	\$ 136	\$ 5,149,225	\$ 2,620,422	\$ 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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral pledged	
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

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, 2019 and 2018, 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, 2019		For the year ended December 31, 2018	
	Premium Income	Self-retained Premium	Premium Income	Self-retained Premium
Earthquake insurance	\$ 744,716	\$ 199,858	\$ 709,138	\$ 190,004
Fire insurance	756,405	341,857	747,770	357,960
Engineering insurance	264,224	121,864	227,136	140,011

(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, 2019		December 31, 2018	
	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	\$ 92,233	\$ 33,153	\$ 55,043	\$ 20,967
Marine Insurance	38,619	9,489	30,480	8,027
Automobile Insurance	180,933	138,416	172,885	132,924
Accident Insurance	53,949	27,717	82,126	36,624
Injury Insurance	25,124	13,088	17,438	10,952
Offshore Branches	4,606	4,606	4,626	4,624

Sensitivity testing calculates the impact a 5% increase in the final loss rate has on the Company's profit or loss based on the retained earned premium within 1 year as of the financial report's year-end date. If the movement of the final loss rate is inversely, the above-mentioned claims reserve held is also inverted.

(4) Claim development trend

As of December 31, 2019 and 2018, the subsidiary-CKI's claim development trend is as follows:

A. Accumulative claim amounts (Before reinsurance ceding)

December 31, 2019											
Year of Accident	2014.12.31	2015.12.31	2016.12.31	2017.12.31	2018.12.31	2019.12.31	Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
2014 and before	31,483,433	31,644,078	31,614,995	31,549,009	31,493,673	31,398,026	31,398,026	31,130,671	267,355		
2015		2,773,168	3,075,182	3,105,290	3,102,556	3,088,333	3,088,333	3,002,177	86,156		
2016			4,325,180	4,617,426	4,538,979	4,563,929	4,563,929	4,371,270	192,659		
2017				2,717,118	3,176,160	3,270,286	3,270,286	3,120,383	149,903		
2018					2,841,225	3,611,662	3,611,662	2,983,362	628,300		
2019						2,883,148	2,883,148	1,777,238	1,105,910		
Total							48,815,384	46,385,101	2,430,283	1,051,605	3,481,888

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

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, 2019											
Year of Accident	Day of evaluation						Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
	2014.12.31	2015.12.31	2016.12.31	2017.12.31	2018.12.31	2019.12.31					
2014 and before	19,124,378	19,359,951	19,403,022	19,341,419	19,314,379	19,292,591	19,292,591	19,129,826	162,765		
2015		1,487,394	1,728,447	1,766,948	1,755,185	1,752,757	1,752,757	1,704,326	48,431		
2016			1,971,815	2,281,993	2,289,463	2,303,094	2,303,094	2,233,191	69,903		
2017				1,578,405	1,905,701	1,992,756	1,992,756	1,907,165	85,591		
2018					1,691,109	2,213,015	2,213,015	1,981,071	231,944		
2019						1,781,237	1,781,237	1,249,333	531,904		
Total							29,335,450	28,204,912	1,130,538	659,184	1,789,722

December 31, 2018											
Year of Accident	Day of evaluation						Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amount recognized in the balance sheet
	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

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, 2019 and 2018:

	December 31, 2019	December 31, 2018
Below 1 year	\$ 3,032,082	\$ 3,065,929
From 1 year to 5 years	449,806	350,436
Total	\$ 3,481,888	\$ 3,416,365

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, 2019						
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	\$ 439,678	\$ 173,954	\$ 187,838	\$ 425,794	(\$ 2,413)	\$ 423,381
Non-compulsory insurance	7,028,086	595,686	3,302,165	4,321,607	(215,608)	4,105,999
Total	\$ 7,467,764	\$ 769,640	\$ 3,490,003	\$ 4,747,401	(\$ 218,021)	\$ 4,529,380

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

The subsidiaries had no premium income from compulsory insurance in Guam and \$740,335 and \$717,791 from non-compulsory insurance for the years ended December 31, 2019 and 2018, respectively.



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

Type	For the year ended December 31, 2019			
	Claims incurred (1)	Reinsurance claims incurred (2)	Claims recovered from reinsurers (3)	Net claims(4)=(1)+(2)-(3)
Compulsory insurance	\$ 346,990	\$ 157,887	\$ 200,468	\$ 304,409
Non-compulsory insurance	3,450,824	333,047	1,308,163	2,475,708
Total	\$ 3,797,814	\$ 490,934	\$ 1,508,631	\$ 2,780,117

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

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

	December 31, 2019	December 31, 2018
Assets		
Cash and bank deposits	\$ 582,647	\$ 590,402
Notes receivable	1,153	276
Premiums receivable	11,280	8,560
Claims recoverable from reinsurers	24,811	33,564
Due from reinsurers and ceding companies	28,907	28,393
Ceded unearned premium reserve	101,041	100,135
Ceded claims reserve	153,624	147,470
Temporary payments	1,752	659
Total	\$ 905,215	\$ 909,459
Liabilities		
Due to reinsurers and ceding companies	\$ 21,825	\$ 31,128
Unearned premium reserve	266,234	262,915
Reserve for outstanding losses	392,461	381,156
Reserve for catastrophic losses	222,483	232,864
Temporary receipts	1,333	268
Other liabilities	879	1,128
Total	\$ 905,215	\$ 909,459

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

	For the years ended December 31,	
	2019	2018
Operating revenues		
Direct written premiums	\$ 313,065	\$ 308,604
Reinsurance premiums	173,954	170,661
Less: Reinsurance premiums ceded	(187,838)	(185,161)
Net change in reserve for unearned premiums	(2,413)	(1,721)
Net premiums written	296,768	292,383
Interest income	2,411	2,126
Total	\$ 299,179	\$ 294,509

	For the years ended December 31,	
	2019	2018
Operating costs		
Claims incurred	\$ 346,990	\$ 289,687
Reinsurance Claims incurred	157,887	158,496
Less: claims recovered from reinsurers	(200,468)	(173,735)
Net claims	304,409	274,448
Net change in reserve for claims	5,151	(7,323)
Net change in special reserve	(10,381)	27,384
Total	\$ 299,179	\$ 294,509

E. Net premiums

Net premiums of the respective insurances are as follows:

Items	2019	2018
General fire insurance	\$ 2,000,000	\$ 1,700,000
Fire & allied perils insurance	2,000,000	1,700,000
Marine cargo insurance	200,000	200,000
Marine hull insurance	200,000	200,000
Fishing vessel insurance	50,000	50,000
Aviation insurance	USD10,000 thousands	USD10,000 thousands
Engineering insurance	2,500,000	2,000,000
Money insurance	700,000	600,000
Motor physical damage insurance	15,000	10,000
Motor third party liability insurance	120,000	100,000
Motor passengers liability insurance	120,000	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	400,000	300,000
Fidelity surety bond	50,000	50,000
Engineering surety bond	200,000	200,000
Bankers' surety bond	700,000	600,000
Other property insurance	200,000	200,000
Other credit and surety bond	120,000	120,000
Nuclear energy insurance	400,000	400,000
Group accident insurance	20,000	20,000
Personal accident insurance	25,000	25,000
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
REAA SCHADEVERZEKERINGEN	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)	Marine hull insurance: Treaty reinsurance Cargo insurance: Treaty reinsurance
TRUST RE	Fire insurance: Treaty and facultative reinsurance Engineering insurance: Treaty and facultative reinsurance Marine hull insurance: Treaty reinsurance Cargo insurance: Treaty reinsurance
ARAB INS. GROUP	Fire insurance: Facultative reinsurance Marine hull insurance: Treaty reinsurance Cargo insurance: Treaty reinsurance
The Oriental Insurance Company Limited ACR (SINGAPORE)	Engineering insurance: Treaty reinsurance Fire insurance: Treaty reinsurance and facultative reinsurance Engineering insurance: Treaty and facultative reinsurance Liability insurance: Treaty reinsurance Marine hull insurance: Treaty and facultative reinsurance
ACR (HK)	Fire insurance: Facultative reinsurance Marine hull insurance: Treaty reinsurance Cargo insurance: Treaty reinsurance

(B) The unqualified reinsurance expense was \$60,279 and \$724 for the years ended December 31, 2019 and 2018, respectively.

(C) As of December 31, 2019 and 2018, the unqualified reinsurance reserves are unearned premium reserve. Details are set forth as follows:

	December 31, 2019	December 31, 2018
Unearned premium reserve	\$ 30,139	\$ 362
Ceded claim reserve-reported	53,072	10,598
Claims recoverable from reinsurers	3,104	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, 2019

	Ownership	Eligible capital	Minimum capital
The Company	100.00%	\$ 324,046,317	\$ 361,672,501
MICB	100.00%	299,282,941	225,757,313
MS	100.00%	13,024,144	4,362,605
MBF	100.00%	36,622,230	21,575,707
CKI	100.00%	7,189,577	1,996,730
MAM	100.00%	2,753,530	5,823,786
Mega Life Insurance Agency	100.00%	466,496	335,961
Mega Venture Capital	100.00%	761,477	380,772
MITC	100.00%	845,920	470,897
Deduction item		360,341,042	358,254,779
Subtotal	(A)	\$ 324,651,590	(B) \$ 264,121,493
Capital adequacy ratio of the Consolidated Company (C)=(A)÷(B)			(C) 122.92%

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%

B. As of December 31, 2019 and 2018, the financial holding's net eligible capital

Mega Financial Holding Co., Ltd. and its subsidiaries Financial Holding's net eligible capital

Item	December 31, 2019	December 31, 2018
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	38,066,701	35,255,784
Special reserve	2,545,151	2,545,151
Accumulated earnings	66,899,512	64,774,415
Equity adjustment number	12,357,411	7,474,457
Less: goodwill and other intangible assets	5,280	5,213
deferred assets	9,651	4,734
treasury stocks	-	-
Total net eligible capital	\$ 324,046,317	\$ 314,232,333



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, 2019	December 31, 2018
Others (individual amounts accounting for less than 10% of the total amount)	\$ 4,029,301	\$ 5,081,791

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, 2019	December 31, 2018
Others (individual amounts accounting for less than 10% of the total amount)	\$ 264,894	\$ 253,366

C. Bank deposits

	December 31, 2019	December 31, 2018
Chunghwa Post	\$ 86,735	\$ 2,463
BOT	57,369	125,258
Total	\$ 144,104	\$ 127,721

D. Refundable deposits

Collaterals	December 31, 2019	December 31, 2018
BOT Financial assets at fair value through other comprehensive income - bonds	\$ 50,901	\$ 50,915

E. Purchases of securities and bonds

	December 31, 2019	December 31, 2018
Chunghwa Post	\$ -	\$ 50,645

F. Sales of securities and bonds

	For the years ended December 31,	
	2019	2018
BOT	\$ -	\$ 91,263,790
Chunghwa Post	190,394,591	220,314,917
Total	\$ 190,394,591	\$ 311,578,707

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, 2019	December 31, 2018
BOT	\$ 19,692,644	\$ 14,013,362

(B) Overdraft on banks

	December 31, 2019	December 31, 2018
Chunghwa Post	\$ 71,410	\$ 5,320,114
BOT	8,468,864	6,716,079
Total	<u>\$ 8,540,274</u>	<u>\$ 12,036,193</u>

H. Collaterals

	Collaterals	December 31, 2019	December 31, 2018
BOT	Financial assets at fair value through other comprehensive income-bonds	<u>\$ 2,812,600</u>	<u>\$ 2,818,667</u>

I. Loans

December 31, 2019							
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	8	\$ 4,612	\$ 3,997	V		None	None
Home mortgage loans	90	792,314	725,435	V		Real estate	None
Other loans	6	1,222,078	488,286	V		Real estate / Time deposit	None

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

J. Interest revenue

	For the years ended December 31,			
	2019		2018	
	Amount	% of the Account	Amount	% of the Account
BOT	<u>\$ 4,910</u>	<u>0.01</u>	<u>\$ 2,777</u>	<u>-</u>

K. Interest expense

	For the years ended December 31,			
	2019		2018	
	Amount	% of the Account	Amount	% of the Account
BOT	\$ 24,093	0.06	\$ 41,669	0.14
Chunghwa Post	13,379	0.04	19,578	0.06
TFC	-	-	792	-
Total	<u>\$ 37,472</u>	<u>0.10</u>	<u>\$ 62,039</u>	<u>0.20</u>

L. Income and losses of financial assets and liabilities measured at fair value through profit or loss (sales of securities and bonds and derivative transaction)

	For the years ended December 31,			
	2019		2018	
	Amount	% of the Account	Amount	% of the Account
BOT	(\$ 757)	(0.01)	\$ 4,910	0.08
Chunghwa Post	28,519	0.24	36,580	0.58
Total	<u>\$ 27,762</u>	<u>0.23</u>	<u>\$ 41,490</u>	<u>0.66</u>



M. Information on remunerations to the Group's key management:

	For the years ended December 31,	
	2019	2018
Salaries and other short-term employee benefits	\$ 410,150	\$ 375,861
Post-employment benefits	5,429	5,969
Termination benefits	812	648
Total	\$ 416,391	\$ 382,478

12. PLEDGED ASSETS

Asset	Purpose of pledge	December 31, 2019	December 31, 2018
Financial assets at fair value through profit or loss	Collaterals for Central Bank and bank overdrafts	\$ 13,304,301	\$ 12,803,642
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	18,408,720	14,809,376
Investments in debt instruments at amortised cost	Central Bank deposit	6,875,628	6,450,860
Other financial assets	Collaterals for short-term borrowings, Collaterals for bank overdrafts	426,050	400,100
Property and equipment	Collaterals for short-term borrowings	2,426,270	2,439,674
Investment property	Collaterals for short-term borrowings	114,347	117,984
Assets held for sale	Collaterals for short-term borrowings	274,280	328,350
Other assets	Guarantee of insurance business, performance guarantee	519,544	519,938
		\$ 42,349,140	\$ 37,869,924

13. COMMITMENTS AND CONTINGENT LIABILITIES

(1) The subsidiaries-MICB

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 on August 19, 2016, 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 had been overseen and consulted with the compliance consultant during the stipulated term. The independent monitor had completed the aforementioned comprehensive review in the end of 2019, and prepared recommendation and report based on the compliance situation during the review. MICB has reported the recommendation and report to the Board of Directors. In addition, a review on MICB NY Branch's U.S. dollar clearing transaction activity was conducted by the independent monitor, which was completed in the end of February 2020. All the results identified during the review period have been reported to the Board of Directors and related competent authorities.

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 IDFPF 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. In addition, the independent monitor conducted a review of MICB NY Branch's U.S. dollar clearing transaction activity from January 1, 2015 through June 30, 2015, to determine whether MICB NY Branch's suspicious transaction activity can be recognised appropriately and be declared in accordance with relevant reporting regulations. 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.

