



# Mega Financial Holding Co., Ltd.

## Annual Report 2021

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Address: No. 95, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan  
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### Mega Bills Finance Co., Ltd.

Address: 2~5F, No. 91, Hengyang Road, Taipei, Taiwan  
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Note: If there is any discrepancy between the English and Chinese annual reports,  
the Chinese version should prevail.

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Tel:+886-2-2175-8388  
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Yuanta Securities, Agency Department of Stock Services  
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Taiwan, R.O.C  
Tel: +886-2-2586-5859  
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## Credit Rating Agency

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Moody's Investors Service Hong Kong Limited  
Address: 24/F One Pacific Place, 88 Queensway, Admiralty,  
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## Auditors

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Puo-Ju Kuo  
PricewaterhouseCoopers Taiwan  
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Name of the overseas exchange for listing and trading of  
the negotiable securities, and the means to inquire the  
information regarding such securities: None

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# Letter to Shareholders



Benefiting from increased vaccination rate and restoration of economic activities around the world, the global economy in 2021 boosted consumer spending growth, driving the development of new digital economies (e.g., big data, Internet of Things, blockchain, and artificial intelligence) and the development of green transformation and environmental, social, and governance (ESG) policies which have garnered increasing global attention. The world is finally reaching the light at the end of the tunnel, ushering in the long-awaited economic recovery after enduring two years of challenges brought about by the pandemic. The economy performed well in 2021. Major international

forecast institutions (IMF, IHS Markit, World Bank, and EIU) estimated the global economic growth rate to be between 5.5% and 5.9%.



Chao-Shun Chang, Chairman of the Board

Driven by a couple of favorable factors such as the stable recovery of the global economy and the continuously strong demand for semiconductors and integrated circuit (IC), Taiwan's exports in 2021 remained strong. The amount of total export and export order for the year reached US\$440 billion and US\$670 billion respectively, both hitting record highs. In addition, the expansion of public constructions by the government and continued inflow of foreign investments in Taiwan, placed the total investment rate (total investment as the percentage of GDP) of Taiwan at 26.85%, the highest in 21 years, and economic growth rate reached 6.45%, also a new record high in 11 years. These outcomes mitigated the impact of domestic demand decline in the second and third quarters due to the Level 3 COVID-19 alert in Taiwan. Looking forward to the coming year, although the Russian-Ukraine war and the sanctions imposed by major countries on Russia may impact global trade, Taiwan's private investments and export momentum are expected to continue, which will resume the growth of private spending. Major foreign institutions forecast the economic growth rate of Taiwan to be between 3.11% and 3.80% in 2022.

Mega Financial Holding Co., Ltd. (the Company) and its subsidiaries will continuously provide all-inclusive financial services and undergo business development in response to future ESG trends and digital transformation. As a long-time operator of businesses in the syndicated loan market and New Southbound countries, Mega Bank has, for two years in a row, been rated as Taiwan's Best Syndicated Loan Bank for the Year and won a number of special awards, such as: the Award of Excellence for the Lending in New Southbound Policy Country and Special Award for Lending for SMEs in New Southbound Policy Country, which were organized by the Financial Supervisory Commission (FSC); the 2021 Award of Excellence for Financial Institutions in Insurance Enrollment and Referrals, which was awarded by the Ministry



Kuang-Hua Hu, President

of Finance; the Digital Banker's Best Private Bank for HNW Clients; the Best Digital Mortgage Award organized by Excellence Magazine; and the 2022 Award for Financial Institutions and Manager Outstanding in Implementing Guaranteed Financing for SMEs, which was organized by the Small and Medium Enterprise Credit Guarantee Fund. Mega Securities has been repeatedly ranked in the top 20% securities companies that adopt the Principles for Fair Treatment of Customers in the Financial Services Industry. Under the dedicated efforts from all members, the consolidated profit of 2021 reached NT\$25,731 million. The EPS was NT\$1.89. The review of business operations of the Company in 2021 are shown below:

## 1.1 Review of Business Operations in 2021

### 1.1.1 Changes in Financial Environment and Organization Structure

#### A. Change in Global and Domestic Financial Environment

The global economic recovery in 2021 was diverse, due to differences in the degree of impact of COVID-19, vaccine accessibility, and the strength of policy support across countries. Supported by the U.S. government's large-scale bailout subsidies and easing policies, the economic recovery of the United States is ahead of other developed countries. The United States Department of Commerce estimated that the economic growth rate for the year of 2021 will reach 5.7%, the largest increase since 1984. Due to a sharp recovery of personal spending in the euro area, the economic growth rate in 2021 reached 5.3%, surpassing pre-epidemic level. Chinese officials announced that China's economic growth rate for the year was 8.1%, and the trade surplus reached a new record high. In the first half of the year, China's economic growth made significant progress thanks to a strong export performance, but it slowed down in the second half of the

year, due to several negative factors, such as the real estate debt crisis, dual control of energy consumption, business supervision, and persistence with the zero-COVID policy. Japan's annual economic growth rate was 1.7%. Although the economy turned positive for the first time in the last three years, its rebound was limited in strength, compared with the growth rate of Europe and the United States. Despite uncertainties and heightened volatility, the global stock market still performed outstandingly. According to the FTSE Global All Cap Index in 2021, the global stock market climbed 18.5%, mainly attributed to the outstanding financial performance of European and American companies. Emerging technological applications such as electric vehicles and metaverse continued to attract capital inflows, driving a fluctuation of the global stock market at high points.

In terms of the financial environment in Taiwan, the spread of COVID-19 in the second and third quarters of the year significantly impacted domestic demands for retail, tourism, travel, and dining, resulting in a negative private consumption growth. With the rise in anti-epidemic awareness, increase in voluntary vaccination rate, the development of no-contact delivery e-commerce services, and the government's launch of a second economic stimulus package, domestic consumption became the key to promoting the steady growth of a post-pandemic economy in Taiwan. In addition, due to the recovery of the global economy and the expanded application of emerging technologies, the demand for industries such as 5G communications, electric vehicles, high-speed computing, and the Internet of Things continued to grow, resulting in exceptional exports and private investment performances. According to the Directorate-General of Budget, Accounting and Statistics, the economic growth rate of Taiwan was 6.45%. In terms of the New Taiwan dollar exchange market, due to strong exports, the return of Taiwanese businesses, and the order-transfer effect, the Taiwan stock market showed active performance, which was driven by robust fundamentals and loose funds, the New Taiwan dollar closed at the top of Asian currencies against the U.S. dollar, appreciating NT\$0.818 throughout the year and closing at NT\$27.69 to US\$1.00 at the end of 2021. Looking forward to the new year, Taiwan's economy will be affected in trade and financial aspects amid a number of challenges, such as relatively high base period, the gradual withdrawal of fiscal policies of various countries, the accelerated normalization of monetary policies due to rising inflation, the recurrent outbreak of COVID-19, and international military conflicts.

## **B. Change in Organization Structure**

As of the end of 2021, the Company held a controlling stake in seven subsidiaries, namely 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., and Mega Venture Capital Co., Ltd.. There is no change compared to the end of year 2020.

### **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 | 2021      | 2020      | Change (%) |
|---|------|-----------|-----------|------------|
| Deposits (including due to Chunghwa Post Co., Ltd.)         |      | 2,775,818 | 2,466,983 | 12.52      |
| Loans, Import/export bills negotiated                       |      | 1,979,646 | 1,878,342 | 5.39       |
| Corporate financing   |      | 1,442,298 | 1,424,607 | 1.24       |
| Consumers financing (excluding credit card revolving loans) |      | 537,348   | 453,735   | 18.43      |
| Foreign exchange business                                   |      | 842,683   | 845,295   | ( 0.31)    |
| Securities purchased  |      | 934,101   | 712,320   | 31.14      |
| Long-term equity investments                                |      | 21,012    | 20,903    | 0.52       |
| Credit card revolving loans                                 |      | 1,618     | 1,436     | 12.67      |

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

2. The non-performing loans outstanding at the end of 2021 amounted to NT\$5,253 million, representing a non-performing loan ratio of 0.26%, while the bad debt coverage ratio reached 573.23%.

## Mega Securities Co., Ltd.

| Item                   | 2021  | 2020             | Change (%)               |
|------------------------|---|------------------|--------------------------|
| Securities brokerage   | Market share of brokerage                                   | 3.20%(Rank 10th) | 3.29%(Rank 8th) ( 0.09)  |
|                        | Market share of margin loan                                 | 5.38%(Rank 7th)  | 5.36%(Rank 6th) 0.02     |
| Equity underwriting    | Number of IPO lead managed                                  | 1(Rank 7th)      | 3(Rank 1st) ( 66.67)     |
| Bond underwriting      | Number of corporate bond issues lead managed                | 3(Rank 12th)     | 8(Rank 6th) ( 62.50)     |
|                        | Amount of corporate bond issues lead managed (NT\$ billion) | 14.9(Rank 10th)  | 23.2(Rank 10th) ( 35.78) |
| New financial products | Number of warrants issued                                   | 1,457(Rank 11th) | 1,545(Rank 8th) ( 5.70)  |
|                        | Amount of warrants issued (NT\$ billion)                    | 7.4(Rank 13th)   | 8.7(Rank 11th) ( 14.94)  |

Note : 1. It is the ranking among local securities peers in 2021.

2. The market share of brokerage declined because of the high discount of peers and the major clients' wait-and-see attitudes.

3. The number of IPO lead managed decreased in 2021 is because of the difficulties of due-diligence during pandemic.

4. Mega Securities has decreased the number of warrants issued to lower the hedge loss from fluctuation of the market, considering the warrant business is highly sensitive to random events, leading the impacts of profit.

## Mega Bills Finance Co., Ltd.

Units: NT\$ million

| Item   | 2021      | 2020      | Change (%) |
|--|-----------|-----------|------------|
| Underwriting and purchasing of bills                                     | 2,983,432 | 2,912,991 | 2.42       |
| Underwriting amount of commercial paper issued for funding purpose (CP2) | 2,778,195 | 2,701,061 | 2.86       |
| Trading volume of bills  | 8,842,570 | 9,104,451 | ( 2.88)    |
| Trading volume of bonds  | 3,308,624 | 4,324,507 | ( 23.49)   |
| Average outstanding balance of guaranteed issues of commercial paper     | 179,311   | 167,654   | 6.95       |
| Overdue credit amounts   | 0         | 0         | -          |
| Percentage of overdue credits (%)  | 0         | 0         | -          |

Note : The decrease of trading volume of bonds in 2021 compared to 2020 is due to the decrease of position held.





## Chung Kuo Insurance Co., Ltd.

Unit: NT\$ million

| Item                    | 2021  | 2020  | Change (%) |
|-------------------------|-------|-------|------------|
| Direct written premiums | 8,079 | 7,813 | 3.40       |
| Reinsurance premiums    | 894   | 752   | 18.88      |
| Total                   | 8,973 | 8,565 | 4.78       |

## Mega International Investment Trust Co., Ltd.

Unit: NT\$ million

| Item                                     | 2021   | 2020    | Change (%) |
|--|--------|---------|------------|
| Public funds under management            | 83,711 | 88,172  | ( 5.06)    |
| Private placement funds under management | 15,254 | 15,626  | ( 2.38)    |
| Discretionary account                    | 788    | 758     | 3.96       |
| Total                                    | 99,753 | 104,556 | ( 4.59)    |

Note : The decrease of public funds under management in 2021 compared to 2020 is mainly due to redemption of domestic money market fund from legal persons. The decrease of private placement funds under management and discretionary account is due to the change of NTD/USD exchange rate.

## Mega Asset Management Co., Ltd.

Unit: NT\$ million

| Item  | 2021 | 2020 | Change (%) |
|---|------|------|------------|
| Service Income  | 410  | 413  | ( 0.73)    |
| Gain from recovery of NPL purchased and the disposal of related collateral (Note 1) | 16   | 7    | 128.57     |
| Rental income (Note 2)  | 5    | 4    | 25.00      |
| Interest income   | 2    | 2    | 0.00       |
| Net gain from disposal of investment property (Note 3)                              | 5    | 0    | -          |
| Total   | 438  | 426  | 2.82       |

Note : 1.The increase of gain from recovery of NPL purchased and the disposal of related collateral in 2021 is because the debtors and joint guarantors of NPLs initiated the negotiation of payment.

2.The increase is from the rent of newly-acquired investment property since Nov. 2020.

3.The disposal gain is recognized from disposal of north Hsinchu property in 2021.

## Mega Venture Capital Co., Ltd.

Unit: NT\$ million

| Item                                    | 2021 | 2020 | Change (%) |
|---|------|------|------------|
| Drawdown of long term equity investment | 224  | 195  | 14.87      |
| Balance of long term equity investment  | 820  | 709  | 15.66      |

## 1.1.3 Budget Implementation Status

### A. The Company's 2021 budget is implemented as follows:

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

| Item   | Final accounting figure, 2021 | Budget figure, 2021 | Achievement Rate (%) |
|--|-------------------------------|---------------------|----------------------|
| Revenues                                     | 25,675,431                    | 26,527,066          | 96.79                |
| Expenses and losses                          | 444,959                       | 484,193             | 91.90                |
| Profit from continuing operations before tax | 25,230,472                    | 26,042,873          | 96.88                |
| Profit                                       | 25,731,070                    | 25,919,728          | 99.27                |
| Earnings per share                           | 1.89                          | 1.91                | 98.95                |

Note : The figures are in unconsolidated basis.

### B. The subsidiaries' 2021 budgets are implemented as follows:

Unit: NT\$ thousand

| 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.  | 20,509,819  | 24,647,452  | 83.21                |
| Mega Securities Co., Ltd.                     | 3,101,653   | 1,506,203   | 205.93               |
| Mega Bills Finance Co., Ltd.                  | 3,995,809   | 3,629,342   | 110.10               |
| Chung Kuo Insurance Co., Ltd.                 | 627,901   | 583,750   | 107.56               |
| Mega Asset Management Co., Ltd.               | 323,804   | 262,500   | 123.35               |
| Mega Venture Capital Co., Ltd.                | 275,691   | 38,315  | 719.54               |
| Mega International Investment Trust Co., Ltd. | 101,991   | 117,704   | 86.65                |

Note : 1.The figures are in unconsolidated basis.

2.The low interest rate environment caused lower net interest margin and thus impacted the interest net income. The growth of fee income was limited. The finance operation revenue declined due to the fluctuation of financial market. The above under-performance caused Mega Bank reached 83.21% of the budget.

3.Mega International Investment Trust Co., Ltd. reached 86.65% of the budget because the non-money market fund size is lower than budget.

## 1.1.4 Financial Results

The Company and its subsidiaries' consolidated profit before tax in 2021 amounts to NT\$28,656,413 thousand, a decrease of NT\$674,225 thousand or 2.3% compared to 2020. The decrease is mainly due to the below: net interest revenue increased NT\$ 917,471 thousand; revenue other than interest decreased NT\$1,496,547 thousand, which is caused by the decrease of gain on financial asset and liabilities at fair value through profit or loss and the decrease of realized gain on financial assets at fair value through other comprehensive income, offset by the increase of foreign exchange gains and the increase of net service fee revenue and commissions; bad debts expense and provisions decreased by NT\$ 409,774 thousand; operating expense increased by NT\$504,923 thousand. The Company and its subsidiaries' consolidated profit is NT\$ 25,731,070 thousand, an increase of NT\$713,102 thousand or 2.85%, compared to year 2020. The Company's consolidated ROA is 0.64%, and consolidated ROE reached 7.86%. A breakdown of the financial results of the Company and its subsidiaries in 2021 are shown in the table below:

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

| Company                                       | Profit from Continuing Operations Before Tax | Profit     | Earnings Per Share (NT\$) | Return on Assets (%) | Return on Equity (%) |
|---|--|------------|---------------------------|----------------------|----------------------|
| Mega FHC & Its Subsidiaries (Consolidated)    | 28,656,413                                   | 25,731,070 | 1.89                      | 0.64                 | 7.86                 |
| Mega FHC (Unconsolidated)                     | 25,230,472                                   | 25,731,070 | 1.89                      | 6.92                 | 7.86                 |
| Mega International Commercial Bank Co., Ltd.  | 20,509,819                                   | 18,457,320 | 2.16                      | 0.51                 | 6.22                 |
| Mega Securities Co., Ltd.                     | 3,101,653                                    | 2,748,330  | 2.37                      | 3.39                 | 14.99                |
| Mega Bills Finance Co., Ltd.                  | 3,995,809                                    | 3,277,962  | 2.50                      | 1.18                 | 7.96                 |
| Chung Kuo Insurance Co., Ltd.                 | 627,901                                      | 505,111    | 1.68                      | 2.58                 | 6.69                 |
| Mega Asset Management Co., Ltd.               | 323,804                                      | 258,569    | 1.29                      | 1.76                 | 9.19                 |
| Mega Venture Capital Co., Ltd.                | 275,691                                      | 272,107    | 2.72                      | 27.80                | 28.17                |
| Mega International Investment Trust Co., Ltd. | 101,991                                      | 82,959     | 1.57                      | 8.86                 | 9.71                 |

Note: 1. Return on assets = Profit / Average assets; Return on equity = Profit / Average equity.

2. Except for the consolidated financials of Mega FHC & its subsidiaries, all financials are in unconsolidated basis.

### 1.1.5 Research and Development

The Company and its subsidiaries' research and development progress in 2021 are summarized as follows:

- (1) The Company continues to introduce the Group's ESG sustainable management systems and mechanisms for measuring and managing risks related to climate change such as mechanisms to identify emission-intensive industries, calculate the risk exposure of customers based in high climate risk areas, and identify the high climate risk distribution of subsidiaries' real estate collaterals in RCP8.5 and RCP2.6 scenarios. In addition, we continue to optimize the Group's long-term equity investment management system and adopt the Corporate Governance 3.0 Roadmap to improve the timeliness and quality of financial information disclosure, comprehensively develop a self-prepared financial statement system of every subsidiary, and strengthen IT system, network structure, and information security protection capabilities.
- (2) To actively develop new financial products and keep up with the trends in the technological and digital transformation of banking services, the following new financial products and digital banking applications were introduced and optimized in 2021: A consumer banking smart decision-making management system, which shortens the process by which our bank branches review loan applications; A process for opening securities-integrated digital savings account, which is a collaboration with Mega Securities to simplify operating procedures and attract new customers; optimized Global E-banking website, which now features a "Mobile Security Code" that replaces physical pin cards to increase convenience and willingness to use this service; Open Banking service,

developed jointly with Taiwan Depository & Clearing Corporation, which enables customers to link to and check their bank account via Epass Book app, thus experiencing services in different financial scenarios; and “zero-carbon credit card” which has been certified by ISO for its Carbon Footprint and Water Footprint, received the Carbon Footprint Label as reviewed and approved by the Environmental Protection Administration, and completed the Carbon Neutrality certification for credit cards. While Mega Bank is investing in digital financial research and development, it is also actively applying for financial patent protection. As of the end of December 2021, a total of 331 utility model patents and 69 invention patents had been approved by the Ministry of Economic Affairs; in addition, there were 22 utility model patents and 57 invention patents in review.

- (3) On June 25, 2021, Mega Securities began trading ESG-related ETNs on the stock exchange, selecting the TIP Customized TPEX ESG IT Elite Total Return Index, which was compiled by Taiwan Index Plus Corp., the Taipei Exchange, and the BCSD Taiwan, providing market investors with more diversified investment options. In response to the development of digital banking, the company launched two digital transformation projects in 2021, namely “Digital Strategy Development Roadmap” and “Automation of Account Opening Procedures.” Meanwhile, the company continued to develop “one-stop online account opening integrated services,” launching a service at the beginning of 2022 that processes document submission and opening of securities and sub-brokerage accounts at the same time. This service features an Optical Character Recognition (OCR) function to reduce the time customers spend on filling out paperwork. The “Mobile VIP” a mobile transaction platform was upgraded to integrate a securities flash order function and NYSE real-time quotes services to increase the convenience of trade for customers.
- (4) Mega Bills Finance subsidiary was engaged in the following activities: Revised departmental performance evaluation systems; developed a “self-prepared financial statement system;” continued promoting the adoption of paperless conferencing systems and paperless core report management systems; continued to promote the second-phase (total market) sub-market electronic delivery of orders service; developed a “Digital Supervision and Reporting Procedures for Bills Finance Company” and “Procedure for Bills Enquiry and Confirmation;” continued to promote the electronic operation of bond passbooks and transaction orders; developed a new virtual machine (VM); strengthened the implementation of AML/CFT operations and transaction monitoring; improved existing operational risk self-assessment systems; and upgraded its database systems, taking into consideration the risks of information security.



(5) To keep pace with market trends and satisfy the needs of firms and consumers, subsidiary Chung Kuo Insurance actively collected market information and built databases, combining FinTech applications and digital processes to simplify procedures and improve efficiency, and using data to analyze the market and consumer behavior to develop insurance products that are marketable, competitive, and profitable. There were a total of 240 insurance products submitted in 2021. Among them, there were 3 items on prior approval basis, 151 items on file for recordation basis, and 86 items on simple file for recordation basis.

## 1.2 Business Plan for 2022

### 1.2.1 Operational Guidelines

- Secure existing business and diversify source of profits.
- Strengthen overseas presence and cultivate customer service.
- Fortify relations with institutional investors and increase information transparency.
- Monitor political, economic, and industrial changes and reinforce awareness on risk management.
- Improve protection against information security risks and optimize the innovation of management services.
- Implement legal compliance and forge a culture of legal compliance.
- Integrate ESG strategies to maximize the value of sustainability.

### 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 2022 are as follows:

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

| Business      | Item  | Budget for 2022 |
|---------------|---|-----------------|
| Banking       | Deposits  | 2,754,751       |
|               | Loans   | 2,143,371       |
|               | Foreign exchange  | 980,205         |
| Bill Finance  | Underwriting and purchasing of bills                    | 2,833,890       |
|               | Trading volume of bills and bonds                       | 11,102,864      |
|               | Average outstanding balance of guaranteed issues of CP2 | 180,000         |
| Securities    | Market share of brokerage                               | 3.4%            |
| P&C Insurance | Premium income  | 9,344           |

### 1.2.3 Major Management Goal

The Company strives to be an Asia Regional Financial Group.

## 1.3 Future Development Strategies

- Scale up capital assets to boost the market status of Mega Financial Holdings group.
- Strengthen overseas businesses and identify opportunities to relocated Taiwanese businesses.
- Consolidate competitive advantages in corporate banking and foreign exchange and deepen the cross-selling of the Group.
- Develop consumer banking and wealth management services to enrich the Group's active customer base.
- Increase corporate governance standards and pursue the Group's sustainable development.
- Improve the Group's management efficiency to optimize business operations and increase return.
- Reinforce the risk control of the Group and implement internal and external legal compliance.
- Protect the Group's intellectual properties and increase investment of digitalization and IT.
- Motivate and enhance employee value and foster more digital talents.
- Develop the Group's digital culture and encourages all types of R&D and innovations.

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

- (1) The fierce competition in the domestic banking industry and an abundant supply of liquidity have impeded any increase in interest rate spreads. The loan-to-deposit ratio of domestic banks in 2021 dropped slightly to 69.69%, and the interest rate spreads was approximately 1.24%, which is roughly the same as the previous year but lower than pre-pandemic levels, indicating that it is difficult to effectively improve bank profitability.
- (2) User behaviors have changed with the rise of financial technology. At the end of 2021, the number of domestic bank branches increased by one compared with the end of 2020, showing minimal change over the past three years but there were more than 50 fewer branches since the peak point at the end of 2014. This trend reflects the increased popularity of financial technologies and Internet banking, which changed user behaviors and replaced some functions of physical bank branches. Two internet-only banks were officially launched in the first half of 2021, and the third also has been approved and opened in the first quarter of 2022, indicating that banks will further upgrade their digital financial services to increase competitiveness.
- (3) In 2021, the Central Bank adjusted its selective credit controls for three times, tightening regulations on loan ratios and grace periods. It did so in order to promote financial stability and strengthen banking business, and prevent excessive flow of bank credit to real estate loans which leads to deepening



concerns over financial risk and the harm of investment in manufacturing industries. Meanwhile, the Financial Supervisory Commission (FSC) strengthened its financial inspection of real estate-related loans to curb improper speculation. In addition, the Central Bank expressed that further adjustment to its selective credit controls is imminent.

- (4) The Financial Supervisory Commission promulgated the “Guidelines for Domestic Banks’ Climate Risk Financial Disclosure” which is aimed to promote the core strategy for the development of sustainable finance in the “Green Finance Action Plan 2.0” and strengthen the management of climate-related risks by domestic banks. The Guideline has been implemented starting from 2022. Accordingly, domestic banks shall, beginning from 2023, perform the financial disclosure of climate-related risks for the previous year before the end of June each year.

## 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   | Dec. 22, 2021    |
|  | Moody's              | A2        | -          | Positive | Mar. 07, 2022    |
| Mega International Commercial Bank Co., Ltd. | Taiwan Ratings Corp. | twAAA     | twA-1+     | Stable   | Oct. 26, 2021    |
|  | Moody's              | A1        | P-1        | Positive | Mar. 07, 2022    |
|  | S & P                | A+        | A-1        | Stable   | Oct. 26, 2021    |
| Mega Bills Finance Co., Ltd.                 | Taiwan Ratings Corp. | twAA+     | twA-1+     | Stable   | Feb. 17, 2022    |
| Mega Securities Co., Ltd.                    | Taiwan Ratings Corp. | twAA      | twA-1+     | Stable   | Oct. 28, 2021    |
| Chung Kuo Insurance Co., Ltd.                | Taiwan Ratings Corp. | twAA      | -          | Stable   | Nov. 29, 2021    |
|  | Moody's              | A3        | -          | Stable   | Jun. 22, 2021    |
|  | S & P                | A-        | -          | Stable   | Nov. 29, 2021    |

## 1.6 Rewards and Recognition

- (1) In March 2021, Mega Financial Holdings and Chung Kuo Insurance received the Insurance Talent Awards for 10 years in a row.
- (2) In March 2021, Mega Bank received the 2020 Award for Assisting with Regional Development and Award for Excellent Drawdown of Credit Guarantees, which were organized by the Small and Medium Enterprise Credit Guarantee Fund, and was selected as Syndicated Loan House of the Year – Taiwan during the 10th Asia Pacific Syndicated Loan Market Competition, which was organized by the Asia Pacific Loan Market Association (APLMA).



- (3) In April 2021, Mega Bank received a total of six awards for being the bank with excellent undertaking performance in 2020: The Overseas Credit Guarantee Fund's Special Award for Financing for New Southbound Countries, Special Award for Total Credit Guaranteed for COVID-19 Programs, and Excellence Award for Total Credit Guaranteed; and the Special Award/Excellence Award for Total Insurance and Margin Fund Guaranteed, which was awarded to its Bangkok, Ban Pong District, and Bangna branches (subsidiaries) in Thailand.
- (4) In April 2021, Mega Financial Holdings was again ranked within the top 5% in the Corporate Governance Evaluation.
- (5) In August 2021, Mega Bank was rated as the Best Private Bank for HNW Clients in The 2021 Digital Banker's Global Private Banking Innovation Awards; received the Excellence Magazine's Best Digital Mortgage Award; and won first place in the Customer Satisfaction Award, third place in the Best Financial Advisor Award, and third place in the Best Elderly-Friendly Service Award in Business Today's Wealth Management Bank Evaluation.
- (6) In October 2021, Mega Securities won second place in the Phase 1 Market Maker Award in the competition and reward programs for OTC-traded market makers, which were held by TPEx in 2021.
- (7) In January 2022, Mega Securities won first place in the Taiwan Stock ETF Market Maker Award during the 2021 ETF and ETN Competition which was organized by TWSE.
- (8) In March 2022, Mega Bank won awards that were organized by the Small and Medium Enterprise Credit Guarantee Fund, including the 2022 Award for Financial Institutions and Manager Outstanding in Implementing Guaranteed Financing for SMEs, the Award for Banks with Excellent Performance in Offering Financial Relief to New Startup Businesses, and third place nationwide in the Award for Manager Outstanding in Offering Financial Relief to New Startup Businesses. Mega Bank also received the 2021 Award of Excellence for Financial Institutions in Insurance Enrollment and Referrals.

Farewell to the turmoil of 2021 and looking forward to the coming year, the continuous recovery of the global economy remains at the same pace. However, given the COVID variant outbreaks, global supply chain bottlenecks, soaring global raw material prices, rising inflationary pressures, U.S. Fed interest hike, the competition between the United States and China which continues into this year and, and Russia-Ukraine conflict that broke out at the beginning of 2022 that shifts the global political map, the future is still uncertain. The Company will continue to pay attention to changes in the economic and financial situations, tackle challenges (Challenge), embrace changes (Change), and seize new chances and business opportunities (Chance), think innovatively and take steady steps, to



continuously create the maximum value for shareholders. The Company also proposes five directions to increase profit: first, seize global interest hike opportunities to allocate assets and liabilities properly; second, implement ESG action plans and identify investment and financing opportunities continuously; third, promote digital transformation actively to expand the financial ecosystem; fourth, enhance financial operations abilities to increase profit contributions; and lastly, strengthen online–offline cross-selling mechanisms to effectively integrate group resources, to strive toward becoming a regional financial group in Asia.

Thank you!



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Chao-Shun Chang  
Chairman of the Board



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Kuang-Hua Hu  
President

# Company Profile



## 2.1 Date of Incorporation: February 4, 2002

## 2.2 Company History

| Date               | Milestones   |
|--------------------|--|
| February 4, 2002   | Founded by Chiao Tung Bank Co., Ltd. ("CTB") and International Securities Co., Ltd. ("IS") through the exchange of shares, and simultaneously listed on the Taiwan Stock Exchange with the name of CTB Financial Holding Company (Code 2886)                   |
| August 22, 2002    | Acquired a 100% equity stake in Chung Hsing Bills Finance Corporation (now renamed as Mega Bills Finance Co., Ltd.) and Barits Securities Corp. ("BS") through a share swap  |
| December 31, 2002  | Acquired a 100% equity stake in both ICBC and Chung Kuo Insurance Co., Ltd. ("CKI") through a share swap, and change the Company's name from CTB Financial Holding Co., Ltd. to Mega Financial Holding Co., Ltd.   |
| January 31, 2003   | IS merged with BS and Chung Hsing Securities Corp., a subsidiary of Chung Hsing Bills Finance Corp., and renaming Barits International Securities Co., Ltd. (now known as Mega Securities Co., Ltd. (MSC))   |
| May 29, 2003       | Upgraded the Central Securities Investment Trust Corporation (CSITC), originally an investee of MSC, to become the Company's direct subsidiary through cash purchase of controlling shares, and changed CSITC's name into Mega Investment Trust Corp. ("MITC") |
| December 5, 2003   | Set up a wholly owned subsidiary - Mega Asset Management Co., Ltd., with an issued capital of NT\$2,000 million  |
| September 23, 2005 | Upgraded Chung Yin Insurance Agency Company, originally a wholly-owned subsidiary of ICBC, to the Company's direct subsidiary by acquiring its 100% shares in cash and renamed it as Mega Life Insurance Agency Co., Ltd.                                      |
| December 13, 2005  | Established a wholly owned subsidiary - Mega CTB Venture Capital Co., Ltd., (now renamed as Mega Venture Capital Co., Ltd.) with an issued capital of NT\$1,000 million  |
| December 16, 2005  | The Board of Directors resolved to acquire 5% to 26% stake in the Taiwan Business Bank.  |
| May 23, 2006       | Subscribed new shares of International Investment Trust Co., Ltd. (IIT) in which ICBC originally owned 59.13% equity interest, and achieved a combined equity interest of 97.76% with ICBC   |
| July – August 2006 | All direct subsidiaries were renamed "Mega", except the English name of insurance subsidiary - Chung Kuo Insurance Co., Ltd.   |
| August 21, 2006    | The two banking units, the International Commercial Bank of China ("ICBC") and Chiao Tung Bank ("CTB"), were merged, with ICBC as the surviving company renamed Mega International Commercial Bank   |
| September 17, 2007 | The two security investment trust subsidiaries, IIT and MITC, were merged, with IIT as the surviving company renamed Mega International Investment Trust Co., Ltd.   |
| December 30, 2008  | Mega International Investment Trust Co., Ltd. (MIIT) becomes a wholly owned subsidiary of the Company, after the reduction and increase of capital by MIIT to offset loss  |
| April 7, 2009      | Mega CTB Venture Capital Co., Ltd. was renamed as Mega Venture Capital Co., Ltd.   |
| April 28, 2009     | The Board of Directors resolved to dispose of the stakes in Taiwan Business Bank.  |
| April 26, 2011     | The Board of Directors resolved to issue exchangeable bonds to dispose of the shareholding of Taiwan Business Bank.  |
| August 28, 2012    | The Board of Directors resolved to entrust the stakes in Taiwan Business Bank to Hua Na Commercial Bank.   |
| September 5, 2012  | Subscribed all 300 million shares of private placement offered by subsidiary Mega International Commercial Bank to improve its capital structure.  |
| December 18, 2013  | Subscribed all 600 million shares of private placement offered by subsidiary Mega International Commercial Bank to improve its capital structure.  |
| May 26, 2015       | The Board of Directors resolved to issue the second domestic unsecured exchangeable bonds to dispose of the stakes in Taiwan Business Bank.  |

# Company Profile

| 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., an internet only bank.   |
| April 23, 2019     | The Board of Directors of the Company resolved to sell shares of its subsidiary Mega Life Insurance Agency Company to another subsidiary Mega International Commercial Bank.  |
| June 24, 2019      | The Company sold all shares possessed of Taiwan Business Bank in securities exchange market.  |
| July 15, 2019      | The Company's subsidiary Mega I Venture Capital Co. Ltd. obtained authority's approval of dissolution. The liquidation was done on February 10, 2020.   |
| May 12, 2020       | The subsidiary Mega Life Insurance Agency Co., Ltd was officially merged into Mega International Commercial Bank.   |
| July 17, 2020      | The Board of Directors of subsidiary Mega International Commercial Bank approved the signing of MOU with Bangkok Bank Public Company Limited.   |
| September 22, 2021 | Mega Securities Co, Ltd. made NT\$ 30 million capital injection in its subsidiary Mega International Investment Services Co., Ltd.  |
| November 12, 2021  | Mega International Commercial Bank approved the investment in Taiwan Capital Buffalo Fund VI Tech Ventures LP.  |



# Corporate Governance Report

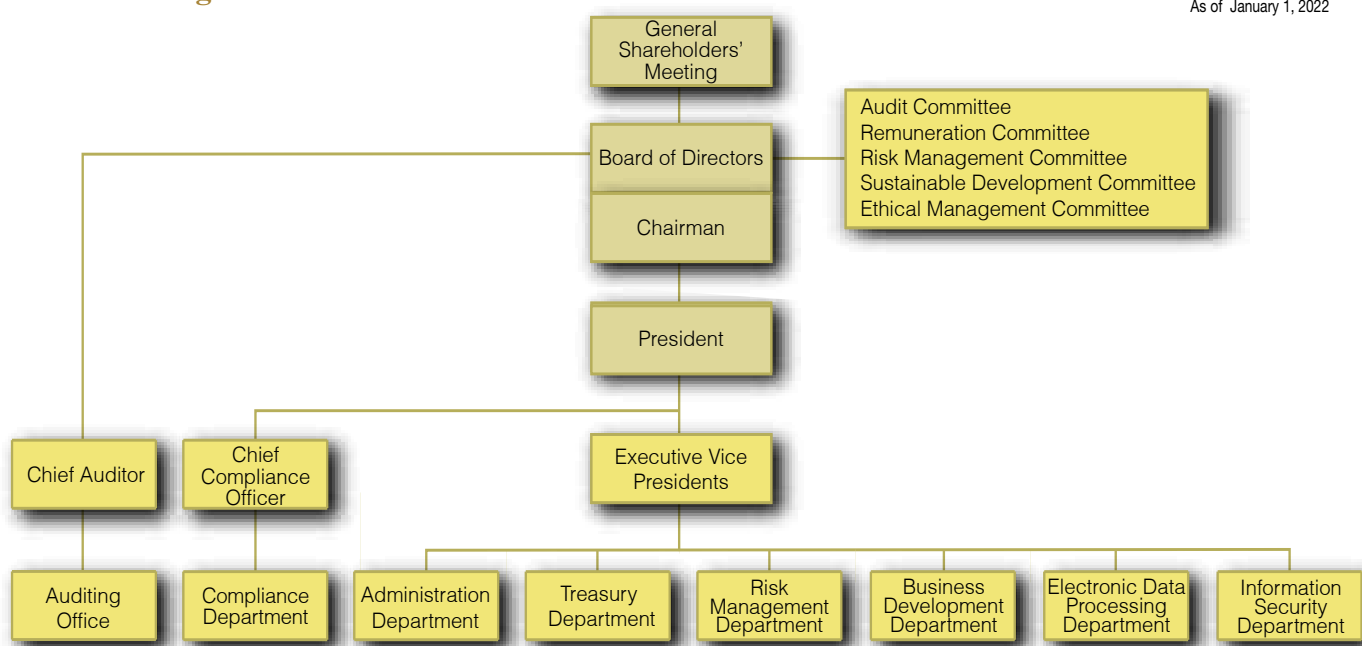


# Corporate Governance Report

## 3.1 Organization

### 3.1.1 Organization Chart

As of January 1, 2022



### Major Corporate Functions

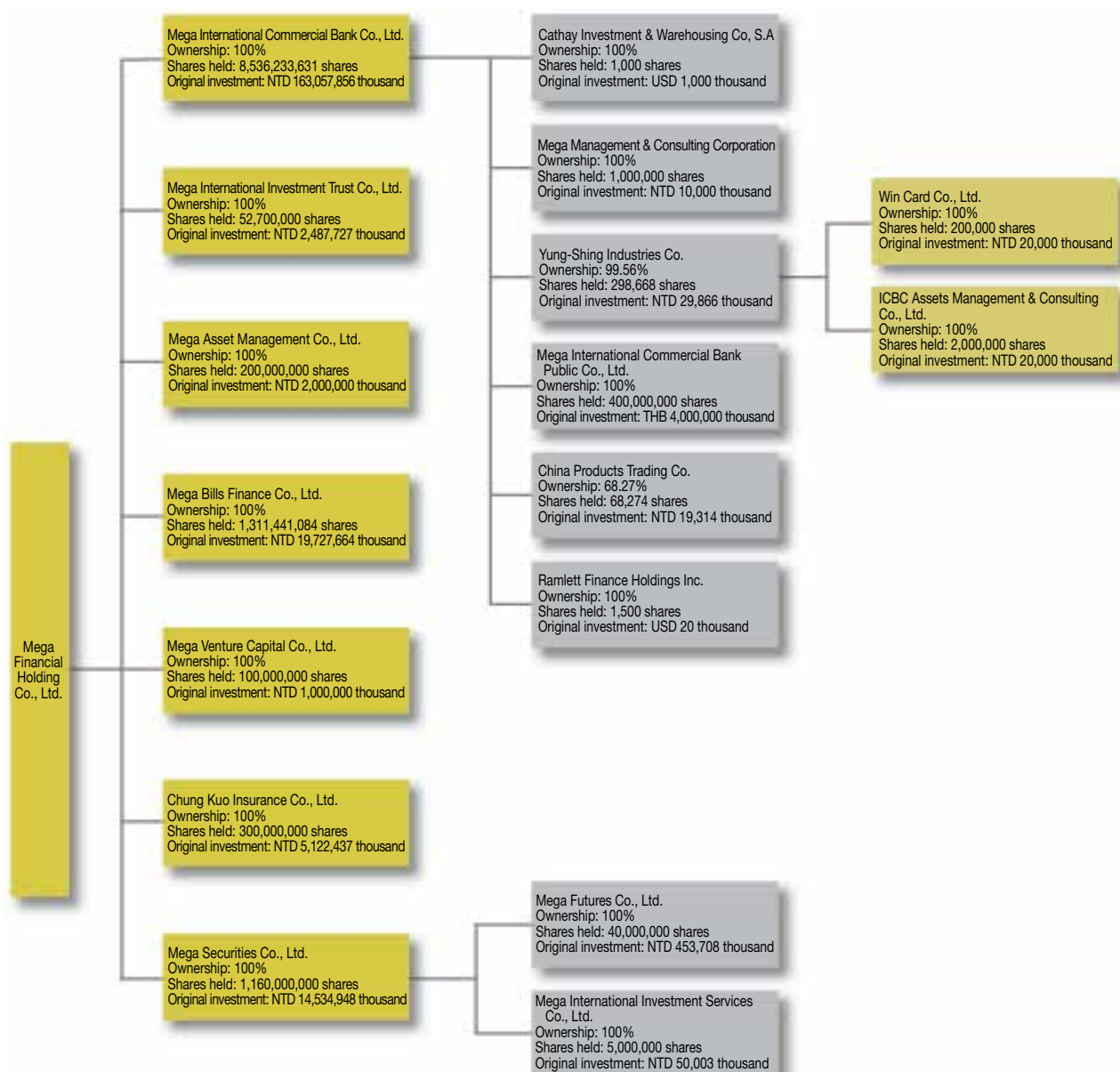
- **Auditing Office:** Planning and implementation of internal audit, examination of financial and business operation, internal control and legal compliance
- **Compliance Department:** Planning, management and implementation of legal compliance affairs; formulation and amendment of the group's overall AML/CFT plan and policy. Planning report system and handling reported cases
- **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 system; integration of IT system structure of the Company and its subsidiary; build-up, security control and maintenance of various IT system; evaluation and management of the computer-related software asset
- **Administration Department:** Planning and implementation of comprehensive administrative management system: legal affairs, stock affairs, general affairs, public relations, human resources management, and the planning and administrative matters of the Group's sustainable development
- **Information Security Department:** The formulation and management of the information security policy of the Group; Planning and promotion of information security management system; Planning and supervising information-security-related emergency plan; Coordination, communication, and promotion of information security affairs





### 3.1.2 Affiliated Companies Chart

As of Dec 31, 2021



## 3.2 Directors , President, Executive Vice President, Senior Vice President, and Vice President of each department

### 3.2.1 Directors

| Title                | Nationality or place of incorporation | Name  | Gender Age (years old) | Date elected | Term (Years) | Date first elected | Shareholding when elected |      | Current shareholding |      | Spouse & minor children shareholding |                    | Shareholding by nominee arrangement |   |
|----------------------|---------------------------------------|---|------------------------|--------------|--------------|--------------------|---------------------------|------|----------------------|------|--------------------------------------|--------------------|-------------------------------------|---|
|                      |                                       |   |                        |              |              |                    | Shares                    | %    | Shares               | %    | Shares                               | %                  | Shares                              | % |
| Chairman             | R.O.C.                                | Chao-Shun Chang<br>(Representative of the Ministry of Finance, R.O.C.)                | Male 71-75             | 07/20/2021   | 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<br>(Representative of the Ministry of Finance, R.O.C.)                   | Male 56-60             | 07/20/2021   | 3            | 02/07/2018         | 1,143,043,883             | 8.40 | 1,143,043,883        | 8.40 | 0                                    | 0                  | 0                                   | 0 |
| Director             | R.O.C.                                | Chia-Chung Chen<br>(Representative of the Ministry of Finance, R.O.C.)                | Male 61-65             | 07/20/2021   | 3            | 07/20/2021         | 1,143,043,883             | 8.40 | 1,143,043,883        | 8.40 | 0                                    | 0                  | 0                                   | 0 |
| Director             | R.O.C.                                | Pei-Chun Chen<br>(Representative of the Ministry of Finance, R.O.C.)                  | Female 56-60           | 07/20/2021   | 3            | 07/01/2018         | 1,143,043,883             | 8.40 | 1,143,043,883        | 8.40 | 113,653<br>60                        | 0.00084<br>0.00000 | 0                                   | 0 |
| Director             | R.O.C.                                | Yih Jiuan Wu<br>(Representative of the Ministry of Finance, R.O.C.)                   | Female 56-60           | 07/20/2021   | 3            | 01/16/2021         | 1,143,043,883             | 8.40 | 1,143,043,883        | 8.40 | 0                                    | 0                  | 0                                   | 0 |
| Director             | R.O.C.                                | Chun-Lan Yen<br>(Representative of the Ministry of Finance, R.O.C.)                   | Female 61-65           | 07/20/2021   | 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.                                | I-Kan Chiu<br>(Representative of the Ministry of Finance, R.O.C.)                     | Male 56-60             | 07/20/2021   | 3            | 07/20/2021         | 1,143,043,883             | 8.40 | 1,143,043,883        | 8.40 | 1,000                                | 0.00000            | 0                                   | 0 |
| Director             | R.O.C.                                | Keh-Her Shih<br>(Representative of National Development Fund, Executive Yuan, R.O.C.) | Male 46-50             | 07/20/2021   | 3            | 12/21/2020         | 830,973,202               | 6.11 | 830,973,202          | 6.11 | 0                                    | 0                  | 0                                   | 0 |



January 31, 2022

| 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;<br>Chairman of Bank of Overseas Chinese<br>Chairman of Franklin Templeton SinoAm Securities Investment Management Inc.;<br>Chairman of Taiwan Business Bank;<br>Supervisor of First Financial Holding Co., Ltd.;<br>Resident Supervisor of First Commercial Bank;<br>Chairman of First Financial Holding Co., Ltd. & First Commercial Bank;<br>CPA<br><br>M.A. in Public Finance, National Chengchi University              | Chairman of Mega International Commercial Bank,<br>Chairman of Mega Charity Foundation,<br>Chairman of Mega Bank Cultural and Educational Foundation,<br>Director of National Credit Card Center of R.O.C.,<br>Director of Taipei Financial Center Corp.,<br>Supervisor of Taiwan Capital Buffalo Fund Co., Ltd.<br>Director of Taiwan Asset Management Corporation,<br>Director of Taiwan Capital Management Corporation. | None  | None | None     | None |
| Secretary of president office of Hua Nan Commercial Bank;<br>Chief Secretary of the Board of Bank of Taiwan;<br>Chief Secretary of the Board / Executive Vice President of Taiwan Cooperative Bank;<br>Chairman of Taiwan Cooperative Bills Finance Corporation;<br>Executive Vice President of Taiwan Cooperative Financial Holding Co., Ltd. & Taiwan Cooperative Bank<br><br>MBA, College of Business, Iowa State University                                       | President of Mega Financial Holding Co., Ltd.,<br>Managing Director of Mega International Commercial Bank Co., Ltd.,<br>Director of Mega International Investment Trust Co., Ltd.,<br>Director of Mega Bank Cultural and Educational Foundation,<br>Vice Chairman of Mega Charity Foundation,<br>Director of Next Commercial Bank Co., Ltd.,<br>Director of Taipei Financial Center Corp.                                  | None  | None | None     | None |
| Executive Vice President / CEO of E.SUN Commercial Bank, Ltd.;<br>CEO of E.SUN Bank (China) Co., Ltd.;<br>General Manager / Chairman of E.SUN Securities Co., Ltd.;<br>Director of E.SUN Bank (China) Co., Ltd.;<br>Director of E.SUN Securities Co., Ltd.;<br>Director of E.SUN Financial Holding Co., Ltd.;<br><br>M.A. in Agricultural Economics, National Taiwan University   | Independent Director of Dimerco Data System, Corp.,<br>Director of Chen, Ching Pao Cultural and Educational Foundation,<br>Director of Tai Chi Men Cultural and Educational Foundation;<br>Director of Mega International Commercial Bank Co., Ltd.  | None  | None | None     | None |
| Recommended Specialist of Securities and Futures Management Committee;<br>Manager of Yuanta Core Pacific Securities Co., Ltd.;<br>Vice President of PineBridge Investments Management Taiwan Ltd.;<br>Legal Director of Prestige Law Firm;<br>Chief Auditor / President of Mega Securities Co., Ltd.<br><br>M.A. in Law, Boston University  | Chairman of Mega Securities Co., Ltd.,<br>Chairman of Mega Futures Co., Ltd.,<br>Director of Mega Charity Foundation   | None  | None | None     | None |
| Assistant Director General / Deputy Director General / Director General of Department of Economic Research, Central Bank of the R.O.C.;<br>Director of Taiwan Financial Holding Co., Ltd.;<br>Director / Supervisor of Taiwan Academy of Banking and Finance<br><br>PhD. in Economics, Iowa State University, U.S.  | Supervisor of Taiwan Academy of Banking and Finance,<br>Director General of Department of Economic Research, Central Bank of the R.O.C.,<br>Committee member of National Income Statistics Committee of Directorate General of Budget, Accounting and Statistics, Executive Yuan.  | None  | None | None     | None |
| Section Chief / Senior Executive Officer / Deputy Division Head / Division Head of National Treasury Administration, Ministry of Finance, R.O.C.<br><br>M.A. in Agricultural Economics, National Taiwan University  | Deputy Director-General, National Treasury Administration, Ministry of Finance, R.O.C.<br>Director of Taiwan Resident Earthquake Insurance Fund<br>Director of Mega International Commercial Bank  | None  | None | None     | None |
| Deputy Manager / Manager / Assistant Vice President of Mega Int'l Commercial Bank Co., Ltd.;<br>President of Mega Int'l Commercial Bank Labor Union;<br>Member of Labor Funds Supervisory Committee;<br>Executive V.P. Taipei Confederation of Trade Unions;<br>Appraiser of labor condition of Labor Inspection Office of Department of Labor, Taipei City Government<br><br>College degree in Finance and Taxation, Tamsui Oxford College                           | Assistant Vice President of General Affairs and Occupational Safety & Health Dept., Mega Int'l Commercial Bank Co., Ltd.   | None  | None | None     | None |
| Deputy Magistrate, Yunlin County Government;<br>Deputy Secretary General, Executive Yuan Consultant, Executive Yuan;<br>Political Deputy Minister, Ministry of Labor;<br>Deputy Secretary General, Office of the President;<br>Senior Secretary, Office of the President<br><br>MSc Regional and Urban Planning Studies, The London School of Economics and Political Science<br>MSc Management, Imperial College, University of London (now Imperial College London) | Deputy Minister, National Development Council,<br>Executive Yuan, R.O.C.,<br>Director of Yang Ming Marine Transport Corporation  | None  | None | None     | None |



# Corporate Governance Report

| Title                | Nationality or place of incorporation | Name  | Gender<br>Age (years old) | Date elected           | Term (Years) | Date first elected | Shareholding when elected |      | Current shareholding |      | Spouse & minor children shareholding |   | Shareholding by nominee arrangement |   |
|----------------------|---------------------------------------|---|---------------------------|------------------------|--------------|--------------------|---------------------------|------|----------------------|------|--------------------------------------|---|-------------------------------------|---|
|                      |                                       |   |                           |                        |              |                    | Shares                    | %    | Shares               | %    | Shares                               | % | Shares                              | % |
| Director             | R.O.C.                                | Hong-Mo Wu<br>(Representative of Chunghwa Post Co., Ltd.) | Male<br>66-70             | 07/20/2021             | 3            | 09/09/2019         | 490,778,910               | 3.60 | 490,778,910          | 3.60 | 0                                    | 0 | 0                                   | 0 |
| Director             | R.O.C.                                | Hui-Chuan Chen<br>(Representative of Bank of Taiwan)      | Female<br>61-65           | 01/07/2022<br>(Note 1) | 3            | 01/07/2022         | 334,951,379               | 2.46 | 334,951,379          | 2.46 | 0                                    | 0 | 0                                   | 0 |
| Independent Director | R.O.C.                                | Ying Wu   | Female<br>66-70           | 07/20/2021             | 3            | 07/20/2021         | 0                         | 0    | 0                    | 0    | 0                                    | 0 | 0                                   | 0 |
| Independent Director | R.O.C.                                | Chang-Ching Lin   | Male<br>46-50             | 07/20/2021             | 3            | 07/01/2018         | 0                         | 0    | 0                    | 0    | 0                                    | 0 | 0                                   | 0 |
| Independent Director | R.O.C.                                | Hung-Ju Chen  | Female<br>46-50           | 07/20/2021             | 3            | 07/20/2021         | 0                         | 0    | 0                    | 0    | 0                                    | 0 | 0                                   | 0 |
| Independent Director | R.O.C.                                | Tsai-Jyh Chen   | Female<br>56-60           | 07/20/2021             | 3            | 07/20/2021         | 0                         | 0    | 0                    | 0    | 0                                    | 0 | 0                                   | 0 |
| Independent Director | R.O.C.                                | Chi-Chang Yu  | Male<br>71-75             | 07/20/2021             | 3            | 07/20/2021         | 0                         | 0    | 0                    | 0    | 0                                    | 0 | 0                                   | 0 |

Note 1: The director Ms. Hui-Chuan Chen succeeded the position on January 7, 2022. Former director Mr. Guo-Shin Lee resigned on October 7, 2021.



January 31, 2022

| Experience (education)  | Other position   | Executives, directors or supervisors who are spouses or within two degrees of kinship |      |          | Note |
|---|--|---|------|----------|------|
|   |  | Title   | Name | Relation |      |
| Deputy Mayor of Kaohsiung City Government;<br>Minister without Portfolio, Executive Yuan & concurrently Minister, Public Construction Commission, Executive Yuan;<br>Chairman of Taiwan International Ports Corporation;<br>Minister of Ministry of Transportation and Communications<br><br>Ph.D. in Marine Environment and Engineering, National Sun Yat-sen University   | Chairman of Chunghwa Post Co., Ltd.  | None  | None | None     | None |
| Accounting Director of Council of Agriculture Executive Yuan;<br>Deputy Director-General of Accounting Dept, Ministry of the Justice;<br>Director-General of Accounting Dept, Ministry of the Education;<br>Director-General of Budget Accounting and Statistics Office, Taoyuan City (County) Government;<br>Supervisor of Taoyuan Aerropolis Co., Ltd.;<br>Director-General of Accounting Dept, Judicial Yuan<br><br>M.A. in Accounting, National Chengchi University   | Deputy Minister of DGBAS, Executive Yuan,<br>Supervisor of China Aviation Development Foundation   | None  | None | None     | None |
| Chief Auditor / Senior Executive Vice President of First Commercial Bank;<br>Chief Auditor / President of First Financial Holding Co., Ltd.;<br>Supervisor of International Bills Finance Corp;<br>Director, Vice Chairman of IBF Financial Holdings<br>Chairman of First Insurance Agency Co., Ltd. and First P&C Insurance Agency Co., Ltd.<br><br>Bachelor of Department of Finance and Taxation, National Chengchi University   | Independent Director, Mega Int'l Commercial Bank Co., Ltd.   | None  | None | None     | None |
| Assistant Research Fellow of Institute of Economics, Academia Sinica;<br>Adjunct Assistant Professor of Department of Economics, National Central University;<br>Adjunct Assistant Professor of Department of Economics, National Taiwan University;<br>Associate Dean of College of Social Sciences, National Cheng Kung University<br>Assistant Professor of Department of Economics, National Cheng Kung University<br><br>Ph.D. in Economics, University of Michigan - Ann Arbor  | Professor, Department of Economics, National Cheng Kung University;<br>Independent Director of Air Asia Company Limited,<br>Assistant Research Fellow, Institute of Economics, Academia Sinica | None  | None | None     | None |
| Assistant Professor, Professor, Distinguished Professor, Dept. of Economics of National Taiwan University;<br>Director of First Financial Holding Co., Ltd.;<br>Managing Director of First Commercial Bank Co., Ltd.<br>Committee Member of International Trade Commission, Ministry of Economic Affairs<br><br>Ph.D., Economics, University of California, Los Angeles, U. S. A.   | Distinguished Professor, Dept. of Economics, National Taiwan University  | None  | None | None     | None |
| Associate professor, Professor, Dean, Dept. of Risk Management and Insurance of National Chengchi University;<br>Independent Director of Mega Bills Finance Co., Ltd.<br><br>Ph.D. of Insurance, Wharton School, University of Pennsylvania, U. S. A.   | Professor, Dept. of Risk Management and Insurance, National Chengchi University  | None  | None | None     | None |
| Judge, Taiwan Haulien, Yilan, New Taipei District court;<br>Partner, Lee and Li Attorneys-at-Law;<br>Independent Managing Director of Agriculture Bank of Taiwan;<br>Independent Director of Chang Hwa Bank;<br>Adjunct Associate Professor, Dept. of Accounting of National Taiwan University<br>Adjunct Associate Professor, School of Law of Soochow University;<br>Adjunct Professor, Department of Industrial and Business Management of Chang Gung University;<br>Member of Administrative Appeals Review Committee, Ministry of Finance<br>Member of Disciplinary Committee and the Disciplinary Re-examination Committee for Bookkeeper and Tax Return Filing Agents<br><br>Doctor of the Science of Law, School of Law, Stanford University, U. S. A | Independent Director, Mytrex Health Technologies Inc.,<br>Supervisor of Taiwan Institute of Economic Research  | None  | None | None     | None |

# Corporate Governance Report

**Chart 1 : Major shareholders of the institutional shareholders who are represented by directors**

Dec. 31, 2021

| 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%)                    |

**Chart 2 : Major shareholders of the above major shareholders that are juridical persons**

Dec. 31, 2021

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

## 1. Professional Qualifications and Status of Independency of Directors

Jan.31, 2022

| Criteria<br>Name              | Professional qualification and experience   | Status of Independency   | Number of current positions as independent director of other public companies |
|-------------------------------|---|--|---|
| Chao-Shun Chang<br>(Chairman) | <p>Chairman<br/>Professionally qualified director of bank subsidiary<br/>Chairperson of Risk Management Committee</p> <p>He used to be the chairman of many financial institutions such as First Financial Holdings, First Bank, Taiwan Business Bank, and Bank of Overseas Chinese. Since September 2016, he has served as the Chairman of the Company and Mega Bank for more than 5 years. He has accumulated a few dozen years in the banking/financial holding industry, and thus qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 1 and Paragraph 9 (Bank) of "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." At the same time, he is qualified as an CPA, and has served as a lecturer in accounting in colleges and universities.</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, finance and accounting, public finance and taxation, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p> | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p> <p>Not an employee of the Company or its affiliates.</p> | 0   |



|  |   |  |   |
|--|---|--|---|
| Kuang-Hua Hu<br>( Director and President ) | <p>President (executive director)<br/>Professionally qualified director of bank subsidiary<br/>Member of Risk Management Committee<br/>Chairperson of Sustainable Development Committee<br/>Chairperson of Group Management Meetings<br/>Chairperson of Group AML/CFT Meetings<br/>Chairperson of Group Fund Management Meetings<br/>Chairperson of Group Information and Digital Business Meetings<br/>Chairperson of Group Cross-Selling Meetings</p> <p>He used to be the executive managers of Hua Nan Bank, Bank of Taiwan, Taiwan Cooperative Bank and Taiwan Cooperative Financial Holdings. He has served as the President of the Company and the managing director of Mega Bank for 4 years. He has accumulated nearly 30 years of working experience in the banking/financial holding industry, and thus qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 1 and Paragraph 9 (Bank) of " 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."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, finance and accounting, digital finance, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p> | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p>  | 0 |
| Chia-Chung Chen<br>( Director )            | <p>Professionally qualified director of bank subsidiary</p> <p>He used to be the executive managers of E-Sun Bank and E-Sun Securities. He has accumulated nearly 20 years of working experience in the banking industry, and thus qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 1 and Paragraph 9 (Bank) of " 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."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, digital finance, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p>   | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p> <p>Not an employee of the Company or its affiliates.</p> | 1 |
| Pei-Chun Chen<br>( Director )              | <p>Professionally qualified director of securities subsidiary<br/>Member of Risk Management Committee</p> <p>She used to be the recommended specialist of Securities and Futures Management Committee and executive managers of Grand Cathay Securities Corporation, Yuanta Core Pacific Securities Co., Ltd., PineBridge Investments Management Taiwan Ltd., and Mega Securities Co., Ltd. She has been the Chairman of Mega Securities and Mega Futures for more than 3 years, and accumulated 26 years of working experience in securities industry, thus qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 1 and Paragraph 9 (Securities) of " 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."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, law, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p>   | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p> <p>Not an employee of the Company or its affiliates.</p> | 0 |



# Corporate Governance Report

|                              |  |  |   |
|------------------------------|--|--|---|
| Yih-Jiuan Wu<br>( Director ) | <p>Professionally qualified director of bank subsidiary</p> <p>She used to be the director of Taiwan Financial Holdings and the director and supervisor of Taiwan Academy of Banking and Finance. She is now the Director General of Department of Economic Research, Central Bank of the R.O.C.. She has accumulated more than 20 years of banking finance study and administration experience, and thus qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 1 and Paragraph 9 (Bank) of " 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."</p> <p>Professional ability:<br/>Financial knowledge, international industry and economics, finance and accounting</p> <p>There are no matters related to Article 30 of the Company Act</p> | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p> <p>Not an employee of the Company or its affiliates.</p> | 0 |
| Chun-Lan Yen<br>( Director ) | <p>She is the Deputy Director-General of National Treasury Administration, Ministry of Finance, R.O.C.. She has accumulated more than 30 years of public administration and management experience and is capable of managing financial holding companies.</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, finance and accounting, public finance and taxation</p> <p>There are no matters related to Article 30 of the Company Act</p>  | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p> <p>Not an employee of the Company or its affiliates.</p> | 0 |
| I-Kan Chiu<br>( Director )   | <p>He currently holds an position in occupational safety &amp; health dept. of Mega Bank. He used to be the President of Mega Bank Labor Union. He has accumulated more than 30 years of banking experience and is capable of managing financial holding companies.</p> <p>Professional ability:<br/>Financial knowledge, finance and accounting</p> <p>There are no matters related to Article 30 of the Company Act</p>  | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p>  | 0 |
| Keh-Her Shih<br>( Director ) | <p>He has been the deputy executives of important government units such as Yunlin County Government, Executive Yuan, Ministry of Labor, and Office of the President. He is now the Deputy Minister, National Development Council, Executive Yuan, R.O.C.. He has accumulated more than 10 years of public administration and management experience and is capable of managing financial holding companies.</p> <p>Professional ability:<br/>Business management, leadership and decision-making, international industry and economics, law, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p>  | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p> <p>Not an employee of the Company or its affiliates.</p> | 0 |
| Hong-Mo Wu<br>( Director )   | <p>He used to be the executives of important government units such as Deputy Mayor of Kaohsiung City Government, Minister without Portfolio, Executive Yuan &amp; concurrently Minister, Public Construction Commission, Executive Yuan, Chairman of Taiwan International Ports Corporation, and Minister of Ministry of Transportation and Communications. He is now the Chairman of Chunghwa Post Co., Ltd. He has accumulated more than 20 years of public administration and management experience and is capable of managing financial holding companies.</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, digital finance, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p>   | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p> <p>Not an employee of the Company or its affiliates.</p> | 0 |



|  |   |   |   |
|--|---|---|---|
| Hui-Chuan Chen<br>( Director )               | <p>She used to be the accounting executives of important government units such as Council of Agriculture, Executive Yuan, Ministry of the Justice, Ministry of the Education, Taoyuan City (County) Government, and Judicial Yuan. She is now the Deputy Minister of DGBAS, Executive Yuan. She has accumulated more than 30 years of public administration and accounting experience and is capable of managing financial holding companies.</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, finance and accounting, public finance and taxation.</p> <p>There are no matters related to Article 30 of the Company Act</p>  | <p>None of the director's spouse, or relatives within the second degree of kinship are also the director.</p> <p>Not an employee of the Company or its affiliates.</p>  | 0 |
| Ying Wu<br>( Independent Director )          | <p>Professionally Qualified Natural-Person Director<br/>Chairperson of Audit Committee<br/>Remuneration Committee Member<br/>Ethical Management Committee Member</p> <p>She used to be the high-level executives, chief auditor, and chairman of First Bank, First Financial Holdings, and First Insurance Agency. Now she is the independent director of Mega Bank. She has more than 40 years of working experience in the banking industry and has expertise in finance and accounting, and is qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 1 of " 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 ."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, finance and accounting, public finance and taxation, digital finance, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p>   | <p>Directors or their spouse, or relatives within the second degree of kinship are employed as a director, supervisor, or employee of the Company or its affiliates: ■None.</p> <p>Number of shares and shareholding ratio held by directors, their spouse, or relatives within the second degree of kinship (or held under the name of a third person): ■None.</p> <p>Currently holding a position as a director, supervisor, or employee of companies with specific relationships with the Company (see Subparagraphs 5-8, Paragraph 1 of Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies): ■None.</p> <p>Compensation received for providing commercial, legal, financial, accounting or related services to the Company or its affiliates in recent two years: ■None.</p> | 1 |
| Chang- Ching Lin<br>( Independent Director ) | <p>Professionally Qualified Natural-Person Director<br/>Audit Committee Member<br/>Chairperson of Remuneration Committee</p> <p>He is the professor of the department of economics, National Cheng Kung University. He used to teach at the Institute of Economics, Academia Sinica, the department of economics of National Central University, and the department of economics of National Taiwan University. He is capable of managing a financial holding company and being able to manage the business of a financial holding company soundly and effectively, and is qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 3 of " 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 ."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, public finance and taxation, law, digital finance, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p> | <p>Directors or their spouse, or relatives within the second degree of kinship are employed as a director, supervisor, or employee of the Company or its affiliates: ■None.</p> <p>Number of shares and shareholding ratio held by directors, their spouse, or relatives within the second degree of kinship (or held under the name of a third person): ■None.</p> <p>Currently holding a position as a director, supervisor, or employee of companies with specific relationships with the Company (see Subparagraphs 5-8, Paragraph 1 of Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies): ■None.</p> <p>Compensation received for providing commercial, legal, financial, accounting or related services to the Company or its affiliates in recent two years: ■None.</p> | 1 |

# Corporate Governance Report

|   |  |   |          |
|---|--|---|----------|
| <p>Hung-Ju Chen<br/>( Independent Director )</p>  | <p>Professionally Qualified Natural-Person Director<br/>Audit Committee Member<br/>Remuneration Committee Member</p> <p>She is the distinguished professor of department of economics, National Taiwan University. She used to be the director of First Financial Holdings and managing director of First Bank. She is capable of managing a financial holding company and being able to operate the business of a financial holding company soundly and effectively, and is qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 3 of " 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 ."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p>   | <p>Directors or their spouse, or relatives within the second degree of kinship are employed as a director, supervisor, or employee of the Company or its affiliates: ■None.</p> <p>Number of shares and shareholding ratio held by directors, their spouse, or relatives within the second degree of kinship (or held under the name of a third person): ■None.</p> <p>Currently holding a position as a director, supervisor, or employee of companies with specific relationships with the Company (see Subparagraphs 5-8, Paragraph 1 of Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies): ■None.</p> <p>Compensation received for providing commercial, legal, financial, accounting or related services to the Company or its affiliates in recent two years: ■None.</p> | <p>0</p> |
| <p>Tsai-Jyh Chen<br/>( Independent Director )</p> | <p>Professionally Qualified Natural-Person Director<br/>Audit Committee Member<br/>Ethical Management Committee Member</p> <p>She is the professor, dept. of risk management and insurance of National Chengchi University. She used to be the independent director of Mega Bills Finance. She is capable of managing a financial holding company and being able to operate the business of a financial holding company soundly and effectively, and is qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 3 of " 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 ."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, finance and accounting, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p>  | <p>Directors or their spouse, or relatives within the second degree of kinship are employed as a director, supervisor, or employee of the Company or its affiliates: ■None.</p> <p>Number of shares and shareholding ratio held by directors, their spouse, or relatives within the second degree of kinship (or held under the name of a third person): ■None.</p> <p>Currently holding a position as a director, supervisor, or employee of companies with specific relationships with the Company (see Subparagraphs 5-8, Paragraph 1 of Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies): ■None.</p> <p>Compensation received for providing commercial, legal, financial, accounting or related services to the Company or its affiliates in recent two years: ■None.</p> | <p>0</p> |
| <p>Chi-Chang Yu<br/>( Independent Director )</p>  | <p>Professionally Qualified Natural-Person Director<br/>Audit Committee Member<br/>Chairperson of Ethical Management Committee</p> <p>He is the adjunct associate professor /professor of accounting department, college of law, and business administration department of three universities including National Taiwan University. He used to be the judge of district courts and partner of Lee and Li, Attorneys-at-Law. He used to be the independent director of Agriculture Bank of Taiwan and Chang Hwa Bank. He is capable of managing a financial holding company and operating the business of a financial holding company soundly and effectively, and is qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 3 of " 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."</p> <p>Professional ability:<br/>Business management, financial knowledge, international industry and economics, finance and accounting, public finance and taxation, law, digital finance, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p> | <p>Directors or their spouse, or relatives within the second degree of kinship are employed as a director, supervisor, or employee of the Company or its affiliates: ■None.</p> <p>Number of shares and shareholding ratio held by directors, their spouse, or relatives within the second degree of kinship (or held under the name of a third person): ■None.</p> <p>Currently holding a position as a director, supervisor, or employee of companies with specific relationships with the Company (see Subparagraphs 5-8, Paragraph 1 of Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies): ■None.</p> <p>Compensation received for providing commercial, legal, financial, accounting or related services to the Company or its affiliates in recent two years: ■None.</p> | <p>1</p> |

Note: Please refer to page 22 for the directors' experience and other current positions.



## 2. Diversification and Independency of the Board

(1)Diversification of the Board: The Company has made Board diversification policy in Corporate Governance Practice Guideline. The diversification of the Board is considered by corporate operation, operation types and development need. The standards of diversification includes (A) basic conditions (includes gender, age, nationalities and race) and (B) professional knowledge and skills (includes professional backgrounds, professional skills and industry experience). In July 2021, the Company re-elect the 8th term of the Board of Directors, constituting 10 seats of directors and 5 seats of independent directors. Members come from the financial industry, government agencies and academia, with professional backgrounds and experiences covering law, accounting, industry, finance, economics, etc. Professional skills include risk management, legal compliance, money laundering prevention, finance, economic analysis, business management, internal control, and industry knowledge. Also, board members generally possess the knowledge, skills and qualities necessary to perform their duties.

The directors who also are the Group's employees are: president Kuang-Hua Hu and director I-Kan Chiu, account for 13% of the Board; There are seven female directors, accounting for 47% of the Board, which is better than the original target of at least 4 seats or above 25%. There are three directors between the ages of 40 and 49, five between 50 and 59, five between 60 and 69, and two between 70 to 79 years old. The average age is 60.6 years old, and the average term of office is 1.53 years.

(2)Independency of the Board:

The Company values the independency of directors. The Chairman and President are not the same individual or have relations such as spouses or relatives within the first degree of kinship. Directors also do not have relations as spouses or within the second degree of kinship (in compliance with Paragraphs 3 and 4, Article 26-3 of the Securities and Exchange Act). Independent directors retain independence qualifications required by the competent authority and they do not serve as directors or independent directors in more than two other companies. All directors serve as directors in not more than two other listed companies.

The Company has set a target of achieving board independency<sup>Note</sup> by having 80% of board seats filled by directors who meet the independency criteria. In 2021, 93.33% of our directors satisfied the independency criteria. The Chairman Chao-Shun Chang did not concurrently serve as the Company's managerial officers since he took office in September 2016 to the end of 2021 for 5 years and 4 months, meeting the independency criteria. Director Kuang-Hua Hu concurrently serves as the President of the Company and therefore external director independency does not apply.

In compliance with the FSC's Corporate Governance 3.0- Sustainable Development Roadmap and relevant regulations, the Company elected its 8th-term Board of Directors in July 2021, which has a third of its seat or five seats filled by independent directors. The independent directors have not served for more than three terms, and they have served for less than one year on average.

Note: The independent status of external directors adopts the following criteria. It must satisfy at least 4 items in the following 9 items, and at least 2 items in the first 3 items:

- (1) The director must not have been employed by the company in an executive capacity within the last five year.
- (2) The director and his or her family members must not accept more than US\$60,000 from the company or any of its subsidiary this year and in the past three years. This does not apply to those set forth in SEC Rule 4200.
- (3) The director's family members must not be an executive officer of the company or any of its subsidiary this year and in the past three years.
- (4) The director must not be (and must not have interests with) an adviser or consultant to the company or to the company's senior management.
- (5) The director must not have interests with a significant customer or supplier of the company.
- (6) The director must not have a service agreement with other companies or management of these companies.
- (7) The director must not have interests with a non-profit entity that receives significant contributions from the company.
- (8) The director must not have been a partner or employee of the company's external audit institution during the past three years.
- (9) The director must not have any other conflict of interest to the independent operation of the Board.

## 3.2.2 President, Executive Vice President, Senior Vice President, and Vice President of each department

| Title                        | Nationality | Name                  | Gender | Date effective | 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     | 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 |
| Executive Vice President     | R.O.C.      | Kuo-Pao Chen (Note 1) | Male   | 12/21/2018     | 1,697,437    | 0.00 | 45,693                               | 0.00 | 0                                   | 0.00 |
| Chief Auditor                | R.O.C.      | Jui-Ying Tsai         | Female | 07/01/2019     | 262,766      | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |
| Chief Compliance Officer     | R.O.C.      | Hui-Lin Wu            | Female | 01/26/2017     | 55,000       | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |
| Chief Secretary of the Board | R.O.C.      | Han-Yin Ting          | Female | 05/23/2017     | 60,000       | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |
| Senior Vice President        | R.O.C.      | Ching-Yi Li           | Female | 06/01/2019     | 41,133       | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |
| Vice President               | R.O.C.      | Ming-Chih Lu          | Male   | 03/01/2020     | 6,464        | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |



March 1, 2022

| Experience (education)  | Other position   | Managers who are spouses or within two degrees of kinship |      |          | Note |
|---|--|---|------|----------|------|
|   |  | Title   | Name | Relation |      |
| Secretary of president office of Hua Nan Commercial Bank, Chief Secretary of the Board of Bank of Taiwan, Chief Secretary of the Board / 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<br><br>MBA, College of Business, Iowa State University   | Managing Director of Mega International Commercial Bank Co., Ltd.<br>Director of Mega International Investment Trust Co., Ltd.<br>Director of Mega Bank Cultural and Educational Foundation<br>Vice chairman of Mega Charity Foundation,<br>Director of Next Commercial Bank Co., Ltd.<br>Director of Taipei Financial Center Corp., | None  | None | None     | None |
| Tax Officer of National Taxation Bureau of Taipei, Auditor of National Treasury Administration, Ministry of Finance, Section Chief of Taxation Administration, Ministry of Finance, General Manager of Accounting Department, Chiao Tung Bank, Senior Vice President of Treasury Department, Mega Financial Holding Co., Ltd.<br>Supervisor of Taiwan Business Bank<br>Chairman of Chung Kuo Insurance Co., Ltd.<br><br>M.A. in Public Finance, National Chengchi University  | Director of Mega Bills Finance Co., Ltd.,<br>Chairman and President of Mega Venture Capital Co., Ltd.,<br>Supervisor of Chung Kuo Insurance Co., Ltd.,<br>Director of Mega Charity Foundation,<br>Director of Next Commercial Bank Co., Ltd.   | None  | None | None     | None |
| General Manager of Gong-guan/ Brisbane Branch, First Commercial Bank,<br>Chief Secretary of Mega International Commercial Bank Co., Ltd. & Mega Financial Holding Co., Ltd.<br><br>M.A. in Finance, University of Illinois at Urbana-Champaign, U.S.A.  | Senior Executive Vice President of Mega International Commercial Bank Co., Ltd.,<br>Director of Mega Bills Finance Co., Ltd.,<br>Director of Mega Asset Management Co., Ltd.,<br>Chairman of Mega International Commercial Bank Public Co., Ltd.   | None  | None | None     | None |
| Assistant Vice President, Offshore Banking Department & Treasury Department/ Senior Vice President, Treasury Department/ Senior Vice President, Financial Risk Management Center/ Senior Vice President & General Manager, Data Processing & Information Department/ Executive Vice President, General Manager, Data Processing & Information Department of Mega International Commercial Bank Co., Ltd.<br><br>Executive Master of Business Administration Program, College of Commerce National Chengchi University | Senior Executive Vice President of Mega International Commercial Bank Co., Ltd.,<br>Director of Mega International Commercial Bank Public Co., Ltd.,<br>Director of Financial resolution C., Ltd.,<br>Director of Allied Biotech Corporation<br>Director of Trade-Van Information Services Co.                                       | None  | None | None     | None |
| Vice President & Senior Vice President of Treasury Department of Mega Financial Holding Co., Ltd.<br><br>B.A. in Business Administration, National Taiwan University  |  | None  | None | None     | None |
| SVP & GM, Shih-Mao Branch of First Commercial Bank<br>SVP& Head of Compliance & Legal Division of First Financial Holding and First Commercial Bank<br><br>B.A. in Laws, National Taiwan University   | Chief Compliance Officer of Mega International Commercial Bank Co., Ltd.   | None  | None | None     | None |
| Assistant Vice President of Mega International Commercial Bank Co., Ltd.<br>Acting Chief Secretary of Mega International Commercial Bank Co., Ltd.<br><br>B.A. in Finance, National Taiwan University   | Chief Secretary of the Board of Mega International Commercial Bank Co., Ltd.<br>Director of Mega Securities Co., Ltd.<br>Director of Overseas Investment & Development Corp.   | None  | None | None     | None |
| Deputy General Manager of Credit Management Department/ Central Branch, General Manager of Planning Department/ Accounting Department, Mega International Commercial Bank Co., Ltd.<br><br>M.A. in Accounting, University of Illinois at Urbana-Champaign, U.S.A.   | Senior Vice President of Accounting Department, Mega International Commercial Bank Co., Ltd<br>Supervisor of Mega Venture Capital Co., Ltd.,<br>Supervisor of Win Card Co., Ltd.,<br>Director of Star Energy Power Corporation,<br>Director of Next Commercial Bank Co., Ltd.  | None  | None | None     | None |
| Manager/Deputy Vice President of Mega Financial Holding Co., Ltd.<br><br>M.A. in Economics, National Taiwan University  | Director of Mega Asset Management Co., Ltd.<br>Director of Mega International Investment Trust Co., Ltd.   | None  | None | None     | None |

| Title          | Nationality | Name                         | Gender | Date effective | Shareholding |      | Spouse & minor children shareholding |      | Shareholding by nominee arrangement |      |
|----------------|-------------|------------------------------|--------|----------------|--------------|------|--------------------------------------|------|-------------------------------------|------|
|                |             |                              |        |                | Shares       | %    | Shares                               | %    | Shares                              | %    |
| Vice President | R.O.C.      | Lan-Jong An                  | Male   | 10/01/2020     | 0            | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |
| Vice President | R.O.C.      | Chia-Lin Chang<br>( Note 2 ) | Female | 08/01/2020     | 10,000       | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |
| Vice President | R.O.C.      | Ing-Jun Kuo<br>( Note 3 )    | Male   | 01/01/2022     | 0            | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |
| Vice President | R.O.C.      | Hung Tseng<br>( Note 4 )     | Male   | 02/01/2022     | 0            | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |
| Vice President | R.O.C.      | Chien-An Chen<br>( Note 5 )  | Male   | 03/01/2022     | 35           | 0.00 | 0                                    | 0.00 | 0                                   | 0.00 |

Note: 1. Mr. Kuo-Pao Chen retired on March 1, 2022.