Additionally, FED and NYDFS conducted a joint examination 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, March 2019 and March 2020, respectively, and are subsequently improving its risk management and addressing compliance deficiencies in line with the plan.

As of reporting date, most of the deficiencies which were listed in the abovementioned written action plans have been improved. Those written action plans were seasonally reported to the Board of Directors and submitted to the Federal Reserve Bank. A retrospective investigation on MICB NY Branch's U.S. dollar clearing transaction activity was conducted by the independent monitor during the above mentioned period, which was completed in the end of February 2020. All the results identified during the review period have been reported to the Board of Directors and related competent authorities.

The subsidiary-MICB has engaged an independent third party to conduct a retrospective review on the clearing transactions in relation to the MICB's domestic U.S. clearing mechanism period from March 2013 to August 2017, Taiwan-Iran clearing mechanism period from October 2011 to October 2018, which might transact through the MICB NY Branch under the domestic U.S. clearing mechanism and Taiwan-Iran clearing mechanism implemented by MICB, and MICB NY Branch's intermediary USD transaction, which was transacted through MICB NY Branch period from January 2012 to February 2018, after assessing related risk issues, such as suspicious activity monitoring and reporting and compliance with the OFAC regulations. The review was all completed in the end of December 2019, and has been reported to the Board of Directors and self-disclosed to OFAC. According to the assessment of lawyer, MICB conducted Taiwan-Iran clearing mechanism in line with government's policy and did not hide or violate OFAC Regulations. Subsequently, this case is still under the investigation of the American competent authority. MICB continually pay attention on the progress of this case.

B. As of December 31, 2019 and 2018, MICB and its subsidiaries' commitments and contingent liabilities were as follows:

	December 31, 2019	December 31, 2018
Irrevocable arranged financing limit	\$ 115,208,577	\$ 106,262,607
Securities sold under repurchase agreement	32,128,969	26,988,236
Securities purchased under resell agreement	7,536,981	3,997,958
Credit card line commitments	86,738,760	72,164,865
Guarantees issued	161,294,237	173,965,112
Contra guarantees	25,401	-
Letters of credit	47,258,042	58,777,320
Customers' securities under custody	309,916,421	241,506,923
Properties under custody	2,701,974	3,304,009
Guarantee received	112,655,731	115,254,645
Collections for customers	74,940,360	91,890,545
Agency loans payable	476,536	619,034
Travelers' checks consigned-in	871,120	1,153,653
Gold coins consigned-in	-	240
Trustee sales license	985	807
Payables on consignments-in	1,654	1,710
Agent for government bonds	184,033,700	162,582,200
Short-dated securities under custody	86,740,467	61,895,381
Trust liability	569,150,273	470,035,199
Certified notes paid	4,108,949	5,103,628
Total	\$ 1,795,789,137	\$ 1,595,504,072



(2) The subsidiaries-MBF

As of December 31, 2019 and 2018, the company's commitments and contingent liabilities arising from its normal course of business were as follows:

	December 31, 2019	December 31, 2018
Securities sold under repurchase agreements	\$ 204,173,461	\$ 202,310,405
Guarantees for commercial papers	169,807,100	164,692,100
Buy fixed rate financial paper	17,650,000	20,050,000
Buy index rate financial paper	48,500,950	44,459,000
Sell index rate financial paper	1,000,000	1,500,000
Total	<u>\$ 441,131,511</u>	<u>\$ 433,011,505</u>

(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, 2019, 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:

On October 18, 2019, the Board of Directors of MICB during their meeting resolved to apply for the issuance of unsecured senior financial bonds with a revolving credit of NTD 1 billion. The issuance has been approved by the competent authority on December 4, 2019. Additionally, MICB's first time of 2020 unsecured junior financial bonds were raised and issued on March 11, 2020, and the total issuance amount was NTD 1 billion.

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 page 181~191 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

(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, 2019

The promotion bonus paid to other subsidiaries by MITC, MICB, CKI and MS amounted to \$42,580, \$34,960, \$25,430 and \$10,100 respectively. As a result of cross-selling by other subsidiaries, the insurance premium income increased by \$156,580 for MITC; \$77,520 for MICB; \$548,860 for CKI; \$30,320 for MS.

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.

(8) Information for private placement securities: None.

(9) Financial information by business segments

For the year ended December 31, 2019	Bank division	Insurance division	Bills division	Securities division	Total other divisions	Consolidation
Interest income, net	\$ 33,942,699	\$ 92,355	\$ 460,144	\$ 664,821	(\$ 93,171)	\$ 35,066,848
Revenues other than interest, net	19,765,200	1,344,291	3,438,767	3,023,971	2,635,785	30,208,014
Net revenue	53,707,899	1,436,646	3,898,911	3,688,792	2,542,614	65,274,862
Bad debts expense, commitment and guarantee liability provision	(746,859)	(24,328)	69,684	-	14,320	(687,183)
Net change in provisions for insurance liabilities	-	(34,968)	-	-	-	(34,968)
Operating expenses	(25,599,554)	(1,179,636)	(769,088)	(2,451,348)	(898,811)	(30,898,437)
Profit from continuing operations before tax	27,361,486	197,714	3,199,507	1,237,444	1,658,123	33,654,274
Income tax expense	(3,735,704)	(50,346)	(540,628)	(106,140)	(266,656)	(4,699,474)
Profit from continuing operations	\$ 23,625,782	\$ 147,368	\$ 2,658,879	\$ 1,131,304	\$ 1,391,467	\$ 28,954,800

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	\$ 767,352	(\$ 104,457)	\$ 38,044,552
Revenues other than interest, net	14,987,808	1,433,524	2,927,060	1,957,635	2,258,828	23,564,855
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)
Profit from continuing operations before tax	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)
Profit from continuing operations	\$ 23,373,530	\$ 317,153	\$ 2,588,716	\$ 299,556	\$ 1,514,490	\$ 28,093,445

(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,		
	2019	2018	%		2019	2018	%
Assets				Liabilities			
Cash and cash equivalents	\$ 87,474	\$ 152,693	(42.71)	Commercial paper payable, net	\$ 13,338,100	\$ 13,007,338	2.54
Financial assets at fair value through profit or loss	-	203,062	(100.00)	Payables	23,220,100	21,285,593	9.09
Financial assets at fair value through other comprehensive income	2,687,373	2,154,580	24.73	Current tax liabilities	1,256,310	980,678	28.11
Current tax assets	1,582,395	1,259,321	25.65	Other loans	1,400,000	-	100.00
Investments accounted for using equity method, net	358,254,779	345,071,763	3.82	Provisions	74,076	61,801	19.86
Other financial assets, net	100	100	-	Lease liabilities	3,278	-	100.00
Investment property	132,593	134,104	(1.13)	Other liabilities	4,189	7,271	(42.39)
Property and equipment, net	593,195	595,986	(0.47)	Total liabilities	39,296,053	35,342,681	
Right-of-use assets, net	3,267	-	100.00	Equity			
Deferred income tax assets	9,651	4,734	103.87	Common stock	135,998,240	135,998,240	-
Other assets, net	6,474	8,618	(24.88)	Capital surplus	68,194,233	68,194,233	-
				Retained earnings			
				Legal reserve	38,066,701	35,255,784	7.97
				Special reserve	2,545,151	2,545,151	-
				Unappropriated earnings	66,899,512	64,774,415	3.28
				Other equity interest	12,357,411	7,474,457	65.33
				Total equity	324,061,248	314,242,280	
TOTAL ASSETS	\$363,357,301	\$349,584,961	3.94	TOTAL LIABILITIES AND EQUITY	\$363,357,301	\$349,584,961	3.94

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, 2019	For the year ended December 31, 2018
Revenues		
Interest income	\$ 4,166	\$ 843
Gain on financial assets and liabilities at fair value through loss or profit	49,327	140,548
Share of profit of associates and joint ventures accounted for using equity method	29,345,776	27,913,508
Other revenue other than interest income	105,097	114,583
Total revenue	29,504,366	28,169,482
Expenses and losses		
Interest expense	(60,928)	(61,997)
Foreign exchange loss	(9)	(5)
Employee benefit expense	(330,824)	(310,085)
Depreciation and amortization expenses	(14,686)	(11,874)
Other general and administrative expenses	(66,926)	(62,493)
Total expenses and losses	(473,373)	(446,454)
Profit from continuing operations before tax	29,030,993	27,723,028
Income tax (expense) benefit	(74,749)	386,136
Profit	28,956,244	28,109,164
Other comprehensive income		
Non-reclassifiable to profit or loss subsequently		
Loss on remeasurement of defined benefit plans	(24,583)	(2,714)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	661,026	(472,247)
Revaluation gains on investments in equity instruments measured at fair value through other comprehensive income	532,793	435,649
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	4,917	507
Share of other comprehensive income of associates and joint ventures accounted for using equity method	2,808,272	(368,691)
Other comprehensive income	3,982,425	(407,496)
Total comprehensive income	\$ 32,938,669	\$ 27,701,668
Earnings Per Share (in dollars)		
Basic and Diluted Earnings Per Share (in dollars)	\$ 2.13	\$ 2.07



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

	Retained earnings					Other equity interest					
	Ordinary share	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign financial statement	Unrealized gain or loss on financial assets available-for-sale	Unrealized gain or loss at fair value through other comprehensive income	Reserve of overlay approach	Other equity- other	Total
For the year ended December 31, 2018											
Equity at beginning of year	\$135,998,240	\$ 68,194,233	\$ 32,682,332	\$ 3,004,318	\$ 59,182,128	\$ 2,753,357	\$ 1,746,239	\$ -	\$ -	\$ -	\$ 298,054,133
Effects of retrospective application and retrospective restatement	-	-	-	-	755,917	-	(1,746,239)	9,902,554	8,911	(34,928)	8,886,215
Equity at beginning of period after adjustments	135,998,240	68,194,233	32,682,332	3,004,318	59,938,045	(2,753,357)	-	9,902,554	8,911	(34,928)	306,940,348
Profit	-	-	-	-	28,109,164	-	-	-	-	-	28,109,164
Other comprehensive income (loss)	-	-	-	-	(499,055)	1,152,878	-	(929,483)	(111,088)	(20,748)	(407,496)
Total comprehensive income (loss)	-	-	-	-	27,610,109	1,152,878	-	(929,483)	(111,088)	(20,748)	27,701,668
Earnings distribution for 2017											
Legal reserve	-	-	2,573,452	-	(2,573,452)	-	-	-	-	-	-
Special reserve	-	-	-	(459,167)	459,167	-	-	-	-	-	-
Cash dividends	-	-	-	-	(20,399,736)	-	-	-	-	-	(20,399,736)
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(259,718)	-	-	259,718	-	-	-
Equity at end of year	\$135,998,240	\$ 68,194,233	\$ 35,255,784	\$ 2,545,151	\$ 64,774,415	\$ 1,600,479	\$ -	\$ 9,232,789	\$ 102,177	\$ 55,676	\$ 314,242,280
For the year ended December 31, 2019											
Equity at beginning of year	\$135,998,240	\$ 68,194,233	\$ 35,255,784	\$ 2,545,151	\$ 64,774,415	\$ 1,600,479	\$ -	\$ 9,232,789	\$ 102,177	\$ 55,676	\$ 314,242,280
Profit	-	-	-	-	28,956,244	-	-	-	-	-	28,956,244
Other comprehensive income	-	-	-	-	(747,595)	(813,101)	-	5,413,454	104,084	25,583	3,982,425
Total comprehensive income	-	-	-	-	28,208,649	(813,101)	-	5,413,454	104,084	25,583	32,938,669
Earnings distribution for 2018											
Legal reserve	-	-	2,810,917	-	(2,810,917)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(23,119,701)	-	-	-	-	-	(23,119,701)
Disposal of investment in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(152,934)	-	-	152,934	-	-	-
Equity at end of year	\$135,998,240	\$ 68,194,233	\$ 38,066,701	\$ 2,545,151	\$ 66,899,512	\$ 2,413,580	\$ -	\$ 14,799,177	\$ 1,907	\$ 30,093	\$ 324,061,248

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

	For the year ended December 31, 2019	For the year ended December 31, 2018
Cash Flows from Operating Activities		
Profit before tax	\$ 29,030,993	\$ 27,723,028
Income and expenses having no effect on cash flows		
Income and expenses		
Depreciation expenses	12,776	10,063
Amortization expenses	1,910	1,811
Interest expense	60,928	61,997
Interest revenue	(4,166)	(843)
Dividend income	(98,569)	(110,565)
Gain on financial liabilities at fair value through profit or loss	-	(140,548)
Gain on financial assets and liabilities at fair value through profit or loss	(49,327)	-
Share of profit of associates accounted for using equity method	(29,345,776)	(27,913,508)
Changes in operating assets and liabilities		
Changes in operating assets:		
Decrease in financial assets at fair value through profit or loss	252,389	178,159
Decrease in receivables	-	389
Decrease in other assets	2,210	2,342
Changes in operating liabilities:		
Increase in payables	694,369	1,320,166
Decrease in provisions for liabilities	(7,391)	(2,929)
(Decrease) increase in other liabilities	(3,082)	936
Cash flows generated from operations	547,264	1,130,498
Interest received	4,166	843
Cash dividend received	19,730,626	16,018,131
Interest paid	(60,139)	(50,611)
Income tax paid	(1,268,893)	(1,104,292)
Net cash flows from operating activities	18,953,024	15,994,569
Cash Flows from Investing Activities		
Acquisition of property and equipment	(6,927)	(9,509)
Acquisition of intangible assets	(1,976)	(4,105)
Net cash flows from investing activities	(8,903)	(13,614)
Cash Flows from Financing Activities		
Increase in commercial papers issued	330,000	2,620,000
Increase in other loans	1,400,000	-
Decrease in bonds payable	-	(16,700)
Payment of lease liabilities	(1,563)	-
Cash dividends paid	(20,737,777)	(18,739,395)
Net cash flows from financing activities	(19,009,340)	(16,136,095)
Net decrease in cash and cash equivalents	(65,219)	(155,140)
Cash and cash equivalents at beginning of year	152,693	307,833
Cash and cash equivalents at end of year	\$ 87,474	\$ 152,693



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

Item	December 31, 2019	December 31, 2018	Item	December 31, 2019	December 31, 2018
ASSETS			LIABILITIES		
Cash and cash equivalents	\$ 140,554,122	\$ 121,851,667	Deposits from the Central Bank and banks	\$ 408,153,290	\$ 391,833,101
Due from the Central Bank and call loans to banks	492,437,324	520,043,934	Due to the Central Bank and banks	21,161,321	53,920,881
Financial assets at fair value through profit or loss	63,903,712	63,083,937	Financial liabilities at fair value through profit or loss	21,372,394	26,692,448
Financial assets at fair value through other comprehensive income	387,478,611	263,821,804	Securities sold under repurchase agreements	32,011,462	26,921,643
Investments in debt instruments at amortised cost	269,203,897	267,773,373	Payables	35,647,021	34,185,408
Securities purchased under resell agreements	7,533,579	3,994,470	Current tax liabilities	7,350,174	7,787,642
Receivables, net	60,855,830	60,679,755	Deposits and remittances	2,447,534,107	2,311,019,303
Current tax asset	71,575	98,117	Financial bonds payable	12,000,000	13,300,000
Loans discounted, net	1,853,405,065	1,847,344,912	Other financial liabilities	10,266,531	10,529,402
Investments accounted for using equity method, net	8,546,674	9,273,021	Provisions	16,276,121	15,412,291
Other financial assets, net	2,536,284	29,338	Lease liabilities	1,928,148	-
Property and equipment, net	14,923,979	14,919,392	Deferred income tax liabilities	2,828,278	2,436,593
Right-of-use assets, net	1,902,983	-	Other liabilities	7,252,915	6,116,557
Investment property, net	583,973	584,291	Total liabilities	3,023,781,762	2,900,155,269
Deferred income tax assets	5,365,072	6,706,827	EQUITY		
Other assets, net	6,159,225	2,811,165	Common stock	85,362,336	85,362,336
			Capital surplus	62,219,540	62,219,540
			Retained earnings	137,069,817	130,016,615
			Other equity interest	7,028,450	5,262,243
			Total equity	291,680,143	282,860,734
TOTAL ASSETS	\$ 3,315,461,905	\$ 3,183,016,003	TOTAL LIABILITIES AND EQUITY	\$ 3,315,461,905	\$ 3,183,016,003

Financial Information

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

Item	December 31, 2019	December 31, 2018	Item	December 31, 2019	December 31, 2018
<u>ASSETS</u>			<u>LIABILITIES</u>		
Current assets	\$ 58,739,927	\$ 49,227,347	Current liabilities	\$ 47,421,669	\$ 38,844,151
Financial assets at fair value through other comprehensive income-non current	737,375	669,376	Provisions for liabilities - non-current	135,386	137,533
Investments accounted for using equity method	862,811	770,501	Lease liabilities	94,063	-
Property and equipment	2,476,643	2,474,086	Deferred income tax liabilities	9,469	2,033
Right-of-use assets, net	157,846	-	Other liabilities - non-current	8,897	11,424
Investment property	154,597	161,963	Total liabilities	47,669,484	38,995,141
Intangible assets	48,671	57,413	<u>EQUITY</u>		
Deferred income tax assets	87,032	97,703	Common stock	11,600,000	11,600,000
Other assets - non-current	902,865	911,528	Capital surplus	971,161	971,161
			Retained earnings	3,087,792	2,213,355
			Other equity interest	839,330	590,260
			Total equity	16,498,283	15,374,776
TOTAL ASSETS	\$ 64,167,767	\$ 54,369,917	TOTAL LIABILITIES AND EQUITY	\$ 64,167,767	\$ 54,369,917



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

Item	December 31, 2019	December 31, 2018	Item	December 31, 2019	December 31, 2018
ASSETS			LIABILITIES		
Cash and cash equivalents	\$ 356,298	\$ 326,207	Interbank overdraft and call loans	\$ 14,132,031	\$ 23,074,279
Financial assets at fair value through profit or loss	127,382,706	126,577,565	Financial liabilities at fair value through profit or loss	2,475	5,892
Financial assets at fair value through other comprehensive income	128,416,773	131,355,095	Securities sold under repurchase agreements	204,173,461	202,310,405
Investments in debt instruments at amortised cost			Payables	592,668	560,256
Receivables, net	431,553	440,070	Current tax liabilities	136,891	69,738
Other financial assets, net	2,303,800	1,534,617	Provisions	2,589,139	2,696,915
Property and equipment, net	585,426	497,703	Lease liabilities	73,785	-
Right-of-use assets, net	353,131	363,438	Deferred income tax liabilities	324,149	86,060
Investment property, net	73,532	-	Other liabilities	299,415	356,264
Intangible assets	2,496,432	2,507,096	Total liabilities	222,324,014	229,159,809
Deferred income tax assets, net	6,195	4,140	EQUITY		
Other assets, net	135,853	532,673	Common stock	13,114,411	13,114,411
	59,540	49,956	Capital surplus	320,929	320,929
			Retained earnings	22,499,419	22,012,449
			Other equity interest	2,342,466	180,962
			Total equity	38,277,225	35,628,751
TOTAL ASSETS	\$ 260,601,239	\$ 264,788,560	TOTAL LIABILITIES AND EQUITY	\$ 260,601,239	\$ 264,788,560

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

Item	December 31, 2019	December 31, 2018	Item	December 31, 2019	December 31, 2018
ASSETS			LIABILITIES		
Cash and cash equivalents	\$ 3,676,881	\$ 4,938,861	Payables	\$ 1,178,983	\$ 1,191,227
Receivables	874,415	741,040	Current tax liabilities	38,930	106,827
Current tax assets	114,254	158,020	Insurance liabilities	8,812,271	8,438,737
Financial assets at fair value through profit or loss	1,985,240	1,463,230	Provisions	188,475	193,003
Financial assets at fair value through other comprehensive income	1,702,355	1,282,065	Lease liabilities	15,792	-
Investments in debt instruments at amortised cost	3,198,108	2,371,028	Other liabilities	112,295	52,991
Investments accounted for using equity method	34,742	36,459	Total liabilities	10,346,746	9,982,785
Right-of-use assets, net	15,758	-	EQUITY		
Investment property	300,982	305,623	Common stock	3,000,000	3,000,000
Reinsurance contracts assets	3,984,617	3,854,464	Capital surplus	1,084,811	1,084,811
Property and equipment	798,675	817,727	Retained earnings	2,763,168	2,583,930
Intangible assets	42,789	58,898	Other equity interest	218,430	45,030
Deferred income tax assets	49,577	45,429	Total equity	7,066,409	6,713,771
Other assets	634,762	623,712			
TOTAL ASSETS	\$ 17,413,155	\$ 16,696,556	TOTAL LIABILITIES AND EQUITY	\$ 17,413,155	\$ 16,696,556



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

Item	December 31, 2019	December 31, 2018	Item	December 31, 2019	December 31, 2018
ASSETS			LIABILITIES		
Current assets	\$	773,686	Current liabilities	\$	79,114
Financial assets at fair value through other comprehensive income	1,056		Lease liabilities	449	-
Property and equipment	135,240		Liabilities - non-current	16,311	20,325
Right-of-use assets, net	801	-	Total liabilities	95,874	115,501
Investment property	-	109,946	EQUITY		
Intangible assets	1,774	2,608	Common stock	527,000	527,000
Deferred income tax assets	3,260	3,875	Capital surplus	3,675	3,675
Other assets - non-current	25,977	47,772	Retained earnings	315,689	289,893
			Other equity interest	(444)	(423)
			Total equity	845,920	820,145
TOTAL ASSETS	\$	941,794	TOTAL LIABILITIES AND EQUITY	\$	941,794

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

Item	December 31, 2019	December 31, 2018	Item	December 31, 2019	December 31, 2018
ASSETS			LIABILITIES		
Current assets	\$	11,384,913	Current liabilities	\$	8,849,572
Property and equipment	350		Long-term loans	-	899,012
Investment property	144,741		Lease liabilities	12,278	-
Right-of-use assets, net	14,055	-	Other liabilities - non-current	32,191	32,886
Intangible assets	237	593	Total liabilities	8,894,041	10,139,661
Deferred income tax assets	98,751	113,855	EQUITY		
Other assets - non-current	4,524	4,562	Common stock	2,000,000	2,000,000
			Capital surplus	1,261	1,261
			Retained earnings	752,269	730,055
			Total equity	2,753,530	2,731,316
TOTAL ASSETS	\$	11,647,571	TOTAL LIABILITIES AND EQUITY	\$	11,647,571



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

Item	December 31, 2019	December 31, 2018	Item	December 31, 2019	December 31, 2018
ASSETS			LIABILITIES		
Current assets	\$	\$	Current liabilities	\$	\$
Property and equipment		408,149	Other liabilities - non-current		136,552
Right-of-use assets, net	646,080	1,527	Total liabilities	11,550	-
Intangible assets	15,270	-		205,425	136,552
Other financial assets- non-current	4,746	6,500	EQUITY		
Other assets - non-current	-	99,300	Common stock	20,000	20,000
	4,312	4,619	Capital surplus	804	804
			Retained earnings	445,692	362,739
			Total equity	466,496	383,543
TOTAL ASSETS	\$ 671,921	\$ 520,095	TOTAL LIABILITIES AND EQUITY	\$ 671,921	\$ 520,095

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

Item	December 31, 2019	December 31, 2018	Item	December 31, 2019	December 31, 2018
ASSETS			LIABILITIES		
Current assets	\$	\$	Current liabilities	\$	\$
Financial assets at fair value through profit or loss	339,355	322,780	Total liabilities	67	198
	422,189	390,618			
			EQUITY		
			Common stock	1,000,000	1,000,000
			Accumulated deficit	(238,523)	(286,800)
			Total equity	761,477	713,200
TOTAL ASSETS	\$ 761,544	\$ 713,398	TOTAL LIABILITIES AND EQUITY	\$ 761,544	\$ 713,398



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, 2019	For the year ended December 31, 2018
Interest income	\$ 67,705,598	\$ 64,295,176
Less: Interest expense	(34,271,695)	(28,292,331)
Interest income, net	33,433,903	36,002,845
Revenues other than interest income, net	20,989,184	16,002,923
Net revenue	54,423,087	52,005,768
Bad debts expense, commitment and guarantee liability provision	(728,531)	(2,083,618)
Operating expenses	(25,392,902)	(23,285,154)
Income before income tax from continuing operations	28,301,654	26,636,996
Income tax expense	(3,656,778)	(2,464,784)
Net income	24,644,876	24,172,212
Other comprehensive income	905,551	632,746
Total comprehensive income	\$ 25,550,427	\$ 24,804,958
Earnings per share		
Basic earnings per share (after taxes)	\$ 2.89	\$ 2.83

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, 2019	For the year ended December 31, 2018
Revenues	\$ 3,708,101	\$ 2,906,112
Service fee expenditure	(143,302)	(153,113)
Employee benefit expense	(1,589,288)	(1,491,983)
Other operating expenditures	(227,135)	(263,265)
Operating expenses	(803,266)	(812,556)
Other gains and losses	196,897	153,177
Share of income of associates and joint ventures accounted for under equity method	43,400	20,241
Income before income tax from continuing operations	1,185,407	358,613
Income tax expense	(95,747)	(42,845)
Net income	1,089,660	315,768
Other comprehensive income (loss)	243,562	(1,468)
Total comprehensive income	\$ 1,333,222	\$ 314,300
Earnings per share		
Basic earnings per share (after taxes)	\$ 0.94	\$ 0.27

MEGA BILLS FINANCE 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, 2019	For the year ended December 31, 2018
Interest income	\$ 3,490,129	\$ 3,446,303
Less: Interest expense	(1,940,494)	(1,603,543)
Interest income, net	1,549,635	1,842,760
Revenues other than interest income, net	2,351,222	1,934,919
Net revenue	3,900,857	3,777,679
(Provisions) reversal	69,684	54,058
Operating expenses	(804,561)	(769,140)
Income before income tax from continuing operations	3,165,980	3,062,597
Income tax expense	(540,628)	(504,516)
Net income	2,625,352	2,558,081
Other comprehensive income (loss)	2,147,657	(1,386,976)
Total comprehensive income	\$ 4,773,009	\$ 1,171,105
Earnings per share		
Basic earnings per share (after taxes)	\$ 2.00	\$ 1.95

CHUNG KUO INSURANCE 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, 2019	For the year ended December 31, 2018
Operating revenue	\$ 5,508,352	\$ 5,106,870
Operating cost	(4,083,815)	(3,507,329)
Operating expense	(1,195,537)	(1,128,354)
Operating income	229,000	471,187
Non-operating income and expense	2,812	(1,835)
Income before income tax from continuing operations	231,812	469,352
Income tax expense	(50,346)	(117,446)
Net income	181,466	351,906
Other comprehensive income (loss)	171,172	(84,777)
Total comprehensive income	\$ 352,638	\$ 267,129
Earnings per share		
Basic and diluted earnings per share (after taxes)	\$ 0.60	\$ 1.17



MEGA INTERNATIONAL INVESTMENT TRUST 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, 2019	For the year ended December 31, 2018
Operating revenue	\$ 447,087	\$ 438,370
Operating expense	(343,810)	(345,970)
Operating income	103,277	92,400
Non-operating income and expense	6,408	9,253
Income before income tax	109,685	101,653
Income tax expense	(22,240)	(46,929)
Net income	87,445	54,724
Other comprehensive income (loss)	1,380	(154)
Total comprehensive income	<u>\$ 88,825</u>	<u>\$ 54,570</u>
Earnings per share		
Basic and diluted earnings per share (after taxes)	<u>\$ 1.66</u>	<u>\$ 1.04</u>

MEGA ASSET MANAGEMENT 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, 2019	For the year ended December 31, 2018
Operating revenue	\$ 412,144	\$ 401,562
Operating cost	(7,951)	(6,190)
Gross profit	404,193	395,372
Operating expense	(71,115)	(98,359)
Operating income	333,078	297,013
Non-operating income and expense	(61,370)	(65,326)
Income before income tax	271,708	231,687
Income tax expense	(68,289)	(29,776)
Net income	203,419	201,911
Other comprehensive loss	(25)	(310)
Total comprehensive income	<u>\$ 203,394</u>	<u>\$ 201,601</u>
Earnings per share		
Basic and diluted earnings per share (after taxes)	<u>\$ 1.02</u>	<u>\$ 1.01</u>

MEGA INSURANCE AGENCY 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, 2019	For the year ended December 31, 2018
Operating revenue	\$ 1,806,027	\$ 1,414,599
Operating expense	(1,300,484)	(1,013,761)
Operating income	505,543	400,838
Non-operating income and expense	1,348	2,362
Income before income tax from continuing operations	506,891	403,200
Income tax expense	(101,378)	(80,640)
Net income	\$ 405,513	\$ 322,560
Earnings per share		
Basic and diluted earnings per share (after taxes)	\$ 202.76	\$ 161.28

MEGA VENTURE CAPITAL 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, 2019	For the year ended December 31, 2018
Operating revenue	\$ 65,511	\$ 43,438
Operating cost	-	(89,082)
Gross profit (loss)	65,511	(45,644)
Operating expense	(17,457)	(17,463)
Operating income	48,054	(63,107)
Non-operating income and expense	222	190
Income (loss) before income tax	(48,276)	(62,917)
Income tax expense	(-)	(298)
Net income	\$ 48,276	(63,215)
Earnings per share		
Basic and diluted earnings per share (after taxes)	(\$ 0.48)	(\$ 0.63)



(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, 2019	For the year ended December 31, 2018
Return on assets	Pre-tax	8.14	8.00
	After-tax	8.12	8.11
Return on equity	Pre-tax	9.10	8.93
	After-tax	9.07	9.05
Net profit margin		98.14	99.79

UNIT : %

Items		MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES	
		For the year ended December 31, 2019	For the year ended December 31, 2018
Return on assets	Pre-tax	0.93	0.88
	After-tax	0.80	0.79
Return on equity	Pre-tax	10.54	10.01
	After-tax	9.07	9.04
Net profit margin		44.36	45.60

(b) The subsidiary

UNIT : %

Items		MICB	
		For the year ended December 31, 2019	For the year ended December 31, 2018
Return on assets	Pre-tax	0.87	0.84
	After-tax	0.76	0.76
Return on equity	Pre-tax	9.85	9.62
	After-tax	8.58	8.73
Net profit margin		45.28	46.48

UNIT : %

Items		MS	
		For the year ended December 31, 2019	For the year ended December 31, 2018
Return on assets	Pre-tax	2.00	0.60
	After-tax	1.84	0.53
Return on equity	Pre-tax	7.44	2.32
	After-tax	6.84	2.04
Net profit margin		29.39	10.87

UNIT : %

Items		MBF	
		For the year ended December 31, 2019	For the year ended December 31, 2018
Return on assets	Pre-tax	1.21	1.12
	After-tax	1.00	0.94
Return on equity	Pre-tax	8.57	8.51
	After-tax	7.10	7.11
Net profit margin		67.30	67.72

UNIT : %

Items		CKI	
		For the year ended December 31, 2019	For the year ended December 31, 2018
Return on assets	Pre-tax	1.36	2.87
	After-tax	1.06	2.15
Return on equity	Pre-tax	3.36	7.13
	After-tax	2.63	5.35
Net profit margin		3.29	6.89

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, 2019 and 2018.