2. Ms. Chia-Lin Chang became Vice President of Administration Department on August 1, 2021.

3. Mr. Ing Jun Kuo became the Vice President of Information Security Department since January 1, 2022.

4. Mr. Hung Tseng became the Vice President of Compliance Department since February 1, 2022.

5. Mr. Chien-An Chen became the Vice President of Electronic Data Processing Department since March 1, 2022.

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



March 1, 2022

| Experience (education)  | Other position   | Managers who are spouses or within two degrees of kinship |      |          | Note |
|---|--|---|------|----------|------|
|   |  | Title   | Name | Relation |      |
| Planning Specialist of Pacific Electricity Wire and Cable Co., LTD.<br>Planning Specialist of TAIFEX,<br>Chief Officer of Chung Kuo Insurance Co., Ltd.,<br>Deputy Vice President of Mega Financial Holding Co., Ltd.<br><br>M.B.A, State University of New York at Buffalo,                            | Director of Mega Venture Capital Co., Ltd<br>Supervisor of Mega Securities Co., Ltd.   | None  | None | None     | None |
| Assistant officer of Chiao Tung Bank Nan Jing East Road Branch.<br>Assistant Vice President of Administration Department of Mega Financial Holding Co., Ltd.<br>Secretary of Board of Mega Financial Holding Co., Ltd.<br><br>M.A., Department of Business Administration, SooChow University           | Director of Mega Securities Co., Ltd.<br>Director of Mega Asset Management Co., Ltd.   | None  | None | None     | None |
| Assistant Vice President/ Deputy General Manager of Data Processing & Information Department; General Manager of Information Security Department and Chief Information Security Officer, Mega International Commercial Bank Co., Ltd.<br><br>M.S. in Computer Science, New York Institute of Technology | General Manager of Information Security Department, Mega International Commercial Bank Co., Ltd.<br>Director of Mega Securities Co., Ltd.<br>Director of Mega International Commercial Bank Public Co., Ltd.<br>Director of Financial eSolution Co. Ltd. | None  | None | None     | None |
| Deputy General Manager of Compliance Department, Mega International Commercial Bank Co., Ltd.<br><br>B.A. in International Business/ B.A. in Law, National Taiwan University  | General Manager of Compliance Department, Mega International Commercial Bank Co., Ltd.<br>Director of Taiwan Aerospace Corp.   | None  | None | None     | None |
| Assistant Vice President/ Deputy General Manager of Data Processing & Information Department, Mega International Commercial Bank Co., Ltd.<br><br>B.S. in Information and Computer Engineering, Chung Yuan Christian University   | General Manager of Data Processing & Information Department, Mega International Commercial Bank Co., Ltd.<br>Director of Financial eSolution Co. Ltd.  | None  | None | None     | None |

## 3.3 Remuneration for Directors, President, Executive Vice Presidents, and the employee remuneration distributed in 2021

### 3.3.1 Remuneration of Directors and Independent Directors

| Title   | Name                      | Remuneration          |   |                   |   |                                |   |                  |   | Ratio of total compensation (a+b+c+d) to net income (%) |   |  |  |  |  |  |  |  |  |  |
|---|---------------------------|-----------------------|---|-------------------|---|--------------------------------|---|------------------|---|---|---|--|--|--|--|--|--|--|--|--|
|   |                           | Base Remuneration (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       | 0                     | 15,526  | 0                 | 779   | 126,875                        | 126,875                                       | 2,609            | 5,915   | 0.50  | 0.58  |  |  |  |  |  |  |  |  |  |
|   | Chao-Shun Chang           |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
| Director<br>( Representative of Ministry of Finance, R.O.C. ) | Kuang-Hua Hu              |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Chiun-Min Tsai            |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Cheng-Te Liang            |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Wen-Ling Hung             |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Chi-Hsu Lin               |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Yong-Yi Tsai              |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Chia-Chung Chen           |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Yih-Jiuan Wu              |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
| Chun-Lan Yen  |                           |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
| Pei-Chun Chen   |                           |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
| I-Kan Chiu  |                           |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
| Director  | National Development Fund |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Keh-Her Shih              |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
| Director  | Chunghwa Post Co., Ltd.   |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Hong-Mo Wu                |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
| Director  | Bank of Taiwan            |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Guo-Shin Lee              |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
| Independent Director  | Jiun-Wei Lu               | 2,827                 | 2,989   | 0                 | 0   | 0                              | 0   | 486              | 486   | 0.01  | 0.01  |  |  |  |  |  |  |  |  |  |
|   | Ying-Ko Lin               |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Chang-Ching Lin           |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Ying Wu                   |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Hung-Ju Chen              |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Tsai-Jyh Chen             |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |
|   | Chi-Chang Yu              |                       |   |                   |   |                                |   |                  |   |   |   |  |  |  |  |  |  |  |  |  |

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, and the reference with peers. The total package includes 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, Audit Committee, and Ethical Management 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. The representatives of Ministry of Finance: Mr. Chiun-Min Tsai, Mr. Cheng-Te Liang, Mr. Chi-Hsu Lin, Mr. Yong-Yi Tsai, and Ms. Wen-Ling Hung's terms of office expired on July 20, 2021. Mr. Chia-Chung Chen, Mr. I-Kan Chiu, and Ms. Yih-Jiuan Wu succeeded the position. The representative of Bank of Taiwan Mr. Guo-Shin Lee resigned on Oct. 7, 2021. Ms. Hui-Chuan Chen succeeded the position on Jan. 7, 2022. The independent directors Mr. Jiun-Wei Lu and Mr. Ying-Ko Lin's terms of office expired on July 20, 2021. Ms. Ying Wu, Ms. Hung-Ju Chen, Ms. Tsai-Jyh Chen, and Mr. Chi-Chang Yu succeeded the position on the same date.

2. Compensation paid to company drivers for NT\$1,758 thousand is not included in Allowances (d). "Salary, bonuses, and allowances (e)" does not include compensation paid to company drivers for NT\$2,174 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 (%) |   | 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 |   |   |  |
| 7,223  | 12,764  | 108               | 303   | 0                         | 0     | 731   | 0     | 0.53  | 0.63  | 937  |
| 0  | 0   | 0                 | 0   | 0                         | 0     | 0   | 0     | 0.01  | 0.01  | 0  |
|  |   |                   |   |                           |       |   |       |   |   |  |

### Directors' remuneration brackets

| Bracket                          | Name of Directors   |   |  |   |
|----------------------------------|---|---|--|---|
|                                  | Total of (a+b+c+d)  |   | Total of (a+b+c+d+e+f+g)   |   |
|                                  | The Company   | All companies in the financial report   | The Company  | The parent company and all investee companies   |
| Under NT\$ 1,000,000             | Chao-Shun Chang, Kuang-Hua Hu, Chiun-Min Tsai, Wen-Ling Hung, Cheng-Te Liang, Chi-Hsu Lin, Yong-Yi Tsai, Chia-Chung Chen, Yih-Jiuan Lin, Yih-Jiuan Wu, Chih-Her Shih, Hong-Mo Wu, Guo-Shin Lee, I-Kan Chiu, Keh-Her Shih, Hong-Mo Wu, Guo-Shin Lee, Jiun-Wei Lu, Ying-Ko Lin, Chang-Ching Lin, Ying Wu, Hung-Ju Chen, Tsai-Jyh Chen, Chi-Chang Yu | Kuang-Hua Hu, Chiun-Min Tsai, Wen-Ling Hung, Chi-Hsu Lin, Yong-Yi Tsai, Chia-Chung Chen, Yih-Jiuan Wu, Chih-Her Shih, Hong-Mo Wu, Guo-Shin Lee, Jiun-Wei Lu, Ying-Ko Lin, Chang-Ching Lin, Ying Wu, Hung-Ju Chen, Tsai-Jyh Chen, Chi-Chang Yu | Chao-Shun Chang, Chiun-Min Tsai, Wen-Ling Hung, Cheng-Te Liang, Chi-Hsu Lin, Yong-Yi Tsai, Chia-Chung Chen, Yih-Jiuan Wu, Chih-Her Shih, Hong-Mo Wu, Guo-Shin Lee, I-Kan Chiu, Keh-Her Shih, Hong-Mo Wu, Guo-Shin Lee, Jiun-Wei Lu, Ying-Ko Lin, Chang-Ching Lin, Ying Wu, Hung-Ju Chen, Tsai-Jyh Chen, Chi-Chang Yu | Chiun-Min Tsai, Wen-Ling Hung, Chi-Hsu Lin, Yong-Yi Tsai, Chia-Chung Chen, Yih-Jiuan Wu, Chih-Her Shih, Hong-Mo Wu, Guo-Shin Lee, Jiun-Wei Lu, Ying-Ko Lin, Chang-Ching Lin, Ying Wu, Hung-Ju Chen, Tsai-Jyh Chen, Chi-Chang Yu |
| NT\$1,000,000 ~ NT\$2,000,000    |   |   |  |   |
| NT\$2,000,000 ~ NT\$3,500,000    |   | Cheng-Te Liang  |  | Cheng-Te Liang  |
| NT\$3,500,000 ~ NT\$5,000,000    |   |   |  |   |
| NT\$5,000,000 ~ NT\$10,000,000   | Bank of Taiwan  | Chao-Shun Chang, Pei-Chun Chen, Bank of Taiwan  | Kuang-Hua Hu Bank of Taiwan  | Chao-Shun Chang, Kuang-Hua Hu, Pei-Chun Chen, Bank of Taiwan  |
| NT\$10,000,000 ~ NT\$15,000,000  | Chunghwa Post Co., Ltd., National Development Fund  | Chunghwa Post Co., Ltd., National Development Fund  | Chunghwa Post Co., Ltd., National Development Fund   | Chunghwa Post Co., Ltd., 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                            | 26  | 26  | 26   | 26  |



### 3.3.2 Compensation of President and Executive Vice President

December 31, 2021; Unit: NT\$ thousands

| Title                          | Name          | Salary<br>(a)       |   | Severance pay<br>(b) |   | Bonuses<br>and allowances (c) |   | Employee remuneration<br>(d) |      |       |   | Ratio of total compensation<br>(a+b+c+d) to net income<br>(%) |   | CCompensation paid<br>from an invested<br>company other than the<br>company's subsidiary<br>or the parent company |
|--------------------------------|---------------|---------------------|---|----------------------|---|-------------------------------|---|------------------------------|------|-------|---|---|---|---|
|                                |               | From the<br>Company | From all<br>companies<br>in the<br>financial<br>statement | From the<br>Company  | From all<br>companies<br>in the<br>financial<br>statement | From the<br>Company           | From all<br>companies<br>in the<br>financial<br>statement | From the Company             | Cash | Stock | From all<br>companies in the<br>financial statement | From the<br>Company   | From all<br>companies<br>in the<br>financial<br>statement |   |
| President                      | Kuang-Hua Hu  |                     |   |                      |   |                               |   |                              |      |       |   |   |   |   |
| Executive<br>Vice President    | Jui-Yun Lin   |                     |   |                      |   |                               |   |                              |      |       |   |   |   |   |
|                                | Yu-Mei Hsiao  |                     |   |                      |   |                               |   |                              |      |       |   |   |   |   |
|                                | Kuo-Pao Chen  |                     |   |                      |   |                               |   |                              |      |       |   |   |   |   |
| Chief Auditor                  | Jui-Ying Tsai |                     |   |                      |   |                               |   |                              |      |       |   |   |   |   |
| Chief<br>Compliance<br>Officer | Hui-Lin Wu    |                     |   |                      |   |                               |   |                              |      |       |   |   |   |   |
| Total                          |               | 12,737              | 19,153  | 711                  | 819   | 8,904                         | 14,923  | 2,269                        | 0    | 3,596 | 0   | 0.096   | 0.150   | 591   |

Note: 1. Mr. Kuo-Pao Chen retired on March 1, 2022. Compensation paid to company drivers totaled NT\$4,704 thousand is not included in "Bonuses and allowances (C)".

2. Employees' remuneration (D) has been approved by Board of Directors.

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

4. 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 managerial officers compensated the highest don't need to be disclosed.

## Compensation Brackets

| Bracket                          | Name of President and Executive Vice Presidents        |  |
|----------------------------------|--|--|
|                                  | The Company  | Parent company and all invested companies  |
| Under NT\$ 1,000,000             | Yu-Mei Hsiao, Kuo-Pao Chen                             |  |
| NT\$ 1,000,000 ~ NT\$ 2,000,000  |  |  |
| NT\$ 2,000,000 ~ NT\$ 3,500,000  |  |  |
| NT\$ 3,500,000 ~ NT\$ 5,000,000  |  |  |
| NT\$ 5,000,000 ~ NT\$ 10,000,000 | Kuang-Hua Hu, Jui-Yun Lin<br>Jui-Ying Tsai, Hui-Lin Wu | Kuang-Hua Hu, Jui-Yun Lin<br>Jui-Ying Tsai, Hui-Lin Wu<br>Yu-Mei Hsiao, Kuo-Pao Chen |
| NT\$10,000,000 ~ NT\$ 15,000,000 |  |  |
| NT\$15,000,000 ~ NT\$ 30,000,000 |  |  |
| NT\$30,000,000 ~ NT\$ 50,000,000 |  |  |
| NT\$50,000,000 ~ NT\$100,000,000 |  |  |
| NT\$ 100,000,000 or above        |  |  |
| Total                            | 6  | 6  |

### 3.3.3 Employee Remuneration to Managerial Officers

Dec. 31, 2021 Unit: NT\$ thousands

| Title                    | Name           | Employee remuneration<br>- in stock | Employee remuneration<br>- in cash | Total | Ratio of total<br>amount to Profit(%) |
|--------------------------|----------------|-------------------------------------|------------------------------------|-------|---------------------------------------|
| Executive Vice President | Jui-Yun Lin    |                                     |                                    |       |                                       |
| Chief Auditor            | Jui-Ying Tsai  |                                     |                                    |       |                                       |
| Chief Compliance Officer | Hui-Lin Wu     |                                     |                                    |       |                                       |
| Vice President           | Ming-Chih Lu   |                                     |                                    |       |                                       |
| Vice President           | Lan-Jong An    |                                     |                                    |       |                                       |
| Vice President           | Chia-Lin Chang |                                     |                                    |       |                                       |
| Total                    |                | 0                                   | 4,025                              | 4,025 | 0.02                                  |

Note: Per the Company's regulation, the president Kuang-Hua Hu can't be paid with employee remuneration. Executive Vice President Yu-Mei Hsiao, Executive Vice President Kuo-Pao Chen, Chief Secretary Han-Yin Ting, and Senior Vice President Ching Yi Li are holding concurrent position thus can't be paid with the Company's employee remuneration.

### 3.3.4 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 Profit

|   | 2020   | 2021   | Analysis  |
|---|--------|--------|---|
| By the Company  | 0.623% | 0.612% | Total remuneration paid in 2021 by the Company and by all companies in the consolidated financial statements to its directors, president and executive vice presidents as a percentage of profit decreased compared 2020. There is a 0.04% decrease in the percentage by all companies in the consolidated financial statements in 2021 compared to 2020. |
| By all companies in the consolidated financial statements | 0.809% | 0.767% |   |



## **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, Audit Committee, and Ethical Management 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. Relevant compensations are reviewed and approved by the Remuneration Committee and Board of Directors. The managerial officers' compensations will be disbursed after evaluating the following factors:

- a. The promotion of the Group's ESG plan (including climate change): In 2021, it included leading subsidiaries to establish a stable and sustainable governance structure, and continued to implement ISO14064-1 greenhouse gas inventory check at 192 operating units throughout Taiwan and obtained third-party verification, and actively planning Mega Bank to join the Equator Principles Association in August 2021, becoming the second government-owned bank to sign and introduce the principle. In addition, the company has also made significant progress in foreign ESG evaluations.
- b. Total shareholder return: 24.18% in 2021 (TSR), compared to 2.94% in 2020, showing that for shareholders, the return on capital gains in 2021 has grown significantly.

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

The Company's unconsolidated profit for the year 2021 increased by 2.85% compared to 2020. In consideration of operating performance and future risk exposure, the remuneration paid to directors, president and executive vice presidents of the Company and of all companies in the consolidated financial statement increased slightly by 0.96% and decreased by 2.34%, respectively, compared to 2020. The Company will depend on the actual operation result and relevant laws to review compensation guide line to operate in sustainable manner.

## 3.4 Implementation of Corporate Governance

### 3.4.1 Board of Directors

A total of 13 (A) meetings of the board of directors were held in 2021. The attendance rate is 100% (including attendance by proxy.) Attendance of directors is as follows:

| Title                | Name  | Attendance in person (B) | By proxy | Attendance rate (%) (B/A) | Remarks   |
|----------------------|---|--------------------------|----------|---------------------------|---|
| Chairman             | Chao-Shun Chang<br>(Representative of Ministry of Finance)                    | 13                       | 0        | 100.00                    | Continue as the Chairman of the eighth Board of Directors   |
| Director & President | Kuang-Hua Hu<br>(Representative of Ministry of Finance)                       | 13                       | 0        | 100.00                    | Continue as the director of the eighth Board of Directors   |
| Director             | Pei-Chun Chen<br>(Representative of Ministry of Finance)                      | 13                       | 0        | 100.00                    |   |
| Director             | Yih-Jiuan Wu<br>(Representative of Ministry of Finance)                       | 13                       | 0        | 100.00                    |   |
| Director             | Chun-Lan Yen<br>(Representative of Ministry of Finance)                       | 13                       | 0        | 100.00                    |   |
| Director             | Chia-Chung Chen<br>(Representative of Ministry of Finance )                   | 7                        | 0        | 100.00                    | New director of the eighth Board of Directors who assume the position on July 20, 2021. Required number of attendances: 7             |
| Director             | I-Kan Chiu<br>(Representative of Ministry of Finance)                         | 7                        | 0        | 100.00                    |   |
| Director             | Yong-Yi Tsai<br>(Representative of Ministry of Finance)                       | 6                        | 0        | 100.00                    | Director of the seventh Board of Directors who were discharged on July 20, 2021. Required number of attendances: 6                    |
| Director             | Cheng-Te Liang<br>(Representative of Ministry of Finance)                     | 6                        | 0        | 100.00                    |   |
| Director             | Wen-Ling Hung<br>(Representative of Ministry of Finance)                      | 6                        | 0        | 100.00                    |   |
| Director             | Chi-Hsu Lin<br>(Representative of Ministry of Finance)                        | 6                        | 0        | 100.00                    |   |
| Director             | Keh-Her Shih<br>(Representative of National Development Fund, Executive Yuan) | 8                        | 5        | 61.54                     | Continue as the director of the eighth Board of Directors   |
| Director             | Hong-Mo Wu<br>(Representative of Chunghwa Post Co., Ltd.)                     | 13                       | 0        | 100.00                    |   |
| Director             | Guo-Shin Lee<br>(Representative of Bank of Taiwan)                            | 10                       | 0        | 100.00                    | Continue as the director of the eighth Board of Directors but resigned on Oct. 7, 2021. Required number of attendances: 10            |
| Independent director | Jiun-Wei Lu   | 6                        | 0        | 100.00                    | Independent director of the seventh Board of Directors who were discharged on July 20, 2021. Required number of attendances: 6        |
| Independent director | Ying-Ko Lin   | 6                        | 0        | 100.00                    |   |
| Independent director | Chang-Ching Lin   | 13                       | 0        | 100.00                    | Continue as the independent director of the eighth Board of Directors   |
| Independent director | Ying Wu   | 7                        | 0        | 100.00                    | New independent director of the eighth Board of Directors who assume the position on July 20, 2021. Required number of attendances: 7 |
| Independent director | Hung-Ju Chen  | 7                        | 0        | 100.00                    |   |
| Independent director | Tsai-Jyh Chen   | 7                        | 0        | 100.00                    |   |
| Independent director | Chi-Chang Yu  | 7                        | 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 2021:

| Name of Directors   | Proposals   | Reason for recusals                                 | Involvement in voting               |
|---|---|---|-------------------------------------|
| Chairman Chao-Shun Chang, President and Director Kuang-Hua Hu, and Director Hong-Mo Wu  | Relieving the restriction of non-competition for the directors  | The directors listed at left were the stakeholders. | Recusals from discussion and voting |
| President and Director Kuang-Hua Hu   | The appraisal and increase of remuneration for managerial officers  | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| President and Director Kuang-Hua Hu   | The performance bonus and employee remuneration for managerial officers and the operating incentive bonus for the President   | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| President and Director Kuang-Hua Hu   | The appointment of 15 <sup>th</sup> Board of Directors and Supervisor of Subsidiary Mega Int'l Investment Trust Co., Ltd.   | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| Chairman Chao-Shun Chang, President and Director Kuang-Hua Hu, Director Yong-Yi Tsai, and Director Wen-Ling Hung  | The free of charge for the lending of office space for the off-site working of Mega Int'l Commercial Bank   | The directors listed at left were the stakeholders. | Recusals from discussion and voting |
| President and Director Kuang-Hua Hu   | The appointment of the President of the Company   | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| Independent Director Ying Wu, Chang-Ching Lin, Hung-Ju Chen, Tsai-Jyh Chen, and Chi-Chang Yu  | The appointment members of the 5 <sup>th</sup> Remuneration Committee and 2 <sup>nd</sup> Ethical Management Committee of the Company   | The directors listed at left were the stakeholders. | Recusals from discussion and voting |
| Director Pei-Chun Chen  | The subscription of all new shares issued of Mega Int'l Investment Services Co., Ltd by Mega Securities Co., Ltd.   | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| Independent Director Hung-Ju Chen   | Payment of the academic reward in accordance with the university's regulations due to the appointment of a professor from National Taiwan University as the independent director.   | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| Independent Director Tsai-Jyh Chen  | Payment of the academic reward in accordance with the university's regulations due to the appointment of a professor from National Chengchi University as the independent director.   | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| Independent Director Chang-Ching Lin  | Payment of the academic reward and industry-academy cooperation research fees in accordance with the university's regulations due to the appointment of a professor of National Cheng Kung University as the independent director | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| Chairman Chao-Shun Chang and Director Pei-Chun Chen   | Amendment to the Rules for Annual Assessment of Subsidiaries  | The directors listed at left were the stakeholders. | Recusals from discussion and voting |
| Chairman Chao-Shun Chang and Director Pei-Chun Chen   | The medium and long-term business and financial goals of the Company  | The directors listed at left were the stakeholders. | Recusals from discussion and voting |
| President and Director Kuang-Hua Hu   | Relieving the restriction of non-competition for the managerial officers  | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| Director Pei-Chun Chen  | The investment proposal of Mega Securities Co., Ltd.  | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| Chairman Chao-Shun Chang and Director I-Kan Chiu  | Amendment to the Guidelines for Distributing Coupon for Traditional Festival of Subsidiary Mega Int'l Commercial Bank   | The directors listed at left were the stakeholders. | Recusals from discussion and voting |
| Independent Director Ying Wu, Chang-Ching Lin, Hung-Ju Chen, Tsai-Jyh Chen, and Chi-Chang Yu; Director Chia-Chung Chen, Chun-Lan Yen, Yih-Jiuan Wu, Hong-Mo Wu, and Keh-Her Shih (by proxy) | Annual health examination plan for external directors since 2022 provided by the Company  | The directors listed at left were the stakeholders. | Recusals from discussion and voting |
| President and Director Kuang-Hua Hu, Director Pei-Chun Chen, and Director I-Kan Chiu  | Audit plan of 2022  | The directors listed at left were the stakeholders. | Recusals from discussion and voting |
| Chairman Chao-Shun Chang, President and Director Kuang-Hua Hu, Independent Director Ying Wu, Director Chia-Chung Chen, and Director Chun-Lan Yen  | The appointment of 17 <sup>th</sup> Board of Directors and Supervisor of subsidiary Mega Int'l Commercial Bank  | The director listed at left was the stakeholder.    | Recusals from discussion and voting |
| Director Pei-Chun Chen  | The appointment of 12 <sup>th</sup> Board of Directors and Supervisor of subsidiary Mega Securities Co., Ltd.   | The directors listed at left were the stakeholders. | Recusals from 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. The previous external performance evaluation was conducted in 2018. Thus in 2021 EY Business Advisory Services Inc. was appointed to conduct external performance evaluation. The EY team include the Chairman Andrew Fuh (CPA), General Manager Tony Chang (CPA), Executive Vice President Roger Tseng (CPA), and partner lawyer Kuang-Wei Chueh. The institution as a whole has professional talents and experience in improving corporate governance and the effectiveness of the board of directors. In recent years, it has continued to provide trainings related to the performance evaluation of the board of directors. The institution has served multiple industries, of which no specific corporation that has business with the Company, thus qualified with the standards of professionalism and independency of external evaluation institution.

#### (1) In year 2021:

##### a. Evaluation measures, the result, and the use of result:

- Evaluation period: November 1, 2020 to October 31, 2021.

- Aspects of evaluation: Structure, People, Process and Information.

- Contents of Evaluation:

Board structure and procedures, member composition, institutional and organizational structures, roles and responsibilities, behavior and culture, director training and development, risk control and supervision, and reporting/disclosure and performance supervision.

- Measures of Evaluation: Document review, self-evaluation questionnaires (all directors), and individual interviews (4 directors).

- Evaluation Criteria: Basic (having met the basic legal requirements of the competent authority), Advanced (having met the basic legal requirements of the competent authority and adopted effective practices or taken initiatives to improve performance in this aspect), or Benchmark (having met the basic legal requirements of the competent authority and exhibited role-model practice).

- Evaluation Results:

The Company was evaluated as having "advanced" performance in three main dimensions.

The internal performance evaluation results were summarized by following the evaluation criteria set forth in Article 9 of the Board Performance Evaluation Rules and using the qualitative metrics provided by EY Business Advisory Services Inc. for the self-evaluation questionnaire for all directors, as well as the quantitative metrics calculated by the agenda working group. The scope of evaluation included the board as a whole, individual directors, and functional committees. The evaluation results indicated "above average" performance.

- Use of evaluation results: The evaluation results will be used as a reference for nominating director candidates during the next director election.

##### b. Recommendations and improvement plans:

| Recommendations from external experts:  | Improvement plans   |
|---|---|
| (1) Expand the scope of diversification policy further to include the development focuses of business strategies to keep pace with corporate governance trends. | The Company will amend articles about board diversification and professional competency in its Corporate Governance Best Practice Principles.   |
| (2) Hire or invite external experts to host training courses for directors.   | Training courses will be organized as needed, depending on the continuing education status of directors, to develop different communication platforms where board members will have more opportunity to engage in strategic exchange of opinions, interact with each other in greater depth, and forge deeper trust with one another. |
| (3) Continue to evaluate the impact of ESG activities on business and financial performance.  | The Company has forwarded this recommendation to its Sustainable Development Committee, requesting the committee to continue to improve the Group's ESG and sustainable development practice and to regularly report it to the Board of Directors.  |

The evaluation result has been reported to the 9<sup>th</sup> meeting of the 8<sup>th</sup> term of Board of Directors on February 22, 2022.

(2) In year 2020:

| Evaluation frequency | Evaluation period      | Scope of evaluation  | Measures of evaluation            | Content of evaluation   | Evaluation result   | Better-performed aspects | Not-achieved aspect |
|----------------------|------------------------|--|-----------------------------------|---|---------------------|--------------------------|---------------------|
| Once a year          | 2019/11/01 ~2020/10/31 | Board as a whole   | Self-evaluation from board member | A. Involvement in the Company's management;<br>B. Optimization of decision quality of the Board;<br>C. Composition and structure of the Board;<br>D. Selection of the Board members and their continuous further training;<br>E. Internal control                         | 100% Above standard | A 、 B 、 E                | -                   |
|                      |                        | Board members  |                                   | A. Understanding of the Company's goals and tasks;<br>B. Acknowledgment of the duty of the Board;<br>C. Involvement in the Company's management;<br>D. Internal communication and management;<br>E. The director's expertise and further training;<br>F. Internal control | 100% Above standard | A 、 B 、 E 、 F            | -                   |
|                      |                        | Functional committees:<br>1. Audit Committee;<br>2.Remuneration Committee<br>3.Ethical Management Committee. |                                   | A. Involvement in the Company's management;<br>B. Acknowledgment of the duty of the committees;<br>C. Decision quality of the committee;<br>D. Composition and selection of the committee members;<br>E. Internal control   | 100% Above standard | All aspects              | -                   |
|                      |                        |  |                                   |   | 100% Above standard | All aspects              | -                   |
|                      |                        |  |                                   |   | 100% Above standard | All aspects              | -                   |
|                      |                        |  |                                   |   | 100% Above standard | All aspects              | -                   |

Note: the evaluation result has been reported to Board of Directors on December 22, 2020.

4. Goals to strengthen the function of the Board (ex. setting up Audit Committee, increase information transparency, etc.) and the implementation status:

(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 8 times in 2021

(2) In order to further enhance the transparency of information, the Company's website has a "Corporate Governance" section, "Investor Relations" section and "Sustainability" section to provide information in Chinese and English on financials, business and corporate governance of the Company. In order to strengthen the communication channel with stakeholders, the company website has a "Stakeholders" section to provide stakeholders with a transparent and effective communication channel to the Company, in order to pursue sustainable business operations.

(3) The succession plan for the Board of Director members:

a. Election of the members of the Board and high-level managerial officers:

(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, crisis handling, 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.

(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 of high-level executive training program for government-owned institutions by Ministry of Finance.

b. Succession plan:

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 of the subsidiaries to allow them familiar with 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, ESG, 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.

## 3.4.2 Audit Committee Meeting

The third Audit Committee was constituted by three independent directors. After the new appointment of Board of Directors on July 20, 2021, the fourth Audit Committee is constituted by five independent directors. Their focus includes reviewing financial reports, evaluating internal control system effectiveness (including legal compliance and the improvement situation for internal and external audit opinions), and the mandate and the fee paid to the CPA of the Company.

The Company's Audit Committee held 8 (A) meetings in 2021, with the following attendance:

| Title                | Name            | Attendance in Person (B) | By Proxy | Attendance Rate (%) (B/A) | Remarks  |
|----------------------|-----------------|--------------------------|----------|---------------------------|--|
| Independent Director | Jiun-Wei Lu     | 5                        | 0        | 100%                      | The third term of committee members were discharged on July 20, 2021. Number of attendances required: 5. |
| Independent Director | Ying-Ko Lin     | 5                        | 0        | 100%                      |  |
| Independent Director | Chang-Ching Lin | 8                        | 0        | 100%                      | Continued as the fourth term of committee member.  |
| Independent Director | Ying Wu         | 3                        | 0        | 100%                      | The fourth term of committee members were on broad on July 20, 2021. Number of attendances required: 3.  |
| Independent Director | Hung-Ju Chen    | 3                        | 0        | 100%                      |  |
| Independent Director | Tsai-Jyh Chen   | 3                        | 0        | 100%                      |  |
| Independent Director | Chi-Chang Yu    | 3                        | 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' objection/qualified opinion or material suggestion, resolution of the Audit committee, 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 of the Audit Committee | Agenda   | Items related to Independent directors' objection/qualified opinion or material suggestion | Resolution   | Response to Audit Committee's opinions  |
|-------------------------|--|--|--|--|---|
| January 5, 2021         | The 23rd meeting of the 3rd term               | Reviews of the appointment of the external auditor of the 2021 financial statements  | N.A.   | Agenda was passed as proposed.   | The proposal has been submitted to and approved by the Board of Directors.  |
| January 5, 2021         | The 23rd meeting of the 3rd term               | Reviews of remuneration of the external auditor of the 2021 financial statements   | N.A.   | Agenda was passed as proposed.   | The proposal has been submitted to and approved by the Board of Directors.  |
| March 9, 2021           | The 24th meeting of the 3rd term               | Review of the Company's 2020 financial statements  | N.A.   | Agenda was passed with amendment to wordings of notes of financial statements and the clarification of some specific items, according to the member's suggestion   | The amendment of the wordings in the financial statement have been recognized and approved by the Board of Directors and acknowledged by Shareholders' Meeting. |
| March 9, 2021           | The 24th meeting of the 3rd term               | Review of the 2020 Internal Control Statement  | N.A.   | Agenda was passed as proposed.   | The proposal has been submitted to and approved by the Board of Directors.  |
| April 13, 2021          | The 25th meeting of the 3rd term               | Review the proposal of relieving the non-competition restrictions for the directors to be submitted to the shareholders' meeting | N.A.   | Agenda was passed as proposed.   | The proposal has been submitted to and approved by the Board of Directors and Shareholders' Meeting.  |
| August 10, 2021         | The 1st meeting of the 4th term                | Review of the Company's 2021 Q2 financial statements   | N.A.   | Agenda was passed as proposed.   | The proposal has been submitted to and approved by the Board of Directors.  |
| November 9, 2021        | The 3rd meeting of the 4th term                | Review of the 2022 internal audit plan   | N.A.   | Agenda was passed as proposed with amendment of the wording in the audit plan and the below:<br>1.Common audit items: Add "Status of Financial Operation;"<br>2.Key audit items pertaining to the nature of business of bank subsidiary: Add "Storage Room and ATM Operation Management and Monitoring." | 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) There was no resolution which was not approved by the Audit Committee but was approved by two-thirds or more of all directors except stated above.



## 2. Recusals of independent directors due to conflicts of interests.

| Name of the Independent Director     | Agenda of Audit Committee   | Reasons for recusals                             | Involvement in voting               |
|--------------------------------------|---|--|-------------------------------------|
| Independent Director Hung-Ju Chen    | Payment of the academic reward in accordance with the university's regulations due to the appointment of a professor from National Taiwan University as the independent director.   | The director listed at left was the stakeholder. | Recusals from discussion and voting |
| Independent Director Tsai-Jyh Chen   | Payment of the academic reward in accordance with the university's regulations due to the appointment of a professor from National Chengchi University as the independent director.   | The director listed at left was the stakeholder. | Recusals from discussion and voting |
| Independent Director Chang-Ching Lin | Payment of the academic reward and industry-academy cooperation research fees in accordance with the university's regulations due to the appointment of a professor from National Cheng Kung University as the independent director | The director listed at left was the stakeholder. | Recusals from discussion and voting |

## 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 Auditing Office of the Board of Directors (the 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 reports the audit operations to the Audit Committee once every quarter and carries out suggestions made by the independent directors.
- The deficiencies indicated in the examination reports of the Financial Supervisory Commission and the improvements thereof were submitted to the Audit Committee from time to time by the Auditing Office.
- The Auditing Office submits its internal audit report after their internal audit to the independent directors and the Audit Committee.
- The Auditing Office compiles deficiencies of the Group's internal control system and the status of corrections periodically each year and asks independent directors to hold the internal control deficiency symposium to review the deficiencies.

| Date            | Term/No. of the Meeting   | Communication subjects   | Communication result and responsive action   |
|-----------------|---|--|--|
| January 5, 2021 | The 23rd meeting of the 3rd term Audit Committee                          | Regular report on the deficiencies discovered during special audits for subsidiaries and the status of corrections.<br>Instructions from the Independent Directors:<br>1. If the insurance subsidiary has completely improved its deficiencies, the Audit Office of the Company is asked to update the improvement status before presenting it to the Board of Directors.<br>2. The various deficiencies of the securities subsidiary should be made known to all branches, and it should be included as an audit item. If a branch is found to make the same mistake again, relevant disciplinary actions should be put in place to increase the effectiveness of audits.   | It is agreed and noted.<br><br>1. The content is updated when reporting to the Board of Director<br><br>2. A formal notice has been sent to the subsidiary to act accordingly. |
| January 5, 2021 | Symposium to review the Group's 2020 internal control system deficiencies | Review of the Group's internal control system deficiencies:<br>Instructions from the Independent Directors<br>1. The securities subsidiary is recommended to review its business personnel management system, strengthen compliance awareness and training, and further reinforce the second and third lines of defense in the company's supervision mechanism.<br>2. Each subsidiary should collect information on sanctions imposed by the FSC on peer companies and inspect whether the company's internal control operation is compliant with law, if not, it should be corrected as soon as possible. The audit unit should strengthen the review of deficiencies identified in-house and by the regulatory authority.<br>3. Each subsidiary should pay attention to regulatory amendments and revise or update its internal rules and regulations accordingly. The compliance unit should establish a regulatory amendment tracking mechanism. | The meeting minutes has been reported to the Board of Directors and the Chair's instruction has been forwarded to relevant units and subsidiaries to act accordingly.          |

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|  |  | <p>4. The bank subsidiary and securities subsidiary are requested to review the current internal control measures for their wealth management business, continue to strengthen training and review mechanisms, and implement self-inspection. The audit unit must reinforce auditing efforts.</p> <p>5. The audit units of the Company and subsidiaries are requested to strengthen audits, with emphasis placed on keeping relevant business management units informed of the 2021 financial examination focuses announced by the FSC so that they can detect and improve any shortcomings in their internal control as soon as possible.</p> <p>6. For deficiencies that occurred in 2020 but not yet improved, the audit units of each company must continue with follow-up reviews and urge relevant units to make improvements as soon as possible.</p> |  |
| March 9, 2021  | The 24th meeting of the 3rd term Audit Committee | Report on Auditing Office's operations in the second half of 2020  | It is agreed and noted.  |
|  |  | Review of 2020 Internal Control Statement  | It is passed as proposed.  |
| April 13, 2021   | The 25th meeting of the 3rd term Audit Committee | Regular report on the deficiencies discovered during special audits for the Company and subsidiaries and the status of corrections.  | It is agreed and noted.  |
| July 6, 2021   | The 27th meeting of the 3rd term Audit Committee | <p>Regular report on the deficiencies discovered during special audits for the subsidiaries and the status of corrections.</p> <p>Instructions from the Independent Directors:<br/>The deficiencies of subsidiaries are mostly to do with information system management. Each managerial department is advised to present any improvement requirements for soft/hardware programs to the Board of Directors of each subsidiary.</p>  | <p>It is agreed and noted.</p> <p>A formal notice of following the instruction was sent to Mega Securities and Chung Kuo Insurance on July 12, 2021.</p>   |
| August 10, 2021  | The 1st meeting of the 4th term Audit Committee  | <p>Report on Auditing Office's operations in the first half of 2021.</p> <p>Instructions from the Independent Directors:<br/>1.If an employee works overtime, the employee should be given overtime pay accordingly. Every subsidiary must oblige and comply with law.<br/>2.When a customer files a complaint or a case against the subsidiary, the subsidiary shall handle matters in accordance with whistleblowing regulations.<br/>3.The report requires supplementary description. Please revise it before presenting it to the Board of Directors.</p>  | <p>It is agreed and noted.</p> <p>Regarding item 1-2:<br/>A formal notice was sent to the subsidiaries of following the instruction.</p> <p>Regarding item 3:<br/>The amendment was made and reported to the Board of Directors.</p> |
| October 5, 2021  | The 2nd meeting of the 4th term Audit Committee  | <p>Regular report on the deficiencies discovered during special audits for the Company and subsidiaries and the status of corrections.</p> <p>Instructions from the Independent Directors:<br/>If the asset management subsidiary intends to revise its internal regulations and add recusal-related matters of the Investment Commission, the subsidiary shall update the improvement status of this deficiency.</p>  | <p>It is agreed and noted.</p> <p>The status of corrections has been updated and reported to the Board of Directors in October 2021.</p>   |
| November 9, 2021   | The 3rd meeting of the 4th term Audit Committee  | Proposal to hold year 2021 Symposium to review the Group's internal control activities deficiencies.   | It is agreed and noted.  |
|  |  | Report on evaluation results of subsidiaries audit units' performance in 2021.   | It is agreed and noted.  |
|  |  | <p>Proposal of the Company's audit plan of 2022. Resolution:<br/>1. A new common audit item and a key audit item pertaining to the nature of business of bank subsidiary were added.</p> <p>Instructions from the Independent Directors:<br/>1. For next year's risk assessment, please take into consideration whether reducing the weight of the sanctions of domestic and foreign authorities will affect supervision performance.<br/>2. Instead of reducing the weight as a whole, we recommend listing the reasons and fine amount of sanctions; then, compile an comparison table showing how much points were deducted for a deficiency.</p>   | <p>Amended and approved.</p> <p>1. The amended proposal has been reported to the Broad of Directors.<br/>1.~2. Act accordingly.</p>  |
| <p>(2) Communications between Independent Directors and the external auditors</p> <p>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.</p> |  |  |  |





| Date            | Communication subjects   | Communication result and responsive action  |
|-----------------|--|---|
| March 9, 2021   | 1. Report of auditing result of the 2020 consolidated financial statements and internal control.<br>2. Audit explanation for 2020 compliance and contingency item of Mega Bank's overseas branches and subsidiaries.<br>3. Audit plan for 2021 financial statements.<br>4. Impacts from material laws, regulation and interpretive of the authority in connection with financial reports.  | 1. The 2020 annual financial statements have been approved by the audit committee and board of directors, and publicly disclosed to competent authority and filed.<br>2. The explanation and opinion exchange for the questions raised by independent directors is done.            |
| August 10, 2021 | 1. Report of auditing result of the second quarter of 2021 consolidated financial statement and internal control.<br>2. Audit explanation of compliance and contingency item of Mega Bank's overseas branches and subsidiaries of the second quarter of 2021.<br>3. The impact of COVID-19 on financial statements.<br>4. Impacts from material laws, regulation and interpretive of the authority in connection with financial reports. | 1. The second quarter of 2021 financial statements have been approved by the audit committee and board of directors, and publicly disclosed to competent authority and filed.<br>2. The explanation and opinion exchange for the questions raised by independent directors is done. |
| March 8, 2022   | 1. Report of auditing result of the 2021 consolidated financial statements and internal control.<br>2. Audit explanation for 2021 compliance and contingency item of Mega Bank's overseas branches and subsidiaries<br>3. Audit plan for 2022 financial statements<br>4. Impacts from material laws, regulation and interpretive of the authority in connection with financial reports.  | 1. The 2021 annual financial statements have been approved by the audit committee and board of directors, and publicly disclosed to competent authority and filed.<br>2. The explanation and opinion exchange for the questions raised by independent directors is done.            |

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

The Guideline of Corporate Governance Practice and relevant regulations has been disclosed on the Company's website. Please see <https://www.megaholdings.com.tw/tc/regulation.aspx?pn=1>.

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

| Assessment item   | Implementation status |    |   | Deviations and its reasons |
|---|-----------------------|----|---|----------------------------|
|   | Yes                   | No | Explanation   |                            |
| 1. Shareholding structure and shareholders' rights<br>(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 for replying to shareholders. Suggestions and questions raised by shareholders shall be handled in accordance with these Procedures. 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 personnel 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                       |

# Corporate Governance Report

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|--|---|---|------|
| 2. Composition and responsibilities of the Board of Directors  |   |   |      |
| (1) Does the board have a diversity policy, specific management objectives and implementation?   | V | Article 31 of the Company's " Guideline of Corporate Governance Practice " specifies the standards for the diversity and professionalism of the Board of Directors. Since 2016, information related to the diversity of the Board of Directors has been disclosed in the annual report, the Company's website and the ESG report.   | None |
| (2) Other than the Remuneration Committee and Audit Committee which are required by law, does the company voluntarily set up other functional committees?  | V | Other than the Remuneration Committee and Audit Committee, the Company has set up a Risk Management Committee, Sustainable Development Committee, and Ethical Management Committee, which monitors the promotion and implementation of the Group's risk management, ESG goals, and ethical management respectively.   | None |
| (3) If listed financial holding companies set up the evaluation guideline and method for the performance of the Board and conduct the evaluation annually? Also if the listed financial holding companies 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. On July 23, 2019, the name was amended as "Principles of the Performance Evaluation of the Board" and part of the regulation was amended at the 3rd time. The section 4 of the Principles set up the evaluation scope and method. Section 7 and 8 of the Principles set up the evaluation procedures and benchmarks. The Company conducts performance review each year since 2016. The evaluation results were all reported to the Board and formally sent to the institutional shareholder Ministry of Finance and Remuneration Committee for the reference for re-appointment and compensation of each director. | None |
| (4) Does the company regularly evaluate its external auditor's independency?   | 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 submit the evaluation result to the Audit Committee and Board for approval: No direct/indirect financial benefits between the Company and the external auditors; No close commercial relationship between the Company or potential hiring relationship; Not serving as directors or managerial officers of this Company; No gifts given to the external auditors by this Company; Not over 5 years being the external auditors of the Company; and the independence declaration from the external auditor is obtained.  | None |
| 3. Does the company assign corporate governance manager and allocate adequate number of qualified personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for directors and supervisors, assisting the directors and supervisors to follow relevant laws, handling matters relating to Board meetings and shareholders' meetings by laws, formulating minutes of board meetings and shareholders meetings, etc.) | V | Ms. Jui-Yun Lin, Executive Vice President of the Company has been designated as the Chief Corporate Governance Officer in 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, and thus is qualified for the Chief Corporate Governance Officer 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, providing information required for performance of duties by the directors, and assisting the directors' compliance of law. The manager of corporate governance's 2021 training is listed as follows:                                 | None |





|  |   | <table><tr><th>Date</th><th>Training Agency</th><th>Course</th><th>Training Hours</th><th>Total Hours</th></tr><tr><td>January 21, 2021</td><td>Taiwan Insurance Institute</td><td>The corporate governance forum for directors, supervisors, and corporate governance manager (including independent directors) (1st term in 2021)- new trend on green finance-using green bond as the core</td><td>3</td><td rowspan="8">27</td></tr><tr><td>May 14, 2021</td><td>Securities &amp; Futures Institute</td><td>Seminar for directors, supervisors, and corporate governance manager –the 2021 major trend ESG/CSR and sustainable management</td><td>3</td></tr><tr><td>September 1, 2021</td><td>Financial Supervisory Commission</td><td>The 13th Taipei Corporate Governance Forum</td><td>6</td></tr><tr><td>September 14, 2021</td><td>Taiwan Insurance Institute</td><td>The corporate governance forum for directors, supervisors, and corporate governance manager (including independent directors) (17th term in 2021)- analysis of fair customer treatment principles</td><td>3</td></tr><tr><td>September 17, 2021</td><td>Securities &amp; Futures Institute</td><td>Discussion on advanced practice of Directors (including independent directors) and Supervisors –AML/CFT practice</td><td>3</td></tr><tr><td>October 13, 2021</td><td>Securities &amp; Futures Institute</td><td>2021 Insider equity transaction legal compliance Seminar (16th term of 2019)-TCFD climate-related financial disclosure-challenges and opportunities of corporate governance</td><td>3</td></tr><tr><td>October 27, 2021</td><td>Digital Governance Association</td><td>Key for improvement of ESG performance of Taiwan's insurance industry</td><td>3</td></tr><tr><td>November 24, 2021</td><td>Institute of Financial Law and Crime Prevention</td><td>Analysis of IFRS 17, the challenge of implementation and strategy of reaction</td><td>3</td></tr></table> | Date           | Training Agency | Course | Training Hours | Total Hours | January 21, 2021 | Taiwan Insurance Institute | The corporate governance forum for directors, supervisors, and corporate governance manager (including independent directors) (1st term in 2021)- new trend on green finance-using green bond as the core | 3 | 27 | May 14, 2021 | Securities & Futures Institute | Seminar for directors, supervisors, and corporate governance manager –the 2021 major trend ESG/CSR and sustainable management | 3 | September 1, 2021 | Financial Supervisory Commission | The 13th Taipei Corporate Governance Forum | 6 | September 14, 2021 | Taiwan Insurance Institute | The corporate governance forum for directors, supervisors, and corporate governance manager (including independent directors) (17th term in 2021)- analysis of fair customer treatment principles | 3 | September 17, 2021 | Securities & Futures Institute | Discussion on advanced practice of Directors (including independent directors) and Supervisors –AML/CFT practice | 3 | October 13, 2021 | Securities & Futures Institute | 2021 Insider equity transaction legal compliance Seminar (16th term of 2019)-TCFD climate-related financial disclosure-challenges and opportunities of corporate governance | 3 | October 27, 2021 | Digital Governance Association | Key for improvement of ESG performance of Taiwan's insurance industry | 3 | November 24, 2021 | Institute of Financial Law and Crime Prevention | Analysis of IFRS 17, the challenge of implementation and strategy of reaction | 3 |  |
|--|---|---|----------------|-----------------|--------|----------------|-------------|------------------|----------------------------|---|---|----|--------------|--------------------------------|---|---|-------------------|----------------------------------|--|---|--------------------|----------------------------|---|---|--------------------|--------------------------------|--|---|------------------|--------------------------------|---|---|------------------|--------------------------------|---|---|-------------------|---|---|---|--|
| Date   | Training Agency                                 | Course  | Training Hours | Total Hours     |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| January 21, 2021   | Taiwan Insurance Institute                      | The corporate governance forum for directors, supervisors, and corporate governance manager (including independent directors) (1st term in 2021)- new trend on green finance-using green bond as the core   | 3              | 27              |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| May 14, 2021   | Securities & Futures Institute                  | Seminar for directors, supervisors, and corporate governance manager –the 2021 major trend ESG/CSR and sustainable management   | 3              |                 |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| September 1, 2021  | Financial Supervisory Commission                | The 13th Taipei Corporate Governance Forum  | 6              |                 |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| September 14, 2021   | Taiwan Insurance Institute                      | The corporate governance forum for directors, supervisors, and corporate governance manager (including independent directors) (17th term in 2021)- analysis of fair customer treatment principles   | 3              |                 |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| September 17, 2021   | Securities & Futures Institute                  | Discussion on advanced practice of Directors (including independent directors) and Supervisors –AML/CFT practice  | 3              |                 |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| October 13, 2021   | Securities & Futures Institute                  | 2021 Insider equity transaction legal compliance Seminar (16th term of 2019)-TCFD climate-related financial disclosure-challenges and opportunities of corporate governance   | 3              |                 |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| October 27, 2021   | Digital Governance Association                  | Key for improvement of ESG performance of Taiwan's insurance industry   | 3              |                 |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| November 24, 2021  | Institute of Financial Law and Crime Prevention | Analysis of IFRS 17, the challenge of implementation and strategy of reaction   | 3              |                 |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| 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 the sustainability section 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"><li>1. With employees/ labor union: phone calls, emails, and employee-related meetings/committees including employee benefit committee, occupation safety committee, labor-management meetings, and retirement fund provision supervision committee.</li><li>2. With customers: Customer service and hotlines for filing complaints, and investment seminars, customer satisfaction survey, e-news and investment research reports.</li><li>3. With shareholders/investors: Annual report, business report, Market Observation Post System, Company's website, shareholders' meeting, and institutional investors meeting.</li><li>4. With the government and competent authority: Visits, official letters, phone calls, and online registration, among others.</li><li>5. With suppliers: phone calls, emails, project communication meetings, sustainability self-evaluation survey, supplier general meeting, among others.</li><li>6. With the media: press conferences, issuance of news letters or material information, participation in relevant evaluation.</li><li>7. With the community/schools/nonprofit organizations: meetings, volunteer service, charity events, among others.</li></ol>  | None           |                 |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |
| 5. Information disclosure<br>(1) Has the company established a corporate website to disclose information regarding its financials, business and corporate governance status?   | V   | <p>An “Investor Relations” section under the Company’s website is set to disclose financial information, credit rating, IR calendar and briefing, and annual reports. A “Corporate Governance” section is also set to disclose the Company’s corporate governance structure, board of directors, shareholders’ meeting, implementation of corporate governance, ethical corporate management, the communications between independent director with internal auditor and external auditor.</p>   | None           |                 |        |                |             |                  |                            |   |   |    |              |                                |   |   |                   |                                  |  |   |                    |                            |   |   |                    |                                |  |   |                  |                                |   |   |                  |                                |   |   |                   |   |   |   |  |

# Corporate Governance Report

| (2) Does the financial holding company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to collect and disclose the financial holding company's information, implementing spokespersons practice, webcasting investor conference etc.?)   | V   | The Company's English website discloses the company's profile, corporate governance, services of subsidiaries, latest news, and investor relations. To ensure accuracy, timeliness and completeness of the disclosed information the Company designates dedicated personnel to collect and disclose the Company's information, and appoints spokesperson to solely make external statements. In 2021, aside from holding 2 online investor conferences and attending 5 investor roadshows hosted by foreign securities firms, the Company held 235 one-on-one investor meetings, video conference, and conference calls with local and overseas institutional investors, and. 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 reports of the Company are disclosed and registered before the deadline. The announcement and reporting deadlines and dates for the 2021 consolidated financial statements are as follows:</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 quarter 2021</td><td rowspan="2">Within 45 days after end of the quarter</td><td>May 27, 2021</td><td rowspan="2">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 after quarter end.</td></tr> <tr> <td>Third quarter 2021</td><td>November 26, 2021</td></tr> <tr> <td>Second quarter 2021</td><td>Within 2 months after second quarter</td><td>August 27, 2021</td><td></td></tr> <tr> <td>Year 2021</td><td>Within 3 months after accounting year end</td><td>March 16, 2022</td><td></td></tr> </tbody> </table> <p>The Company upload relevant information on the operation of the previous month to the MOPS, including revenue, guarantee amount, loan amount, derivative transactions before the 10th of each month.</p> | Quarter  | Disclose and register deadline | Date of disclose and register | Note | First quarter 2021 | Within 45 days after end of the quarter | May 27, 2021 | 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 after quarter end. | Third quarter 2021 | November 26, 2021 | Second quarter 2021 | Within 2 months after second quarter | August 27, 2021 |  | Year 2021 | Within 3 months after accounting year end | March 16, 2022 |  | None |
| Quarter   | Disclose and register deadline            | Date of disclose and register   | Note   |                                |                               |      |                    |   |              |  |                    |                   |                     |                                      |                 |  |           |   |                |  |      |
| First quarter 2021  | Within 45 days after end of the quarter   | May 27, 2021  | 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 after quarter end. |                                |                               |      |                    |   |              |  |                    |                   |                     |                                      |                 |  |           |   |                |  |      |
| Third quarter 2021  |   | November 26, 2021   |  |                                |                               |      |                    |   |              |  |                    |                   |                     |                                      |                 |  |           |   |                |  |      |
| Second quarter 2021   | Within 2 months after second quarter      | August 27, 2021   |  |                                |                               |      |                    |   |              |  |                    |                   |                     |                                      |                 |  |           |   |                |  |      |
| Year 2021   | Within 3 months after accounting year end | March 16, 2022  |  |                                |                               |      |                    |   |              |  |                    |                   |                     |                                      |                 |  |           |   |                |  |      |
| 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 "Implementation of Sustainable Development" on page 59 and "Labor Relation" on page 148.</p> <p>(2)Investor relations: The Company has established an "Investor Relations 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 2021 Sustainability Report" and page 59 of this annual report.</p>   | None   |                                |                               |      |                    |   |              |  |                    |                   |                     |                                      |                 |  |           |   |                |  |      |
| (2) Directors' training records   | V   | Please refer to page 54 of this annual report.  | None   |                                |                               |      |                    |   |              |  |                    |                   |                     |                                      |                 |  |           |   |                |  |      |

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| (3) Implementation of risk management policies and risk measurement criteria   | V | Per the competent authority's requirement, the Company has set up "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, other emerging risks, 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. Regarding emerging risks, the Company has enacted "Mega Financial Holding Climate Risk Management Guidelines" to enhance the financial disclosure information of the Company and its subsidiaries under the scope of climate risk, strengthen the climate risk management mechanism, and reduce the impact of climate change risks. | None |
| (4) Implementation of consumer policy  | V | Processing of personal information is managed according to requirements of the Personal Data 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 2021 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. The donation to Mega Charity Foundation, by Mega International Commercial Bank, Mega Securities, Mega Bills Finance, Chung Kuo Insurance, Mega International Investment Trust, and Mega Assets Management amounted to NT\$10 million in total. The amount of Mega Charity Foundation's donation and sponsorship to government, charity organizations and other legal entities (including related parties) reached NT\$9,918 thousand in 2021.   | 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 8th (2021) corporate governance evaluation results, those already improved and those pending improvements are as follows:<br><br>(1) Improved items:<br>a. Indicator 2.3 "If at least one internal auditor has international internal audit license, international computer auditor, or CPA": In 2021, the Company hired an auditor who has an international internal audit license.  | None |
|  | V | (2) Unimproved items with prioritized reinforcement:<br>a. Indicator 2.29 "Has the company had a major violation of the internal control system, resulting in major losses or serious punishment by the competent authority?": Strengthen legal compliance and audit measures to reduce the occurrence of negative penalties.  | None |

# Corporate Governance Report

## Directors' training records in 2021

| Title                | Name            | Date               | Training Agency   | Course   | Training Hours |
|----------------------|-----------------|--------------------|---|--|----------------|
| Chairman             | Chao-Shun Chang | September 1, 2021  | Financial Supervisory Commission                              | The 13th Taipei Corporate Governance Forum (morning section)   | 3              |
|                      |                 | September 1, 2021  | Financial Supervisory Commission                              | The 13th Taipei Corporate Governance Forum (afternoon section)   | 3              |
|                      |                 | September 13, 2021 | Taiwan Securities Association                                 | Introduction and Response to Financial Consumer Protection Law (Fair Treatment of Customers)                                     | 3              |
|                      |                 | November 25, 2021  | Mega International Commercial Bank                            | ESG Renewable Energy Related Financing Opportunities   | 3              |
|                      |                 | December 7, 2021   | Taiwan Stock Exchange Corporation                             | 2021 Cathay Sustainable Finance and Climate Change Summit  | 6              |
| Director & President | Kuang-Hua Hu    | May 14, 2021       | Securities & Futures Institute                                | The trend of ESG/CRS and sustainable governance in 2021  | 3              |
|                      |                 | June 11, 2021      | Mega International Commercial Bank                            | International Relevant Supervision Norms and Standards-Introduction to the U.S. Money Laundering Prevention Act                  | 2              |
|                      |                 | July 19, 2021      | Mega International Commercial Bank                            | Special lectures for information security education and training for directors and supervisors                                   | 3              |
|                      |                 | September 1, 2021  | Financial Supervisory Commission                              | The 13th Taipei Corporate Governance Forum (morning section)   | 3              |
|                      |                 | September 1, 2021  | Financial Supervisory Commission                              | The 13th Taipei Corporate Governance Forum (afternoon section)   | 3              |
|                      |                 | September 3, 2021  | Taiwan Securities Association                                 | Introduction and Response to Financial Consumer Protection Law (Fair Customers Treatment)  | 3              |
|                      |                 | September 6, 2021  | Taiwan Academy of Banking and Finance                         | International Forum on Global ESG Trend Insights and Financial Innovation Opportunities  | 4              |
|                      |                 | September 30, 2021 | Chinese National Association of Industry and Commerce, Taiwan | Major risks and opportunities of ESG for business operations   | 3              |
|                      |                 | October 14, 2021   | Mega International Commercial Bank                            | International Trends and Legal Compliance of Money Laundering Prevention   | 2              |
|                      |                 | November 25, 2021  | Mega International Commercial Bank                            | ESG Renewable Energy Related Financing Opportunities   | 3              |
| Director             | Chia-hung Chen  | January 13, 2021   | Securities & Futures Institute                                | Discussion on Remuneration Issues of Employees and Directors-From the Amendment of Article 14 of the Securities and Exchange Law | 3              |
|                      |                 | January 21, 2021   | Securities & Futures Institute                                | The value of information security in the post-epidemic era and the China-US trade war  | 3              |
| Director             | Pei-Chun Chen   | July 19, 2021      | Mega International Commercial Bank                            | Special lectures for information security education and training for directors and supervisors                                   | 3              |
|                      |                 | September 1, 2021  | Financial Supervisory Commission                              | The 13th Taipei Corporate Governance Forum (morning section)   | 3              |
|                      |                 | September 1, 2021  | Financial Supervisory Commission                              | The 13th Taipei Corporate Governance Forum (afternoon section)   | 3              |
| Director             | Yih-Jiuan Wu    | March 25, 2021     | Securities & Futures Institute                                | The value of information security in the post-epidemic era and the China-US trade war  | 3              |
|                      |                 | July 19, 2021      | Mega International Commercial Bank                            | Special lecture for information security education and training for directors and supervisors                                    | 3              |
|                      |                 | October 5, 2021    | Securities & Futures Institute                                | Key technologies and business opportunities of quantum technology  | 3              |
|                      |                 | October 12, 2021   | Securities & Futures Institute                                | Risks and opportunities of climate change and energy policy trends for business operations                                       | 3              |
|                      |                 | October 15, 2021   | Securities & Futures Institute                                | Analysis and case study of related party transactions of directors and supervisors   | 3              |



|                      |                     |                    |   |   |   |
|----------------------|---------------------|--------------------|---|---|---|
| Director             | Chun-Lan Yen        | February 26, 2021  | Securities & Futures Institute          | Analysis of practical cases on the directors and supervisors' breach of trust and the crime of special breach of trust  | 3 |
|                      |                     | March 11, 2021     | Securities & Futures Institute          | Relevant regulation and operational practices of the Audit Committee  | 3 |
|                      |                     | May 14, 2021       | Securities & Futures Institute          | The trend of ESG/CRS and sustainable governance in 2021   | 3 |
| Director             | I-Kan Chiu          | September 10, 2021 | Securities & Futures Institute          | The value of information security in the post-epidemic era and the China-US trade war                                   | 3 |
|                      |                     | September 14, 2021 | Securities & Futures Institute          | Corporate social responsibility (CSR/ESG) model practice analysis of corporate governance evaluation                    | 3 |
|                      |                     | September 22, 2021 | Securities & Futures Institute          | Corporate M&A practice sharing-focusing on hostile M&A  | 3 |
|                      |                     | November 18, 2021  | Ministry of Labor                       | 2021 Annual labor director professional knowledge training  | 8 |
|                      |                     | December 10, 2021  | Securities & Futures Institute          | Global risk perception - opportunities and challenges in the next 10 years  | 3 |
| Director             | Keh-Her Shih        | February 26, 2021  | Securities & Futures Institute          | Early warning and type analysis of corporate financial crisis   | 3 |
|                      |                     | March 30, 2021     | Taiwan Academy of Banking and Finance   | Corporate governance lecture - fintech series (phase 2)   | 3 |
| Director             | Hong-Mo Wu          | July 19, 2021      | Mega International Commercial Bank      | Special lecture for information security education and training for directors and supervisors                           | 3 |
|                      |                     | September 30, 2021 | Taiwan Academy of Banking and Finance   | The financial consumer protection from the perspective of treating customer fairly principle                            | 3 |
|                      |                     | October 29, 2021   | Taiwan Academy of Banking and Finance   | Corporate governance forum - application of fintech in anti-money laundering prevention                                 | 3 |
|                      |                     | October 30, 2021   | Taiwan Academy of Banking and Finance   | The practice of law compliance of information security  | 3 |
| Director             | Guo-Shin Lee (Note) | March 16, 2021     | Taiwan Corporate Governance Association | Analysis of money laundering cases and pre-crimes (including insider transactions)                                      | 3 |
|                      |                     | April 14, 2021     | Securities & Futures Institute          | Corporate M&A practice sharing-focusing on hostile M&A  | 3 |
|                      |                     | July 19, 2021      | Mega International Commercial Bank      | Special lecture for information security education and training for directors and supervisors                           | 3 |
| Independent Director | Ying Wu             | July 19, 2021      | Mega International Commercial Bank      | Special lecture for information security education and training for directors and supervisors                           | 3 |
|                      |                     | August 27, 2021    | Securities & Futures Institute          | Analysis of practical cases on the directors and supervisors' breach of trust and the crime of special breach of trust  | 3 |
|                      |                     | September 3, 2021  | Taiwan Securities Association           | Introduction and Response to Financial Consumer Protection Law (Fair Customers Treatment)                               | 3 |
| Independent Director | Chang-Ching Lin     | September 1, 2021  | Financial Supervisory Commission        | The 13th Taipei Corporate Governance Forum (morning section)  | 3 |
|                      |                     | September 1, 2021  | Financial Supervisory Commission        | The 13th Taipei Corporate Governance Forum (afternoon section)  | 3 |
| Independent Director | Hung-Ju Chen        | August 3, 2021     | Taiwan Corporate Governance Association | Cyber-attacks are frequently reported. The information security issues that directors and supervisors should emphasize. | 3 |
|                      |                     | September 14, 2021 | Securities & Futures Institute          | Corporate social responsibility (CSR/ESG) model practice analysis of corporate governance evaluation                    | 3 |
| Independent Director | Tsai-Jyh Chen       | September 10, 2021 | Securities & Futures Institute          | The value of information security in the post-epidemic era and the China-US trade war                                   | 3 |
|                      |                     | October 1, 2021    | Securities & Futures Institute          | Global risk perception - opportunities and challenges in the next 10 years  | 3 |
|                      |                     | October 12, 2021   | Securities & Futures Institute          | Risks and opportunities of climate change and energy policy trends for business operations                              | 3 |
|                      |                     | October 19, 2021   | Taiwan Academy of Banking and Finance   | Corporate governance lecture - fintech series (Term 9th)  | 3 |
| Independent Director | Chi-Chang Yu        | August 31, 2021    | Taipei Exchange (TPEX)                  | 2021 TPEX Sustainable Upgrade Online Forum  | 2 |
|                      |                     | September 1, 2021  | Taipei Exchange (TPEX)                  | 2021 TPEX Sustainable Upgrade Online Forum  | 2 |
|                      |                     | October 19, 2021   | Taiwan Academy of Banking and Finance   | Corporate governance lecture - fintech series (Term 9th)  | 3 |

Note: Director Mr. Guo-Shin Lee resigned on Oct. 7, 2021.

## 3.4.5 Operation Status of the Remuneration Committee

### A. Members of the Remuneration Committee

December 31, 2021

| Identity<br>(note 1)                  | Criteria<br>Name | Professional qualifications and experience (Note 2)  | Status of Independency (Note 3)   | Number of other public companies where the independent director serves as the remuneration committee member |
|---------------------------------------|------------------|--|---|---|
| Independent Director<br>(Chairperson) | Chang-Ching Lin  | <p>Professionally Qualified Natural-Person Director<br/>Audit Committee Member<br/>Chairperson of Remuneration Committee</p> <p>Professor of the Department of Economics, National Cheng Kung University; Teaching experience at the Institute of Economics, Academia Sinica, the Department of Economics of National Central University, and the Department of Economics of National Taiwan University; Possessing the ability to operate a financial holding company and being able to operate the business of a financial holding company soundly and effectively; Being qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 3 of " 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 ."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, public finance and taxation, law, digital finance, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p> | <p>Directors or their spouse, or relatives within the second degree of kinship are employed as a director, supervisor, or employee of the Company or its affiliates: ■None.</p> <p>Number of shares and shareholding ratio held by directors, their spouse, or relatives within the second degree of kinship (or held under the name of a third person): ■None.</p> <p>Currently holding a position as a director, supervisor, or employee of companies with specific relationships with the Company (see Subparagraphs 5-8, Paragraph 1 of Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies): ■None.</p> <p>Compensation received for providing commercial, legal, financial, accounting or related services to the Company or its affiliates in recent two years: ■None.</p> | 1   |
| Independent Director                  | Ying Wu          | <p>Professionally Qualified Natural-Person Director<br/>Chairperson of Audit Committee<br/>Remuneration Committee Member<br/>Ethical Management Committee Member</p> <p>Experience as high-level executives, Chief Auditor, and Chairman of First Bank, First Financial Holdings, and First Insurance Agency; Current independent director of Mega Bank; More than 40 years of working experience in the banking industry; Expertise in finance and accounting; Being qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 1 of " 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 ."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, finance and accounting, public finance and taxation, digital finance, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p>  | <p>Directors or their spouse, or relatives within the second degree of kinship are employed as a director, supervisor, or employee of the Company or its affiliates: ■None.</p> <p>Number of shares and shareholding ratio held by directors, their spouse, or relatives within the second degree of kinship (or held under the name of a third person): ■None.</p> <p>Currently holding a position as a director, supervisor, or employee of companies with specific relationships with the Company (see Subparagraphs 5-8, Paragraph 1 of Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies): ■None.</p> <p>Compensation received for providing commercial, legal, financial, accounting or related services to the Company or its affiliates in recent two years: ■None.</p> | 1   |



|                      |              |   |   |   |
|----------------------|--------------|---|---|---|
| Independent Director | Hung-Ju Chen | <p>Professionally Qualified Natural-Person Director<br/>Audit Committee Member<br/>Remuneration Committee Member</p> <p>Distinguished Professor of Department of Economics, National Taiwan University; Experience as the Director of First Financial Holdings and Managing Director of First Bank. Possessing the ability to operate a financial holding company and being able to operate the business of a financial holding company soundly and effectively; Being qualified with the professional qualification requirements of Article 9, Paragraph 1, Subparagraph 3 of " 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."</p> <p>Professional ability:<br/>Business management, leadership and decision-making, financial knowledge, international industry and economics, ESG sustainability</p> <p>There are no matters related to Article 30 of the Company Act</p> | <p>Directors or their spouse, or relatives within the second degree of kinship are employed as a director, supervisor, or employee of the Company or its affiliates: ■None.</p> <p>Number of shares and shareholding ratio held by directors, their spouse, or relatives within the second degree of kinship (or held under the name of a third person): ■None.</p> <p>Currently holding a position as a director, supervisor, or employee of companies with specific relationships with the Company (see Subparagraphs 5-8, Paragraph 1 of Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies): ■None.</p> <p>Compensation received for providing commercial, legal, financial, accounting or related services to the Company or its affiliates in recent two years: ■None.</p> | 0 |
|----------------------|--------------|---|---|---|

Note1: Please list the title as independent director or others. Please note if he/she is the chairperson.

Note2: Professional qualification and experience: Please state the individual independent director's professional qualification and experience.

Note3: Status of independency:

The independence criteria for members of the Remuneration Committee include but not limited to the following: The director or his/her spouse, or relatives within the second degree of kinship are employed as a director, supervisor, or employee of the Company or its affiliates; number of shares and shareholding ratio held by directors, their spouse, or relatives within the second degree of kinship (or held under the name of a third person); currently holding a position as a director, supervisor, or employee of companies with specific relationships with the Company (see Subparagraphs 5-8, Paragraph 1 of Article 6 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange); and compensation received for providing commercial, legal, financial, accounting or related services to the Company or its affiliates in recent two years.

## 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 20, 2021 to July 19, 2024. In 2021, the Committee held 5 (A)meetings with the following attendance:

| Title       | Name            | Attendance in Person(B) | By Proxy | Attendance Rate (%)<br>( B/A ) | Remarks   |
|-------------|-----------------|-------------------------|----------|--------------------------------|---|
| Chairperson | Ying-Ko Lin     | 3                       | 0        | 100%                           | Expiration of term on July 20, 2021. Number of attendances required: 3. |
| Member      | Chang-Ching Lin | 3                       | 0        | 100%                           |   |
| Member      | Jiun-Wei Lu     | 3                       | 0        | 100%                           |   |
| Chairperson | Chang-Ching Lin | 2                       | 0        | 100%                           | Newly-appointed on July 20, 2021. Number of attendances required: 2.    |
| Member      | Ying Wu         | 2                       | 0        | 100%                           |   |
| Member      | Hung-Ju Chen    | 2                       | 0        | 100%                           |   |

Other items:

a. The recommendation of the Remuneration Committee which was not adopted or was modified by the Board of Directors : none.

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) The Agenda, Resolution, and Response to the Committee's opinions of the Remuneration Committees.

| Date and term of Meeting of Remuneration Committee                           | Agenda  | Resolution  | Response to Remuneration Committee's opinions                              |
|--|---|---|--|
| The 14 <sup>th</sup> meeting of the 4 <sup>th</sup> term on March 9, 2021    | Review of the 2020 directors' compensation and its distribution principles  | Agenda was passed as proposed.  | The proposal has been submitted to and approved by the Board of Directors. |
| The 15 <sup>th</sup> meeting of the 4 <sup>th</sup> term on May 11, 2021     | The amendment of "Performance Bonus Distribution Principle" and "Guideline of Payment of Employee Remuneration, Allowance, and Bonus" of Win Card Co., Ltd., the subsidiary company of Mega Bank. | Agenda was passed with amendment of the table attached "Basic Salary and Allowance of Each Rank/Title" to link the salaries of some lower ranking titles with the monthly basic salary announced by the government. | The proposal has been submitted to and approved by the Board of Directors. |
|  | Review of the managerial officers' performance appraisal and salary increase (including top salary bonus), allowances for part-time managers, and newly-appointed managers' salary                | Agenda was passed as proposed.  | The proposal has been submitted to and approved by the Board of Directors. |
|  | Review of managerial officer's performance bonus, employee remuneration, and the management bonus   | Agenda was passed as proposed.  | The proposal has been submitted to and approved by the Board of Directors. |
| The 1 <sup>st</sup> meeting of the 5 <sup>th</sup> term on November 9, 2021  | Annual health examination plan for external directors since 2022 provided by the Company  | Agenda was passed as proposed.  | The proposal has been submitted to and approved by the Board of Directors. |
|  | Amendment of the "Employee Assessment Principle" of Chung Kuo Insurance   | Agenda was passed as proposed.  | The proposal has been submitted to and approved by the Board of Directors. |
|  | Amendment of the "Guidelines for Distributing Coupon for Traditional Festival" of Subsidiary Mega Bank  | Agenda was passed as proposed.  | The proposal has been submitted to and approved by the Board of Directors. |
| The 2 <sup>nd</sup> meeting of the 5 <sup>th</sup> term on December 11, 2021 | The amendment of "Employee Working Principle" of Yung-Shing Industries Co., the subsidiary company of Mega Bank.  | Agenda was passed as proposed.  | The proposal has been submitted to and approved by the Board of Directors. |

## (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 and managerial officers 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:

- Establish the policies, systems, standards, and structures of performance evaluations and remunerations for the directors and managerial officers and regularly review the same.
- Regularly review and establish the remunerations for the directors and managerial officers.

### b. The standards below shall be followed when the Remuneration Committee perform their duties:

- The performance evaluations and remunerations for the directors and managerial officers shall be referred to the common level of payment among the peers, while considering of the related reasonableness of the personal performance, company's operational performance, and future risks.
- Not to solicit the directors and managerial personnel to seek the remuneration at the cost of exceeding the risks appetite of the Company.
- 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.



### 3.4.6 The discrepancies between the Company's implementation of sustainable development and "Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies."

| Assessment  | Implementation status |    |  | The discrepancies and its reasons   |
|---|-----------------------|----|--|-------------------------------------|
|   | Yes                   | No | Explanation  |                                     |
| 1. Does the company establish a governance structure to promote sustainable development, and set up a dedicated (or part-time) unit to promote sustainable development? if board of directors authorize senior managers to handle relevant matters? And the supervision status by the board of directors. | V                     |    | <p>1. Governance structure to promote sustainable development: The Company has formulated the "Sustainable Development Best Practice Guidance" and "Sustainable Development Policy" approved by the board of directors, and set up a Sustainable Development Committee to promote ESG business. The Committee is chaired by the President of the Company; the Executive Vice President serves as the Director General; the Executive Vice Presidents and two Directors of the Company, and the Presidents of each subsidiary all serve as committee members, for a total of 11 members, to strengthen the supervision function of the committee, and participate in the sustainable management decision-making of the Group.</p> <p>2. Implementation of each organization</p> <p>(1) The name, setting time and authorization of the board of directors for the promotion of sustainable development: The company has set up the "Corporate Social Responsibility Committee" under the board of directors since 2013; in January 2021, in response to the international ESG trend, it was officially renamed as "Sustainability Committee" "; In January 2022, in response to the revised "Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies," the company's "Sustainability Committee" was renamed as "Sustainable Development Committee."</p> <p>(2) The formulation, operation, and implementation status of promotion unit: The Sustainable Development Committee has five working groups: environmental sustainability, sustainable finance, employee care, social prosperity and corporate governance. The four public subsidiaries (Mega Bank, Mega Securities, Mega Bill Finance, and Chung Kuo Insurance) are responsible for its management. Please refer to the Company's "2021 Sustainability Report" for detailed operation and annual implementation.</p> <p>(3) The frequency to report to the board of directors or the date of reporting to the board of directors in the year: The Committee meets once every two months, and at the monthly Board of Directors meeting, reports material ESG matters of previous Sustainable Development Committee meeting.</p> <p>3. The supervision status by the Board of Directors: The implementation status of the Group's ESG plans and goals in 2021 has been submitted to the Board of Directors in January 2022 to regularly supervise the implementation of the Group's sustainable development. The formulation of the Group's ESG plans and goals in 2022 was approved by the Board of Directors in December 2021, and will be tracked and managed by the Sustainable Development Committee on a quarterly basis. In addition, in February 2022, the Board of Directors approved the Group's sustainable development strategy roadmap, including the sustainable vision, mission, values, goals and strategic axes. For details, please refer to the "2021 Sustainability Report" of the Company.</p> | <p>None</p> <p>None</p> <p>None</p> |
| 2. 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                     |    | <p>1. Boundary of Risk Assessment (Scope of Subsidiaries Covered)</p> <p>The risk assessment boundary covers the Company and its seven subsidiaries (Mega Bank, Mega Securities, Mega Bill Finance, Chung Kuo Insurance, Mega Int'l Investment Trust, Mega Asset Management, and Mega Venture Capital.) There is no significant change compared to the previous year. In case of inconsistency in the scope, the detailed category and calculation method will be indicated in the relevant sections.</p>  | None                                |

# Corporate Governance Report

|  |   |  |      |
|--|---|--|------|
|  |   | <p>2.Criteria and process for identifying and assessing risks associated with material ESG-related issues, results, and risk management policies or strategies:</p> <p>The Company has established Sustainable Development Best Practice Guidance, Sustainable Development Policy, and Operating Procedures for Sustainability Report Preparation and Verification, stipulating that the company shall produce a sustainability report based on the principles of materiality and identify risks associated with ESG-related sustainability issues. In its 2021 Sustainability Report, the Company adopted an analysis of the Materiality Matrix, with axes representing the "Level of Stakeholder Concern" and "Impact of Sustainability Issues on the Operations of Mega Holdings." Using the matrix, we identified 13 material topics: Business Ethics, Information Security, Legal Compliance, Corporate Governance, Risk Management, Sustainable Finance, Economic Performance, Combating Crime, Digital Innovation, Commitment to Society, Climate Action, Happy Workplace, and Financial Inclusion. The management approach and implementation results are disclosed in the report.</p>   |      |
| <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>1.How to enforce an effective environmental management system and the laws on which it is based:</p> <p>As financial service providers, the Group's operation is unlikely to have a significant impact on the environment. The Company nevertheless remains committed to supporting Taiwan's goal of achieving net-zero emissions by 2050. Through the Environmental Sustainability Working Group under the Sustainable Development Committee, the Company develop annual working plans and goals for the Group (including energy and greenhouse gas management, green procurement, supply chain evaluation and management, etc.), complying with the Sustainable Development Policy and Sustainable Development Best Practice Principles. The progress of our goal achievements is reviewed quarterly by the Sustainable Development Committee and Board of Directors to implement the Group's environmental sustainability management.</p> <p>2.The international verification the Company has passed and its scope.</p> <ul style="list-style-type: none"> <li>●ISO 14001:2015 Environmental Management System: Mega Bank (Jiao-Chi Building) has introduced 14001 Environmental Management System in 2017 and obtained the independent third-party verification. From 2022 to 2024, ISO 14001 will be introduced to all operation units.</li> <li>●ISO 50001:2018 Energy Management System: Mega Bank (Jiao-Chi Building) has introduced ISO 50001 in 2021 and obtained the independent third-party verification. In 2022, the Company and the subsidiary Mega Bill Finance, Mega Securities, and Chung Kuo Insurance (Mega Holding, Mega Hengyang, Mega Securities, and Chung Kuo Insurance Buildings) plan to introduce ISO 50001.</li> <li>●ISO 14064-1 :2018 GHG Inventories: It has been introduced since 2016. In 2020,new ISO 14064 has been introduced to all domestic operation units, and 100% of them have passed the third-party verification. In 2021 oversea operation units join the trial inventory check and the scope 3 inventory check has expanded with a coverage rate of 84%. It is expected to pass the third-party verification in May 2022.</li> </ul> | 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 Group has set an annual renewable energy certificate procurement target. Based on 1% of the total greenhouse gas emissions of Scope 1+2 in 2020, a total of 413 certificates must be purchased. In 2021, 390 certificates was booked from the Hakka Committee (the actual output is 357 certificates), and 23 certificates were purchased from the Ministry of Health and Welfare. A total of 380 certificates were purchased, with a target achievement rate of 92%.</p>   | None |



(3) Does the company evaluate the potential risk and opportunities of climate change and also have measures for relevant climate change issues?

V

To cope with the risk trend, the Company has signed and supported the Task Force on Climate-related Financial Disclosures (TCFD) in April 2020 and added emerging risk (including risk of climate change) into the Company's "Risk Management Policy and Guideline." The company also reviews and check the risk and opportunity of climate change by TCFD guideline and develop low carbon products and services.

In terms of governance of climate change, the Company oversees related issues through Sustainable Development Committee and Board of Directors meetings. The Sustainable Development Committee launched 8 meetings in 2021 to discuss strategies and plans for responding to climate change issues, including setting up carbon reduction targets and introducing ISO environmental management systems and etc., and reported the meeting minutes to the Board of Directors periodically.

The risk and opportunities of climate change to the Company are as follows:

1. Climate related risks include physical risk and transition risk. The prior includes the depreciation of loan security value, or the increase of energy cost from global warming; the later includes the higher operation cost from changes to policy and regulation (e.g. carbon tax or carbon transaction policies) to further increase financial risks such as market risk, credit risk, systematic risk, liquidity risk and insurance risk.

2. Climate related opportunities include the development of green financial products and improve digital financial services. In 2021, the Group invested a total of NT\$9.317 billion in green/sustainable bonds to support the development of low-carbon industries.

The Company pays close attention to the global trends of climate change and the related industries development, in order to assist stakeholders to reduce climate related impacts by providing sustainable financial products and services in the future. Further, the company can also enhance new industrial opportunities, reduce global warming and promote sustainable development.

None

(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?

V

1. The statistics intensity, and data coverage in recent four years:

(1) Greenhouse gas emissions

The greenhouse gas emissions in last four years (verified by third party)  
Unit: tons of CO<sub>2</sub>e

| Item   | 2018      | 2019      | 2020       | 2021       |
|--|-----------|-----------|------------|------------|
| Direct GHG emission(scope 1)   | 718.84    | 2,527.63  | 2,550.75   | 3,011.15   |
| Energy indirect GHG emission(scope 2)  | 14,004.90 | 16,232.62 | 18,216.02  | 17,178.03  |
| Total amount of scope 1 and 2  | 14,723.74 | 18,760.25 | 20,766.77  | 20,189.18  |
| Intensity of emission of Scope 1 and 2 (Scope 1+2 emission amount/net revenue in millions) | 0.2390    | 0.2874    | 0.3415     | 0.3352     |
| Other indirect GHG emission(scope 3)   | -         | 46.80     | 457,058.00 | 415,840.08 |
| Operation unit verified by the third party (exclude oversea units)                         | 90        | 139       | 192        | 192        |
| Coverage ratio of operation unit verified by the third party (exclude oversea units)       | 47%       | 72%       | 100%       | 100%       |

Note: Scope includes all domestic operation units of the Group.

(2) Water consumption

Water consumption in last four years

Unit: million liters

| Item                         | 2018    | 2019    | 2020    | 2021    |
|------------------------------|---------|---------|---------|---------|
| Water consumption            | 183.317 | 187.616 | 194.041 | 187.920 |
| Water consumption per person | 0.02018 | 0.02190 | 0.02186 | 0.02212 |

Note: Scope includes all domestic operation units of the Group.

None

## (3)Waste amount

Waste amount in last four years

Unit: KG

| Item                  | 2018    | 2019    | 2020    | 2021    |
|-----------------------|---------|---------|---------|---------|
| Paper                 | 50,610  | 48,736  | 48,699  | 48,634  |
| Iron aluminum cans    | 587     | 423     | 564     | 861     |
| PET bottles, plastics | 1,302   | 1,552   | 1,604   | 2,157   |
| Batteries             | 125     | 147     | 169     | 180     |
| Light bulbs           | 986     | 890     | 909     | 481     |
| Total                 | 53,610  | 51,748  | 51,945  | 52,313  |
| Food wastes           | 33,278  | 32,697  | 30,421  | 18,751  |
| Non-recycle           | 108,593 | 128,606 | 144,558 | 125,756 |

Note: The main operation practice of the Group is office work, which does not produce any hazardous wastes. The scope covers the waste of the five self-owned buildings ( Mega holdings, Mega Jaoli, Mega securities, Chun Kuo Insurance, and Henyang) of the Group.

## 2. Greenhouse gas emissions, water consumption reduction, and other waste management policies such as reduction targets, promotion measures, and achievement status:

### (1) Greenhouse gas emission

Short-term goal: To reduce Scopes 1 and 2 GHG emissions by 5% by 2022 with 2020 as the base year (the company has achieved its goal, reducing emissions by 2.78% in 2021 compared to 2020).

Mid-term goal: To reduce Scopes 1 and 2 GHG emissions by 25% by 2030 with 2020 as the base year.

Long-term goal: To achieve net-zero Scopes 1 and 2 GHG emissions by 2050.

### (2) Water Consumption

Short-term goal: To reduce water consumption by 1% by 2022 with 2020 as the base year (the company has achieved its goal, reducing water consumption by 3.15% in 2021 compared to 2020).

Mid-term goal: To reduce water consumption by 2.5% by 2025 with 2020 as the base year.

Long-term goal: To reduce water consumption by 5% by 2030 with 2020 as the base year.

### (3) Amount of waste

The tentative goal is to reduce waste production by 1% annually. The company has achieved this goal in 2021, reducing non-recycle waste by 13% compared to 2020. As of January 1, 2022, the Group began calculating the amount of waste generated across all of its business units nationwide. An official waste reduction goal for the Group will be established in 2023.

## 3. The verification status and the coverage scope:

The Group's adoption of ISO14064 in 2020 was verified by BSI Taiwan in April 2021, and its adoption of ISO14064 in 2021 was verified by SGS Taiwan in May 2022. The scope of verification included all operation units in Taiwan.

In addition, the Group's water consumption in 2021 has assured by ISAE 3000, while the amount of waste has not been verified by the third party.

## 4. Public Welfare

(1)Does the company comply with relevant laws and regulations, and the International Bill of Human Rights and adopt relevant management policies and procedure?

V

By referring to the "Universal Declaration of Human Rights", "UN Global Compact", "International Labour Organization", and etc., the Company has formulated the "Human Right Policy" in September 2018. In order to strengthen human rights risk management and international trends, this policy was revised to expand the scope of application to suppliers and add content such as human rights due diligence, which was approved by Board of Directors in December 2021.

The human right management measures in 2021 include Group employees due diligence on human rights, which is reported to the Sustainable Development Committee in December 2021; a total of 66,646 hours of employee education and training were provided (the average training hours per employee exceeded 7 hours).

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

1. Remuneration policy:

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 2021 salary raise situation of managerial and non-managerial employees 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 profit surplus in that year, 0.02% to 0.15% should be employee remunerations.

2. Welfare measures:

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 superior to 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.

3. Retirement system:

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.

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 tenure over or equal to 15 years; (2) tenure over or equal to 25 years; (3) age over or equal to 60 and tenure 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 tenure. 2 basic points per year will be given for tenure within 15 years, and 1 basic point per year will be given for tenure exceed 15 years, with a maximum of 45 basic points.

None

(3) Does the company provide safe and healthful work environments for employees and organize training on safety and health for employees on a regular basis?

V

1. To provide safe and healthy work environments for its employees, the Company implements and provides regular health check, regular maintenance on fire extinguisher, environment inspection (CO2 concentration), daily office environment cleaning, and regular environment sanitization for public area. At the same time, in order to promote the physical and mental health of employees, professional teams are appointed to provide employee care hotline services, and (on-site) doctors and nurses are employed according to the number of employees of each subsidiary. Implementation of relevant education and training in 2021:

| Items  | Number of people | Total hours |
|--|------------------|-------------|
| Training for occupational safety and health managers | 52               | 1,203       |
| Fire manager training                                | 195              | 1,518       |
| First responder training                             | 63               | 924         |

2. Mega Bank and Mega Securities are expected to pass ISO 45001 occupational safety and health management system in the second quarter of 2022 and receive the third-party verification. After that, the estimated coverage rate will reach 87%.

None

(4) Does the company set up an effective career development training plan for employees?

V

3. For employees who are injured due to accidents in the performance of their duties or commuting from their residence to and from the company, the company will actively investigate the cause of the accident and provide health care, and, depending on the circumstances of the injury, assist in applying for occupational injury clinic and insurance payment of hospitalization, injury, and disability, and will grant sick leave. After the incident, the nurse is instructed to track the employee's health status, and the occurrence of occupational injuries in 2021.

| Item                                   | Occurrence in 2021 |
|--|--------------------|
| Number of occupational injuries        | 56                 |
| Number of people injured               | 56                 |
| Percentage as total number of employee | 0.6%               |

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 functional learning base on their professional field. In 2021, the total training hours of the Group is 477 thousand hours (51.6 hours per employee.) Also, Mega Bank has set up the managerial officer training program, the elite training program and the overseas talent training program. The implementation is described as follows:

| Program                             | Participants   | Items                      | Year 2021 |
|-------------------------------------|--|----------------------------|-----------|
| Managerial officer training program | Excellent employees in each operation unit, or middle and senior managerial officers | Number of person trained   | 37        |
|                                     |  | Training hour per employee | 34        |
|                                     |  | Amount input (in NTD)      | 119,978   |
| Elite training program              | Excellent middle-level officers under age 45   | Number of person trained   | 79        |
|                                     |  | Training hour per employee | 28        |
|                                     |  | Amount input (in NTD)      | 181,521   |
| Overseas talent training program    | Potential expatriate who pass through the expatriate selection                       | Number of person trained   | 37        |
|                                     |  | Training hour per employee | 33        |
|                                     |  | Amount input (in NTD)      | 51,750    |

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 from competent authorities. A strict internal control system is in place to be followed. The Company values 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 and honesty principles and the spirit of financial consumer protection, a fair transaction market is maintained to create customer value.

Mega Bank has established the "Treat Clients Fairly Policy" and "Treat Clients Fairly Strategy and Customer Protection Principle" and implemented regular education training. In 2019, to enhance service mechanism, the fair-treatment to customer working group was established. In 2020, the working group is changed to "Care and Fair Customer Treatment Committee," formed by each business unit to strengthen the process of customer claims.

In 2021, there is no violation of law regarding customer health and safety, customer privacy, marketing or labeling of the products and services.

None

|  |   |   |      |
|--|---|---|------|
| <p>(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?</p>  | V | <p>1.To implement supplier management, the Company revised the "Supplier Sustainability Management Guidelines" in June 2021, requesting subsidiaries to develop guidelines or comply with relevant regulations. The revisions also specify the regulatory requirements that existing suppliers must follow with regards to labor rights, human rights, occupational safety and health, environmental sustainability, and business ethics and integrity, etc. In addition, suppliers must sign the "Supplier Sustainability Statement" when entering into a contract with the Company. If a supplier violates the terms of the Guidelines or the Statement, the Company may terminate or rescind the contract at any time and blacklist the supplier. In 2021, the Group reported no incidents involving violation of laws or the aforementioned Guidelines/Statement.</p> <p>2.To strengthen supply chain management and promote supplier engagement, in 2021, the Company launched a Supplier Sustainability Self-Assessment Questionnaire survey for key suppliers. The objective of the survey is to determine the supplier's performance in labor rights, human rights, environmental sustainability, occupational safety and health, and ethical management.</p> <p>3.In 2022, the Company will organize a series of training programs, communication meetings, and supplier conferences to further improve the knowledge and skills of our key suppliers.</p> | None |
| <p>5. If the Company take reference of international report guideline to make non-financial information report like Sustainability report? If third verification party issues confirmation opinion on the above report</p>   | V | <p>1.The international report guideline adopted to make non-financial information report:<br/>The Company's 2020 Sustainability Report is based on the core items of GRI standards of Global Reporting Initiative, Sustainable Development Goals (SDGs), and partially refer the standards published for Commercial Bank by Sustainability Accounting Standards Board (SASB).</p> <p>2.The name of third verification party, verification items, scope, and the standards followed:<br/>The 2020 Sustainability Report has been verified by the BSI Taiwan based on the Core option of the GRI Standards and AA1000 Type 1 moderate level. Please refer to the disclose item in the report. The 2021 Sustainability Report will follow the "Process of Formation and Verification for Sustainability Report" of the Company to adopt ISAE3000 CPA verification.</p>   | None |
| <p>6. If the company has established sustainable development principles based on "Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the principles and the implementation:<br/>The Company's "Sustainable Development Best Practice Guidance", formulated based on the "Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies", is fully implemented with no material discrepancy.</p> |   |   |      |
| <p>7. Other important information to facilitate better understanding of the Company's corporate social responsibility practicess:<br/>Please refer to the 2021 ESG Implementation Results shown as below.</p>  |   |   |      |



## 2021 ESG Implementation Results

| Item                         | 2021 Action Plans   | 2021 Implementation Results   |
|------------------------------|---|---|
| Environmental Sustainability | <ol style="list-style-type: none"> <li>1. Complete ISO 14064 GHG inventory and pass the verification by the independent third party.</li> <li>2. Continue to purchase renewable energy certificates.</li> <li>3. Continue to introduce ISO 14001 Environmental Management System.</li> <li>4. Introduce ISO 50001 Energy Management System.</li> <li>5. Enhance the supplier management mechanism and make sure the suppliers sign "the Supplier Sustainability Statement".</li> <li>6. Purchase environmental friendly products and implement responsible procurement management.</li> </ol> | <ol style="list-style-type: none"> <li>1. In May 2021, the Group has passed the verification of GHG inventory by BSI Taiwan, an independent third party.</li> <li>2. The Group has purchased 380 renewable energy certificates from Hakka Committee and 23 certificates from Jianan Psychiatric Center, Ministry of Health and Welfare.</li> <li>3. Mega JaoJi Building has passed the renewal of verification of ISO 14001 Environmental Management System. Other self-owned buildings will introduce the system as well. In 2022, a introduction project for domestic self-owned building is planned.</li> <li>4. Mega JaoJi Building has obtained the ISO 50001 energy management system verification in October 2021.</li> <li>5. The contract amount of the suppliers who signed the "Sustainability Statement" accounts for 85.61% of total contracts.</li> <li>6. The total green procurement amounted to NT\$ 90.761 million in 2021.</li> </ol>  |
| Sustainable Finance          | <ol style="list-style-type: none"> <li>1. Continue to introduce ISO 27001 Information Security Management System.</li> <li>2. Continue to promote "Taiwan Pay" mobile payment to accelerate the common use of mobile payment.</li> <li>3. Formally signed Equator Principles.</li> <li>4. Strengthen the loans business for 5+2 Innovative Industries.</li> <li>5. Invest and underwrite green bonds.</li> <li>6. Apply for zero-carbon credit card and obtain the "Carbon Footprint" and "Water Footprint" certification for credit cards.</li> </ol>  | <ol style="list-style-type: none"> <li>1. Mega Bank, Mega Securities, and Chung Kuo Insurance have passed the renewal of ISO 27001.</li> <li>2. In 2021, Mega Bank set an annual business target of 4,560 merchants to introduce Taiwan Pay collection business for all operation units of the bank, and a total of 6,633 merchants were introduced, with a target achievement rate of 145%.</li> <li>3. Mega Bank officially signed as a member of the Equator Principles Association in August 2021.</li> <li>4. The balance of the loans business for 5+2 Innovative Industries at the end of 2021 is NT\$ 425.6 billion, accounting for 38.48% of the total balance of domestic corporate loans at the end of the year.</li> <li>5. In 2021, the Group invests in domestic green/sustainable bonds with a total of NT\$9.317 billion and underwrites domestic sustainable-related bonds with a total of NT\$1.6 billion.</li> <li>6. Mega Bank credit card obtained "ISO 14067 Carbon Footprint Certification", "ISO 14046 Water Footprint Certification" and carbon label issued by the Environmental Protection Agency, and completed the carbon neutralization project, becoming the first zero-carbon credit card issuer among public banks in Taiwan.</li> </ol> |
| Employee Care                | <ol style="list-style-type: none"> <li>1. Continue to distribute marriage and childbirth subsidy.</li> <li>2. Encourage employees for further studies and continue to provide employee education and training.</li> <li>3. Continue to subsidize employee's professional license or qualification tests.</li> <li>4. Continue to provide employee assistance project (EAP) to care employee's physical and mental health.</li> <li>5. Outsource employee satisfaction and job performance research.</li> </ol>  | <ol style="list-style-type: none"> <li>1. In 2021, the total marriage subsidy distributed by the Group is NT\$3.25 million and childbirth subsidy is over NT\$ 17.5 million.</li> <li>2. In 2021, the total training hours per employee is 51.6 hours.</li> <li>3. In 2021, the Group has subsidized the professional license of 540 individuals, paying nearly NT\$800 thousand in subsidies.</li> <li>4. In 2021, a total of 52 employees used the psychological consultation of the Group. Most of them consulted on issues involving interpersonal relations and stress in the workplace.</li> <li>5. In 2021, the average scores of the employee engagement of the Company, Mega Bank, Mega Securities, Mega Bills, Chung Kuo Insurance, and Mega Int'l Investment Trust is 3.54.</li> </ol>   |
| Social Prosperity            | <ol style="list-style-type: none"> <li>1. Donate to domestic major accidents and assist subsequent medical care and life/social rebuilding.</li> <li>2. Sponsor related activities to promote art and culture and support local cultural and creative industries.</li> <li>3. Cultivate domestic gaming teams and support participation in international events.</li> <li>4. Organize and participate in beach cleaning activities.</li> <li>5. Plan for volunteering services.</li> </ol>  | <ol style="list-style-type: none"> <li>1. The Group donated a total of NT\$8 million for the "0402 Taroko accident" and "Kaohsiung Cheng Chung Cheng Building Fire" in 2021.</li> <li>2. Mega Bank Cultural and Educational Foundation and Mega Bank sponsored "Nara Yoshitomo Special Exhibition" in Kaohsiung and "Chengnan Interesting", with more than 114,000 participants; the total amount of sponsorship in 2021 exceeded NT\$ 12 million.</li> <li>3. Mega Bank sponsored the League of Legends professional team BEYOND GAMING to participate in the 2021 Summer Games, with total sponsorship amount of NT\$400 thousand.</li> <li>4. In May 2021, employees of the Group went to Shimen Coast in New Taipei City to carry out the "Environmental Beach Cleaning Activity", and collected 170kg of recyclable waste and 130kg of non-recyclable waste.</li> <li>5. In 2021, the total number of volunteer hours of group employees exceeded 1,200 hours.</li> </ol>  |





|                      |  |  |
|----------------------|--|--|
| Corporate Governance | <ol style="list-style-type: none"> <li>1. Appoint a corporate governance managerial person to provide directors with more assistance.</li> <li>2. Foster and strengthen corporate governance personnel professional skills and insure the directors continue to watch international trend of corporate governance and the change of laws in Taiwan.</li> <li>3. Continue to hold ethical management training with completion rate of 95%.</li> <li>4. Continue to enhance legal compliance system and compliance training.</li> <li>5. Aggressively attend the shareholder meetings of invested companies or use the electrical vote to implement due governance of institutional investors.</li> <li>6. Strengthen climate risk management and information disclosure.</li> </ol> | <ol style="list-style-type: none"> <li>1. The Company and the subsidiaries (excluding venture capital) have appointed corporate governance managers since 2019 to provide more assistance to the directors.</li> <li>2. In 2021, all directors of the company had a total of 173 training hours in accordance with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies", which met the requirements of at least 12 hours for new directors and 6 hours for reappointed directors.</li> <li>3. In 2021, the total ethical management training hours of the Group is 9,432 hours, with a completion rate over 95%.</li> <li>4. The Group implement complete legal compliance education training for employees, directors, and supervisors with completion rate of 100% in 2021.</li> <li>5. In 2021, Mega Bank, Mega Securities, Chung Kuo Insurance and Mega Int'l Investment Trust attended 100% the shareholders meeting of the listed invested companies.</li> <li>6. The Company strengthen climate change risk management by TCFD structure and scenario analysis, which is disclosed in the Sustainability Report.</li> </ol> |
|----------------------|--|--|

### 3.4.7 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 formulate the ethical management policies approved by the board of directors, clearly specify ethical corporate management policies, guidelines and the commitments of the board of directors and management team to implement the policies actively in relevant 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 unethical conduct 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 Management Operating Procedures and Behavior Guidelines 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 Guideline. 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                          |

# Corporate Governance Report

| Assessment   | Implementation status |    |  | Discrepancies and its reasons |
|--|-----------------------|----|--|-------------------------------|
|  | Yes                   | No | Explanation  |                               |
| (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, 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.Implementation of ethical corporate management:  |                       |    |  |                               |
| (1) Does the company assess ethical records of business counterparties? Does the Company include ethical-conduct-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                          |
| (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                     |    | To strengthen the function of ethical management duty unit, the 22nd meeting of the 7th term of Board of Directors approved to establish Ethical Management Committee on March 24, 2020 and the three independent directors are the committee members. Independent Director Chi-Chang Yu is the chair of the 2nd term of the Committee. The major function of the committee is to supervise the planning and implementation of the CSR and ethical corporate management. Ethical Corporate Management Principles and the unethical conduct prevention acts and the implementation are submitted to the board meeting at least once every year.   | None                          |
| (3) Does the company establish policies to prevent conflicts of interest, provides appropriate communication channels and implement the policies?  | V                     |    | The Company and its subsidiaries have set up the "Procedure for Board of Directors Meetings" which specifies that if any director or a juristic person represented by a director is an interested party with respect to any agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interests of the company, the director may not participate in discussion or voting on that agenda item, and further, shall enter recusal during discussion and voting on that item and may not act as another director's proxy to exercise voting rights on that matter. This rule has been well enforced and practiced. The Company's Code of Ethical Conduct also stipulates that directors and managerial officers should not take advantage of their position in the Company to obtain improper benefits for themselves or their spouse, parents, children, or relatives within the second degree of kinship. | None                          |



| 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. On September 30, 2021 an ethical management and insider trading prevention training was held with PWC and Lee-and-Li lawyer as main speaker. Attendees include directors, managerial officers, employee, mandates, beneficial owners and relevant parties doing business with the Company. The completion rate of the employee is 100%, higher than 70% in 2020. In 2021, a total of 8,771 employees participating in relevant internal and external training, completion rate of 99.9%, higher than 99.23% in 2020. The training courses include ethical management, United Nations Convention against Corruption and whistle blower protection, corporate ethical management and employee's obligation to protect information, ethical management- case study of bank employee misappropriate client fund. | None                          |
| 3. The channels for reporting and the operation.  |                       |    |  |                               |
| (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:<br>(1)Hotline: (02)2395-6128<br>(2)Email: law@megaholdings.com.tw or send to the legal compliance department at 17F, No.123, Sec. 2, Zhongxiao E. Rd, Taipei City.<br>(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                          |

# Corporate Governance Report

| Assessment  | Implementation status |    |  | Discrepancies and its reasons |
|---|-----------------------|----|--|-------------------------------|
|   | Yes                   | No | Explanation  |                               |
| (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 2021, there are total 2 cases (4 in 2020) filed in the Company. After investigation, there is 0 case established and no misconduct. In 2021, there are total 14 cases (15 in 2020) filed in the Group. After investigation, there are 2 cases established (1 belongs to Mega Bank regarding keeping customer's deposit book; 1 belongs to Mega Securities regarding to releasing the company's business secret). Punishments were done per internal punishment rule. | None                          |
| 4. Enhancing disclosure of information.<br>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 in 2021 including: training courses of ethical corporate management promoting the concept of integrity and ethical value, no transaction with counterparty having unethical record; No reported cases of unethical operation for directors, managerial officers, and employee.   | 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 and its subsidiaries at all times monitor 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 achieving better implementation of ethical corporate management.  |                       |    |  |                               |

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

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

<https://www.megaholdings.com.tw/tc/regulation.aspx>

## 3.4.9 Other Important Information: None.



### 3.4.10 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, 2021 to December 31, 2021, 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 15, 2022

## Schedule: Internal Control Weaknesses and Improvement Plans

As of December 31, 2021

| Items to be reinforced   | Improvement Measures   | Estimated Completion Time of Improvement |
|--|--|--|
| <b>Mega International Commercial Bank</b><br>1. There are deficiencies on the due diligence and credit granting while approving the credit, and on the post-disbursement management. | 1. Promote database use to credit employee to analyze industry prospect and product price fluctuation. Also, the client's past operation performance and peer performance should be referenced to evaluate the feasibility of its future repayment plan and reflect the borrower's medium repayment ability.<br>2. Summarize various specifications on credit-related formal notices and relevant regulations to formulate "Supplementary Notes for Handling Credit Business", and provide to the credit business officers to pay attention to.<br>3. Advocate the matters that should be paid attention to in the planning syndication deals for syndication team to lower down future risk; in addition, strengthen the inspection of the implementation of the commitment terms in check list of credit review and internal self-audit.<br>4. Establish reports to strengthen the control over the change of conditions for syndication loans, and establish a "post-loan management tracking platform" in the e-loan credit system to strengthen the post-loan management mechanism.<br>5. For industries with large portion of credit granting, special industries, or industries with high fluctuations, prudently evaluate the scenarios and parameter settings and conduct stress tests to facilitate timely response measures.  | Improved by the improvement measures.    |
| 2. There was a failure to effectively establish internal control system and implement internal control system when doing mortgage business.  | 1. Strengthen pre-loan collection and review operations<br>a. Establish a pattern of dummy accounts that can be quantified by system verification. Strengthen the education training for consumer finance credit review and due diligence.<br>b. For housing loan cases with the same sources of input, establish a control mechanism for alternate distribution processing.<br>c. Establish a land administration agent blacklist inquiry and comparison mechanism, and handle the referrals from high-risk agents with care and prudence.<br>2. Strengthen controls of collateral appraisal and assessment operations<br>a. Build an "Automated execution of homogeneous object price inquiry system" for real estate, and revise the criteria for authorization of business unit valuation and transfer to the head office for review.<br>b. The appraisal personnel and the credit signing personnel controlled by the system shall not be the same person.<br>3. Strengthen post-loan management and tracking operations<br>a. Strengthen checking and management functions for the "Domestic Consumer Spending Warning List."<br>b. Update control measures for "Real Estate Real-Price Registration Back-Check Mechanism."<br>c. Add post-loan tracking item that "the transcript of the collateral needs to be read within 6 months after the mortgage loan is disbursed."<br>d. Establish a risk-based consumer finance review system.<br>e. Actively review how well or how often a bank branch performs self-inspection.<br>4. Other control measures:<br>a. Introduce regulations for follow-up investigation and reporting of suspected fraud or violation of laws and regulations relating to irregular use of funds by bank clerks.<br>b. Strengthen follow-up management of cases that are suspected to be dummy account and unreasonable. | Improved by the improvement measures.    |



| Items to be reinforced   | Improvement Measures  | Estimated Completion Time of Improvement  |
|--|---|---|
| 3. Failure to carry out ATM cash replenishment, troubleshooting, and inventory procedures and to implement control over the contracted security company's cash-in-transit operations.  | <ol style="list-style-type: none"> <li>1. Ensure that ATM cash replenishment and deposit collection are done entirely in the presence of both a managerial officer and person in charge of ATMs, and prohibit replenishment of cash by way of topping up cash based on difference.</li> <li>2. When troubleshooting or refilling an ATM machine with cash, the managerial officer must first check the system status of an ATM machine before opening up the ATM cash box, and print a search record and keep it for future reference.</li> <li>3. Reinforce the supervision measure in the second line of defense, introduce a new procedure for taking inventories of cash in branch ATMs at random, and perform unscheduled spot checks of surveillance records of ATM cash replenishment and troubleshooting operations.</li> <li>4. Ensure that cash collected by contracted security company is definitely delivered, unsealed, counted, and accepted under surveillance all in the presence of both a bank managerial officer and person in charge, and that the managerial officer verifies the accounting of all cash received from the contracted security company.</li> <li>5. Raise bank clerks' security awareness by informing them of common investment frauds committed through social networking apps.</li> <li>6. Integrate the bank's in-house fraud detection prevention system with a new risk model for detecting irregular transactions by bank clerks in Taiwan.</li> <li>7. Increase the weights of appraisals of self-inspection implementation status, and introduce punishment mechanisms that have not been implemented, while urging business units to carry out self-inspection accordingly.</li> <li>8. Improve ATM monitoring management systems by adding a new function that checks for cash balance irregularities, and produce an ATM cash box access record sheet for bank branches to review.</li> <li>9. Set up a mechanism that transmits video images of a branch to the head office, where the sales management department can, from time to time, use the surveillance camera to digitally monitor in-branch ATM cash replenishment operations in real time.</li> </ol> | Except for item (8) checking function of ATM monitoring management systems and item (9) real-time supervision of video images of a branch, which are scheduled to be completed by March 2022, the other items are improved by the improvement measures. |
| 4. Failure to comply with regulation-that an insurance agent may not collect compensations in the name of others or engage in uncustomary transactions-when soliciting insurance business.   | <ol style="list-style-type: none"> <li>1. Similar cases have been investigated. Terminate re-marketing plan for insurance holders with the insurance companies.</li> <li>2. Collect and review, on a monthly basis, government sanctions imposed on industry peers and regulatory changes, and ensure that relevant internal control measures are compliant with laws to prevent recurrence of similar deficiencies.</li> </ol>   | Improved by the improvement measures.   |
| 5. The Bank did not adequately define the scope of mobile devices in its Mobile Device Management Guidelines, distinguish between company-issued and employee-owned devices, and provide details about the types of mobile devices, operating systems, application systems or services that may be used. | Amend Mobile Device Management Guidelines based on the scope of application of mobile devices prescribed in the Guidelines for Use of Emerging Technologies, and provide distinctions between company-issued and employee-owned devices, as well as details about the types of mobile devices (e.g., mobile phone, tablet, laptop, etc.), operating systems, application systems or services that may be used.  | Scheduled to improve by March 2022.   |



# Corporate Governance Report

|   |   |  |
|---|---|--|
| <p><b>Chung Kuo Insurance Co., Ltd.</b><br/>The FSC conducted a review of e-commerce system projects in 2020, imposing a fine of NT\$1.2 million on the Company and requesting two corrective actions:</p> <p>1. The company was fined NT\$600,000 for not complying with the Insurance Act. Specifically, the unit in charge of information security was supposed to allocate resources and equipment appropriately and be in charge of planning, monitoring, and implementing information security management operations. However, the current review showed that system vulnerabilities were not properly fixed and controlled, thus engendering a number of problems, such as failure to detect and fix serious risks in time, failure to implement the review of firewall settings (which resulted in loose settings), and failure to create log monitoring and warning mechanisms, among other information security protection measures. These failures show that the unit in charge of information security failed to properly perform its duties and effectively carry out its supervisory functions.</p>   | <ol style="list-style-type: none"> <li>1. On January 3, 2022, the company has hired new IT technicians to oversee information security matters. The company will also outsource information security consulting services to strengthen its information security control.</li> <li>2. The company continued to purchase systems and adopt new technologies to assist with and reinforce the maintenance and management of IT systems.</li> <li>3. The company continued to strengthen the review of compliance of internal and external departments, and has created an Application System Development and Maintenance Management Checklist for all units to use.</li> <li>4. The company has commissioned an information security monitoring center to provide 24/7 information security monitoring services..</li> </ol>   | <p>The outsourced information security consulting service is expected to be completed by the end of March 2022, otherwise, all other items have been improved as planned.</p>        |
| <p>2. The company failed to state a rule in its Terms and Conditions for the Development, Maintenance, and Management of Application Systems, that new systems shall be subject to technical and security feasibility assessments. Consequently, several problems that are detrimental to information security had surfaced when the company commissioned an external company to integrate core insurance systems (for all types of insurance such as group, fire, and automobile insurance and for accident insurance) into a B2B platform. For example, the container technology company that the company employed was incapable of enforcing adequate control over its in-house technologies; it did not conduct risk assessment and develop supporting/compensation measures for systems that are unable to access program source code; and it failed to establish anti-swap or anti-tampering mechanisms for web programs and files. The company was fined NT\$600,000 for not implementing its internal control system properly. Specifically, the user login password settings for application systems that are provided for insurance brokers/agents to use were not in line with the company's Terms and Conditions for the Development, Maintenance, and Management of Application Systems, and user accounts were not thoroughly investigated.</p> | <ol style="list-style-type: none"> <li>1. The company has completed container management platform transfer operations in March 2021, and has strengthened its technological control capabilities.</li> <li>2. The company has developed relevant specifications stating that systems without program source code should undergo risk assessment and shall have a supporting compensation measure.</li> <li>3. The company has revised the relevant system password principles in accordance with the Terms and Conditions for the Development, Maintenance, and Management of Application Systems.</li> <li>4. The company has checked all relevant system accounts and introduced a new inspection mechanism.</li> <li>5. The company will establish anti-swap or anti-tampering mechanisms for web programs and files of web application systems that provide external services.</li> </ol> | <p>Items 1 to 4 have been improved as planned.</p> <p>Item 5-The anti-swap or anti-tampering mechanisms for web programs and files have been updated at the end of January 2022.</p> |



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| <p>3. In terms of information security management, there is a dedicated unit in charge of reporting to the Board of Directors the following problems that are detrimental to information security: Lack of overall information security protection and emergency response management; failure to formulate certificate (key) management specifications and ask manufacturers to check whether they comply with requirements prescribed in internal control documents; failure to establish security management specifications for container-based server clusters and relevant operating procedures; failure to develop regulations for the monitoring and management of main network hosts as well as standard operating procedures for the repair of operating systems (database) and security updates; failure to establish management specifications for special accounts and to check and manage them; failure to formulate management specifications for web application firewall (WAF) systems; failure to actively fix and perform follow-up management on vulnerabilities identified during vulnerability scan; and lack of follow-up patching operations for vulnerabilities detected during in penetration tests. Problems found to impede sound business management shall be corrected in accordance with the Insurance Act.</p> | <ol style="list-style-type: none"> <li>1. The overall implementation status of information security for 2020 has been included in relevant items in accordance with regulations, and presented in the 17th meeting of the 23rd-term Board of Directors on January 27, 2021.</li> <li>2. The company has revised its certificate management specifications and checked the accuracy of computer system information security assessment reports with the relevant testing teams and consultants.</li> <li>3. The company has established management specifications and relevant operating procedures for container-based application programs.</li> <li>4. The company has developed regulations for the monitoring and management of main network hosts as well as standard operating procedures for the repair of operating systems (database) and security updates.</li> <li>5. The company has established management specifications for special accounts and checked and managed them.</li> <li>6. The company has developed Web Application Firewall (WAF) management regulations.</li> <li>7. The company continued to perform vulnerability scanning, vulnerability patching, and follow-up management.</li> <li>8. The company has completed penetration tests and fixed any vulnerabilities.</li> </ol> | <p>Except for Item 7-vulnerability patching is expected to be completed by end of June 2022, all other items have been improved as planned.</p> |
| <p>4. In terms of outsourcing management, the company has established an "Emergency Response Plan Guide" for general cases, but it was unable to provide a link to the guide in its individual outsourcing contracts so as to ask companies to implement relevant emergency response plans. As a result, risks of service interruptions cannot be effectively reduced. Regarding systems that cannot access program source codes, although our contract specifies the compensation measures to take when a risk event occurs, the company failed to actively enforce risk control during the outsourcing period, which was detrimental to information security. Problems found to impede sound business management are corrected in accordance with the Insurance Act.</p>   | <ol style="list-style-type: none"> <li>1. To protect the interest of policy holders and prevent service interruptions, the company has, as required by regulatory authorities, developed emergency response plans for its electronic policy authentication and validation platform, message delivery system platform, and electronic transaction service platform. These plans will facilitate the immediate initiation of emergency response measures when an emergency related to our individual service platform occurs.</li> <li>2. The company has revised regulations: The revision states that information systems without program source code must undergo risk assessment and have a supporting compensation measure in place.</li> </ol>  | <p>Improved by the improvement measures.</p>  |

# Corporate Governance Report

| Items to be reinforced  | Improvement Measures  | Estimated Completion Time of Improvement   |
|---|---|--|
| <p><b>Mega Securities Co., Ltd.</b></p> <p>1. About the investment dispute between a customer and the trading officer ○○Li of Zhongxiao Branch, the FSC issued corrective actions and fined the company NT\$240,000 for failing to implement risk control, which is a violation of the Regulations Governing Securities Firms, and ordered the company to dismiss the aforementioned trading officer, ○○Li. Details of the offense and act are summarized below:</p> <p>(1) Trading officer ○○Li of the company has lured customers to directly remit fund for investment into his personal bank account, sold shares from the customer's account without authorization, and forged a screenshot showing the shares on inventory in order to cheat the customers. These acts are a violation of Paragraph 1, Sub-paragraphs 10 and 11 of Paragraph 2 under Article 18 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms.</p> <p>(2) The branch manager and counter supervisor at Zhongxiao Branch failed to report Li's illegal acts immediately upon receiving the customers' complaints, thus violating the company's internal control regulation CA-11420, specifically Rule (6) Procedures for Handling Customer Complaint or Whistleblowing Reports.</p> | <p>The following measures were adopted to mitigate legal violations:</p> <p>1. In June 2020, the company has dismissed trading officer ○○Li, issued three warnings to the counter supervisor, and one warning to the branch manager.</p> <p>2. The following supporting measures are put in place:</p> <p>a. Supervisors/managers will perform wandering-around management, pay more attention to the well-being of employees, and fulfill their duties as supervisor or manager.</p> <p>b. Branch managers must work in the vicinity of service counters during business hours to watch out for abnormal behaviors by sales staff members and to implement patrol-style management.</p> <p>c. Customer care interviews will be carried out in business locations so that supervisors can determine whether there are abnormal transactions taking place between a trading officer and customer.</p> <p>d. Upon the discovery of abnormal transactions between a trading officer and customer, the company will submit a request through the Company to have Mega Bank provide financial information or other information to assist in deterring improper conducts by sales agents and to better understand the financial transactions that a trading officer has completed, thereby implementing more effective control over the activities of sales agents.</p> | <p>Improved by the improvement measures.</p>   |
| <p>2. The following problems were identified in IT operations:</p> <p>(1) The company did not set up proper network connection monitoring and protection mechanisms, which is detrimental to information security. For example,</p> <p>a. The company did not establish information security incident and threat detection management platforms.</p> <p>b. The company did not set a firewall to control access between the internal server area and the open-access network segments of branch offices and head office.</p> <p>c. Equipment related to the branches' intranet SYSTEX price quotation system has a dedicated line to connect and access the price information of external companies. The company, however, did not establish a proper protection mechanism for such connection.</p>   | <p>a. The company will establish information security incident and threat detection management platforms (e.g., a Security Operation Center)</p> <p>b. The company will set up a physical firewall device to replace the current network segmentation control method.</p> <p>c. The company will set up a physical firewall device to strengthen its direct connection with external companies.</p>   | <p>a. Scheduled to improve by December 2022.</p> <p>b. Scheduled to improve by September 2022.</p> <p>c. Scheduled to improve by September 2022.</p> |



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| <p>(2)The following problems were identified during the 2020 and 2021 penetration tests, which were outsourced:</p> <ul style="list-style-type: none"> <li>a. The company failed to specify the qualifications required of a penetration testing company and operator. Such failure compromises the quality of penetration tests.</li> <li>b. The scope of penetration testing included only the e-Mega Global Trade system, and not the other external service systems that are connected to the Internet.</li> <li>c. The test results revealed information security vulnerabilities in external websites.</li> </ul>  | <ul style="list-style-type: none"> <li>a. When signing a contract with an IT company in 2022, the company will draw up a contract that stipulates relevant technical qualifications and certifications, and other qualification requirements, and also ask the IT company to provide relevant supporting documents when signing the contract.</li> <li>b. To completely evaluate the information security of external services, a penetration test will be conducted at least once every year on all service systems that provide services to external parties.</li> <li>c. For vulnerability scanning of company websites, the company will commission its current IT company to perform vulnerability scanning and also hire another IT company to scan vulnerabilities with a different scanning tool so as to ensure that all vulnerabilities are detected.</li> </ul> | <ul style="list-style-type: none"> <li>a. Scheduled to improve by March 2022.</li> <li>b. Scheduled to improve by June 2022.</li> <li>c. Scheduled to improve by June 2022.</li> </ul>  |
| <p>(3)The following problems were identified in personal data security protection operations:</p> <ul style="list-style-type: none"> <li>a. The company failed to develop a drip data loss prevention (DLP) and follow-up mechanisms.</li> <li>b. For those who trigger the filtering of risk control rules at all levels by saving files to USB, the triggering person did not provide reasons, and the company failed to establish a regular review mechanism.</li> <li>c. The company did not establish filtration, blocking or other control mechanisms for use of personal mobile phones or other mobile devices to receive company emails.</li> <li>d. The company failed to develop management regulations and control measures for the company's My Network Places function, and regularly check the use of it.</li> </ul> | <ul style="list-style-type: none"> <li>a. The company has commissioned an IT company to help develop drip DLP rules and a warning/tracking mechanism.</li> <li>b. The company has commissioned an IT company to set up a function which requires a triggering person to provide reasons when they save files to USB, and also to establish a review mechanism.</li> <li>c. The company will make plans to set up relevant control systems as recommended.</li> <li>d. The company has commissioned an IT company to provide assistance or find other products that can be used to disable a personal computer's My Network Places function.</li> </ul>   | <ul style="list-style-type: none"> <li>a. Scheduled to improve by March 2022.</li> <li>b. Scheduled to improve by March 2022.</li> <li>c. Scheduled to improve by June 2022.</li> <li>d. Scheduled to improve by March 2022.</li> </ul> |
| <p>(4)The company used third-party libraries for its online ordering systems and mobile apps without performing risk assessment. The company also failed to establish a list of previously disclosed libraries and version control procedures.</p>   | <p>The company has ask the outsourcing supplier to provide a list of third-party libraries and versions that it uses. In addition, relevant IT control products will be evaluated to assess the risks associated with the aforementioned lists and versions and make improvements accordingly. The company will also develop relevant management specifications.</p>   | <p>Scheduled to improve by June 2022.</p>   |
| <p>3. Some IT systems (such as e-Mega Global Finance) use operating systems or database systems with security updates that are no longer supported by Microsoft, resulting in failure to regularly patch relevant security vulnerabilities.</p>  | <p>Updates to host systems will be completed before the end of March 2022.</p>   | <p>Scheduled to improve by March 2022.</p>  |

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

## **3.4.11 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 FSC for violating laws and regulations:**

**I. Mega International Commercial Bank**

1. The deficiencies of the mortgage business has violated Article 45-1-1 of the Banking Act of Republic of China. Also the Bank was imposed by the FSC a fine of NT\$10 million by Article 129-7 of the Act stated above.

The deficiency is improved with the improvement measures as below:

- a. Strengthen pre-loan collection and review operations
  - (a) Establish a pattern of dummy accounts that can be quantified by system verification. Strengthen the education training for consumer finance credit review and due diligence.
  - (b) For housing loan cases with the same sources of input, establish a control mechanism for alternate distribution processing.
  - (c) Establish a land administration agent blacklist inquiry and comparison mechanism, and handle the referrals from high-risk agents with care and prudence.
- b. Strengthen controls of collateral appraisal and assessment operations
  - (a) Build an "Automated execution of homogeneous object price inquiry system" for real estate, and revise the criteria for authorization of business unit valuation and transfer to the head office for review.
  - (b) The appraisal personnel and the credit signing personnel controlled by the system shall not be the same person.
- c. Strengthen post-loan management and tracking operations
  - (a) Strengthen checking and management functions for the "Domestic Consumer Spending Warning List."
  - (b) Update control measures for "Real Estate Real-Price Registration Back-Check Mechanism."
  - (c) Add post-loan tracking item that "the transcript of the collateral needs to be read within 6 months after the mortgage loan is disbursed."
  - (d) Establish a risk-based consumer finance review system.
  - (e) Actively review how well or how often a bank branch performs self-inspection.
- d. Other control measures:
  - (a) Introduce regulations for follow-up investigation and reporting of suspected fraud or violation of laws and regulations relating to irregular use of funds by bank clerks.
  - (b) Strengthen follow-up management of cases that are suspected to be dummy account and unreasonable.

2. There is a violation against Insurance law while conducting insurance agency business. The FSC ordered 1-month correction period and fined NT\$ 1.5million.

The deficiency is improved with the improvement measures as below:

- a. Cases of similar circumstances have been investigated, and remarketing cooperation plan for insurance clients with the insurance company has been terminated.
  - b. Collect and review on a monthly basis the competent authorities' sanction cases against peers and changes in laws and regulations, and confirm that the relevant internal control measures are in compliance with the regulations, so as to prevent similar deficiencies from happening again.
3. The merged entity Mega Life Insurance Agency Co., Ltd. has violated Insurance law and Financial Consumer Protection Act. On July 27, 2020 the FSC ordered 1 month correction period on two items and fine NT\$ 3.3 million.

The deficiency is improved with the improvement measures as below:

- a. Use control reports to check the correctness of the source of premiums in a salesperson's report and the consistency of a policyholder's financial status. Further, build verification mechanisms in the system for "Client Premium Funding Source" and "Consistency of Financial Information between Customers and the Bank."
- b. Check the correctness of the investment insurance product risk attribute evaluation form on a case-by-case basis; any discrepancies will not be accepted.
- c. Establish a standard operating procedure checklist to confirm the compliance status of consumer appeal cases.
- d. Formulate the review basis and procedures for insurance product advertisements.
- e. Revise the relevant regulations on the remuneration of insurance agency business personnel, adding non-financial indicators.
- f. Strengthen the education and training of sales recording operations for the bank's sales staff, checking the recording files every month to confirm their execution.

## II. Mega Securities Co., Ltd.

On June 24, 2020 and July 17, 2020, Taiwan Stock Exchange Co., Ltd. audited Zhongxiao Branch of Mega Securities and found that ○○ Li, the entrusted trading officer, had tricked many customers into remitting the investment funds to his/her personal accounts, sold stocks in customer's account without being entrusted, and deceived customers with forged screenshots of stock inventories. The internal control system was not effectively implemented, violating Article 2, item 2 of Regulations Governing Securities Firms. On May 12, 2021, the FSC imposed a fine of NT\$240 thousand in accordance with Article 178-1, Paragraph 1, Subparagraph 4 of the Securities and Exchange Act.

The deficiency is improved with the improvement measures as below:

- a. In June 2020, the company has dismissed trading officer ○○Li, issued three warnings to the counter supervisor, and one warning to the branch manager.
- b. The following supporting measures are put in place:

- (a) Supervisors/managers will perform wandering-around management, pay more attention to the well-being of employees, and fulfill their duties as supervisor or manager.
- (b) Branch managers must work in the vicinity of service counters during business hours to watch out for abnormal behaviors by sales staff members and to implement patrol-style management.
- (c) Customer care interviews will be carried out in business locations so that supervisors can determine whether there are abnormal transactions taking place between a trading officer and customer.
- (d) Upon the discovery of abnormal transactions between a trading officer and customer, the company will submit a request through the Company to have Mega Bank provide financial information or other information to assist in deterring improper conducts by trading officers and to better understand the financial transactions that a sales agent has completed, thereby implementing more effective control over the activities of sales agents measures.

### III. Chung Kuo Insurance Co., Ltd.

1. FSC has listed deficiency item in the general operation audit report for Chung Kuo Insurance's sponsored activities. There is no sponsorship management policies and approval authorities to follow. The original application documents have not been obtained or the originals have not been submitted, and relevant units have not verified the authenticity of sponsored activities before the expense reimbursement or purchase. It also did not keep the records of the sponsor's receipt or the report of the results of the activities. It did not control the delivery of the purchased products (e.g., gift certificates) for submission. The above is inconsistent with Article 5-1-8 of Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises, enacted in accordance with Paragraph 1, Article 148-3 of the Insurance Act. On August 11, 2020, NT\$600,000 was fined by FSC.

The deficiency is improved with the improvement measures as below:

"Sponsorship Management Act," "Business Expense Management Principles," "Business Promotion Expense Management Principles," and "Gift Certificate for Business Promotion Management Principles" were established for the deficiency item. Besides continuing promoting and implementing, the Company's Audit Office has included the topic into annual audit item to check the effectiveness of the improvement measures.

- 2 The FSC listed deficiency items on the special audit report for Chung Kuo Insurance's e-commerce system, which is violating Item 4, Paragraph 1, Article 171 of the Insurance Act. On May 12, 2021, NT\$1,200,000 was fined by FSC.
  - a. The unit in charge of information security was supposed to allocate resources and equipment appropriately and be in charge of planning, monitoring, and implementing information security management operations. However, the current review showed that system vulnerabilities were not properly fixed and controlled, thus engendering a number of problems, such as failure to detect and fix serious risks in time, failure to implement the review of firewall settings (which resulted in loose settings), and failure to create log monitoring and warning mechanisms, among other information security protection measures. These failures show that the unit in charge of information security failed to properly perform its duties and effectively carry out its supervisory functions. The company was fined NT\$600,000 for not complying with the Insurance Act.



- b. The company failed to state a rule in its Terms and Conditions for the Development, Maintenance, and Management of Application Systems, that new systems shall be subject to technical and security feasibility assessments. Consequently, several problems that are detrimental to information security had surfaced when the company commissioned an external company to integrate core insurance systems (for all types of insurance such as group, fire, and automobile insurance and for accident insurance) into a B2B platform. For example, the container technology company that the company employed was incapable of enforcing adequate control over its in-house technologies; it did not conduct risk assessment and develop supporting/compensation measures for systems that are unable to access program source code; and it failed to establish anti-swap or anti-tampering mechanisms for web programs and files. Specifically, the user login password settings for application systems that are provided for insurance brokers/agents to use were not in line with the company's Terms and Conditions for the Development, Maintenance, and Management of Application Systems, and user accounts were not thoroughly investigated. The company was fined NT\$600,000 for not implementing its internal control system properly.

The deficiency is improved with the improvement measures as below:

- a. The company has hired new IT technicians to strengthen its information security control.
- b. The company continued to purchase systems and adopt new technologies to assist with and reinforce the maintenance and management of IT systems.
- c. The company continued to strengthen the review of compliance of internal and external departments, and has created an Application System Development and Maintenance Management Checklist for all units to use.
- d. The company has commissioned an information security monitoring center to provide 24/7 information security monitoring services.
- e. The company has completed container management platform transfer operations, and has strengthened its technological control capabilities.
- f. The company has developed relevant specifications stating that systems without program source code should undergo risk assessment and shall have a supporting compensation measure.
- g. The company has revised the relevant system password principles in accordance with the Terms and Conditions for the Development, Maintenance, and Management of Application Systems.
- h. The company has checked all relevant system accounts and introduced a new inspection mechanism.
- i. The relevant items has been added per the regulation and has been reported to the Board of Directors of Chung Kuo Insurance.
- j. The company has revised its certificate management specifications and checked the accuracy of computer system information security assessment reports with the relevant testing teams and consultants.
- k. The company has established management specifications and relevant operating procedures for container-based application programs.
- l. The company has developed regulations for the monitoring and management of main network hosts as well as standard operating procedures for the repair of operating systems (database) and security updates.
- m. The company has established management specifications for special accounts and checked and managed them.
- n. The company has developed Web Application Firewall management regulations.
- o. The company continued to perform vulnerability scanning, vulnerability patching, and follow-up management.
- p. The company has completed penetration tests and fixed any vulnerabilities.

## C. Deficiencies corrected by FSC:

### I. Mega International Commercial Bank

There were deficiencies of the credit, loan, and post-loan management operation of the loan business for Powtec Electrochemical Corporation handled by the Bank. The FSC corrected by Article 61-1-1 of Banking Act on February 2, 2021.

The deficiency is improved with the improvement measures as below:

1. Promoting database use to credit employee to analyze industry prospect and product price fluctuation. Also the client's past operation performance and peer performance should be referenced to evaluate the feasibility of its future repayment plan and reflect the borrower's medium repayment ability.
2. Summarize various credit letter specifications and statutory regulations to formulate "Supplementary Notes for Handling Credit Business" of Mega Bank so as to provide credit business personnel to follow accordingly.
3. Advocating the watch items for similar syndication deal for syndication team to lower down future risk. In addition, in the credit review and self-inspection projects, the inspection of the implementation of the commitment conditions has been strengthened.
4. Producing reports to reinforce the control of amendments on terms and conditions of syndicated loans as well as establishing "Post Loan Tracking Platform" to reinforce post loan management system.
5. With regard to industries with concentrated credit granting, special industries or industries with large economic fluctuations, prudently evaluate the scenarios and parameter settings and conduct stress tests in order to take response measures in a timely manner.

### II. Mega Securities Co., Ltd.

1. The FSC conduct brokerage business special audit in Zhongxiao branch during July 3, 2019 to July 10, 2019 and had the below findings. On February 11, 2020 the FSC corrected the items by Article 65 of Securities and Exchange Act.
  - a. There are circumstances that internal staff and customers placed orders with the same IP address on the same day, saved to the same correspondence address or e-mail inbox, etc. The company had not established a control mechanism and investigated whether order agent regulations had been violated. Investigation showed that this was a violation of Article 2, Paragraph 2 of the Regulations Governing Securities Firms.
  - b. The Zhongxiao Branch Manager (Executive Vice President ○○ Chang) utilized the account of a customer (○○ Chen) to buy and sell securities. This was determined to violate Article 18, Paragraph 2, Section 7 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms. As the company had not fulfilled its responsibility of supervising and managing personnel, it was determined to violate Article 2, Paragraph 2 of the Regulations Governing Securities Firms.

The deficiency is improved with the improvement measures as below:

- a. Control mechanism has established. Systematic Periodic check will be conducted and will be confirmed by authority supervisor.
- b. The employee violated the law has been transferred to other unit, reduce salary, and punished.
2. The FSC conduct general business audit in the company during November 28, 2019 to December 19, 2019 and had the below findings. On August 4, 2020, the FSC corrected the items by Article 65 of Securities and Exchange Act.
  - a. There were cases of accepting entrusted securities trading by non-clients or those who do not have a client's authorization letter. These were determined to violate the provisions of Article 37, Section 13 of the Regulations Governing Securities Firms.
  - b. When handling the business of entrusted trading of foreign securities, the handling fee rate charged to investors exceeded the handling fee rate limit set by the company. This was determined to violate Article 31, Paragraph 3 and Paragraph 4 of the provisions of the Rules Governing Securities Firms Accepting Orders to Trade Foreign Securities of the Taiwan Securities Association.

- c. Managerial officers of wealth management and trust businesses (○○Zhang of the Chungli Branch and ○○Chen of the Nanmen Branch) failed to complete training courses before registration as required. This was determined to violate Point 11, Paragraph 4 of the Directions for the Conduct of Wealth Management Business by Securities Firms.

The deficiency is improved with the improvement measures as below:

- a. Strengthen the promotion not to accept entrusted securities business without client's authorization letter. Three month recording has been done and there was no similar violation.
  - b. Relevant regulation has been amended and the handling fee charged is disclosed in client's bills.
  - c. The person violated the law has completed the training and has confirmed by the system the qualification before registration.
3. On June 24, 2020 and July 17, 2020, Taiwan Stock Exchange Co., Ltd. audited Zhongxiao Branch of Mega Securities and found the deficiencies as below. On May 12, 2021, the FSC corrected the items by Article 65 of Securities and Exchange Act.
- a. ○○Li, the entrusted trading officer, had tricked customers ○○Peng and ○○Hsu to remit the investment funds to his/her personal accounts for reason of investing the Company's stock, and did not deliver the stock or returned the full remittance to the customer, and sold the stock of ○○Hsu account without being entrusted, and deceived ○○Hsu with forged screenshots of stock inventory, etc., which violated the principle of honesty and credibility, in accordance with Article 18, Paragraph 1, and Subparagraph 10 and 11 of Paragraph 2 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms.
  - b. The managerial officer of Zhongxiao Branch of Mega Securities, ○○Chen, and the counter supervisor, ○○Tseng, failed to pay due professional attention, resulting in failure to detect Li's violations in time; There was an investment dispute case between Mr. Li's client and Mr. Li. After the company's internal investigation, it was found that the person was involved in violation of securities management laws and regulations. However, there was no immediate notification to TWSE or FSC. The item 6 of internal control system standard CA-11420 "Practice of Handling customer complaints or reports" was violated.

The deficiency is improved with the improvement measures as below:

- a. In June 2020, Li was dismissed from office, the counter supervisor was issued three warnings, and the branch managerial officer was issued one warning.
- b. The following supporting measures have been taken:
  - (a) Supervisors implement management by wandering around, strengthen care for employees, and fulfill their supervisory and management responsibilities.
  - (b) The managerial officer of the branch must work at the business counter during business hours to observe whether the any business personnel have abnormal behaviors, so as to facilitate the implementation of management by wandering around.
  - (c) Interviews with customers in good faith are implemented in the branches, so that supervisors can understand whether there are any abnormal behaviors between business personnel and customers.
  - (d) If abnormal behaviors between business personnel and customers are found, the financial holding parent company will contact Mega Bank to provide cash flow or other information to assist Mega Securities to prevent the business personnel's improper behavior, and to further understand the business personnel's fund transactions, in order to strengthen business personnel management measures.
  - (e) The improvement measures mentioned above are in order to grasp the abnormal situation of the business personnel as soon as possible, so as to report the stock exchange or the competent authority the improvement measures immediately.

### III. Chung Kuo Insurance Co., Ltd.

- 1. In terms of information security management, there are followings that are detrimental to information security: the lack of overall information security protection and emergency response management in the dedicated unit's proposal to Board of Directors; failure to formulate certificate (key) management specifications and ask suppliers to check whether they comply with requirements prescribed in internal control documents; failure to establish security management specifications for container-based server

clusters and relevant operating procedures; failure to develop regulations for the monitoring and management of main network hosts as well as standard operating procedures for the repair of operating systems (database) and security updates; failure to establish management specifications for special accounts and to check and manage them; failure to formulate management specifications for web application firewall systems; failure to actively fix and perform follow-up management on vulnerabilities identified during vulnerability scan; and lack of follow-up patching operations for vulnerabilities detected during in penetration tests. Problems found impeded sound business management. On May 12, 2021, FSC corrected the above in accordance with the Insurance Act.

The deficiency is improved with the improvement measures as below:

- a. The overall implementation status has been included in relevant items in accordance with regulations, and presented to the Board of Directors of Chung Kuo Insurance.
  - b. The company has revised its certificate management specifications and checked the accuracy of computer system information security assessment reports with the consultants and relevant testing teams formulated by the suppliers.
  - c. The company has established management specifications and relevant operating procedures for container-based application programs.
  - d. The company has developed regulations for the monitoring and management of main network hosts as well as standard operating procedures for the repair of operating systems (database) and security updates.
  - e. The company has established management specifications for special accounts and checked and managed them.
  - f. The company has developed Web Application Firewall management regulations.
  - g. The company continued to perform vulnerability scanning, vulnerability patching, and follow-up management.
  - h. The company has completed penetration tests and fixed any vulnerabilities.
2. In terms of outsourcing management, the company has established an "Emergency Response Plan Guide" for general cases, but it was unable to provide a link to the guide in its individual outsourcing contracts so as to ask companies to implement relevant emergency response plans. As a result, risks of service interruptions cannot be effectively reduced. Regarding systems that cannot access program source codes, although our contract specifies the compensation measures to take when a risk event occurs, the company failed to actively enforce risk control during the outsourcing period, which was detrimental to information security. Problems found impeded sound business management. On May 12, 2021, FSC corrected the above in accordance with the Insurance Act.

The deficiency is improved with the improvement measures as below:

- a. The relevant system emergency response plan has been formulated.
- b. The company has revised regulations: The revision states that information systems without program source code must undergo risk assessment and have a supporting compensation measure in place.

#### IV. Mega International Investment Trust Co., Ltd.

The company has been special-audited by the Financial Supervisory Commission for the internal control system of the trading room. The reason is the company's fund entrusted a company to act as the investment consultant and place orders, who emailed the information such as the transaction and delivery confirmation of the bond trading to its global strategy partner in Taiwan. Mega Int'l Investment Trust did not immediately inform the entrusted company the above violated regulations and did not ask it to correct it, which was inappropriate. The FSC reviewed and corrected the above on March 23, 2021.

The deficiency is improved with the improvement measures as below:

1. During the inspection period, the oversea consultant had been notified to delete non-related contacts in the email group, and the members of the contact group were required to be limited to those related to the transactions of Mega Int'l Investment Trust and the oversea consultant.
2. In addition, the entrusted investment advisor's emails had been thoroughly checked and there are no violation stated above.

**D. Punishment by the FSC by Article 54-1 of Financial Holding Companies Act: NA.**

**E. 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: NA.**

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

### 3.4.12 Major Resolutions of Shareholders' Meeting and Board Meetings in 2021

#### A. Important resolution of 2021 shareholders' meeting:

a. Approved the 2020 Business Report and Financial Statements

Implementations: The 2020 Business Report and Financial Statements have been filed with FSC on August 2, 2021.

b. Approved the 2020 earning distribution proposal

Implementations: The meeting resolved to pay cash dividend of \$1.58 per share with an aggregate amount of NT\$21,487,721,893. The dividend record date, which is approved by the Board of Directors, was set on August 20, 2021, and the dividend was paid on September 3, 2021.

c. Approved the election of the 8th term of Board of Directors

Implementation: The 8th term of Board of Directors is on-board on July 20, 2021. The tenure is from July 20, 2021 to July 19, 2024.

d. Relieved the restriction on directors' non-competition.

Implementation: Important information has been published on July 20, 2021.

#### B. Important resolution of the Board meetings held in 2021

| Meeting date       | No. of meeting and terms                                 | Agenda and resolution  |
|--------------------|--|--|
| January 26, 2021   | The 32 <sup>nd</sup> meeting of the 7 <sup>th</sup> term | Approved the engagement of the external auditor for 2021 financial statements and re-designation of directors and supervisors of Mega Venture Capital.   |
| February 23, 2021  | The 33 <sup>rd</sup> meeting of the 7 <sup>th</sup> term | Approved the re-designation of supervisors of Mega Bank.   |
| March 23, 2021     | The 34 <sup>th</sup> meeting of the 7 <sup>th</sup> term | Approved the 2020 consolidated financial statements, 2020 internal control statement, agenda of convening of the 2021 general shareholders' meeting, and allocation of 2020 employee and directors' compensation.  |
| April 27, 2021     | The 35 <sup>th</sup> meeting of the 7 <sup>th</sup> term | Approved 2020 earnings distribution proposal, 2020 Business Report, appointment of directors of bank subsidiary, appointment of directors and supervisors of security subsidiary, appointment of directors of investment trust subsidiary, appointment of the director & president of bills finance subsidiary |
| May 25, 2021       | The 36 <sup>th</sup> meeting of the 7 <sup>th</sup> term | Approved re-designation of directors of Chung Kuo Insurance and Mega Asset Management.   |
| June 22, 2021      | The 37 <sup>th</sup> meeting of the 7 <sup>th</sup> term | Approved re-designation of the 15th term of Board of Director and supervisors of investment trust subsidiary and 16th term of Board of Director and supervisors of bills finance subsidiary. Appointment of directors of securities subsidiary.  |
| July 20, 2021      | The 1 <sup>st</sup> meeting of the 8 <sup>th</sup> term  | Approved the election of the Chairman of the 8th term of the Board of the Company and the re-appointment of the President of the Company.  |
| July 27, 2021      | The 2 <sup>nd</sup> meeting of the 8 <sup>th</sup> term  | Approved the record date for the 2020 earning distribution.  |
| August 24, 2021    | The 3 <sup>rd</sup> meeting of the 8 <sup>th</sup> term  | Approved 2021 Q2 consolidated financial statements and re-designation of director of bills finance subsidiary.   |
| September 28, 2021 | The 4 <sup>th</sup> meeting of the 8 <sup>th</sup> term  | Approved the re-designation of supervisor of asset management subsidiary.  |
| November 23, 2021  | The 6 <sup>th</sup> meeting of the 8 <sup>th</sup> term  | Approved the amendment of 2021 budget, the 2022 audit plan, and re-designation of directors of asset management and investment trust subsidiary.   |
| December 28, 2021  | The 7 <sup>th</sup> meeting of the 8 <sup>th</sup> term  | Approved the budget target of 2022 and the re-designation of the 17 <sup>th</sup> term of directors and supervisors of Mega Bank and 12 <sup>th</sup> term of directors and supervisors of securities subsidiary.  |

## 3.4.13 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Approved by the Board of Directors in 2021: None.

## 3.4.14 Resignation or Dismissal of Personnel Related to Financial Reports (Including Chairman, President, Financial Managerial Officer, Accounting Managerial Officer, Chief Auditor, and Corporate Governance Officer) in 2021 and till the annual report date: None.

## 3.5 Information on External Auditor Fee

Unit: NT\$ thousand

| Accounting Firm                      | Name of CPAs              | Audit Period                          | Audit Fee | Non-Audit Fee | Total | Remarks  |
|--------------------------------------|---------------------------|---------------------------------------|-----------|---------------|-------|--|
| PricewaterhouseCoopers, Taiwan (PWC) | Shu-Mei Chi<br>Puo-Ju Kuo | January 1, 2021~<br>December 31, 2021 | 2,082     | 1,201         | 3,283 | 1. Tax audit NT\$521 thousand.<br>2. Volcker Rule consulting fee of NT\$460 thousand.<br>3. English financial report translation fee of NT\$200 thousand.<br>4. The fee of NT\$20 thousand for reviewing the salary information declaration of full-time employees who are not in supervisory positions. |

A. 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.

B. If there is a more than 10% decrease of audit fee compared to previous year, the amount, percentage and reason shall be disclosed: None.

## 3.6 Change of External Auditors

### 3.6.1 Information relating to the former CPA:

|  |   |   |                                |           |
|--|---|---|--------------------------------|-----------|
| Date of Replacement  | January 26, 2021  |   |                                |           |
| Reason for replacement   | The external auditor of the 2021 financial statement Chung-Hsi Lai is replaced by Puo-Ju Kuo due to internal job rotation in PWC. |   |                                |           |
| Explanation if the termination of audit services initiated by the principal or by the CPA                                | Counterparty  |   | CPA                            | Principal |
|  | Situation   |   |                                |           |
|  | Initiation of the termination   |   | N.A.                           | N.A.      |
|  | Service no longer accepted (continued)  |   | N.A.                           | N.A.      |
| Reasons for issuing opinions other than unqualified opinions in the recent 2 years                                       | None  |   |                                |           |
| Disagreements with the Company   | Yes   |   | Accounting policy or practice  |           |
|  |   |   | Financial statement disclosure |           |
|  |   |   | Audit coverage or procedures   |           |
|  |   |   | Others                         |           |
|  | None  | V |                                |           |
|  | Description   |   |                                |           |
| Other disclosures (Disclosures deemed necessary under Article 10, Paragraph 6, Subparagraph 1, Item 4 of the Guidelines) | N.A.  |   |                                |           |



|  |  |      |                                |
|--|--|------|--------------------------------|
| Date of Replacement  | January 25, 2022   |      |                                |
| Reason for replacement   | The external auditor of the 2022 financial statement Shu-Mei Chi is replaced by Chung-Hsi Lai due to internal job rotation in PWC. |      |                                |
| Explanation if the termination of audit services initiated by the principal or by the CPA                                | Counterparty   |      |                                |
|  | Situation  | CPA  | Principal                      |
|  | Initiation of the termination  | N.A. | N.A.                           |
|  | Service no longer accepted (continued)   | N.A. | N.A.                           |
| Reasons for issuing opinions other than unqualified opinions in the recent 2 years                                       | None   |      |                                |
| Disagreements with the Company   | Yes  |      | Accounting policy or practice  |
|  |  |      | Financial statement disclosure |
|  |  |      | Audit coverage or procedures   |
|  |  |      | Others                         |
|  | None   | V    |                                |
|  | Description  |      |                                |
| Other disclosures (Disclosures deemed necessary under Article 10, Paragraph 6, Subparagraph 1, Item 4 of the Guidelines) | N.A.   |      |                                |

### 3.6.2 Information relating to the succeeding CPA:

|  |                                |
|--|--------------------------------|
| Name of accounting firm  | PricewaterhouseCoopers, Taiwan |
| Name of external accountant  | Puo-Ju Kuo                     |
| Date of appointment  | January 26, 2021               |
| 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 the appointment | None                           |
| Written disagreements from the succeeding CPA against the opinions made by the former CPA  | None                           |

|  |                                |
|--|--------------------------------|
| Name of accounting firm  | PricewaterhouseCoopers, Taiwan |
| Name of external accountant  | Chung-Hsi Lai                  |
| Date of appointment  | January 25, 2022               |
| 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 the appointment | None                           |
| Written disagreements from the succeeding CPA against the opinions made by the former CPA  | None                           |

### 3.6.3 Formal response from former CPA regarding Article 10, Paragraph 6, Subparagraph 1, and Subparagraph 2, Item 3 of the Guidelines: None.

## 3.7 The Chairman, President, and Managerial Officers in Charge of Finance or Accounting Affairs Who Held Any Position at the Auditing Firm or its Affiliated Companies: None.

## 3.8 Disclosures of Changes in The Shareholding (Stock Transfers and Pledges) of Directors, Managerial Officers and Those as Required by Law in 2021



# Corporate Governance Report

## 3.8.1 Changes in Shareholding

Unit: Share

| Title                        | Name  | In 2021                            |                                       | In 2022 till March 31              |                                       |
|------------------------------|---|------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|
|                              |   | 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.                           | 0                                  | 0                                     | 0                                  | 0                                     |
|                              | The National Development Fund, Executive Yuan, R.O.C. | 0                                  | 0                                     | 0                                  | 0                                     |
|                              | Bank of Taiwan Co., Ltd.                              | 0                                  | 0                                     | 0                                  | 0                                     |
|                              | Chunghwa Post Co., Ltd.                               | 43,000                             | 0                                     | 0                                  | 0                                     |
| Chairman                     | Chao-Shun Chang                                       | 0                                  | 0                                     | 0                                  | 0                                     |
| President                    | Kuang-Hua Hu  | 0                                  | 0                                     | 0                                  | 0                                     |
| Independent Directort        | Ying Wu   | 0                                  | 0                                     | 0                                  | 0                                     |
|                              | Chang-Ching Lin                                       | 0                                  | 0                                     | 0                                  | 0                                     |
|                              | Hung-Ju Chen  | 0                                  | 0                                     | 0                                  | 0                                     |
|                              | Tsai-Jyh Chen   | 0                                  | 0                                     | 0                                  | 0                                     |
|                              | Chi-Chang Yu  | 0                                  | 0                                     | 0                                  | 0                                     |
| Executive Vice President     | Jui-Yun Lin   | 0                                  | 0                                     | 0                                  | 0                                     |
| Executive Vice President     | Yu-Mei Hsiao  | 0                                  | 0                                     | 0                                  | 0                                     |
| Executive Vice President     | Kuo-Pao Chen (Note 1)                                 | 0                                  | 0                                     | 0                                  | 0                                     |
| Chief Auditor                | Jui-Ying Tsai   | 0                                  | 0                                     | 0                                  | 0                                     |
| Chief Compliance Officer     | Hui-Lin Wu  | 0                                  | 0                                     | 0                                  | 0                                     |
| Chief Secretary of the Board | Han-Yin Ting  | 0                                  | 0                                     | 0                                  | 0                                     |
| Senior Vice President        | Ching-Yi Li   | 0                                  | 0                                     | 0                                  | 0                                     |
| Vice President               | Ming-Chih Lu  | 0                                  | 0                                     | 0                                  | 0                                     |
| Vice President               | Lan-Jong An   | 0                                  | 0                                     | 0                                  | 0                                     |
| Vice President               | Chia-Lin Chang (Note 2)                               | 0                                  | 0                                     | 0                                  | 0                                     |
| Vice President               | Ing-Jun Kuo (Note 3)                                  | 0                                  | 0                                     | 0                                  | 0                                     |
| Vice President               | Hung Tseng (Note 4)                                   | 0                                  | 0                                     | 0                                  | 0                                     |
| Vice President               | Chien-An Chen (Note 5)                                | 0                                  | 0                                     | 0                                  | 0                                     |

Note:

1. Mr. Kuo-Pao Chen retired on March 1, 2022.
2. Ms. Chia-Lin Chang became Vice President of Administration Department on August 1, 2021.
3. Mr. Ing Jun Kuo became the Vice President of Information Security Department since January 1, 2022.
4. Mr. Hung Tseng became the Vice President of Compliance Department since February 1, 2022.
5. Mr. Chien-An Chen became the Vice President of Electronic Data Processing Department since March 1, 2022.