Note 5: Beginning balance of average asset and equity were based on the amount after IFRS 9 adjustment for the year ended December 31, 2018.

Note 6: Beginning balance of average asset is based on the amount after IFRS 16 adjustment for the year ended December 31, 2019.

(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.207-208 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

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:

A. Marketable securities acquired or disposed of, at costs or prices of at least \$300 million or 10% of the issued capital

(Please refer to page 209-210 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

B. Acquisition of individual real estate, at costs or prices of at least \$300 million or 10% of the issued capital: None.

C. Disposal of individual real estate, at costs or prices of at least \$300 million or 10% of the issued capital: None.

D. Allowance for service fees to related parties amounting to at least \$5 million: None.

E. Receivables from related parties amounting to at least \$300 million or 10% of the issued capital: None.

F. Information on selling non-performing loans of subsidiaries:

The information of subsidiary-MICB regarding selling non-performing loans For the year ended December 31, 2019 are as follows:

Transaction date	Counterparty	Contents of right of claim	Carrying value	Sale price	Gain or loss from disposal	Attached conditions	Relationship with the Company	Note
2019.06.07	Credit Suisse International	Corporate lending	\$ 103,588	\$ 153,275	\$ 49,687	None	None	Note 1
2019.06.12	EUDAIMONIA LIMITED	Corporate lending	-	22,255	22,255	None	None	Note 2

Note 1: The carrying amount and the sale price of the debt were EUR \$3,000 and EUR \$4,410, respectively. Based on the exchange rate of 34.5294 New Taiwan dollars per EUR at December 31, 2019.

Note 2: The carrying amount and the sale price of the debt were USD \$0 and EUR \$727, respectively. Based on the exchange rate of 31.6107 New Taiwan dollars per USD at December 31, 2019.

G. Information on categories of securitization of assets of subsidiaries applied for and approved in accordance to both financial asset securitization rule and real estate securitization regulations: None.

H. Other significant transactions which may affect the decisions of users of financial reports: None.

(2) Information on the investees:

A. Supplementary disclosure regarding investee companies:

(Please refer to page 212-214 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

B. Marketable securities acquired or disposed of, at costs or prices of at least \$300 million or 10% of the issued capital: None.

C. Information on financial derivative transactions: Please refer to Note 7 for the information of financial instruments.

D. Acquisition or disposal of individual real estate, at costs or prices of at least \$300 million or 10% of the issued capital: None.

E. Allowance for service fees to related parties amounting to at least \$5 million: None.



F.Receivables from related parties amounting to at least \$300 million or 10% of the issued capital: None.

G.Sale of non-performing loans: Please refer to Note 17 additional disclosures for details.

H.Information on categories of securitization of assets of subsidiaries applied for and approved in accordance to both financial asset securitization rule and real estate securitization regulations: None.

I.Other significant transactions which may affect the decisions of users of financial reports: None.

J.Funds lent to others: None.

K.Endorsement / guarantee provided: None.

L.Securities held at the end of year

(Please refer to page 215-216 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

(3) Information on investments in Mainland China

(Please refer to page 217-218 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

(4) Significant transactions between parent company and subsidiaries

(Please refer to page 219-222 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

(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 page 222-223 of the CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.)

(6) The Prospective Risk For Futures Trading

Brokerage department of MF, which is under the consignment of futures' traders, conducts brokerage services pursuant to the laws and regulations. Uncovered positions are daily adjusted by mark-to-market price of Taiwan Futures Exchange. If margin call is lower than certain level, additional margin calls are requested to maintain limits of guarantee deposits. The Company controls credit risk by constantly monitoring the balance of performance bonds based on market price of positions held by each client, regulations of Taiwan Stock Exchange and the Company to minimize the risk.

Futures' trading and futures option trading are with high financial leverage risk. When MS and MF purchase options, the maximum loss arising from fluctuation on futures index is limited to the paid premium; hence, market price risk is insignificant. When MS and MF sell options, market price risk is the fluctuation of TAIEX Index Option contracts. Futures department of MS and MF have established relevant risk control mechanism and set up stop-loss limits, in order to monitor changes on positions held and their prices. When there is significant fluctuation on futures price, MS and MF will conversely purchase options or TAIEX Index Futures to manage the market price risk, and loss incurred would be controlled.

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 12-13 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, 2019							
Items	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Interest income, net	\$ 34,038,234	\$ 92,322	\$ 375,173	\$ 658,930	(\$ 101,602)	\$ 3,791	\$ 35,066,848
Other revenue other than interest income	20,840,816	1,379,880	3,525,684	3,040,710	31,007,719	(29,586,795)	30,208,014
Net revenue	54,879,050	1,472,202	3,900,857	3,699,640	30,906,117	(29,583,004)	65,274,862
Bad debts expense, commitment and guarantee liability provision	(746,859)	(24,328)	69,684	-	14,320	-	(687,183)
Net change in provisions for insurance liabilities	-	(34,968)	-	-	-	-	34,968
Operating expenses	(25,751,611)	(1,181,094)	(804,561)	(2,503,840)	(955,287)	297,956	(30,898,437)
Profit from continuing operations before tax	28,380,580	231,812	3,165,980	1,195,800	29,965,150	(29,285,048)	33,654,274
Income tax expense	(3,735,704)	(50,346)	(540,628)	(106,140)	(266,656)	-	(4,699,474)
Profit	\$ 24,644,876	\$ 181,466	\$ 2,625,352	\$ 1,089,660	\$ 29,698,494	(\$ 29,285,048)	\$ 28,954,800

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	\$ 763,259	(\$ 102,120)	\$ -	\$ 38,044,552
Other revenue other than interest income	15,875,614	1,465,484	3,006,839	2,002,456	29,405,021	(28,190,559)	23,564,855
Net revenue	52,414,001	1,539,670	3,777,679	2,765,715	29,302,901	(28,190,559)	61,609,407
Bad debts expense, commitment and guarantee liability provision	(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	(23,649,277)	(1,145,523)	(769,140)	(2,403,639)	(921,437)	287,091	(28,601,925)
Profit from continuing operations before tax	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)
Profit	\$ 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, 2019							
Items	Bank Department	Insurance Department	Bills Department	Securities Department	Other Departments	Adjustment and write-off	Total
Segment assets	\$ 3,334,292,932	\$ 17,413,155	\$ 260,601,239	\$ 68,568,809	\$ 377,380,131	(\$ 374,708,486)	\$ 3,683,547,780
Segment liabilities	\$ 3,042,612,789	\$ 10,346,746	\$ 222,324,014	\$ 52,070,526	\$ 48,491,459	(\$ 16,359,002)	\$ 3,359,486,532

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

(6) Geographical information about net revenue and identifiable assets

For the years ended December 31,			
	2019	2018	
Asia	\$ 61,560,913	\$ 57,821,009	
America	2,705,748	2,623,608	
Other	1,008,201	1,164,790	
Total net revenue	\$ 65,274,862	\$ 61,609,407	

	December 31, 2019	December 31, 2018	
Asia	\$ 3,344,599,889	\$ 3,182,372,905	
America	247,009,795	277,201,521	
Other	91,938,096	82,484,935	
Total identifiable assets	\$ 3,683,547,780	\$ 3,542,059,361	

6.5 Financial difficulties of the Company and affiliated companies : None.

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	2019	2018	Difference	
				Amount	%
Cash and cash equivalents, due from the Central Bank and call loans to banks		633,642,673	643,895,292	(10,252,619)	(1.59)
Financial assets at fair value through profit or loss, net		208,313,130	196,201,030	12,112,100	6.17
Available-for-sale financial assets		0	0	0	0
Financial assets at fair value through other comprehensive income		536,232,599	421,176,553	115,056,046	27.32
Investments in debt instruments at amortized cost, net		275,214,156	272,926,017	2,288,139	0.84
Securities purchased under resell agreements		3,584,364	2,623,231	961,133	36.64
Receivables, net		99,308,276	92,723,255	6,585,021	7.10
Current tax assets		483,744	272,816	210,928	77.32
Assets classified as held for sale, net		276,900	328,350	(51,450)	(15.67)
Loans discounted, net		1,873,677,834	1,864,447,103	9,230,731	0.50
Reinsurance contract assets, net		3,984,617	3,854,464	130,153	3.38
Held-to-maturity financial assets		0	0	0	0
Investments accounted for using equity method, net		3,115,829	3,168,973	(53,144)	(1.68)
Other financial assets, net		7,418,321	5,112,210	2,306,111	45.11
Property and equipment, net		22,080,894	21,973,422	107,472	0.49
Investment property, net		1,025,375	1,500,403	(475,028)	(31.66)
Right-of-use assets, net		1,777,500	0	1,777,500	0
Intangible assets, net		610,731	518,222	92,509	17.85
Deferred income tax assets		5,801,886	7,552,961	(1,751,075)	(23.18)
Other assets, net		6,998,951	3,785,059	3,213,892	84.91
Total assets		3,683,547,780	3,542,059,361	141,488,419	3.99
Deposits from the Central Bank and banks		420,833,162	411,643,388	9,189,774	2.23
Due to the Central Bank and banks		21,161,321	53,920,881	(32,759,560)	(60.75)
Financial liabilities at fair value through profit or loss		22,115,709	27,357,462	(5,241,753)	(19.16)
Securities sold under repurchase agreements		259,192,262	252,298,265	6,893,997	2.73
Commercial papers issued, net		19,963,897	15,929,662	4,034,235	25.33
Payables		75,207,489	66,362,081	8,845,408	13.33
Current tax liabilities		9,149,946	9,319,314	(169,368)	(1.82)
Deposits and remittances		2,459,457,135	2,320,637,263	138,819,872	5.98
Bonds payable		12,000,000	13,300,000	(1,300,000)	(9.77)
Other borrowings		3,464,909	4,934,529	(1,469,620)	(29.78)
Other financial liabilities		15,818,346	15,325,367	492,979	3.22
Provisions		28,110,114	26,977,832	1,132,282	4.20
Lease liabilities		1,801,315	0	1,801,315	0
Deferred income tax liabilities		3,164,054	2,526,612	637,442	25.23
Other liabilities		8,046,873	7,271,276	775,597	10.67
Total liabilities		3,359,486,532	3,227,803,932	131,682,600	4.08
Equity attributable to owners of parent		324,061,248	314,242,280	9,818,968	3.12
Common stock		135,998,240	135,998,240	0	0
Capital surplus		68,194,233	68,194,233	0	0
Retained earnings		107,511,364	102,575,350	4,936,014	4.81
Other equity interest		12,357,411	7,474,457	4,882,954	65.33
Non-controlling interests		0	13,149	(13,149)	(100)
Total Stockholder's equity		324,061,248	314,255,429	9,805,819	3.12

Change analysis:

1. The increase in financial assets at fair value through other comprehensive income is because of the increase of government bond, corporate bond, beneficiary certificate, and financial bond.
2. The increase of securities purchased under resell agreements is because of the increase of investment position
3. The increase of current tax assets is because of the increase in prepaid income tax.
4. The increase of other financial assets is because of the increase in prepaid investment.
5. The decrease of the investment property is due to the disposition of investment property.
6. The increase of right-of-use assets is because of the implementation of IFRS 16 in 2019 to set up the accounting item.
7. The decrease of deferred income tax assets is because of the decrease of deferred income tax assets from reserve for bad debts expense in excess of limit, and unrealized loss on impairment.
8. The increase of other assets is because of the increase of refundable deposits.
9. The decrease of due to the Central Bank and banks is because of the decrease of the funds borrowed from other banks.
10. The increase of Commercial papers issued is because of the issuance of domestic commercial paper.
11. The decrease of other borrowings is because of the decrease of credit borrowings.
12. The increase of deferred income tax liabilities is because of rise of the deferred income tax liabilities from unrealized valuation gains/loss on financial product.
13. The increase of other equity interests is because of the increase of Gain (loss) on financial assets at fair value through other comprehensive income.
14. The decrease of non-controlling interests is because of the dissolution and liquidation of Mega I Venture Capital.