## 3.8.2 Shares Trading with Related Parties: None.

## 3.8.3 Shares Pledge with Related Parties: None.



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

As of April 18, 2022

| Name  | Shareholding  |      | Spouse & Minor children |   | Shareholding by Nominee Arrangement |   | The top 10 shareholders with kinship with each other as related person or spouse, second degree relative, etc., their name or name and relationship |  | Remarks |
|---|---------------|------|-------------------------|---|-------------------------------------|---|---|--|---------|
|   | Shares        | %    | Shares                  | % | Shares                              | % | Name  | Relation   |         |
| Ministry of Finance, R.O.C.<br>(Representative: Jain-Rong Su)                         | 1,143,043,883 | 8.40 | 0                       | 0 | 0                                   | 0 | Bank of Taiwan, a wholly-owned subsidiary of Taiwan Financial Holding Co., Ltd.   | Taiwan Financial Holding Co., Ltd. is wholly-owned by Ministry of Finance,     | None    |
| National Development Fund, Executive Yuan, R.O.C.<br>(Representative: Ming-Hsin Kung) | 830,973,202   | 6.11 | 0                       | 0 | 0                                   | 0 | None  | None   | None    |
| Chunghwa Post Co., Ltd.<br>(Representative: Hong-Mo Wu)                               | 490,778,910   | 3.61 | 0                       | 0 | 0                                   | 0 | None  | None   | None    |
| Cathay Life Insurance Co., Ltd<br>(Representative: Tiao-Kuei Huang)                   | 416,839,141   | 3.07 | 0                       | 0 | 0                                   | 0 | None  | None   | None    |
| Bank of Taiwan Co., Ltd.<br>(Representative: Jye-Cherng Lyu)                          | 334,951,379   | 2.46 | 0                       | 0 | 0                                   | 0 | Ministry of Finance,  | Taiwan Financial Holding Co., Ltd. is wholly owned by the Ministry of Finance, | None    |
| Taiwan Life Insurance Co., Ltd.<br>(Representative: Su-Kuo Huang)                     | 305,200,771   | 2.24 | 0                       | 0 | 0                                   | 0 | None  | None   | None    |
| Fubon Life Insurance Co., Ltd.<br>(Representative: Richard M. Tsai)                   | 263,500,000   | 1.94 | 0                       | 0 | 0                                   | 0 | None  | None   | None    |
| New Labor Pension Fund<br>(Representative: Yu-Ching Su)                               | 255,989,344   | 1.88 | 0                       | 0 | 0                                   | 0 | None  | None   | None    |
| Pou Chen Corporation<br>(Representative: Lu-Min Chan)                                 | 191,730,486   | 1.41 | 0                       | 0 | 0                                   | 0 | None  | None   | None    |
| Taiwan Tobacco & Liquor Corp.<br>(Representative: Yen-Che Ting)                       | 181,256,563   | 1.33 | 0                       | 0 | 0                                   | 0 | None  | None   | None    |

## 3.10 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 controlled by the Company

As of December 31, 2021; unit: shares/%

| Long-term Investment                                | Ownership by Mega FHC<br>(1) |        | Direct/Indirect Ownership by<br>Directors, Supervisors and<br>Management<br>(2) |        | Total Ownership<br>(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 Venture Capital Co., Ltd.                      | 100,000,000                  | 100.00 | 0   | 0      | 100,000,000                  | 100.00 |
| 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      | 5,000,000   | 100.00 | 5,000,000                    | 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  |
| Next Commercial Bank Co., Ltd.                      | 0                            | 0      | 251,000,000   | 25.10  | 251,000,000                  | 25.10  |
| Ramlett Finance Holdings Inc.                       | 0                            | 0      | 1,500   | 100.00 | 1,500                        | 100.00 |
| Win Card Co., Ltd.                                  | 0                            | 0      | 200,000   | 99.56  | 200,000                      | 99.56  |
| ICBC Assets Management & Consulting Co., Ltd.       | 0                            | 0      | 2,000,000   | 99.56  | 2,000,000                    | 99.56  |
| Mega Growth Venture Capital Co., Ltd.               | 0                            | 0      | 25,500,000  | 20.08  | 25,500,000                   | 20.08  |
| An Fang Co., Ltd.                                   | 0                            | 0      | 900,000   | 29.978 | 900,000                      | 29.978 |
| 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      | 9,990,000   | 20.00  | 9,990,000                    | 20.00  |
| Universal Venture Capital Investment Corporation    | 0                            | 0      | 51,000,000  | 42.36  | 51,000,000                   | 42.36  |

# Capital Overview



# Capital Overview

## 4.1 Capital and Shares

### 4.1.1 Issued Shares

As of Dec. 31, 2021

| Month/<br>Year | Par value<br>(NTD) | Authorized capital |                 | Paid-in capital |                 | Remark   |        |
|----------------|--------------------|--------------------|-----------------|-----------------|-----------------|--|--------|
|                |                    | Shares             | Amount<br>(NTD) | Shares          | Amount<br>(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 of NT\$ 1,692,092,210 capital through earnings capitalization | Note 1 |
| Dec. 2013      | 10                 | 14,000,000,000     | 140,000,000,000 | 12,449,823,983  | 124,498,239,830 | Increase of NT\$ 10,000,000,000 capital of common stock for cash       | Note 2 |
| Dec. 2015      | 10                 | 22,000,000,000     | 220,000,000,000 | 13,599,823,983  | 135,998,239,830 | Increase of NT\$ 11,500,000,000 capital of common stock for cash       | Note 3 |

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

As of Dec. 31, 2021

| 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 Shareholder Structure

As of April 18, 2022

| Type of shareholders   | Government agencies | Financial institutions | Other juridical persons | Natural persons | Foreign institutions & natural persons | Total          |
|------------------------|---------------------|------------------------|-------------------------|-----------------|--|----------------|
| Number of shareholders | 11                  | 35                     | 1,058                   | 431,887         | 1,065                                  | 434,056        |
| Shareholding (shares)  | 2,671,373,966       | 2,305,118,056          | 1,684,569,045           | 2,506,256,647   | 4,432,506,269                          | 13,599,823,983 |
| Percentage (%)         | 19.64               | 16.95                  | 12.38                   | 18.45           | 32.58                                  | 100            |

### 4.1.3 Distribution Profile of Share Ownership

Par value per share: NT\$10 As of April 18, 2022

| Shareholder ownership (Unit: Share) | Number of shareholders | Shareholding (Shares) | Percentage (%) |
|-------------------------------------|------------------------|-----------------------|----------------|
| 1 ~ 999                             | 122,810                | 34,994,261            | 0.26           |
| 1,000 ~ 5,000                       | 219,633                | 472,108,130           | 3.47           |
| 5,001 ~ 10,000                      | 44,390                 | 338,574,079           | 2.49           |
| 10,001 ~ 15,000                     | 16,562                 | 204,684,246           | 1.51           |
| 15,001 ~ 20,000                     | 8,519                  | 153,766,115           | 1.13           |
| 20,001 ~ 30,000                     | 8,242                  | 205,638,010           | 1.51           |
| 30,001 ~ 40,000                     | 3,925                  | 137,552,236           | 1.01           |
| 40,001 ~ 50,000                     | 2,428                  | 111,265,199           | 0.82           |
| 50,001 ~ 100,000                    | 4,263                  | 300,658,669           | 2.21           |
| 100,001 ~ 200,000                   | 1,789                  | 244,290,798           | 1.80           |
| 200,001 ~ 400,000                   | 682                    | 184,117,562           | 1.35           |
| 400,001 ~ 600,000                   | 161                    | 80,672,668            | 0.59           |
| 600,001 ~ 800,000                   | 101                    | 69,977,549            | 0.51           |
| 800,001 ~ 1,000,000                 | 67                     | 60,304,554            | 0.44           |
| 1,000,001 or above                  | 484                    | 11,001,219,907        | 80.90          |
| Total                               | 434,056                | 13,599,823,983        | 100.00         |



#### 4.1.4 Major Shareholders

As of April 18, 2022

| 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.  | 490,778,910             | 3.61                           | 4.02                            |
| Cathay Life Insurance Co., Ltd.  | 416,839,141             | 3.07                           | 3.42                            |
| Bank of Taiwan Co., Ltd.   | 334,951,379             | 2.46                           | 2.75                            |
| Taiwan Life Insurance Co., Ltd.  | 305,200,771             | 2.24                           | 2.50                            |
| Fubon Life Insurance Co., Ltd.   | 263,500,000             | 1.94                           | 2.16                            |
| New Labor Pension Fund   | 255,989,344             | 1.88                           | 2.10                            |
| Pou Chen Corporation   | 191,730,486             | 1.41                           | 1.57                            |
| Taiwan Tobacco & Liquor Corporation  | 181,256,563             | 1.33                           | 1.49                            |
| Citibank Taiwan in custody for the government of Singapore   | 167,147,432             | 1.23                           | 1.37                            |
| Old Labor Pension Fund   | 163,855,714             | 1.20                           | 1.34                            |
| JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds | 153,585,503             | 1.13                           | 1.26                            |
| China Life Insurance Co., Ltd.   | 147,543,254             | 1.08                           | 1.21                            |
| Citibank Taiwan in custody for Norges Bank   | 146,994,233             | 1.08                           | 1.20                            |
| JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds                    | 140,262,675             | 1.03                           | 1.15                            |

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

Unit: NT\$

| Item                            |   | Year            | 2021       | 2020       | As of March 31, 2022(Note 8) |
|---------------------------------|---|-----------------|------------|------------|------------------------------|
| Market price per share (Note 1) | High  |                 | 36.00      | 33.80      | 43.00                        |
|                                 | Low   |                 | 28.15      | 26.20      | 35.20                        |
|                                 | Average   |                 | 31.94      | 29.96      | 38.36                        |
| Net worth per share (Note 2)    | Before distribution   |                 | 24.15      | 24.01      | 24.10                        |
|                                 | After distribution  |                 | Note 9     | 22.43      | —                            |
| Earnings per share              | The weighted average of outstanding shares (in thousands of shares) |                 | 13,599,824 | 13,599,824 | 13,599,824                   |
|                                 | Earnings per share (Note 3)   |                 | 1.89       | 1.84       | 0.44                         |
| Dividends per share             | Cash dividends  |                 | Note 9     | 1.58       | —                            |
|                                 | Stock dividends   | EPS             | Note 9     | —          | —                            |
|                                 |   | Capital surplus | Note 9     | —          | —                            |
|                                 | Cumulative undistributed dividends (Note 4)                         |                 | N.A.       | N.A.       | —                            |
| Investment return analysis      | PE ratio (Note 5)   |                 | 17.54      | 16.34      | —                            |
|                                 | Price-dividend ratio (Note 6)                                       |                 | Note 9     | 19.03      | —                            |
|                                 | Cash dividend yield (%) (Note 7)                                    |                 | Note 9     | 5.25       | —                            |

\* If the capital surplus transferred to common stock and shares allotted, the market price and cash dividend information retrospectively adjusted according to the number of issued shares shall be disclosed.

Note: 1. List the highest and lowest market prices of ordinary shares in each year, and calculate the average market price based on the transaction value and transaction volume of each year.

2. Please refer to the number of issued shares at the end of the year and list based on the resolution of distribution of the Board of Directors or the shareholders meeting in the following year

3. If retrospective adjustment is required due to share allotment, the earnings per share before and after adjustment shall be listed.

4. If the conditions for the issuance of equity securities stipulate that the unpaid dividends in the current year shall be accumulated to the year when there is a surplus, the accumulated and unpaid dividends up to the current year shall be disclosed.

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

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

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

8. Information on the date of this annual report should be filled in.

9. The proposal for distribution of 2021 profits will be submitted to the annual shareholders' meeting in 2022.



## 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' resolution 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 2021 Profits

It is proposed to submit to the Company's annual shareholders' meeting in 2022 for its approval of distribution of NT\$ 19,039,753,576 cash dividends, which is NT\$ 1.4 per share, and distribution of NT\$ 3,399,955,990 stock dividends, which is NT\$ 0.25 per share.

## 4.1.7 Impact to Business Performance and EPS of Stock Dividend Distribution to Be Approved by Annual Shareholders' Meeting in 2022

According to "Regulations Governing the Publication of Financial Forecasts of Public Companies" and "Standards for Determining Whether a TWSE Listed Company Shall Publish Complete Financial Forecasts," the item is not applicable because there are no publication of 2021 financial forecasts.

## 4.1.8 Remuneration of employees, directors, and supervisors

### 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. Basis of estimated remuneration of employees and directors for 2021

The remuneration of employees and directors of the Company in 2021 is based on the profitability of the current year (profit before tax minus the profit before the distribution of employee and directors remuneration). The balance after making up for the accumulated losses shall be allocated in accordance with the provisions of the Articles of Incorporation and considering the distribution of the industry peers and the Company in previous years. If the actual distribution amount is different from the estimated number, it will be treated as the change in accounting estimates and will be adjusted and recorded in the next year.

### C. Distribution of remuneration approved by the Board of Directors

On March 15, 2022, the Company's Board of Directors approved a cash distribution of NTD 18,612,503 for employees' remuneration and NTD 126,874,594 for directors' remuneration for 2021. The sum of the two amounts is NTD 1,040,286, more than the estimated amount on the account. This was due to the estimation difference and will be adjusted and recorded in 2022. There is no distribution of employee remuneration by company shares.





#### D. Actual distribution of employees and directors remuneration in the previous year

The remuneration of employees and directors of the Company in 2020 allotted NT\$ 15,586,482 and NT\$ 126,308,606 in accordance with the resolutions of the Board of Directors, which was NT\$ 89,433 less than the estimated amount in the account, and was due to estimation difference. It has been adjusted and recorded in 2021. The above-mentioned remuneration of employees and directors was paid in cash, and there was no distribution of employee remuneration by company shares.

#### 4.1.9 Share Buyback: None

The Company did not buy back any company shares in 2021 and up to publication date of this annual report in 2022.

### 4.2 Issuance of Corporate Bonds:

| Corporate bond category   |  | 109-1 unsecured corporate bonds A                          | 109-2 unsecured corporate bonds B |
|---|--|--|-----------------------------------|
| Issuance (handling) status  |  | May 27, 2020   |                                   |
| Denomination  |  | NT\$ 1 million   |                                   |
| Issuance and trading place  |  | Taipei Exchange  |                                   |
| Issue price   |  | At 100% of face value                                      |                                   |
| Issue size  |  | NT\$ 3.2 billion   | NT\$ 1.8 billion                  |
| Coupon rate   |  | Fixed rate 0.66%   | Fixed rate 0.71%                  |
| Maturity  |  | 7 years<br>Due May 27, 2027                                | 10 years<br>Due May 27, 2030      |
| Repayment priority  |  | Senior debts   |                                   |
| Guarantor   |  | None   |                                   |
| Trustee   |  | Trust Department of Taipei Fubon Commercial Bank Co., Ltd. |                                   |
| Underwriter   |  | Mega Securities Co., Ltd.                                  |                                   |
| Certifying attorney   |  | Chung-Chieh Yu Law Firm; Chung-Chieh Yu, Attorney          |                                   |
| Auditor   |  | PricewaterhouseCoopers, Taiwan; Shu-Mei Chi, CPA           |                                   |
| Method of repayment   |  | Full repayment at maturity date                            |                                   |
| Outstanding principal   |  | NT\$ 3.2 billion   | NT\$ 1.8 billion                  |
| Redemption or prepayment terms  |  | None   |                                   |
| Restrictive clauses   |  | None   |                                   |
| Whether regarded as eligible capital  |  | No   |                                   |
| Rating agency, date of rating, and rating awarded   |  | None   |                                   |
| Other rights  | The amount of ordinary shares, global receipts or other securities converted (exchanged or subscribed) up to the publication date of the annual report | None   |                                   |
|   | Issuance and conversion (exchange or subscription) terms   | None   |                                   |
| Possible dilution of equity and impact on equity of existing shareholders due to subscription or issue terms of issuance, conversion, and exchange of corporate bonds |  | None   |                                   |
| Custodian of exchanged assets   |  | 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



## 5.1 Business Overview

The Company has 7 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. and Mega Venture Capital Co., Ltd. The Company and its subsidiaries' business overview are described as follows.

### 5.1.1 Business Scope

#### Mega Financial Holding Company

##### A. Major business

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 banking-related businesses other than those listed or foreign financial institutions, subject to the approval of the competent authority.

##### B. Revenue Breakdown

Unit: NT\$1,000

| Item   | Year | 2021       |        | 2020       |        |
|--|------|------------|--------|------------|--------|
|  |      | Amount     | %      | Amount     | %      |
| Investment income from equity investments accounted for by the equity method |      | 25,601,093 | 99.71  | 25,470,382 | 99.54  |
| Other operating revenue  |      | 74,338     | 0.29   | 118,320    | 0.46   |
| Total  |      | 25,675,431 | 100.00 | 25,588,702 | 100.00 |

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

#### Mega International Commercial Bank

##### 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
- Life insurance agency business
- Other business approved by the competent authority

## B. Revenue Breakdown

Unit: NT\$1,000

| Item   | Year | 2021       |         | 2020       |         |
|--|------|------------|---------|------------|---------|
|  |      | Amount     | %       | Amount     | %       |
| Net interest revenue   |      | 29,785,188 | 66.21   | 29,324,261 | 60.47   |
| Net revenue other than interest  |      | 15,199,213 | 33.79   | 19,166,617 | 39.53   |
| Net service fee revenue and commission   |      | 6,692,331  | 14.88   | 6,529,168  | 13.46   |
| Gains on financial assets and liabilities at fair value through profit or loss     |      | 4,903,853  | 10.90   | 6,556,392  | 13.52   |
| Realized gain on financial assets at fair value through other comprehensive income |      | 1,507,922  | 3.35    | 4,285,922  | 8.84    |
| Loss arising from derecognition of financial assets measured at amortised cost     |      | ( 39,147)  | ( 0.09) | ( 155,917) | ( 0.32) |
| Foreign exchange gains   |      | 1,368,097  | 3.04    | 1,411,082  | 2.91    |
| Impairment losses on assets  |      | ( 30,095)  | ( 0.07) | ( 50,128)  | ( 0.10) |
| Share of profit of associates and joint ventures accounted for using equity method |      | 439,819    | 0.98    | 184,887    | 0.38    |
| Net other revenue other than interest income                                       |      | 356,433    | 0.79    | 405,211    | 0.84    |
| Net revenue  |      | 44,984,401 | 100.00  | 48,490,878 | 100.00  |

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

In 2022, the Bank will launch an online loan platform service for SMEs, combining it with financing services and an online loan limit calculation function to increase the overall efficiency of a loan application process. We will build a home-buying ecosystem by cooperating with sales agencies or real estate agents to provide property valuation services, thereby connecting with our customers on a deeper level. Given the trends in the technological and digital transformation of banking services, the Bank will continue to optimize its STM and mobile banking functions to create better user experiences. In addition, we will develop financial products and services based on the concept of sustainability, with plans to certify the carbon footprints of our consumer banking loan operations. We will also issue credit cards that are made of eco-friendly materials and purchase suitable carbon credits to achieve carbon neutrality and the goal of zero-carbon credit cards.

## Mega Securities Company

### A. Major business

#### 1. Business activities

- 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                  | 2021      |        | 2020      |        |
|------------------------------|-----------|--------|-----------|--------|
|                              | Amount    | %      | Amount    | %      |
| Brokerage business           | 5,649,966 | 75.6   | 3,366,670 | 70.2   |
| Underwriting business        | 540,555   | 7.23   | 296,529   | 6.18   |
| Proprietary trading business | 999,370   | 13.37  | 851,919   | 17.76  |
| Others                       | 283,216   | 3.79   | 280,791   | 5.85   |
| Total revenue                | 7,473,107 | 100.00 | 4,795,909 | 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 Company

### A. Major business

- Bills Business: certification, 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 and corporate 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        | 2021      |        | 2020      |        |
|--------------------|-----------|--------|-----------|--------|
|                    | Amount    | %      | Amount    | %      |
| Bill business      | 2,899,265 | 51.43  | 2,706,405 | 46.28  |
| Bond business      | 2,456,226 | 43.58  | 2,879,922 | 49.24  |
| Equity Investments | 136,296   | 2.42   | 108,074   | 1.85   |
| Others             | 145,053   | 2.57   | 153,771   | 2.63   |
| Total revenue      | 5,636,840 | 100.00 | 5,848,172 | 100.00 |

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

## Chung Kuo Insurance Company

### A. Major business

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

# Operational Overview

## B. Revenue Breakdown

Unit: NT\$1,000

| Item                                | Year | 2021      |        | 2020      |        |
|-------------------------------------|------|-----------|--------|-----------|--------|
|                                     |      | Amount    | %      | Amount    | %      |
| Fire insurance premium              |      | 1,978,621 | 24.49  | 1,858,653 | 23.79  |
| Marine cargo insurance premium      |      | 266,700   | 3.30   | 255,357   | 3.27   |
| Marine hull insurance premium       |      | 557,516   | 6.90   | 485,448   | 6.21   |
| Automobile insurance premium        |      | 3,487,751 | 43.17  | 3,546,729 | 45.40  |
| Aviation insurance premium          |      | 80,367    | 0.99   | 118,089   | 1.51   |
| Engineering insurance premium       |      | 306,938   | 3.80   | 301,108   | 3.85   |
| Accident insurance premium          |      | 417,110   | 5.16   | 478,266   | 6.12   |
| Health insurance premium            |      | 266,645   | 3.30   | 44,142    | 0.56   |
| Other insurance premium             |      | 717,840   | 8.88   | 725,023   | 9.28   |
| Total direct written premium income |      | 8,079,488 | 100.00 | 7,812,815 | 100.00 |
| Inward reinsurance premium income   |      | 894,380   | -      | 751,789   | -      |
| Total                               |      | 8,973,868 | -      | 8,564,604 | -      |

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

- Car window glass damage insurance
- Limit natural disaster accident loss compensation insurance
- Vehicle passenger group injury insurance
- Comprehensive insurance for youth overseas travel and study tour insurance
- Cancer death insurance
- Addition of cancer health and death group insurance
- Addition of first-time cancer group insurance
- Group cancer hospitalization medical health insurance
- Senior home liability insurance
- Typhoon wind and rain index peach insurance

## Mega International Investment Trust Company

### A. Major business

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

## B. Revenue Breakdown

Unit: NT\$1,000

| Item                  | Year | 2021    |        | 2020    |        |
|-----------------------|------|---------|--------|---------|--------|
|                       |      | Amount  | %      | Amount  | %      |
| Public issued funds   |      | 376,031 | 93.89  | 371,018 | 95.80  |
| Private equity funds  |      | 16,669  | 4.16   | 16,631  | 3.69   |
| Discretionary account |      | 7,822   | 1.95   | 2,073   | 0.51   |
| Total                 |      | 400,521 | 100.00 | 389,722 | 100.00 |



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

New public issued funds to be issued in 2022 are as follows:

- ESG multi-asset fund: Focus on global ESG stocks and bond commodities, screen undervalued targets, suitable for investment in the interest rate hiking cycle.
- Thematic fund: Perform research and development on commodities with trending innovation

## Mega Asset Management Company

### 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   | 2021    |        | 2020    |        |
|---|---------|--------|---------|--------|
|   | Amount  | %      | Amount  | %      |
| Service income  | 410,440 | 93.75  | 412,979 | 97.27  |
| Net proceeds from disposal of purchased NPL and Gain on sale of collaterals | 15,610  | 3.57   | 6,506   | 1.53   |
| Rental income   | 5,361   | 1.22   | 3,542   | 0.83   |
| Interest income   | 1,750   | 0.40   | 1,562   | 0.37   |
| Net profits from disposal of investment properties                          | 4,643   | 1.06   | -       | -      |
| Total   | 437,804 | 100.00 | 424,589 | 100.00 |

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

## Mega Venture Capital Company

### A. Major business

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

### B. Revenue Breakdown

Unit: NT\$1,000

| Item \ Year   | 2021    |     | 2020   |     |
|---|---------|-----|--------|-----|
|   | Amount  | %   | Amount | %   |
| Revenue from disposal of long-term securities investment              | 107,554 | 34  | 32,082 | 37  |
| Dividend income   | 21,417  | 7   | 20,324 | 23  |
| Director's or supervisor's remuneration income                        | 217     | 0   | 2,017  | 2   |
| Financial assets and liabilities at fair value through profit or loss | 187,373 | 59  | 32,577 | 38  |
| Total   | 316,561 | 100 | 87,000 | 100 |



## 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 Industry Bureau of Ministry of Economic Affairs on the “Investment Management Plan for Enhanced Investment in Strategic Service Sector”. Investment of strategic service sector by Mega Management and Consulting Company will be able to match with funds provided by the Industrial Development Bureau of Ministry of Economic Affairs. This will increase Mega Venture Capital’s investment opportunity.

## 5.1.2 Operating Policies in 2022

### The Company

#### 1. Secure existing business and diversify source of profits

- (1) Strengthen existing base of corporate finance to maximize shareholders’ interest
- (2) Expand customer finance and wealth management business and dedicate on innovation to optimize revenue growth model.
- (3) Allocate the investment portfolio efficiently and conduct agile finance management
- (4) Strengthen business of securities segment to establish second profit generating engine
- (5) Enhance business of non-bank subsidiaries to establish well-diversified profit structure
- (6) Consolidate all resource to leverage cross-sell initiatives; strengthen state bank collaboration
- (7) Develop Fintech and provide premium online services to optimize client experience
- (8) Adjust asset structure to cope with the implementation of “D-SIBs” while reduce the impact on business development.

#### 2. Strengthen overseas presence and cultivate customer service

- (1) Maintain existing client relations, develop new customer base, and continue to improve the quality of products and services
- (2) Enhance resource integration and increase client penetration of the Group’s products
- (3) Strengthen overseas loan business and focus on the region of Europe , the US, and ASEAN, and explore new business opportunities from Taiwan-US supply chain restructuring
- (4) Connect APAC branches to provide total solution and explore business opportunities on local industries

#### 3. Fortify relations with institutional investors and increase 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

#### 4. Monitor political, economic, and industrial changes and reinforce awareness on risk management

- (1) Closely watch the change and innovation of overall industries and get hold of the risk profile of the Group
- (2) In line with international risk management trend and focus on risk of climate change
- (3) Optimize the data collection and analysis and strengthen risk monitoring and reporting
- (4) Strengthen risk management mechanism and effectively put into practice
- (5) Enhance the internal control mechanism and improve the effectiveness of risk management



## **5. Improve protection against information security risks and optimize the innovation of management services**

- (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 digital fintech to optimize customer digital experience

## **6. Implement legal compliance and forge a culture of legal compliance**

- (1) Continue to establish consistent standards for the Group regarding anti-money laundering and countering the financing of terrorism and supervise all subsidiaries to implement various laws and regulations in terms of compliance work
- (2) Optimize the Group's money-laundering prevention information sharing platform and improve the accuracy of information sharing within the Group
- (3) Handle legal compliance inspections and evaluate the effectiveness of implementing the prevention and control of money laundering by subsidiaries
- (4) Conduct both internal and external employee compliance training to strengthen employee's compliance awareness
- (5) Establish the reporting system and provide diversified reporting channels to promote the value of integrity within the company

## **7. Integrate ESG strategies to maximize the value of sustainability**

- (1) Committing to low-carbon operations to achieve environmental sustainability
- (2) Improving digital technology to promote sustainable finance
- (3) Strengthening talent development to implement employee care
- (4) Forging a deeper financial inclusion for mutual prosperity in the society
- (5) Adhering to ethical standards to practice corporate governance

## **Mega International Commercial Bank**

1. Ensure the effectiveness of the internal control and law compliance mechanism and strengthen the corporate governance practice
2. Establish the superior risk management mechanism in accordance with local and international laws and regulations
3. Accelerate digital transformation and continuously develop financial ecosystem and innovative applications such as AI services
4. Implement differentiated management, deepening overseas markets and international layout
5. Enhance corporate finance and foreign exchange service business momentum; as well as structure adjustment and improve the interest spread
6. Promote digital transformation of consumer finance business, meet the need of customers and enhance the brand image
7. Improve trading technique to increase the investment income and explore ESG related investments
8. Implement corporate financial sustainability policy and fulfilling corporate social responsibility

## Mega Securities Company

1. Develop customer base to enhance core revenue and trading performance, which yield to stable income
2. Leverage into institutional sales business by increase the number of significant prop-trading customers; increase the performance of security counters to enhance brokerage market shares
3. Launch high-net-worth asset management business, expand securities lending/borrowing business and strengthen sub-brokerage business to increase fee income
4. Conduct active and flexible trading technique to enhance trading grain; develop strategic trading position to increase the revenue source
5. Balance between the underwriting business volume and quality to maintain the market leading position
6. Take part proactively in new business opened by the competent authority so as to catch business opportunities
7. Implement digital transformation, improve the trading platform, improve customer satisfaction and improve the effectiveness of internal operations

## Mega Bills Finance Company

### 1. Bill Business

- (1)Continue to focus on the operations and financial standing of customers and keep track of industrial prospects and funds allocation capabilities as they are the criteria for making decisions about loans and credit
- (2)Promote financial sustainability, implement ESG policies and provide financing services for green energy industry in accordance with government regulations
- (3)Adjust borrower structure, develop non-real estate client base and actively explore opportunities in NCD, acquisition of guaranteed or non-guarantee bills and securities underwriting to achieve portfolio growth and higher gains
- (4)Maintain long-term, mutually beneficial relationship with financial institutions in order to secure funding sources and market information. Meanwhile, the Company will actively develop bilateral business relationship with customers and explore stable, low-interest sources of capital from general businesses for lower funding cost and more diversified funding
- (5)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

### 2. Bonds Business

- (1)Improve trade performance by timing outright purchases and sales in line with movements and new offerings in the NTD bond market
- (2)Build up the position of foreign currency bonds at appropriate timing, with country and industry risks diversified and yielding income optimized against the risks borne
- (3)Engage credit customers in secondary deals of foreign currency bonds; secure source of foreign currency capital from domestic financial institutions by engaging them in interbank funding, currency swaps, and re-purchase agreements; reduce the cost of capital and increase yielding income without compromising liquidity risks



- (4) Purchase convertible bonds of good credit standing and fixed income parts of convertible bond asset swaps, and thereby increase income source at manageable credit risk level
- (5) Closely watch green energy related issues, implement responsible investment and maintain a certain level of green bond position while taking into account cost-effectiveness
- (6) Manage duration of NTD and foreign currency bonds for risk avoidance and higher gains

### 3. Equity investment business

- (1) Enhance research efforts on industries and individual shares; keep track of changes and analyze both fundamental and technical aspects; monitor market movements and engage in short-term trading at the appropriate time for capital gains
- (2) Continue to search for stocks with stable earnings, good prospects, and attractive dividend yields in various industries, and buy while underpriced with batch layout to steadily increase income
- (3) Continue to focus on the ESG conditions of the investment business, strengthen the shareholder participation mechanism of subsidiaries and express opinions appropriately on major proposals in order to fulfill institutional investors' due diligence and governance responsibilities

### Chung Kuo Insurance Company

- 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. Deepen business among insurance agencies, auto dealers and financial channels (including state-run banks) through online system integration such as B2B platforms and mobile insurance platforms, thereby expanding our business and increasing premium income
- 4. Optimize the online insurance platform's operational process, provide diversified insurance products; cooperate with social media marketing to promote e-commerce business
- 5. Use Big Data analysis to launch differentiated products in the market, introducing differentiated insurance products with market competitiveness to diversify business customers
- 6. Increase marketing channels through the Group's cross selling and promotion campaign
- 7. Use electronic insurance policy to reduce the use of paper to protect the environment
- 8. Recruit professionals to cope with development of insurance Fintech
- 9. Adjust asset allocation to improve the capital efficiency and increase income
- 10. Optimize risk management mechanism to align with the Group's integrated risk management system and skills

### Mega International Investment Trust Company

- 1. Increase sales, maintain the proper size of funds, and tap into small amount investment business
- 2. Strengthen the relationship with the distribution channels as long-term strategic partners
- 3. Enhance the performance review of the fund research team and strengthen the market and commodity research capabilities
- 4. Cooperate with the foreign fund management team to master the market trend
- 5. Implement legal compliance and risk management policy

## Mega Asset Management Company

1. Keep exploring the advance payment business of urban redevelopment and old building rebuild work and look for investment targets suitable for urban redevelopment (old building rebuild work) in the foreclosure market. Wait for opportunities to act as the executor of the urban redevelopment or make capital gains by direct investment
2. Invest in the real estate, moving assets, and rights from foreclosure or from government auction to expand fixed income source and stabilize revenue
3. Participate in revitalizing idle assets within the group
4. Participate in tendering and handling of NPLs and utilize the integration expertise to win the business opportunities of debt consolidation services

## Mega Venture Capital Company

1. Select potential targets from the pre-IPO stocks or emerging stocks in the first listing market, evaluate their industries, profits and future development, and strive to participate in inquiry and auction opportunities. Realize profits according to market conditions and the company's stock price performance after listing
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 and optimize the investment portfolio
3. Under the general global recession, Southeast Asia countries are the regions that can still maintain relatively high economic growth momentum in the near future. In addition, the Americas region has a relatively high economic growth rate under the situation of easing the epidemic situation. Accordingly, it is planned to continue to explore investment opportunities of high-quality Taiwanese companies in the aforementioned regions to increase profit
4. Due to the rapid changes in the industry, in addition to the technology industry, potential investments will also include channel industry, chain restaurants, and emerging or smart industries cultivated by the government such as medical care, biotechnology, green electricity and renewable energy, livelihood and combat readiness industries, and sophisticated agriculture. We will continue to screen high-quality investment targets to improve shareholder returns

## 5.1.3 Industry Overview

### A. International and Domestic Financial Environment

#### International Economic and Financial Environment

In 2020, numerous countries saw a significant decline in their economy due to the adoption of anti-epidemic measures. The economy, however, rebounded in 2021, although the economic dynamic was hindered by unfavorable impacts such as disrupted global supply chains and an uptick in COVID cases due to the subvariant of the coronavirus. Nevertheless, the new wave of COVID-19 was not as severe as the previous waves, enabling multiple countries to lax their anti-epidemic measures, which mitigated impact on the real economy. The global economy was projected to grow 6.1% in 2021, according to IMF forecast.

Regarding interest rate, the central bank of the United States, European countries, and other major countries typically kept their official bank rate unchanged in 2021, but gradually reduced their adoption of unconventional monetary policies, while the central banks of some developing countries already adopted interest rate hike and contractionary monetary policies.



## Domestic Economic and Financial Environment

The domestic economy in Taiwan was projected to grow 6.45% in 2021, the highest in the past ten years, according to the Directorate-General of Budget, Accounting and Statistics. Private investment was the main driving factor, reflecting the vigorous investments of technological companies, which were also buoyed by transportation equipment, 5G communications, and constructions. The momentum of private consumption cooled significantly due to the severe outbreak of COVID-19 in the middle of the year. Although the pandemic and employment market in Taiwan gradually improved in the third quarter, the consumption performance for the year maintained more or less the same as that in 2020. In terms of external demand, the exportation of technological products remained active, thanks to the growing trend of digital transformation and the development of emerging technologies. Non-technological products benefited from the recovery of the global economy and the rise in commodity prices. Although the importation of capital goods in Taiwan also increased rapidly, net foreign demand remains a positive contributor to economic growth.

The Central Bank of Taiwan kept its official bank rate unchanged in 2021, considering that the contact service sector was still affected by the pandemic, and domestic inflation is still controllable. In addition, the Central Bank adjusted its selective credit controls three times during the year to prevent excessive flow of bank credit resources to real estate loans, and respond to deepening concerns over financial risk.

## 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 Taipei Exchange (TPEX) and one wholly state-owned financial holding corporation, totally 16 financial holding companies. However, the market shares of the banks under these financial holding corporations account for less than 10%. This shows local banks are still relatively small in size and lack of economies of scale. However, mergers and acquisitions related to life insurance and securities have made some gains in recent years. For example, Taishin Financial Holding completed its acquisition of a 100% equity stake in Prudential Life Insurance Company of Taiwan on June 30, 2021. China Development Financial Holding completed its acquisition of China Life Insurance as a wholly-owned CDF subsidiary on December 30, 2021. Fubon Financial Holding Co., Ltd. and JihSun Financial Holding Co., Ltd. simultaneously held an extraordinary shareholders' meeting on November 5, 2021 and passed a resolution agreeing that JihSun Financial Holding would be merged into Fubon Financial Holding; the related mergers, including between Fubon FHC and JihSun FHC and between Fubon Securities and JihSun Securities, as well as between Taipei Fubon Bank and JihSun Bank, and of other subsidiaries, are expected to be completed before the end of 2022. Additionally, IBF Financial Holdings Co. has submitted documents to the FSC on December 20, 2021, seeking approval to acquire EnTie Commercial Bank. On January 27, 2022, the FSC has, however, suspended this proposal due to concerns over IBF's financial strength, its funding resources, the benefits from consolidation, and job protection. IBF said it will apply again after the four concerns have been addressed.
2. In 2020, domestic financial institutions in Taiwan have invested a total of NT\$18.21 billion in the development of financial technology, setting a new record high for the year. On average, each institution invested NT\$60.50 million, up 9.52% from the NT\$55.24 million in 2019. A preliminary estimate for 2021 was NT\$23.5 billion, projecting an annual growth rate of 29%. The number of employees involved in financial technology has been increasing in the past two years. This trend shows that the financial sector



is continuously paying increased attention to FinTech talents. Regarding cooperation between financial service providers and FinTech providers, collaborative efforts still revolve around information security, payment services, and big data. In other words, information security continues to be the main focus of digital transformation. In terms of financial technology patents, an overview of past two years shows that the number of applications and patents granted has been increasing. More than 2,400 patents have been approved thus far.

3. Ensuring the security of online financial transactions amid a growing concern over Internet frauds is an important topic that financial institutions must address in order to ensure information security and business continuity. On December 23, 2021, the FSC stipulated that financial institutions shall appoint a Chief Information Security Officer, set up a dedicated unit in charge of information security, put a supervisor in charge of the unit, and allocate appropriate labor force and equipment. The financial institutions shall also improve the information security-related functions of the board of directors and urge the highest governing body of a financial institution to address issues concerning information security protection.

## Banking Industry

1. Fierce domestic competition harms interest spread

Owing to a large number of banks in Taiwan, an abundant supply of liquidity, and the central bank keeping its official bank rate the same, the loan-to-deposit ratio of domestic banks in 2021 dropped slightly to 69.69%, and the interest rate spreads was approximately 1.24%, which is roughly the same as the previous year but lower than pre-pandemic levels, indicating that the conventional sources of profits for banks did not increase effectively.

2. The development of Fintech changes the customers' pattern

In 2021, the number of domestic banks' branches in Taiwan slightly increased by 1, with very little change in the past three years, and has been reduced by 50 compared to that of 2004. It reflects that the rise of Fintech and internet banking has replaced some functions of physical branches. As the matter of fact, there were already two domestic pure play digital bank launched in 2021, and the third one has also been launched in the 1st quarter of 2022, which further demonstrates banks are bound to enhance its digital financial service capabilities to stay competitive.

3. The pandemic continues to impact economic activities, and each industry is resuming at different pace  
Although the active manufacturing industry drove the economic growth of Taiwan to a new one-decade high in 2021, the consumption service sector, which is associated with higher risk of infection, showed weaker performance due to an escalation of local coronavirus outbreak and the continued border control in the middle of the year. Industrial sectors recovered at different pace, which was why the central bank kept its official bank rate the same and also increased and extended the financing quota for SME projects in order to mitigate the negative impact of COVID-19. The new Omicron variant has once again spread across the globe at the end of 2021, indicating that the uncertainty of the pandemic remains high.
4. Unfavorable factors such as supply bottlenecks pushed up inflation, prompting central banks to accelerate the normalization of monetary policies

In 2021, global inflation rose significantly due to soaring oil prices and freight costs. In particular, the United States was affected by labor shortages and supply bottlenecks, while some emerging markets were affected by imported inflation, which resulted from the depreciation of currency prices, driving price index to the highest level in recent years. Inflation in Taiwan was most affected by oil and weather-





affected crops. While the forecast of U.S. Federal will quicken the pace of interest rate hikes, some developing countries have adopted interest rate hikes to prevent capital outflow. However, the economies of developing countries in general have not yet fully recovered from the pandemic, which may adversely affect their long-term economic performance.

### 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 the past year, the stock price and trading volume of Taiwan stocks have reached record highs, and the securities industry was prosperous. In 2021, TAIEX reached 18,218 point, increased by 23.7%. The full year average daily trading volume was NT\$477.8bn, increased by NT\$224.3bn(88%) compared to the last year. Investors were more confident and thus actively participated the domestic equity market. New trading accounts reached 770 thousand and the total trading account of 12.01 million exceeded half of the total population. The active trading account reached the record high of 5.5 million. With the help of the strong market activity, 2021 brokerage industry after tax net profit reached NT\$105.427bn, was up 46.971bn (81% increase) versus 2020.
2. Looking forward to 2022, Taiwan stocks and the global economy can anticipate a clean break from the impact of COVID-19. Numerous economic activities will also return to normal. Because the base period for comparison has increased, economic growth in 2022 is expected to slow down but will still be above pre-pandemic levels, reflecting positive economic outlook. Business profits are also expected to fluctuate intensely in the next two years and approach steady growth. However, some industries with a high base period in 2021 must be strictly guarded against corrections. Given the Fed's interest rate hike and QE exit mechanisms, capital momentum will slow down, and Taiwan stocks are more likely to trend slowly upward or toward consolidation in 2022.

### Bills Finance Industry

1. Apart from 38 banks and 4 securities companies engaging in bills finance business, there are 8 dedicated bills finance companies in Taiwan, and three of which are subsidiaries of financial holding company. As of the end of 2021, commercial papers outstanding of the whole market reached NT\$2,559.5billion, increased by 9.18% compared to 2020.
2. In 2021, total bond market trading volume was NT\$11.7496 trillion, down by 21.4% versus 2020 of NT\$14.9511 trillion, impacted by the reduction of total market share. The main reason was that the balance of bonds held by all bills finance companies continued to decline and the secondary trading volume dropped sharply so that bond market trading volume of 2021 dropped accordingly, compared to that of 2020.

### Non-Life Insurance Industry

1. At the end of December 2021, 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 97.36% of the industry's total premium income. The market share of foreign non-life insurance companies' branches in Taiwan accounts for only about 2.64%.
2. In 2021, benefiting from the growth in auto insurance, health insurance, fire insurance, ship insurance, injury insurance, marine hull insurance and other insurance business, overall premium income in domestic property and casualty insurance market continued to grow. Among those, health insurance and other insurance had a steady growth due to the outbreak of COVID-19.

3. In 2021, the auto insurance overall market premium income was NT\$108.24867 billion, accounting for 52.36% 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 14.29%, and other insurance (including liability insurance, credit insurance and bond insurance, etc.) accounts for 13.93%; these are the top three kinds of insurance.
4. The insurance market is impacted by the uncertainty of politics, economy, consumption market, liberation of insurance fee, and weak international reinsurance market. Also, it has been two years since the COVID-19 epidemic, and Omicron is still spreading rapidly around the world. This will increase the competition on both product line and fee income.

## Securities Investment Trust Industry

As of the end of 2021, there are 39 domestic securities investment trust enterprises in Taiwan which manage a total of 995 mutual funds for NT\$4,960 billion and 75 private funds totaling NT\$53.9 billion. The number of discretionary investment account reached 606 with a total business of NT\$2,100 billion.

## Asset Management Industry

Since the Financial Supervisory Commission (FSC) imposed strict restrictions on the sale of non-performing loans (NPLs) by domestic banks in 2013, NPLs sold by domestic banks are limited to NPL of syndicated loans, dramatically cutting the supply of NPL cases. Accordingly, asset management companies are facing survival challenges. Although the Financial Supervisory Commission has added the exceptions for financial institutions to sell NPLs in 2015, the benefits of these exceptions are still quite limited.

In order to help with the promotion of the urban renewal policy, the FSC revised "Operation Principles for Financial Holding (Banks) Investing Asset Management Companies" on August 12, 2015 and December 29, 2017, allowing asset management companies to be entrusted or to assist in creditor's rights consolidation, advance payment business and guarantee. It also set a cap for advance payment of seven times the AMC's net value, in order to assist the urban renewal policy. The aforementioned principles were last revised on May 24, 2019, and were updated to promote urban renewal policies. Asset management companies may handle the business of advance payment, injection of funds and purchase of real estate in order to improve the quality of the living environment of the people, increase the price of social resources, and expedite social and economic development, resulting in a multi-win situation.

## Mega Venture Capital Industry

According to the Taiwan Venture Capital Association, till the end of December 2021, there are 286 venture capital companies. In terms of the amount invested, electronics industry is the largest, followed by information industry (Internet industry), bio-tech, and pharmaceutical industry. Also, venture capital companies continue to support traditional industries. The government has been promoting 5+2 new industries and 6 strategic industries to boost industries transfer and upgrade. This will help to expand the investment business.

## 5.1.4 Research and Development

### Mega Financial Holding Company

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

1. The Company's R&D expenses incurred in 2020 and 2021 were NT\$3,387 thousand and NT\$6,055 thousand, respectively, mainly for project consulting, establishment and services as well as staff training.



2. 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 ESG systems to get in sync with international best practices
- (3) Optimization of the Group's equity investment valuation system, subsidiaries financial performance management system, IFRS 16 lease measurement and reporting system and consolidated financial statement system
- (4) Improvement of IFRS 7 financial risk reporting system based on new IFRS 9
- (5) Measurement on risk exposure of high carbon emission industry and high climate risk customers
- (6) Measurement on distribution of collaterals from subsidiaries under the RCP 8.5 and RCP 2.6 scenario of high climate risk

### B. Future R&D Projects

1. Evaluation on the feasibility of merger with or acquisition of other domestic or foreign financial institutions
2. Planning to build groupwide ESG Sustainability Development platform
3. Continued development of financial and risk reporting system
4. Scenario analysis and stress test on physical risk and transition risk
5. Set up quantitative indicators of high climate risk
6. Strengthen internet structure to reinforce information security capacity

Expected R&D expense in 2022 (including employee training and professional services) will be NT\$17,700 thousand.

## Mega International Commercial Bank

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

1. The Bank's R&D expenses incurred in 2020 and 2021 are NT\$2,588 thousand and NT\$2,316 thousand, respectively, mainly for purchase of professional publications, electronic data base, and publishing of Mega Bank Monthly.
2. 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) Focusing on the five technical dimensions of cloud computing, information security, mobile applications, big data, and the Internet of Things, the Bank will proactively invest in related applications, innovations and R&D and make the best use of data value to create a brand new financial service platform that helps explore various potential customers and business opportunities.
  - (4) The Bank responds to the trends of technology development and digital transformation, by accelerating its R&D initiatives, increasing the depth of its digital financial services, searching for more cross-industry cooperation opportunities, expanding the scope of its services, and developing new clientele. The Bank also employs data analysis and other technological methods to ascertain customer preferences and insights, so as to optimize product designs and processes to better meet customers' potential

needs. At the same time, in response to the rapid changes in emerging technologies, we actively seek to understand and participate in the development of laws and regulations and effectively combine technology with new market trends. In addition to meeting the differentiated needs of customers, it can also gradually achieve the goal of enhancing digital supervision.

- (5) In terms of digital finance innovation, Mega Bank continued its commitment to digital finance R&D and applied for patents for various financial services. As of December 31, 2021, it obtained 331 utility model patents, and 69 invention patents approval from the Ministry of Economic Affairs, and 22 utility model patents and 57 invention patents applications are under review.

## B. Future R&D Projects

1. 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 in related publications.
2. The Bank will strengthen various digital financial applications, continue to work on the optimization of front-, middle-, and back-end interfaces and processes to meet customer needs and improve customer experience.

## Mega Securities Company

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

1. The Company's new products developed in 2020 and 2021 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.
2. The achievements of R&D are as follows:
  - (1) The Company has integrated an Optical Character Recognition (OCR) function and provided a service that approves NTD/foreign currency sub-brokerage seal verification online, a service that allows customers to open sub-brokerage accounts online, and a W-8BEN e-Sign function.
  - (2) Following the launch of odd-lot intraday trading systems, the Company has completed modifying and testing its transaction/accounting systems and various electronic transaction platforms.
  - (3) The Company issued ETNs with the "Selected OTCxESG Electronic Elite Return Index" as the underlying index.

### 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 to promote finance 3.0 policy.
3. Functions of various information systems will be continuously established or upgraded.

## Mega Bills Finance Company

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

The company's R&D expenses incurred in 2020 and 2021 are NT\$1,216 thousand and NT\$1,394 thousand, respectively, mainly for employee training. The achievements of R&D are as follows:

## 1. In 2020

- (1) Coordinated with Taiwan Depository & Clearing Corporation on the launch of new features including "Short-term Bill Tendering" and "Electronic Delivery for Secondary Market Trade Documents (for Non-specialized Bill Financing Companies)" for improved transaction efficiency, and developed relevant information systems to support phase 2 (market-wide) implementation of electronic delivery for secondary market trade documents.
- (2) Coordinated with bond passbook digitalization task force of Taiwan Securities Association on the digital transformation of bond passbooks and trade confirmations, thereby providing customers with efficient and low-cost settlement service.
- (3) Worked with Financial Information Service Company on financial block-chain confirmation business to minimize the work flow of accountant confirmation transaction.
- (4) Developed a visual decision support system offering user-friendly and useful features to present spread information in charts, thereby adding value to decision-making and analysis.
- (5) Purchased money laundering blacklist and acquired a customer risk assessment system; outcomes of blacklist comparison and customer risk assessment were uploaded to the Company's database for transaction monitoring and for robust money laundering control.

## 2. In 2021

- (1) Following the development of big data solutions and an integrated regulatory reporting system by Taiwan Depository & Clearing Corporation (TDCC), the company developed "Digital Supervision and Reporting Procedures for Bills Finance Company" and continued to install relevant information systems to support phase 2 (market wide) implementation of electronic delivery for secondary market trade documents.
- (2) The company developed an "Operating Procedure for Bills Enquiry and Confirmation" to improve operating efficiency and support the financial blockchain confirmation service provided by Financial Information Service Co., Ltd. (FISC).
- (3) The company continued to promote the electronic operation of bond passbooks and transaction orders to support the Taiwan Securities Association's initiative to introduce electronic bond passbooks. Electronic operations provide customers with more efficient settlement services at lower cost.
- (4) The company developed a new virtual machine (VM) to replace its physical machine, thereby improving the stability and operational efficiency of its electronic bond trading systems.
- (5) The company upgraded its database systems, taking into consideration the risks of information security, to ensure information security and improve operating efficiency.
- (6) The company adopted electronic documentation system and accelerated digital transformation to comply with the group's digital transformation policy.
- (7) The company developed a "financial self-reporting system" to enhance the efficiency of self-reporting operations.

## B. Future R&D Projects

1. The company will improve transaction efficiency and strengthen AML/CFT practices and monitoring in response to TDCC's "sub-market electronic delivery of orders for bills merchants and general investors" and "Company Person-in-Charge/Major Shareholders Information Inquiry Platform".
2. The company will continue to promote the electronic operation of bond passbooks and transaction orders to support the Taiwan Securities Association's initiative to introduce electronic bond passbooks. Electronic operations provide customers with more efficient settlement services at lower cost.

3. The company will continue to improve its financial self-reporting system by minimizing labor works and pre-data processing procedures, which will speed up the production of financial reports to meet the requirements for digital transformation.
4. The company will purchase advanced persistent threat (APT) systems to meet information security needs, monitor computer or Internet activities, and prevent cyberattacks.

The R&D expenses in 2022 are estimated at NT\$1,800 thousand.

## Chung Kuo Insurance Company

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

The company's R&D expenses incurred in 2020 and 2021 are NT\$3,293 thousand and NT\$10,275 thousand, respectively. The R&D achievements are as follows:

In order to help reduce the usage of paper as well as the carbon emission when utilizing postal service, since 2020, we have actively promoted the better use of electronic policies to policyholders. As of the end of 2021, we have provided various online products, such as mobile product insurance, health insurance, injury insurance, tour insurance and property fire insurance. In 2021, total of 50% of insurance transaction was done online, and 81.1% of pandemic insurance was done online. We have also launched our mobile insurance platform, so our insurance agent can utilize the mobile online platform to provide quotation and completion of signing; in fact, some of the insurance products can be automatically approved online, to shorten the process duration and increase the efficiency of the insurance agents. In 2021, the company optimized the operation process through robotic process automation (RPA) and intelligent customer service system, mainly used in the battle situation management of auto insurance loss rate and claims cases, through real-time data analysis to improve management decision-making efficiency, in order for customers to quickly obtain basic guidelines and simplify routine tasks.

### B. Future R&D Projects

In response to the development of insurance technologies and digital transformation, a dedicated unit in charge of digital transformation will be set up to oversee the planning, application, implementation, and analysis of digital projects. We will also internalize digital transformation practices into our corporate culture. The dedicated unit will be assisted by external consultants to investigate the current status of industries and draft strategic roadmaps, thereby facilitating organizational restructuring to place more focus on digital R&D. The estimated R&D expenses for the year 2022 is NT\$32,500 thousand.

## Mega International Investment Trust Company

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

The company's R&D expenses incurred in 2020 and 2021 are NT\$5,963 thousand and NT\$8,252 thousand, respectively. The R&D expenses are for offering of new mutual funds, subscription of China's financial information services (Wind), Bloomberg database, Refinitiv and SysJust. The R&D achievements are issuance of Mega 6-Year Maturity Emerging Markets Bond Fund, Mega Taiwan Advanced Communications Fund, Mega Emerging Markets Short-Term High Yield Bond Fund and Mega Taiwan Gold Pass Select Dividend Fund.



## B. Future R&D Projects

The company will issue two funds to increase the breadth of its products. Small investment and internet transaction platform will also be promoted. The R&D expenses for the year 2022 is estimated at NT\$8,485 thousand.

## Mega Asset Management Company

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

The company's R&D expenses incurred in 2020 and 2021 are NT\$280 thousand and NT\$910 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

Aiming at the development of asset service business of asset management companies, continue to adjust and strengthen the core business system to improve the efficiency of daily operations and facilitate the analysis of the company's operation management; an electronic document system is also introduced to improve internal operation efficiency and digitalization. The R&D expenses for the year 2022 is estimated at NT\$1,137 thousand.

## Mega Venture Capital Company

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

The company's R&D expenses incurred in 2020 and 2021 are NT\$243 thousand and NT\$356 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 plan to upgrade and maintain venture capital information management system and various information software and hardware. The R&D expenses for the year 2022 is estimated at NT\$247 thousand.

## 5.1.5 Long-term and Short-term Business Development Plans

### Mega Financial Holding Company

#### A. Short-Term Business Development Plans

For facilitating sustainability of the Group, 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 2022 operating policies as shown on page 102 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:

(1) Finance and business:

- Scale up capital assets to boost the market status of Mega Financial Holdings group
- Strengthen overseas businesses and identify opportunities to relocated Taiwanese businesses
- Consolidate competitive advantages in corporate banking and foreign exchange and deepen the cross-selling of the Group
- Develop consumer banking and wealth management services to enrich the Group's active customer base

(2) Internal procedure:

- Increase corporate governance standards and pursue the Group's sustainable development
- Improve the Group's management efficiency to optimize business operations and increase return
- Reinforce the risk control of the Group and implement internal and external legal compliance
- Protect the Group's intellectual properties and increase investment of digitalization and IT

(3) Learning and growth:

- Motivate and enhance employee value and foster more digital talents
- Develop the Group's digital culture and encourages all types of R&D and innovations

## Mega International Commercial Bank Co., Ltd.

### A. Short-term Business Development Plans

#### Wealth management and insurance business

1. Strengthen the lineup of the wealth management team and enhance the capacity of management professionals.
2. Optimizing the wealth management business operation process and improving the branch compliance efficiency.
3. Increase the number of CFP® holders and build a financial management team with equal emphasis on quality.
4. In line with financial market and product trends, provide diversified financial products to meet the needs of inclusive and high-end customers.
5. Promote online wealth management transactions, optimize customer experience, and improve customer satisfaction.



6. Through the integration of virtual and real channels and social media, an omni-channel marketing mechanism is provided.
7. Continue to strengthen the investment research team, combine AI quantitative data, and provide the best investment strategy.
8. Develop customized exclusive products, graded education and training, transformation of main products, and provide differentiated insurance demand services for target customers.
9. We have continued to implement relevant regulations for policy acceptance and sales staff management while optimizing the regulatory process to protect the rights and interests of customers and improve operational efficiency.
10. We have enhanced the functionality of the insurance agent system, combining transaction and management functions. We have focused on system management and control, supplemented by process control, in order to enhance the effectiveness of management and control and strengthen the risk controls required by the financial inspection.
11. Attract more customers to use mobile insurance platform, continue to optimize insurance application processes, perform reviews with real-time systems, and speed up the process of reviewing and approving insurance applications to create better customer experience.

### 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 so as to increase the market share
2. Follow the 5P (People, Purpose, Payment, Protection, and Prospect) and deliberate 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. Provide all-inclusive professional services, focusing particularly on syndicated loans for renewable energy, project planning, leveraged buyout (LBO), merger and acquisition, and OBUs, and introduce electronic tracking to keep abreast of existing syndicated loan businesses. Maintain a positive relationship with banking peers and cooperate with them to increase businesses, which in turn generate more fee income.
4. Actively maintain relationships with existing OBU customers and develop new clientele, reduce undertaking risks through overseas credit guarantees, and actively promote the momentum of credit lending provided that compliance and risk control are both ensured.
5. Actively seek high-quality SME customers, launch various projects, and cooperate with government policy loans such as Taiwan's three major programs, 5+2 loans and the promotion of the national financing guarantee mechanism to increase the amount of loans and ensure the quality of credit.
6. Strengthen the planning of SME products by using Fintech applications and big data analytics and building an electronic supply chain platform, track the cash flow of SME customers to acquire SME lending businesses and control transaction risks.

7. Deeply cultivate new industries, continue to promote 5+2 new key industry loans and develop new cases of national development, creating a win-win situation for customers, the government and bank subsidiaries.
8. Host ESG-related seminars from time to time to train professional talents and teams, and combine pricing mechanisms with ESG-linked loan interest rate reduction to actively promote green lending activities.
9. Find loyal customers through telephone marketing and step up marketing efforts when funding is required.
10. Standardize credit review processes and integrate it into decision-making management systems to expedite review and enhance operating efficiency.

## **Finance and financial market business**

1. With an increasing rate of vaccination against COVID-19 across the world, the global economy rose sharply from rock-bottom level, while the stock market surged to record highs, reverberating in the high range. The Company will prudently operate short-term stock trading portfolios, carefully select high-quality resilient industries, stocks with favorable prospects, and the time of entry, so as to realize capital gains from short-term spread trading.
2. In response to the maturity of the bond position and the improvement of capital utilization income, increase the bond investment position, and perform range operations within the risk control range to increase profits.
3. Invest in perpetual bonds, fulfill corporate responsibility, and enhance corporate image.
4. Grasp the financial market trends and short-term fluctuations, and conduct short-term foreign exchange rate arbitrage transactions of various financial products in a timely manner to increase the benefits of financial operations.
5. Develop diversified capital dispatch channels, strive to reduce the cost of working capital, and use the characteristics of the yield rate curve to flexibly conduct money market operations under the established interest rate risk to obtain spread income.
6. In response to the revision of relevant laws and regulations by the competent authority, review and revise relevant internal operating specifications, strengthen understanding of customer procedures and product suitability operations, and steadily promote TMU business.

## **Trust Business**

1. Co-operate with the FSC Trust 2.0 policy and make the necessary changes on the business strategy to meet the demand of the customers on life trust and wealth management trust product and service; take full advantage of the new business opportunity of related trust business.
2. In response to an aging society and in line with government policies, continue to promote employee welfare (shareholding) trusts and Anyang trusts to meet the needs of customers for retirement preparation, nursing care, and personal property protection, so as to achieve the goal of ESG inclusive finance target.
3. 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.

4. Monitor the global financial market closely, based on the sales team and customer's need, provide multiple product lines on domestic/off-shore funds, foreign stocks and ETF products, to increase the wealth management business volume, market share and fee income.
5. Actively seek cross-industry alliance opportunities to enhance business opportunities related to the trust business; strive for the custodial business of funds and ETFs with themes and good investment performance, and promote the relaunch marketing plan of custodial funds to continuously expand the scale of custody.
6. Strengthen online banking and mobile banking wealth management platform; improve the user experience of the online channel and shorten the processing duration to make sales and to increase the online transaction percentage.
7. The Company will maintain a close cooperative relationship with securities brokers, venture capital management companies, law firms or accounting firms, life insurance companies, and subsidiaries of Mega Holdings to vie for foreign investments, venture capitals, discretionary investments, and investment-type insurance policies, among other custodian businesses.
8. The Company will organize fund reward and promotional projects regularly once in a while, and actively promote dollar cost averaging and value averaging transactions to accumulate sales volume and assets.

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

### **Wealth management and insurance business**

1. Enhance the professional capabilities of wealth management personnel in inclusive financial planning and high-asset business services.
2. Provide differentiated financial products and services for high-asset customers, and continue to cultivate high-end wealth management talents and enhance financial product research and development capabilities.
3. Complete domestic private banking expert service teams and commodity services to create scale and business market share.
4. Continue to cultivate brand value, communicate with the market and investors, and build the image of a high-asset wealth management bank that is most trusted by customers.
5. Cooperate with the development of the digital model, introduce multiple channels of digital insurance; use big data to analyze accurate marketing and improve customer satisfaction.
6. Continue to promote digital and paperless insurance business.

### **Credit business**

1. Maintain the advantage in the domestic syndicated loan market, and expand the international syndicated loan business. Combined with the rich experience of domestic business units in assisting Taiwanese businessmen to expand overseas business over the years, the competitiveness of the credit extension business will be strengthened to solidify the operation foundation of the whole bank.
2. Comprehensively explore green energy business opportunities, establish a green energy database and train a green energy financing professional team, and become a green energy professional credit bank.
3. Strengthen the cooperation mechanism between domestic business units and foreign business units, jointly improve operational efficiency with professional services, and actively explore new business opportunities in domestic and foreign markets.

4. Strengthen the development of financial technology, develop online financing services, and use systematic analysis methods to find and screen potential high-quality customer groups.
5. Reduce customer acquisition costs through multi-industry cooperation, develop new customer groups, and use big data analysis to grasp customer preferences, combine smart devices and artificial intelligence technology, build scenarios, and provide personalized financial services to enhance customer experience.
6. The development of consumer finance business will integrate the vision of green finance, guide customers to pay attention to sustainable development issues, implement an environment-friendly, energy-saving and carbon-reducing lifestyle, and practice ESG principles.

## Finance and financial market business

1. Set up long-term investment positions for high dividend yield stocks for steady dividend income.
2. Due to inflation concerns, major countries have gradually withdrawn from quantitative easing policies and started to raise interest rates in response, paying close attention to the US Federal Reserve's monetary policy guidelines, and choosing opportunities to deploy long-term bond investment positions.
3. In response to the government's policy of developing green industries, issue perpetual financial bonds to support the green lending business of enterprises and practice corporate social responsibility. Within the approved issuance quota of NT\$30 billion (or equivalent in foreign currency), the bonds will be issued in batches as needed to enrich the medium and long-term working capital.
4. In response to the new plan of wealth management 2.0 promoted by the competent authority, in addition to planning to issue foreign currency structured bonds to high-asset clients, it also conducts the proprietary business of securities firms and trades foreign bonds with high-asset clients.
5. Research and analyze the long-term trend of the financial market, look for niche commodities and operation strategies in the future, prepare in advance, and cut in in a timely manner to improve the overall business performance.
6. Strengthen the product research and development capabilities, while optimizing the operation process, strongly support the effective promotion of TMU business, and enhance the competitiveness of serving customers.
7. Taking legal compliance, preventing money laundering and capital terrorism as the main axis, with the expansion of business scale, timely review and improve the internal operation management and risk control of asset portfolio, so as to make the overall business develop soundly under controllable risks.

## Mega Securities Co., Ltd.

### A. Short-term Business Development Plans

1. Explore new customer base to increase the recurring income and enhance prop-trading performance so as to stabilize the profit.
2. Through introducing sound clients to increase corporate performance and increase securities counters performance, customer sources, and brokerage market share.
3. Launch High Wealth Client business; plus, strengthen sub brokerage business and securities lending business, to increase wealth management income.



4. Emphasize risk control and trading flexibility in trading units to improve trading performance and reduce the position risk.
5. Maintain the balance between the number of cases and quality on underwriting business to maintain market leading position.
6. Participate proactively in new business relaxed by the competent authority to catch business opportunities.
7. Promote digital career change projects, optimize the system platform, improve external customer satisfaction and enhance internal operation efficiency.

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

1. Build sound board 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. To maintain a long-term cooperative business relationship with customers for the purpose of comprehensive capital market service.
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. Adjust the structure of credit customers, develop non-real estate customers, actively strive for the underwriting business of bank transferable certificates of deposit, other insurance and insurance-free notes with a certain interest rate spread, and strive to host or participate in joint loan cases and joint underwriting cases to expand ticket source and increase ticket revenue.
3. 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.
4. Watch closely the change of COVID-19 pandemic, and 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.
5. 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.
6. Promote paperless conference system and paperless report management system to cut back resource consumption and fulfill cooperate social responsibilities.
7. Cooperate with the Group's sustainable financial policy implementation plan, promote responsible credit extension and responsible investment as the fulfillment of the ESG implementation.

8. Continuously strengthen information system and internal operation efficiency, enhance information security protection practice and implement related employee training to reduce security threats.
9. 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. Increase the priority of leading ESG practice corporates when engage in new cases; start to increase adequately on the percentage of green bond and sustainable finance transaction.
4. Monitor the rate environment closely, continue to build up bond position, adjust the REPO position and to maintain stable earning.
5. Continue to develop secondary market customers, lower the funding cost, increase interest spread on bill/bond position and to enhance the operating efficiency.
6. Seek approval from the competent authority to open up new business or transaction counterparty to expand business scope and funding sources.
7. Bundle with FHC group resource to increase cross sell.
8. Elevate IT system operating efficiency and to strengthen IT system safety.
9. Continue to expand human resource training.
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. Actively replace and update the core system to lay the foundation for the development of financial technology.
2. Adapt to the investment environment, develop innovative trend investment products and strive to improve fund performance.
3. Multi-asset funds have the characteristics of investing in various assets and may serve as the main axis of the development of income-based products.
4. Steadily develop the discretionary business and emphasize on the long-term stability with respect to account operations.

### B. Long-term Business Development Plans

1. Search for strategic sales partners to promote products in long term.
2. Continue to upgrade the professions of the research team's on new products and global market.
3. Issue ETFs to bring long-term significant scale.
4. Cultivate young generation asset management professionals with diverse learning styles and firm investment value.

## Mega Asset Management Co., Ltd.

### A. Short-term Business Development Plans

1. 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, for reconstruction of unsafe building, sea sand houses and other building likely to cause harm to public safety under the Urban Renewal Act and Dangerous Elderly Reconstruction Act.
2. Seek real estate properties with fixed rental income out of NPLs, and after tendering to obtain ownership, lease them out for stable rentals or resell them for capital gains.

### 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 be the implementer of the capital or rebuilding the old and rebuilding people and injecting funds.

## Mega Venture Capital Co., Ltd.

### A. Short-term Business Development Plans

1. Participate in capital increase before listing, bidding auctions, enquiry and purchase of convertible corporate bonds, selecting high-quality cases in the emerging market to participate in investment, or repurchasing shares of the original investment company in the listed (over-the-counter) market to realize capital gains and earn stable investment returns.
2. Cope with government funds to strengthen investment in small and medium-sized enterprises and other cases, improve enterprise productivity and industrial added value.

## 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, assist in the development of the investees and fulfill corporate social responsibility.
2. Increase profit to contribute more to the Group.
3. Follow the New South Bond initiatives led by the government and to increase international exposure while avoid red supply chains.

## 5.2 Cross Selling Synergies

Cross selling synergies among the Company's subsidiaries, which is impacted by the COVID-19 pandemic, reached NT\$1064 million in 2021, with an increase of 22.79% compared to 2020, achieving 106.45% of full year target. Key cross-selling results are described as follows:

1. In 2021, 10,293 Mega Bank credit cards were applied through the channels of other subsidiaries, and 10.27% and 6.85% of credit cards were issued and outstanding through cross selling, respectively. As a settlement bank for the securities transactions of Mega Securities, the bank's deposits in securities settlement accounts amounted to NT\$34.929 billion, up 19.54% from 2020; due to the impact of COVID-19 on overseas spending, cross selling benefits of credit cards reached NT\$106 million, an increase of 13.32% from NT\$94 million in 2020.
2. As of the end of 2021, Mega Securities has set up 94 securities counters in branches of Mega Bank compared to the 75 branches at the end of 2018. The proportion of securities brokerage undertaken through the channels accounted for 7.18% in 2021, up from 5.67% in 2020. The cross-selling benefits of Mega Securities from domestic and overseas stock transaction introduced by other subsidiaries increased by 76.48% to NT\$142 million from NT\$81 million in 2020.
3. Because of fierce price competitions, in 2021, Mega Bills Finance Company acted as an underwriter for a total of NT\$100.1 billion of commercial papers guaranteed by Mega International Commercial Bank, down 1% from NT\$101.1 billion in 2020.
4. In 2021, Chung Kuo Insurance Company reported insurance premium revenues of NT\$645 million through cross selling by other subsidiaries, up 14.98% from the NT\$561 million in 2020. The premium revenues from cross selling as a percentage of domestic written premiums rose to 8.76% in 2021 from 7.90% in 2020.
5. In 2021, average outstanding amount of mutual funds managed by Mega International Investment Trust Company (MIIT) through cross-selling by other subsidiaries reached NT\$40.3 billion, a 2.13% increase from the NT\$39.4 billion in 2020. Because of increased volatility in financial markets and rise in the risk awareness of investors, this accounted for 44.55% of average outstanding amount of funds managed by MIIT, compared to 46.23% in 2020. Mutual funds distributed through cross selling by other subsidiaries accounted for 27.60% of the total distributed amount, decreasing from 22.65% in 2020. The total benefits of cross selling increased by 13.34% to NT\$141 million from NT\$125 million in 2020.

## 5.3 Market Overview

There are sixteen financial holding corporations in Taiwan by the end of 2021. 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 is mainly within Taiwan. However, the oversea market becomes more and more important given the fierce competition, worldwide expansion of Taiwanese companies, and the lower cost of financial products and financial innovation. In 2021, numerous countries around the world generally shifted from a recession in the early phase of the pandemic to a recovery trend, but the spread of Delta variant across the globe repeatedly impeded economic recovery and coupled with factors such as different policy support and varying access to vaccines, developed and developing countries continued to deliver different economic performances. Furthermore, the outbreak of Omicron at the end of the year further added to the uncertainty of the economic outlook. For example, IMF reported in January 2022 forecast markdowns for advanced economies (the United States and European countries) due to unfavorable factors such as the new coronavirus variant and supply bottlenecks; however, the output and investment trends of developed countries are projected to return to pre-pandemic forecast in 2023, while the expansion of developing countries is mostly below pre-pandemic level.

#### B. Future Market Supply and Demand

1. For loan businesses, domestic banks' loans outstanding reached NT\$31,395.6 billion by the end of 2021, growing by 8.2% compared with the end of 2020. This growth is attributed to active investments in domestic manufacturing industries and historic low domestic interest rates. Among them, loans to private sector, including private enterprises and individuals, accounted for 93.9% of all loans, loans outstanding increased by 8.3%, and loans outstanding to state-owned enterprises grew by 27.0%, ending two consecutive years of decline, while loans to government agencies rose slightly. Going forward, the Directorate-General of Budget, Accounting, and Statistics predicts that the momentum of domestic investment will continue to expand, and the extension of the three invest-in-Taiwan major programs will improve the performance of our lending businesses.
2. For consumer finance business, loans outstanding were NT\$10,419.9 billion at the end of 2021, up 9.0% compared to the end of 2020. Specifically, mortgage loans which account for 84.5% of total consumer

loans grew by 9.5%, car loans increased by 6.3%, and other personal consumer loans grew by 9.1%. In addition, construction loans amounted to NT\$2,808.4 billion as of the end of 2021, an increase of 14.1% compared to the end of 2020, continuing to exhibit a double-digit growth trend, which reflects the active demand for housing and industrial plants. Going forward, the momentum of private consumption is projected to improve as pay increases and manufacturers expand investment, but the central bank might raise interest rates and impose stricter selective credit controls on real estates, which may cool demand for construction loans.

- As of the end of 2021, the number of credit cards in circulation reached 52.63 million, growing by 5.02% compared to the end of 2020, while the effective card increased only by 2.40%, dropping the percentage of effective cards to 64.2%, which shows that the credit card market is saturating and the bank is not gaining much benefits from issuing credit cards. The revolving credit outstanding balance dropped, showing individual customers are getting more cautious on their spending.

## C. Business targets

| Item  | 2022 targets |
|---|--------------|
| Average outstanding of deposits (in million NTD)      | 2,754,751    |
| Average outstanding of loans (in million NTD)         | 2,143,371    |
| Foreign exchange business undertaken (in million USD) | 980,205      |

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

### Positive Factors

- The economy of Taiwan in 2022 is projected to continue to grow above pre-pandemic levels. In addition, the Central Bank in Taiwan and the US Federal Reserve are likely to take interest-hike actions, which will help drive the lending performance and profitability of banks.
- Under the influence of the pandemic, most banks are developing remote office models, which may increase people's willingness to use digital financial services, drive digital transformation opportunities, and optimize the overall operation process.
- Three major credit rating agencies have successively upgraded Taiwan's sovereign rating or outlook for 2021. Fitch Ratings reported that the risks of bank operating environment decreased, predicting a favorable economic outlook and asserting that the central bank's generally prudent measures will help offset the adverse impact of the pandemic. S&P Global Ratings indicated that the banking sector has a sound capital adequacy ratio.

### Negative Factors

- The economic performance of numerous countries is still adversely affected by the pandemic, and the pandemic in Taiwan showed resurgence in January 2022. These situations did not deter the US Federal Reserve from normalizing monetary policies, but it might make the central bank in Taiwan more cautious when hiking interest rates. Nonetheless, the pandemic continued to add considerable uncertainties to economic outlook and policies.



- Loans offered to SMEs by the central bank are only available until the end of June 2022. Thereafter, banks will have to use their own funds, and the loan interest rate will be priced according to the interest rate of the undertaking bank. The gradual withdrawal of the COVID relief loan programs may push up overdue loans and related credit costs. Banks and SMEs should prepare themselves as soon as possible.
- US-China tech war, geopolitical uncertainty and COVID-19 pandemic all could put pressure on the sovereign rating of many countries, which could further push up the volatility of the global market.
- The Russia–Ukraine war and geopolitical events triggered turmoil in the markets and inflation risk continued to climb, further exacerbating supply chain bottlenecks.

### 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, bonds, derivatives, stock registry services, and 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

- Regarding supply, the government continued to relax regulatory restrictions, contributing further to the abundance and diversity of securities businesses. Regulatory authorities are expected to continue to promote the Capital Market Roadmap; open up foreign currency businesses allowing securities brokers to accept a client's request to trade foreign securities; activate ledgers to diversify the use of capital; and establish refinancing risk compilation mechanisms, among other open and loose policies. These actions are aimed at facilitating industrial development and helping securities brokers to break free from price-cutting competitions and develop differentiated business models, thereby steering the securities industry toward a sounder and more robust development.
- Regarding demand, Taiwan's active stock market has been attracting an increasing number of domestic investors in the past two years. Meanwhile, the diversifying needs for financial management products coupled with the popularization of wealth management concepts among young people and the booming electronic trading market, securities companies are required to continuously improve their digital services and various wealth management products to meet customer needs and stay competitive in the market.

#### C. Business targets

| Item                                 | 2022 targets |
|--------------------------------------|--------------|
| Market share of securities brokerage | 3.40%        |

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

##### Positive Factors

- Trading volume is driven by the volatility of Taiwan's stock market, and it is expected to be maintained by the active participation of Taiwanese nationals in the stock market.

2. The regulatory authority supports the securities industry and continues to open up financial products and services by relaxing regulations, which will facilitate business development and increase profits.
3. The brand of Mega Holdings Group appeals to outstanding talents. Combining our brand with the resources of Mega Holdings, the synergy of cross selling is created, thus helping the company to bolster its competitiveness.
4. Employee stability and long-term cultivated clients help the company to be able to provide various kinds of products and services to diversify revenue source.
5. Our businesses have achieved a balanced development and established a certain market position, which enable us to undertake more new business.

## 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. The diversification of financial products and expansion of business scope have increased requirements and costs relating to compliance and business risk management.

## 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 Company has 8 branches in Taiwan which are engaged in credit business, bills and bonds business.

### B. Future Market Supply and Demand

#### (1) Bills market

Bill asking rate in the secondary market fell in the first half of 2021 due to the CBC maintaining a loose money market, and because quotes in the primary market fell by a lesser degree, bill spread had widened in 2021 compared to 2020. In 2021, the underwriting of CP2 in the primary bills market amounted to NT\$10.52 trillion, increasing by NT\$440.748 billion or 4.37% compared to 2020. The market share of Mega Bills Finance was 26.41%. Bills trading volume in the secondary bills market amounted to NT\$30.289098 trillion, a decrease of NT\$594.139 billion or 1.92% compared to 2020. Mega Bills occupied 29.19% of the shares in the market, delivering the best performance in the sale of bills in the bills industry.

Going forward, countries around the world are opting for a tight monetary policy to curb inflation in 2022. A low-interest environment is now a thing of the past, and the global market is plagued by uncertainties where credit risks may increase further. Robust strategies will be adopted to maintain credit and investment qualities. Businesses will have limited room for growth in 2022, and credit portfolios

will stay at the same level as in 2021. Capital costs and subprime rates will gradually reflect the expected interest rate hikes. However, competition among peers and banks for high-quality customers hinders the increase of interest rates in the primary market, coupon rate cannot be reflected immediately in the interest rate hike stage, coupon spread will converge in the early stage of the interest rate hike cycle, and maintaining the spread will be challenging.

## (2) Bonds market

Due to an upward trend of market interest rates in 2021, the overall gain is less than the previous year. With the recovery of the global economy and rising inflation, in addition to U.S. discussions on scaling down bond purchases as major economies let go of their monetary policy and turn more hawkish, market interest rates for NTD bond portfolios began climbing in the second half of 2021. With the United States expected to raise interest rates by at least 75 bps in 2022, market operations have turned conservative, resulting in a decline in NTD bond portfolios.

Looking to the future, bond market yields will reverse upward and the yield curve for long- and short-term spreads is expected to become steeper. This trend is beneficial for subsequent NTD and foreign currency bonds to fill high yield targets, but in a bearish market atmosphere, the market exhibits intense volatility, which impedes operations further, and the overall portfolio will bear higher interest rate risks.

## (3) Stock investment business

In 2021, inflation driven by the pandemic and expansionary monetary policy persisted throughout the year. Both European and U.S. stock markets, despite being tumultuous, hit fresh highs, and Taiwan stocks also rose by more than 3,486 points or 24%, rising through the ranks in global major markets. Looking forward to 2022, U.S. Federal Reserve and central banks of various countries will slowly scale back bond purchases, raise interest rates, and shrink their balance sheets, thus further tightening market funds. Business profits will continue to grow as economy recovers; however, a high base period causes relatively limited growth. With the index already at a high point, market volatility and market shock will be magnified in the future, rendering market operations much more difficult.

## C. Business targets

Units: NT\$ million

| Item   | 2022 targets |
|--|--------------|
| Underwriting and purchasing of bills                                     | 2,833,890    |
| Underwriting amount of commercial paper issued for funding purpose (CP2) | 2,632,900    |
| Trading volume of bills  | 8,168,595    |
| Trading volume of bonds  | 2,934,269    |
| Repo outstanding balance of bills and bonds                              | 192,794      |
| Average outstanding balance of guaranteed issues of commercial paper     | 180,000      |

## D. Positive and Negative Factors Influencing Future Operations

### Positive Factors



The regulatory authority now allows bill financing companies to trade foreign currency bonds and repurchase agreements with OBU and OSU, and to engage OBU in interbank borrowing of foreign currency capital. This change is conducive to strengthening the ability of securities companies to allocate funds and capitals to operate foreign currency businesses.

## Negative Factors

1. Taiwan's domestic economy is recovering, but the end of the pandemic is nowhere in sight. The market is still full of uncertainties and credit risks are relatively high. However, inflationary pressure has intensified while the market is brewing an interest rate hike trend. Capital costs reflect the expected interest rate hikes. Due to price competitions, coupon rate in the primary bond market cannot be reflected immediately in the interest rate hike stage, resulting in limited coupon spread.
2. Looking forward to 2022, the U.S. Federal Reserve is set to quicken its taper pace in bond buying. Various institutions forecast that interest rate hike may expand in 2022. The bearish market atmosphere will experience greater volatility and fluctuations, rendering bond trading operations more difficult. In addition, NTD and foreign currency funds are facing pressure from soaring capital costs, which may erode the space for bond yield spreads.
3. The central bank in Taiwan has successively introduced credit control policies for mortgage loans, which will affect the real estate-related lending businesses of bills companies.
4. In a financial market where financing channels are increasingly diversified, banks with bill company qualifications strive for domestic loan business at low interest rate and compete for non-guarantee CP primary underwriting business, hindering the business expansion of professional bills companies.

## 5.3.4 Non-life Insurance Industry

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

Chung Kuo Insurance Company provides domestic non-life insurance service in Taiwan and Guan, supplemented with inward reinsurance. Head office resides in Taipei, and the company has 29 domestic branches and one overseas representative.

### B. Future Market Supply and Demand

- (1) Insurance is a mutually supportive economic system. In economically developed countries, citizens are increasingly dependent on insurance because risks constantly arise from frequent commercial activities, high industrial development, and continued technological innovation. Due to COVID-19, consumers are becoming more aware of the importance of health and risk management, which in turn increases the demand for insurance.
- (2) Property and casualty insurance resembles a short-tailed business. However, the promotion of businesses related to information security insurance, director/supervisor liability insurance, and mobile device insurance is driven by the government's industrial policies to develop renewable energy insurance business opportunities, and rise in corporate and public awareness on risk management. In addition, the pandemic quickened the digital transformation of businesses, thus helping insurance companies to optimize their operating procedures, improve service quality, and develop novel insurance products, all of which are expected to maintain the growth momentum of the entire property insurance market.



### C. Business targets

Unit: NT\$ thousand

| Item                 | 2022 targets |
|----------------------|--------------|
| Insurance premiums   | 8,659,983    |
| Reinsurance premiums | 683,930      |
| Total                | 9,343,913    |

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

#### Positive Factors

1. The government's implementation of public construction and infrastructure projects, such as offshore wind power, solar photovoltaic, and railway construction (e.g., High Speed Rail, Taiwan Railway, and Taipei MRT) projects, is conducive to expediting the growth of the property insurance market.
2. Aligned with the government's Salute to Taiwan's Mountains and Seas policy, the company promotes comprehensive insurance products for hiking activities, marine activities, specific activities, and domestic travels to attract potential customers.
3. As Taiwan heads toward an aging society, the trend will facilitate the development of insurance products for senior citizens, injuries, and disabilities.
4. In 2021, the Financial Supervisory Commission has granted approval to five life insurance companies to conduct a remote insurance business trial, with plans to promulgate regulations before the end of 2021. Remote insurance business may become the new normal in the future, providing opportunities to digitally transform individual insurance.
5. The public's awareness of mobile device insurance has increased, and the diversification of insurance policies meets the insurance needs, making mobile device insurance a major growth driver for other insurance markets in recent years.
6. Public accidental insurance, product liability insurance, board member liability insurance, agriculture insurance and IT safety insurance are the products heavily promoted by the government in recent years as well.

#### Negative Factors

1. Natural disasters and major incidents around the world have occurred frequently in recent years, and catastrophe risk losses continue to affect policy underwriting. For instance, hurricanes in the United States, wildfires in California, and floods in Western Europe, have resulted in an increased cost of catastrophe reinsurance and relative increase in risk retention.
2. The continued shortage of automotive-specific chips has caused many automakers to cease vehicle production, thus delaying consumer purchases as well as car delivery. This situation might continue to cause associated deferred effect, resulting in reduced premium income from new car insurance in the year of 2022.
3. Consumers are demonstrating a greater awareness of compensation claims, and liability insurance settlement claim amounts have increased accordingly. In the face of price competition, rates for most insurance types are having a hard time maintaining positive consideration, and this in turn could easily undermine the underwriting benefits.

4. If the pandemic and social distancing continue, written premiums from public accident liability and travel liability insurance businesses are expected to diminish.
5. Due to the pandemic, reinsurers for information security insurance and director and supervisor liability insurance increased their premium quotes, which affect the willingness of firms to purchase insurance.

## 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 Company 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

1. Because the world was affected by the pandemic, people will pay more attention to investments in biotechnology and medical industries, which play a role in pandemic control. In addition, the changing behaviors born of the COVID-19 crisis (i.e., contactless or remote contact) led to the rise of more upstream and downstream industries, which stimulated investment opportunities. In addition, 5G related software and hardware application are in high demand as well. Not to mentioned the ESG and corporate social responsibility related investment theme are attracting more demand from the investors as well.
2. The domestic market is blessed with an abundance of funds and high-net-worth customers, thanks to the thriving domestic export and the repatriation of offshore funds by overseas Taiwanese companies. The FSC launched a “New Wealth Management Scheme (2.0)” targeting high-net-worth individuals and opening up more diversified financial products and services to expand the scale of wealth managed by the financial industry.

### C. Business targets

Units: NT\$ million

| Item                                     | 2022 targets |
|--|--------------|
| Public funds under management            | 91,417       |
| Private placement funds under management | 5,827        |
| Discretionary account                    | 974          |

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

#### Positive Factors

1. Laws and policies are getting more open, which increases opportunities for new business development in investment trust.
2. Continue to work closely with other companies within the group to develop new products in response to customer needs and investment opportunities, so as to give full play to the synergy of the group.
3. Fintech applications are becoming more and more extensive, helping to improve the efficiency and quality of financial services.



### Negative Factors

1. The momentum of domestic fund sales was lower than expected, prompting an active search for external channels and information transmission channels. In addition, some old funds exhibited unfavorable growth momentum, with scales continuing to shrink to merger or liquidation threshold. Therefore, a breakthrough in existing sales models must be achieved.
2. The resurging pandemic also affected investment stability and the difficulty of fund operations and management. Changes in how people live and work also accelerated the digital transformation of every industry. To quicken the transformation pace and vie for new business opportunities, our investment trust subsidiary has started working on a mid-/long-term digital transformation plan.

### 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

1. The asset quality of Taiwanese banks has improved and the NPL ratio is low. Thus the source of suitable investments or auction cases is few, causing fierce market competition.
2. The government is promoting urban renewal and old building rebuilt policies. The real estate companies develop aggressively and integrate suitable targets for urban renewal or old building rebuilt. The asset management companies will follow the "Operation Principles for Financial Holding (Banks) Investing Asset Management Companies" to do prepayment business. There is a prospect in the future.

#### C. Business targets

Units: NT\$ million

| Item  | 2022 targets |
|---|--------------|
| Average balance of advances in asset service business | 15,080       |
| Average balance of investment properties              | 217          |

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

##### Positive Factors

1. The government is promoting urban renewal policy and project which should have a positive impact of overall market.
2. Overall excessive liquidity and low interest rate environment will continue to attract funding to pour into the domestic property market, which will have a positive impact on the asset management industry.
3. Asset management subsidiary should continue to adjust its overall business mix, work with outside developer on strategic projects, diversify its business mix and portfolio to increase the operating efficiency.

## Negative Factors

1. Domestic financial institution asset quality remain sound, NPL formation is low, plus FSC has regulation on how financial institution can sell its NPL asset; as a result, NPL cases has dramatically decreased in the last few years.
2. Currently asset management subsidiary is mainly engaged in property consolidation service and development, urban renewal housing projects, and auction bidding service as well as short term financing service of above cases; however, recent years, many peers have aggressively entered the market, plus the banks are entering the market as well, as these urban renewal projects have the advantage of not being included in the property market exposure regulated by the government.

## 5.3.7 Venture Capital Industry

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

Mega Venture Capital Company 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 Taiwanese companies in demand-driven industries in Asia.

### C. Business targets

Units: NT\$ million

| Item                        | 2022 targets |
|-----------------------------|--------------|
| long-term investment amount | 250          |
| Stock selling income        | 306          |

### D. Positive and Negative Factors Influencing 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.
3. Mega Management & Consulting Co., Ltd. has set up for years with experienced team. Also the co-work with Group subsidiaries is beneficial for business growth.

### Negative Factors

1. In the past, venture capital companies in Taiwan were overly focused on technology industries, creating concentration risk. With the upgrade of traditional industries' techniques, rise of AI, 5G, and bio-tech industry, venture capital companies can better diversify investments and reduce concentration risk.
2. Although Taiwan performed economically better than its neighboring countries in 2021, it has also encountered challenges from COVID-19. Recent international financial fluctuations and economic uncertainty still exist and may still impact Taiwan's industries. Investments are therefore still risky.

## 5.4 Human Resources

Unit: Number of person

| Item \ Year               |                             | 2020  | 2021  | Current year as of Mar. 31, 2022 |
|---------------------------|-----------------------------|-------|-------|----------------------------------|
| Number of Employees       | Mega FHC                    | 56    | 66    | 67                               |
|                           | Mega Int'l Commercial Bank  | 6,652 | 6,559 | 6,543                            |
|                           | Mega Bills Finance          | 213   | 220   | 219                              |
|                           | Mega Securities             | 1,464 | 1,490 | 1,484                            |
|                           | Chung Kuo Insurance         | 825   | 834   | 845                              |
|                           | Mega Int'l Investment Trust | 94    | 89    | 85                               |
|                           | Mega Asset Management       | 25    | 24    | 24                               |
|                           | Total                       | 9,329 | 9,283 | 9,265                            |
| Average Age               | Mega FHC                    | 48.06 | 46.24 | 46.46                            |
|                           | Mega Int'l Commercial Bank  | 40.52 | 40.93 | 41.02                            |
|                           | Mega Bills Finance          | 45.25 | 45.03 | 44.69                            |
|                           | Mega Securities             | 46.06 | 46.41 | 46.55                            |
|                           | Chung Kuo Insurance         | 41.80 | 42.10 | 42.00                            |
|                           | Mega Int'l Investment Trust | 45.40 | 45.89 | 46.50                            |
|                           | Mega Asset Management       | 45.00 | 48.00 | 47.00                            |
| Average Years of Services | Mega FHC                    | 11.53 | 10.26 | 10.15                            |
|                           | Mega Int'l Commercial Bank  | 13.84 | 14.04 | 14.48                            |
|                           | Mega Bills Finance          | 15.61 | 15.32 | 15.01                            |
|                           | Mega Securities             | 12.55 | 12.91 | 13.07                            |
|                           | Chung Kuo Insurance         | 11.40 | 11.60 | 11.50                            |
|                           | Mega Int'l Investment Trust | 11.08 | 11.00 | 10.99                            |
|                           | Mega Asset Management       | 9.10  | 10.20 | 10.50                            |

# Operational Overview

## Academic background

| Item \ Year       |                             | 2020   | 2021   | Current year as of Mar. 31, 2022 |
|-------------------|-----------------------------|--------|--------|----------------------------------|
| Doctoral Degree   | Mega FHC                    | 3.70%  | 3.03%  | 2.99%                            |
|                   | Mega Int'l Commercial Bank  | 0.03%  | 0.03%  | 0.03%                            |
|                   | Mega Bills Finance          | 0.50%  | 0.00%  | 0.00%                            |
|                   | Mega Securities             | 0.07%  | 0.13%  | 0.13%                            |
|                   | Chung Kuo Insurance         | 0.25%  | 0.24%  | 0.24%                            |
|                   | Mega Int'l Investment Trust | 0.00%  | 1.12%  | 2.35%                            |
|                   | Mega Asset Management       | 0.00%  | 0.00%  | 0.00%                            |
| Master's Degree   | Mega FHC                    | 48.21% | 53.03% | 53.73%                           |
|                   | Mega Int'l Commercial Bank  | 26.47% | 27.17% | 27.34%                           |
|                   | Mega Bills Finance          | 51.64% | 53.18% | 52.97%                           |
|                   | Mega Securities             | 12.09% | 12.42% | 12.13%                           |
|                   | Chung Kuo Insurance         | 13.21% | 13.67% | 13.49%                           |
|                   | Mega Int'l Investment Trust | 40.43% | 38.20% | 36.47%                           |
|                   | Mega Asset Management       | 28.00% | 25.00% | 25.00%                           |
| Bachelor's Degree | Mega FHC                    | 46.43% | 42.42% | 41.79%                           |
|                   | Mega Int'l Commercial Bank  | 70.48% | 70.16% | 70.03%                           |
|                   | Mega Bills Finance          | 46.95% | 45.45% | 45.66%                           |
|                   | Mega Securities             | 74.11% | 74.09% | 74.26%                           |
|                   | Chung Kuo Insurance         | 80.61% | 79.98% | 79.88%                           |
|                   | Mega Int'l Investment Trust | 58.51% | 59.55% | 60.00%                           |
|                   | Mega Asset Management       | 72.00% | 75.00% | 75.00%                           |
| High School       | Mega FHC                    | 0.00%  | 0.00%  | 0.00%                            |
|                   | Mega Int'l Commercial Bank  | 2.68%  | 2.39%  | 2.39%                            |
|                   | Mega Bills Finance          | 1.41%  | 1.36%  | 1.37%                            |
|                   | Mega Securities             | 13.73% | 13.36% | 13.48%                           |
|                   | Chung Kuo Insurance         | 5.82%  | 6.00%  | 6.27%                            |
|                   | Mega Int'l Investment Trust | 1.06%  | 1.12%  | 1.18%                            |
|                   | Mega Asset Management       | 0.00%  | 0.00%  | 0.00%                            |
| Below high school | Mega FHC                    | 1.79%  | 1.52%  | 1.49%                            |
|                   | Mega Int'l Commercial Bank  | 0.35%  | 0.24%  | 0.21%                            |
|                   | Mega Bills Finance          | 0.00%  | 0.00%  | 0.00%                            |
|                   | Mega Securities             | 0.00%  | 0.00%  | 0.00%                            |
|                   | Chung Kuo Insurance         | 0.12%  | 0.12%  | 0.12%                            |
|                   | Mega Int'l Investment Trust | 0.00%  | 0.00%  | 0.00%                            |
|                   | Mega Asset Management       | 0.00%  | 0.00%  | 0.00%                            |





## Professional Certificates Held by Employees

Unit: Number of person

| Item  | Year | 2020  | 2021  | Current year as of Mar. 31, 2022 |
|---|------|-------|-------|----------------------------------|
| Trust personnel   |      | 5,766 | 5,740 | 5,725                            |
| Bank internal controller                                    |      | 4,544 | 4,540 | 4,534                            |
| Junior credit personnel                                     |      | 2,231 | 2,270 | 2,287                            |
| Advanced credit personnel                                   |      | 76    | 72    | 73                               |
| Junior foreign exchange personnel                           |      | 3,441 | 3,488 | 3,494                            |
| Bills finance personnel                                     |      | 359   | 371   | 367                              |
| Bond personnel  |      | 266   | 268   | 262                              |
| Stock affairs personnel                                     |      | 211   | 210   | 208                              |
| Life insurance representative                               |      | 5,959 | 5,897 | 5,878                            |
| Life insurance broker                                       |      | 5     | 5     | 5                                |
| Life insurance agent  |      | 13    | 13    | 13                               |
| Investment-linked insurance sales agent                     |      | 2,140 | 2,103 | 2,091                            |
| Non-life insurance broker                                   |      | 10    | 9     | 9                                |
| Non-life insurance agent                                    |      | 13    | 13    | 13                               |
| Non-life insurance representative                           |      | 4,111 | 4,087 | 4,074                            |
| Non-life insurance assessor                                 |      | 131   | 125   | 125                              |
| Non-life insurance claim adjuster                           |      | 95    | 90    | 90                               |
| Securities specialist                                       |      | 2,216 | 2,250 | 2,237                            |
| Senior securities specialist                                |      | 2,596 | 2,611 | 2,594                            |
| Securities margin trading specialist                        |      | 383   | 384   | 380                              |
| Securities investment specialist                            |      | 1,602 | 1,606 | 1,591                            |
| Securities analyst  |      | 121   | 117   | 115                              |
| Futures commission specialist                               |      | 151   | 140   | 140                              |
| Futures brokerage specialist                                |      | 2,042 | 2,033 | 2,023                            |
| Futures analyst   |      | 20    | 21    | 19                               |
| Certified public accountant (Domestic)                      |      | 38    | 37    | 39                               |
| Certified public accountant (Foreign)                       |      | 8     | 8     | 7                                |
| Professional and Technical Personnel Examinations -Attorney |      | 27    | 26    | 25                               |
| Certified Management Accountant (CMA)                       |      | 1     | 1     | 1                                |
| Financial Risk Manager (FRM)                                |      | 49    | 52    | 49                               |
| Certified financial planning personnel                      |      | 2,007 | 1,963 | 1,952                            |
| Certified financial planner (CFP)                           |      | 139   | 137   | 135                              |
| CFA(level1)   |      | 60    | 63    | 62                               |
| CFA(Level2)   |      | 23    | 24    | 21                               |
| CFA(Level3)   |      | 10    | 11    | 7                                |
| Certified internal auditor                                  |      | 13    | 14    | 14                               |
| Actuary (Domestic)  |      | 2     | 2     | 2                                |
| CAMS  |      | 3,232 | 3,133 | 3,106                            |
| CAMS (English edition)                                      |      | 145   | 140   | 141                              |
| CFSA  |      | 3     | 2     | 2                                |
| CISA  |      | 4     | 3     | 3                                |



## 5.5 Corporate Responsibility and Ethical Conduct

### 1. Promotion of sustainable development (Please refer to page 59 of the annual report)

Mega Financial Holdings adheres to the principles of integrity, transparency, and sustainable development. While pursuing profits, we should also pay more attention to the rights and interests of stakeholders and integrate ESG sustainability concepts into operation management and business development strategies. In order to communicate with stakeholders regarding the sustainable planning of the Group, Mega Financial Holdings regularly discloses the implementation of the Group's ESG plan through annual reports, sustainability reports, and its external website.

Mega Financial Holdings attaches great importance to ESG issues, and its relevant sustainability performance has been recognized by competent authorities and by investors. For many years, it has been selected for inclusion as a constituent stock in the TWSE Corporate Governance 100 Index of the Taiwan Stock Exchange, as well as the TWSE RA Taiwan Employment Creation 99 Index, the Taiwan High Compensation 100 Index, and the FTSE4Good TIP Taiwan ESG Index. Meanwhile, Mega International Commercial Bank has been honored by the Environmental Protection Administration with accolades including "Out-standing Unit for Green Procurement and Green Consumption Promotions" and by Environmental Protection Agency with its "Green Procurement Performance Award for Private Enterprises and Organizations." This demonstrates the Company's determination to implement ESG.

### 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 Principles", "Procedures for Ethical Management and Guidelines for Conduct", "Procedures for Material Information Management and Disclosure", "Code 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 2021, the Company had never had transactions with any party with a history of dishonest behaviors. The group has accepted a total of 2 cases reported and established, including 1 case each for the bank and the securities subsidiary, each of which is to keep the customer's passbook and disclose the company's business secrets. Corresponding punishment has been made in accordance with the internal disciplinary provisions.

## 5.6 Employee Average Welfare of Non-Manual Officers

Unit: Persons ; NT\$ thousand

|   | 2020  | 2021  | Difference |
|---|-------|-------|------------|
| Number of non-supervisor employees              | 7,856 | 7,728 | ( 128)     |
| Non-supervisor employees' annual average salary | 1,427 | 1,450 | 23         |
| Non-supervisor employees' annual median salary  | 1,134 | 1,173 | 39         |

Note: Non-supervisor employees means those who are not managerial persons.



## 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's 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 net-work which is linked by specific lines.
2. DB2, Oracle, SQL Server, 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

1. In order to ensure the stability and safety of business operations, we will continue to adjust system architecture in 2022 while also strengthening infrastructure, continuously strengthening network architecture, and exercising various plans. Details will be listed as follows:
  - a. Carry out the second phase of the construction of the "Tripwire Open System Maintenance and Operation Variation Management and Audit Platform" to strengthen the Communication system stability and security.
  - b. Carry out the tapeless construction of the mainframe tape library to improve the security of data backup and rapid recovery.
  - c. Build AS/400 host security control software to actively monitor external connection services and improve system security.
  - d. Optimize the AS/400 host disk to expand the data storage space.
  - e. Build SSL encrypted traffic management equipment to strengthen the detection and protection effect of official Internet access by information security equipment such as IPS and APT protection effect.
  - f. Replace the electronic bank's firewall that is going to reach EOL.
  - g. Build up monitoring and management system to strengthen the Bank's network monitoring and management.
  - h. Establish a computer software and authorization management mechanism, manage the software authorization status, and deal with unauthorized software and software blacklist for control.
  - i. Replace the Smart Data Security Gateway (NDLP) and APT hardware, and replace the hardware that will be EOL equipment.
  - j. Upgrade the privileged account management system to improve the system information security protection capability and the retention period of video files.
  - k. Carry out the expansion of the information asset management system to expand and manage the growing number of information asset equipment.
  - l. Continue to integrate information security systems to improve information security policy compliance management and strengthen information security protection.
  - m. Replace and upgrade Cisco network equipment in domestic units.
  - n. Network accelerator upgrade and replacement.
  - o. SD-WAN import promotion plan.

- p. ACI SDN independent test environment and ACI network management system construction improvement plan.
- q. Replace F5 equipment of dual-center line shunting along with replacing and upgrading internal DNS F5.
- r. Import cloud WAF.
- s. IP reputation evaluation and traffic visibility management platform evaluation.
- t. The second stage expansion and upgrading of the network management system.
- u. Internet Behavior Control and Web Cache Equipment Improvement.

## Mega Securities Company

- 1.Import the SOC outsourcing service.
- 2.Acquire information security related equipment.

## Mega Bills Finance Company

- 1.Enhance money laundering prevention information operations. Strengthen information security equipment and operations.
- 2.Replace the virtual host server and related equipment.
- 3.Replace the encryption and decryption device of the central bank's co-capital system.
- 4.Replace network equipment.
- 5.Upgrade personal computer.

## Chung Kuo Insurance Company

- 1.Establish new fire insurance core system.
- 2.Construction of insurance claims blockchain system.
- 3.Application system middle platform construction.
- 4.Update of the digital learning system.
- 5.Update of New Exchange system and backup structure.

## Mega International Investment Trust Company

- 1.New version of the official website, APP and Line@ development.
- 2.The new version of online transaction and online account opening system.
- 3.File digital filing system.
- 4.Cloud-based peripheral systems.
- 5.The new version of fund operation, investment and accounting system.
- 6.Mobile Office System.

## Mega Asset Management Company

Continue to strengthen information security and improve equipment and services to achieve the goal of uninterrupted business operation.

## Mega Venture Capital Company

Replace personal 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 out- breaks, 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 avail- able 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 in-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 Information Security Management

### A. Information Security Risk Management Framework and Policies

#### Mega Financial Holding Company

To oversee the Group's information development and information security management matters and reduce information security risks, Mega Holdings has established the Information Security Policy and Guidelines for Information Security Management Operations. Information and Digital Business Meetings as well as Information Security Meetings for the Group are held pursuant to applicable regulations.

The Information and Digital Business Meetings for the group are convened by the director of Mega Holdings (who is also the President of the Company) and attended by the President of each subsidiary. These meetings are held at least once every six months and may be convened at any time as needed for business purposes. Issues concerning the information security of all subsidiaries, new types of information technologies, digital development, and information security incidents are discussed and reviewed during the meetings. There is a dedicated unit in charge of executing or coordinating meeting-related resolutions. Important issues or resolutions are reported to higher levels of risk management organization (the Board of Directors, Risk Management Committee).

The Group Information Security Meeting is convened to oversee the Group's information security management matters, the implementation and coordination of each subsidiary's information security policies, and resource allocation.

A vice president or higher position acts as the convener and appoints a unit to be in charge of executing or coordinating resolutions related to the information security meeting.

To manage information security risks, the Company has established an information security policy to serve as the basis for the Company and its subsidiaries to implement various information security measures. This policy is evaluated at least once a year or when there is a significant change to laws and regulations, technologies, organizations, and operations.

#### Mega International Commercial Bank

Mega Bank established a dedicated information security unit in accordance with Article 38-1 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" of the FSC. The unit is responsible for the establishment and maintenance of the Bank's Information Security Policy and the establishment of overall information security protection mechanisms and contingency plans. A supervising vice president serves as the Chief Information Security Officer (CISO), who issues a Statement on the Internal Control System in accordance with paragraph 1 in Article 27 of the aforesaid rules.

Mega Bank established an inter-departmental "Information Security Response Meeting" to consolidate information security management matters. Meetings are convened by a supervising vice president to facilitate

discussions on business, transactions, information exchanges, and other information security issues. During the meeting, information security mechanisms and related contingency plans are established to support Mega Bank's business goals.

Mega Bank established an "Information Security Policy" to enhance information security and network security management, establish a secure and trustworthy operation environment, ensure data, system, equipment, and network security, and protect customer interests. The policy provides a basis for the implementation of various information security measures. Furthermore, a Fundamental Guide to Cyber Security Protection for Mega Bank has been established as well to ensure that the company's information communication systems consistently provide basic security protection as required by the supervisory authority.

### Mega Securities Company

In accordance with Article 36-2 of the Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets, the company has appointed a chief information security officer, set up an inter-departmental Information Security Working Group, and established an information security policy, which is reviewed regularly every year. Any amendments to the policy are approved by the Board of Directors beforehand. Every year, the company's information security implementation status is incorporated in its Statement on Internal Control System, which is then presented to the Board of Directors.

The company has developed an information security policy and relevant management regulations in accordance with TWSE's regulations regarding the Establishment of Cyber Security Inspection Mechanism for Securities Firms. The information security policy is disclosed on the company's website and is reviewed regularly every year. Any amendments to the policy are approved by the Board of Directors beforehand.

### Mega Bills Finance Company

The Board of Directors supervises how the company manages and operates its cyber security. The company has established an inter-departmental Information Security Working Group, with the president or a president-appointed vice president acting as the convener to review and monitor the implementation status and examine the company's cyber security policy. In compliance with the internal control policy, the company has appointed its Vice President to be the chief information security officer who oversees matters pertaining to the implementation of information security policies and resource allocation. The head of our IT Department concurrently serves as the head of the unit in charge of information security and appoints a person to handle information security matters, including the formulation, planning, monitoring, and implementation of bylaws related to cyber security.

Every year, the company produces a Key Information Security Task Plan and a Report on the Overall Implementation of Information Security. The plan and report are first provided to the Information Security Working Group for discussion, then approved by the President, and finally incorporated in the Statement on Internal Control System, which is then presented to the Board of Directors.

To effectively manage cyber security and ensure data, system, equipment, and network security, the company has developed an Information Security Policy and Terms and Conditions for Information Security Management, among other policies and regulations, in accordance with the Code of Practice for Information Security Protection by Bills Financing Companies and Mega Financial Holding's Information Security Policy.



## Chung Kuo Insurance Company

Chung Kuo Insurance (CKI) has established an internationally certified information security management system, developed an Information Security Policy, set up an information security management committee. The committee convenes a meeting every six months to review information security matters and various ISMS operations, as well as policy and procedural revisions.

The company has set up a dedicated unit in charge of information security in accordance with Article 6-1 of the Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises, and appointed a person to head the unit and another person to handle information security matters, including planning, monitoring, and executing information security management operations. The unit in charge of information security provides reports on internal and external information security risks, as well as improvement matters as requested by regulatory authorities and recommended by external auditors.

Every year, the unit submits information risk assessment reports to the Information Security Management Committee. These reports are used as the basis to formulate risk treatment plans. The unit also provides the Board of Directors with annual reports detailing the status of information security in the previous year and external information security evaluations.

## Mega International Investment Trust Company

The company's information security organization is headed by the President, and relevant tasks are carried out by the IT Department (or information-related department) and Administration Department. The head of IT supervises information security and appoints another person to handle information security matters. Each year, an information security meeting with all department heads of the company is held to review information security tasks, future information security plans, and existing information security policies.

The company develops its information security policy by following the principles of information security management set forth in Mega Holdings' Information Security Policy. At the beginning of each year, the implementation of the company's information security in the previous year is reported to the Board of Directors.

## Mega Asset Management Company

Information security operations are supervised by the company's Vice President or higher position. A senior IT technician concurrently serves as the Chief Information Security Officer. Meetings may be held at any time to coordinate and address major information security issues.

The company develops its information security policy in accordance with Mega Holdings' Information Security Policy to effectively manage cyber security.

## B. Information Security Management Measures

### Mega Financial Holding Company

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. 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.

### Mega International Commercial Bank

1. Mega Bank conducts cyber security risk assessments on branches in heavily regulated areas such as the United States and Hong Kong, and promotes this practice across other overseas branches in European countries, Japan, Australia, and Panama. According to NYDFS Cybersecurity Regulation for financial services companies, the Bank has presented the CISO Report for its NY Branch and material cyber security risk matters to the Board of Directors in March 2021. In addition, to comply with SWIFT's customer security programme (CSP), Mega Bank has completed a bank-wide self-certification of its Customer Security Controls Framework (CSCF) and completed submissions on the SWIFT website as required by regulations.
2. Mega Bank assesses and monitors all risks (IT risks, operational risks, and money laundering risks, etc.) to adapt to changes in the financial environment and laws and regulations. Apart from performing risk-based internal audit (RBIA), the Bank regularly monitors risk indicators, reports cyberattack incidents, and performs response drills related to cyber security.
3. To achieve the standardization and internationalization of the information security system and internalize it in its corporate culture, Mega Bank introduced the Information Security Management System and obtained ISO 27001 Information Security Management System certification in 2015. It also passed the triennial re-certifications in 2021. To review the defense capabilities and risk conditions of the Bank's information security environment, Mega Bank engages professional information security companies to conduct penetration tests and various information security evaluation tests each year.
4. Mega Bank has established Guidelines for Use of Emerging Technologies to combat web threats and information risks brought about by technological applications (e.g., cloud services, social media, mobile devices, and biometric data) and ensure the sustainable development and reputation of the Bank. In December 2021, the Company renewed the "e-commerce and information security liability insurance (cyber security insurance)" for all of its branches, both at home and abroad, covering the period starting from Dec 1, 2021 to Dec 1, 2022.
5. To ensure that employees stay more vigilant against phishing attacks which will compromise the company's cyber security and lead to data leakage, Mega Bank regularly organizes social engineering rehearsals that are aimed at reinforcing the concept of information security and reducing information security risks associated with phishing emails.

6. By following its Information Systems Security Assessment Plans for Computer Systems, the Bank checks its computer IT systems and equipment and reviews relevant information security control measures. Potential security threats and vulnerabilities identified are addressed by strengthening cyber security operations within the scope of projects and upgrading the defense capabilities of cyber security systems.
7. Through a red team assessment with a professional third-party information security team using goal-oriented information security exercises, the company's deep defense capability and ability to protect its key assets can be evaluated and tested to improve employees' ability to respond and handle new forms of cyberattacks, thereby reducing the impact of cyber security incidents on Mega Bank and also verifying the effectiveness of the bank's system control measures.

## Mega Securities Company

1. The company's core system obtained SGS ISO 27001 certification in 2020. Third-party re-certification is organized every year to keep the certificates valid.
2. Vulnerability scanning and penetration tests are conducted on systems and web pages every six months.
3. An IT company is engaged every year to perform third-party laboratory testing on mobile applications so as to fortify the information security of the company's apps.
4. In 2021, an IT company was contracted to perform information security tests. The objective was to identify and determine vulnerabilities that may be hidden in the company's information security systems. The results are used as reference for making future plans to reinforce information security control.
5. The company installs source code testing software and third-party management programs.
6. The company enhances employees' awareness on information security by regularly holding email social engineering rehearsals, organizing information security training programs for all employees, and promoting information security related issues.

## Mega Bills Finance Company

1. The company strategically develops annual information security work plans and organizes employee training regularly to ensure business continuity and raise information security awareness. The work plans provide the focuses of implementation and emergency response procedures to maintain normal system operations.
2. Relevant measures include:
  - (1) Strengthening IT systems to prevent cyberattacks.
  - (2) Increasing network or website security protection by setting up anti-tampering functions and using the minimal set of privileges.
  - (3) Increasing personal data protection to prevent data leakage.
  - (4) Increasing endpoint protection by installing and updating anti-virus software programs in a timely manner.
3. Penetration testing, vulnerability scanning, and social engineering drills are carried out twice every year.

## Chung Kuo Insurance Company

1. Complying with the Directions for Insurance Enterprises Engaging in Online Insurance, the company established an Information Safety Management Committee in 2017 and introduced operating procedures related to information security management systems, which passed the verification of SGS, a third-party verifying company, in May 2018 and acquired ISO27001:2013 certification. A third-party re-certification is conducted every year to maintain the validity of its certificates.

2. Information meetings and information security maintenance meetings are convened every three months, and information asset risk assessments are performed every year. The company's information security management committee convenes a meeting every six months to review information security matters and various ISMS operations.
3. The company sets up a dedicated unit in charge of information security in accordance with Article 6-1 of the Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises, and appoints a person to head the unit and two other persons to handle information security matters, including planning, monitoring, and executing information security management operations.
4. Every year, a third party is commissioned to perform an annual computer system information security evaluation. The results are then presented to the Board of Directors and forwarded to the audit unit for follow-up and improvements.
5. The company develops guides to handle emergency incidents involving information systems and information security, conducts discussions during quarterly information security meetings, and performs drills/exercises on information security/personal information incidents every year.
6. The company conducts social engineering rehearsals and training on information security every six months. All employees are required to complete at least 3 hours of information awareness courses every year.
7. The company purchases and renews its information security insurance every year.

#### Mega International Investment Trust Company

1. Each year, an information security meeting with all department heads of the company is held to review information security tasks, future information security plans, and existing information security policies. At the beginning of each year, the implementation of the company's information security in the previous year is reported to the Board of Directors.
2. The company currently complies with its information security internal control system and applicable regulations when handling information security matters.
3. The company conducts information security checks each year and assesses whether the company is exposed to information security risks by using various information security indicators.
4. Vulnerability scanning, social engineering drills, and penetration tests are carried out twice every year.

#### Mega Asset Management Company

1. The company regularly organizes social engineering drills and information security training programs to raise employees' awareness on information security.
2. The company regularly performs vulnerability scanning and penetration tests on its host systems, and upgrades the protection capability of its servers.
3. In response to the vigorous development of information technologies, the company continues to check its IT infrastructure for potential risks and vulnerabilities, and strengthens or improves it as needed.

### C. Cyber Security Incidents

In 2021, the Group reported no major cyber security incidents.

## 5.9 Labor Relations

### A. Labor-management negotiations and its implementation

#### 5.9.1 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. In addition, in order to protect the health and safety of our colleagues and encourage them to be vaccinated against COVID-19, our company provides two days of paid "vaccination leave" for our colleagues, one day each in 2021 and 2022.

#### 5.9.2 Pension Scheme

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

#### 5.9.3 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\$ 51,070 thousand in 2021, accounting for 0.25%, 0.17% and 0.08% of the Company's consolidated employee welfare expenses, operating expenses and profit, respectively. The total number of training hours was 468,053.



#### 5.9.4 Employee's Behavior and Ethical Principles

The Company has formulated work rules and a service code such as “Ethical Operation Principle,” “Ethical Behavior Principle,” “Internal Material Information Process Principle,” “Moral Behavior Principle,” and “Employee Code of Conduct” to rule employee's behaviors. It is clearly stated that all laws should be obeyed when doing the job, conflicts should be avoided, Unethical behavior is not allowed, intelligent property right should be obeyed, confidentiality should be kept, discrimination is not allowed, illegal political contribution is prohibited, and insider trade is prohibited. The punishment not obeying the above is also clearly stated. The relevant rules are announced in the Company's internal website and promoted during employee training.

#### 5.9.5 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

1. The Company 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. Subsidiary bank does have labor-management dispute case as followed.
  - (1) On May 12, 2020, Mega Life Insurance Agency was merged into Mega Bank; however, during the process of laying off excessive personnel, one labor contract dispute resulted in litigation process. On March 31, 2020, the first-instance civil judgment of the Taipei District Court, No. 372 of the Year 109, ruled that Mega Bank lost the case. Mega Bank filed an appeal on April 27, 2021. On January 4, 2022, it was approved by Taiwan Higher The court's 110-year Laoshangzi No. 82 civil judgment changed the ruling that Mega Bank won all the lawsuits. The employee filed a third-instance appeal on February 10, 2022. Mega Bank has appointed a lawyer to handle the case and will follow up on this case.
  - (2) During the appeal, the employee applied to the Taiwan High Court for temporary status sanction and was approved by the Taiwan High Court on August 11, 2021. The Civil Order of Temporary Status Sanction No. 6 in year of 2021 was approved by the Taiwan High Court. Before the conclusion of the aforementioned lawsuit is determined in this case. Mega Bank should continue to hire the employee and pay the employee NT\$45,109 on the last day of the month. Mega Bank has fulfilled the ruling and paid the salary as scheduled. If it is determined that the employee loses the lawsuit in this case, Mega Bank will apply for the revocation of the temporary status sanction in accordance with the law. If Mega Bank conducts business mergers in the future, it will prudently handle issues related to labor relations.

## 2. There are a few labor regulation violations from the subsidiary level as follows:

| Item number       | Mega Bank   | CKI   | CKI   |
|-------------------|---|---|---|
| Sanction date     | 2022.1.11   | 2022.1.12   | 2022.1.12   |
| Case number       | Changhua County No. 1110006500  | Taoyuan City No. 1100346067   | Taoyuan City No. 11003460671  |
| Violation of:     | Labor code Article 24, Paragraph 1  | Labor code Article 22, Paragraph 2  | Labor code Article 24, Paragraph 1  |
| Violation details | The employer did not pay for overtime hours to the employees during the rest hours from 17:10 to 17:40, resulting in underpayment of the wages for overtime hours.  | Failure to detain in accordance with court execution orders, resulting in failure to pay employees full wages.  | Employers did not express opposition or take prevention measures in the case that employees voluntarily work overtime, and did not add more than one-third of the average hourly wage with regard to overtime hours.  |
| Penalty           | Fine of NT\$50,000 with name of the company and representative announced.   | Fine of NT\$20,000 with name of the company and representative announced.   | Fine of NT\$50,000 with name of the company and representative announced.   |
| Remedy            | Emphasize on the care of the working conditions of employees, and add a reminder of rest time on the computer of employees, making sure overtime wages are fully paid to improve attendance management; conduct labor law training for supervisors, strengthen compliance with laws and regulations, and continue to supervise all units to implement overtime regulations. | The human resources system has been revised to include the minimum living expenses column, which will be calculated in accordance with the amount of 1.2 times the monthly minimum living expenses per person in the local area announced by the Ministry of Health and Welfare or the municipal government in the last year in the execution order of the court, so as to avoid any unforeseen circumstances of underpayment of labor wages. | <p>1.Implement and strengthen publicity: Make announcements to each unit again and ask each supervisor to implement attendance management. In addition, overtime management will also be strictly implemented. If employees need to work overtime, they have to submit the application in advance. If there is no need for overtime, they should clock out and leave work instead of staying in the company. All supervisors are required to take their management responsibilities.</p> <p>2.Education and training: The quarterly internal compliance training meeting will add the content of the company's rules and regulations for attendance management, and will ask the legal compliance supervisor of each unit to make related announcements to their colleagues.</p> <p>Furthermore, we will invite external lecturers to give lectures on labor laws and regulations so as to strengthen the compliance of managers at all levels with labor laws.</p> |

| Item number       | Mega Securities   | Mega Securities   |
|-------------------|---|---|
| Sanction date     | 2021.1.7  | 2021.5.6  |
| Case number       | Tainan City No. 1091608103  | Hsinchu City No. 1100074890   |
| Violation of:     | Labor code Article 24   | Labor code Article 35   |
| Violation details | Wages not paid for extended working hours.  | Continue to work for 4 hours without a 30-minute break.                   |
| Penalty           | Fine of NT\$20,000 with name of the company and representative announced.   | Fine of NT\$20,000 with name of the company and representative announced. |
| Remedy            | <ul style="list-style-type: none"> <li>•In the event of abnormal employee attendance, the supervisor should further clarify and confirm the employee's overtime conditions.</li> <li>•The branch office is requested to arrange a lunch break shift schedule for colleagues and confirm with their signature on the shift schedule according to the need of business situation. After the scheduled lunch break time, if the work lasts for more than four hours, a 15-minute rest time will be allocated.</li> <li>•In order to prevent similar incidents from happening, Mega Securities has announced in various meetings that it should follow the labor laws and regulations. In the case of overtime work, please make sure employees submit an application in accordance with the overtime application procedures, and employers should pay overtime pay or make up vacations according to the law and the employee's choice. In addition, labor-based education and training (including tests) for middle and senior managers will also be held.</li> </ul> |   |



## 5.10 Important Contract

| Contract type   | Counterpart   | Contract beginning and ending date   | Chief contents   | Restrictive terms |
|---|---|--|--|-------------------|
| Important contract that has impacts on shareholders' and depositors' rights | Mega International Commercial Bank (MICB) and New York State Department of Financial Services (NYDFS)   | Signed on August 19, 2016<br>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 AML compliance function. (The contract between the bank and the consultant matured at the end of 2019) | None              |
| Important contract that has impacts on shareholders' and depositors' right  | Mega International Commercial Bank, Federal the Board of Governors of the Federal Reserve System (FED) and Illinois Department of Financial and Professional Regulation (IDFPR) | Signed on January 17, 2018<br>Ending date of the contract: to be designated by FED and IDFPR | According to the Report of Examination of 2016, the New York, Chicago, and Silicon Valley branches had deficiencies in AML. 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              |

# Financial Information



# Financial Information

## 6.1 Five-Year Financial Summary

### 6.1.1 Condensed Consolidated Balance Sheet

Unit: NT\$1,000

| Item   | Year                | 2021.12.31    | 2020.12.31    | 2019.12.31    | 2018.12.31    | 2017.12.31    |
|--|---------------------|---------------|---------------|---------------|---------------|---------------|
| Cash and cash equivalents, due from the Central Bank and call loans to banks |                     | 582,160,503   | 494,892,806   | 633,642,673   | 643,895,292   | 711,066,683   |
| Financial assets at fair value through profit or loss                        |                     | 202,834,657   | 228,608,073   | 208,313,130   | 196,201,030   | 191,581,454   |
| Available-for-sale financial assets  |                     | 0             | 0             | 0             | 0             | 442,557,049   |
| Financial assets at fair value through other comprehensive income            |                     | 543,790,346   | 560,779,813   | 536,232,599   | 421,176,553   | 0             |
| Investments in debt instruments at amortized cost, net                       |                     | 648,132,418   | 534,327,284   | 275,214,156   | 272,926,017   | 0             |
| Securities purchased under resell agreements                                 |                     | 949,170       | 950,137       | 3,584,364     | 2,623,231     | 2,553,228     |
| Receivables, net   |                     | 96,630,962    | 89,970,775    | 99,308,276    | 92,723,255    | 96,055,863    |
| Current tax assets   |                     | 331,977       | 379,014       | 483,744       | 272,816       | 757,391       |
| Assets classified as held for sale   |                     | 15,813        | 15,813        | 276,900       | 328,350       | 0             |
| Loans discounted, net  |                     | 2,037,354,980 | 1,889,958,222 | 1,873,677,834 | 1,864,447,103 | 1,762,160,756 |
| Reinsurance contract assets, net   |                     | 4,990,018     | 5,170,035     | 3,984,617     | 3,854,464     | 3,555,454     |
| Held-to-maturity financial assets  |                     | 0             | 0             | 0             | 0             | 284,687,657   |
| Investments accounted for using equity method                                |                     | 5,449,161     | 5,519,229     | 3,115,829     | 3,168,973     | 3,184,501     |
| Other financial assets, net  |                     | 6,095,575     | 5,134,375     | 7,418,321     | 5,112,210     | 15,089,381    |
| Investment property, net   |                     | 1,341,321     | 1,111,518     | 1,025,375     | 1,500,403     | 1,696,863     |
| Property and equipment, net  |                     | 21,670,526    | 21,950,817    | 22,080,894    | 21,973,422    | 21,981,154    |
| Right-of-use assets, net   |                     | 1,854,439     | 1,837,841     | 1,777,500     | 0             | 0             |
| Intangible assets, net   |                     | 1,017,030     | 960,918       | 610,731       | 518,222       | 382,728       |
| Deferred income tax assets   |                     | 6,505,527     | 5,629,637     | 5,801,886     | 7,552,961     | 6,018,307     |
| Other assets, net  |                     | 7,140,436     | 9,180,225     | 6,998,951     | 3,785,059     | 3,964,038     |
| Total assets   |                     | 4,168,264,859 | 3,856,376,532 | 3,683,547,780 | 3,542,059,361 | 3,547,292,507 |
| Deposits from the Central Bank and banks                                     |                     | 385,049,995   | 405,296,111   | 420,833,162   | 411,643,388   | 404,371,657   |
| Due to the Central Bank and banks  |                     | 46,890,696    | 20,363,979    | 21,161,321    | 53,920,881    | 29,632,968    |
| Financial liabilities at fair value through profit or loss                   |                     | 19,344,092    | 20,934,933    | 22,115,709    | 27,357,462    | 9,966,779     |
| Securities sold under repurchase agreements                                  |                     | 225,056,762   | 269,355,119   | 259,192,262   | 252,298,265   | 237,706,429   |
| Commercial paper issued  |                     | 32,917,848    | 22,392,125    | 19,963,897    | 15,929,662    | 20,165,421    |
| Payables   |                     | 84,963,858    | 89,502,574    | 75,207,489    | 66,362,081    | 70,119,748    |
| Current tax liabilities  |                     | 12,298,301    | 11,007,264    | 9,149,946     | 9,319,314     | 9,216,815     |
| Deposits and remittances   |                     | 2,959,789,704 | 2,613,890,191 | 2,459,457,135 | 2,320,637,263 | 2,386,555,016 |
| Bonds payable  |                     | 6,000,000     | 18,000,000    | 12,000,000    | 13,300,000    | 31,670,036    |
| Other borrowings   |                     | 1,260,000     | 338,028       | 3,464,909     | 4,934,529     | 1,325,368     |
| Provisions   |                     | 29,941,604    | 30,059,406    | 28,110,114    | 26,977,832    | 26,182,764    |
| Other financial liabilities  |                     | 12,453,364    | 13,160,602    | 15,818,346    | 15,325,367    | 12,698,470    |
| Lease liabilities  |                     | 1,903,356     | 1,881,625     | 1,801,315     | 0             | 0             |
| Deferred income tax liabilities  |                     | 2,635,979     | 3,370,193     | 3,164,054     | 2,526,612     | 2,266,455     |
| Other liabilities  |                     | 19,360,417    | 10,235,422    | 8,046,873     | 7,271,276     | 7,319,019     |
| Total liabilities  | Before distribution | 3,839,865,976 | 3,529,787,572 | 3,359,486,532 | 3,227,803,932 | 3,249,196,945 |
|  | After distribution  | Note 1        | 3,551,275,294 | 3,382,606,233 | 3,250,923,633 | 3,269,596,681 |
| Equity attributable to owners of parent                                      |                     | 328,398,883   | 326,588,960   | 324,061,248   | 314,242,280   | 298,054,133   |
| 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 | 113,046,484   | 108,207,754   | 107,511,364   | 102,575,350   | 94,868,778    |
|  | After distribution  | Note 1        | 86,720,032    | 84,391,663    | 79,455,649    | 74,469,042    |
| Other equity interest  |                     | 11,159,926    | 14,188,733    | 12,357,411    | 7,474,457     | ( 1,007,118)  |
| Non-controlling interest   |                     | 0             | 0             | 0             | 13,149        | 41,429        |
| Total Equity   | Before distribution | 328,398,883   | 326,588,960   | 324,061,248   | 314,255,429   | 298,095,562   |
|  | After distribution  | Note1         | 305,101,238   | 300,941,547   | 291,135,728   | 277,695,826   |

Note 1: The distribution of 2021 profits is to be recognized by annual shareholders' meeting in 2022.

Note 2: As of the publication date of this annual report, no financial information of 2022 had been audited or reviewed by CPAs

## 6.1.2 Condensed Unconsolidated Balance Sheet

Unit: NT\$1,000

| Item  | Year                | 2021.12.31  | 2020.12.31  | 2019.12.31  | 2018.12.31  | 2017.12.31   |
|---|---------------------|-------------|-------------|-------------|-------------|--------------|
| Cash and cash equivalents   |                     | 81,200      | 58,854      | 87,474      | 152,693     | 307,833      |
| Financial assets at fair value through profit or loss             |                     | 0           | 0           | 0           | 203,062     | 0            |
| Financial assets at fair value through other comprehensive income |                     | 2,042,180   | 2,278,091   | 2,687,373   | 2,154,580   | 0            |
| Available-for-sale financial assets                               |                     | 0           | 0           | 0           | 0           | 6,196,895    |
| Receivables, net  |                     | 5           | 0           | 0           | 0           | 389          |
| Current tax assets  |                     | 319,360     | 319,360     | 1,582,395   | 1,259,321   | 1,669,679    |
| Investments accounted for using equity method, net                |                     | 371,979,622 | 364,965,483 | 358,254,779 | 345,071,763 | 325,981,280  |
| Other financial assets  |                     | 100         | 100         | 100         | 100         | 758,293      |
| Investment property, net  |                     | 129,572     | 131,083     | 132,593     | 134,104     | 135,615      |
| Property and equipment, net                                       |                     | 586,865     | 588,220     | 593,195     | 595,986     | 595,029      |
| Right-of-use assets, net  |                     | 4,706       | 3,066       | 3,267       | 0           | 0            |
| Deferred income tax assets  |                     | 7,793       | 6,629       | 9,651       | 4,734       | 8,092        |
| Other assets, net   |                     | 5,184       | 4,300       | 6,474       | 8,618       | 8,667        |
| Total assets  |                     | 375,156,587 | 368,355,186 | 363,357,301 | 349,584,961 | 335,661,772  |
| Financial liabilities at fair value through profit or loss        |                     | 0           | 0           | 0           | 0           | 183,860      |
| Commercial paper issued, net                                      |                     | 15,043,990  | 11,483,855  | 13,338,100  | 13,007,338  | 10,397,276   |
| Payables  |                     | 25,502,346  | 23,753,085  | 23,220,100  | 21,285,593  | 19,813,499   |
| Current tax liabilities   |                     | 1,160,137   | 1,476,085   | 1,256,310   | 980,678     | 1,164,368    |
| Bonds payable   |                     | 5,000,000   | 5,000,000   | 0           | 0           | 5,770,036    |
| Other borrowings  |                     | 0           | 0           | 1,400,000   | 0           | 0            |
| Provisions  |                     | 37,554      | 33,969      | 74,076      | 61,801      | 62,523       |
| Lease liabilities   |                     | 4,770       | 3,080       | 3,278       | 0           | 0            |
| Deferred income tax liabilities                                   |                     | 0           | 0           | 0           | 0           | 205          |
| Other liabilities   |                     | 8,907       | 16,152      | 4,189       | 7,271       | 215,872      |
| Total liabilities   | Before distribution | 46,757,704  | 41,766,226  | 39,296,053  | 35,342,681  | 37,607,639   |
|   | After distribution  | Note 1      | 63,253,948  | 62,415,754  | 58,462,382  | 58,007,375   |
| 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 | 113,046,484 | 108,207,754 | 107,511,364 | 102,575,350 | 94,868,778   |
|   | After distribution  | Note 1      | 86,720,032  | 84,391,663  | 79,455,649  | 74,469,042   |
| Other equity interest   |                     | 11,159,926  | 14,188,733  | 12,357,411  | 7,474,457   | ( 1,007,118) |
| Total Equity  | Before distribution | 328,398,883 | 326,588,960 | 324,061,248 | 314,242,280 | 298,054,133  |
|   | After distribution  | Note 1      | 305,101,238 | 300,941,547 | 291,122,579 | 277,654,397  |

Note 1: The distribution of 2021 profits is to be recognized by annual shareholders' meeting in 2022.

Note 2: As of the publication date of this annual report, no financial information of 2022 had been audited or reviewed by CPAs.



### 6.1.3 Condensed Consolidated Income Statement

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

| Item \ Year   | 2021          | 2020          | 2019          | 2018          | 2017          |
|---|---------------|---------------|---------------|---------------|---------------|
| Interest income   | 42,796,556    | 49,724,053    | 71,681,244    | 68,345,796    | 57,094,672    |
| Less: interest expense  | ( 10,328,211) | ( 18,173,179) | ( 36,614,396) | ( 30,301,244) | ( 21,215,148) |
| Net interest revenue  | 32,468,345    | 31,550,874    | 35,066,848    | 38,044,552    | 35,879,524    |
| Net revenue other than interest                                   | 27,762,501    | 29,259,048    | 30,208,014    | 23,564,855    | 23,780,864    |
| Net revenue   | 60,230,846    | 60,809,922    | 65,274,862    | 61,609,407    | 59,660,388    |
| Bad debts expense, commitment, and guarantee liability provisions | ( 1,904,434)  | ( 2,151,568)  | ( 687,183)    | ( 1,996,406)  | ( 4,336,814)  |
| Net change in provisions for insurance liabilities                | ( 64,520)     | ( 227,160)    | ( 34,968)     | 68,884        | 152,758       |
| Operating expenses  | ( 29,605,479) | ( 29,100,556) | ( 30,898,437) | ( 28,601,925) | ( 26,195,605) |
| Profit from continuing operations before tax                      | 28,656,413    | 29,330,638    | 33,654,274    | 31,079,960    | 29,280,727    |
| Income tax expense  | ( 2,925,343)  | ( 4,312,670)  | ( 4,699,474)  | ( 2,986,515)  | ( 3,551,632)  |
| Profit for the year   | 25,731,070    | 25,017,968    | 28,954,800    | 28,093,445    | 25,729,095    |
| Total other comprehensive income (after income tax)               | ( 2,433,425)  | 629,445       | 3,982,425     | ( 407,496)    | ( 349,226)    |
| Total comprehensive income  | 23,297,645    | 25,647,413    | 32,937,225    | 27,685,949    | 25,379,869    |
| Profit attributable to owners of parent                           | 25,731,070    | 25,017,968    | 28,956,244    | 28,109,164    | 25,734,515    |
| Loss attributable to non-controlling interests                    | 0             | 0             | ( 1,444)      | ( 15,719)     | ( 5,420)      |
| Comprehensive income attributable to owners of parent             | 23,297,645    | 25,647,413    | 32,938,669    | 27,701,668    | 25,380,530    |
| Comprehensive income attributable to non-controlling interests    | 0             | 0             | ( 1,444)      | ( 15,719)     | ( 661)        |
| Earnings per share (EPS)  | 1.89          | 1.84          | 2.13          | 2.07          | 1.89          |

Note : As of the publication date of this annual report, no financial information of 2022 had been audited or reviewed by CPA.

### 6.1.4 Condensed Unconsolidated Income Statement

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

| Item \ Year  | 2021         | 2020       | 2019       | 2018       | 2017       |
|--|--------------|------------|------------|------------|------------|
| Share of profit of associates and joint ventures accounted for using equity method | 25,601,093   | 25,470,382 | 29,345,776 | 27,913,508 | 25,926,293 |
| Other revenues   | 74,338       | 118,320    | 158,590    | 255,974    | 188,208    |
| Operating expenses   | ( 386,968)   | ( 403,919) | ( 412,436) | ( 384,452) | ( 371,553) |
| Other expenses and losses  | ( 57,991)    | ( 65,046)  | ( 60,937)  | ( 62,002)  | ( 106,228) |
| Profit from continuing operations before tax                                       | 25,230,472   | 25,119,737 | 29,030,993 | 27,723,028 | 25,636,720 |
| Income tax (expense) benefit   | 500,598      | ( 101,769) | ( 74,749)  | 386,136    | 97,795     |
| Profit for the year  | 25,731,070   | 25,017,968 | 28,956,244 | 28,109,164 | 25,734,515 |
| Other comprehensive loss for the period, net of tax                                | ( 2,433,425) | 629,445    | 3,982,425  | ( 407,496) | ( 353,985) |
| Total comprehensive income for the period  | 23,297,645   | 25,647,413 | 32,938,669 | 27,701,668 | 25,380,530 |
| Earnings per share   | 1.89         | 1.84       | 2.13       | 2.07       | 1.89       |

Note : As of the publication date of this annual report, no financial information of 2022 had been audited or reviewed by CPA.

## 6.1.5 Independent Auditors' Name and Opinion

| Year | CPA Firm                       | CPA's Name                    | Auditing Opinion    |
|------|--------------------------------|-------------------------------|---------------------|
| 2021 | PricewaterhouseCoopers, Taiwan | Shu-Mei Chi, Puo-Ju Kuo       | Unqualified Opinion |
| 2020 | PricewaterhouseCoopers, Taiwan | Shu-Mei Chi, Chung-Hsi Lai    | Unqualified 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 |

## 6.2 Five-Year Financial Analysis

| Item \ Year             |   | 2021     | 2020     | 2019     | 2018     | 2017     |
|-------------------------|---|----------|----------|----------|----------|----------|
| Operating ability       | Total assets turnover (times)                                   | 0.02     | 0.02     | 0.02     | 0.02     | 0.02     |
|                         | Loans to deposits ratio of bank subsidiary (%)                  | 69.43    | 73.24    | 77.23    | 81.73    | 74.90    |
|                         | NPL ratio of bank subsidiary (%)                                | 0.26     | 0.21     | 0.14     | 0.15     | 0.13     |
|                         | 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) | 6,278    | 6,289    | 6,676    | 6,620    | 6,728    |
|                         | Average profit per employee (NT\$1,000)                         | 2,682    | 2,587    | 2,962    | 3,019    | 2,902    |
| Profitability           | Return on total assets (%)                                      | 0.64     | 0.66     | 0.80     | 0.79     | 0.75     |
|                         | Return on equity (%)  | 7.86     | 7.69     | 9.07     | 9.04     | 8.72     |
|                         | Net income margin (%)   | 42.72    | 41.14    | 44.36    | 45.60    | 43.13    |
|                         | Earnings per share (NT\$)                                       | 1.89     | 1.84     | 2.13     | 2.07     | 1.89     |
| Financial structure (%) | Ratio of liabilities to assets                                  | 92.12    | 91.53    | 91.20    | 91.13    | 91.60    |
|                         | Ratio of liabilities to net worth                               | 1,169.27 | 1,080.80 | 1,036.68 | 1,027.13 | 1,089.99 |
|                         | FHC's double leverage ratio                                     | 113.89   | 112.45   | 111.38   | 110.56   | 111.70   |
|                         | The financial ratio set by FHC Act §41                          | -        | -        | -        | -        | -        |
| Leverage ratio (%)      | Operating leverage ratio  | 1.12     | 1.13     | 1.06     | 1.09     | 1.17     |
|                         | FHC's financial leverage ratio                                  | 1.00     | 1.00     | 1.00     | 1.00     | 1.00     |
| Growth rates (%)        | Growth rate of assets   | 8.09     | 4.69     | 3.99     | (0.15)   | 6.85     |
|                         | Growth rate of profit   | 2.85     | ( 13.60) | 8.28     | 6.14     | 4.88     |
| Cash flow (%)           | Cash flow ratio   | 11.44    | Note 2   | 11.69    | Note 2   | 29.06    |
|                         | Cash flow adequacy ratio  | 288.64   | 218.10   | 234.15   | 276.18   | 481.10   |
|                         | Cash flow coverage ratio  | Note 2   | Note 2   | Note 2   | Note 2   | Note 2   |
| Operating scale (%)     | Market share of assets  | 5.87     | 5.86     | 6.13     | 6.36     | 6.76     |
|                         | Market share of net worth                                       | 6.27     | 6.66     | 7.29     | 8.52     | 8.02     |
|                         | Market share of deposits of bank subsidiary                     | 5.66     | 5.35     | 5.50     | 5.47     | 5.81     |
|                         | Market Share of loans of bank subsidiary                        | 5.52     | 5.47     | 5.72     | 5.95     | 5.93     |

|                            |   |             |             |             |             |
|----------------------------|---|-------------|-------------|-------------|-------------|
| Capital adequacy ratio (%) | Capital adequacy ratio of each subsidiary calculated according to its own industry regulations (%)  |             |             |             |             |
|                            | Mega International Commercial Bank Co., Ltd.  | 14.14       | 14.04       | 13.92       | 13.86       |
|                            | Mega Securities Co., Ltd.   | 406.95      | 363.03      | 447.81      | 500.36      |
|                            | Mega Bills Finance Co., Ltd.  | 13.41       | 13.21       | 13.58       | 13.57       |
|                            | Chung Kuo Insurance Co., Ltd.   | 624.90      | 683.99      | 720.14      | 762.18      |
|                            | Eligible capital of each subsidiary (in NTD thousands)  |             |             |             |             |
|                            | Mega International Commercial Bank Co., Ltd.  | 312,007,199 | 302,458,804 | 299,282,941 | 293,769,063 |
|                            | Mega Securities Co., Ltd.   | 16,062,236  | 14,117,338  | 13,024,144  | 12,775,462  |
|                            | Mega Bills Finance Co., Ltd.  | 39,029,515  | 38,990,116  | 36,622,230  | 34,898,052  |
|                            | Chung Kuo Insurance Co., Ltd.   | 8,126,520   | 7,467,330   | 7,189,577   | 7,132,025   |
|                            | Mega Asset Management Co., Ltd.   | 2,850,035   | 2,779,978   | 2,753,530   | 2,731,316   |
|                            | Mega Venture Capital Co., Ltd.  | 1,101,889   | 829,781     | 761,477     | 713,200     |
|                            | Mega Int'l Investment Trust Co., Ltd.   | 859,618     | 849,740     | 845,920     | 820,145     |
|                            | Group's net eligible capital  | 335,519,331 | 328,305,711 | 324,651,590 | 319,151,058 |
|                            | Statutory capital requirement ( in NTD thousands)   |             |             |             |             |
|                            | Mega International Commercial Bank Co., Ltd.  | 231,637,103 | 226,191,970 | 225,757,313 | 209,367,448 |
|                            | Mega Securities Co., Ltd.   | 5,920,502   | 5,833,059   | 4,362,605   | 3,829,847   |
|                            | Mega Bills Finance Co., Ltd.  | 23,280,331  | 23,605,607  | 21,575,707  | 20,568,663  |
|                            | Chung Kuo Insurance Co., Ltd.   | 2,600,920   | 2,183,448   | 1,996,730   | 1,871,472   |
|                            | Mega Asset Management Co., Ltd.   | 7,508,712   | 7,157,783   | 5,823,786   | 6,435,398   |
|                            | Mega Venture Capital Co., Ltd.  | 563,060     | 415,739     | 380,772     | 356,699     |
|                            | Mega Int'l Investment Trust Co., Ltd.   | 473,668     | 463,009     | 470,897     | 467,823     |
|                            | Group's total statutory capital requirement   | 274,748,539 | 268,852,024 | 264,121,493 | 246,248,635 |
|                            | Group capital adequacy ratio (%)  | 122.12      | 122.11      | 122.92      | 129.61      |
|                            | 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 (%) |             |             |             |             |
|                            |   | 1,190.48    | 970.31      | 968.98      | 961.70      |
|                            | Analysis of over 20% change in last two years :   |             |             |             |             |
|                            | 1. The NPL ratio of bank subsidiary increased by 23% is due to the increase of NPL amount.  |             |             |             |             |
|                            | 2. Growth rate of assets increased by 72% is due to the increase of position in loans and bond investment.  |             |             |             |             |

Note 1: As of the publication date of this annual report, no financial information of 2022 had been audited or reviewed by CPA.

Note 2: The net cash flow from operating or investing activities is outflow, and therefore not included in the analysis herein.



Formulas of the above financial analysis are as follows:

## 1. Operating ability

- (1) Total assets turnover = Net revenue / Average total assets
- (2) Loans to deposits ratio of bank subsidiary = Total loans outstanding of bank subsidiary / Total deposits outstanding of bank subsidiary
- (3) NPL ratio of bank subsidiary = Non-performing loans of bank subsidiary / Total loans outstanding of bank subsidiary
- (4) Average operating revenue per employee = Net revenue / Total number of employee
- (5) Average profit per employee = Net income / Total number of employee

## 2. Profitability

- (1) Return on assets = Net income / Average total assets
- (2) Return on equity = Net income / Average equity
- (3) Net profit margin = Net income / Net revenue
- (4) Earnings per share = (Net income attributable to owners of parent - Preferred stock dividend) / Weighted average number of shares outstanding

## 3. Financial structure

- (1) Ratio of liabilities to assets = Total liabilities / Total assets
- (2) Ratio of liabilities to net worth = Total liabilities / Total equity
- (3) Double leverage ratio of financial holding company = Equity investment made under Paragraph 2 of Article 36 and Article 37 of Financial Holding Company Act / New worth

## 4. Leverage

- (1) Operating leverage ratio = (Net revenue - Variable cost) / Net income before tax
- (2) Financial leverage ratio of financial holding company = (Net income before tax + Interest expense) / Net income before tax

## 5. Growth rates

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

## 6. Cash flow

- (1) Cash flow ratio = Net cash provided by operating activities / (Due to other banks and overdrafts + Commercial paper payable + Financial liabilities at fair value through profit or loss + Bills and bonds sold under repurchase agreements + Payables with maturity within one year)
- (2) Cash flow adequacy ratio = Five-year sum of net cash provided by operating activities / Five-year sum of capital expenditures and cash dividend
- (3) Cash flow coverage ratio = Net cash provided by operating activities / Net cash provided by investing activities

## 7. Operating scale

- (1) Market share of assets = Total assets / Total assets of all financial holding companies
- (2) Market share of new worth = New worth / Total net worth of all financial holding companies
- (3) Market share of deposits of bank subsidiary = Total deposits outstanding / Total deposits of all financial institutions
- (4) Market share of loans of bank subsidiary = Total loans outstanding / Total loans of all financial institutions

## 8. Capital adequacy

- (1) Group's net eligible capital = eligible capital of the financial holding company + (ownership percentage in subsidiaries × 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 × statutory capital requirement of each subsidiary.
- (3) Group capital adequacy ratio = Group's net eligible capital / Group's statutory capital requirement

## 6.2.1

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

December 31, 2021 unit: in NTD thousand; %

| 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   |   |  | Uni-President Enterprises Corp.                      | \$ 5,637,800  | 1.72                                       |
| Central Bank of the Republic of China (Taiwan)                                    | \$ 457,986,142  | 139.45                                     | Formosa Ha Tinh (Cayman) Limited                     | 5,626,165   | 1.71                                       |
| Ministry of Finance, R.O.C  | 77,220,967  | 23.51                                      | Kinsus Interconnect Technology Corp.                 | 5,601,347   | 1.71                                       |
| Government National Mortgage Association  | 54,043,879  | 16.46                                      | Cathay Financial Holding Co., Ltd.                   | 5,567,402   | 1.70                                       |
| CPC Corporation, Taiwan   | 51,124,235  | 15.57                                      | Sakai Display Products Corporation                   | 5,346,675   | 1.63                                       |
| Taiwan High Speed Rail Corporation  | 49,782,209  | 15.16                                      | Li Ming Development Construction Co., Ltd.           | 5,042,696   | 1.54                                       |
| Taiwan Power Company  | 45,603,697  | 13.89                                      | Kingston Technology Far East Corp.                   | 4,996,678   | 1.52                                       |
| Taiwan Cement Corp.   | 20,793,095  | 6.33                                       | Ruen Hua Dyeing & Weaving Co., Ltd.                  | 4,969,910   | 1.51                                       |
| Taiwan Semiconductor Manufacturing Co., Ltd.                                      | 18,259,528  | 5.56                                       | King's Town Construction Co., Ltd.                   | 4,762,580   | 1.45                                       |
| United States Treasury Dept   | 14,698,699  | 4.48                                       | Wealth Media Co., Ltd.                               | 4,755,857   | 1.45                                       |
| High wealth Construction Corp.  | 14,614,898  | 4.45                                       | Oriental Petrochemical (Taiwan) Co., Ltd.            | 4,731,218   | 1.44                                       |
| YFG Shopping Centres PTY Ltd ATF The FU   | 11,743,750  | 3.58                                       | China Government                                     | 4,723,974   | 1.44                                       |
| Hon Hai Precision Ind. Co., Ltd.  | 11,111,679  | 3.38                                       | Chang Chun PetroChemical Co., Ltd.                   | 4,708,807   | 1.43                                       |
| Yuanli Development Co., Ltd.  | 10,969,110  | 3.34                                       | Fubon Financial Holding Co., Ltd.                    | 4,648,097   | 1.42                                       |
| Nan Ya Plastics Corporation   | 10,853,682  | 3.30                                       | Changchun Investment Co., Ltd.                       | 4,620,247   | 1.41                                       |
| Taiwan Mobile Co., Ltd.   | 10,397,392  | 3.17                                       | United Microelectronics Corporation                  | 4,595,043   | 1.40                                       |
| Far EasTone Telecommunications Co., Ltd.  | 9,962,959   | 3.03                                       | Central Investment Co., Ltd.                         | 4,583,501   | 1.40                                       |
| Chailease Finance Co., Ltd.   | 9,635,739   | 2.93                                       | Tatung CO.   | 4,496,577   | 1.37                                       |
| China Petrochemical Development Corp.   | 9,368,817   | 2.85                                       | Bank Of East ASIA Ltd Hong Kong                      | 4,411,754   | 1.34                                       |
| Nan Ya Plastics Corporation America   | 8,432,335   | 2.57                                       | The Bank of Tokyo-Mitsubishi UFJ, Ltd. Taipei Branch | 4,299,486   | 1.31                                       |
| Ruentex Development Co., Ltd.   | 8,380,398   | 2.55                                       | Gogoro Network (Cayman), Taiwan Branch               | 4,297,000   | 1.31                                       |
| Wistron Corporation   | 8,368,598   | 2.55                                       | Chang Hwa Commercial Bank, Ltd.                      | 4,257,735   | 1.30                                       |
| CTCI Corporation.   | 8,359,450   | 2.55                                       | FU I Industrial Co., Ltd.                            | 4,217,551   | 1.28                                       |
| Huei Hong Investment Co., Ltd.  | 8,268,115   | 2.52                                       | Yi-Ta Investment CO., Ltd.                           | 4,110,960   | 1.25                                       |
| Ruen Chen Investment Holding Co., Ltd.  | 7,436,534   | 2.26                                       | Government Of Japan                                  | 4,083,940   | 1.24                                       |
| Pegatron Corporation  | 7,247,545   | 2.21                                       | China Airlines Ltd.                                  | 4,079,868   | 1.24                                       |
| Hotai Finance Co., Ltd.   | 7,155,729   | 2.18                                       | Der Chao Construction Co., Ltd.                      | 4,079,340   | 1.24                                       |
| Eva Airways Corporation   | 7,059,156   | 2.15                                       | Formosa Petrochemical Corp.                          | 4,035,828   | 1.23                                       |
| Greencompass Marine S.A.  | 7,037,046   | 2.14                                       | Mayfull Enterprise Co., Ltd.                         | 4,021,970   | 1.22                                       |
| Asia Cement Corporation   | 6,964,794   | 2.12                                       | Continental Holdings Corporation                     | 4,009,177   | 1.22                                       |
| CSBC Corporation, Taiwan  | 6,644,973   | 2.02                                       | Siliconware Precision Industries Co., Ltd.           | 4,000,000   | 1.22                                       |
| Grand River D. Limited  | 6,560,539   | 2.00                                       | Huang Hsiang Construction Corporation                | 4,000,000   | 1.22                                       |
| King Yuan Electronics Co., Ltd.   | 6,533,204   | 1.99                                       | National Australia Bank Ltd.                         | 3,995,111   | 1.22                                       |
| Rich Development Inc.   | 6,525,058   | 1.99                                       | Yieh United Steel Corp.                              | 3,818,849   | 1.16                                       |
| Farglory Land Development Co., Ltd.   | 6,377,435   | 1.94                                       | Taiwan Star Telecom Corporation Limited              | 3,808,149   | 1.16                                       |
| Taipei City Government Finance Bureau Taipei City Debt Fund Fixed Deposit Account | 6,260,942   | 1.91                                       | Deshuo Construction Co., Ltd.                        | 3,799,739   | 1.16                                       |
| The Export-Import Bank of China   | 6,095,534   | 1.86                                       | Runlong Construction Corp.                           | 3,798,005   | 1.16                                       |
| Chow Tai Fook Enterprises Limited   | 5,924,661   | 1.80                                       | Bank of China  | 3,795,124   | 1.16                                       |
| U-Ming Marine Transport Corp.   | 5,780,004   | 1.76                                       | Formosa Chemicals & Fiber Corp.                      | 3,784,357   | 1.15                                       |
| China Development Bank  | 5,776,111   | 1.76                                       | Winbond Electronics Corporation                      | 3,773,898   | 1.15                                       |
|   |   |  | Yeashin Inter. Development Co., Ltd.                 | 3,773,505   | 1.15                                       |
|   |   |  | Wan Hai Lines (Singapore) Ptd Ltd                    | 3,640,188   | 1.11                                       |
|   |   |  | Yulon Finance Corporation                            | 3,611,297   | 1.10                                       |

# 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 (%) | Name          | Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act | Percentage of net Worth of the Company (%) |
|--|---|--|---------------|---|--|
| Far Eastern New Century Corporation  | \$ 3,581,827  | 1.09                                       | Mr./Ms. Tsai  | \$ 8,908,529  | 2.71                                       |
| Zhen Ding Technology Holding Limited   | 3,579,364   | 1.09                                       | Mr./Ms. Xu    | 8,435,219   | 2.57                                       |
| Lih Pao Construction Co., Ltd.   | 3,571,458   | 1.09                                       | Mr./Ms. Yang  | 8,411,023   | 2.56                                       |
| Winson Oil Bunkering PTE Ltd   | 3,562,468   | 1.08                                       | Mr./Ms. Ho    | 8,392,520   | 2.56                                       |
| Commonwealth Bank Of Australia SYD   | 3,557,682   | 1.08                                       | Mr./Ms. Xu    | 8,380,487   | 2.55                                       |
| Wan Bao Development Co., Ltd.  | 3,557,470   | 1.08                                       | Mr./Ms. Chen  | 7,509,133   | 2.29                                       |
| Reliance Industries Limited  | 3,524,993   | 1.07                                       | Mr./Ms. Miao  | 7,455,974   | 2.27                                       |
| Taiyuan Assets Co., Ltd.   | 3,445,000   | 1.05                                       | Mr./Ms. Lin   | 7,239,474   | 2.20                                       |
| PHU My Hung Development Corporation  | 3,443,805   | 1.05                                       | Mr./Ms. Chang | 6,886,180   | 2.10                                       |
| UPC Technology Corporation   | 3,426,247   | 1.04                                       | Mr./Ms. Chien | 6,644,823   | 2.02                                       |
| Cheng Uei Precision Industry Co., Ltd.   | 3,394,806   | 1.03                                       | Mr./Ms. Lan   | 6,427,317   | 1.96                                       |
| Inventec Corp.   | 3,361,248   | 1.02                                       | Mr./Ms. Wu    | 5,985,515   | 1.82                                       |
| Fong Yi Construction Co., Ltd.   | 3,360,000   | 1.02                                       | Mr./Ms. Chen  | 5,699,564   | 1.74                                       |
| Chung Hwa Pulp Corporation   | 3,353,522   | 1.02                                       | Mr./Ms. Wu    | 5,661,324   | 1.72                                       |
| Quanta Computer Inc.   | 3,328,282   | 1.01                                       | Mr./Ms. Chou  | 5,442,458   | 1.66                                       |
| Powerchip Semiconductor Manufacturing Corporation  | 3,324,071   | 1.01                                       | Mr./Ms. Lin   | 5,377,078   | 1.64                                       |
| US Government N Sovereigns   | 3,315,664   | 1.01                                       | Mr./Ms. Zheng | 5,243,005   | 1.60                                       |
| Sunworld Dynasty US Holdings LLC   | 3,299,393   | 1.00                                       | Mr./Ms. Lai   | 5,144,630   | 1.57                                       |
| Junmen Co., Ltd  | 3,280,324   | 1.00                                       | Mr./Ms. Lin   | 5,129,227   | 1.56                                       |
| Fong-Yi Department Corp., Ltd.   | 3,277,000   | 1.00                                       | Mr./Ms. You   | 4,834,672   | 1.47                                       |
| Homeplus Digital Co., Ltd.   | 3,223,433   | 0.98                                       | Mr./Ms. Huang | 4,829,672   | 1.47                                       |
| Taiwan Tea Corporation   | 3,137,505   | 0.96                                       | Mr./Ms. Liu   | 4,752,816   | 1.45                                       |
| Chinese Maritime Transport Ltd.  | 3,113,787   | 0.95                                       | Mr./Ms. Chang | 4,568,533   | 1.39                                       |
| Longchen Paper & Packaging Co., Ltd.   | 3,110,578   | 0.95                                       | Mr./Ms. Zhan  | 4,539,791   | 1.38                                       |
| Huaku Development Co., Ltd.  | 3,088,947   | 0.94                                       | Mr./Ms. Zhan  | 4,423,930   | 1.35                                       |
| Emirates NBD Bank PJSC   | 3,050,934   | 0.93                                       | Mr./Ms. Kao   | 4,402,557   | 1.34                                       |
| Shinkong Synthetic Fibers Corporation  | 3,042,627   | 0.93                                       | Mr./Ms. Tong  | 4,380,864   | 1.33                                       |
| Cheng Loong Co., Ltd.  | 3,028,633   | 0.92                                       | Mr./Ms. Yeh   | 4,373,404   | 1.33                                       |
| The Export-Import Bank Of Korea  | 3,022,265   | 0.92                                       | Mr./Ms. Chen  | 4,349,620   | 1.32                                       |
| 2. Principal, his /her spouse, blood relatives within the second degree and enterprises in which the principal or his/her spouse is the responsible person |   |  | Mr./Ms. Jiao  | 4,215,110   | 1.28                                       |
| Mr./Ms. Chang  | \$ 49,786,733   | 15.16                                      | Mr./Ms. Ding  | 4,139,868   | 1.26                                       |
| Mr./Ms. Hsu  | 32,230,072  | 9.81                                       | Mr./Ms. Xu    | 4,097,430   | 1.25                                       |
| Mr./Ms. Li   | 24,589,340  | 7.49                                       | Mr./Ms. Lin   | 4,079,022   | 1.24                                       |
| Mr./Ms. Xie  | 24,188,782  | 7.37                                       | Mr./Ms. Li    | 4,016,193   | 1.22                                       |
| Mr./Ms. Tsai   | 23,098,967  | 7.03                                       | Mr./Ms. Ho    | 4,007,692   | 1.22                                       |
| Mr./Ms. Chen   | 21,578,942  | 6.57                                       | Mr./Ms. Chang | 3,821,978   | 1.16                                       |
| Mr./Ms. Tsai   | 20,206,650  | 6.15                                       | Mr./Ms. Shi   | 3,808,149   | 1.16                                       |
| Mr./Ms. Zheng  | 17,654,898  | 5.38                                       | Mr./Ms. Zheng | 3,790,000   | 1.15                                       |
| Mr./Ms. Li   | 17,564,722  | 5.35                                       | Mr./Ms. Su    | 3,781,580   | 1.15                                       |
| Mr./Ms. Lan  | 13,718,765  | 4.18                                       | Mr./Ms. Shen  | 3,766,425   | 1.15                                       |
| Mr./Ms. Chen   | 13,193,572  | 4.02                                       | Mr./Ms. Huang | 3,745,029   | 1.14                                       |
| Mr./Ms. Lu   | 12,193,291  | 3.71                                       | Mr./Ms. Xie   | 3,701,905   | 1.13                                       |
| Mr./Ms. F  | 11,762,548  | 3.58                                       | Mr./Ms. Lin   | 3,553,651   | 1.08                                       |
| Mr./Ms. Tseng  | 11,111,895  | 3.38                                       | Mr./Ms. Chen  | 3,514,830   | 1.07                                       |
| Mr./Ms. Guo  | 9,884,769   | 3.01                                       | Mr./Ms. Liu   | 3,507,891   | 1.07                                       |
| Mr./Ms. You  | 9,644,488   | 2.94                                       | Mr./Ms. Chen  | 3,398,120   | 1.03                                       |
| Mr./Ms. Yang   | 9,577,147   | 2.92                                       | Mr./Ms. Tsai  | 3,329,175   | 1.01                                       |
| Mr./Ms. Wu   | 9,376,589   | 2.86                                       | Mr./Ms. Ou    | 3,305,743   | 1.01                                       |
|  |   |  | Mr./Ms. Huang | 3,275,455   | 1.00                                       |
|  |   |  | Mr./Ms. Zhao  | 3,145,826   | 0.96                                       |
|  |   |  | Mr./Ms. Tsai  | 3,099,374   | 0.94                                       |



| 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 (%) |
|---|---|--|--|---|--|
| 3. Same affiliated enterprises                          |   |  | CTCI-HEC Water Business Corporation                  | \$ 11,440,950   | 3.48                                       |
| CPC Corporation, Taiwan                                 | \$ 51,483,922   | 15.68                                      | China Steel Corporation                              | 11,391,117  | 3.47                                       |
| Ruentex Xing Corporation                                | 48,621,976  | 14.81                                      | United Microelectronics Corporation                  | 11,163,084  | 3.40                                       |
| Huei Hong Investment Co., Ltd.                          | 47,626,976  | 14.50                                      | Lien Hwa Industrial Corp.                            | 11,143,069  | 3.39                                       |
| Far Eastern New Century Corporation                     | 46,279,420  | 14.09                                      | Uni-President Enterprises Corp.                      | 11,055,467  | 3.37                                       |
| U-Ming Marine Transport Corp.                           | 45,988,021  | 14.00                                      | UPC Technology Corporation                           | 10,913,977  | 3.32                                       |
| Taiwan Power Company                                    | 45,782,955  | 13.94                                      | Farglory Free Trade Zone Investment Holding Co., Ltd | 10,721,527  | 3.26                                       |
| Far Eastern Dept. Store, Ltd.                           | 44,523,119  | 13.56                                      | YFY Inc.   | 10,662,902  | 3.25                                       |
| Everest Textile Co., Ltd.                               | 44,447,535  | 13.53                                      | President International Development Corp.            | 10,634,358  | 3.24                                       |
| Ruentex Development Co., Ltd.                           | 40,986,411  | 12.48                                      | Rich Development Inc.                                | 10,608,977  | 3.23                                       |
| Formosa Plastics Corp.                                  | 39,516,933  | 12.03                                      | Prince Housing & Development Corp.                   | 10,503,525  | 3.20                                       |
| Nan Ya Plastics Corporation                             | 35,723,513  | 10.88                                      | Formosa Chemicals Industries (Ningbo) Co., Ltd.      | 10,383,928  | 3.16                                       |
| Formosa Chemicals & Fiber Corp.                         | 35,605,871  | 10.84                                      | Wistron Corporation                                  | 10,354,070  | 3.15                                       |
| Formosa Petrochemical Corp.                             | 34,281,882  | 10.44                                      | ASE Industrial Holding Co Ltd.                       | 10,203,729  | 3.11                                       |
| Gogoro Network (Cayman), Taiwan Branch                  | 33,401,654  | 10.17                                      | Aopen Incorporated                                   | 10,141,789  | 3.09                                       |
| Ren Ying Industries Inc.                                | 26,224,232  | 7.99                                       | King's Town Construction Co., Ltd.                   | 10,118,082  | 3.08                                       |
| Taiwan Transport & Storage Corp.                        | 26,111,767  | 7.95                                       | Yieh United Steel Corp.                              | 10,037,184  | 3.06                                       |
| China Synthetic Rubber Corp.                            | 25,672,443  | 7.82                                       | China Airlines Ltd.                                  | 10,030,322  | 3.05                                       |
| Onyx Ta-Ho Environmental Service Co., Ltd.              | 25,182,643  | 7.67                                       | Kingston Technology Far East Corp.                   | 9,987,895   | 3.04                                       |
| Fubon Financial Holding Co., Ltd.                       | 24,886,960  | 7.58                                       | Lealea Hotels & Resorts Co., Ltd.                    | 9,887,784   | 3.01                                       |
| Feng Sheng Enterprise Co., Ltd.                         | 24,319,988  | 7.41                                       | China Petrochemical Development Corp.                | 9,818,817   | 2.99                                       |
| Taiwan Mobile Co., Ltd.                                 | 22,403,666  | 6.82                                       | Lealea Enterprise Co., Ltd.                          | 9,665,359   | 2.94                                       |
| Tien Ying Energy Co., Ltd.                              | 22,304,072  | 6.79                                       | CTCI Corporation.                                    | 9,638,984   | 2.94                                       |
| Chuang Ju Limited Partnership                           | 22,276,955  | 6.78                                       | Yieh Hsing Enterprise Co., Ltd.                      | 9,444,315   | 2.88                                       |
| High wealth Construction Corp.                          | 21,440,874  | 6.53                                       | Kaohsiung Airport Catering Services Ltd.             | 9,015,322   | 2.75                                       |
| Chailease Finance Co., Ltd.                             | 19,586,317  | 5.96                                       | Eliter International Corp.                           | 8,686,261   | 2.64                                       |
| Qingshiban Investment Co., Ltd.                         | 19,257,783  | 5.86                                       | Yulon Motor Co., Ltd.                                | 8,470,528   | 2.58                                       |
| Taiwan Semiconductor Manufacturing Co., Ltd.            | 18,841,722  | 5.74                                       | HDEC Corporation                                     | 8,460,409   | 2.58                                       |
| Chailease Auto Rental Co., Ltd.                         | 17,409,915  | 5.30                                       | Nan Ya Plastics Corporation                          | 8,432,335   | 2.57                                       |
| BoardTek Electronics Corp.                              | 17,391,750  | 5.30                                       | Yieh Mau Corporation                                 | 8,409,983   | 2.56                                       |
| Hon Hai Precision Industry Co., Ltd.                    | 15,850,452  | 4.83                                       | Benefit Transport S.A                                | 8,408,456   | 2.56                                       |
| Cathay Real Estate Development Co., Ltd.                | 15,644,160  | 4.76                                       | Continental Holdings Corporation                     | 8,337,261   | 2.54                                       |
| Foxconn Ventures PTE. Ltd                               | 15,520,453  | 4.73                                       | Green Forest Development Enterprise Co., Ltd.        | 8,298,248   | 2.53                                       |
| Chailease Resources Technology Co., Ltd.                | 14,979,645  | 4.56                                       | Regiant Industrial Co., Ltd.                         | 8,142,776   | 2.48                                       |
| Pegatron Corporation                                    | 14,002,490  | 4.26                                       | Hotai Finance Co., Ltd.                              | 8,038,140   | 2.45                                       |
| Ennoconn Corporation                                    | 13,476,568  | 4.10                                       | Yulon Finance Corporation                            | 7,992,069   | 2.43                                       |
| Evergreen International Storage & Transport Corp., Ltd. | 13,325,666  | 4.06                                       | China Steel Structure Co., Ltd.                      | 7,866,201   | 2.40                                       |
| Lih Pao Construction Co., Ltd.                          | 13,245,477  | 4.03                                       | Re-use Environmental Co., Ltd.                       | 7,856,376   | 2.39                                       |
| Trondage Enterprises Pty Ltd                            | 12,868,852  | 3.92                                       | United Steel Engineering & Construction Corp.        | 7,848,511   | 2.39                                       |
| Pxmart Co., Ltd   | 12,848,765  | 3.91                                       | WPG Holdings Co., Ltd                                | 7,805,460   | 2.38                                       |
| Farglory Land Development Co., Ltd.                     | 12,647,215  | 3.85                                       | Continental Engineering Corp.                        | 7,790,409   | 2.37                                       |
| Yieh Phui Enterprise Co., Ltd.                          | 12,128,275  | 3.69                                       | SIO International Holdings Limited                   | 7,749,675   | 2.36                                       |
| Evergreen Marine Corp. (Taiwan) Ltd.                    | 12,057,745  | 3.67                                       | Fong-Yi Department Corp., Ltd.                       | 7,689,459   | 2.34                                       |
| Uni Airways Corp.                                       | 11,915,116  | 3.63                                       | Pou Chen Corporation                                 | 7,661,955   | 2.33                                       |
| Evergreen Air Cargo Services Corp.                      | 11,907,200  | 3.63                                       | Tatung CO.   | 7,473,971   | 2.28                                       |
| Foxsemicon Integrated Technology Inc.                   | 11,700,325  | 3.56                                       | Tai Yuen Textile Co., Ltd.                           | 7,220,202   | 2.20                                       |
| Boclh Industrial Gases Co., Ltd.                        | 11,665,715  | 3.55                                       |  |   |  |
| Chow Tai FookEnterprises Limited                        | 11,543,253  | 3.51                                       |  |   |  |