7.2 Analysis of Financial Performance

Unit: NT\$1,000

Item	2019	2018	Difference	%
Interest income	71,681,244	68,345,796	3,335,448	4.88
Less: interest expenses	(36,614,396)	(30,301,244)	(6,313,152)	20.83
Net interest income	35,066,848	38,044,552	(2,977,704)	(7.83)
Net revenues other than interest	30,208,014	23,564,855	6,643,159	28.19
Net revenue	65,274,862	61,609,407	3,665,455	5.95
Bad debts expense, commitment and guarantee liability provision	(687,183)	(1,996,406)	1,309,223	(65.58)
Net change in provisions for insurance liabilities	(34,968)	68,884	(103,852)	(150.76)
Operating expenses	(30,898,437)	(28,601,925)	(2,296,512)	8.03
Profit from continuing operations before tax	33,654,274	31,079,960	2,574,314	8.28
Income tax expense	(4,699,474)	(2,986,515)	(1,712,959)	57.36
Profit	28,954,800	28,093,445	861,355	3.07
Total other comprehensive income	3,982,425	(407,496)	4,389,921	(1,077.29)
Total comprehensive income	32,937,225	27,685,949	5,251,276	18.97
Profit attributable to owners of parent	28,956,244	28,109,164	847,080	3.01
Profit attributable to non-controlling interests	(1,444)	(15,719)	14,275	(90.81)
Comprehensive income attributable to owners of parent	32,938,669	27,701,668	5,237,001	18.91
Comprehensive income attributable to non-controlling interests	(1,444)	(15,719)	14,275	(90.81)

Change analysis:

1. The increase in interest expenses is largely due to the rise in interest expense of deposits, interbank overdraft and call loans, and bonds payable under repurchase agreements.
2. The increase of net revenue other than interest is because of the increase of realized gain on financial assets at fair value through other comprehensive income, and gain on financial assets and liabilities at fair value through profit or loss
3. The decrease of Bad debts expense, commitment and guarantee liability provision is because of the decrease of bad debt expense
4. The rise of net change in provisions for insurance liabilities is mainly due to the increase of insurance reserve.
5. The increase of income tax expense is due to the deferred income tax benefit from the income tax adjustment in 2018 and the recognition of income tax refund in previous years.
6. The increase of other comprehensive income is because of the increase of valuation gain from equity and debt instruments at fair value through other comprehensive income, and decrease in exchange differences on translation.
7. The decrease of profit attributable to non-controlling interests and comprehensive income attributable to non-controlling interests is because of the decrease of operation loss of Mega I Venture Capital.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for 2019

Item \ Year	2019	2018	%
Cash flow ratio	11.69%	(7.61%)	(253.61%)
Cash flow adequacy ratio	234.15%	276.18%	(15.22%)
Cash reinvestment ratio	81.11%	(111.55%)	(172.71%)

Change Analysis:

1. The increase in cash flow ratio is mainly due to the net cash inflow from operating activities.
2. The increase in cash reinvestment ratio is mainly due to the net cash inflow from operating activities.

7.3.2 Cash Flow Analysis for 2020

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
146,189,216	-46,198,425	-12,013,203	112,003,994	None	None

Analysis of Cash Flow:

1. Operating activities: mainly from increase in bills discounted and loans, and the investment of debt instruments, and decrease in deposits and remittances.
2. Investing activities: mainly for procurement of investment property, and disposition of property and equipment.
3. Financing activities: mainly from payout of cash dividends, decrease in funds borrowed from the Central Bank and other banks, decrease in other borrowings, increase in securities sold under repurchase agreements, and increase of bonds payable.

7.4 Influences from Major Capital Expenditures in 2019: None.

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

7.5.1 Investment Policies in 2019

- Expand the Group's operation network through merger and acquisition and enlarging the economic scale
 - Banking sector: We target at state-owned or 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 evaluate domestic life insurance companies as merger/acquisition target to expand the Group's business scope.
- Continuously study 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 2019 of NT\$24,644,876 thousand, a growth of 1.96% from the NT\$24,172,212 thousand in 2018. It is largely attributed to a 31.16% increase in revenues other than interest compared to 2018, and a decrease of 65.04% in bad debts expense, commitment and guarantee liability provision. Main reason of the 31.16% increase in revenues other than interest is the financial operation net income increased by NT\$ 5.115 billion. Main reason of the decrease of 65.04% in bad debts expense, commitment and guarantee liability provision is because of the higher base from huge growth of loan business in at the end of 2018. The Bank will reinforce compliance practice, focus on AML management and internal audit and control. Regarding business development, the Bank will implement a new and forward looking perspective to develop every business and diversify revenue source. Besides, the Bank will continue to optimize the organization structure after restructure to effectively increase the business synergy under “business group focused structure.”

Mega Securities Co., Ltd. (MSC)

MSC's net profit after tax in 2019 reached NT\$1,089,660 thousand, an increase of 245.08% from the NT\$315,768 thousand in 2018, as Taiwan stock index reached the highest in last 29 years with TAIEX increased by 23.3% and TPEX increased by 20.9% at the end of 2019. The company's revenue from its position grows hugely compared to 2018. For 2020, besides continuing to expand its brokerage business and expedite the promotion of bank securities counter sales, equal emphasis will be placed on the quality and quantity of sources of the underwriting business. For the bond business, risk control and operating flexibility are prioritized. For the financial product warrant business, the issuance strategy will be adjusted and the market maker mechanism will be improved. For proprietary business, the company will keep track of opportunities and to adequately adjust investment positions, among others, to hopefully improve the operating performance.

Mega Bills Finance Co., Ltd. (MBF)

MBF posted a net profit after tax in 2019 for NT\$2,625,352 thousand, an increase of 2.63% from NT\$2,558,081 thousand in 2018, largely due to income from disposition of bonds due to the declining yields. In 2020, the company will continue to closely watch international and domestic financial situation and the trend of interest rate to adjust NTD and foreign currency bond position. The company will diversify to stable, lower interest domestic and foreign fund source to maximize bond yields.

Chung Kuo Insurance Co., Ltd. (CKI)

CKI reported a net profit after tax in 2019 for NT\$181,466 thousand, a 48.43% decrease compared to NT\$351,906 thousand in 2018 due mainly to the decrease of underwriting profits by NT\$297,110 thousand mainly resulting from 7.86% higher retained loss rate compared to last year. However, because of adequate

asset allocation and financial operation, financial revenue increased by NT\$ 59,570 thousand, narrowing down the loss gap. The company will increase insurance premium and adjust the business portion with higher risk for car insurance and foreign inward insurance business which made a loss in 2019, to increase underwriting profits. Also, the company will continue to optimize digital operation process, increase operation efficiency, lower down HR cost, and lower down operating expense.

Mega Assets Management Co., Ltd.

In 2019, the company reported a net profit after tax of NT\$203,419 thousand, a 0.75% increase compared to NT\$201,911 thousand in 2018 due mainly to the disposition of investment properties.

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

MLIA posted a net profit after tax in 2019 of NT\$405,513 thousand, an increase of 25.72% from NT\$322,560 thousand in 2018 due largely to more commission income from a 42.49% increase of new insurance contracts sold.

Mega Venture Capital Co., Ltd. (MVC)

MVC posted a net profit after tax in 2019 of NT\$48,276 thousand, an increase from net loss of NT\$63,215 thousand in 2018 due mainly to increase in equity valuation gain and operation profit from the investment in competitive companies and the rise of stock market after the plunge from US-China trade war.

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

MIIT posted a net profit after tax in 2019 of NT\$87,445 thousand, an increase of 59.79% from the NT\$54,724 thousand in 2018 largely due to in 2018, the 2012~2013 supplemental tax payments was set by the National Taxation Bureau. The company plans to increase its profits by increasing fund scale by launching 2 issues of new funds in 2020.

Taipei Financial Center Corporation (TFCC)

TFCC posted a net profit in 2019 for NT\$2,202,268 thousand, an increase of NT\$132,151 thousand or 6.38%, from NT\$2,070,117 thousand in 2018, primarily because of the record-high mall revenue NT\$15.06 billion, occupancy ratio of 96.26% at year end, and NT\$3,052 average monthly rental per ping. Also the number of visitors of observatory reached 2.39 million, an 12% increase compared to 2018. The revenue increased NT\$165,775 thousand compared to 2018.

Taiwan Depository & Clearing Corporation (TDC)

TDC recorded a net profit after tax in 2019 of NT\$ 2,514,076 thousand, a slight decrease of NT\$ 80,244 thousand or 3.09% from NT\$2,594,320 thousand in 2018, mainly due to the decrease of Taiwan stock trade volume. The services revenue regarding security-related services decreased NT\$ 38,215 thousand. The operating expense increased NT\$ 84,331 thousand.

7.5.3 Investment Plans for 2020

- 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 going into overseas financial markets.

7.6 Risk Management

7.6.1 Risk Management Structure and Policy

A. Risk Management Structure

Mega Financial Holding Co., Ltd.

As the highest authority for the Group's risk management, the Board of Directors of the Company takes ultimate 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 reviewing 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 practice. 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 its risk management system and ensuring its effective operation.

Mega International Commercial Bank Co., Ltd.

Under the Board of Directors is the Risk Management Committee, which helps the Board supervise the operations of the risk management system. There are several other committees and other managing units that are responsible for reinforcing compliance and 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, the 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 Co., Ltd.

The Risk Management Committee takes the responsibility to review business risk management reports, the allocation of business risk and the deployment of risk assets, business risk management objectives and implementation scenarios, and other risk management issues. 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, summarizing risk controls and reporting the risk controls, and reviewing credit papers.

Mega Securities Co., Ltd.

Mega Securities set up the Risk Management Committee in charge of risk management policy planning, monitoring performance, 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 related to market risks, credit risks and operational risks. Legal Compliance Office is in charge of matters related to compliance risks.

Other subsidiaries

Chung Kuo Insurance 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 has a Risk Management Committee in charge of various risk management, while Mega International Investment Trust set up the Risk Management Department in charge of risk management. Both Mega Life Insurance Agency and Mega Venture Capital 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 are established reflective of their business and are sufficient to identify, supervise and control risks. The policies emphasize systematic prevention, reduction and response to foreseeable operational risks, and enrich the capital in order to address unforeseeable risks and to ensure that operating risks are controlled within a tolerable range. At the mean time to insure Capital Adequacy Ratio and reach the goal of reasonable risk and return.

7.6.2 Methods of Risk Assessment and Quantification of Risk Exposure

A. Strategies and procedures

Mega Financial Holding Co., Ltd.

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, target exposures and statistical methods with respect to credit risk management, which applies to all subsidiaries within the group; the subsidiaries will then periodically upload operational data to the Company. The Risk Management Department periodically monitors the extent of concentration of respective credit exposures throughout the group for out-of-limit levels, if any, and reports to the 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 in the ratings of interest rate commodities as a result of variation in the yield to maturity. For non-trading book’s interest rate sensitive assets and liabilities, the possible effects of the interest rate sensitivity gap to the net interest income and expenditure are evaluated.

(3) Operational risk

The Company has established on its own an internal operational risk loss database for the whole group. Following the eight major types of business and seven major types of loss events as advised in the Basel Accord, detailed operations within the group are defined and jointly categorized. Respective subsidiaries are to upload loss events with respect to the operational risk and punishments by the competent authority in a custom format periodically into the database to facilitate the analysis of loss event patterns and the concentration of and correlation among respective types of business. In addition, to reinforce the awareness of risk among subsidiaries and to facilitate improvement of the operating procedure, operational risk self-assessments are specified and organized centrally by the Company.

(4) Liquidity risk

The Company and its subsidiaries have exclusive departments to take charge of managing the daily capital liquidity. According to respective gap limits approved by the Board of Directors, they monitor liquidity risk indicators, perform capital allocation transactions, report capital liquidity status from time to time, and periodically review the limits. Subsidiaries periodically upload capital in-flow and out-flow profiles to the Company so that the management can keep track of the capital gap status of each subsidiary.

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

Mega International Commercial Bank Co., Ltd.

(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. Irregular and emergent incidents are required to report to the management within a given timeframe according to the reporting mechanism.

(2) Market risk

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



(3) Operational risk

Training on the laws, regulations and business is reinforced. An effective control framework and internal control procedures for each level are established. Measures such as self-inspections, internal and external audit and supervision are taken to help minimize operational risk-associated losses. There is an operational risk events reporting system in place. By reporting in real time and discussing the cause, improvement measures may be stipulated to prevent loss events from happening again. In addition, an operational risk self-assessment system is in place to help identify and evaluate the extent of operational risk exposure, to reinforce risk management awareness and to improve the current control mechanism. With key indicators for operational risk, the bank monitors potential risks and adequately adopts appropriate management measures. Risk identification and assessment, legitimacy analysis and planning of the information operating system are conducted prior to launch of new products or business and official opening of new overseas operating sites. New products or new businesses need to be submitted to the related meetings for review.

(4) Asset securitization risk

Securitization needs to be approved by the Loan Committee, Investment Committee and/or (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 post risk management.

(5) Liquidity risk

The liquidity risk is being monitored according to the risk management targets and limits approved by the Board of Directors. Stress test is carried out periodically, and the results are reported to the Asset & Liability Management Committee and the Board of Directors to ensure that the bank's liquid funds are sufficient to address the increase in assets or to fulfill obligations upon maturity. 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 sufficient liquidity.

Mega Bills Finance Co., Ltd.

(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 preventing 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, measure economic status, predicts interest rate, and draft up operating strategies. The measures include daily monitoring risk management objectives such as the relevant position limit, loss limit, and sensitivity limit of bills, bonds, equities, and derivatives; daily conducting bills, and bonds position sensitivity analysis; and monthly validation of derivatives and equities transaction valuation.

(3) Operational risk

For the establishment of a sound operational risk management framework, internal control and management measures of operational risk and objectives are formulated. It stipulates operational risk identification, assessment, measurement, communication, and monitoring the management processes of implementing countermeasures; establishes risk management information framework for systematic control of individual loss event frequency, severity, and related information; establishes emergency response and business continuity plans; ensures the resumption of operations promptly during an emergency or disaster; and maintains business operations normally.

(4) Liquidity risk

Monitor daily the company's cash flow deficit limits of each term and appropriately avoid capital liquidity risk; establish a capital emergency response management mechanism, 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 risk.

Mega Securities Co., Ltd.

(1) Credit risk

For securities positions, credit status of transaction counterparties are regularly reviewed according to the "Rules of Implementation Governing Credit Supervision and Management". Measures of various credits enhancement (including collateral) are also periodically evaluated and monitored.

(2) Market risk

Annual loss limit of security plus financial derivatives transactions, and value at risk of equity securities acquired through proprietary trading and underwriting plus fix income securities (VaR 99%, 1 day) 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 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 Rule and Regulation 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 and the impact thereof on the company and businesses is followed up. The channel for legal consultation, coordination, and communication is enhanced and compliance training shall be organized.

Chung Kuo Insurance Co., Ltd.

(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. 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

Various operational procedures and business rules such as internal control system, legal compliance system, 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 and proper management procedures for operational risk are 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 Co., Ltd.

Internal control systems for fund 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 Co., Ltd.

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 Co., Ltd.

The company has established standard operation manual for each business unit to follow.

Mega Venture Capital Co., Ltd.

The company has formulated investment operation and evaluation procedures according to relevant laws and regulations, and entrust the management with Mega Management & Consulting Corporation.