# 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 (%) | Name   | Total balance of transaction listed in article 46, paragraph 2 of the Financial Holding Company Act | Percentage of net Worth of the Company (%) |
|---|---|--|--|---|--|
| Ding Long Co., Ltd.                             | \$ 7,031,261  | 2.14                                       | Softbank Corp.                                     | \$ 4,087,221  | 1.24                                       |
| E-DA Development Corp.                          | 6,978,694   | 2.12                                       | Der Chao Construction Co., Ltd.                    | 4,079,340   | 1.24                                       |
| Shin Kong Mitsukoshi Department Store Co., Ltd. | 6,954,944   | 2.12                                       | Yunpeng Construction Co., Ltd.                     | 4,077,441   | 1.24                                       |
| Jia Rui Development Company                     | 6,932,058   | 2.11                                       | Hsiang Ho Fishery Co., Ltd.                        | 4,041,496   | 1.23                                       |
| CSBC Corporation, Taiwan                        | 6,877,993   | 2.09                                       | Cal-Comp Electronics (Thailand) Public Company Ltd | 3,970,968   | 1.21                                       |
| King Yuan Electronics Co., Ltd.                 | 6,874,974   | 2.09                                       | Yageo Corporation                                  | 3,953,564   | 1.20                                       |
| Grand River D. Limited                          | 6,560,539   | 2.00                                       | Jihsun Customs Brokers Co.,Ltd.                    | 3,951,427   | 1.20                                       |
| Wan Hai Lines Ltd.                              | 6,426,531   | 1.96                                       | CDC Finance & Leasing Corporation                  | 3,879,651   | 1.18                                       |
| Shinkong Synthetic Fibers Corporation           | 6,381,027   | 1.94                                       | General Interface Solution Limited                 | 3,812,366   | 1.16                                       |
| Wealth Media Co., Ltd.                          | 6,364,383   | 1.94                                       | L & K Engineering Co., Ltd.                        | 3,686,601   | 1.12                                       |
| Fujian Fuxin Special Steel Co., Ltd.            | 6,198,458   | 1.89                                       | International Bills Finance Corporation            | 3,657,319   | 1.11                                       |
| Walsin Lihwa Corp.                              | 6,188,777   | 1.88                                       | AU Optronics Corp.                                 | 3,618,862   | 1.10                                       |
| Uni-President Vietnam Co. Ltd                   | 6,139,247   | 1.87                                       | Reliance Industries Limited                        | 3,613,111   | 1.10                                       |
| San Miguel Corporation                          | 5,938,944   | 1.81                                       | YI JINN Industrial Co.,Ltd,                        | 3,601,736   | 1.10                                       |
| Shin Ruenn development Co., Ltd.                | 5,937,839   | 1.81                                       | Associated Transport Inc.                          | 3,593,787   | 1.09                                       |
| Chang Chun PetroChemical Co., Ltd.              | 5,930,009   | 1.81                                       | Quanta Computer Inc.                               | 3,572,045   | 1.09                                       |
| MasterLink Securities Corporation               | 5,861,725   | 1.78                                       | Inventec Corp.                                     | 3,561,248   | 1.08                                       |
| Mayfull Logistics Corporation                   | 5,696,925   | 1.73                                       | Supreme Electronics Co., Ltd.                      | 3,546,690   | 1.08                                       |
| IMA Foods Corporation                           | 5,691,200   | 1.73                                       | Jing Kwan Investment Co., Ltd.                     | 3,546,346   | 1.08                                       |
| BENQ Corporation                                | 5,623,924   | 1.71                                       | SINOPAC Financial Holdings Company Limited         | 3,539,731   | 1.08                                       |
| Chen Tao Cable TV Co., Ltd.                     | 5,620,930   | 1.71                                       | Daxin Materials Corp.                              | 3,509,613   | 1.07                                       |
| Glorystone Inc.                                 | 5,569,046   | 1.70                                       | Konglin Comstruction & Manufacturing Co., Ltd.     | 3,494,944   | 1.06                                       |
| Fu Mao Development Co., Ltd.                    | 5,482,641   | 1.67                                       | Fabulous Cul Tural & Creative Enterprise Co., Ltd. | 3,455,873   | 1.05                                       |
| Radium Life Tech Corp.                          | 5,451,827   | 1.66                                       | Taiyuan Assets Co., Ltd.                           | 3,445,000   | 1.05                                       |
| Cheng Shin Rubber Ind., Co., Ltd.               | 5,275,695   | 1.61                                       | Bank Of Communications Co. Ltd.                    | 3,430,585   | 1.04                                       |
| Taishin Leasing & Financing Co., LTD.           | 5,207,727   | 1.59                                       | Fenghe International Investment Co., Ltd.          | 3,422,841   | 1.04                                       |
| Zhong-Tai Binguang Co.,Ltd.                     | 5,133,350   | 1.56                                       | EBN Technology Corporation                         | 3,421,949   | 1.04                                       |
| Junmen Co., Ltd                                 | 5,031,324   | 1.53                                       | Quanta Storage Inc.                                | 3,382,324   | 1.03                                       |
| Shih Wei Navigation Co., Ltd.                   | 5,026,639   | 1.53                                       | Pao Long International Co., Ltd.                   | 3,363,519   | 1.02                                       |
| Walsin Technology Corp.                         | 4,975,248   | 1.51                                       | Kee Tai Properties Co.,Ltd.                        | 3,342,620   | 1.02                                       |
| Hsin Hung International Investment Co., Ltd     | 4,950,946   | 1.51                                       | Powerchip Semiconductor Manufacturing Corporation  | 3,324,071   | 1.01                                       |
| Cheng Uei Precision Industry Co., Ltd.          | 4,930,171   | 1.50                                       | Kinpo Electronics, Inc.                            | 3,318,330   | 1.01                                       |
| Actron Technology Corporation                   | 4,813,923   | 1.47                                       | China Prosperity Development Corp.                 | 3,309,018   | 1.01                                       |
| Xinjiapo Construction Co., Ltd.                 | 4,799,507   | 1.46                                       | BOC LIENHWA (BVI) Holding Co. Ltd.                 | 3,272,914   | 1.00                                       |
| MITAC Holdings Corporation                      | 4,792,789   | 1.46                                       | Taiwan Glass Industry Corp.                        | 3,270,818   | 1.00                                       |
| Cheng Loong Co., Ltd.                           | 4,774,911   | 1.45                                       | Sanyang Motor Co., Ltd.                            | 3,214,007   | 0.98                                       |
| Yeashin Inter. Development Co., Ltd.            | 4,756,464   | 1.45                                       | Taiwan Cogeneration Corporation                    | 3,198,299   | 0.97                                       |
| Chialin Precision Industrial Co., Ltd.          | 4,708,458   | 1.43                                       | Lextar Electronics Corp.                           | 3,174,110   | 0.97                                       |
| Yigao Investment Co., Ltd.                      | 4,668,453   | 1.42                                       | Huaku Development Co., Ltd.                        | 3,103,947   | 0.95                                       |
| Cosmos Boom Investment Limited                  | 4,650,804   | 1.42                                       | HIYES International Co., Ltd.                      | 3,067,532   | 0.93                                       |
| Sakura Development Co.,Ltd.                     | 4,452,200   | 1.36                                       | Dai Shen Development Co.,Ltd.                      | 3,055,332   | 0.93                                       |
| Starlux Airlines Co., Ltd.                      | 4,401,970   | 1.34                                       |  |   |  |
| Everlasting Cable TV Co., Ltd.                  | 4,374,344   | 1.33                                       |  |   |  |
| Wei Chuan Foods Corp.                           | 4,218,047   | 1.28                                       |  |   |  |
| CMT Logistics Co., Ltd.                         | 4,217,043   | 1.28                                       |  |   |  |
| An Hei Construction Co., Ltd.                   | 4,167,290   | 1.27                                       |  |   |  |
| Winson Oil Trading PTE Ltd                      | 4,147,050   | 1.26                                       |  |   |  |
| Hengshang Investment Co., Ltd.                  | 4,112,776   | 1.25                                       |  |   |  |
| Huang Hsiang Construction Corporation           | 4,100,000   | 1.25                                       |  |   |  |



## 6.3 Audit Committee's Report

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

The Board of Directors has prepared and delivered this Company's 2021 consolidated financial statements, audited by CPA Chi, Shu-Mei and Kuo, Pao-Ju of PricewaterhouseCoopers, Taiwan, the business report and the proposal for distribution of 2021 earnings. The above statements, report, and proposal have been reviewed by the Audit Committee and considered in compliance with applicable laws and regulations. We hereby submit this report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act for your ratification.

To:

2022 Annual General Shareholders' Meeting

Mega Financial Holding Co., Ltd.

Chairman of the Audit Committee: Wu, Ying

Date: May 17, 2022



## 6.4 Consolidated Financial Statements

### INDEPENDENT AUDITOR'S REPORT

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, 2021 and 2020, 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, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Public Held Bills Finance Companies, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Enterprises Engaging in Insurance and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations as endorsed by the Financial Supervisory Commission.

#### *Basis for opinion*

We conducted our 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. 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 Norm of Professional Ethics for Certified Public Accountants in the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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, 2021 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 \$2,067,692,709 thousand and \$30,337,729 thousand, respectively, as at December 31, 2021, 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 behavior 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 \$7,701,918 thousand and financial assets at fair value through other comprehensive income amounting to \$20,597,180 thousand as at December 31, 2021.

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. Sampled and 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 Notes 4(20)4 and (26); 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(26).

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, 2021, subsidiary CKI's claims reserve and ceded claims reserve was \$4,187,578 thousand and \$2,116,411 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 CKI'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 the CKI'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 Group's financial reporting process.

### ***Auditors' 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 the generally accepted auditing standards in the Republic of China 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 the generally accepted auditing standards in the Republic of China, 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 auditors' 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 auditors' 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 governance 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 governance 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 governance, 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 auditors' 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*

*cs-rc. Kuo*

Chi, Shu-Mei

Kuo, Puo-Ju

For and on behalf of PricewaterhouseCoopers, Taiwan

March 15, 2022

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.

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2021 AND 2020  
(Expressed in thousands of New Taiwan dollars)

|   |   |                    | December 31, 2021 |               | December 31, 2020 |    |               |     |
|---|---|--------------------|-------------------|---------------|-------------------|----|---------------|-----|
|   |   |                    | Amount            | %             | Amount            | %  |               |     |
| Items                                   |   |                    | Notes             |               |                   |    |               |     |
| Assets                                  |   |                    |                   |               |                   |    |               |     |
| 11000                                   | Cash and cash equivalents, net                                    | 6(1) and 11        | \$                | 140,618,308   | 3                 | \$ | 119,427,578   | 3   |
| 11500                                   | Due from the Central Bank and call loans to banks, net            | 6(2) and 11        |                   | 441,542,195   | 11                |    | 375,465,228   | 10  |
| 12000                                   | Financial assets at fair value through profit or loss             | 6(3), 11 and 12    |                   | 202,834,657   | 5                 |    | 228,608,073   | 6   |
| 12150                                   | Financial assets at fair value through other comprehensive income | 6(4), 11 and 12    |                   | 543,790,346   | 13                |    | 560,779,813   | 15  |
| 12200                                   | Investments in debt instruments at amortized cost, net            | 6(5) and 12        |                   | 648,132,418   | 16                |    | 534,327,284   | 14  |
| 12500                                   | Securities purchased under resell agreements                      |                    |                   | 949,170       | -                 |    | 950,137       | -   |
| 13000                                   | Receivables, net  | 6(6)               |                   | 96,630,962    | 2                 |    | 89,970,775    | 2   |
| 13200                                   | Current tax assets  |                    |                   | 331,977       | -                 |    | 379,014       | -   |
| 13300                                   | Assets classified as held for sale                                | 6(8)               |                   | 15,813        | -                 |    | 15,813        | -   |
| 13500                                   | Loans discounted, net   | 6(7) and 11        |                   | 2,037,354,980 | 49                |    | 1,889,958,222 | 49  |
| 13700                                   | Reinsurance contract assets, net                                  | 6(9)               |                   | 4,990,018     | -                 |    | 5,170,035     | -   |
| 15000                                   | Investments accounted for using equity method                     | 6(10)              |                   | 5,449,161     | -                 |    | 5,519,229     | -   |
| 15500                                   | Other financial assets, net                                       | 6(11) and 12       |                   | 6,095,575     | -                 |    | 5,134,375     | -   |
| 18000                                   | Investment property, net  | 6(14) and 12       |                   | 1,341,321     | -                 |    | 1,111,518     | -   |
| 18500                                   | Property and equipment, net                                       | 6(15) and 12       |                   | 21,670,526    | 1                 |    | 21,950,817    | 1   |
| 18600                                   | Right-of-use assets, net  | 6(12)              |                   | 1,854,439     | -                 |    | 1,837,841     | -   |
| 19000                                   | Intangible assets, net  |                    |                   | 1,017,030     | -                 |    | 960,918       | -   |
| 19300                                   | Deferred income tax assets  | 6(41)              |                   | 6,505,527     | -                 |    | 5,629,637     | -   |
| 19500                                   | Other assets, net   | 6(16) and 12       |                   | 7,140,436     | -                 |    | 9,180,225     | -   |
| Total Assets                            |   |                    | \$                | 4,168,264,859 | 100               | \$ | 3,856,376,532 | 100 |
| Liabilities                             |   |                    |                   |               |                   |    |               |     |
| 21000                                   | Deposits from the Central Bank and banks                          | 6(17) and 11       | \$                | 385,049,995   | 9                 | \$ | 405,296,111   | 11  |
| 21500                                   | Due to the Central Bank and banks                                 | 6(18)              |                   | 46,890,696    | 1                 |    | 20,363,979    | 1   |
| 22000                                   | Financial liabilities at fair value through profit or loss        | 6(19)              |                   | 19,344,092    | 1                 |    | 20,934,933    | 1   |
| 22500                                   | Securities sold under repurchase agreements                       | 6(3)(4)(20) and 11 |                   | 225,056,762   | 5                 |    | 269,355,119   | 7   |
| 22600                                   | Commercial paper issued, net                                      | 6(21)(43) and 11   |                   | 32,917,848    | 1                 |    | 22,392,125    | 1   |
| 23000                                   | Payables  | 6(22)              |                   | 84,963,858    | 2                 |    | 89,502,574    | 2   |
| 23200                                   | Current tax liabilities   |                    |                   | 12,298,301    | -                 |    | 11,007,264    | -   |
| 23500                                   | Deposits and remittances  | 6(23)              |                   | 2,959,789,704 | 71                |    | 2,613,890,191 | 68  |
| 24000                                   | Bonds payable   | 6(24)(43)          |                   | 6,000,000     | -                 |    | 18,000,000    | -   |
| 24400                                   | Other borrowings  | 6(25)(43)          |                   | 1,260,000     | -                 |    | 338,028       | -   |
| 24600                                   | Provisions  | 6(26)              |                   | 29,941,604    | 1                 |    | 30,059,406    | 1   |
| 25500                                   | Other financial liabilities                                       | 6(27)              |                   | 12,453,364    | -                 |    | 13,160,602    | -   |
| 26000                                   | Lease liabilities   | 6(12)(43)          |                   | 1,903,356     | -                 |    | 1,881,625     | -   |
| 29300                                   | Deferred income tax liabilities                                   | 6(41)              |                   | 2,635,979     | -                 |    | 3,370,193     | -   |
| 29500                                   | Other liabilities   | 6(28)              |                   | 19,360,417    | 1                 |    | 10,235,422    | -   |
| Total Liabilities                       |   |                    |                   | 3,839,865,976 | 92                |    | 3,529,787,572 | 92  |
| Equity                                  |   |                    |                   |               |                   |    |               |     |
| Equity attributable to owners of parent |   |                    |                   |               |                   |    |               |     |
| Capital                                 |   |                    |                   |               |                   |    |               |     |
| 31100                                   | Common stock  | 6(29)              |                   | 135,998,240   | 3                 |    | 135,998,240   | 3   |
| 31500                                   | Capital surplus   | 6(29)              |                   | 68,194,233    | 2                 |    | 68,194,233    | 2   |
| Retained earnings                       |   |                    |                   |               |                   |    |               |     |
| 32001                                   | Legal reserve   | 6(29)              |                   | 43,343,934    | 1                 |    | 40,962,325    | 1   |
| 32003                                   | Special reserve   | 6(29)              |                   | 2,538,952     | -                 |    | 2,538,952     | -   |
| 32011                                   | Unappropriated earnings   | 6(30)              |                   | 67,163,598    | 2                 |    | 64,706,477    | 2   |
| Other equity interest                   |   |                    |                   |               |                   |    |               |     |
| 32500                                   | Other equity interest   | 6(31)              |                   | 11,159,926    | -                 |    | 14,188,733    | -   |
| Total Equity                            |   |                    |                   | 328,398,883   | 8                 |    | 326,588,960   | 8   |
| TOTAL LIABILITIES AND EQUITY            |   |                    | \$                | 4,168,264,859 | 100               | \$ | 3,856,376,532 | 100 |

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

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

|       |   |                          | Year ended December 31 |        |                |        | Change<br>percentage<br>(%) |
|-------|---|--------------------------|------------------------|--------|----------------|--------|-----------------------------|
|       |   |                          | 2021                   |        | 2020           |        |                             |
|       |   |                          | Amount                 | %      | Amount         | %      |                             |
|       | Items   | Notes                    |                        |        |                |        |                             |
| 41000 | Interest income   | 6(32) and 11             | \$ 42,796,556          | 71     | \$ 49,724,053  | 82     | ( 14 )                      |
| 51000 | Less: interest expense  | 6(32) and 11             | ( 10,328,211 )         | ( 17 ) | ( 18,173,179 ) | ( 30 ) | ( 43 )                      |
|       | Net interest revenue  |                          | 32,468,345             | 54     | 31,550,874     | 52     | 3                           |
|       | Net revenue other than interest   |                          |                        |        |                |        |                             |
| 49800 | Net service fee revenue and commissions   | 6(33)                    | 12,037,236             | 20     | 9,876,263      | 16     | 22                          |
| 49810 | Net insurance revenue   |                          | 2,234,552              | 4      | 2,042,767      | 3      | 9                           |
| 49820 | Gain on financial assets and liabilities at fair value through profit or loss   | 6(34) and 11             | 7,839,449              | 13     | 9,002,001      | 15     | ( 13 )                      |
| 49825 | Gain on investment property   | 6(8)(14)                 | 27,346                 | -      | 357,223        | 1      | ( 92 )                      |
| 49835 | Realized gain on financial assets at fair value through other comprehensive income  | 6(4)(35)                 | 2,973,300              | 5      | 5,568,609      | 9      | ( 47 )                      |
| 49850 | Loss arising from derecognition of financial assets measured at amortised cost  | 6(5)                     | ( 39,147 )             | -      | ( 155,917 )    | -      | ( 75 )                      |
| 49870 | Foreign exchange gains  |                          | 1,443,881              | 2      | 1,399,058      | 2      | 3                           |
| 49890 | Share of profit (loss) of associates and joint ventures accounted for using equity method   | 6(10)                    | 125,017                | -      | ( 19,633 )     | -      | ( 737 )                     |
| 49898 | Gain (loss) on reclassification under the overlay approach  | 6(3)(31)                 | ( 43,085 )             | -      | 37,841         | -      | ( 214 )                     |
| 49900 | Net other revenue other than interest income  | 6(37)                    | 1,163,633              | 2      | 1,213,657      | 2      | ( 4 )                       |
| 55000 | Reversal of loss on assets (impairment of loss on assets)   | 6(36)                    | 319                    | -      | ( 62,821 )     | -      | ( 101 )                     |
|       | Net revenue   |                          | 60,230,846             | 100    | 60,809,922     | 100    | ( 1 )                       |
| 58100 | Bad debts expense, commitment and guarantee liability provision   | 6(7)(9)(11)(26) and 8(3) | ( 1,904,434 )          | ( 3 )  | ( 2,151,568 )  | ( 4 )  | ( 11 )                      |
| 58300 | Net change in provisions for insurance liabilities  | 6(26)                    | ( 64,520 )             | -      | ( 227,160 )    | -      | ( 72 )                      |
|       | Operating expenses  |                          |                        |        |                |        |                             |
| 58501 | Employee benefit expenses   | 6(38)                    | ( 20,146,203 )         | ( 33 ) | ( 19,736,020 ) | ( 32 ) | 2                           |
| 58503 | Depreciation and amortization expense   | 6(39)                    | ( 1,595,367 )          | ( 3 )  | ( 1,544,318 )  | ( 3 )  | 3                           |
| 58599 | Other general and administrative expenses   | 6(40)                    | ( 7,863,909 )          | ( 13 ) | ( 7,820,218 )  | ( 13 ) | 1                           |
| 61000 | Profit from continuing operations before tax  |                          | 28,656,413             | 48     | 29,330,638     | 48     | ( 2 )                       |
| 61003 | Income tax expense  | 6(41)                    | ( 2,925,343 )          | ( 5 )  | ( 4,312,670 )  | ( 7 )  | ( 32 )                      |
| 69000 | Profit  |                          | \$ 25,731,070          | 43     | \$ 25,017,968  | 41     | 3                           |
|       | Components of other comprehensive income that will not be reclassified to profit or loss, net of tax  |                          |                        |        |                |        |                             |
| 69561 | Gain (loss) on remeasurement of defined benefit plan  | 6(26)                    | 749,495                | 1      | ( 644,353 )    | ( 1 )  | ( 216 )                     |
| 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    |                          | 1,496                  | -      | 2,242          | -      | ( 33 )                      |
| 69567 | Revaluation gains on investments in equity instruments measured at fair value through other comprehensive income  | 6(4)(31)                 | 3,262,980              | 5      | 616,713        | 1      | 429                         |
| 69569 | Income tax related to components of other comprehensive income that will not be reclassified to profit or loss  | 6(41)                    | ( 149,896 )            | -      | 128,278        | -      | ( 217 )                     |
|       | Components of other comprehensive income that will be reclassified to profit or loss, net of tax  |                          |                        |        |                |        |                             |
| 69571 | Exchange differences on translation   | 6(31)                    | ( 1,163,898 )          | ( 2 )  | ( 1,692,991 )  | ( 3 )  | ( 31 )                      |
| 69575 | Share of other comprehensive (loss) 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)                | ( 24,723 )             | -      | 58,197         | -      | ( 142 )                     |
| 69585 | Revaluation (loss) gain from investments in debt instruments measured at fair value through other comprehensive income  | 6(4)(31)                 | ( 5,462,256 )          | ( 9 )  | 2,440,898      | 4      | ( 324 )                     |
| 69587 | (Reversal of impairment loss) impairment loss from investments in debt instruments measured at fair value through other comprehensive income  | 6(4)(31)                 | ( 23,552 )             | -      | 94,520         | -      | ( 125 )                     |
| 69590 | Other comprehensive income (loss) on reclassification under the overlay approach  | 6(3)(31)                 | 43,085                 | -      | ( 37,841 )     | -      | ( 214 )                     |
| 69579 | Income tax related to components of other comprehensive income that will be reclassified to profit or loss  | 6(31)(41)                | 333,844                | 1      | ( 336,218 )    | -      | ( 199 )                     |
| 69500 | Other comprehensive (loss) income   |                          | ( 2,433,425 )          | ( 4 )  | 629,445        | 1      | ( 487 )                     |
| 69700 | Total comprehensive income  |                          | \$ 23,297,645          | 39     | \$ 25,647,413  | 42     | ( 9 )                       |
|       | Profit attributable to:   |                          |                        |        |                |        |                             |
| 69901 | Owners of parent  |                          | \$ 25,731,070          | 43     | \$ 25,017,968  | 41     | 3                           |
|       | Comprehensive income attributable to:   |                          |                        |        |                |        |                             |
| 69951 | Owners of parent  |                          | \$ 23,297,645          | 39     | \$ 25,647,413  | 42     | ( 9 )                       |
|       | Earnings per share  |                          |                        |        |                |        |                             |
| 70000 | Basic and diluted earnings per share (in dollars)   | 6(42)                    | \$ 1.89                |        | \$ 1.84        |        |                             |

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     | 2021                            | 2020            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |           |                                 |                 |
| Profit before tax   |           | \$ 28,656,413                   | \$ 29,330,638   |
| Adjustments   |           |                                 |                 |
| Adjustments to reconcile profit (loss)  |           |                                 |                 |
| Depreciation expense  | 6(39)     | 1,516,907                       | 1,467,409       |
| Amortization expense  | 6(39)     | 78,460                          | 76,909          |
| Bad debts expense, commitment and guarantee liability provision   |           | 1,904,434                       | 2,151,568       |
| Interest expense  | 6(32)     | 10,328,211                      | 18,173,179      |
| Interest income   | 6(32)     | ( 42,796,556 )                  | ( 49,724,053 )  |
| Dividend income   | 6(34)(35) | ( 3,287,543 )                   | ( 1,833,208 )   |
| Net change in provisions for insurance liabilities  |           | 64,520                          | 227,160         |
| Impairment losses (reversal of impairment losses) on assets   | 6(36)     | ( 319 )                         | 62,821          |
| Gain on disposal of property and equipment  |           | ( 8,343 )                       | ( 561 )         |
| Gain on disposal of investment property   |           | ( 4,643 )                       | -               |
| Gain on disposal of assets classified as held for sale  | 6(8)      | -                               | ( 334,651 )     |
| Share of (profit) loss of associates accounted for using equity method  | 6(10)     | ( 125,017 )                     | 19,633          |
| Profit reclassified by applying overlay approach  | 6(3)      | 43,085                          | ( 37,841 )      |
| Changes in operating assets and liabilities   |           |                                 |                 |
| Changes in operating assets   |           |                                 |                 |
| Decrease (increase) in due from Central Bank and call loans to other banks  |           | 8,191,233                       | ( 42,487,815 )  |
| Decrease (increase) in financial assets at fair value through profit or loss                                      |           | 25,773,416                      | ( 20,294,943 )  |
| Decrease (increase) in financial assets at fair value through other comprehensive income                          |           | 14,813,743                      | ( 21,584,077 )  |
| Increase in investments in debt instruments measured at amortized cost  |           | ( 113,837,345 )                 | ( 259,124,391 ) |
| (Increase) decrease in receivables  |           | ( 6,971,722 )                   | 7,427,837       |
| Increase in discounts and loans   |           | ( 149,604,839 )                 | ( 18,623,564 )  |
| Decrease (increase) in reinsurance contract assets  |           | 180,017                         | ( 1,185,418 )   |
| Increase in other financial assets  |           | ( 964,874 )                     | ( 226,808 )     |
| Decrease (increase) in other assets   |           | 2,505,700                       | ( 1,824,759 )   |
| Changes in operating liabilities  |           |                                 |                 |
| Decrease in deposits from the Central Bank and banks  |           | ( 20,246,116 )                  | ( 15,537,051 )  |
| Decrease in financial liabilities at fair value through profit or loss  |           | ( 1,590,841 )                   | ( 1,180,776 )   |
| (Decrease) increase in bills and bonds purchased under resale agreements  |           | ( 44,298,357 )                  | 10,162,857      |
| (Decrease) increase in payables   |           | ( 5,952,967 )                   | 14,269,286      |
| Increase in deposits and remittances  |           | 345,899,513                     | 154,433,056     |
| Decrease in other financial liabilities   |           | ( 707,238 )                     | ( 2,657,744 )   |
| Increase in liabilities reserve   |           | 583,906                         | 1,194,669       |
| Increase in other liabilities   |           | 7,551,112                       | 989,186         |
| Cash inflow (outflow) generated from operations   |           | 57,693,950                      | ( 196,671,452 ) |
| Interest received   |           | 43,393,789                      | 51,685,274      |
| Cash dividend received  |           | 3,453,442                       | 1,978,950       |
| Interest paid   |           | ( 10,666,130 )                  | ( 20,524,076 )  |
| Income tax paid   |           | ( 3,013,425 )                   | ( 2,180,174 )   |
| Net cash flows from (used in) operating activities  |           | 90,861,626                      | ( 165,711,478 ) |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |           |                                 |                 |
| Acquisition of property and equipment   | 6(15)     | ( \$ 935,944 )                  | ( \$ 774,165 )  |
| Proceeds from disposal of property and equipment  |           | 13,964                          | 2,160           |
| Acquisition of intangible assets  |           | ( 594,594 )                     | ( 733,515 )     |
| Acquisition of investment properties  | 6(14)     | ( 3,541 )                       | ( 93,642 )      |
| Proceeds from disposal of investment property   |           | 26,377                          | -               |
| Proceeds from disposal of assets classified as held for sale  | 6(8)      | -                               | 611,551         |
| Net cash flows used in investing activities   |           | ( 1,493,738 )                   | ( 987,611 )     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |           |                                 |                 |
| Increase (decrease) in due to the Central Bank and banks  |           | 26,526,717                      | ( 797,342 )     |
| Increase in commercial papers payable   | 6(43)     | 10,529,000                      | 2,423,000       |
| Proceeds from issuing bonds   | 6(43)     | -                               | 5,000,000       |
| (Decrease) increase in bank notes payable   | 6(43)     | ( 12,000,000 )                  | 1,000,000       |
| Increase (decrease) in other borrowings   | 6(43)     | 921,972                         | ( 3,126,881 )   |
| Increase in guarantee deposits received   |           | 1,568,330                       | 1,220,380       |
| Payment of lease liabilities  | 6(43)     | ( 561,774 )                     | ( 548,037 )     |
| Cash dividends paid   |           | ( 19,738,829 )                  | ( 20,737,777 )  |
| Net cash flows from (used in) financing activities  |           | 7,245,416                       | ( 15,566,657 )  |
| Effect of exchange rate changes on cash and cash equivalents  |           | ( 1,154,927 )                   | ( 1,606,178 )   |
| Net increase (decrease) in cash and cash equivalents, net   |           | 95,458,377                      | ( 183,871,924 ) |
| Cash and cash equivalents, net at beginning of year   |           | 313,126,220                     | 496,998,144     |
| Cash and cash equivalents, net at end of year   |           | \$ 408,584,597                  | \$ 313,126,220  |
| The components of cash and cash equivalents   |           |                                 |                 |
| Cash and cash equivalents reported in the statement of financial position   | 6(1)      | \$ 140,618,308                  | \$ 119,427,578  |
| Due from central bank and call loans to other banks qualified as cash and cash equivalents as defined by IAS 7    | 6(2)      | 267,017,119                     | 192,748,505     |
| Investments in bills and bonds under resale agreements qualified as cash and cash equivalents as defined by IAS 7 |           | 949,170                         | 950,137         |
| Cash and cash equivalents at end of reporting year  |           | \$ 408,584,597                  | \$ 313,126,220  |

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



# Financial Information

## MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Expressed in thousands of New Taiwan dollars)

|   | Notes | Common stock   | Capital Surplus |
|---|-------|----------------|-----------------|
| <u>For the year ended December 31, 2020</u>   |       |                |                 |
| Equity at beginning of year   |       | \$ 135,998,240 | \$ 68,194,233   |
| Profit for the year   |       | -              | -               |
| Other comprehensive income (loss) for the year  | 6(31) | -              | -               |
| Total comprehensive income (loss)   |       | -              | -               |
| Earnings distribution for 2019  |       |                |                 |
| Legal reserve   |       | -              | -               |
| Reversal of special reserve   |       | -              | -               |
| Cash dividends  |       | -              | -               |
| Disposal of investment in equity instruments measured 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, 2021</u>   |       |                |                 |
| Equity at beginning of year   |       | \$ 135,998,240 | \$ 68,194,233   |
| Profit for the year   |       | -              | -               |
| Other comprehensive income (loss) for the year  | 6(31) | -              | -               |
| Total comprehensive income (loss)   |       | -              | -               |
| Earnings distribution for 2020  |       |                |                 |
| Legal reserve   |       | -              | -               |
| Cash dividends  |       | -              | -               |
| Disposal of investments in equity instruments measured at fair value through other comprehensive income | 6(4)  | -              | -               |
| 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 earnings | Exchange differences on translation of foreign operations | Unrealised gains (losses) on financial assets measured at fair value through other comprehensive income | Other comprehensive income (loss) on reclassification using overlay approach | Other equity, other | Total equity   |
| \$ 38,066,701                               | \$ 2,545,151    | \$ 66,899,512           | (\$ 2,413,580)  | \$ 14,799,177   | \$ 1,907   | (\$ 30,093)         | \$ 324,061,248 |
| -   | -               | 25,017,968              | -   | -   | -  | -                   | 25,017,968     |
| -   | -               | ( 516,075)              | ( 1,694,048)  | 2,864,029   | ( 37,841)  | 13,380              | 629,445        |
| -   | -               | 24,501,893              | ( 1,694,048)  | 2,864,029   | ( 37,841)  | 13,380              | 25,647,413     |
| 2,895,624                                   | -               | ( 2,895,624)            | -   | -   | -  | -                   | -              |
| -   | ( 6,199)        | 6,199                   | -   | -   | -  | -                   | -              |
| -   | -               | ( 23,119,701)           | -   | -   | -  | -                   | ( 23,119,701)  |
| -   | -               | ( 685,802)              | -   | 685,802   | -  | -                   | -              |
| \$ 40,962,325                               | \$ 2,538,952    | \$ 64,706,477           | (\$ 4,107,628)  | \$ 18,349,008   | (\$ 35,934)  | (\$ 16,713)         | \$ 326,588,960 |
| \$ 40,962,325                               | \$ 2,538,952    | \$ 64,706,477           | (\$ 4,107,620)  | \$ 18,349,008   | (\$ 35,934)  | (\$ 16,713)         | \$ 326,588,960 |
| -   | -               | 25,731,070              | -   | -   | -  | -                   | 25,731,070     |
| -   | -               | 599,599                 | ( 1,158,569)  | ( 1,919,573)  | 43,085   | 2,033               | ( 2,433,425)   |
| -   | -               | 26,330,669              | ( 1,158,569)  | ( 1,919,573)  | 43,085   | 2,033               | 23,297,645     |
| 2,381,609                                   | -               | ( 2,381,609)            | -   | -   | -  | -                   | -              |
| -   | -               | ( 21,487,722)           | -   | -   | -  | -                   | ( 21,487,722)  |
| -   | -               | ( 4,217)                | -   | ( 15,874)   | -  | 20,091              | -              |
| \$ 43,343,934                               | \$ 2,538,952    | (\$ 67,163,598)         | (\$ 5,266,197)  | \$ 16,413,561   | \$ 7,151   | \$ 5,411            | \$ 328,398,883 |

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(Expressed in thousands of New Taiwan dollars, unless otherwise indicated)

## 1. ORGANIZATION AND OPERATIONS

- (1) CTB Financial Holding Co., Ltd. was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.), and was formed by Chiao Tung Bank Co., Ltd. ("CTB") and International Securities Co., Ltd. ("IS") through a share swap on February 4, 2002 pursuant to the Financial Holding Company Act and other related laws. The Company's shares have been publicly traded on the Taiwan Stock Exchange since February 4, 2002. On August 22, 2002, the Company further acquired Chung Hsing Bills Finance Corporation and Barits Securities Co., Ltd. ("BS") (which later merged with IS on January 31, 2003, with IS being the surviving entity and was later renamed Barits International Securities Co., Ltd. ("BIS") as one of the subsidiaries of the Company through a second share swap. On December 31, 2002, the Company also acquired 100% equity stock in both International Commercial Bank of China ("ICBC"), an investee of the Company originally accounted for by the equity method with a 28% equity interest, and Chung Kuo Insurance Co., Ltd. ("CKI") through a further share swap and changed its name from CTB Financial Holding Co., Ltd. to Mega Financial Holding Co., Ltd. (the "Company"). During the period from 2003 to 2005, the Company had made investments in Mega Asset Management Co., Ltd. ("MAM"), Mega Investment Trust Co., Ltd. ("MITC"), Mega Life Insurance Agency Co., Ltd. ("MLIAC") and Mega CTB Venture Capital Co., Ltd. ("Mega CTB Venture Capital"). On May 23, 2006, International Investment Trust Co., Ltd. ("IIT") was acquired by the Company and ICBC through cash injection of capital.
- (2) In order to expand the economic scale of its business operations, two of the Company's subsidiaries, CTB and ICBC, entered into a merger agreement, effective from August 21, 2006, which is to be implemented by way of "absorption", with CTB being the dissolving bank and ICBC, later renamed Mega International Commercial Bank Co., Ltd. ("MICB") 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. ("MITC") being the surviving company, effective from September 17, 2007.
- (3) The Company's subsidiary-MICB merged with the subsidiary-MLIAC due to Group reorganization, and the effective date for this merger was set on May 12, 2020.
- (4) The number of employees of the Company and its subsidiaries (collectively referred herein as the "Mega Group") was 9,594 and 9,669 as of December 31, 2021 and 2020, respectively.
- (5) The Company is mainly engaged in investment activities approved by the governing authorities and management of the investee companies.

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

These consolidated financial statements were reported to the Board of Directors and issued on March 15, 2022.

## 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 2021 are as follows:

| New Standards, Interpretations and Amendments   | Effective date by International Accounting Standards Board |
|---|--|
| Amendments to IFRS 4, 'Extension of the temporary exemption from applying IFRS 9'                   | January 1, 2021  |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, 'Interest Rate Benchmark Reform— Phase 2' | January 1, 2021  |
| Amendment to IFRS 16, 'Covid-19-related rent concessions beyond 30 June 2021'                       | April 1, 2021(Note)  |

Note : Earlier application from January 1, 2021 is allowed by the FSC.

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:

Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest rate benchmark reform—Phase 2'

The amendments address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one. Given the pervasive nature of IBOR-based contracts, the amendments provide accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform, end date for Phase 1 relief for non contractually specified risk components in hedging relationships, additional temporary exceptions from applying specific hedge accounting requirements, and additional IFRS 7 disclosures related to IBOR reform, the related information is provided in Note 8(8).



## (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 2022 are as follows:

| New Standards, Interpretations and Amendments                                       | Effective date by International Accounting Standards Board |
|---|--|
| Amendments to IFRS 3, 'Reference to the conceptual framework'                       | January 1, 2022  |
| Amendments to IAS 16, 'Property, plant and equipment: proceeds before intended use' | January 1, 2022  |
| Amendments to IAS 37, 'Onerous contracts—cost of fulfilling a contract'             | January 1, 2022  |
| Annual improvements to IFRS Standards 2018–2020                                     | January 1, 2022  |

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, 2023  |
| Amendments to IFRS 17, 'Insurance contracts'  | January 1, 2023  |
| Amendment to IFRS 17, 'Initial application of IFRS 17 and IFRS 9 – comparative information'                               | January 1, 2023  |
| Amendments to IAS 1, 'Classification of liabilities as current or non-current'  | January 1, 2023  |
| Amendments to IAS 1, 'Disclosure of accounting policies'  | January 1, 2023  |
| Amendments to IAS 8, 'Definition of accounting estimates'   | January 1, 2023  |
| Amendments to IAS 12, 'Deferred tax related to assets and liabilities arising from a single transaction'                  | January 1, 2023  |

Except for the following, the impact of above standards and interpretations on the Mega Group's financial condition and financial performance based on the Mega Group's assessment is yet to be evaluated. The quantitative impact will be disclosed when the assessment is complete:

### A. 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 recognizes 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 recognizes 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.

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

The amendments to IFRS 17 include the deferral of effective date, expected recovery of insurance acquisition cash flows, contractual service margin attributable to investment services, reinsurance contracts held—recovery of losses and other amendments, and they are not intended to change the fundamental principles of the standard.

### C. Amendment to IFRS 17, 'Initial application of IFRS 17 and IFRS 9 – comparative information'

The amendment permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of IFRS 17. The overlay allows all financial assets, including those held in respect of activities not connected to contracts within the scope of IFRS 17, to be classified, on an instrument-by-instrument basis, in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of IFRS 9. The overlay can be applied by entities that have already applied IFRS 9 or will apply it when they apply IFRS 17.

## 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 FSC.

## (2) Basis for preparation

- A. The consolidated financial statements consist of the consolidated balance sheet, consolidated statement of comprehensive income (showing components of profit or loss and components of other comprehensive income.), consolidated statement of changes in equity, consolidated statement of cash flows and the related notes.
- B. Except for financial assets and financial liabilities (including derivative instruments) recognized at fair value, financial assets at fair value through other comprehensive income, defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation, and insurance liabilities and reinsurance reserve assets measured based on the laws and regulations of the insurance industry, and these consolidated financial statements have been prepared under the historical cost convention.
- C. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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, 2021 | December 31, 2020 |         |
| 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  |
| MICB        | Mega International Commercial Bank Public Co., Ltd ("MICBPC") | 100.00            | 100.00            | Note 8  |
| MS          | Mega Futures Co., Ltd ("MF")                                  | 100.00            | 100.00            | Note 9  |
| MS          | Mega International Securities Investment Consulting Co.Ltd.   | 100.00            | 100.00            | Note 10 |

- (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) MICBPC is mainly engaged in accepting deposits, negotiation of import/export bills, collections and exchange of foreign currencies and extension of credits.
- (9) 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.
- (10) Mega International Securities Investment Consulting Co., Ltd. is 100% owned by MS, and is mainly engaged in investment consulting services.



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, 2021 | December 31, 2020 |   |
| MICB                      | Mega Management Consulting Corporation       | 100.00            | 100.00            | Management consulting   |
| MICB                      | Cathay Investment & Warehousing Ltd.         | 100.00            | 100.00            | Real estate investments and leases  |
| MICB                      | Ramlett Finance Holdings INC.                | 100.00            | 100.00            | Real estate investments and leases  |
| 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 receivable                                     |
| Yung Shing Industries Co. | ICBC Asset Management & Consulting Co., Ltd. | 100.00            | 100.00            | Investment consulting, corporate management consulting and venture investment management consulting                                 |

As the individual total assets or operating revenue amounts of the above subsidiaries are immaterial, the accounts of these subsidiaries are not included in the Mega Group's consolidated financial statements although the Mega Group holds more than 50% equity interest in these subsidiaries. The investments of certain subsidiaries are accounted for under the 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 recognized 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 recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Mega Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

#### (4) Foreign currency translations

##### A. Functional and presentation currency

Items included in the financial statements of each of the 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 recognized or in previous financial statements are reported in profit or loss in the period, with one exception. The exception is that exchange differences associated with the gains or losses of the parts of effective hedges of cash flow hedges or hedges of net investments in foreign operations are recognized in other comprehensive income.

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

## C. 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 recognized in other comprehensive income.

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

## (5) Cash and cash equivalents

"Cash and cash equivalents" in the consolidated balance sheet includes cash on hand, due from other banks, short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. In respect of the consolidated statements of cash flows, cash include cash and cash equivalents shown in the consolidated balance sheet, investments in 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 recognized as incurred at the date of sale and purchase and the agreed period of sale and purchase. The repo trade liabilities, bond liabilities, reverse repo trade bills and bond investments are recognized at the date of sale or purchase.

## (7) Financial assets or liabilities

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

### A. Financial assets

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 amortized 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 recognizes 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 amortized 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 derecognized, entirely or partially, in accordance with IFRS 9, the old financial asset is derecognized, and a new financial asset and related gains or losses are recognized.

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 derecognized, 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 recognized in profit or loss.

Interest arising from loans discounted is recognized 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 amortized 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 recognized 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 amortized cost or fair value through other comprehensive income. Financial assets at amortized 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 recognized in profit or loss. Mega Group subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.

Dividends are recognized 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 amortized cost

a. Financial assets at amortized 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 measures 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 recognized in derecognition designated as gain (loss) on financial assets at amortized cost when the asset is derecognized 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 recognize 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 recognized 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 recognized as realized 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 recognized in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized 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 recognized 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 categorized 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:

- i. Hybrid (combined) contracts; or
- ii. They eliminate or significantly reduce a measurement or recognition inconsistency; or
- iii. 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 recognized in profit or loss. Mega Group subsequently measures these financial liabilities at fair value with any gain or loss recognized 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 recognized in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognizing in profit or loss for loan commitments or financial guarantee contracts.

(B) Financial liabilities measured at amortized cost

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

C. 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 derecognizes a financial asset when one of the following conditions is met:

- (A) The contractual rights to receive cash flows from the financial asset expire;
- (B) The contractual rights to receive cash flows from the financial asset have been transferred and the 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 derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

In case of securities lending or borrowing by the Mega Group or provision of bonds or stocks as security for Repo trading, the Mega Group does not derecognize 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 recognized amounts and (B) there is an intention to settle on a net basis or realize 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 amortized cost, loan commitments and financial guarantee contracts, at each reporting date, the Mega Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes 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 recognizes 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 recognized 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 recognized 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 amortized 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 recognized 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 recognized at cost.
- B. The Mega Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the 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 recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. Unrealized gains on transactions between the Mega Group and its associates are eliminated to the extent of the Mega Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Mega Group.
- D. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Mega Group's ownership percentage of the associate, the Mega Group recognizes 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 recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

## (14) Property and equipment

- A. The property and equipment of the Mega Group are recognized on the basis of the historical cost less accumulated depreciation.
- B. 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 recognized as an asset or included in the carrying amount of the asset. The carrying amount of the replaced part is derecognized.

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

D. 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 property

A. 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.

B. 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.

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

D. 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

A. Leases are recognized as a right-of-use assets 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 recognized 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 amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognized as an adjustment to the right-of-use assets 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 assets 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 assets 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 recognized as an adjustment to the right-of-use assets.

D. For lease modifications that decrease the scope of the lease, the lessee shall decrease the carrying amount of the right-of-use assets to reflect the partial or full termination of the lease, and recognize the difference between remeasured lease liability in profit or loss.

## (17) Intangible assets

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

## (18) 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.

## (19) 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 recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

## (20) Provisions, contingent liabilities and contingent assets

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

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

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

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

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

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

B. Contingent liability is a possible obligation that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the 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 recognize any contingent liabilities but made appropriate disclosure in compliance with relevant regulations.

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

D. Valuation basis for various insurance liabilities

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



Except for the provision of reserves for one-year group life accident insurance which is the higher of actual insurance premium or insurance premium calculated based on the Jin-Guan-Pao-Tsai Letter No. 11004925801, other insurance liabilities are provided based on the following bases:

(A) Unearned premium reserve

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

(B) Claims reserve

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

(C) Special reserve

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

(D) Deficiency reserve

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

(E) Liability reserve

The minimum liability reserve for health insurance policies with over 1-year coverage term is assessed and modified annually. Reserve for specialized health insurance is recognized 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 recognized in profit or loss, through comparison between the net carrying amounts of insurance liabilities less deferred acquisition cost and related intangible assets and the present value of estimated future cash flows of insurance contracts.

(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.

**(21) 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 recognizes 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 recognized in deferred accounts and amortized through straight-line method during the contract term.

Provisions are recognized 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 recognized amount less the cumulative gains that were recognized 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 recognized at the higher of the amounts assessed in compliance with the aforementioned domestic regulations and IFRS 9.

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 recognized together with the loss allowance for financial asset. A provision is recognized 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 recognized in ‘bad debts expense, commitment and guarantee liability provision’.

## (22) Employee benefits

### A. Short-term employee benefits

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

### B. Employee preferential savings

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

According to Regulations Governing the Preparation of Financial Statements by Public Banks, the preferential monthly interest paid to current employees is calculated based on accrual basis, and the difference between the preferential interest rate and the market interest rate is recognized under “employee benefit expense”. According to Article 30 of Regulations Governing the Preparation of Financial Statements by Public Banks, the excess interest arising from the interest rate upon retirement agreed with the employees in excess of general market interest rate should be recognized in accordance with IAS 19, Defined Benefit Plan, as endorsed by the FSC. However, various parameters should be in compliance with the competent authority if indicated otherwise.

### 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 recognize liabilities when providing termination benefit to employees who voluntarily resign as a result of encouragement. Termination benefit paid 12 months after the financial reporting date should be discounted.

### D. Post-employment benefit

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

#### (B) Defined benefit plans

- 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 recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using market yields at the balance sheet date on high-quality corporate bonds with a currency and term consistent with the currency and term of the related pension liability; when there is no deep market in high-quality corporate bonds, the 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 recognized in other comprehensive income in the period in which they arise.

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

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

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

**(23) Employee share-based payment**

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

**(24) 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.

**(25) Revenue and expense**

Income and expense of the Mega Group are recognized as incurred. Expense consists of employee benefit expense, depreciation and amortization expense and other business and administration expenses. Dividend revenues are recognized within 'Financial assets or financial liabilities at fair value through profit or loss' and 'Realized (loss) gain on financial assets at fair value through other comprehensive income' in the consolidated statement of comprehensive income when the right to receive dividends is assured.

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

B. Service fee income and expense are recognized upon the completion of services of loans or other services; service fee earned from performing significant items shall be recognized upon the completion of the service, such as syndication loan service fee received from sponsor, service fee income and expense of subsequent services of loans are amortized or included in the calculation of effective interest rate of loans and receivables during the service period.

C. Income and expense of insurance business

The premiums income derived from underwriting business is recognized in the period when the respective policies are issued. The associated expenses such as commissions, agency cost and service charges are recognized accordingly. Claims of direct coverage are recognized based on claims (including claim expenses) applied and paid during the period. Please refer to Note 4 (20) for related details of provision for liabilities.

**(26) Reinsurance contracts**

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

B. With the classification of reinsurance contract, the 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 recognized if the receivables do not exceed reinsurance reserve asset at book value. Recognition should be appropriately made according to the amount for amortizable claim, payment of reinsurance, reinsurance transaction receivables and non-collectable outward reinsurance reserve fund.

## (27) Income tax

### A. Current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized 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 realization or the liabilities settlement requires, which is based on the effective or existing tax rate at the consolidated balance sheet date. The carrying amount and temporary differences of assets and liabilities included in the consolidated balance sheet are calculated through liability method and recognized as deferred income tax. The temporary difference of the 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 recognized as deferred income tax.

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

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

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

- C. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when there is a legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- D. Certain transactions of the Mega Group are recognized in other comprehensive income. The tax effects on these kinds of transactions are also recognized in other comprehensive income.

## (28) Share capital and dividends

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

#### (29) 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 (such as impact of the COVID-19) 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 specialized 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 amortized 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, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Cash on hand and petty cash                          | \$ 16,008,741     | \$ 14,095,320     |
| Bank deposits  | 5,737,514         | 3,520,356         |
| Cash equivalents                                     | 1,132,996         | 792,959           |
| Checks for clearance                                 | 375,969           | 547,733           |
| Due from banks                                       | 117,363,100       | 100,471,220       |
| Subtotal   | 140,618,320       | 119,427,588       |
| Less: Allowance for doubtful accounts-due from banks | ( 12)             | ( 10)             |
| Total  | \$ 140,618,308    | \$ 119,427,578    |

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

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

|  | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Reserve for deposits-category A  | \$ 7,975,610      | \$ 18,943,085     |
| Reserve for deposits-category B  | 56,709,890        | 46,395,791        |
| Reserve for deposits-general   | 262               | 266               |
| Reserve for deposits-foreign currency  | 898,188           | 696,177           |
| Deposits of overseas branches with foreign Central Banks   | 207,041,474       | 154,718,126       |
| Interbank settlement fund of Fund Center   | 19,931,695        | 12,012,994        |
| Call loans to banks and bank overdrafts  | 147,931,712       | 142,698,948       |
| Interbank trade financing  | 1,053,937         | -                 |
| Subtotal   | 441,542,768       | 375,465,387       |
| Less: Allowance for bad debt expense-call loans to banks   | ( 12)             | ( 153)            |
| Less: Allowance for bad debt expense-due from the Central Bank   | ( 6)              | ( 6)              |
| Less: Allowance for doubtful accounts-Interbank trade financing-no significant increase in credit risk | ( 555)            | -                 |
| Total  | \$ 441,542,195    | \$ 375,465,228    |

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, 2021 and 2020, 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, were \$267,017,119 and \$192,748,505, 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, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| <u>Financial assets mandatorily measured at fair value through profit or loss</u> |                   |                   |
| Stocks  | \$ 21,363,538     | \$ 18,456,434     |
| Commercial papers   | 106,664,782       | 134,844,117       |
| Beneficiary certificates  | 2,521,612         | 2,288,107         |
| Negotiable certificates of deposit  | 17,300,000        | 17,160,000        |
| Corporate bonds   | 15,340,668        | 18,347,358        |
| Government bonds  | 1,903,643         | 4,668,957         |
| Financial bonds   | 1,707,749         | 5,465,179         |
| Derivative instruments  | 3,969,776         | 5,402,174         |
| Other securities  | 24,895            | 87,674            |
| Convertible corporate bond asset swaps  | 26,651,290        | 16,747,054        |
| Subtotal  | 197,447,953       | 223,467,054       |
| Valuation adjustment  | 5,386,704         | 5,141,019         |
| Total   | \$ 202,834,657    | \$ 228,608,073    |



A. Gain or loss on financial assets mandatorily measured at fair value through profit or loss for the years ended December 31, 2021 and 2020 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, 2021 and 2020.

C. As of December 31, 2021 and 2020, the above financial assets used as underlying assets for repurchase agreements held by the Mega Group were \$91,792,698 and \$122,595,230, respectively.

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

|   | December 31, 2021   | December 31, 2020   |
|---|---------------------|---------------------|
| <b>Financial assets mandatorily measured at fair value through profit or loss</b> |                     |                     |
| Listed stocks   | \$ 445,050          | \$ 105,254          |
| Beneficiary certificates  | 1,939,021           | 1,893,073           |
|   | 2,384,071           | 1,998,327           |
| Valuation adjustment  | 7,151               | ( 35,934)           |
|   | <u>\$ 2,391,222</u> | <u>\$ 1,962,393</u> |

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 years ended December 31, |                     |
|--|----------------------------------|---------------------|
|  | 2021                             | 2020                |
| Profit recognized in accordance with IFRS 9                              | \$ 135,970                       | \$ 83,011           |
| Less: Profit that would have been recognized under IAS 39                | 92,885                           | 120,852             |
| Profit or loss from adopting reclassification under the overlay approach | <u>\$ 43,085</u>                 | <u>( \$ 37,841)</u> |

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

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

|                                 | December 31, 2021     | December 31, 2020     |
|---------------------------------|-----------------------|-----------------------|
| <b>Debt instruments</b>         |                       |                       |
| Government bonds                | \$ 115,748,933        | \$ 117,397,217        |
| Financial bonds                 | 112,906,007           | 119,386,340           |
| Corporate bonds                 | 206,665,856           | 214,097,968           |
| Bank's certificates of deposits | 6,670,307             | 9,914,736             |
| Beneficiary securities          | 54,195,837            | 64,111,460            |
| Subtotal                        | 496,186,940           | 524,907,721           |
| Valuation adjustment            | 1,621,884             | 7,067,446             |
| Debt instruments, net           | <u>497,808,824</u>    | <u>531,975,167</u>    |
| <b>Equity instruments</b>       |                       |                       |
| Stocks                          | 31,013,659            | 17,083,989            |
| Other marketable securities     | 302,258               | 302,258               |
| Subtotal                        | 31,315,917            | 17,386,247            |
| Valuation adjustment            | 14,665,605            | 11,418,399            |
| Equity instruments, net         | <u>45,981,522</u>     | <u>28,804,646</u>     |
| <b>Total</b>                    | <u>\$ 543,790,346</u> | <u>\$ 560,779,813</u> |

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 \$45,981,522 and \$28,804,646 as at December 31, 2021 and 2020, respectively.

B. The subsidiaries-MICB, CKI, MBF and MS sold equity instruments due to the changes in structure of industry and adjustment of investment position of equity instruments. The fair value of the equity investments sold were \$382,777, \$3,711,419, \$191,026 and \$9,783,467, and resulted in cumulative gains (losses) on disposal amounting to (\$21,785), \$67,446, \$7 and (\$23,664), respectively. In

addition, an investee of the subsidiary-MICB, H&D Venture Capital Investment Corporation and Universal Development & Investment Capital I Co., Ltd, were liquidated and the cumulative losses on disposal was \$6,664. Also, the investee, H&QAP GCGF, has ceased to make new investments and subsequently disposed its assets and returned the investments, including cumulative gain on disposal of \$446 for the year ended December 31, 2021.

Due to the dampened market demand as a result of the COVID 19 pandemic and the lower prices of raw materials due to the significant decline in international oil prices, the subsidiaries - MICB, CKI and MBF sold \$1,074,215, \$3,404,252, \$966,953 and \$587,570 of equity instruments at fair value to adjust the investment position and resulted in cumulative losses on disposal amounting to \$454,440, \$50,126, \$185,533 and resulted in cumulative gain on disposal amounting to \$143, respectively. The investee BDF II of the subsidiaries-MICB has processed the liquidation, and the cumulative loss on disposal was \$6,355. In addition, the investee H&QAP GCGF has ceased to make new investments, subsequently disposed assets and returned the investments, including cumulative gain on disposal of \$14,135 during the year ended December 31, 2020.

C. Amounts recognized 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 years ended December 31, |                |
|---|----------------------------------|----------------|
|   | 2021                             | 2020           |
| <u>Equity instruments at fair value through other comprehensive income</u>      |                                  |                |
| Fair value change recognised in other comprehensive income                      | \$ 3,262,980                     | \$ 616,713     |
| Cumulative (gain) loss reclassified to retained earnings due to derecognition   | (\$ 15,874)                      | \$ 685,802     |
| Dividend income recognised in profit or loss                                    |                                  |                |
| Held at end of year   | \$ 1,847,324                     | \$ 1,016,657   |
| Derecognised during the year  | 609,036                          | 48,788         |
|   | \$ 2,456,360                     | \$ 1,065,445   |
| <u>Debt instruments at fair value through other comprehensive income (loss)</u> |                                  |                |
| Fair value change recognised in other comprehensive (loss) income               | (\$ 4,945,316)                   | \$ 6,944,062   |
| Cumulative other comprehensive income reclassified to profit or loss            |                                  |                |
| Reclassified due to (reversal of) impairment recognition                        | (\$ 23,552)                      | \$ 94,520      |
| Reclassified due to derecognition   | ( 516,940)                       | ( 4,503,164)   |
|   | (\$ 540,492)                     | (\$ 4,408,644) |
| Interest income recognised in profit or loss                                    | \$ 5,658,548                     | \$ 7,184,808   |

D. Please refer to Note 12 for details of the aforementioned financial assets provided as collateral as of December 31, 2021 and 2020.

E. As of December 31, 2021 and 2020, financial assets at fair value through other comprehensive income undertaken for repurchase agreements were \$131,024,115 and \$156,111,861, respectively.

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

## (5) Investments in debt instruments at amortised cost

|   | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| Central Bank's certificates of deposits | \$ 442,345,069    | \$ 348,884,420    |
| Bank's certificates of deposits         | 7,151,628         | 7,660,205         |
| Financial bonds                         | 30,714,232        | 31,381,897        |
| Government bonds                        | 6,987,373         | 5,375,137         |
| Corporate bonds                         | 6,223,524         | 4,274,830         |
| Commercial papers                       | 154,776,724       | 136,385,848       |
| Treasury securities                     | -                 | 399,310           |
| Subtotal                                | 648,198,550       | 534,361,647       |
| Less: Accumulated impairment            | ( 66,132)         | ( 34,363)         |
| Total                                   | \$ 648,132,418    | \$ 534,327,284    |



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

|                    | For the years ended December 31, |                     |
|--------------------|----------------------------------|---------------------|
|                    | 2021                             | 2020                |
| Interest income    | \$ 2,287,460                     | \$ 2,250,688        |
| Loss on impairment | ( 32,211)                        | ( 11,263)           |
| Loss on disposal   | -                                | ( 35)               |
|                    | <u>\$ 2,255,249</u>              | <u>\$ 2,239,390</u> |

B. For the year ended December 31, 2020, the Mega Group sold its investments in debt instruments due to the value of treasury bills is easily affected by market fluctuations, resulting to a loss on disposal amounting to \$35.

C. Please refer to Note 12 for details of the aforementioned financial assets provided as collateral as of December 31, 2021 and 2020.

D. Please refer to Note 8(3) for the movement information on accumulated loss for the years ended December 31, 2021 and 2020.

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

(6) Receivables, net

|   | December 31, 2021    | December 31, 2020    |
|---|----------------------|----------------------|
| Accounts receivable   | \$ 16,696,225        | \$ 15,933,257        |
| Factoring receivable  | 18,160,261           | 17,544,174           |
| Notes receivable  | 145,151              | 147,301              |
| Accrued income and interest                                   | 6,482,477            | 6,890,998            |
| Acceptances receivable  | 4,932,522            | 6,392,924            |
| Insurance receivable  | 888,580              | 680,989              |
| Margin loans and securities business money lending receivable | 19,007,241           | 13,695,910           |
| Recovery of accounts receivable                               | 44,097               | 44,097               |
| Purchase of obligor receivable for acting as assignee         | 76,496               | 39,866               |
| Credit card receivables                                       | 9,128,843            | 7,934,806            |
| Receivable accounts for settlement                            | 19,150,087           | 19,592,842           |
| Receivable accounts for settlement consideration              | 2,235,115            | 2,179,207            |
| Other receivables   | 1,180,998            | 475,454              |
| Subtotal  | 98,128,093           | 91,551,825           |
| Less: Allowance for bad debts                                 | ( 1,497,131)         | ( 1,581,050)         |
| Receivables, net  | <u>\$ 96,630,962</u> | <u>\$ 89,970,775</u> |

A. Please refer to Note 8(3) for the movement information on loss allowance for the years ended December 31, 2021 and 2020.

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

(7) Loans discounted, net

|  | December 31, 2021       | December 31, 2020       |
|--|-------------------------|-------------------------|
| Bills and notes discounted             | \$ 35,577               | \$ 47,315               |
| Overdrafts                             | 1,441,971               | 232,794                 |
| Short-term loans                       | 542,484,781             | 503,722,431             |
| Medium-term loans                      | 769,260,109             | 735,803,605             |
| Long-term loans                        | 743,361,713             | 669,809,653             |
| Import/export bills negotiated         | 5,735,487               | 5,504,446               |
| Loans transferred to non-accrual loans | 5,373,071               | 4,003,945               |
| Subtotal                               | 2,067,692,709           | 1,919,124,189           |
| Less: Allowance for bad debts          | ( 30,337,729)           | ( 29,165,967)           |
| Loans, net                             | <u>\$ 2,037,354,980</u> | <u>\$ 1,889,958,222</u> |

A. As of December 31, 2021 and 2020, the amounts reclassified from non-performing loans to overdue loans were \$5,373,071 and \$4,003,945, including interest receivable of \$36,907 and \$18,311, respectively.

- B. Considering certain borrowers had weak financial structures and rising credit risks due to the impact of the pandemic, the subsidiary-MICB sold its credit assets. The related disposal losses amounted to \$39,147 and \$155,882 for the years ended December 31, 2021 and 2020, respectively.
- C. Please refer to Note 8(3) for the movement information on loss allowance for the years ended December 31, 2021 and 2020.
- D. The amounts of recovery of write-off for the years ended December 31, 2021 and 2020 were \$501,604 and \$497,728, respectively.
- E. Information relating to credit risk is provided in Note 8(3).

## (8) Assets classified as held for sale

### A. Subsidiary-MS

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 reclassified under assets classified as held for sale. The transfer of the land located in Yibao, Liugui Dist. was completed on March 6, 2020, and the proceeds from disposal of the land amounted to \$3,551, resulting to a gain on disposal of \$931, net of the related costs, which is recognized in gains on investment property.

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 reclassified under assets classified as held for sale. Proceeds from disposal of certain assets classified as held for sale on April 3, 2019 amounted to \$113,000, resulting to a gain on disposal of \$55,980, net of the related costs, which is recognized in gains on investment property. Remaining assets classified as held for sale were publicly tendered on December 25, 2019, the contract for this public tender was signed on February 21, 2020, and the assets were transferred on March 5, 2020. Proceeds from disposal of remaining assets classified as held for sale amounted to \$608,000, resulting to a gain on disposal of \$333,720, net of the related costs, which is recognized in gains on investment property.

### B. Subsidiary-CKI

- (a) On November 25, 2020, the Board of Directors of subsidiary-CKI resolved to sell self-used property of Taichung Branch, and the relevant assets were transferred to assets classified as held for sale.
- (b) Assets of disposal group classified as held for sale:

|                               | December 31, 2021 | December 31, 2020 |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | \$ 15,813         | \$ 15,813         |

## (9) Reinsurance contract assets-net

### A. Details are as follows:

|  | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Reinsurance claims and payment receivables | \$ 263,728        | \$ 706,095        |
| Reinsurance transaction receivables        | 547,850           | 202,233           |
| Overdue reinsurance                        |                   |                   |
| -Claims and payment receivables            | 462               | 221               |
| -Transaction receivables                   | 22,991            | 25,864            |
| Less: Allowance for bad debts              | ( 11,726)         | ( 13,318)         |
| Subtotal                                   | 823,305           | 921,095           |
| Reinsurance reserve assets                 |                   |                   |
| -Ceded unearned premium reserve            | 2,014,871         | 1,839,206         |
| -Ceded claim reserve                       | 2,116,411         | 2,355,094         |
| -Ceded premium deficiency reserve          | 34,960            | 53,940            |
| -Ceded liability reserve                   | 471               | 700               |
| Subtotal                                   | 4,166,713         | 4,248,940         |
| Total                                      | \$ 4,990,018      | \$ 5,170,035      |

Except for overdue receivables, the property insurance CKI's reinsurance contracts assets that are neither past due nor impaired, and the reinsurance companies 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 years ended December 31, |           |
|--|----------------------------------|-----------|
|  | 2021                             | 2020      |
| Balance at January 1,                    | \$ 13,318                        | \$ 25,917 |
| Reversal of provision                    | ( 1,586)                         | ( 12,562) |
| Foreign currency translation adjustments | ( 6)                             | ( 37)     |
| Balance at December 31,                  | \$ 11,726                        | \$ 13,318 |

(10) Investments accounted for using equity method

| Individually Immaterial Associates                 | December 31, 2021 |                            | December 31, 2020 |                            |
|--|-------------------|----------------------------|-------------------|----------------------------|
|  | Amount            | Percentage of Shareholding | Amount            | Percentage of Shareholding |
| Mega Management Consulting Corporation             | \$ 76,886         | 100.00                     | \$ 64,007         | 100.00                     |
| Cathay Investment & Warehousing Ltd.               | 29,486            | 100.00                     | 34,119            | 100.00                     |
| Ramlett Finance Holdings INC.                      | -                 | 100.00                     | -                 | 100.00                     |
| Yung Shing Industries Co.                          | 696,791           | 99.56                      | 704,125           | 99.56                      |
| China Products Trading Company                     | 27,897            | 68.27                      | 27,916            | 68.27                      |
| Next Commercial Bank Co., LTD.(Note)               | 2,169,868         | 25.10                      | 2,284,743         | 25.10                      |
| An Feng Enterprise Co., Ltd.                       | 12,627            | 25.00                      | 12,034            | 25.00                      |
| Taiwan Bills Finance Corporation                   | 1,790,154         | 24.55                      | 1,776,306         | 24.55                      |
| Everstrong Iron & Steel Foundry & Mfg. Corporation | 48,538            | 22.22                      | 46,333            | 22.22                      |
| Mega Growth Venture Capital Co., Ltd.              | 262,157           | 20.08                      | 264,096           | 20.08                      |
| China Real Estate Management Co., Ltd.             | 188,434           | 20.00                      | 180,215           | 20.00                      |
| Universal Venture Capital Investment Corporation   | 146,323           | 11.84                      | 125,335           | 11.84                      |
| Total  | \$ 5,449,161      |                            | \$ 5,519,229      |                            |

Note: In January 2019, the Board of Directors of the subsidiary-MICB resolved to establish an internet-only bank, NEXT COMMERCIAL BANK Co., LTD. (referred herein as the Next Bank), with Chunghwa Telecom, which has been approved by FSC in July 2019. On January 31, 2020, the registration for establishment was completed and the internet-only bank was reclassified as investment accounted for using the equity method. On December 9, 2021, Next Bank has obtained license under patents from FSC and is expected to be officially operated in March 2022. In addition, the subsidiary-MICB has provided the necessary financial support letter to Next Bank. Information relating to credit risk is provided in Note 13(1)3.

For the years ended December 31, 2021 and 2020, the subsidiary-MICB recognized investment loss amounting to \$114,875 and \$225,257, based on Next bank's unreviewed financial statements and recognized cumulative investment loss amounting to \$340,132 and \$225,257, as of December 31, 2021 and 2020, respectively.

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 summarized below:

|  | For the years ended December 31, |             |
|--|----------------------------------|-------------|
|  | 2021                             | 2020        |
| Profit (loss) for the year                           | \$ 125,017                       | (\$ 19,633) |
| Other comprehensive (loss) income (after income tax) | ( 24,723)                        | 58,197      |
| Total comprehensive income                           | \$ 100,294                       | \$ 38,564   |

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 accounted for using the equity method as of December 31, 2021 and 2020 have not been pledged or provided as collateral.

## (11) Other financial assets, net

|  | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Exchange bills negotiated  | \$ 1,037          | \$ 773            |
| Purchase of obligor receivable   | 638               | 4,517             |
| Non-accrual loans transferred from accounts other than loans                         | 22,867            | 154,016           |
| Pledged time deposits  | 426,050           | 426,050           |
| Customer margin account  | 5,223,844         | 4,078,904         |
| Security lending deposits  | 81,962            | 443,229           |
| Call loan to security brokers  | 82,941            | 78,666            |
| Others   | 274,326           | 67,821            |
| Subtotal   | 6,113,665         | 5,253,976         |
| Less: Allowance for bad debts-exchange bills negotiated                              | ( 10)             | ( 8)              |
| Allowance for bad debts-non-accrual loans transferred from accounts other than loans | ( 18,080)         | ( 119,593)        |
| Total  | \$ 6,095,575      | \$ 5,134,375      |

A. As of December 31, 2021 and 2020, for the aforesaid financial assets pledged as collaterals, please refer to Note 12.

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

## (12) Leasing arrangements-lessee

A. The Mega Group leases various assets including land and land improvements, buildings and auxiliary and equipment. 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, 2021 | December 31, 2020 |
|----------------------------|-------------------|-------------------|
|                            | Carrying amount   | Carrying amount   |
| Land and land improvements | \$ 453,318        | \$ 478,105        |
| Buildings and auxiliary    | 1,279,239         | 1,240,686         |
| Equipment                  | 121,731           | 118,460           |
| Other equipment            | 151               | 590               |
| Total                      | \$ 1,854,439      | \$ 1,837,841      |

|                            | For the years ended December 31, |                      |
|----------------------------|----------------------------------|----------------------|
|                            | 2021                             | 2020                 |
|                            | Depreciation expense             | Depreciation expense |
| Land and land improvements | \$ 26,076                        | \$ 25,902            |
| Buildings and auxiliary    | 477,943                          | 484,680              |
| Equipment                  | 62,655                           | 58,746               |
| Other equipment            | 233                              | 749                  |
| Total                      | \$ 566,907                       | \$ 570,077           |

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

|                                       | For the years ended December 31, |            |
|---------------------------------------|----------------------------------|------------|
|                                       | 2021                             | 2020       |
| <u>Items affecting profit or loss</u> |                                  |            |
| Interest expense on lease liabilities | \$ 26,064                        | \$ 29,162  |
| Expense on short-term lease contracts | 21,284                           | 8,667      |
| Expense on leases of low-value assets | 6,795                            | 7,079      |
| <u>Other disclosures</u>              |                                  |            |
| Addition of right-of-use assets       | \$ 610,425                       | \$ 673,388 |
| Cash outflow for leases               | 615,917                          | 592,945    |

## (13) Leasing arrangements – lessor

A. The Mega Group leases various assets including land and land improvements, buildings and auxiliary and equipment. 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 years ended December 31, 2021 and 2020, the Mega Group recognized rental income in the amounts of \$163,829 and \$170,488, respectively, based on the operating lease agreement, of which variable lease payments all amounted to \$0.