B. Organization of risk management

Mega International Commercial Bank Co., Ltd.

(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 and Bad Debt Collection Committee manages the problem loans and debt collection, and reviews related policies of non-performing loans. Each unit in charge of credit risk at the Head Office and performs risk management procedures such as identification, measurement, monitoring and reporting reflective of their duties. It also formulates business management regulations and continuously improves the risk management. The Risk Management Department coordinates and supervises the various units in creating the credit risk management mechanism, develops tool such as internal rating system and periodically submits the Risk Management Report to the Board of Directors and this company.

(2) Market risk

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

(3) Operational risk

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

(4) Asset securitization risk

The target assets, securitization structure and risk positions of asset securitization are approved by the (Managing) Board of Directors, while the type, line of credit, investment of the asset pool, and target

creditor's rights created by the founding institution are reviewed by the Investment Committee and Loan Committee. The 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 Capital Review Committee, the Assets & Liabilities Management Committee, and the (Managing) Board of Directors.

Mega Bills Finance Co., Ltd.

(1) Credit risk

With respect to the credit risk in the company's granting of loans and various financial instruments, the Loan Review team and Risk Management Committee are responsible for supervising and reviewing various management regulations, 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 enacted various operational manuals and fulfills the self-assessment periodically according to relevant regulations. The affairs with regard 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) Liquidity risk

Liquidity risks are supervised by the Risk Management Department while the Bills Department and the Bonds Department are responsible for day-to-day trading. TWD and foreign currency liquidity gaps are managed. The Treasury Department is responsible for reporting the supervisory status of liquidity risks.

Mega Securities Co., Ltd.

(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 to 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 rules governing proper risk management are enacted by each department to cover authorization structure of each level and reporting procedure and operational contents, transaction scope, market risk measure method, market risk limit, approved 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 of 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 “Self-inspection Item for Management of Business” for necessary supervision, management and anomaly tracking and improvement.

(4) Liquidity risk

The supervision unit in charge of capital utilization risk is Risk Management Committee and Financial Department is the executive unit. 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 Co., Ltd.

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.

Mega International Investment Trust Co., Ltd.

Internal control system relating to funds and business management is served as the operation guidance. Before transaction, each department and Risk Management Department takes 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 Co., Ltd.

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 risk reporting and measuring system

Mega International Commercial Bank Co., Ltd.

(1) Credit risk

In order to control risks associated with the related (group) enterprises, 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. Operation analysis of investee companies is also submitted to the Managing Board of Directors. Long-term equity investments are valued at fair value by the unit other than the investment unit regularly under adequate method. Updates on various control status are reported to the senior management. 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 this company in order to keep track of the related information, and to adopt the necessary measures adequately. Business supervisory unit periodically evaluates losses that might arise from the respective assets and recognizes provisions for bad debts or accumulated impairments.

(2) Market risk

Domestic trading units report the various financial products' positions and gains and losses to the management on a daily basis. The Risk Management Department performs stress test on a monthly basis and reports to the Risk Management Committee periodically. Derivatives trading position held is evaluated with the market value on a daily basis, while positions for hedge trades is evaluated twice a month. As soon as evaluation losses reach the stop-loss limits, stop-loss will be executed immediately. If stop-loss is not executed, reasons for non-stop-loss and responsive solutions have to be specified and reported to the top management for approval. When the losses exceed a certain level, the position shall be submitted to the Risk Management Committee and reported to the Board of Directors.

(3) Operational risk

Reports on the result of self-assessment of operational risk, occurrences of operational risk loss incidents, the implementation of legal compliance system, and audits and self-inspections status are to be submitted to the Board of Directors periodically. Discussions and improvements are to be taken on as soon as deficiencies are found with the respective units. The 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 are to organize self-assessment of the operational risk each year to measure the operational risk exposure and discuss how to improve the existing control mechanisms based on the suggestions provided by the respective units.

(4) Asset securitization risk

Securitization investment positions are documented in the bank book. According to the internal management guidelines, they are to be evaluated and the risk management report is to be produced periodically, with contents including detailed information such as the types of beneficiary securities or asset-backed securities invested, the amount, credit rating and valuation as well as the performance of target assets involved in securitization.

(5) Liquidity risk

The liquidity risk report estimates the impacts that future cash flows have on allocation of funds and aims to keep the cash flow gap or ratio within a tolerable range. As soon as liquidity indicators reach the alert level, the Risk Management Department should report it to the Fund Management Committee. If they reach the criteria for activating the response plan, the interim fund management meeting is called and the President is to approve the liquidity response plan, so that the Treasury Department may enforce it accordingly. In addition, the stress test is performed periodically. The fund structure is adjusted or other response measures are taken, depending on the stress test results in order to bring down the risk.

Mega Bills Finance Co., Ltd.

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 of guarantee, 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 and stress tests, and sensitivity analysis.

(4) Operational risk

The business management units report the important operational risk loss events and relevant corrective actions, annual operational risk map, and analysis of 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 shortages in each maturity interval.



Mega Securities Co., Ltd.

(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 marginal credit risk list, securities holding of the said companies, and transaction counterparty on the list of margin credit risk list are submitted to Risk Management Committee, Board of Directors, and Mega Financial Holding'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 Mega Financial Holding's Risk Management Committee. Transaction evaluation information of financial derivatives is compiled quarterly to report to Board of Directors.

(3) Operational risk

The summary and implementation of operational 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 Mega Financial Holding.

(5) Other risks

Legal risk management is handled by the Legal Affairs and Compliance Office.

Chung Kuo Insurance Co., Ltd.

(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 Mega Financial Holding'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 Co., Ltd.

Units in charge of bond and stock investment and Compliance Officer weekly report evaluation of interest rate risk and liquidity risk as well as legal compliance status of fund investment respectively, at risk management meeting on a weekly basis. The examination result of internal control system is reported the Board of Directors on a yearly basis.

D. Hedging or risk mitigation policy, strategies, and procedures

Mega International Commercial Bank Co., Ltd.

(1) Credit risk

The prudent credit review process and 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 equipment are transferred through the banking comprehensive insurance purchased, and an outsourced service provider is carefully selected for signing the contract in order to transfer the possible incurred operational risks. The Auditing Department 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 performance cycle risk and effective utilization of capital for risk-weighted assets before doing asset securitization business. Cost-effectiveness is discussed from time to time thereafter in order to effectively evaluate the appropriate timing for securitization.

(5) Liquidity risk

In response to the liquidity risk, the liquidity emergency response plan is in place to reduce the liquidity risk.

Mega Bills Finance Co., Ltd.**(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 credit ratings of issuers and trading counterparty. The change of credit rating is reviewed and evaluated periodically.

(2) Market risk

The company uses derivatives hedging strategy to avoid price risk and periodically value the profit and loss.

(3) Operational risk

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 so as not to exceed the limits set by laws or the company.

(4) Liquidity risk

Due to the characteristics of the sector, the company's liquidity assets include government bonds, treasury bills, Central Bank Certificate of Deposits, and short-term commercial paper, with low credit risk and high liquidity.

Mega Securities Co., Ltd.**(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 management 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 “Self-inspection Item of Business Management”, necessary supervision, management and tracking improvement 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 under repurchase 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 Co., Ltd.

(1) Credit risk

Credit rating of investment, bond issuers, trade counterparties, custody institution, and reinsurance companies are monitored to cope with the certain credit rating benchmark set by competent authority.

(2) 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. Loss and profit is evaluated periodically.

(3) Operational risk

Self-inspection on internal control and self-evaluation on legal compliance are conducted periodically. The auditing office also regularly examined implementation of operational risk management system.

(4) 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 Co., Ltd.

(1) Credit risk

The Capital Requirement and Exposures for Credit Risk under Standardized Approach

December 31, 2019; Unit: NT\$ thousand

Exposure types	Exposures after credit mitigation	Capital requirement
Sovereigns	583,020,163	1,226,745
Non-central government public sector entities	1,174,872	18,798
Banks (including multilateral development banks)	508,496,248	13,077,041
Enterprises (including securities firms and insurance companies)	1,634,674,428	114,410,718
Regulatory retail portfolios	229,782,980	15,460,031
Residential property	286,369,713	11,246,788
Equity investment	18,797,718	1,503,817
Other assets	44,481,286	2,473,961
Total	3,306,797,408	159,417,899



(2) Market risk

The Capital Requirement for Market Risk

December 31, 2019; Unit: NT\$ thousand

Risk type	Capital requirement
Interest rate risk	1,883,621
Equity Securities risk	1,216,920
Foreign exchange risk	557,794
Commodities risk	0
Total	3,658,335

(3) Operational risk

The Capital Charge for Operational Risk

December 31, 2019; Unit: NT\$ thousand

Year	Gross profits	Capital requirement
2019	52,245,108	
2018	50,966,501	
2017	49,253,517	
Total	152,465,126	7,723,256

(4) Securitization risk

The Exposure and Capital Charge for Securitization Framework

December 31, 2019; Unit: NT\$ thousand

Bank category	Risk exposure category Book type	Asset category	Traditional					Synthetic		Total		
			Exposure				Capital Charge (2)	Exposure		Exposure (5)=(1)+(3)	Capital Charge (6)=(2)+(4)	Capital charge before securitization
			Hold or purchased	Provide the liquidity facilities	Provide the credit enhancements	Subtotal (1)		Hold or purchase (3)	Capital charge (4)			
Non-originating bank	Banking book	Mortgage-backed Securities	23,871,599			23,871,599	381,945			23,871,599	381,945	
		Collateralized Mortgage Obligations	23,091,606			23,091,606	369,466			23,091,606	369,466	
	Trading book											
		Sub-total	46,963,205	-	-	46,963,205	751,411	-	-	46,963,205	751,411	
Originating bank	Banking book											
	Trading book											
	Sub-total		-	-	-	-	-	-	-	-	-	
Total			46,963,205	-	-	46,963,205	751,411	-	-	46,963,205	751,411	

Note 1: "Asset Category" is classified by the asset type of securitization or the type of securities invested

Note 2: The exposure of banking book should be the exposure after risk offset

Note 3: "Provide the liquidity facilities" should include all drawn or undrawn exposure

(5) Liquidity Risk

Analysis of the Maturity Structure-NT Dollar

December 31, 2019; 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	\$1,915,318,243	\$ 275,175,039	\$ 198,450,965	\$ 152,407,863	\$ 224,375,175	\$ 166,861,754	\$ 898,047,447
Major Outflows of Matured Funds	2,459,536,895	107,110,773	180,406,137	321,925,179	252,697,632	428,131,098	1,169,266,076
Period Gap	(\$ 544,218,652)	\$ 168,064,266	\$ 18,044,828	(\$ 169,517,316)	(\$ 28,322,457)	(\$ 261,269,344)	(\$ 271,218,629)

Note: The above table reports the N.T. dollars position held by the Bank.

Analysis of the Maturity Structure-US Dollar

December 31, 2019; 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	\$ 59,161,168	\$ 26,065,330	\$ 8,661,893	\$ 3,825,506	\$ 3,370,008	\$ 17,238,431
Major Outflows of Matured Funds	68,087,117	25,567,497	12,994,797	6,958,351	6,962,965	15,603,507
Period Gap	(\$ 8,925,949)	\$ 497,833	(\$ 4,332,904)	(\$ 3,132,845)	(\$ 3,592,957)	\$ 1,634,924

Note: The above table reports the U.S. dollars position held by the Bank.

Analysis of the Maturity Structure-US Dollar of Overseas Branches

December 31, 2019; 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	\$ 19,125,697	\$ 9,301,792	\$ 2,543,455	\$ 751,666	\$ 1,017,276	\$ 5,511,508
Major Outflows of Matured Funds	20,741,754	10,026,119	1,514,538	1,227,448	1,006,878	6,966,771
Period Gap	(\$ 1,616,057)	(\$ 724,327)	\$ 1,028,917	(\$ 475,782)	\$ 10,398	(\$ 1,455,263)

Mega Bills Finance Co., Ltd.

(1) Credit risk

The Capital Charge for Credit Risk under Standardized Approach

December 31, 2019; Unit: NT\$ thousand

Exposure types	Capital charge	Risk assets
Sovereigns	0	0
Non-central government public sector entities	2,915	36,434
Banks (including multilateral development banks)	241,647	3,020,588
Corporations (including securities firms and insurance companies)	13,202,472	165,030,900
Regulatory retail portfolios	92,712	1,158,896
Equity investment	121,769	1,522,114
Other assets	261,896	3,273,705
Total	13,923,411	174,042,637



(2) Market risk

The Capital Charge for Market Risk under Standardized Approach

December 31, 2019; Unit: NT\$ thousand

Exposure type	Capital charge	Risk assets (Note)
Interest rate risk	6,550,001	81,875,011
Equity risk	319,654	3,995,675
Foreign exchange risk	186,708	2,333,850
Commodities risk	0	0
Option adopted simplified approach	0	0
Total	7,056,363	88,204,536

Note: Capital charge times 12.5

(3) Operational risk

The Capital Charge for Operational Risk under Basic Indicators Method

December 31, 2019; Unit: NT\$ thousand

Year	Gross profits	Capital charge	Risk assets
2019	3,865,516		
2018	3,750,340		
2017	3,952,352		
Total	11,568,208	578,410	7,230,130

(4) Liquidity risk

Analysis of the Maturity Structure of Assets and Liabilities

December 31, 2019; 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
Assets	255,027	48,257	70,300	10,766	6,169	119,535
Liabilities	219,668	168,077	49,483	1,851	217	40
Gap	35,359	(119,820)	20,817	8,915	5,952	119,495
Cumulative gap		(119,820)	(99,003)	(90,088)	(84,136)	35,359

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, aside from 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 and its subsidiaries

December 31, 2019; Unit: NT\$ thousand

Exposure type	Mega Securities Co., Ltd.	Mega Futures Co., Ltd.	Mega International Investment Services Co., Ltd.	Total
Deposits	1,149,280	468,523	19,034	1,636,837
Marketable Securities	33,010,450	0	7,481	33,017,931
Financial Derivatives	320,578	0	0	320,578
Long-term Investments	737,575	9,280	0	746,855
Total	35,217,883	477,803	26,515	35,722,201

Country credit risk analysis

December 31, 2019; Unit: NT\$ thousand

Country Exposure	Deposits	Securities	Derivatives	Total	As a percentage of shareholder's equity
China	-	738,907	-	738,907	4.81%
USA	-	455,561	-	455,561	2.96%
New Zealand	-	449,836	-	449,836	2.93%
Korea	-	426,067	-	426,067	2.77%
France	-	333,323	-	333,323	2.17%
United Kingdom	-	298,878	-	298,878	1.94%
Japan	-	269,825	-	269,825	1.76%
Hong Kong	-	269,603	-	269,603	1.75%
Ireland	-	179,297	-	179,297	1.17%

(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, 2019; Unit: NT\$ million

	Total	1~10 days	1~30 days	1~90 days	1~181 days	1day~1 year	1day~Over 1 year
Major cash inflows	58,615	30,070	39,666	47,256	48,667	54,053	58,615
Major cash outflows	47,610	28,057	38,381	44,929	45,237	46,769	47,610
Accumulated period gap	11,005	2,013	1,285	2,327	3,430	7,284	11,005

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 assets portfolio and make necessary adjustment.

December 31, 2019; Unit: NT\$ thousand

Exposure	Risk-based capital	As a percentage of the risk capital before adjustment
R0: Asset risk—Related party risk	162,963,212	4.76%
R1: Asset risk—Unrelated party risk	746,007,053	21.81%
R2: Credit risk	178,241,839	5.21%
R3a: Underwriting risk—Reserve risk	761,360,686	22.25%
R3b: Underwriting risk—Premium risk	1,494,642,045	43.68%
R3c: Underwriting risk—Long-term insurance risk	2,647	0.00%
R4 : Asset & liability allocation risk	2,197,377	0.06%
R5 : Other risk	76,087,143	2.23%
Risk-based capital before adjustment	3,421,502,002	100.00%
Risk-based capital	998,364,635	
Owned capital	7,189,576,890	
Capital Adequacy Ratio	720.14%	

7.6.3 Impact on the Company's financial and business 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

- The rise of Fintech and internet banking has replaced some functions of physical branches. In 2019, although the number of domestic banks' branches in Taiwan increased by 2, the number is still far less than it was in 2014 by 55. Financial Supervisory Commission is expanding the FinTechSpace, promoting insurance Fintech, and gradually opening up bank business, resulting in a more diversified payment environment and brings fierce competition to traditional banking Fintech.
- To promote government's urban renewal policy, the Financial Supervisory Commission amend "The operation guild line of financial holding companies investing in asset management companies" on May 24th, 2019. Under the guild line, the asset mangament company (AMC) which is invested by financial holding companies can be the implementer or applicant for the re-build construction approval, and also inject fund or purchase real estate per "The Principle of Urban Dangerous and Old Building Rebuild Acceleration" or "Urban Renewal Act."
- On June 19, 2019, in order to encourage bank innovations by providing innovative financial products or services and to boost competitive advantages and rights of financial consumers, the FSC established the "Directions for Banks to Apply for New Business Guidance".
- In order to advance inclusive finance and Fintech, the "Digital Financial Environment 3.0 Program" was promoted. In light of the three pure online-banking sites that would be operative in 2020, the Financial Supervisory Commission revised the "Electronic Payment Institutions Governing Act" on July 2, 2019 to promote integration of regulatory systems for electronic payments, electronic notes, and certificates, and created the "Cross-institutional Payment Platform". Meanwhile, for the sake of reinforcing supervision over pure online-banking businesses, the FSC asked Central Deposit Insurance Corporation help stipulate the "Pure Online Banking Supervision Planning and Configuration Proposal" to facilitate monitoring of importance indicators for pure online-banking businesses and the liquidity risk in real time.

- On July 3, 2019, the FSC announced that it had approved that virtual currency carrying the nature of securities is the so-called securities in the Securities and Exchange Act. On January 15, 2020, it was further approved according to Article 15 Sub-paragraph 2 of the “Securities and Exchange Act” that securities dealers may operate and trade independently the virtual currency carrying the nature of securities purchased during the recruitment period.
- In July 2019, the FSC announced all security company, security investment trust company, future company, and insurance company are not needed to use special reserve to apply on the expense related to employee transition and protection for Fintech. But the companies should still plan a certain amount of budget for the above purpose.
- In order to encourage oversea Taiwanese businesses to return to Taiwan, on August 15, 2019, the FSC established the “Regulations Governing the Financial Investment, Management, and Utilization of Repatriated Offshore Funds” as required by Article 6 Paragraph 6 of the Management, Utilization and Taxation of Repatriated Offshore Funds Act to define the scope of financial investments available for repatriated offshore fund trust accounts or securities fiduciary accounts. Financial businesses have been pro-actively seeking to secure the business opportunities.
- In order to prevent systematic risk, the FSC modified the requirements in Article 7 Paragraph 3 of the “Regulations Governing the Capital Adequacy and Capital Category” of banks on December 23, 2019 and on December 27 set systematically important bank screening criteria and implementation requirements, too. Once designated as a systematically important bank, the bank shall meet the requirements to set aside additional capital starting in the next year following the date of designation, follow the second pillar - supervisory review principle each year, pass the pressure test once every two years, and follow the operation crisis response measures defined in current “Operating Guidelines to Handle Management Crisis at Financial Institutions” each year by adding response measures in cases of insufficient capital and declaring it, among other reinforced supervisory requirements.
- In order for financial businesses to strictly follow and have a sufficient understanding of products and related operating regulations of the customers, besides reiterating that insurance businesses selling investment-linked insurance products shall precisely follow the requirements stated in the “Directions for Sale of Investment-linked Insurance Products”, the FSC on December 24, 2019 established the “Regulations for the Minimum Ratio of Death Reimbursement to Policy Value Reserve (Policy Account Value) of Life Insurance Products” and on February 13, 2020 revised some of the requirements stated in the “Directions for Sale of Investment-linked Insurance Products.” When selling an investment-linked insurance policy to a customer aged 70 and above, the insurance sector shall keep track of related operating procedures by recording or videotaping them or saving them in electronic equipment.

B. Countermeasures

To cope with the development of Fintech, the Company will continuously optimize user’s experience, consider different habits of user groups and increase customer loyalty to boost the competitiveness of its digital financial services. Also the Company will conform the laws and regulations of the competent authority, 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 optimize 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 changes on finance and business

- Mobile service demand: Mobile device service development and advertising/marketing continue to be expanded for respective sectors. The government will also continue to promote the mobile pay policy. Customers are already accustomed to using their mobile device to access a variety of services. Under such an optimal mobile financial service environment, various related mobile technologies will be utilized, such as biological characteristics and positioning, etc. in order to provide suitable mobile services.
- AI data analysis: Financial institution use AI data analysis technology, based mainly on internal data secondly on outside data, to develop new products and reinforce risk management, or optimize service process from using data information; also use the digital trails collected from various sources to develop personalized services recommended to control marketing cost, promote product sell efficiency, and increase client satisfactory.
- Digitalization of branch: Under the development of digital services, financial institutions should increase the ratio of auto-operation process and increase Online-Merge-Offline (OMO), and through the mutual client reference to reinforce the service effectiveness from actual and virtual channels and client experience.
- Continuous optimization of information system: Facing the increasing number of digital transactions and the clients, the Company continue to invest and upgrade information system software and hardware, actively obtain the knowledge of new information technology, structure, and protection mechanism, to assure the stability, safety and expand possibility of the digital services. Under the high growth need in digital age, the proportion of electronic orders in security transactions is increasing. In 2019, the electronic transaction already occupied 68% of total security transactions. The client trade behavior change already had huge impact on security company's operation model and transactors' business.

b. Countermeasures

- As far as mobile services are concerned, updates will be done on major digital channels, such as the official website, online banking, mobile banking, online order placement, and online settlements to support mobile device browsing, the addition of facial and fingerprint recognitions, LINE social media personalized account notification, among other features, addition of the official site smart customer service interactive response service, wealth management receiving robot, cloud wealth management service and online account opening 2.0 in order to satisfy the needs of customers and shape a young digital brand image.
- Mega Bank promotes the "Taiwan Pay" QR Code Financial Card Mobile Payment Service, such as account transfer, shopping, payment, tax payment, e-invoice. Besides, the business collection system can promote the interaction between the sellers and consumers. By cooperating with JKOS, O'Pay, GAMA Pay, and EASYCARD Corporation, Mega Bank provides shopping payments from saving accounts and value store services to increase the applications of mobile payment and increase the Bank's fee income.

- 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.
- Regarding branch digitalization, the Smart Teller Machine (STM) is introduced in service counters at Mega Bank's branches. Through the standardized and digitalized opening account process, the average account opening time is 20 minutes. This reduces the workloads of clerks. Also, the cloud counter is set up on official website to provide OMO services such as online number take, inquire queue progress, schedule account opening, online credit card application and save form filling and account opening to increase client satisfactory.
- 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. Also to increase the convenience for disabled clients, Disable-friendly functions are provided in mobile banking.
- With resources throughout the Group integrated, Mega Bank and Mega Securities collaborated to set settlement account verification service for online account opening and Mega Bank and Mega Property Insurance collaborated to link online foreign currency settlement to the travel insurance purchase service while continuing to create a convenient digital living sphere.
- Continuously implement Fintech employee training to help employees to obtain the right timing to sell the Fintech products to right clients, and to optimize employee's computer knowledge and skill, and to prepare the employees have basic concepts of Fintech, to set up the base of Fintech culture.
- Focusing on the five technical dimensions for cloud-computing, information security, mobile applications, big data, and the Internet of Things, Mega Bank will proactively invest 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.
- Mega Bank has created the "Big Data Application Platform." Through integrating the big data and visualize it. The platform can help the business unit to obtain client's business data such as the overview information of their corporate clients, the composition of management, the up and downstream of the industry, and the related network.
- To cope with FSC promote "Open Banking," the phase one public information inquiry API already set up. Also the third party service providers (TSP) such as Moneybook are connected to provide answers for deposit rate and exchange rate inquiries.

B. Impacts of industrial changes and countermeasures

a. Impacts of industrial changes on banks' finance and business

- The government continues to promote the optimization of the investment environment, inspire consumer spending, increase investments by state-run and state-held enterprises, and boost digital innovation. The



hope is to improve the economy over the short term, to create next-generation sectors over the mid-to-long-term for the benefit of solid overall growth potential, to realize the goal of becoming a digital country and smart island where the service sector is of high value, the homeland is nuclear-free, and the carbon reduction is fulfilled.

- The recomposition of global supply chain is accelerated under continuous US-China trade tension. China promotes related policies including “Local supply chain to substitute import” and “Made from China 2025.” USA promotes the return of manufacturing business to cope with the tension, bringing a localization trend of manufacturers. Taiwan’s industries have highly involved in global supply chain, thus we will be more impacted by US-China tension and the change of international economy. Manufacturers will accelerate the investment back in Taiwan or move the production capacity to South East Asia to diversify risks.
- Facing the opportunities from shift of global supply chain and the fad of Taiwanese businesses shifting their production sites, the government launched “Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan” to proactively improve its investment environment, and help foreign capital to invest domestically. Under the promotion of returning to invest in Taiwan, the government offers tax benefit to attract returning funds, and direct funds towards the “5+2 Innovation Program”, urban renewal, long-term care, and forward-looking infrastructure. Those funds can also park at banks. It not only drove industrial transformation and production capacity expansion but also help broaden the international horizon of the financial sector by adapting the cross-industries integration global trend, creating a win-win situation for both the industry and banks.

b. Countermeasures

In order to strengthen industrial analysis and to keep track of industrial dynamics, we not only subscribe to professional industrial economy databases for our people to access and read in real time online but also hold the Credit Investigation Workshop and invite experts or professionals to hold seminars 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 decentralize the impacts that changes to the industry have on the operation of the bank subsidiary.

7.6.5 Impact of changes in the corporate 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 and publish on Market Observation Post System to disclose the performance of economy, society, and environment of the Company and its subsidiaries. Because the Company over the past seven 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 2019.

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 2019 provided 343 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 seven 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 over concentration 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.

1. The subsidiary bank sets credit limits to the same person, the same related party, the same affiliated business and related parties of the bank as required by the Banking Act; in addition, it classifies corporations and groups based on their credit rating and set the overall credit limits and limits for unsecured credits accordingly. Factors such as changes to the overall economic performance and industrial prospects are considered as part of the operating strategy and separate limits are set for the respective major industries according to their risk appetite for loan and credit. Reflective of the different levels of stability with the political regime, economic development potential, credit rating and solvency in each country, risk limits are established for respective countries and their risk level. In addition, exposures of each country are calculated on a monthly basis in order to prevent the over-concentration of risks in a certain country.

2. 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 guarantee business is concerned, control over the credit risks of business group is strengthened. The operations, financial standing, and liabilities of groups and corporations are analyzed according to their credit status, corporate or group profile and highlights of the main business, among others. The outstanding credits of each group are controlled according to its credit rating to enhance our asset quality.
3. The property and casualty insurance subsidiary of the Company has balanced developments of respective insurance operations and hence the risk of overconcentration is relatively low. Aside from the property insurance business from large corporations, the subsidiary is pro-actively expanding small-to-medium-sized companies' properties insurance and personal insurance in an effort to diversify sources of business.

7.6.8 Impact or risk associated with large transfers or changes in shareholdings by directors or major shareholders holding over 1%

The shareholdings of directors and major shareholders did not change significantly in 2019, so there was no impact on the share price and management 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 2019, state-owned enterprises totally hold around 26% stakes of the Company. There has been no risk of ownership/management change as yet.

7.6.10 Litigious and non-litigious matters in two years

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 efforts and managing business and financial risks, the Company and each of the subsidiaries are gradually adjusting their risk management strategies by establishing related operational mechanisms to deal with risks that are gaining importance each day and have to do with compliance, information system 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 changes in trends of the information security risks increasingly threatening businesses, the Company describes relevant operations of information security 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 to follow. The policy give guidance on employee's role related to information security planning, implementation, and improvement. This policy is at least evaluated once a year or when there is a significant change to laws and regulations, technologies, organizations and operations.

The Company set up Information and Digital Business Committees to review the information security, new technology, digital development, and security event of each subsidiary. Also there is a coordination unit responsible for executing or coordinating relevant resolutions decided by the coordinating 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 already has the information safety management system in place that consists of information safety governance, compliance, risk control, and audit review and along with the utilization of technologies; the information safety protection capabilities are comprehensively enhanced. Besides perfecting related information safety regulations and reinforcing system protection at respective subsidiaries, the financial information safety co-defense is added to enhance the information safety response and protection capabilities of the organization. Mega Bank and Chung Kuo Insurance are also ISO27001 certified and have purchased insurance for information safety in order to cope of threats on the Internet and the information risk brought about by technological applications.

For the threats on the internet and changes in risks brought about by technological developments, the Company continues to examine and ensure adequacy of applicable regulations and measures in order to create a complete network and computer safety protection system. For important segments, protection and monitoring are applied. System weakness scanning and repairing take place periodically. Penetration tests are performed. There are also the social engineering rehearsals and information and communication safety educational training to ensure the adequacy and effectiveness of information safety and risk control on the Internet.