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

|               | December 31, 2021 | December 31, 2020 |
|---------------|-------------------|-------------------|
| Within 1 year | \$ 233,135        | \$ 233,014        |
| 1-2 years     | 165,300           | 120,655           |
| 2-3 years     | 113,963           | 52,705            |
| 3-4 years     | 58,856            | 20,284            |
| 4-5 years     | 50,565            | 5,325             |
| After 5 years | 11,904            | 15,272            |
| Total         | \$ 633,723        | \$ 447,255        |

(14) *Investment property, net*

For the years ended December 31, 2021 and 2020, the movement of the Mega Group's investment property is as follows:

| January 1, 2021                         | Land and land improvements | Buildings and structures | Total               |
|---|----------------------------|--------------------------|---------------------|
| Cost                                    | \$ 842,965                 | \$ 419,825               | \$ 1,262,790        |
| Accumulated depreciation                | -                          | ( 151,272)               | ( 151,272)          |
|   | <u>\$ 842,965</u>          | <u>\$ 268,553</u>        | <u>\$ 1,111,518</u> |
| For the year ended December 31, 2021    |                            |                          |                     |
| Opening net book amount as at January 1 | \$ 842,965                 | \$ 268,553               | \$ 1,111,518        |
| Additions                               | -                          | 3,541                    | 3,541               |
| Disposals                               | ( 6,060)                   | ( 15,674)                | ( 21,734)           |
| Transfers                               | 256,061                    | 259                      | 256,320             |
| Depreciation expense                    | -                          | ( 8,229)                 | ( 8,229)            |
| Foreign exchange differences            | -                          | ( 95)                    | ( 95)               |
| December 31, 2021                       | <u>\$ 1,092,966</u>        | <u>\$ 248,355</u>        | <u>\$ 1,341,321</u> |
| December 31, 2021                       |                            |                          |                     |
| Cost                                    | \$ 1,092,966               | \$ 406,587               | \$ 1,499,553        |
| Accumulated depreciation                | -                          | ( 158,232)               | ( 158,232)          |
|   | <u>\$ 1,092,966</u>        | <u>\$ 248,355</u>        | <u>\$ 1,341,321</u> |

| January 1, 2020                         | Land and land improvements | Buildings and structures | Total               |
|---|----------------------------|--------------------------|---------------------|
| 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> |
| For the year ended December 31, 2020    |                            |                          |                     |
| Opening net book amount as at January 1 | \$ 779,716                 | \$ 245,659               | \$ 1,025,375        |
| Additions                               | 63,249                     | 30,393                   | 93,642              |
| Depreciation expense                    | -                          | ( 7,484)                 | ( 7,484)            |
| Foreign exchange differences            | -                          | ( 15)                    | ( 15)               |
| December 31, 2020                       | <u>\$ 842,965</u>          | <u>\$ 268,553</u>        | <u>\$ 1,111,518</u> |
| December 31, 2020                       |                            |                          |                     |
| Cost                                    | \$ 842,965                 | \$ 419,825               | \$ 1,262,790        |
| Accumulated depreciation                | -                          | ( 151,272)               | ( 151,272)          |
|   | <u>\$ 842,965</u>          | <u>\$ 268,553</u>        | <u>\$ 1,111,518</u> |

A. The fair values of the investment property held by the Mega Group as of December 31, 2021 and 2020 were \$4,836,685 and \$4,249,633, 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, 2021 and 2020, Level 2 within the fair value hierarchy were \$3,759,726 and \$3,165,423, respectively, and Level 3 within the fair value hierarchy were \$1,076,959 and \$1,084,210, respectively.

B. Rental income from the lease of the investment property for the years ended December 31, 2021 and 2020 were \$22,703 and \$22,571, respectively.

C. For the aforesaid investment property pledged as collaterals for the years ended December 31, 2021 and 2020, please refer to Note 12.

## (15) Property and equipment, net

Details of property and equipment are as follows:

| January 1, 2021                      | Land and land improvements | Buildings     | Equipment    | Leasehold improvements | Prepayments for equipment | Total         |
|--------------------------------------|----------------------------|---------------|--------------|------------------------|---------------------------|---------------|
| Cost                                 | \$ 14,917,911              | \$ 13,015,293 | \$ 7,248,906 | \$ 248,755             | \$ 12,026                 | \$ 35,442,891 |
| Accumulated depreciation             | -                          | ( 7,457,459)  | ( 5,646,888) | ( 230,317)             | -                         | ( 13,334,664) |
| Accumulated impairment               | ( 106,101)                 | ( 51,309)     | -            | -                      | -                         | ( 157,410)    |
| Total                                | \$ 14,811,810              | \$ 5,506,525  | \$ 1,602,018 | \$ 18,438              | \$ 12,026                 | \$ 21,950,817 |
| For the year ended December 31, 2021 |                            |               |              |                        |                           |               |
| At January 1,                        | \$ 14,811,810              | \$ 5,506,525  | \$ 1,602,018 | \$ 18,438              | \$ 12,026                 | \$ 21,950,817 |
| Additions                            | -                          | 132,992       | 741,955      | 1,928                  | 59,069                    | 935,944       |
| Disposals                            | -                          | ( 5,632)      | -            | -                      | -                         | ( 5,632)      |
| Transfers                            | ( 256,061)                 | ( 259)        | 38,075       | 1,799                  | ( 47,232)                 | ( 263,678)    |
| Depreciation expense                 | -                          | ( 292,692)    | ( 644,489)   | ( 4,590)               | -                         | ( 941,771)    |
| Reversal (loss) of impairment(Note1) | 14,120                     | ( 1,618)      | -            | -                      | -                         | 12,502        |
| Reclassify                           | -                          | -             | 1,404        | -                      | -                         | 1,404         |
| Foreign exchange differences         | ( 3,090)                   | ( 10,523)     | ( 5,447)     | -                      | -                         | ( 19,060)     |
| December 31, 2021                    | \$ 14,566,779              | \$ 5,328,793  | \$ 1,733,516 | \$ 17,575              | \$ 23,863                 | \$ 21,670,526 |
| December 31, 2021                    |                            |               |              |                        |                           |               |
| Cost                                 | \$ 14,658,760              | \$ 13,045,349 | \$ 7,554,878 | \$ 239,342             | \$ 23,863                 | \$ 35,522,192 |
| Accumulated depreciation             | -                          | ( 7,663,628)  | ( 5,821,362) | ( 221,768)             | -                         | ( 13,706,758) |
| Accumulated impairment               | ( 91,981)                  | ( 52,927)     | -            | -                      | -                         | ( 144,908)    |
| Total                                | \$ 14,566,779              | \$ 5,328,794  | \$ 1,733,516 | \$ 17,574              | \$ 23,863                 | \$ 21,670,526 |

| January 1, 2020                      | Land and land improvements | Buildings     | Equipment    | Leasehold improvements | Prepayments for equipment | Total         |
|--------------------------------------|----------------------------|---------------|--------------|------------------------|---------------------------|---------------|
| 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 |
| For the year ended December 31, 2020 |                            |               |              |                        |                           |               |
| At January 1,                        | \$ 14,779,345              | \$ 5,738,394  | \$ 1,524,069 | \$ 10,549              | \$ 28,537                 | \$ 22,080,894 |
| Additions                            | -                          | 67,623        | 621,044      | 7,396                  | 78,102                    | 774,165       |
| Disposals                            | -                          | -             | ( 1,599)     | -                      | -                         | ( 1,599)      |
| Transfers (Note2)                    | ( 7,632)                   | ( 8,181)      | 71,636       | 4,507                  | ( 94,613)                 | ( 34,283)     |
| Depreciation expense                 | -                          | ( 286,176)    | ( 599,658)   | ( 4,014)               | -                         | ( 889,848)    |
| Reversal (loss) of impairment        | 43,018                     | 652           | -            | -                      | -                         | 43,670        |
| Foreign exchange differences         | ( 2,921)                   | ( 5,787)      | ( 13,474)    | -                      | -                         | ( 22,182)     |
| December 31, 2020                    | \$ 14,811,810              | \$ 5,506,525  | \$ 1,602,018 | \$ 18,438              | \$ 12,026                 | \$ 21,950,817 |
| December 31, 2020                    |                            |               |              |                        |                           |               |
| Cost                                 | \$ 14,917,911              | \$ 13,015,293 | \$ 7,248,906 | \$ 248,755             | \$ 12,026                 | \$ 35,442,891 |
| Accumulated depreciation             | -                          | ( 7,457,459)  | ( 5,646,888) | ( 230,317)             | -                         | ( 13,334,664) |
| Accumulated impairment               | ( 106,101)                 | ( 51,309)     | -            | -                      | -                         | ( 157,410)    |
| Total                                | \$ 14,811,810              | \$ 5,506,525  | \$ 1,602,018 | \$ 18,438              | \$ 12,026                 | \$ 21,950,817 |

Note1: The amounts of impairment (reversal of impairment) of buildings held by the subsidiary-MS were valued according to the result of valuation by an independent valuation expert using comparison method and income approach. The fair value of buildings is considered Level 2 within the fair value hierarchy.

Note2: The subsidiary-CKI, reclassified land and land improvements and buildings to assets classified as held for sale in the amounts of \$7,632 and \$8,181, respectively.

Please refer to Note 12 for details of the property and equipment pledged as collateral as of December 31, 2021 and 2020.



(16) Other assets, net

|  | December 31, 2021   | December 31, 2020   |
|--|---------------------|---------------------|
| Prepayments  | \$ 279,839          | \$ 295,131          |
| Refundable deposits  | 3,893,243           | 6,429,427           |
| Guarantee deposits held for operation and funds for security settlements | 1,099,966           | 1,098,962           |
| Temporary payments   | 1,734,943           | 1,201,717           |
| Others   | 132,445             | 154,988             |
| Total  | <u>\$ 7,140,436</u> | <u>\$ 9,180,225</u> |

As of December 31, 2021 and 2020, for details of the other assets pledged as collaterals, please refer to Note 12.

(17) Deposits from the Central Bank and banks

|                                | December 31, 2021     | December 31, 2020     |
|--------------------------------|-----------------------|-----------------------|
| Call loans from banks          | \$ 154,067,388        | \$ 144,650,842        |
| Deposits from Chunghwa Post    | 25,674                | 39,343                |
| Overdrafts on banks            | 4,475,195             | 2,298,837             |
| Deposits from the banks        | 65,045,356            | 67,236,076            |
| Deposits from the Central Bank | 161,436,382           | 191,071,013           |
| Total                          | <u>\$ 385,049,995</u> | <u>\$ 405,296,111</u> |

(18) Due to the Central Bank and banks

|                                | December 31, 2021    | December 31, 2020    |
|--------------------------------|----------------------|----------------------|
| Due to the Central Bank        | \$ 3,200,153         | \$ 3,586,089         |
| Other dues to the Central Bank | 17,177,070           | 9,754,140            |
| Call loan from other banks     | 26,513,473           | 7,023,750            |
| Total                          | <u>\$ 46,890,696</u> | <u>\$ 20,363,979</u> |

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

|  | December 31, 2021    | December 31, 2020    |
|--|----------------------|----------------------|
| <u>Financial liabilities held for trading</u>                                |                      |                      |
| Derivative instruments   | \$ 2,361,751         | \$ 3,472,527         |
| Liabilities on sale of borrowed securities                                   | 104,133              | 113,604              |
| Issuance of call (put) warrants  | 136,161              | 293,599              |
| Bonds purchased under resell agreements                                      | 97,660               | -                    |
| Others   | 36,649               | 930                  |
| Subtotal   | <u>2,736,354</u>     | <u>3,880,660</u>     |
| <u>Financial liabilities designated at fair value through profit or loss</u> |                      |                      |
| Financial bonds  | 15,973,324           | 15,570,980           |
| Valuation adjustment   | 634,414              | 1,483,293            |
| Subtotal   | <u>16,607,738</u>    | <u>17,054,273</u>    |
| Total  | <u>\$ 19,344,092</u> | <u>\$ 20,934,933</u> |

A. For information regarding the Mega Group's recognized profit or loss of financial assets and liabilities held for trading and measured at fair value through profit or loss for the years ended December 31, 2021 and 2020, 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, please refer to the explanations in Note 6(24).



# Financial Information

## (20) Securities sold under repurchase agreements

|                  | December 31, 2021     | December 31, 2020     |
|------------------|-----------------------|-----------------------|
| Short-term bills | \$ 86,116,172         | \$ 106,489,378        |
| Bonds            | 138,940,590           | 162,865,741           |
| Total            | <u>\$ 225,056,762</u> | <u>\$ 269,355,119</u> |

## (21) Commercial papers issued, net

|                            | December 31, 2021    | December 31, 2020    |
|----------------------------|----------------------|----------------------|
| Domestic commercial papers | \$ 32,929,0000       | \$ 22,400,000        |
| Less: Unamortized discount | ( 11,152)            | ( 7,875)             |
| Net                        | <u>\$ 32,917,848</u> | <u>\$ 22,392,125</u> |
| Interest rate ranges (%)   | <u>0.30%~0.52%</u>   | <u>0.21%~0.55%</u>   |

## (22) Payables

|   | December 31, 2021    | December 31, 2020    |
|---|----------------------|----------------------|
| Notes and accounts payable                | \$ 9,518,170         | \$ 15,713,810        |
| Settlement amounts payable                | 21,284,533           | 21,541,977           |
| Accrued expenses                          | 6,494,016            | 6,406,179            |
| Interest payable                          | 1,787,458            | 2,122,100            |
| Dividends payable                         | 30,964,025           | 29,285,143           |
| Acceptances                               | 4,975,421            | 6,504,180            |
| Collections for others                    | 2,455,091            | 1,057,690            |
| Due from other insurers                   | 1,284,465            | 1,205,288            |
| Securities financing refundable deposits  | 1,705,830            | 1,591,292            |
| Deposits payable for securities financing | 2,014,282            | 1,778,177            |
| Other payables                            | 2,480,567            | 2,296,738            |
| Total                                     | <u>\$ 84,963,858</u> | <u>\$ 89,502,574</u> |

## (23) Deposits and remittances

|                                     | December 31, 2021       | December 31, 2020       |
|-------------------------------------|-------------------------|-------------------------|
| Checking account deposits           | \$ 27,659,136           | \$ 25,419,849           |
| Demand deposits                     | 909,419,146             | 787,059,901             |
| Time deposits                       | 1,129,407,699           | 984,110,687             |
| Demand savings deposits             | 586,768,790             | 520,156,920             |
| Time savings deposits               | 296,391,347             | 286,782,369             |
| Negotiable certificates of deposits | 1,002,000               | 1,401,700               |
| Remittances                         | 9,141,586               | 8,958,765               |
| Total                               | <u>\$ 2,959,789,704</u> | <u>\$ 2,613,890,191</u> |

## (24) Bonds payable

|                         | December 31, 2021   | December 31, 2020    |
|-------------------------|---------------------|----------------------|
| Financial bonds, net    | \$ -                | \$ 12,000,000        |
| General bank debentures | 1,000,000           | 1,000,000            |
| Corporate bonds         | 5,000,000           | 5,000,000            |
| Total                   | <u>\$ 6,000,000</u> | <u>\$ 18,000,000</u> |



Financial bonds issued by the Company were as follows:

| Name of bond (Note 1)             | Issuing period        | Interest rate | Total issued amount | December 31, 2021   | December 31, 2020   |
|-----------------------------------|-----------------------|---------------|---------------------|---------------------|---------------------|
| 109-1 unsecured corporate bonds A | 2020.05.27-2027.05.27 | 0.66%         | \$ 3,200,000        | \$ 3,200,000        | \$ 3,200,000        |
| 109-1 unsecured corporate bonds B | 2020.05.27-2030.05.27 | 0.71%         | 1,800,000           | 1,800,000           | 1,800,000           |
| Total                             |                       |               |                     | <u>\$ 5,000,000</u> | <u>\$ 5,000,000</u> |

(Note 1) The interest was paid yearly, the principal was repaid at maturity.

Financial bonds issued by MICB were as follows:

| Name of bond (Note 2)                     | Issuing period        | Interest rate | Total issued amount | December 31, 2021   | December 31, 2020    |
|---|-----------------------|---------------|---------------------|---------------------|----------------------|
| 103-1 Development financial bond (Note 3) | 2014.03.28-2021.03.28 | 1.70%         | \$ 4,900,000        | \$ -                | \$ 4,900,000         |
| 103-2 Development financial bond (Note 3) | 2014.06.24-2021.06.24 | 1.65%         | 7,100,000           | -                   | 7,100,000            |
| 109-1 Development financial bond (Note 4) | 2020.03.11-2023.03.11 | 0.60%         | 1,000,000           | 1,000,000           | 1,000,000            |
| Total                                     |                       |               |                     | <u>\$ 1,000,000</u> | <u>\$ 13,000,000</u> |

(Note 2) The interest was paid yearly, the principal was repaid at maturity.

(Note 3) It was a subordinated bank debenture.

(Note 4) It was a general bank debenture.

Unit: In thousands of US Dollars

| Name of bond (Note 5)            | Issuing period        | Interest rate | Total issued amount | December 31, 2021 | December 31, 2020 |
|----------------------------------|-----------------------|---------------|---------------------|-------------------|-------------------|
| 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           |
| Total                            |                       |               |                     | <u>\$ 494,000</u> | <u>\$ 494,000</u> |

(Note 5) The principal was repaid at maturity.

As of December 31, 2021 and 2020, the unpaid balance of financial bonds issued by the subsidiary, both amounted to US\$494,000; and NT\$1,000,000 and NT\$13,000,000, respectively. The financial bonds are senior bonds of US\$494,000. The interest rate swaps which are used to hedge the interest rate risk are measured at fair value, and changes in fair value are recognized in profit or loss. In order to eliminate the inconsistency in accounting, the above financial bonds are also designated as financial liabilities at fair value through profit or loss.

#### (25) Other borrowings

|                          | December 31, 2021   | December 31, 2020  |
|--------------------------|---------------------|--------------------|
| Credit borrowings        | <u>\$ 1,260,000</u> | <u>\$ 338,028</u>  |
| Interest rate ranges (%) | <u>0.58%~1.05%</u>  | <u>0.60%~0.75%</u> |

#### (26) Provisions

|   | December 31, 2021    | December 31, 2020    |
|---|----------------------|----------------------|
| Insurance liabilities                     | \$ 10,100,190        | \$ 9,969,250         |
| Liabilities reserve for employee benefits | 14,683,613           | 14,858,348           |
| Reserve for guarantee liabilities         | 4,990,572            | 5,009,386            |
| Provisions for loan commitments           | 157,912              | 219,469              |
| Other provisions                          | 9,317                | 2,953                |
| Total                                     | <u>\$ 29,941,604</u> | <u>\$ 30,059,406</u> |

A. Details of reserves for insurance liabilities as of December 31, 2021 and 2020 are as follows:

|                                 | December 31, 2021    | December 31, 2020   |
|---------------------------------|----------------------|---------------------|
| Reserve for unearned premiums   | \$ 4,569,091         | \$ 4,244,779        |
| Reserve for outstanding losses  | 4,187,578            | 4,377,670           |
| Reserve for catastrophic losses | 1,304,078            | 1,289,986           |
| Deficiency reserve              | 38,820               | 55,900              |
| Liability reserve               | 623                  | 915                 |
| Total                           | <u>\$ 10,100,190</u> | <u>\$ 9,969,250</u> |



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

|                        | For the year ended December 31, 2021 |                     |                     |
|------------------------|--------------------------------------|---------------------|---------------------|
|                        | Total                                | Ceded               | Net                 |
| Balance at January 1   | \$ 4,244,779                         | \$ 1,839,206        | \$ 2,405,573        |
| Provision              | 4,569,091                            | 2,014,871           | 2,554,220           |
| Recovery               | ( 4,244,779)                         | ( 1,839,206)        | ( 2,405,573)        |
| Balance at December 31 | <u>\$ 4,569,091</u>                  | <u>\$ 2,014,871</u> | <u>\$ 2,554,220</u> |

|                        | For the year ended December 31, 2020 |                     |                     |
|------------------------|--------------------------------------|---------------------|---------------------|
|                        | Total                                | Ceded               | Net                 |
| Balance at January 1   | \$ 4,006,908                         | \$ 1,587,492        | \$ 2,419,416        |
| Provision              | 4,244,779                            | 1,839,206           | 2,405,573           |
| Recovery               | ( 4,006,908)                         | ( 1,587,492)        | ( 2,419,416)        |
| Balance at December 31 | <u>\$ 4,244,779</u>                  | <u>\$ 1,839,206</u> | <u>\$ 2,405,573</u> |

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

a. Details of claims reserve:

|                                  | December 31, 2021   | December 31, 2020   |
|----------------------------------|---------------------|---------------------|
| Claims reported but not paid     | \$ 3,047,459        | \$ 3,330,037        |
| Claims incurred but not reported | 1,140,119           | 1,047,633           |
|                                  | <u>\$ 4,187,578</u> | <u>\$ 4,377,670</u> |

b. Detail of ceded claim reserve:

|                                  | December 31, 2021   | December 31, 2020   |
|----------------------------------|---------------------|---------------------|
| Claims reported but not paid     | \$ 1,706,478        | \$ 1,955,264        |
| Claims incurred but not reported | 409,933             | 399,830             |
|                                  | <u>\$ 2,116,411</u> | <u>\$ 2,355,094</u> |

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

|                        | For the year ended December 31, 2021 |                     |                     |
|------------------------|--------------------------------------|---------------------|---------------------|
|                        | Total                                | Ceded               | Net                 |
| Balance at January 1   | \$ 4,377,670                         | \$ 2,355,094        | \$ 2,022,576        |
| Provision              | 4,187,578                            | 2,116,411           | 2,071,167           |
| Recovery               | ( 4,377,670)                         | ( 2,355,094)        | ( 2,022,576)        |
| Balance at December 31 | <u>\$ 4,187,578</u>                  | <u>\$ 2,116,411</u> | <u>\$ 2,071,167</u> |

|                        | For the year ended December 31, 2020 |                     |                     |
|------------------------|--------------------------------------|---------------------|---------------------|
|                        | Total                                | Ceded               | Net                 |
| Balance at January 1   | \$ 3,481,888                         | \$ 1,692,166        | \$ 1,789,722        |
| Provision              | 4,377,670                            | 2,355,094           | 2,022,576           |
| Recovery               | ( 3,481,888)                         | ( 1,692,166)        | ( 1,789,722)        |
| Balance at December 31 | <u>\$ 4,377,670</u>                  | <u>\$ 2,355,094</u> | <u>\$ 2,022,576</u> |

(C) Changes in special reserve are as follows:

|                        | For the year ended December 31, 2021 |                     |                     |
|------------------------|--------------------------------------|---------------------|---------------------|
|                        | Compulsory insurance                 | Others              | Total               |
| Balance at January 1   | \$ 215,985                           | \$ 1,074,001        | \$ 1,289,986        |
| Net change             | 14,092                               | -                   | 14,092              |
| Balance at December 31 | <u>\$ 230,077</u>                    | <u>\$ 1,074,001</u> | <u>\$ 1,304,078</u> |



| For the year ended December 31, 2020 |                      |              |              |
|--------------------------------------|----------------------|--------------|--------------|
|                                      | Compulsory insurance | Others       | Total        |
| Balance at January 1                 | \$ 222,483           | \$ 1,074,001 | \$ 1,296,484 |
| Net change                           | ( 6,498)             | -            | ( 6,498)     |
| Balance at December 31               | \$ 215,985           | \$ 1,074,001 | \$ 1,289,986 |

- 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. In accordance with Article 2 of the Compulsory Automobile Liability Insurance Act, Article 145 paragraph 2 of Insurance Act and Article 24-2 paragraph 1 of Insurance Industry Deposit Reserve Regulation authorized by Article 148-3 paragraph 2 of Insurance Act, commencing from April 1, 2021, CKI shall set aside NT\$30 for each insurance contract as the reserve fund from the expenses of the insurer on a monthly basis. Subsequent to the property insurance industry assuming the business, if there is a loss in the annual pure premium, it should be covered by the various reserves for this Insurance in priority. If annual pure premium still not enough, then conduct with Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.
- c. 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, 2021 |            |                    |                 |              |
|--------------------------------------|------------|--------------------|-----------------|--------------|
|                                      | Net income | Earnings per share | Total liability | Equity       |
| Applicable amount                    | \$ 505,111 | \$ 1.68            | \$ 1,304,078    | \$ 7,858,028 |
| Non-applicable amount                | 505,111    | 1.68               | 230,077         | 8,717,229    |
| Affected amount                      | \$ -       | \$ -               | \$ 1,074,001    | (\$ 859,201) |

| For the year ended December 31, 2020 |            |                    |                 |              |
|--------------------------------------|------------|--------------------|-----------------|--------------|
|                                      | Net income | Earnings per share | Total liability | Equity       |
| Applicable amount                    | \$ 301,831 | \$ 1.01            | \$ 1,289,986    | \$ 7,243,400 |
| Non-applicable amount                | 301,831    | 1.01               | 215,958         | 8,102,601    |
| Affected amount                      | \$ -       | \$ -               | \$ 1,074,028    | (\$ 859,201) |

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

| For the year ended December 31, 2021 |           |           |           |
|--------------------------------------|-----------|-----------|-----------|
|                                      | Total     | Ceded     | Net       |
| Balance at January 1                 | \$ 55,900 | \$ 53,940 | \$ 1,960  |
| Provision                            | 38,820    | 34,960    | 3,860     |
| Recovery                             | ( 55,900) | ( 53,940) | ( 1,960 ) |
| Balance at December 31               | \$ 38,820 | \$ 34,960 | \$ 3,860  |

| For the year ended December 31, 2020 |           |           |           |
|--------------------------------------|-----------|-----------|-----------|
|                                      | Total     | Ceded     | Net       |
| Balance at January 1                 | \$ 25,810 | \$ 24,720 | \$ 1,090  |
| Provision                            | 55,900    | 53,940    | 1,960     |
| Recovery                             | ( 25,810) | ( 24,720) | ( 1,090 ) |
| Balance at December 31               | \$ 55,900 | \$ 53,940 | \$ 1,960  |

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

|                        | For the year ended December 31, 2021 |               |               |
|------------------------|--------------------------------------|---------------|---------------|
|                        | Total                                | Ceded         | Net           |
| Balance at January 1   | \$ 915                               | \$ 700        | \$ 215        |
| Provision              | 623                                  | 471           | 152           |
| Recovery               | ( 915)                               | ( 700)        | ( 215)        |
| Balance at December 31 | <u>\$ 623</u>                        | <u>\$ 471</u> | <u>\$ 152</u> |

|                        | For the year ended December 31, 2020 |               |               |
|------------------------|--------------------------------------|---------------|---------------|
|                        | Total                                | Ceded         | Net           |
| Balance at January 1   | \$ 1,181                             | \$ 900        | \$ 281        |
| Provision              | 915                                  | 700           | 215           |
| Recovery               | ( 1,181)                             | ( 900)        | ( 281)        |
| Balance at December 31 | <u>\$ 915</u>                        | <u>\$ 700</u> | <u>\$ 215</u> |

B. Liabilities reserve for employee benefits are as follows:

|   | December 31, 2021    | December 31, 2020    |
|---|----------------------|----------------------|
| Recognized in consolidated balance sheet: |                      |                      |
| - Defined benefit plans                   | \$ 8,695,128         | \$ 9,671,293         |
| - Employee preferential savings plans     | 5,988,485            | 5,187,055            |
| Total                                     | <u>\$ 14,683,613</u> | <u>\$ 14,858,348</u> |

(A) Defined benefit plans

- a. The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount of 2% to 11.896% 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, 2021 and 2020 were \$524,303 and \$601,272, respectively.

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

|  | December 31, 2021   | December 31, 2020   |
|--|---------------------|---------------------|
| Present value of defined benefit obligations | \$ 18,074,136       | \$ 19,462,962       |
| Fair value of plan assets                    | ( 9,392,331)        | ( 9,804,293)        |
| Net defined benefit liability                | <u>\$ 8,681,805</u> | <u>\$ 9,658,669</u> |

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, 2021 |   |                           |                               |
| Balance at January 1                 | \$ 19,462,962                               | ( \$ 9,804,293)           | \$ 9,658,669                  |
| Current service cost                 | 495,827                                     | -                         | 495,827                       |
| Interest expense (income)            | 57,524                                      | ( 29,164)                 | 28,360                        |
| Past service cost                    | -   | ( 34)                     | ( 34)                         |
|                                      | <u>20,016,313</u>                           | <u>( 9,833,491)</u>       | <u>10,182,822</u>             |
| Remeasurements:                      |   |                           |                               |

|  | Present value of<br>defined benefit obligation | Fair value of plan assets | Net defined benefit liability |
|--|--|---------------------------|-------------------------------|
| Return on plan assets (excluding amounts included in interest income or expense) | \$ -   | ( \$ 142,469)             | ( \$ 142,469)                 |
| Change in demographic assumptions  | 84,191   | -                         | 84,191                        |
| Change in financial assumptions  | ( 532,803)                                     | -                         | ( 532,803)                    |
| Experience adjustments   | ( 155,939)                                     | ( 2,475)                  | ( 158,414)                    |
|  | ( 604,551)                                     | ( 144,944)                | ( 749,495)                    |
| Pension fund contribution  | -  | ( 728,571)                | ( 728,571)                    |
| Paid pension   | ( 1,335,531)                                   | 1,314,675                 | ( 20,856)                     |
| Exchange difference  | ( 2,095)                                       | -                         | ( 2,095)                      |
| Balance at December 31   | \$ 18,074,136                                  | ( \$ 9,392,331)           | \$ 8,681,805                  |

|  | Present value of<br>defined benefit obligation | Fair value of plan assets | Net defined benefit liability |
|--|--|---------------------------|-------------------------------|
| For the year ended December 31, 2020   |  |                           |                               |
| Balance at January 1   | \$ 19,203,212                                  | ( \$ 9,853,400)           | \$ 9,349,812                  |
| Current service cost   | 538,149  | -                         | 538,149                       |
| Interest expense (income)  | 131,343  | ( 68,185)                 | 63,158                        |
| Past service cost  | -  | ( 65)                     | ( 65)                         |
|  | 19,872,704                                     | ( 9,921,650)              | 9,951,054                     |
| Remeasurements:  |  |                           |                               |
| Return on plan assets (excluding amounts included in interest income or expense) | \$ -   | ( \$ 330,553)             | ( \$ 330,553)                 |
| Change in demographic assumptions  | 77   | -                         | 77                            |
| Change in financial assumptions  | 964,774  | -                         | 964,774                       |
| Experience adjustments   | 11,981   | ( 4,953)                  | 7,028                         |
|  | 976,832  | ( 335,506)                | 641,326                       |
| Pension fund contribution  | -  | ( 900,947)                | ( 900,947)                    |
| Paid pension   | ( 1,386,574)                                   | 1,353,810                 | ( 32,764)                     |
| Balance at December 31   | \$ 19,462,962                                  | ( \$ 9,804,293)           | \$ 9,658,669                  |

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, 2021 and 2020 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, |             |
|-------------------------|----------------------------------|-------------|
|                         | 2021                             | 2020        |
| Discount rate           | 0.45%~0.70%                      | 0.25%~0.67% |
| Future salary increases | 1.25%~3.32%                      | 1.25%~3.52% |

For the years ended December 31, 2021 and 2020, assumptions regarding future mortality rates are set based on the 6th and 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, 2021                                     |                |                |                         |                |
| Effect on present value of defined benefit obligation | (\$ 400,538)   | \$ 414,545     | \$ 400,259              | (\$ 388,985)   |
| December 31, 2020                                     |                |                |                         |                |
| Effect on present value of defined benefit obligation | (\$ 449,436)   | \$ 465,776     | \$ 448,346              | (\$ 435,195)   |

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 \$525,784 for defined benefit plan in 2022.

(B) Subsidiary-MICB's payment obligations of fixed-amount preferential savings for retired employees 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, |                     |
|---|----------------------------------|---------------------|
|   | 2021                             | 2020                |
| Present value of defined benefit obligations                  | \$ 5,988,485                     | \$ 5,187,055        |
| Less: employee preferential savings fair value of plan assets | -                                | -                   |
|   | <u>\$ 5,988,485</u>              | <u>\$ 5,187,055</u> |

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, 2021 |   |                           |                               |
| Balance at January 1                 | \$ 5,187,055                                | \$ -                      | \$ 5,187,055                  |
| Interest expense                     | 197,736                                     | -                         | 197,736                       |
|                                      | <u>5,384,791</u>                            | <u>-</u>                  | <u>5,384,791</u>              |
| Remeasurements:                      |   |                           |                               |
| Change in demographic assumptions    | 1,020,376                                   | -                         | 1,020,376                     |
| Experience adjustments               | 613,438                                     | -                         | 613,438                       |
|                                      | <u>1,633,814</u>                            | <u>-</u>                  | <u>1,633,814</u>              |
| Pension fund contribution            | -   | ( 1,030,120)              | ( 1,030,120)                  |
| Paid pension                         | ( 1,030,120)                                | 1,030,120                 | -                             |
| Balance at December 31               | <u>\$ 5,988,485</u>                         | <u>\$ -</u>               | <u>\$ 5,988,485</u>           |

|                                      | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liability |
|--------------------------------------|---|---------------------------|-------------------------------|
| For the year ended December 31, 2020 |   |                           |                               |
| Balance at January 1                 | \$ 4,731,579                                | \$ -                      | \$ 4,731,579                  |
| Interest expense                     | 180,439                                     | -                         | 180,439                       |
|                                      | <u>4,912,018</u>                            | <u>-</u>                  | <u>4,912,018</u>              |
| Remeasurements:                      |   |                           |                               |
| Change in demographic assumptions    | 646,947                                     | -                         | 646,947                       |
| Experience adjustments               | 593,480                                     | -                         | 593,480                       |
|                                      | <u>1,240,427</u>                            | <u>-</u>                  | <u>1,240,427</u>              |
| Pension fund contribution            | -   | ( 965,390)                | ( 965,390)                    |
| Paid pension                         | ( 965,390)                                  | 965,390                   | -                             |
| Balance at December 31               | <u>\$ 5,187,055</u>                         | <u>\$ -</u>               | <u>\$ 5,187,055</u>           |





c. Actuarial assumptions are as follows:

|  | 2021   | 2020   |
|--|--------|--------|
| 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, 2021                                     |                |                |                   |                |
| Effect on present value of defined benefit obligation | (\$ 128,062)   | \$ 133,145     | (\$ 27,933)       | \$ 27,933      |
| December 31, 2020                                     |                |                |                   |                |
| Effect on present value of defined benefit obligation | (\$ 103,333)   | \$ 107,183     | (\$ 24,206)       | \$ 24,206      |

Subsidiary-MICB recognized employee benefit expenses of \$2,122,538 and \$1,692,849 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 were \$297,277 and \$276,418, respectively.

Pursuant to relevant government regulations in the country where the entity operates, local staff of the Mega Group’s overseas subsidiaries, recognized pension expenses of \$23,234 and \$28,656 applying defined contribution plans for the years ended December 31, 2021 and 2020, respectively.

(D) Please refer to Note 8 (3) for the information on the changes in the financing commitment preparation and guarantee liability preparation for the years ended December 31, 2021 and 2020.

(E) Please refer to Note 8 for the relevant credit risk information of guarantee liability preparation and financing commitment preparation.

(27) Other financial liabilities

|                         | December 31, 2021 | December 31, 2020 |
|-------------------------|-------------------|-------------------|
| Structured instruments  | \$ 6,877,221      | \$ 8,637,515      |
| Appropriated loan fund  | 372,333           | 476,479           |
| Futures traders’ equity | 5,203,810         | 4,046,608         |
| Total                   | \$ 12,453,364     | \$ 13,160,602     |

(28) Other liabilities

|  | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Deposits received  | \$ 6,814,715      | \$ 5,246,385      |
| Advance receipt  | 1,518,886         | 1,383,269         |
| Receipts under custody from customers’ security subscription | 7,862,897         | 1,099,660         |
| Other liabilities to be settled                              | 397,330           | 403,013           |
| Temporary receipts and suspense accounts                     | 1,497,949         | 1,497,619         |
| Others   | 1,268,640         | 605,476           |
| Total  | \$ 19,360,417     | \$ 10,235,422     |

(29) Equity

A. Common stock

As of December 31, 2021, the Company’s authorized capital was \$220 billion. The Company’s issued capital was \$135,998,240, and consisting of 13,599,824 thousand shares, 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, 2021    | December 31, 2020    |
|--|----------------------|----------------------|
| 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 payments (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, 2021, the capital surplus 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 capitalized or released.

### (B) Special reserve

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

In accordance with Financial-Supervisory-Securities-Corporate No.1090150022 of the FSC dated on March 31, 2021, upon the first-time adoption for IFRSs, equivalent amounts of special reserve with regard to the unrealized revaluation increment under the stockholders' equity and cumulative translation adjustment (gains) transferred to retained earnings should be set aside. For the said special reserve, reversal of distributed earnings shall be based on the proportion of the original ratio of special reserve provision in the subsequent use, disposal or reclassification for the related assets. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land. If the assets are investment property other than land, the amounts are reversed over the use period and should be reversed by amortized balance upon disposal.

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

## (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 2020 and 2019 were resolved at the Board meetings on April 27, 2021 and April 28, 2020, respectively, and were approved by the stockholders at the stockholders' meeting dated July 20, 2021 and June 19, 2020. Details of the appropriation of 2020 and 2019 earnings which were as follows:

|                  | 2020 earnings |                                 | 2019 earnings |                                 |
|------------------|---------------|---------------------------------|---------------|---------------------------------|
|                  | Amount        | Dividend per share (in dollars) | Amount        | Dividend per share (in dollars) |
| Legal reserve    | \$ 2,381,609  |                                 | \$ 2,895,624  |                                 |
| Dividends - cash | 21,487,722    | \$ 1.58                         | 23,119,701    | \$ 1.70                         |

The appropriation of earnings can be searched in the website "Market Observation Post System" of the Taiwan Stock Exchange.



## (31) Other equity items

|  | Exchange differences on translation of foreign operations | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Other comprehensive income (loss) on reclassification using overlay approach | Other equity-other | Total        |
|--|---|---|--|--------------------|--------------|
| At January 1, 2021   | (\$ 4,107,628)  | \$ 18,349,008   | (\$ 35,934)  | (\$ 16,713)        | \$14,188,733 |
| Financial assets at fair value through other comprehensive income  |   |   |  |                    |              |
| Evaluation adjustment in the period  | -   | ( 1,682,336)  | -  | -                  | ( 1,682,336) |
| Changes in accumulated impairments in the period   | -   | ( 23,552)   | -  | -                  | ( 23,552)    |
| Realized gain and loss in the period   | -   | ( 532,814)  | -  | 20,091             | ( 512,723)   |
| Translation gain and loss on the financial statements of foreign operating entities in the period                        | ( 1,163,898)  | -   | -  | -                  | ( 1,163,898) |
| Share of the other comprehensive income of associates and joint ventures accounted for using equity method in the period | 5,329   | ( 30,589)   | -  | 2,033              | ( 23,227)    |
| Other comprehensive income (loss) on reclassification using overlay approach   | -   | -   | 43,085   | -                  | 43,085       |
| Income tax related to components of other comprehensive income that will be reclassified to profit or loss               | -   | 333,844   | -  | -                  | 333,844      |
| At December 31, 2021   | (\$ 5,266,197)  | \$ 16,413,561   | \$ 7,151   | \$ 5,411           | \$11,159,926 |

|  | Exchange differences on translation of foreign operations | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Other comprehensive income (loss) on reclassification using overlay approach | Other equity-other | Total        |
|--|---|---|--|--------------------|--------------|
| At January 1, 2020   | (\$ 2,413,580)  | \$ 14,799,177   | \$ 1,907   | (\$ 30,093)        | \$12,357,411 |
| Financial assets at fair value through other comprehensive income  |   |   |  |                    |              |
| Evaluation adjustment in the period  | -   | 7,560,775   | -  | -                  | 7,560,775    |
| Changes in accumulated impairments in the period   | -   | 94,520  | -  | -                  | 94,520       |
| Realized gain and loss in the period   | -   | ( 3,817,362)  | -  | -                  | ( 3,817,362) |
| Translation gain and loss on the financial statements of foreign operating entities in the period                        | ( 1,692,991)  | -   | -  | -                  | ( 1,692,991) |
| Share of the other comprehensive income of associates and joint ventures accounted for using equity method in the period | ( 1,057)  | 48,116  | -  | 13,380             | 60,439       |
| Other comprehensive income (loss) on reclassification using overlay approach   | -   | -   | ( 37,841)  | -                  | ( 37,841)    |
| Income tax related to components of other comprehensive income that will be reclassified to profit or loss               | -   | ( 336,218)  | -  | -                  | ( 336,218)   |
| At December 31, 2020   | (\$ 4,107,628)  | \$ 18,349,008   | (\$ 35,934)  | (\$ 16,713)        | \$14,188,733 |

## (32) Net interest revenue

|  | For the years ended December 31, |                      |
|--|----------------------------------|----------------------|
|  | 2021                             | 2020                 |
| <b>Interest income</b>   |                                  |                      |
| Interest income of loans discounted                                    | \$ 31,552,821                    | \$ 34,642,500        |
| Interest income of deposits and call loans from the other banks        | 1,863,764                        | 4,467,551            |
| Interest income of securities investment                               | 7,992,723                        | 9,526,863            |
| Interest income of securities purchased under resell agreements        | 8,549                            | 19,670               |
| Credit card interest income  | 221,962                          | 178,740              |
| Interest income of securities purchased under resell agreements income | 874,136                          | 520,588              |
| Interest income of accounts receivable                                 | 80,293                           | 168,981              |
| Other interest income  | 202,308                          | 199,160              |
| Subtotal   | 42,796,556                       | 49,724,053           |
| <b>Interest expense</b>  |                                  |                      |
| Interest expense of deposits   | ( 8,446,785)                     | ( 13,649,121)        |
| Interest expense of interbank overdraft and call loans                 | ( 1,089,100)                     | ( 2,629,787)         |
| Interest expense of issuance of securities                             | ( 187,387)                       | ( 318,353)           |
| Interest expense of bonds payable under repurchase agreements          | ( 529,680)                       | ( 1,468,166)         |
| Other interest expense   | ( 75,259)                        | ( 107,752)           |
| Subtotal   | ( 10,328,211)                    | ( 18,173,179)        |
| <b>Total</b>   | <b>\$ 32,468,345</b>             | <b>\$ 31,550,874</b> |



# Financial Information

## (33) Net service fee revenue and commission

|  | For the years ended December 31, |                     |
|--|----------------------------------|---------------------|
|  | 2021                             | 2020                |
| <b>Service fee income and commission income</b>    |                                  |                     |
| Service fee income from export and import business | \$ 439,619                       | \$ 393,738          |
| T/T service fee income                             | 622,745                          | 647,119             |
| Loans service fee income                           | 1,325,609                        | 1,240,801           |
| Guarantee service fee income                       | 1,538,000                        | 1,452,172           |
| Brokerage fee income                               | 5,007,206                        | 3,117,481           |
| Service fee income of trust and ancillary business | 2,299,906                        | 2,109,876           |
| Agency service fee income                          | 1,053,411                        | 1,496,136           |
| Credit card processing fee income                  | 684,093                          | 550,606             |
| Reinsurance commission income                      | 630,501                          | 616,199             |
| Underwriting fee income                            | 670,903                          | 490,861             |
| Other service fee income                           | 897,131                          | 915,732             |
| Subtotal   | 15,169,124                       | 13,030,721          |
| <b>Service fee expense and commission expense</b>  |                                  |                     |
| Insurance commission expense                       | ( 1,167,877)                     | ( 1,117,179)        |
| Agency service fee expense                         | ( 783,275)                       | ( 734,617)          |
| Brokerage handling fee expense                     | ( 461,025)                       | ( 279,206)          |
| Interbank transaction fee expenditure              | ( 241,876)                       | ( 240,321)          |
| Custodial fees expenditure                         | ( 88,274)                        | ( 76,138)           |
| Other commission expense                           | ( 19,965)                        | ( 329,856)          |
| Other service fee expense                          | ( 369,596)                       | ( 377,141)          |
| Subtotal   | ( 3,131,888)                     | ( 3,154,458)        |
| <b>Total</b>                                       | <b>\$ 12,037,236</b>             | <b>\$ 9,876,263</b> |

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, |                     |
|---|----------------------------------|---------------------|
|   | 2021                             | 2020                |
| <b>Gain and loss from disposal of financial assets and liabilities at fair value through profit or loss</b> |                                  |                     |
| Short-term notes and bills  | \$ 725,836                       | \$ 667,953          |
| Bonds   | 204,204                          | 34,997              |
| Stocks  | 2,461,337                        | 598,536             |
| Derivative instruments  | 2,979,479                        | 5,558,599           |
| Negotiable certificates of deposits   | 821                              | 1,940               |
| Beneficiary certificates  | 16,413                           | 69,310              |
| Warrant   | ( 1,033,816)                     | 7,316               |
| Others  | ( 85,884)                        | ( 162,151)          |
| Subtotal  | 5,268,390                        | 6,776,500           |
| <b>Valuation gains and losses on financial assets and liabilities at fair value through profit or loss</b>  |                                  |                     |
| Short-term notes and bills  | ( 83,813)                        | 23,949              |
| Bonds   | ( 48,265)                        | 176,346             |
| Stocks  | 1,210,271                        | 748,511             |
| Derivative instruments  | ( 318,076)                       | ( 452,424)          |
| Negotiable certificates of deposit  | ( 186)                           | ( 1,333)            |
| Beneficiary certificates  | 18,857                           | ( 32,289)           |
| Warrant   | 144,099                          | ( 111,277)          |
| Others  | (12,028)                         | 3,197               |
| Subtotal  | 910,859                          | 354,680             |
| Interest income on financial assets at fair value through profit or loss                                    | 1,484,872                        | 1,829,155           |
| Interest expense on financial liabilities at fair value through profit or loss                              | ( 655,855)                       | ( 726,097)          |
| Dividend and bonus from financial assets at fair value through profit or loss                               | 831,183                          | 767,763             |
| <b>Total</b>  | <b>\$ 7,839,449</b>              | <b>\$ 9,002,001</b> |

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

|                        | For the years ended December 31, |                     |
|------------------------|----------------------------------|---------------------|
|                        | 2021                             | 2020                |
| Dividend income        | \$ 2,456,360                     | \$ 1,065,445        |
| Gain on bonds disposal | 516,940                          | 4,503,164           |
|                        | <u>\$ 2,973,300</u>              | <u>\$ 5,568,609</u> |

(36) Reversal of impairment loss on assets (impairment loss on assets)

|   | For the years ended December 31, |                    |
|---|----------------------------------|--------------------|
|   | 2021                             | 2020               |
| Reversal of gain (loss) on debt instrument at fair value through other comprehensive income | \$ 23,552                        | ( \$ 94,520)       |
| Loss on investments in debt instruments at amortised cost                                   | ( 32,211)                        | ( 11,263)          |
| Loss on other financial assets  | ( 3,459)                         | ( 708)             |
| Reversal of gain on impairment of property and equipment                                    | 12,502                           | 43,670             |
| Impairment of other assets  | ( 65)                            | -                  |
| Total   | <u>\$ 319</u>                    | <u>(\$ 62,821)</u> |

(37) Net other revenue other than interest income

|  | For the years ended December 31, |                     |
|--|----------------------------------|---------------------|
|  | 2021                             | 2020                |
| Gain on rental, net                            | \$ 163,829                       | \$ 170,488          |
| Advisory income                                | 807,234                          | 802,317             |
| Gain (loss) on sales of property and equipment | 8,343                            | ( 13,407)           |
| Gain on sales of nonperforming loans           | 15,465                           | 7,168               |
| Others   | 168,762                          | 247,091             |
| Total  | <u>\$ 1,163,633</u>              | <u>\$ 1,213,657</u> |

(38) Employee benefit expenses

|                                 | For the years ended December 31, |                      |
|---------------------------------|----------------------------------|----------------------|
|                                 | 2021                             | 2020                 |
| Wages and salaries              | \$ 14,874,390                    | \$ 14,804,494        |
| Labor and health insurance fees | 1,070,756                        | 1,036,148            |
| Pension costs                   | 2,967,352                        | 2,599,195            |
| Other personnel expenses        | 1,233,705                        | 1,296,183            |
| Total                           | <u>\$ 20,146,203</u>             | <u>\$ 19,736,020</u> |

A. According to the Articles of Incorporation of the Company, employees' compensation shall account for 0.02% to 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, 2021 and 2020, employees' compensation were accrued at \$17,499 and \$15,596, respectively; directors' remuneration were accrued at \$126,948 and \$126,388, respectively. The aforementioned amounts were recognized in wages and salaries.

The actual distributed amount of employees' and directors' remuneration for 2020 resolved at the Board of Directors' annual meeting were \$15,586 and \$126,309, respectively. Compared to the 2020 consolidated financial statements, there was a decrease of \$10 and \$79, respectively. The amount was due to estimated differences and is treated as a change in accounting estimate, where the difference was recognized as profit or loss in 2021.

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.

# Financial Information

## (39) Depreciation and amortization expense

|                      | For the years ended December 31, |              |
|----------------------|----------------------------------|--------------|
|                      | 2021                             | 2020         |
| Depreciation expense | \$ 1,516,907                     | \$ 1,467,409 |
| Amortisation expense | 78,460                           | 76,909       |
| Total                | \$ 1,595,367                     | \$ 1,544,318 |

## (40) Other general and administrative expenses

|                                       | For the years ended December 31, |              |
|---------------------------------------|----------------------------------|--------------|
|                                       | 2021                             | 2020         |
| Information technology expense        | \$ 1,396,740                     | \$ 1,190,544 |
| Tax and official fee                  | 2,573,266                        | 2,384,217    |
| Donations                             | 99,255                           | 82,300       |
| Insurance expense                     | 461,846                          | 422,599      |
| Office supplies and printing expenses | 1,734,262                        | 1,819,334    |
| Service expense                       | 638,978                          | 952,581      |
| Other operating expenses              | 959,562                          | 968,643      |
| Total                                 | \$ 7,863,909                     | \$ 7,820,218 |

## (41) Income tax expense

A. The income taxes comprise the following:

(A) The income taxes comprise the following:

|  | For the years ended December 31, |              |
|--|----------------------------------|--------------|
|  | 2021                             | 2020         |
| Current tax  |                                  |              |
| Current tax on profits for the year                                      | \$ 5,595,601                     | \$ 4,061,476 |
| Income tax of adjustments for over provisions of prior years' income tax | ( 1,244,114)                     | ( 16,740)    |
| Separate income tax  | 12                               | 15           |
| Additional tax on distributed earnings                                   | -                                | 97,471       |
| Total current tax  | 4,351,499                        | 4,142,222    |
| Deferred income tax  |                                  |              |
| Origination and reversal of temporary differences                        | ( 1,426,156)                     | 170,448      |
| Total deferred income tax  | ( 1,426,156)                     | 170,448      |
| Income tax expense   | \$ 2,925,343                     | \$ 4,312,670 |

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

|  | For the years ended December 31, |               |
|--|----------------------------------|---------------|
|  | 2021                             | 2020          |
| Changes in fair value of financial assets at fair value through other comprehensive income | \$ 333,844                       | ( \$ 336,218) |
| Remeasurement of defined benefit plans   | ( 149,896)                       | 128,278       |
|  | \$ 183,948                       | ( \$ 207,940) |

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

|  | For the years ended December 31, |              |
|--|----------------------------------|--------------|
|  | 2021                             | 2020         |
| Income tax from pre-tax income calculated at statutory tax rate          | \$ 5,731,283                     | \$ 5,866,128 |
| Effects of items not recognized under relevant regulations               | ( 239,761)                       | ( 158,613)   |
| Tax on undistributed earnings  | -                                | 97,471       |
| Effect of alternative minimum tax  | 506                              | 725,070      |
| Income tax of adjustments for over provisions of prior years' income tax | ( 1,236,108)                     | ( 16,740)    |
| Effects of income tax exemption and adjustment of other income           | ( 1,330,577)                     | ( 2,200,646) |
| Income tax expense   | \$ 2,925,343                     | \$ 4,312,670 |



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

|  | For the year ended December 31, 2021 |                              |  |                     |
|--|--------------------------------------|------------------------------|--|---------------------|
|  | January 1                            | Recognised in profit or loss | Recognised in other comprehensive income or loss | December 31         |
| Deferred tax assets:                                 |                                      |                              |  |                     |
| Temporary differences                                |                                      |                              |  |                     |
| Reserve for bad debts expense in excess of limit     | \$ 2,269,257                         | ( \$ 156,805)                | \$ -   | \$ 2,112,452        |
| Reserve for guarantee liabilities in excess of limit | 282,621                              | 3,999                        | -  | 286,620             |
| Unpaid liabilities reserve for employee benefits     | 2,331,360                            | 777,875                      | ( 149,844)                                       | 2,959,391           |
| Unrealized loss on impairment                        | 29,445                               | 892,523                      | -  | 921,968             |
| Others   | 716,954                              | ( 529,591)                   | 37,733   | 225,096             |
|  | <u>\$ 5,629,637</u>                  | <u>\$ 988,001</u>            | <u>( \$ 112,111)</u>                             | <u>\$ 6,505,527</u> |

|  | For the year ended December 31, 2020 |                              |  |                     |
|--|--------------------------------------|------------------------------|--|---------------------|
|  | January 1                            | Recognised in profit or loss | Recognised in other comprehensive income or loss | December 31         |
| Deferred tax assets:                                 |                                      |                              |  |                     |
| Temporary differences                                |                                      |                              |  |                     |
| Reserve for bad debts expense in excess of limit     | \$ 2,378,714                         | ( \$ 109,457)                | \$ -   | \$ 2,269,257        |
| Reserve for guarantee liabilities in excess of limit | 234,820                              | 47,801                       | -  | 282,621             |
| Unpaid liabilities reserve for employee benefits     | 2,223,557                            | ( 20,475)                    | 128,278  | 2,331,360           |
| Unrealized loss on impairment                        | 23,257                               | 6,188                        | -  | 29,445              |
| Others   | 941,538                              | ( 207,532)                   | ( 17,052)  | 716,954             |
|  | <u>\$ 5,801,886</u>                  | <u>( \$ 283,475)</u>         | <u>\$ 111,226</u>                                | <u>\$ 5,629,637</u> |

|  | For the year ended December 31, 2021 |                              |  |                        |
|--|--------------------------------------|------------------------------|--|------------------------|
|  | January 1                            | Recognised in profit or loss | Recognised in other comprehensive income or loss | December 31            |
| Deferred tax liabilities:  |                                      |                              |  |                        |
| Temporary differences  |                                      |                              |  |                        |
| Land revaluation increment tax   | ( \$ 1,053,300)                      | \$ -                         | \$ -   | ( \$ 1,053,300)        |
| Unrealized exchange gain   | ( 614,260)                           | 332,054                      | -  | ( 282,206)             |
| Share of profit of associates and joint ventures accounted for under equity method | ( 827,868)                           | ( 127,800)                   | -  | ( 955,668)             |
| Unrealized valuation gains on foreign bond   | ( 501,380)                           | -                            | 296,111  | ( 205,269)             |
| Others   | ( 373,385)                           | 233,901                      | ( 52)  | ( 139,536)             |
|  | <u>( \$ 3,370,193)</u>               | <u>\$ 438,155</u>            | <u>\$ 296,059</u>                                | <u>( \$ 2,635,979)</u> |

|  | For the year ended December 31, 2020 |                              |  |                        |
|--|--------------------------------------|------------------------------|--|------------------------|
|  | January 1                            | Recognised in profit or loss | Recognised in other comprehensive income or loss | December 31            |
| Deferred tax liabilities:  |                                      |                              |  |                        |
| Temporary differences  |                                      |                              |  |                        |
| Land revaluation increment tax   | ( \$ 1,053,300)                      | \$ -                         | \$ -   | ( \$ 1,053,300)        |
| Unrealized exchange gain   | ( 540,259)                           | ( 74,001)                    | -  | ( 614,260)             |
| Share of profit of associates and joint ventures accounted for under equity method | ( 766,055)                           | ( 61,813)                    | -  | ( 827,868)             |
| Unrealized valuation gains on foreign bond   | ( 182,214)                           | -                            | ( 319,166)                                       | ( 501,380)             |
| Others   | ( 622,226)                           | 248,841                      | -  | ( 373,385)             |
|  | <u>( \$ 3,164,054)</u>               | <u>\$ 113,027</u>            | <u>( \$ 319,166)</u>                             | <u>( \$ 3,370,193)</u> |



## D. Assessment of income tax returns

The profit-seeking enterprise income tax return of the Company and 7 subsidiaries through 2016 was assessed and approved by the Tax Authority.

(A) MICB: The income tax returns of 2014 and 2015 are under reinvestigation. The request for reinvestigation of income tax returns of 2016 is still under assessment.

(B) MS: The income tax returns during the period 2014 to 2015 are under reinvestigation. The income tax returns of 2016 is planned to request for reinvestigation.

(C) MITC: The income tax for the years ended December 31, 2012 and 2013 is still under administrative appeal. The income tax returns of 2016 is planned to request for reinvestigation.

## (42) Earnings per share

Basic and diluted earnings per share

|  | For the years ended December 31, |               |
|--|----------------------------------|---------------|
|  | 2021                             | 2020          |
| Profit attributable to ordinary stockholders of the Company            | \$ 25,731,070                    | \$ 25,017,968 |
| Weighted-average number of shares outstanding (In thousands of shares) | 13,599,824                       | 13,599,824    |
| Basic earnings per share (In dollars)                                  | \$ 1.89                          | \$ 1.84       |

## (43) Changes in liabilities from financing activities

|   | For the year ended December 31, 2021 |               |                  |                   |
|---|--------------------------------------|---------------|------------------|-------------------|
|   | Commercial paper issued              | Bonds payable | Other borrowings | Lease Liabilities |
| January 1, 2021   | \$ 22,392,125                        | \$ 18,000,000 | \$ 338,028       | \$ 1,881,625      |
| Changes in cash flows from financing activities             | 10,529,000                           | ( 12,000,000) | 921,972          | ( 588,694)        |
| Amortization of a premium or a discount on interest expense | ( 3,277)                             | -             | -                | -                 |
| Addition of right-of-use assets                             | -                                    | -             | -                | 610,425           |
| December 31, 2021   | \$ 32,917,848                        | \$ 6,000,000  | \$ 1,260,000     | \$ 1,903,356      |

|   | For the year ended December 31, 2020 |               |                  |                   |
|---|--------------------------------------|---------------|------------------|-------------------|
|   | Commercial paper issued              | Bonds payable | Other borrowings | Lease Liabilities |
| January 1, 2020   | \$ 19,963,897                        | \$ 12,000,000 | \$ 3,464,909     | \$ 1,801,315      |
| Changes in cash flows from financing activities             | 2,423,000                            | 6,000,000     | ( 3,126,881)     | ( 593,078)        |
| Amortization of a premium or a discount on interest expense | 5,228                                | -             | -                | -                 |
| Addition of right-of-use assets                             | -                                    | -             | -                | 673,388           |
| December 31, 2020   | \$ 22,392,125                        | \$ 18,000,000 | \$ 338,028       | \$ 1,881,625      |

## 7. FAIR VALUE AND LEVEL INFORMATION OF FINANCIAL INSTRUMENTS

### (1) Overview

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments are initially recognized by fair value, which is transaction price in most cases. Subsequent recognitions are measured by fair value except that certain financial instruments are recognized by amortized cost or cost. If the quoted market price of a financial instrument is available in an active market, the quoted price is the fair value. If the market in which 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 amortized cost-central bank's certificates of deposits 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, 2021 |               |
|---|-------------------|---------------|
|   | Carrying Value    | Fair Value    |
| Investments in debt instruments at amortised cost | \$ 43,907,304     | \$ 44,063,456 |

|   | December 31, 2020 |               |
|---|-------------------|---------------|
|   | Carrying Value    | Fair Value    |
| Investments in debt instruments at amortised cost | \$ 41,031,864     | \$ 41,505,592 |

For the above-mentioned investments in debt instruments at amortized cost and held to maturity financial assets-bond investment are considered Level 1 and Level 2 within the fair value hierarchy.

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

The quoted market price is used as the fair value when the financial instruments have an active market, such as market prices provided by the Stock Exchange Corporation, Bloomberg and Reuters are all foundation of fair value for listed equity securities and debt instruments with a quoted market price in an active market.

If the market quotation from Stock Exchange Corporation, commission merchants, underwriters or pricing service institutions 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 the above condition is not met, the market is deemed inactive. In general, significant price variance between the purchase price and selling price or significantly increasing price variance are both indicators of an inactive market.

In addition to above financial instruments with an active market, other financial instruments at fair value are assessed by evaluation technique with reference to other financial instruments at fair value with similar conditions and characteristics in actual practice, cash flow discounting method and other evaluation technique, including market information obtained by exercising the model at balance sheet date (such as yield curve used in OTC and the Taipei Interbank Offered Rate (Taibor) price curve).

When a financial instrument has no standardized evaluation and with less complexity involved, such as interest rate swap, currency swap and options. The Mega Group usually adopt the valuation generally accepted by market users. The inputs used in the valuation method to measure these financial instruments are normally observable in the market. For financial instruments with higher complexity, the fair value is assessed through the valuation model developed by valuation methods and techniques generally accepted by competitors. These kinds of valuation models are usually applicable for derivative instruments, debt instruments with no quoted market price (including debt instrument of embedded derivatives) or other debt instruments with low market liquidity. Certain inputs used in these valuation models are not observable in the market, and the Mega Group needs to make appropriate estimates based on the assumptions.

The valuation of derivative instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate. Structured interest derivative instruments are measured by using appropriate option pricing models.

The output of the evaluation model is an estimate, and the valuation technique may not reflect all the relevant factors of the financial instruments held by the Bank and its subsidiaries. As a result, the estimate generated by valuation model will be slightly adjusted based on additional inputs, such as model risk, liquidity risk or credit risk of counterparties. According to the Bank and its subsidiaries valuation model management and other related controlling procedures, the adjustment made is adequate and necessary and the balance sheet is believed to present fairly, in all material aspects, the fair value of financial instruments. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

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. NTD short-term bills and NTD 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 TAIBOR rate and TAIFX3 central parity rate from Reuters, respectively.
- D. Foreign securities: quoted prices from Bloomberg or counterparties are adopted.
- E. Listed stock: The closing price being listed in TSE is adopted.
- F. 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 amortization 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-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).
  - (B) Debit value adjustments refer to adjustments through fair value, which reflect the possibility that an entity may default on repayments and that an entity may not be able to pay, in full, the market value, for transactions in non-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).
- B. The Mega Group 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 amortized 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, 2021 |               |              |              |
|--|-------------------|---------------|--------------|--------------|
|  | Total             | Level 1       | Level 2      | Level 3      |
| <b>Non-derivative financial instruments</b>                                |                   |               |              |              |
| <u>Assets</u>  |                   |               |              |              |
| Financial assets mandatorily measured at fair value through profit or loss |                   |               |              |              |
| Investment in stocks   | \$ 25,568,458     | \$ 13,867,647 | \$ 5,335,656 | \$ 6,365,155 |
| Investment in bonds  | 46,754,090        | 2,597,067     | 44,157,023   | -            |
| Investment in bills  | 124,004,857       | -             | 124,004,857  | -            |
| Others   | 2,537,476         | 2,524,276     | 13,200       | -            |
| Financial assets at fair value through other comprehensive income          |                   |               |              |              |
| Investment in stocks   | 45,668,339        | 25,071,158    | 320,829      | 20,276,352   |
| Investment in bonds  | 491,106,336       | 44,340,262    | 446,766,074  | -            |
| Investment in bills  | 6,702,488         | -             | 6,702,488    | -            |
| Others   | 313,183           | 313,183       | -            | -            |
| <u>Liabilities</u>   |                   |               |              |              |
| Financial liabilities held for trading                                     | 374,603           | 247,821       | 126,782      | -            |
| Financial liabilities designated as at fair value through profit or loss   | 16,607,738        | -             | 16,607,738   | -            |
| <b>Derivative financial instruments</b>                                    |                   |               |              |              |
| <u>Assets</u>  |                   |               |              |              |
| Financial assets mandatorily measured at fair value through profit or loss | 3,969,776         | 371,325       | 3,598,423    | 28           |
| <u>Liabilities</u>   |                   |               |              |              |
| Financial liabilities at fair value through profit or loss                 | 2,361,751         | -             | 2,361,426    | 325          |

|  |    | December 31, 2020 |         |            |         |             |    |            |
|--|----|-------------------|---------|------------|---------|-------------|----|------------|
| Recurring fair value measurements  |    | Total             | Level 1 | Level 2    | Level 3 |             |    |            |
| Non-derivative financial instruments                                       |    |                   |         |            |         |             |    |            |
| Assets   |    |                   |         |            |         |             |    |            |
| Financial assets mandatorily measured at fair value through profit or loss |    |                   |         |            |         |             |    |            |
| Investment in stocks   | \$ | 21,461,743        | \$      | 10,858,167 | \$      | 4,129,727   | \$ | 6,473,849  |
| Investment in bonds  |    | 47,297,193        |         | 2,481,404  |         | 44,815,789  |    | -          |
| Investment in bills  |    | 152,099,070       |         | -          |         | 152,099,070 |    | -          |
| Others   |    | 2,347,893         |         | 2,302,393  |         | 45,500      |    | -          |
| Financial assets at fair value through other comprehensive income          |    |                   |         |            |         |             |    |            |
| Investment in stocks   |    | 28,486,022        |         | 10,828,361 |         | 1,228,052   |    | 16,429,609 |
| Investment in bonds  |    | 521,995,163       |         | 36,580,799 |         | 485,414,364 |    | -          |
| Investment in bills  |    | 9,980,004         |         | -          |         | 9,980,004   |    | -          |
| Others   |    | 318,624           |         | 318,624    |         | -           |    | -          |
| Liabilities  |    |                   |         |            |         |             |    |            |
| Financial liabilities held for trading                                     |    | 408,133           |         | 408,133    |         | -           |    | -          |
| Financial liabilities designated as at fair value through profit or loss   |    | 17,054,273        |         | -          |         | 17,054,273  |    | -          |
| Derivative financial instruments   |    |                   |         |            |         |             |    |            |
| Assets   |    |                   |         |            |         |             |    |            |
| Financial assets mandatorily measured at fair value through profit or loss |    | 5,402,174         |         | 479,067    |         | 4,922,877   |    | 230        |
| Liabilities  |    |                   |         |            |         |             |    |            |
| Financial liabilities at fair value through profit or loss                 |    | 3,472,527         |         | 1,077      |         | 3,471,188   |    | 262        |

C. The transfer between Level 1 and Level 2.

On December 31, 2021, the balance of MICB's held 2020 Fiscal Year Order 9 Category 1 Central Government Construction Bonds was \$2,212,623. Due to the bonds becoming inactive securities in the Index, thus the bonds were transferred from Level 1 to Level 2.

On December 31, 2020, the balance of MICB's held 2019 Fiscal Year Order 9 Category 1 Central Government Construction Bonds was \$2,623,549. Due to the bonds becoming inactive securities in the Index, thus the bonds were transferred from Level 1 to Level 2.

The reasons of the Company' and subsidiaries' equity investments transferred between level 1 and level 2: For equity investments which transferred into level 2 were because the volume decreased and less quoted market price information in the active markets can be obtained. For equity investments which transferred into level 1 were because the volume increased and more quoted market price information in the active markets can be obtained.

D. The transfer between Level 2 and Level 3.

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.

E. 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, 2021

| Item  | January 1,<br>2021 | Valuation gain or loss          |   | Addition               |                           | Reduction                    |                             | December 31,<br>2021 |
|---|--------------------|---------------------------------|---|------------------------|---------------------------|------------------------------|-----------------------------|----------------------|
|   |                    | Recognised as<br>profit or loss | Recognised<br>as other<br>comprehensive<br>income | Purchased or<br>issued | Transferred to<br>Level 3 | Sold, disposed<br>or settled | Transferred<br>from Level 3 |                      |
| <u>Non-derivative financial instruments</u>                                   |                    |                                 |   |                        |                           |                              |                             |                      |
| Financial assets at fair value through<br>profit or loss                      |                    |                                 |   |                        |                           |                              |                             |                      |
| Financial assets mandatorily measured<br>at fair value through profit or loss | \$ 6,473,849       | \$ 235,696                      | \$ -  | \$ 829                 | \$ 110,457                | (\$ 284,960)                 | (\$ 170,716)                | \$ 6,365,155         |
| Financial assets at fair value through<br>other comprehensive income          | 16,429,609         | -                               | 3,366,305   | -                      | 1,382,106                 | ( 486,912)                   | ( 414,756)                  | 20,276,352           |
| <u>Derivative financial instruments</u>                                       |                    |                                 |   |                        |                           |                              |                             |                      |
| Financial assets mandatorily measured<br>at fair value through profit or loss | 230                | 313                             | -   | 1,449                  | -                         | ( 1,964)                     | -                           | 28                   |
| Total   | \$ 22,903,688      | \$ 236,009                      | \$ 3,366,305                                      | \$ 2,278               | \$ 1,492,563              | (\$ 773,836)                 | (\$ 585,472)                | \$26,641,535         |



The Company and subsidiaries held unlisted stocks in the amount of \$1,492,563, and the fair value of the unlisted stocks was determined based on market approach or net asset approach, therefore, those unlisted stocks were transferred from Level 2 to Level 3.

The Company and subsidiaries held unlisted stocks in the amount of \$585,472, and the fair value of the unlisted stocks was determined based on recent marketing transaction price, therefore, those unlisted stocks were transferred from Level 3 to Level 2.

For the year ended December 31, 2020

| Item  | January 1,<br>2020 | Valuation gain or loss          |   | Addition               |                           | Reduction                    |                             | December 31,<br>2020 |
|---|--------------------|---------------------------------|---|------------------------|---------------------------|------------------------------|-----------------------------|----------------------|
|   |                    | Recognised as<br>profit or loss | Recognised<br>as other<br>comprehensive<br>income | Purchased or<br>issued | Transferred to<br>Level 3 | Sold, disposed<br>or settled | Transferred<br>from Level 3 |                      |
| <u>Non-derivative financial instruments</u>                                   |                    |                                 |   |                        |                           |                              |                             |                      |
| Financial assets at fair value through<br>profit or loss                      |                    |                                 |   |                        |                           |                              |                             |                      |
| Financial assets mandatorily measured<br>at fair value through profit or loss | \$ 5,190,200       | \$ 791,183                      | \$ -  | \$ 371,866             | \$ 615,437                | (\$ 216,337)                 | (\$ 278,500)                | \$ 6,473,849         |
| Financial assets at fair value through<br>other comprehensive income          | 11,564,185         | -                               | ( 549,832)  | -                      | 6,866,468                 | ( 140,947)                   | ( 1,310,265)                | 16,429,609           |
| <u>Derivative financial instruments</u>                                       |                    |                                 |   |                        |                           |                              |                             |                      |
| Financial assets mandatorily measured<br>at fair value through profit or loss | -                  | ( 348)                          | -   | 4,191                  | -                         | ( 3,613)                     | -                           | 230                  |
| Total   | \$ 16,754,385      | \$ 790,835                      | (\$ 549,832)                                      | \$ 376,057             | \$ 7,481,905              | (\$ 360,897)                 | (\$ 1,588,765)              | \$22,903,688         |

The Company and subsidiaries held unlisted stocks in the amount of \$7,481,905, and the fair value of the unlisted stocks was determined based on market approach, therefore, those unlisted stocks were transferred from Level 2 to Level 3.

The Company and subsidiaries held unlisted stocks in the amount of \$1,588,765, and the fair value of the unlisted stocks was determined based on recent marketing transaction price, therefore, those unlisted stocks were 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, 2021

| Item   | January 1, 2021 | Valuation gain or loss       |  | Addition            |                        | Reduction                 |                          | December 31, 2021 |
|--|-----------------|------------------------------|--|---------------------|------------------------|---------------------------|--------------------------|-------------------|
|  |                 | Recognised as profit or loss | Recognised as other comprehensive income | Purchased or issued | Transferred to Level 3 | Sold, disposed or settled | Transferred from Level 3 |                   |
| <b>Liabilities</b>   |                 |                              |  |                     |                        |                           |                          |                   |
| Financial liabilities at fair value through profit or loss | \$ 262          | (\$ 45)                      | \$ -                                     | \$ 1,547            | \$ -                   | (\$ 1,529)                | \$ -                     | \$ 325            |

For the year ended December 31, 2020

| Item   | January 1, 2020 | Valuation gain or loss       |  | Addition            |                        | Reduction                 |                          | December 31, 2020 |
|--|-----------------|------------------------------|--|---------------------|------------------------|---------------------------|--------------------------|-------------------|
|  |                 | Recognised as profit or loss | Recognised as other comprehensive income | Purchased or issued | Transferred to Level 3 | Sold, disposed or settled | Transferred from Level 3 |                   |
| <b>Liabilities</b>   |                 |                              |  |                     |                        |                           |                          |                   |
| Financial liabilities at fair value through profit or loss | \$ 562          | (\$ 46)                      | \$ -                                     | \$ 2,577            | \$ -                   | (\$ 2,923)                | \$ -                     | \$ 262            |

(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, 2021   | 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 |
| Financial assets at fair value through profit or loss             |  |                     |  |                     |
| Investment in stocks  | \$ 636,515   | (\$ 636,515)        | \$ -   | \$ -                |
| Derivative financial instruments                                  | 3  | ( 3)                | -  | -                   |
| Financial assets at fair value through other comprehensive income |  |                     |  |                     |
| Investment in stocks  | -  | -                   | 2,027,635  | (\$ 2,027,635)      |



| December 31, 2020   | Changes in the fair value<br>recognized in the current profit or loss |                     | Changes in the fair value<br>recognized in the comprehensive income or loss |                     |
|---|---|---------------------|---|---------------------|
|   | Favorable changes   | Unfavorable changes | Favorable changes   | Unfavorable changes |
| Financial assets at fair value through profit or loss             |   |                     |   |                     |
| Investment in stocks  | \$ 647,385  | (\$ 647,385)        | \$ -  | \$ -                |
| Derivative financial instruments                                  | 56  | ( 49)               | -   | -                   |
| Financial assets at fair value through other comprehensive income |   |                     |   |                     |
| Investment in stocks  | -   | -                   | 1,642,961   | (\$ 1,642,961)      |

The favorable 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 Mega Group belongs to equity investments of level 3 because there is significant unobservable input that includes lack of liquidity discount and price-book value ratio multiple. 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 summarized quantitative information of significant unobservable inputs

| December 31, 2021  | 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  | \$ 5,378,958 | Market approach   | Lack of liquidity discount       | 15%~50%                  | The higher the liquidity discount , the lower the fair value.               |
|  |              |   | Price-book value ratio multiple  | 0.89~4.22                | The higher the price-book value ratio multiple, the higher the fair value.  |
|  |              |   | Price to earnings ratio multiple | 8.99                     | The higher the price to earnings ratio multiple, the higher the fair value. |
|  | 986,197      | Net asset approach  | N/A                              | N/A                      | N/A   |
| Financial assets at fair value through other comprehensive income          |              |   |                                  |                          |   |
| Equity investment  | 17,238,714   | Market approach   | Lack of liquidity discount       | 10%~30%                  | The higher the liquidity discount , the lower the fair value.               |
|  |              |   | Price-book value ratio multiple  | 1.05~2.41                | The higher the price-book value ratio multiple, the higher the fair value.  |
|  | 3,037,638    | Net asset approach  | N/A                              | N/A                      | N/A   |
| Derivative financial assets  |              |   |                                  |                          |   |
| Structured products  | 28           | Determined using the Option Pricing Model verified by the subsidiary – MS | Price volatility                 | 34%~57%                  | The higher the price volatility, the higher the fair value.                 |
| Derivative financial liabilities   |              |   |                                  |                          |   |
| Structured products  | 325          | Determined using the Option Pricing Model verified by the subsidiary – MS | Price volatility                 | 20%                      | The higher the price volatility, the lower the fair value.                  |





| December 31, 2020  | 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  | \$ 5,548,180 | Market approach   | Lack of liquidity discount       | 15%~50%                  | The higher the liquidity discount , the lower the fair value.               |
|  |              |   | Price-book value ratio multiple  | 0.81~3.24                | The higher the price-book value ratio multiple, the higher the fair value.  |
|  |              |   | Price to earnings ratio multiple | 10.54                    | The higher the price to earnings ratio multiple, the higher the fair value. |
|  | 925,669      | Net asset approach  | N/A                              | N/A                      | N/A   |
| Financial assets at fair value through other comprehensive income          |              |   |                                  |                          |   |
| Equity investment  | 13,570,089   | Market approach   | Lack of liquidity discount       | 10%~30%                  | The higher the liquidity discount , the lower the fair value.               |
|  |              |   | Price-book value ratio multiple  | 0.87~2.77                | The higher the price-book value ratio multiple, the higher the fair value.  |
|  | 2,509,269    | Net asset approach  | N/A                              | N/A                      | N/A   |
|  | 350,251      |   | Lack of liquidity discount       | 20%                      | The higher the liquidity discount, the lower the fair value.                |
| Derivative financial assets  |              |   |                                  |                          |   |
| Structured products  | 230          | Determined using the Option Pricing Model verified by the subsidiary – MS | Price volatility                 | 20%~50%                  | The higher the price volatility, the higher the fair value.                 |
| Derivative financial liabilities   |              |   |                                  |                          |   |
| Structured products  | 262          | 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 for the Company and each subsidiary to follow. Subsidiaries therefore follow the Company's instructions in setting risk management organization, policies, objectives, regulations, internal control procedures, risk monitor mechanism and risk limits, and report to the Company on risk management issues. Therefore, overall risk management structure and reporting systems of the 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, organization structure, risk preference, internal control system and management of significant business cases. Under the Board of Directors, the risk management committee is established. The risk management committee is responsible for examination and monitor of risk management. The Company and significant subsidiaries all have risk management unit, being a part of the risk management committee and responsible for supervising the establishment of risk management mechanism, risk limits allocation, risk monitor and reporting.

Under the management, several committees and other administrative units are established. They are responsible for risk review and control of credits, investments, trading and assets/liabilities management businesses.