Also, to ensure the information asset of the Company is soundly protected, for the maintenance and development work need to be done by third-party service providers (Firms or consulting companies), the Company has communicated with the third-party service providers regarding the safety requirement and rules, make clear responsibility scope with the outsiders, confirm the outside employees fully understand and willing to obey. Also, all the contract and non-disclosure agreement ask the party need to honor the non-disclosure obligation and web safety rule.

Although every internet safety management or computer security protection system has been established and operated, 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. It is not guaranteed every employee or third party service provider will obey the non-disclosure obligation. If the website is seriously attacked or hacked, or any leak of information happens, the Company may face interrupted services, loss of important or confidential information (for example client information, information of stakeholders, information of employee, financial information) or relevant legal case or investigated due to violation of its confidentiality obligation or disclosure of the third party information. The Company's operation, financials, outlook, and reputation may be hugely impacted.

c. Internet safety event

On November 4, 2019, Mega Securities suffered the DDoS attack and it led to interruption of external electronic transactions. Chunghwa Telecom was notified to introduce the DDoS flow cleaning mechanism and electronic transactions were restored gradually. Later, flow cleaning service continued (always on) and the flow being cleaned was increased to 20Gbps up to the end of 2019. Besides periodic rehearsals on DDoS introduction with Chunghwa Telecom on a usual basis, DDoS offense/defense rehearsals were also taken on upon notification from the competent authority or the peripheral business unit in order to examine the extent of consolidation and adequacy of related response procedures.

7.6.12 Intelligence property management plan and implementation situation

1. Intelligence property management plan

To strengthen the management and supervision to the subsidiaries, the Company aggressively research on innovative management skill to match the operating goals and also through the integration of information system to increase the efficiency and effectiveness of management.

(1) Patent management

Every business-related unit conducts the research and appoints external patent firm for patent application. So far most patent are used for risk management of the subsidiaries to control in-time the financial product exposure of the Group.

(2) Business secret management

Per article 7 of Patent Law, the right of the patent completed by employee within employment period under employment contract belongs to the Company. Also the Company requires every employee to sign confidentiality agreement to agree to follow the information confidentiality obligation during the employment period and after resignation, for all the confidential information acquired via business operation during employment. The one disobey is willing to take all criminal, civil, and administrative liabilities.

(3) Trademark management

Periodical check on the extension deadline of the trademark registration in every country and appointment on the trademark firm for extension are conducted. Also continuous optimization on CIS trademark, coping with subsidiaries' business marketing and advertisement, is conducted to promote corporate image.

2. Implementation situation

The Company has reported to the 15th Board meeting of 7th term on August 27, 2019 on the related issues of patents acquired. The Company has established the trademark management plan since 2002, established intelligence property management system in 2008, and to optimize the intelligence property protection conscious and acknowledgement, coping with the amendment of intelligence property law in 2020. The patents acquired in 2018 and 2019 are as follows:

- A. Market risk assessment system
- B. Financial products of high risk country system
- C. Warning system of corporate financials

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 21 of this annual report.

8.1.2 Summary of Affiliated Companies

March 1, 2020 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, and other business approved by competent authority
Mega Securities Co., Ltd.	10.19.1989	3F, No. 95, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan	NTD 11,600,000	Brokerage, dealing, proprietary, 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, proprietary, and guarantee of short-term debt bills Underwriting, brokerage, and proprietary of financial bonds Proprietary of government or corporate bonds. Other business approved by competent authority
Chung Kuo Insurance Co., Ltd.	11.01.1931	58 Sec. 1, Wuchang Street, Taipei, Taiwan	NTD 3,000,000	Property insurance. Injury and health insurance approved by competent authority
Mega Asset Management Co., Ltd.	12.05.2003	6F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 2,000,000	Financial institution's creditor's right(money) business, real estate business, and other business approved by competent authority
Mega Life Insurance Agency Co., Ltd	11.05.1996	19F, No. 123, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan	NTD 20,000	Life insurance agency
Mega Venture Capital Co., Ltd.	12.13.2005	7F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 1,000,000	Venture capital investment
Mega International Investment Trust Co., Ltd.	08.09.1983	17F, No 167, Fu-Sin N. Road, Taipei, Taiwan	NTD 527,000	Securities investment trust business, discretionary investment management, and other business approved by competent authority
Mega Management Consulting Corporation	01.16.2002	7F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 10,000	Management consulting, investment consulting and general investment business
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 research and 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
Yung-Shing Industries Co., Ltd.	12.09.1950	7F, No. 100 Jilin Road, Taipei, Taiwan	NTD 30,000	Printing and packaging business; human resource business
Win Card Co., Ltd.	10.23.2000	4~6F, No. 99, Sec. 3, Chongyang Rd., Sanchong Dist., New Taipei City, Taiwan	NTD 20,000	Business administration consulting, data processing services, advertising, management of past due receivable, human resource business, credit card agents
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 Public Co., Ltd.	08.08.2005	36/12 P.S. Tower, Asoke, Sukhumvit 21 Road, Klongtoey-nua, Wattana, Bangkok 10110, Thailand	THB 4,000,000	Commercial banking including deposits, loans, foreign exchange, L/C
Cathay Investment & Warehousing Ltd.	11.01.1982	Calle 16 Local No.4 Zona Libre De Colon Edificio No. 49, Republic of Panama	USD 1,000	Real estate investment and lease
Ramlett Finance Holdings Inc.	12.30.1981	Avenida Balboa,Torre Davivienda,Piso9,Oficina No.9A-B,Panama	USD 20	Real estate investment and lease

Note:1. Cathay Investment & Development Corp.(Bahamas) and Mega I Venture Capital Co. Ltd was dissolved and liquidated on 2019.2.27 and 2019.11.20, respectively.

2. Mega International Commercial Bank (Canada) has been restructured into a branch with full banking business license since 2018.4.16. Thus the subsidiary has dissolved on 2019.4.29.



8.1.3 Companies Presumed to Have a Relationship of Control and Subordination under Article 369 of the Company Act: None.

8.1.4 Business Scope of the Affiliated Companies

Please see the main business column of 8.1.2 above as the business scope. Each affiliated company operates independently.

8.1.5 Business Relationship between Affiliated Companies

Both Mega Securities and Mega Futures are engaged in futures brokerage business. Mega Securities mainly focuses on future exchange supporting services. About 70% of the two company's futures brokerage business is conducted by Mega Securities. On the other hand, starting from 2000, Mega Futures has involved in securities exchange supporting services. However given the company has only one operating unit, in 2019, nearly 100% of the securities brokerage business is conducted by Mega Securities.

Both Mega Bills and Mega International Commercial Bank have underwriting and guarantee business of commercial papers while bill business is a specialized business for Mega Bills and is just one of many business for Mega International Commercial Bank. In 2019, 14.16% of the commercial papers guaranteed by the Bank is underwritten by itself and 49.65% is underwritten by Mega Bills.

8.1.6 Directors, Supervisors and Presidents of Affiliated Companies

March 1, 2020

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.) Ching-Yi Li (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 & President (Note 1) Independent Director Independent Director Director Director Director Director Supervisor Supervisor Supervisor	Mei-Chu Liao (Representative of Mega Financial Holding Co., Ltd.) Chian-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

Company	Title	Name	Shareholding	
			No. of Shares	%
Mega International Commercial Bank Co., Ltd.	Chairman Managing Director Managing Director & President Managing Director Managing Independent Director Independent Director (Note 2) Independent Director Director Director Director Director Director Managing 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.) Wen-Ling Hung (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.) 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.) Chien-Fong Yu (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.) Shiow Lin (Representative of Mega Financial Holding Co., Ltd.) Wen-Yeong Hsieh (Representative of Mega Financial Holding Co., Ltd.) Lih-Hwang Chiou (Representative of Mega Financial Holding Co., Ltd.) Wang-Chung Ko (Representative of Mega Financial Holding Co., Ltd.) Tao-Yuan Lin (Representative of Mega Financial Holding Co., Ltd.) Jui-Yun Lin (Representative of Mega Financial Holding Co., Ltd.) Chia-Min Hong (Representative of Mega Financial Holding Co., Ltd.) Tsui Ting Ko (Representative of Mega Financial Holding Co., Ltd.)	300,000,000	100
Mega Asset Management Co., Ltd.	Chairman Director & President Director Director Director Supervisor	Yun-Chien, Lin (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.) Jui-Ying Tsai (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.) Shu-Fen Lee (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.) Lan-Jong An (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.) Chien-Pin Lee (Representative of Mega Financial Holding Co., Ltd.) Hui-Ling Yu (Representative of Mega Financial Holding Co., Ltd.) Ming-Chih Lu (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 Corporation	Chairman Director Director Supervisor	Ying-Jung Lin (Representative of Mega International Commercial Bank) Pi-Tien Chen (Representative of Mega International Commercial Bank) Te-Jen Hsu (Representative of Mega International Commercial Bank) Jin-Chieh Lee (Representative of Mega International Commercial Bank)	1,000,000	100



Company	Title	Name	Shareholding	
			No. of Shares	%
Mega Futures Co., Ltd.	Chairman Director & President 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 Director Director Supervisor	Hsiu-Li Lee (Representative of Mega Securities Co., Ltd.) Ching-Yi Ku (Representative of Mega Securities Co., Ltd.) Cheng-Hsiung Chang (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
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 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.) Pin Shao (Representative of Yung-Shing Industries Co., Ltd.) Yu-Mei Chiu (Representative of Yung-Shing Industries Co., Ltd.) (Note 5) 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	Tung-Lung Wu (Representative of Yung-Shing Industries Co., Ltd.) Tzu-Chien Wang (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 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 Apichart Jarikasem Niramom Asavamanee	0	0
Cathay Investment & Warehousing Ltd.	Chairman Director Director	Ta-Sheng Chen (Representative of Mega International Commercial Bank) Shih-Kuan Chuang (Representative of Mega International Commercial Bank) Mei-Jung Huang (Representative of Mega International Commercial Bank)	1,000	100
Ramlett Finance Holdings Inc.	Chairman Director & President Director	Ta-Sheng Chen (Representative of Mega International Commercial Bank) Shih-Kuan Chuang (Representative of Mega International Commercial Bank) Mei-Jung Huang (Representative of Mega International Commercial Bank)	1,500	100

Note: 1. The Director & President of Mega Bills Finance Co., Ltd Mr. Chi-Fu Lin retired on 2020.1.16. Thus Chairman Mei-Chu Liao will also act as the President for now.

2. The independent director of Mega International Commercial Bank Mr. Shyue-Shing Liao passed away on 2020.3.13.

3. Cathay Investment & Development Corp.(Bahamas) and Mega I Venture Capital Co. Ltd was dissolved and liquidated on 2019.2.27 and 2019.11.20, respectively.

4. Mega International Commercial Bank (Canada) has been restructured into a branch with full banking business license since 2018.4.16. Thus the subsidiary has dissolved on 2019.4.29.

8.1.7 Operational Highlights of Affiliated Companies in 2019

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

Company	Paid-in Capital	Total Assets	Total Liabilities	Stockholders' Equity	Revenues (Net Revenue*)	Operating Profit (Net Income before Income Tax*)	Net Income (After Tax)	Earnings per share (After Tax)
Mega International Commercial Bank	85,362,336	3,315,461,905	3,023,781,762	291,680,143	54,423,087*	28,301,654*	24,644,876	2.89
Mega Securities Co., Ltd.	11,600,000	64,167,767	47,669,484	16,498,283	3,708,101	945,110	1,089,660	0.94
Mega Bills Finance Co., Ltd.	13,114,411	260,601,239	222,324,014	38,277,225	3,900,857*	3,165,980*	2,625,352	2.00
Chung Kuo Insurance Co., Ltd.	3,000,000	17,413,155	10,346,746	7,066,409	5,508,352	229,000	181,466	0.60
Mega Asset Management Co., Ltd.	2,000,000	11,647,571	8,894,041	2,753,530	412,144	333,078	203,419	1.02
Mega Life Insurance Agency Co., Ltd.	20,000	671,921	205,425	466,496	1,806,027	505,543	405,513	202.76
Mega Venture Capital Co., Ltd.	1,000,000	761,544	67	761,477	65,511	48,054	48,276	0.48
Mega International Investment Trust Co., Ltd.	527,000	941,794	95,874	845,920	447,087	103,277	87,445	1.66
Mega Management & Consulting Corporation	10,000	82,183	11,688	70,495	55,371	35,700	30,175	30.17
Mega Futures Co., Ltd.	400,000	5,694,276	4,928,534	765,742	284,633	13,952	45,178	1.13
Mega International Investment Services Co., Ltd.	20,000	42,522	17,128	25,394	32,190	890	811	0.41
China Products Trading Corp., Ltd.	5,000	48,239	28,909	19,330	0	(633)	1,381	13.81
Yung-Shing Industries Co., Ltd.	30,000	1,030,303	254,618	775,685	232,953	9,142	47,407	158.02
Win Card Co., Ltd.	20,000	57,015	17,240	39,775	182,636	8,260	7,110	35.55
ICBC Assets Management & Consulting Co., Ltd.	20,000	21,690	40	21,650	775	525	463	0.23
Mega International Commercial Bank Public Co., Ltd.	4,011,600	25,842,766	20,307,696	5,535,070	733,545*	412,556*	315,326	0.79
Cathay Investment & Warehousing Ltd.	29,987	38,692	136	38,556	80	(7,526)	(7,526)	(7,526.14)
Ramlett Finance Holdings Inc.	600	52,650	52,119	531	7,056	(552)	(585)	(389.92)

- Note: 1. Cathay Investment & Development Corp.(Bahamas) and Mega I Venture Capital Co. Ltd was dissolved and liquidated on 2019.2.27 and 2019.11.20, respectively.
2. Mega International Commercial Bank (Canada) has been restructured into a branch with full banking business license since 2018.4.16. Thus the subsidiary has dissolved on 2019.4.29.
3. The par value of the share of China Products Trading Corp., Ltd. and Yung-Shing Industries Co., Ltd. is NT\$ 50 and NT\$ 100, respectively.
4. The original currency of Cathay Investment & Warehousing Ltd. and Ramlett Finance Holdings Inc is USD. The exchange rate used for balance sheet item is NTD to USD: 29.987:1; for income statement item is NTD to USD: 30.8513:1. The original currency of Mega International Commercial Bank Public Co., Ltd. is Thai Baht. The exchange rate used for balance sheet item is NTD to THB: 1.0029:1; for income statement item is NTD to THB: 0.9972:1.
5. The accounting item "Net Revenue" and "Net Income before Income Tax" applies to Mega International Commercial Bank, Mega Bills Finance Co., Ltd., and Mega International Commercial Bank Public Co., Ltd., while the accounting item "Revenues" and "Operating Profits" applies to the remaining companies.



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 enterprises.

8.2 Private placement of securities in the most recent year and current year up till the publication date of this annual report: None.

8.3 Disposal or hold 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

Esehang



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