Administrative unit of each subsidiary is responsible for identifying the possible risks of businesses, establishing internal control procedures and regulations, measuring risk degrees regularly and adopting responding measures for any negative effects.

Business units follow operating guidance and report to the management units directly. Risk management unit is responsible for monitoring of overall risk positions and concentration, and summarizing relevant details before reporting to the management or Board of Directors.

Auditing office examines the operations of business and administration units regularly or irregularly to ensure the three risk management defense lines operate normally.

The Company has assigned personnel to sit on the Board of Directors of each subsidiary to monitor the governance of each subsidiary.

### (3) Credit risk

#### A. The source and definition of credit risk

Credit risk pertains to the risk of loss that the borrowers, issuers or counterparties might default on contracts due to deterioration in their financial position or other factors.

The 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 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. Credit risk measurement

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 Mega 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 recognizes 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 recognized for assets in Stage 1, and lifetime expected credit losses are recognized 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) The subsidiary, MICB, reported a dishonored check issued by debtor.
- (b) Debtor was notified as a dishonoured account by Taiwan clearing house.
- (c) The pledged collateral of the debtor is seized by another bank.
- (d) Debtor's loans from other financial institutions have been reclassified as overdue loan or written off as bad debt.
- (e) The independent auditor 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 is 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 reorganization or is likely to file for reorganization.

(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 due to the debtor's financial difficulties.
- f. The debtor has filed for bankruptcy or is likely to file for bankruptcy.
- g. The debtor entered into reorganization 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 recognizes 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 recognizes the impairment provision for the lifetime expected credit losses if such credit risk has increased since initial recognition.

(A) Credit business

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

a. Probability of default ("PD"):

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

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

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

b. Loss given default ("LGD"):

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

c. Exposure at default ("EAD"):

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

(B) Bond investments and counterparty transactions

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

(5) Consideration of forward-looking information

(A) Credit business

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

a. For determining significant increase in credit risk

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

## b. For measuring expected credit losses

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

### (a) Loans with external credit ratings:

ECLs are measured by the same approach by considering the same forward-looking information adopted for bond investments and counterparty transactions.

### (b) Loans with internal credit ratings:

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

- (6) As a result of the COVID-19 outbreak in the beginning of 2020, certain entities and the global economy were adversely affected, and the quality of the Mega Group's credit assets or the operating result of the Mega Group might be affected. However, the actual impact would be determined based on the subsequent development of the epidemic and the degree of impact to the economy. The Mega Group has collected historical, current and future development information, and grouped related factors into various parameters and assumptions which were associated with the expected credit loss impairment model and methodology (including a new future economic condition criteria in the measurement of the expected credit impairment loss). The Mega Group will continually monitor the development of the epidemic, and cautiously assess and positively resolve the related impact on financial conditions and operating performance.

## 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

The Mega group has 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, the Mega group 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 Mega group, 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

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| 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  | \$ 962,832,046                            | \$ 661,451  | \$ -  | \$ -   | \$ 963,493,497   |
| - good   | 531,100,349                               | 26,667,113  | -   | -  | 557,767,462      |
| - acceptable   | 296,315,595                               | 29,434,731  | -   | -  | 325,750,326      |
| - weak   | 104,202,520                               | 12,144,703  | 8,950,484   | -  | 125,297,707      |
| No rated   | 91,503,558                                | 841,167   | 3,038,992   | -  | 95,383,717       |
| Total carrying amount  | 1,985,954,068                             | 69,749,165  | 11,989,476  | -  | 2,067,692,709    |
| Allowance for bad debt   | ( 2,679,786)                              | ( 579,314)  | ( 2,504,674)  | -  | ( 5,763,774)     |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -   | -   | -   | ( 24,573,955)  | ( 24,573,955)    |
| Total  | \$ 1,983,274,282                          | \$ 69,169,851   | \$ 9,484,802  | (\$ 24,573,955)  | \$ 2,037,354,980 |

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| 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  | \$ 853,021,294                            | \$ 143,523  | \$ -  | \$ -   | \$ 853,164,817   |
| - good   | 482,946,503                               | 30,025,494  | -   | -  | 512,971,997      |
| - acceptable   | 288,875,824                               | 20,756,685  | 310,450   | -  | 309,942,959      |
| - weak   | 96,868,501                                | 15,066,021  | 11,607,873  | -  | 123,542,395      |
| No rated   | 116,424,827                               | 1,284,970   | 1,792,224   | -  | 119,502,021      |
| Total carrying amount  | 1,838,136,949                             | 67,276,693  | 13,710,547  | -  | 1,919,124,189    |
| Allowance for bad debt   | ( 2,961,164)                              | ( 581,822)  | ( 2,109,119)  | -  | ( 5,652,105)     |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -   | -   | -   | ( 23,513,862)  | ( 23,513,862)    |
| Total  | \$ 1,835,175,785                          | \$ 66,694,871   | \$ 11,601,428   | (\$ 23,513,862)  | \$ 1,889,958,222 |



# Financial Information

## b. Receivables

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| 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  | \$ 25,862,295                             | \$ 497  | \$ -  | \$ -   | \$ 25,862,792 |
| - good   | 6,051,540                                 | 89,154  | -   | -  | 6,140,694     |
| - acceptable   | 4,285,772                                 | 447,825   | -   | -  | 4,733,597     |
| - weak   | 328,103                                   | 125,143   | 131,526   | -  | 584,772       |
| No rated   | 59,411,906                                | 671,342   | 722,990   | -  | 60,806,238    |
| Total carrying amount  | 95,939,616                                | 1,333,961   | 854,516   | -  | 98,128,093    |
| Allowance for bad debt   | ( 497,230)                                | ( 42,605)   | ( 107,643)  | -  | ( 647,478)    |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -   | -   | -   | ( 849,653)   | ( 849,653)    |
| Total  | \$ 95,442,386                             | \$ 1,291,356  | \$ 746,873  | ( \$ 849,653)  | \$ 96,630,962 |

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| 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  | \$ 21,623,514                             | \$ 685  | \$ -  | \$ -   | \$ 21,624,199 |
| - good   | 6,426,025                                 | 152,484   | -   | -  | 6,578,509     |
| - acceptable   | 7,193,393                                 | 422,185   | 42  | -  | 7,615,620     |
| - weak   | 199,255                                   | 88,945  | 354,093   | -  | 642,293       |
| No rated   | 53,835,653                                | 512,284   | 743,267   | -  | 55,091,204    |
| Total carrying amount  | 89,277,840                                | 1,176,583   | 1,097,402   | -  | 91,551,825    |
| Allowance for bad debt   | ( 546,324)                                | ( 35,515)   | ( 90,075)   | -  | ( 671,914)    |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -   | -   | -   | ( 909,136)   | ( 909,136)    |
| Total  | \$ 88,731,516                             | \$ 1,141,068  | \$ 1,007,327  | ( \$ 909,136)  | \$ 89,970,775 |



## c. Debt instruments

December 31, 2021

| Debt instruments       | 12-month expected credit losses<br>(Stage 1) | Lifetime expected credit losses<br>(individual assessment)<br>(Stage 2) | Lifetime expected credit losses<br>(credit impaired financial assets that were<br>neither purchased nor originated)<br>(Stage 3) | Total            |
|------------------------|--|---|--|------------------|
| Credit ratings         |  |   |  |                  |
| - excellent            | \$ 1,137,345,318                             | \$ -  | \$ -   | \$ 1,137,345,318 |
| - good                 | 7,601,987                                    | -   | -  | 7,601,987        |
| - acceptable           | -  | -   | -  | -                |
| - weak                 | 1,060,069                                    | -   | -  | 1,060,069        |
| No rated               | -  | -   | -  | -                |
| Total carrying amount  | 1,146,007,374                                | -   | -  | 1,146,007,374    |
| Allowance for bad debt | ( 66,132)                                    | -   | -  | ( 66,132)        |
| other equity           | ( 247,134)                                   | -   | -  | ( 247,134)       |
| Total                  | \$ 1,145,694,108                             | \$ -  | \$ -   | \$ 1,145,694,108 |

December 31, 2020

| Debt instruments       | 12-month expected credit losses<br>(Stage 1) | Lifetime expected credit losses<br>(individual assessment)<br>(Stage 2) | Lifetime expected credit losses<br>(credit impaired financial assets that were<br>neither purchased nor originated)<br>(Stage 3) | Total            |
|------------------------|--|---|--|------------------|
| Credit ratings         |  |   |  |                  |
| - excellent            | \$ 1,057,905,649                             | \$ -  | \$ -   | \$ 1,057,905,649 |
| - good                 | 6,873,105                                    | 453,640   | -  | 7,326,745        |
| - acceptable           | -  | -   | -  | -                |
| - weak                 | 1,104,420                                    | -   | -  | 1,104,420        |
| No rated               | -  | -   | -  | -                |
| Total carrying amount  | 1,065,883,174                                | 453,640   | -  | 1,066,336,814    |
| Allowance for bad debt | ( 34,363)                                    | -   | -  | ( 34,363)        |
| other equity           | ( 266,046)                                   | ( 6,091)  | -  | ( 272,137)       |
| Total                  | \$ 1,065,582,765                             | \$ 447,549  | \$ -   | \$ 1,066,030,314 |

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

December 31, 2021

| Loan commitments and<br>financial guarantee contracts   | 12-month expected credit losses<br>(Stage 1) | Lifetime expected credit losses<br>(individual assessment)<br>(Stage 2) | Lifetime expected credit losses<br>(credit impaired financial assets that were<br>neither purchased nor originated)<br>(Stage 3) | Difference in impairment<br>recognised under the<br>regulation governing the<br>procedures for each<br>industry to evaluate<br>assets and set aside loss<br>reserves | Total          |
|---|--|---|--|--|----------------|
| Credit ratings  |  |   |  |  |                |
| - excellent   | \$ 292,384,202                               | \$ -  | \$ -   | \$ -   | \$ 292,384,202 |
| - good  | 173,520,582                                  | 10,715,930  | -  | -  | 184,236,512    |
| - acceptable  | 85,905,190                                   | 7,029,819   | -  | -  | 92,935,009     |
| - weak  | 22,377,504                                   | 711,509   | 2,889  | -  | 23,091,902     |
| No rated  | 27,574,980                                   | 3,000   | 32,575   | -  | 27,610,555     |
| Total carrying amount   | 601,762,458                                  | 18,460,258  | 35,464   | -  | 620,258,180    |
| Provisions for liabilities and<br>loan commitments  | ( 408,405)                                   | ( 124,289)  | ( 10,565)  | -  | ( 543,259)     |
| Difference in impairment<br>recognised under the<br>regulation governing the<br>procedures for each industry<br>to evaluate assets and set<br>aside loss reserves | -  | -   | -  | ( 4,605,225)   | ( 4,605,225)   |
| Total   | \$ 601,354,053                               | \$ 18,335,969   | \$ 24,899  | ( \$ 4,605,225)  | \$ 615,109,696 |

December 31, 2020

| 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  | \$ 285,729,926                            | \$ -  | \$ -  | \$ -   | \$ 285,729,926 |
| - good   | 158,045,809                               | 16,751,032  | -   | -  | 174,796,841    |
| - acceptable   | 79,605,218                                | 4,195,944   | -   | -  | 83,801,162     |
| - weak   | 24,120,994                                | 2,709,911   | 276,209   | -  | 27,107,114     |
| No rated   | 22,847,898                                | -   | 28,015  | -  | 22,875,913     |
| Total carrying amount  | 570,349,845                               | 23,656,887  | 304,224   | -  | 594,310,956    |
| Provisions for liabilities and loan commitments  | ( 360,595)                                | ( 134,518)  | ( 34,650)   | -  | ( 529,763)     |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -   | -   | -   | ( 4,699,092)   | ( 4,699,092)   |
| Total  | \$ 569,989,250                            | \$ 23,522,369   | \$ 269,574  | ( \$ 4,699,092)  | \$ 589,082,101 |

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

December 31, 2021

|   | 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  | \$ 308,975,533   | \$ 6,069,103          | \$ -                        | \$ 823,248       | \$ 193,863,256  | \$ 403       | \$ 163,672             | \$ 10,600,236                                      | \$ 520,495,451   |
| Finance, investment and insurance   | 273,185,555  | 151,403,735           | 5,001,744                   | 3,437,213        | 771,341,828   | 3,667,698    | 5,935,947              | 64,581,169   | 1,278,554,889    |
| Enterprise and commerce   | -  | 1,303,915,382         | -                           | 42,431,037       | 351,734,372   | 169,971      | 10,838                 | 435,195,977  | 2,133,457,577    |
| Individuals   | -  | 602,989,996           | -                           | 50,177,506       | -   | 18,003       | 3,174                  | 98,945,367   | 752,134,046      |
| Other   | -  | 3,314,493             | -                           | 1,259,089        | 776,035   | 113,701      | 34                     | 10,935,431   | 16,398,783       |
| Total   | 582,161,088  | 2,067,692,709         | 5,001,744                   | 98,128,093       | 1,317,715,491   | 3,969,776    | 6,113,665              | 620,258,180  | 4,701,040,746    |
| Less: allowance for bad debt, accumulated impairment and provisions for liabilities | ( 585)   | ( 30,337,729)         | ( 11,726)                   | ( 1,497,131)     | ( 313,266)  | -            | ( 18,090)              | ( 5,148,484)                                       | ( 37,327,011)    |
| Net   | \$ 582,160,503   | \$ 2,037,354,980      | \$ 4,990,018                | \$ 96,630,962    | \$ 1,317,402,225  | \$ 3,969,776 | \$ 6,095,575           | \$ 615,109,696                                     | \$ 4,663,713,735 |

The trade financing for corporates and businesses accounts for 8.88%, equivalent to \$115,834,627 while the housing loans for individuals accounts for 78.15%, equivalent to \$471,259,163..



December 31, 2020

|   | 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  | \$ 247,454,412   | \$ 6,672,830          | \$ -                        | \$ 920,099       | \$ 212,820,865  | \$ -         | \$ 1,380               | \$ 18,118,395                                      | \$ 485,987,981   |
| Finance, investment and insurance   | 247,438,563  | 155,056,667           | 5,183,353                   | 3,316,124        | 683,073,182   | 4,952,684    | 5,104,758              | 62,428,994   | 1,166,554,325    |
| Enterprise and commerce   | -  | 1,230,350,092         | -                           | 41,576,126       | 370,012,001   | 359,923      | 61,329                 | 413,282,719  | 2,055,642,190    |
| Individuals   | -  | 523,590,175           | -                           | 44,167,748       | -   | 15,639       | 86,509                 | 97,109,598   | 664,969,669      |
| Other   | -  | 3,454,425             | -                           | 1,571,728        | 777,166   | 73,928       | -                      | 3,371,250  | 9,248,497        |
| Total   | 494,892,975  | 1,919,124,189         | 5,183,353                   | 91,551,825       | 1,266,683,214   | 5,402,174    | 5,253,976              | 594,310,956  | 4,382,402,662    |
| Less: allowance for bad debt, accumulated impairment and provisions for liabilities | ( 169)   | ( 29,165,967)         | ( 13,318)                   | ( 1,581,050)     | ( 306,500)  | -            | ( 119,601)             | ( 5,228,855)                                       | ( 36,415,460)    |
| Net   | \$ 494,892,806   | \$ 1,889,958,222      | \$ 5,170,035                | \$ 89,970,775    | \$ 1,266,376,714  | \$ 5,402,174 | \$ 5,134,375           | \$ 589,082,101                                     | \$ 4,345,987,202 |

The trade financing for corporates and businesses accounts for 7.19%, equivalent to \$88,453,647 while the housing loans for individuals accounts for 77.30%, equivalent to \$404,729,015.

(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, 2021   | Collateral    | Net settlement master netting arrangements | Guarantee  | Total         |
|---|---------------|--|------------|---------------|
| <b>On-Balance-Sheet Items</b>   |               |  |            |               |
| Cash and cash equivalents   | \$ 1,132,996  | \$ -                                       | \$ -       | \$ 1,132,996  |
| Financial assets mandatorily measured at fair value through profit or loss        |               |  |            |               |
| - debt instrument   | -             | -  | 25,979,307 | 25,979,307    |
| - derivative instrument   | 1,792,621     | 329,903                                    | -          | 2,122,524     |
| Financial assets at fair value through other comprehensive income-debt instrument | -             | -  | 26,023,624 | 26,023,624    |
| Investments in debt instruments at amortised cost                                 | -             | -  | 32,219,387 | 32,219,387    |
| Securities purchased under resell agreements                                      | 949,170       | -  | -          | 949,170       |
| Receivables   | 33,658,585    | -  | -          | 33,658,585    |
| Loans discounted, net   | 1,354,094,621 | -  | 67,632,031 | 1,421,726,652 |
| Other assets  | 90,157        | -  | -          | 90,157        |
| <b>Off-Balance-Sheet Items</b>  |               |  |            |               |
| Irrevocable loan commitments  | 40,546,743    | -  | 237,474    | 40,784,217    |
| Guarantees  | 179,388,718   | -  | 1,717,287  | 181,106,005   |
| Letters of credit   | 10,592,377    | -  | 422,777    | 11,015,154    |

| December 31, 2020  | Collateral | Net settlement master netting arrangements | Guarantee  | Total      |
|--|------------|--|------------|------------|
| <b>On-Balance-Sheet Items</b>  |            |  |            |            |
| Cash and cash equivalents  | \$ 792,960 | \$ -                                       | \$ -       | \$ 792,960 |
| Financial assets mandatorily measured at fair value through profit or loss |            |  |            |            |
| - debt instrument  | -          | -  | 27,357,378 | 27,357,378 |
| - derivative instrument  | 2,978,667  | 498,075                                    | -          | 3,476,742  |

|   |               |   |             |               |
|---|---------------|---|-------------|---------------|
| Financial assets at fair value through other comprehensive income-debt instrument | -             | - | 28,369,773  | 28,369,773    |
| Investments in debt instruments at amortised cost                                 | -             | - | 30,227,258  | 30,227,258    |
| Securities purchased under resell agreements                                      | 962,450       | - | -           | 962,450       |
| Receivables   | 27,617,637    | - | -           | 27,617,637    |
| Loans discounted, net   | 1,227,852,728 | - | 104,022,454 | 1,331,875,182 |
| Other assets  | 85,050        | - | -           | 85,050        |
| <b>Off-Balance-Sheet Items</b>  |               |   |             |               |
| Irrevocable loan commitments  | 36,060,596    | - | 4,278,984   | 40,339,580    |
| Guarantees  | 172,608,196   | - | 1,635,100   | 174,243,296   |
| Letters of credit   | 11,382,150    | - | 387,385     | 11,769,535    |

(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 Mega group closely monitors 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, 2021                           | Total carrying amount | Allowance for impairment | Total risk exposure | Collateral/Guarantee credit enhancement |
|---|-----------------------|--------------------------|---------------------|---|
| Receivables                                 |                       |                          |                     |   |
| - Credit card business                      | \$ 87,221             | \$ 70,887                | \$ 16,334           | \$ -                                    |
| - Other                                     | 767,295               | 612,028                  | 155,267             | 115,299                                 |
| Loan discounted, net                        | 11,989,476            | 2,705,758                | 9,283,718           | 7,889,008                               |
| Reinsurance contract assets                 | 23,453                | 11,726                   | 11,727              | -                                       |
| Other financial assets                      | 22,867                | 18,080                   | 4,787               | -                                       |
| Impaired financial assets on balance sheet  | <u>\$ 12,890,312</u>  | <u>\$ 3,418,479</u>      | <u>\$ 9,471,833</u> | <u>\$ 8,004,307</u>                     |
| Irrevocable loan commitments                | \$ -                  | \$ -                     | \$ -                | \$ -                                    |
| All types of guarantees                     | 34,353                | 32,984                   | 1,369               | 523                                     |
| Letters of credit                           | 1,111                 | 77                       | 1,034               | 1,111                                   |
| Impaired financial assets off balance sheet | <u>\$ 35,464</u>      | <u>\$ 33,061</u>         | <u>\$ 2,403</u>     | <u>\$ 1,634</u>                         |

| December 31, 2020                           | Total carrying amount | Allowance for impairment | Total risk exposure  | Collateral/Guarantee credit enhancement |
|---|-----------------------|--------------------------|----------------------|---|
| Receivables                                 |                       |                          |                      |   |
| - Credit card business                      | \$ 65,981             | \$ 59,183                | \$ 6,798             | \$ -                                    |
| - Other                                     | 1,031,421             | 655,293                  | 376,128              | 125,318                                 |
| Loan discounted, net                        | 13,710,547            | 2,400,562                | 11,309,985           | 7,279,545                               |
| Reinsurance contract assets                 | 26,085                | 13,318                   | 12,767               | -                                       |
| Other financial assets                      | 154,016               | 119,593                  | 34,423               | -                                       |
| Impaired financial assets on balance sheet  | <u>\$ 14,988,050</u>  | <u>\$ 3,247,949</u>      | <u>\$ 11,740,101</u> | <u>\$ 7,404,863</u>                     |
| Irrevocable loan commitments                | \$ 20,179             | \$ 6,673                 | \$ 13,506            | \$ 196                                  |
| All types of guarantees                     | 51,500                | 37,712                   | 13,788               | 14,205                                  |
| Letters of credit                           | 232,545               | 17,707                   | 214,838              | 151,925                                 |
| Impaired financial assets off balance sheet | <u>\$ 304,224</u>     | <u>\$ 62,092</u>         | <u>\$ 242,132</u>    | <u>\$ 166,326</u>                       |

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, 2021 and 2020, is shown below:



For the year ended December 31, 2021

| Loans discounted, net  | 12-month<br>expected credit<br>losses<br>(Stage 1) | Lifetime<br>expected<br>credit losses<br>(individual<br>assessment)<br>(Stage 2) | Lifetime expected<br>credit losses<br>(credit impaired financial<br>assets that were<br>neither purchased nor<br>originated)<br>(Stage 3) | Total<br>impairment<br>recognised<br>under<br>IFRS 9 | Difference in impairment<br>recognised under the<br>regulation governing<br>the procedures for each<br>industry to evaluate<br>assets and set aside loss<br>reserves | Total         |
|--|--|--|---|--|--|---------------|
| Balance at the beginning of the year   | \$ 2,961,164                                       | \$ 581,822   | \$ 2,109,119  | \$ 5,652,105   | \$ 23,513,862  | \$ 29,165,967 |
| Changes from financial instruments recognised at the beginning of the year:  |  |  |   |  |  |               |
| - Transferred to lifetime expected credit losses   | ( 23,031)  | 24,920   | ( 1,889)  | -  | -  | -             |
| - Transferred to credit impaired financial asset   | ( 24,306)  | ( 21,696)  | 46,002  | -  | -  | -             |
| - Transferred to 12-month expected credit losses   | 159,275  | ( 142,757)   | ( 16,518)   | -  | -  | -             |
| - Derecognised financial assets  | ( 1,277,269)                                       | ( 153,351)   | ( 88,686)   | ( 1,519,306)   | -  | ( 1,519,306)  |
| - Additional provision and reversal  | ( 291,737)   | 85,898   | 995,830   | 789,991  | -  | 789,991       |
| Originated or purchased new financial assets   | 1,270,386  | 167,558  | 77,798  | 1,515,742  | -  | 1,515,742     |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -  | -  | -   | -  | 1,060,093  | 1,060,093     |
| Write-off of uncollectible amount  | -  | -  | ( 1,331,972)  | ( 1,331,972)   | -  | ( 1,331,972)  |
| Foreign exchange and other changes   | 94,696   | 36,920   | 714,990   | 657,214  | -  | 657,214       |
| Balance at the end of the year   | \$ 2,679,786                                       | \$ 579,314   | \$ 2,504,674  | \$ 5,763,774   | \$ 24,573,955  | \$ 30,337,729 |

For the year ended December 31, 2020

| Loans discounted, net  | 12-month<br>expected credit<br>losses<br>(Stage 1) | Lifetime<br>expected<br>credit losses<br>(individual<br>assessment)<br>(Stage 2) | Lifetime expected<br>credit losses<br>(credit impaired financial<br>assets that were<br>neither purchased nor<br>originated)<br>(Stage 3) | Total<br>impairment<br>recognised<br>under<br>IFRS 9 | Difference in impairment<br>recognised under the<br>regulation governing<br>the procedures for each<br>industry to evaluate<br>assets and set aside loss<br>reserves | Total         |
|--|--|--|---|--|--|---------------|
| Balance at the beginning of the year   | \$ 2,736,126                                       | \$ 599,373   | \$ 2,350,961  | \$ 5,686,460   | \$ 23,896,971  | \$ 29,583,431 |
| Changes from financial instruments recognised at the beginning of the year:  |  |  |   |  |  |               |
| - Transferred to lifetime expected credit losses   | ( 48,288)  | 56,182   | ( 7,894)  | -  | -  | -             |
| - Transferred to credit impaired financial asset   | ( 76,951)  | ( 19,206)  | 96,157  | -  | -  | -             |
| - Transferred to 12-month expected credit losses   | 211,042  | ( 204,858)   | ( 6,184)  | -  | -  | -             |
| - Derecognised financial assets  | ( 1,153,931)                                       | ( 160,695)   | ( 163,970)  | ( 1,478,596)   | -  | ( 1,478,596)  |
| - Additional provision and reversal  | ( 126,753)   | 167,691  | 2,334,985   | 2,375,923  | -  | 2,375,923     |
| Originated or purchased new financial assets   | 1,372,488  | 138,744  | 37,350  | 1,548,582  | -  | 1,548,582     |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -  | -  | -   | -  | ( 383,109)   | ( 383,109)    |
| Write-off of uncollectible amount  | -  | -  | ( 2,584,979)  | ( 2,584,979)   | -  | ( 2,584,979)  |
| Foreign exchange and other changes   | 47,431   | 4,591  | 52,693  | 104,715  | -  | 104,715       |
| Balance at the end of the year   | \$ 2,961,164                                       | \$ 581,822   | \$ 2,109,119  | \$ 5,652,105   | \$ 23,513,862  | \$ 29,165,967 |

# Financial Information

(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, 2021 and 2020, is shown below:

For the year ended December 31, 2021

| Receivables  | 12-month<br>expected<br>credit losses<br>(Stage 1) | Lifetime<br>expected<br>credit losses<br>(individual<br>assessment)<br>(Stage 2) | Lifetime expected<br>credit losses<br>(credit impaired financial<br>assets that were neither<br>purchased nor originated)<br>(Stage 3) | Total<br>impairment<br>recognised<br>under IFRS 9 | Difference in impairment<br>recognised under the<br>regulation governing<br>the procedures for each<br>industry to evaluate assets<br>and set aside loss reserves | Total        |
|--|--|--|--|---|---|--------------|
| Balance at the beginning of the year   | \$ 546,324   | \$ 35,515  | \$ 90,075  | \$ 671,914  | \$ 909,136  | \$ 1,581,050 |
| Changes from financial instruments recognised at the beginning of the year:  |  |  |  |   |   |              |
| - Transferred to lifetime expected credit losses   | ( 693)   | 3,279  | ( 2,586)   | -   | -   | -            |
| - Transferred to credit impaired financial asset   | ( 156)   | ( 464)   | 620  | -   | -   | -            |
| - Transferred to 12-month expected credit losses   | 3,449  | ( 1,238)   | ( 2,211)   | -   | -   | -            |
| - Derecognised financial assets  | ( 65,256)  | ( 3,959)   | ( 122,427)   | ( 191,642)  | -   | ( 191,642)   |
| - Additional provision and reversal  | ( 25,173)  | 6,642  | 90,484   | 71,953  | -   | 71,953       |
| Originated or purchased new financial assets   | 46,404   | 18,651   | 8,102  | 73,157  | -   | 73,157       |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -  | -  | -  | -   | ( 59,483)   | ( 59,483)    |
| Write-off of uncollectible amount  | ( 7,679)   | ( 15,835)  | 46,213   | 22,699  | -   | 22,699       |
| Foreign exchange and other changes   | 10   | 14   | ( 627)   | ( 603)  | -   | ( 603)       |
| Balance at the end of the year   | \$ 497,230   | \$ 42,605  | \$ 107,643   | \$ 647,478  | \$ 849,653  | \$ 1,497,131 |

For the year ended December 31, 2020

| Receivables  | 12-month<br>expected<br>credit losses<br>(Stage 1) | Lifetime<br>expected<br>credit losses<br>(individual<br>assessment)<br>(Stage 2) | Lifetime expected<br>credit losses<br>(credit impaired financial<br>assets that were neither<br>purchased nor originated)<br>(Stage 3) | Total<br>impairment<br>recognised<br>under IFRS 9 | Difference in impairment<br>recognised under the<br>regulation governing<br>the procedures for each<br>industry to evaluate assets<br>and set aside loss reserves | Total        |
|--|--|--|--|---|---|--------------|
| Balance at the beginning of the year   | \$ 622,333   | \$ 3,195   | \$ 131,771   | \$ 757,299  | \$ 1,045,121  | \$ 1,802,420 |
| Changes from financial instruments recognised at the beginning of the year:  |  |  |  |   |   |              |
| - Transferred to lifetime expected credit losses   | ( 13,364)  | 14,448   | ( 1,084)   | -   | -   | -            |
| - Transferred to credit impaired financial asset   | ( 77)  | ( 272)   | 349  | -   | -   | -            |
| - Transferred to 12-month expected credit losses   | 1,010  | ( 311)   | ( 699)   | -   | -   | -            |
| - Derecognised financial assets  | ( 128,723)   | ( 2,252)   | ( 102,795)   | ( 233,770)  | -   | ( 233,770)   |
| - Additional provision and reversal  | 1,963  | 2,465  | 12,370   | 16,798  | -   | 16,798       |
| Originated or purchased new financial assets   | 80,672   | 17,205   | 5,491  | 103,368   | -   | 103,368      |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -  | -  | -  | -   | ( 135,985)  | ( 135,985)   |
| Write-off of uncollectible amount  | ( 17,477)  | ( 16,738)  | 42,362   | 8,147   | -   | 8,147        |
| Foreign exchange and other changes   | ( 13)  | 17,775   | 2,310  | 20,072  | -   | 20,072       |
| Balance at the end of the year   | \$ 546,324   | \$ 35,515  | \$ 90,075  | \$ 671,914  | \$ 909,136  | \$ 1,581,050 |





(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, 2021 and 2020, is shown below:

a. Financial assets at fair value through other comprehensive income

For the year ended December 31, 2021

| 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   | \$ 266,046                                | \$ 6,091  | \$ -  | \$ 272,137 |
| Changes from financial instruments recognised at the beginning of the year:      |   |   |   |            |
| - Transferred to lifetime expected credit losses                                 | 6,091                                     | ( 6,091)  | -   | -          |
| - The impairment allowance for financial assets derecognised in the current year | ( 62,349)                                 | -   | -   | ( 62,349)  |
| - Additional provision and reversal  | ( 9,433)                                  | -   | -   | ( 9,433)   |
| Originated or purchased new financial assets                                     | 55,799                                    | -   | -   | 55,799     |
| Foreign exchange and other changes   | ( 9,020)                                  | -   | -   | ( 9,020)   |
| Balance at the end of the year   | \$ 247,134                                | \$ -  | \$ -  | \$ 247,134 |

For the year ended December 31, 2020

| 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   | \$ 182,477                                | \$ -  | \$ -  | \$ 182,477 |
| Changes from financial instruments recognised at the beginning of the year:      |   |   |   |            |
| - Transferred to lifetime expected credit losses                                 | ( 756)                                    | 756   | -   | -          |
| - The impairment allowance for financial assets derecognised in the current year | ( 24,379)                                 | -   | -   | ( 24,379)  |
| - Additional provision and reversal  | 20,826                                    | 5,335   | -   | 26,161     |
| Originated or purchased new financial assets                                     | 89,529                                    | -   | -   | 89,529     |
| Foreign exchange and other changes   | ( 1,651)                                  | -   | -   | ( 1,651)   |
| Balance at the end of the year   | \$ 266,046                                | \$ 6,091  | \$ -  | \$ 272,137 |

b. Investments in debt instruments at amortized cost

For the year ended December 31, 2021

| 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   | \$ 34,363                                 | \$ -  | \$ -  | \$ 34,363 |
| Changes from financial instruments recognised at the beginning of the year:      |   |   |   |           |
| - The impairment allowance for financial assets derecognised in the current year | ( 23,214)                                 | -   | -   | ( 23,214) |
| - Additional provision and reversal  | 2,077                                     | -   | -   | 2,077     |
| Originated or purchased new financial assets                                     | 52,906                                    | -   | -   | 52,906    |
| Balance at the end of the year   | \$ 66,132                                 | \$ -  | \$ -  | \$ 66,132 |

# Financial Information

For the year ended December 31, 2020

| 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   | \$ 23,046                                 | \$ -  | \$ -  | \$ 23,046 |
| Changes from financial instruments recognised at the beginning of the year:      |   |   |   |           |
| - The impairment allowance for financial assets derecognised in the current year | ( 15,304)                                 | -   | -   | ( 15,304) |
| - Additional provision and reversal  | ( 667)                                    | -   | -   | ( 667)    |
| Originated or purchased new financial assets                                     | 27,315                                    | -   | -   | 27,315    |
| Foreign exchange and other changes   | ( 27)                                     | -   | -   | ( 27)     |
| Balance at the end of the year   | \$ 34,363                                 | \$ -  | \$ -  | \$ 34,363 |

(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, 2021 and 2020, is shown below:

For the year ended December 31, 2021

| 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   | \$ 360,595                                | \$ 134,518  | \$ 34,650   | \$ 529,763                               | \$ 4,699,092   | \$ 5,228,855 |
| Changes from financial instruments recognised at the beginning of the year:  |   |   |   |  |  |              |
| - Transferred to lifetime expected credit losses   | ( 12,479)                                 | 12,479  | -   | -  | -  | -            |
| - Transferred to credit impaired financial asset   | ( 26)                                     | ( 67)   | 93  | -  | -  | -            |
| - Transferred to 12-month expected credit losses   | 32,627                                    | ( 32,627)   | -   | -  | -  | -            |
| - The impairment allowance for financial assets derecognised in the current year   | ( 112,289)                                | ( 26,359)   | ( 22,796)   | ( 161,444)                               | -  | ( 161,444)   |
| - Additional provision and reversal  | 41,343                                    | ( 6,021)  | 889   | 34,433                                   | -  | 34,433       |
| Originated or purchased new financial assets   | 109,042                                   | 52,313  | 88  | 161,443                                  | -  | 161,443      |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -   | -   | -   | -  | ( 93,867)  | ( 93,867)    |
| Foreign exchange and other changes   | ( 10,407)                                 | ( 9,948)  | ( 581)  | ( 20,936)                                | -  | ( 20,936)    |
| Balance at the end of the year   | \$ 408,406                                | \$ 124,288  | \$ 10,565   | \$ 543,259                               | \$ 4,605,225   | \$ 5,148,484 |



For the year ended December 31, 2020

| 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   | \$ 355,583                                | \$ 126,283  | \$ 16,295   | \$ 498,161                               | \$ 4,706,995   | \$ 5,205,156 |
| Changes from financial instruments recognised at the beginning of the year:  |   |   |   |  |  |              |
| - Transferred to lifetime expected credit losses   | ( 3,768)                                  | 3,768   | -   | -  | -  | -            |
| - Transferred to credit impaired financial asset   | ( 23)                                     | ( 45)   | 68  | -  | -  | -            |
| - Transferred to 12-month expected credit losses   | 6,135                                     | ( 6,135)  | -   | -  | -  | -            |
| - The impairment allowance for financial assets derecognised in the current year   | ( 89,534)                                 | ( 19,202)   | ( 7,300)  | ( 116,036)                               | -  | ( 116,036)   |
| - Additional provision and reversal  | ( 43,787)                                 | ( 18,541)   | 486   | ( 61,842)                                | -  | ( 61,842)    |
| Originated or purchased new financial assets   | 114,635                                   | 47,651  | 21,879  | 184,165                                  | -  | 184,165      |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | -   | -   | -   | -  | ( 7,903)   | ( 7,903)     |
| Foreign exchange and other changes   | 21,354                                    | 739   | 3,222   | 25,315                                   | -  | 25,315       |
| Balance at the end of the year   | \$ 360,595                                | \$ 134,518  | \$ 34,650   | \$ 529,763                               | \$ 4,699,092   | \$ 5,228,855 |

## 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, 2021 and 2020, is shown below:

For the year ended December 31, 2021

| 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  | \$ 1,838,136,949                          | \$ 67,276,693   | \$ 13,710,547   | \$1,919,124,189 |
| Changes from financial instruments recognised at the beginning of the year: |   |   |   |                 |
| - Transferred to lifetime expected credit losses                            | ( 18,815,928)                             | 18,823,706  | ( 7,778)  | -               |
| - Transferred to credit impaired financial asset                            | ( 2,052,817)                              | ( 1,622,551)  | 3,675,368   | -               |
| - Transferred to 12-month expected credit losses                            | 11,365,568                                | ( 11,315,358)   | ( 50,210)   | -               |
| - Derecognition(including recovery, write-off bad debt not included)        | ( 662,168,929)                            | ( 29,771,479)   | ( 3,986,520)  | ( 695,926,928)  |
| - Decreased   | ( 68,078,084)                             | ( 3,147,738)  | ( 582,877)  | ( 71,808,699)   |
| Originated or purchased new financial assets                                | 894,269,286                               | 29,580,893  | 585,112   | 924,435,291     |
| Write-off of uncollectible amount   | -   | -   | ( 1,331,972)  | ( 1,331,972)    |
| Foreign exchange and other changes  | ( 6,701,977)                              | ( 75,001)   | ( 22,194)   | ( 6,799,172)    |
| Balance at the end of the year  | \$ 1,985,954,068                          | \$ 69,749,165   | \$ 11,989,476   | \$2,067,692,709 |

# Financial Information

For the year ended December 31, 2020

| 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  | \$ 1,826,594,076                          | \$ 66,707,144   | \$ 9,960,045  | \$1,903,261,265 |
| Changes from financial instruments recognised at the beginning of the year: |   |   |   |                 |
| - Transferred to lifetime expected credit losses                            | ( 30,945,224)                             | 30,994,907  | ( 49,683)   | -               |
| - Transferred to credit impaired financial asset                            | ( 6,449,997)                              | ( 811,330)  | 7,261,327   | -               |
| - Transferred to 12-month expected credit losses                            | 20,827,902                                | ( 20,780,543)   | ( 47,359)   | -               |
| - Derecognition(including recovery, write-off bad debt not included)        | ( 705,287,614)                            | ( 23,040,828)   | ( 882,074)  | ( 729,210,516)  |
| - Decreased   | ( 83,212,528)                             | ( 3,945,857)  | ( 1,423,627)  | ( 88,582,012)   |
| Originated or purchased new financial assets                                | 822,026,252                               | 18,185,011  | 1,519,707   | 841,730,970     |
| Write-off of uncollectible amount   | -   | -   | ( 2,584,979)  | ( 2,584,979)    |
| Foreign exchange and other changes  | ( 5,415,918)                              | ( 31,811)   | ( 42,810)   | ( 5,490,539)    |
| Balance at the end of the year  | \$ 1,838,136,949                          | \$ 67,276,693   | \$ 13,710,547   | \$1,919,124,189 |

(B) The movement in the total carrying amount of receivables for the years ended December 31, 2021 and 2020, is shown below:

For the year ended December 31, 2021

| 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  | \$ 89,277,840                             | \$ 1,176,583  | \$ 1,097,402  | \$ 91,551,825 |
| Changes from financial instruments recognised at the beginning of the year: |   |   |   |               |
| - Transferred to lifetime expected credit losses                            | ( 225,000)                                | 225,933   | ( 933)  | -             |
| - Transferred to credit impaired financial asset                            | ( 45,864)                                 | ( 25,265)   | 71,129  | -             |
| - Transferred to 12-month expected credit losses                            | 117,027                                   | ( 115,357)  | ( 1,670)  | -             |
| - Derecognition(including recovery, write-off bad debt not included)        | ( 41,754,913)                             | ( 356,742)  | ( 176,803)  | ( 42,288,458) |
| - Increased(decreased)  | 132,141                                   | 194,722   | ( 123,750)  | 203,113       |
| Originated or purchased new financial assets                                | 48,432,995                                | 249,924   | 9,019   | 48,691,938    |
| Write-off of uncollectible amount   | ( 7,679)                                  | ( 15,835)   | ( 29,236)   | ( 52,750)     |
| Foreign exchange and other changes  | 13,069                                    | ( 2)  | 9,358   | 22,425        |
| Balance at the end of the year  | \$ 95,939,616                             | \$ 1,333,961  | \$ 854,516  | \$ 98,128,093 |



For the year ended December 31, 2020

| 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  | \$ 99,243,643                             | \$ 777,032  | \$ 1,090,021  | \$ 101,110,696 |
| Changes from financial instruments recognised at the beginning of the year: |   |   |   |                |
| - Transferred to lifetime expected credit losses                            | ( 215,570)                                | 217,143   | ( 1,573)  | -              |
| - Transferred to credit impaired financial asset                            | ( 41,524)                                 | ( 19,448)   | 60,972  | -              |
| - Transferred to 12-month expected credit losses                            | 92,481                                    | ( 91,292)   | ( 1,189)  | -              |
| - Derecognition(including recovery, write-off bad debt not included)        | ( 54,806,538)                             | ( 460,816)  | ( 225,406)  | ( 55,492,760)  |
| - Increased(decreased)  | ( 7,300,199)                              | 518,144   | 162,860   | ( 6,619,195)   |
| Originated or purchased new financial assets                                | 52,773,608                                | 252,559   | 105,600   | 53,131,767     |
| Write-off of uncollectible amount   | ( 17,477)                                 | ( 16,739)   | ( 30,904)   | ( 65,120)      |
| Foreign exchange and other changes  | ( 450,584)                                | -   | ( 62,979)   | ( 513,563)     |
| Balance at the end of the year  | \$ 89,277,840                             | \$ 1,176,583  | \$ 1,097,402  | \$ 91,551,825  |

(C) The movement in the total carrying amount of debt instruments for the years ended December 31, 2021 and 2020, is shown below:

a. Financial assets at fair value through other comprehensive income

For the year ended December 31, 2021

| 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  | \$ 531,521,527                            | \$ 453,640  | \$ -  | \$ 531,975,167 |
| Changes from financial instruments recognised at the beginning of the year: |   |   |   |                |
| - 12-month expected credit losses   | 450,025                                   | ( 450,025)  | -   | -              |
| Originated or purchased new financial assets                                | 84,274,338                                | ( 13)   | -   | 84,274,325     |
| Derecognition   | ( 110,118,253)                            | -   | -   | ( 110,118,253) |
| Foreign exchange and other changes  | ( 8,318,813)                              | ( 3,602)  | -   | ( 8,322,415)   |
| Balance at the end of the year  | \$ 497,808,824                            | \$ -  | \$ -  | \$ 497,808,824 |

For the year ended December 31, 2020

| 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  | \$ 511,844,947                            | \$ -  | \$ -  | \$ 511,844,947 |
| Changes from financial instruments recognised at the beginning of the year: |   |   |   |                |
| - 12-month expected credit losses   | ( 850,071)                                | 850,071   | -   | -              |
| Originated or purchased new financial assets                                | 197,427,278                               | ( 400,046)  | -   | 197,027,232    |
| Derecognition   | ( 176,672,238)                            | -   | -   | ( 176,672,238) |
| Foreign exchange and other changes  | ( 228,389)                                | 3,615   | -   | ( 224,774)     |
| Balance at the end of the year  | \$ 531,521,527                            | \$ 453,640  | \$ -  | \$ 531,975,167 |

## b. Investments in debt instruments at amortized cost

For the year ended December 31, 2021

| 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              | \$ 534,361,647                            | \$ -  | \$ -  | \$ 534,361,647 |
| Originated or purchased new financial assets      | 608,884,205                               | -   | -   | 608,884,205    |
| Derecognition                                     | ( 494,916,949)                            | -   | -   | ( 494,916,949) |
| Foreign exchange and other changes                | ( 130,353)                                | -   | -   | ( 130,353)     |
| Balance at the end of the year                    | \$ 648,198,550                            | \$ -  | \$ -  | \$ 648,198,550 |

For the year ended December 31, 2020

| 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              | \$ 275,237,202                            | \$ -  | \$ -  | \$ 275,237,202 |
| Originated or purchased new financial assets      | 504,998,948                               | -   | -   | 504,998,948    |
| Derecognition                                     | ( 245,706,786)                            | -   | -   | ( 245,706,786) |
| Foreign exchange and other changes                | ( 167,717)                                | -   | -   | ( 167,717)     |
| Balance at the end of the year                    | \$ 534,361,647                            | \$ -  | \$ -  | \$ 534,361,647 |

## H. Credit risk concentration

Extreme credit risk concentration will enhance risk degree and risk concentration will happen in some conditions, 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, region/country, collateral and other forms.

(A) Loans and credit commitments of the Mega Group are shown below by industry:

|             |                                   | Loans and credit commitments |                |                   |                |
|-------------|-----------------------------------|------------------------------|----------------|-------------------|----------------|
|             |                                   | December 31, 2021            |                | December 31, 2020 |                |
|             |                                   | Amount                       | Percentage (%) | Amount            | Percentage (%) |
| Individuals | Individuals                       | \$ 701,935,362               | 26.11%         | \$ 620,699,772    | 24.70%         |
| Corporation | Government institution            | 16,669,339                   | 0.62%          | 24,791,226        | 0.99%          |
|             | Finance, investment and insurance | 215,984,904                  | 8.04%          | 217,485,661       | 8.65%          |
|             | Enterprise and commerce           | 1,739,111,360                | 64.70%         | 1,643,632,811     | 65.39%         |
|             | - Manufacturing                   | 711,462,974                  | 26.47%         | 619,039,614       | 24.63%         |
|             | - Electricity and gas supply      | 24,515,928                   | 0.91%          | 45,088,589        | 1.79%          |
|             | - Wholesale and retail            | 190,358,161                  | 7.08%          | 176,176,866       | 7.01%          |
|             | - Transportation and storage      | 150,567,542                  | 5.60%          | 161,860,341       | 6.44%          |
|             | - Real estate                     | 419,861,894                  | 15.62%         | 402,085,766       | 16.00%         |
|             | - Others                          | 242,344,861                  | 9.02%          | 239,381,635       | 9.52%          |
|             | Others                            | 14,249,924                   | 0.53%          | 6,825,675         | 0.27%          |
| Total       |                                   | \$ 2,687,950,889             | 100.00%        | \$ 2,513,435,145  | 100.00%        |



## (B) Loans and credit commitments of the Mega Group are shown below by region

|               | Loans and credit commitments |                |                   |                |
|---------------|------------------------------|----------------|-------------------|----------------|
|               | December 31, 2021            |                | December 31, 2020 |                |
|               | Amount                       | Percentage (%) | Amount            | Percentage (%) |
| ROC           | \$ 2,146,255,003             | 79.85%         | \$ 1,942,823,541  | 77.30%         |
| Asia          | 347,362,278                  | 12.92%         | 364,890,389       | 14.52%         |
| North America | 109,811,768                  | 4.09%          | 111,881,690       | 4.45%          |
| Others        | 84,521,840                   | 3.14%          | 93,839,525        | 3.73%          |
| Total         | \$ 2,687,950,889             | 100.00%        | \$ 2,513,435,145  | 100.00%        |

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

|                               | Loans and credit commitments |                |                   |                |
|-------------------------------|------------------------------|----------------|-------------------|----------------|
|                               | December 31, 2021            |                | December 31, 2020 |                |
|                               | Amount                       | Percentage (%) | Amount            | Percentage (%) |
| Unsecured                     | \$ 1,033,318,860             | 38.44%         | \$ 955,207,553    | 38.00%         |
| Secured                       |                              |                |                   |                |
| - Secured by stocks           | 74,059,335                   | 2.76%          | 64,087,514        | 2.55%          |
| - Secured by bonds            | 102,382,838                  | 3.81%          | 101,169,518       | 4.03%          |
| - Secured by real estate      | 1,261,732,640                | 46.94%         | 1,135,794,427     | 45.19%         |
| - Secured by movable property | 89,242,094                   | 3.32%          | 86,693,287        | 3.45%          |
| - Letter of guarantee         | 70,009,569                   | 2.60%          | 110,323,923       | 4.39%          |
| - Others                      | 57,205,553                   | 2.13%          | 60,158,923        | 2.39%          |
| Total                         | \$ 2,687,950,889             | 100.00%        | \$ 2,513,435,145  | 100.00%        |

## I. Foreclosed properties management policy

As of December 31, 2021 and 2020, book value of foreclosed properties in other assets in the consolidated balance sheet of MICB are totaling \$24,273 and \$0, respectively. According to the regulations of competent authorities, foreclosed properties of the bank shall be sold within four years, unless approved by the competent authority.

## 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, 2021                       |                                |                                    |                                 |                         |
|-------------------------------------|---------------------------------------|---|--------------------------------|------------------------------------|---------------------------------|-------------------------|
| 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                         | \$ 2,489,159                            | \$ 701,082,974                 | 0.36%                              | \$ 10,230,723                   | 411.01%                 |
|                                     | Unsecured loans                       | 2,306,723                               | 763,619,739                    | 0.30%                              | 11,554,760                      | 500.92%                 |
| Consumer banking                    | Residential mortgage loans (Note 4)   | 563,845                                 | 471,746,438                    | 0.12%                              | 6,686,126                       | 1185.81%                |
|                                     | Cash card                             | -                                       | -                              | -                                  | -                               | -                       |
|                                     | Small amount of credit loans (Note 5) | 26,245                                  | 20,865,636                     | 0.13%                              | 314,632                         | 1198.83%                |
|                                     | Others                                | 78,819                                  | 110,344,028                    | 0.07%                              | 1,551,016                       | 1967.82%                |
|                                     | (Note 6) Unsecured loans              | -                                       | 33,894                         | 0.00%                              | 472                             | -                       |
| Gross loan business                 |                                       | \$ 5,464,791                            | \$ 2,067,692,709               | 0.26%                              | \$ 30,337,729                   | 555.15%                 |
|                                     |                                       | Amount of overdue accounts              | Balance of accounts receivable | Overdue account ratio              | Allowance for doubtful accounts | Coverage ratio          |
| Credit card services                |                                       | \$ 18,546                               | \$ 9,085,600                   | 0.20%                              | \$ 82,962                       | 447.33%                 |
| Without recourse factoring (Note 7) |                                       | \$ 1,912                                | \$ 18,160,261                  | 0.01%                              | \$ 244,753                      | 12800.89%               |

| Month / Year                        |                                       | December 31, 2020                       |                                |                                    |                                 |                         |
|-------------------------------------|---------------------------------------|---|--------------------------------|------------------------------------|---------------------------------|-------------------------|
| 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                         | \$ 2,308,060                            | \$ 672,359,648                 | 0.34%                              | \$ 9,849,332                    | 426.74%                 |
|                                     | Unsecured loans                       | 1,078,301                               | 723,174,366                    | 0.15%                              | 11,736,554                      | 1088.43%                |
| Consumer banking                    | Residential mortgage loans (Note 4)   | 713,816                                 | 405,299,051                    | 0.18%                              | 5,873,726                       | 822.86%                 |
|                                     | Cash card                             | -                                       | -                              | -                                  | -                               | -                       |
|                                     | Small amount of credit loans (Note 5) | 27,579                                  | 19,046,120                     | 0.14%                              | 291,877                         | 1058.33%                |
|                                     | Others                                | 82,993                                  | 99,221,320                     | 0.08%                              | 1,414,145                       | 1703.93%                |
|                                     | (Note 6) Unsecured loans              | -                                       | 23,684                         | 0.00%                              | 333                             | -                       |
| Gross loan business                 |                                       | \$ 4,210,749                            | \$ 1,919,124,189               | 0.22%                              | \$ 29,165,967                   | 692.66%                 |
|                                     |                                       | Amount of overdue accounts              | Balance of accounts receivable | Overdue account ratio              | Allowance for doubtful accounts | Coverage ratio          |
| Credit card services                |                                       | \$ 15,930                               | \$ 7,905,561                   | 0.20%                              | \$ 72,304                       | 453.89%                 |
| Without recourse factoring (Note 7) |                                       | \$ 25,628                               | \$ 17,544,174                  | 0.15%                              | \$ 258,860                      | 1010.07%                |



Note 1: The amount recognized as non-performing loans is in accordance with the Regulations 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 card 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 card=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 card=allowance for doubtful accounts for accounts receivable of credit card/overdue accounts.

Note 4: For residential mortgage loans, the borrower provides his/her (or spouses or children's) 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 loans, cash card services and small amount of credit loans, and excluding credit card services.

Note 7: Pursuant to the Banking Bureau Letter No. 09850003180 dated August 24, 2009, the amount of without recourse factoring will be recognized as overdue accounts within three-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, 2021   |  |
|--|---|--|
|  | 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)  | 127   | 1,698  |
| Total  | \$ 127  | \$ 1,698   |

|  | December 31, 2020   |  |
|--|---|--|
|  | 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)  | 179   | 1,694  |
| Total  | \$ 179  | \$ 1,694   |

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 Banking Bureau (1) letter No. 09510001270 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 Banking Bureau (1) letter No. 09700318940 dated September 15, 2008, and the Banking Bureau letter No. 10500134790 dated September 20, 2016.

(C) Credit risk concentration of MICB

| Year             |  | December 31, 2021                      |   |
|------------------|--|--|---|
| Ranking (Note 1) | Industry 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                                    | \$ 43,789,296                          | 14.64%  |
| 2                | B Group –Other Financial Service Activities Not Elsewhere Classified | 38,319,966                             | 12.81%  |
| 3                | C Group –Chemical Materials Manufacturing                            | 37,019,855                             | 12.38%  |
| 4                | D Group –Manufacture of liquid crystal panel and components          | 21,322,946                             | 7.13%   |
| 5                | E Group –Ocean Freight Transportation Forwarding Services            | 18,924,933                             | 6.33%   |
| 6                | F Group –Real Estate Development Activities                          | 15,135,455                             | 5.06%   |
| 7                | G Group –Ocean Freight Transportation Forwarding Services            | 14,764,514                             | 4.94%   |
| 8                | H Group –Semiconductor package and test industry                     | 13,737,258                             | 4.59%   |
| 9                | I Group –Computer Manufacturing                                      | 13,630,941                             | 4.56%   |
| 10               | J Group –Financial leasing industry                                  | 13,395,632                             | 4.48%   |

| Year             | December 31, 2020  |   |  |
|------------------|--|---|--|
| Ranking (Note 1) | Industry of Enterprise Group (Note 2)  | Total outstanding loan amount<br>(Note 3) | Total outstanding loan amount / net worth of<br>the current year (%) |
| 1                | A Company –Transport via Railways  | \$ 46,504,072                             | 15.45%   |
| 2                | B Group –Other Financial Service Activities Not<br>Elsewhere Classified            | 37,132,762                                | 12.61%   |
| 3                | C Group –Chemical Materials Manufacturing  | 32,211,469                                | 10.93%   |
| 4                | D Group –Ocean Freight Transportation Forwarding<br>Services                       | 23,880,651                                | 8.11%  |
| 5                | E Group –Real Estate Activities for Sale and Rental with<br>Own or Leased Property | 17,032,558                                | 5.78%  |
| 6                | F Group –Manufacture of liquid crystal panel and<br>components                     | 16,142,435                                | 5.48%  |
| 7                | G Group –Ocean Freight Transportation Forwarding<br>Services                       | 14,129,855                                | 4.80%  |
| 8                | H Group –Rolling and Extruding of Iron and Steel                                   | 14,045,469                                | 4.77%  |
| 9                | I Group –Real Estate Development Activities  | 13,162,180                                | 4.47%  |
| 10               | J Group –Real Estate Development Activities  | 12,698,488                                | 4.31%  |

Note 1: Ranking the top ten enterprise groups other than government and government enterprise according to their total amounts of outstanding loans. If an outstanding loan belongs to an enterprise group, the outstanding loan of the enterprise group should be categorized and listed in total, and disclosed by “code” plus “industry type” (for example, A company (or group) – Manufacture of Liquid Crystal Panel and Components). 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 all types of loans (including import negotiation, export negotiation, bills discounted, overdrafts, short-term loans, short-term secured loans, margin loans receivable, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans and overdue loans), exchange bills negotiated, 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, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| Guarantees in arrear and endorsement of credits overdue for no 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                       | 2,470,710         | 2,055,005         |
| Provision for bad debts and guarantees actually reserved                                | 2,546,592         | 2,413,688         |

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, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| Total guarantees and endorsement for short-term bills   | \$ 192,848,800    | \$ 177,665,200    |
| Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment) | 4.94              | 4.97              |
| Total securities sold under repurchase agreements   | 189,737,223       | 241,164,641       |
| Securities sold under repurchase agreements / Net amount (after deducting final accounts allotment)     | 4.86              | 6.75              |

c. Credit risk concentration

| Item  | December 31, 2021     |           | December 31, 2020     |           |
|---|-----------------------|-----------|-----------------------|-----------|
| Amount of credit extensions to interested parties                         | \$                    | -         | \$                    | -         |
| Ratio of credit extensions to interested parties (%) (Note 1)             |                       | -         |                       | -         |
| Ratio of credit extensions secured by stocks (%) (Note 2)                 |                       | 16.81     |                       | 18.07     |
|   | Industry              | Ratio (%) | Industry              | Ratio (%) |
| Industry concentration (%)  | Real estate           | 28.42     | Real estate           | 27.88     |
| (Top 3 industries with highest ratio of credit extension amount) (Note 3) | Financial & Insurance | 24.32     | Financial & Insurance | 26.22     |
|   | Manufacturing         | 20.43     | Manufacturing         | 19.45     |

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 guarantees receivable, endorsed notes and overdue credit advances (including non-accrual loans, accounts receivable and notes 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 primarily operates 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.

Mega Group is responsible for daily capital liquidity management. According to the limits authorized by the Board of Directors, the Group monitors the indexes of liquidity risk, executes capital procurement trading and reports the conditions of capital liquidity to the management. The Group also reports the liquidity risk control to the capital review committee, risk management committee and Board of Directors regularly, and performs regular liquidity stress-testing to ensure sufficient capital to meet the funding requirements for increase in assets and payment obligations.

The 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.

The assets that can be used to repay matured debt and loan commitments include cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, investments in debt instruments at amortized cost, securities purchased under resell agreements, receivables, loans discounted and other financial assets. These assets can also be used in response of unexpected cash outflows.

The liquidity management policies of the Mega Group include:

- (A) Maintain the credit and 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) Holding 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. Maturity analysis of financial assets and financial liabilities held for liquidity risk management

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 from the financial reporting date to the contractual maturity date.

#### (A) The Mega Group's maturity analysis for non-derivative liabilities

(Please refer to page 136~137 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020.)

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

(Please refer to page 138 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020.)

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

(Please refer to page 139~140 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020.)

#### (D) Maturity analysis for contracts off the balance sheet

(Please refer to page 141 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020.)



## 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, 2021 |                |                |                  |                  |                  |                 |
|-------------------------------------|-------------------|----------------|----------------|------------------|------------------|------------------|-----------------|
|                                     | 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  | \$2,608,442,833   | \$ 295,911,282 | \$ 301,670,734 | \$ 259,224,343   | \$ 273,389,872   | \$ 252,660,491   | \$1,225,586,111 |
| Primary funds outflow upon maturity | 3,302,335,570     | 128,910,679    | 256,766,139    | 482,254,510      | 373,925,411      | 759,645,310      | 1,300,833,521   |
| Gap                                 | (\$ 693,892,737)  | \$ 167,000,603 | \$ 44,904,595  | (\$ 223,030,167) | (\$ 100,535,539) | (\$ 506,984,819) | (\$ 75,247,410) |

|                                     | December 31, 2020 |                |                |                  |                 |                  |                  |
|-------------------------------------|-------------------|----------------|----------------|------------------|-----------------|------------------|------------------|
|                                     | 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  | \$2,308,429,403   | \$ 294,658,563 | \$ 281,497,169 | \$ 232,299,595   | \$ 242,988,126  | \$ 256,322,086   | \$1,000,663,864  |
| Primary funds outflow upon maturity | 2,957,087,728     | 134,211,344    | 263,033,791    | 414,495,988      | 328,055,568     | 520,191,450      | 1,297,099,587    |
| Gap                                 | (\$ 648,658,325)  | \$ 160,447,219 | \$ 18,463,378  | (\$ 182,196,393) | (\$ 85,067,442) | (\$ 263,869,364) | (\$ 296,435,723) |

## (B) Maturity analysis of USD of subsidiary-MICB

Unit: In thousand of US dollars

|                                     | December 31, 2021 |                |              |              |                 |                |
|-------------------------------------|-------------------|----------------|--------------|--------------|-----------------|----------------|
|                                     | Total             | 0-30 days      | 31-90 days   | 91-180 days  | 181 days-1 year | Over 1 year    |
| Primary funds inflow upon maturity  | \$ 62,102,993     | \$ 22,727,143  | \$ 8,522,989 | \$ 6,316,107 | \$ 9,138,768    | \$ 15,397,986  |
| Primary funds outflow upon maturity | 70,999,550        | 27,903,024     | 7,993,207    | 6,939,535    | 9,204,965       | 18,958,819     |
| Gap                                 | (\$ 8,896,557)    | (\$ 5,175,881) | \$ 529,782   | (\$ 623,428) | (\$ 66,197)     | (\$ 3,560,833) |

|                                     | December 31, 2020 |                |                |              |                 |                |
|-------------------------------------|-------------------|----------------|----------------|--------------|-----------------|----------------|
|                                     | Total             | 0-30 days      | 31-90 days     | 91-180 days  | 181 days-1 year | Over 1 year    |
| Primary funds inflow upon maturity  | \$ 58,740,880     | \$ 25,993,208  | \$ 7,329,903   | \$ 5,747,349 | \$ 5,573,377    | \$ 14,097,043  |
| Primary funds outflow upon maturity | 67,082,625        | 27,759,140     | 9,476,152      | 6,449,578    | 7,695,810       | 15,701,945     |
| Gap                                 | (\$ 8,341,745)    | (\$ 1,765,932) | (\$ 2,146,249) | (\$ 702,229) | (\$ 2,122,433)  | (\$ 1,604,902) |

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, 2021 |                |              |              |                 |              |
|-------------------------------------|-------------------|----------------|--------------|--------------|-----------------|--------------|
|                                     | Total             | 0-30 days      | 31-90 days   | 91-180 days  | 181 days-1 year | Over 1 year  |
| Primary funds inflow upon maturity  | \$ 19,015,582     | \$ 8,902,041   | \$ 2,272,457 | \$ 755,368   | \$ 1,007,486    | \$ 6,078,230 |
| Primary funds outflow upon maturity | 20,424,670        | 10,809,314     | 1,307,396    | 990,236      | 1,108,520       | 6,209,204    |
| Gap                                 | (\$ 1,409,088)    | (\$ 1,907,273) | \$ 965,061   | (\$ 234,868) | (\$ 101,034)    | (\$ 130,974) |

|                                     | December 31, 2020 |                |              |              |                 |              |
|-------------------------------------|-------------------|----------------|--------------|--------------|-----------------|--------------|
|                                     | Total             | 0-30 days      | 31-90 days   | 91-180 days  | 181 days-1 year | Over 1 year  |
| Primary funds inflow upon maturity  | \$ 18,272,277     | \$ 8,437,601   | \$ 1,886,839 | \$ 691,696   | \$ 1,203,907    | \$ 6,052,234 |
| Primary funds outflow upon maturity | 19,850,415        | 11,485,495     | 1,724,870    | 1,180,507    | 1,089,376       | 4,370,167    |
| Gap                                 | (\$ 1,578,138)    | (\$ 3,047,894) | \$ 161,969   | (\$ 488,811) | \$ 114,531      | \$ 1,682,067 |

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

### Utilization and Sources of Capital December 31, 2021

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  | \$ 73,636   | \$ 46,121   | \$ 4,925    | \$ -               | \$ -        |
|                                 | Bonds  | 1,220       | 1,475       | 2,086       | 7,004              | 108,084     |
|                                 | Bank deposits                                | 337         | -           | -           | -                  | -           |
|                                 | Total  | 75,193      | 47,596      | 7,011       | 7,004              | 108,084     |
|                                 | Loans borrowed                               | 17,351      | -           | -           | -                  | -           |
| Sources of Capital              | Securities sold under repurchased agreements | 149,341     | 38,538      | 1,808       | 50                 | -           |
|                                 | Own capital                                  | -           | -           | -           | -                  | 40,986      |
|                                 | Total  | 166,692     | 38,538      | 1,808       | 50                 | 40,986      |
| Net flow of capital             |  | (\$ 91,499) | \$ 9,058    | \$ 5,203    | \$ 6,954           | \$ 67,098   |
| Accumulated net flow of capital |  | (\$ 91,499) | (\$ 82,441) | (\$ 77,238) | (\$ 70,284)        | (\$ 3,186)  |

### Utilization and Sources of Capital December 31, 2020

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  | \$ 80,620    | \$ 70,494    | \$ 3,002    | \$ -               | \$ -        |
|                                 | Bonds  | 195          | 2,089        | 3,248       | 5,631              | 131,411     |
|                                 | Bank deposits                                | 310          | -            | -           | 400                | -           |
|                                 | Total  | 81,125       | 72,583       | 6,250       | 6,031              | 131,411     |
|                                 | Loans borrowed                               | 17,012       | -            | -           | -                  | -           |
| Sources of Capital              | Securities sold under repurchased agreements | 195,064      | 44,020       | 1,723       | 358                | -           |
|                                 | Own capital                                  | -            | -            | -           | -                  | 41,407      |
|                                 | Total  | 212,076      | 44,020       | 1,723       | 358                | 41,407      |
| Net flow of capital             |  | (\$ 130,951) | 28,563       | 4,527       | 5,673              | 90,004      |
| Accumulated net flow of capital |  | (\$ 130,951) | (\$ 102,388) | (\$ 97,861) | (\$ 92,188)        | (\$ 2,184)  |

#### (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 Company has established "Market Risk Management Guidelines" to manage and monitor the Mega Group in the implementation of market risk management.

The establishment and amendment of each subsidiary's market risk management objectives shall be reviewed by the Risk Management Department, reported to the Board of Directors for approval, and reported to Risk Management Committee for reference. The market risk management policies are approved by each subsidiary and reported to the Company for reference.



#### D. Procedures for market risk management

- (A) Each subsidiary has set an organization structure and rules on market risk management based on the Company's guiding principle and each subsidiary's own business nature. The Board of Directors is the highest decision unit for market risk tolerant limits and authorizes certain committee/management to be in charge of policies compliance. 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, set and adjust business goals based on business policies, domestic and foreign economic situations, future market interest rates, foreign exchange rates and prices trends.
- (B) 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.
- (C) Each subsidiary's management monitors its financial product positions and assesses risk changes, such as profit or loss, on a daily basis, and conducts stress tests and sensitivity analysis on risk factors on a monthly basis. The Risk Management Department of the Company conducts periodical reviews on implementation of market risk management and reports it to the Risk Management Committee and the Board of Directors of the Company.

#### 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 (DV01, 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.

The Mega Group chooses an appropriate method to measure market risk based on the nature, scale and complexity of its business. The methods conducted to measure market risks are as follows:

- (A) Set out reasonable assumptions and parameters and employ statistical or other quantitative methods to conduct an appropriate quantitative risk measurement.
- (B) Adopt possible qualitative methods to show the possibility of market risk occurrence and the extent of its impact.
- (C) Perform stress tests to assess the potential abnormal loss arising from severe market volatility.

#### F. Policies and procedures of trading-book risk management

The Mega Group daily monitors 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 authorized minimum investment criteria. Subsidiaries set trading-book trading limits and stop-loss limits (including trading rooms, traders, trading products, and counterparties, daily and overnight limits) based on business strategies and market conditions, and measure monthly the extent of impact of interest rate risk on investment portfolios using DV01 value.

#### H. Non-trading-book interest rate risk management

Non-trading book interest rate risk mainly comes from the unmatched maturity dates of assets and liabilities or price resetting dates, and inconsistent changes in base interest rates for assets and liabilities. The 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, foreign exchange forward and foreign exchange options. The foreign exchange trading of the bank subsidiary 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 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, 2021 |              |              |              |               |
|---|-------------------|--------------|--------------|--------------|---------------|
|   | USD               | AUD          | RMB          | EUR          | JPY           |
| <b>Assets</b>   |                   |              |              |              |               |
| Cash and cash equivalents   | \$ 86,013,520     | \$ 4,064,732 | \$ 8,406,120 | \$ 5,348,628 | \$ 16,170,105 |
| Due from the Central Bank and call loans to banks                 | 243,104,443       | 1,418,102    | 4,633,195    | 4,541,782    | 58,487,503    |
| Financial assets at fair value through profit or loss             | 31,098,586        | 910,312      | 274          | 9,265        | 516           |
| Financial assets at fair value through other comprehensive income | 154,037,742       | 64,192,907   | 23,971,136   | 2,035,552    | 3,161,612     |
| Investments in debt instruments at amortised cost                 | 39,286,055        | 503,369      | 6,002,543    | 312,872      | 959,055       |
| Receivables   | 16,183,497        | 5,202,825    | 942,093      | 438,866      | 1,644,995     |
| Current tax assets  | 11                | -            | -            | -            | -             |
| Loans discounted  | 412,897,452       | 64,374,801   | 22,240,192   | 26,494,696   | 28,469,364    |
| Reinsurance contract assets                                       | 183,333           | -            | -            | 21           | -             |
| Investments accounted for using equity method                     | 29,485            | -            | -            | -            | -             |
| Other financial assets  | 654,557           | 165          | 4,716        | 18,565       | 16,524        |
| Right-of-use assets   | 322,327           | 42,406       | 72,836       | 47,512       | 89,059        |
| Property and equipment  | 162,317           | 16,060       | 12,151       | 40,421       | 20,265        |
| Intangible assets   | 93,248            | 451          | 29,315       | -            | 339           |
| Deferred income tax assets  | 319,294           | -            | 8,127        | -            | 16,873        |
| <b>Liabilities</b>  |                   |              |              |              |               |
| Deposits from the Central Bank and banks                          | \$ 304,771,277    | \$ 3,709,394 | \$ 5,317,124 | \$ 734,913   | \$ 29,751,686 |
| Due to the Central Bank and banks                                 | 29,713,626        | -            | -            | -            | -             |
| Financial liabilities at fair value through profit or loss        | 17,793,561        | 3,616        | 241          | 3,733        | 378           |
| Securities sold under repurchased agreements                      | 26,985,328        | 16,791,526   | -            | -            | -             |
| Payables  | 11,210,886        | 578,540      | 772,505      | 467,996      | 1,325,708     |
| Current tax liabilities   | 325,877           | 223,742      | 47,092       | 28,030       | 103,215       |
| Deposits and remittances  | 974,574,449       | 31,370,368   | 95,747,930   | 36,049,589   | 33,938,918    |
| Provisions  | 562,227           | 3,649        | -            | 213          | 24,996        |
| Other financial liabilities                                       | 1,593,471         | 603,428      | 1,722,113    | 1,721,978    | 90,341        |
| Lease liabilities   | 358,779           | 46,134       | 69,968       | 50,306       | 89,161        |
| Deferred tax liabilities  | 3,035             | -            | -            | -            | -             |
| Off-balance sheet commitments                                     | 85,251,510        | 1,509,660    | 11,001,837   | 12,482,210   | 3,555,316     |





|   | December 31, 2020 |              |               |              |               |
|---|-------------------|--------------|---------------|--------------|---------------|
|   | USD               | AUD          | RMB           | EUR          | JPY           |
| <b>Assets</b>   |                   |              |               |              |               |
| Cash and cash equivalents   | \$ 62,857,724     | \$ 1,367,053 | \$ 18,858,943 | \$ 1,918,436 | \$ 17,804,307 |
| Due from the Central Bank and call loans to banks                 | 241,782,705       | 1,465,549    | 5,854,730     | 570,020      | 22,967,796    |
| Financial assets at fair value through profit or loss             | 32,396,300        | 1,614,780    | 1,191         | 287,124      | 1,540         |
| Financial assets at fair value through other comprehensive income | 174,741,890       | 72,518,925   | 21,232,609    | 2,384,885    | 7,216,857     |
| Investments in debt instruments at amortised cost                 | 39,028,917        | 544,070      | 4,014,252     | 345,288      | 545,355       |
| Receivables   | 16,040,167        | 7,658,415    | 1,176,152     | 629,468      | 2,220,524     |
| Current tax assets  | 11                | -            | -             | -            | -             |
| Loans discounted  | 409,115,672       | 72,859,761   | 18,011,683    | 33,493,559   | 31,355,772    |
| Reinsurance contract assets                                       | 161,658           | -            | -             | 24           | 12            |
| Investments accounted for using equity method                     | 34,118            | -            | -             | -            | -             |
| Other financial assets  | 888,779           | -            | 8,663         | 11,166       | 23,307        |
| Right-of-use assets   | 347,540           | 51,324       | -             | 40,563       | 14,364        |
| Property and equipment  | 163,416           | 20,627       | 8,041         | 38,692       | 25,478        |
| Intangible assets   | 97,371            | 816          | 23,785        | -            | 654           |
| Deferred income tax assets  | 365,016           | -            | 3,559         | -            | 17,240        |
| <b>Liabilities</b>  |                   |              |               |              |               |
| Deposits from the Central Bank and banks                          | \$ 326,519,001    | \$ 4,766,128 | \$ 5,598,908  | \$ 2,556,223 | \$ 34,400,847 |
| Due to the Central Bank and banks                                 | 10,609,839        | -            | -             | -            | -             |
| Financial liabilities at fair value through profit or loss        | 18,213,683        | 3,023        | 1,197         | 2,440        | 1,417         |
| Securities sold under repurchased agreements                      | 38,095,561        | 12,447,289   | -             | 581,343      | -             |
| Payables  | 15,000,990        | 223,309      | 1,069,279     | 466,060      | 2,163,905     |
| Current tax liabilities   | 317,400           | -            | 73,381        | 19,100       | 146,828       |
| Deposits and remittances  | 878,064,833       | 36,901,607   | 94,594,145    | 27,704,130   | 25,513,443    |
| Other borrowings  | -                 | -            | -             | 38,023       | -             |
| Provisions  | 567,060           | 4,023        | -             | 329          | 26,376        |
| Other financial liabilities                                       | 4,586,373         | 1,150,184    | 1,302,633     | 562,657      | 201,202       |
| Lease liabilities   | 378,293           | 54,987       | -             | 40,211       | 14,850        |
| Off-balance sheet commitments                                     | 78,197,927        | 1,083,087    | 5,374,052     | 12,654,674   | 4,922,544     |

#### 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 categorized into positions held for short-term selling to earn capital gains, positions primarily held for earning dividends, or positions primarily held for capital gains arising from stock prices that reflect good industry prospects or an increase in long-term profitability. The Group's trading strategy sets the annual loss limits of the annual risk management objective as the scope for tolerable risk.
- (C) Related control measures include: daily market price valuation to control loss limits, monthly stress-testing to calculate possible losses on the Mega Group's investment portfolios, measurement of the extent of the impact of systematic risk on investment portfolios using  $\beta$  value, and reporting to the Risk Management Committee quarterly.

#### L. Sensitivity Analysis

- (A) 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.
- (B) 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 Mega Group's positions on note and bond financial products, interest rate derivatives and interest-bearing deposits and loans. Equity securities risk is the variation testing of the  $\beta$  value of purchased stocks, convertible bonds and the stock warrants portfolio of subsidiary issued in respect to the weighted stock index.

December 31, 2021

| 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% | (\$ 70,835)              | \$ -             |
| Foreign exchange risk  | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1% | 70,835                   | -                |
| Interest rate risk     | Major increases in interest rates 1BP   | 32,542                   | ( 136,767)       |
| Interest rate risk     | Major decline in interest rates 1BP   | ( 32,540)                | 136,638          |
| Equity securities risk | TAIEX declined by 1%  | ( 114,312)               | ( 213,701)       |
| Equity securities risk | TAIEX increased by 1%   | 114,082                  | 213,701          |

December 31, 2020

| 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% | (\$ 69,180)              | \$ -             |
| Foreign exchange risk                                 | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1% | 69,180                   | -                |
| Interest rate risk (not including deposits and loans) | Major increases in interest rates 1BP   | ( 61,514)                | ( 123,486)       |
| Interest rate risk (not including deposits and loans) | Major decline in interest rates 1BP   | 57,633                   | 127,367          |
| Equity securities risk                                | TAIEX declined by 1%  | ( 50,323)                | ( 142,677)       |
| Equity securities risk                                | TAIEX increased by 1%   | 48,866                   | 139,134          |

M. Value at Risk analysis of the Mega Group's financial instruments

The following table indicates measurement positions of the Mega Group's financial instruments on the report date, the maximum potential loss under a 99% confidence interval.

December 31, 2021

| Value at risk of primary market            | Average      | Maximum      | Minimum    |
|--|--------------|--------------|------------|
| Value at risk of equity securities         | \$ 943,607   | \$ 1,847,807 | \$ 288,685 |
| Value at risk of interest products         | 650,726      | 2,521,546    | 159,555    |
| Value at risk of foreign exchange products | 115,918      | 455,019      | 20,302     |
| Value at risk of credit products           | 97,137       | 317,847      | 994        |
| Total VaR                                  | \$ 1,807,388 | \$ 5,142,219 | \$ 469,536 |

December 31, 2020

| Value at risk of primary market            | Average      | Maximum      | Minimum      |
|--|--------------|--------------|--------------|
| Value at risk of equity securities         | \$ 458,710   | \$ 773,042   | \$ 144,379   |
| Value at risk of interest products         | 1,957,012    | 2,486,931    | 1,427,092    |
| Value at risk of foreign exchange products | 278,878      | 455,807      | 101,948      |
| Value at risk of credit products           | 179,155      | 255,914      | 102,396      |
| Total VaR                                  | \$ 2,873,755 | \$ 3,971,694 | \$ 1,775,815 |

N. Disclosure requirements in the "Regulations Governing the Preparation of Financial Reports by Public Banks"

Interest rate sensitivity analysis on assets and liabilities of MICB (NT Dollars)

December 31, 2021

|  | 1-90 days      | 91-180 days      | 181 days to 1 year | Over 1 year    | Total            |
|--|----------------|------------------|--------------------|----------------|------------------|
| Interest rate sensitive assets   | \$ 956,495,866 | \$ 1,020,603,440 | \$ 77,911,357      | \$ 215,872,927 | \$ 2,270,883,590 |
| Interest rate sensitive liabilities  | 500,647,591    | 995,559,484      | 238,135,421        | 22,652,797     | 1,756,995,293    |
| Interest rate sensitive gap  | \$ 455,848,275 | \$ 25,043,956    | (\$ 160,224,064)   | \$ 193,220,130 | \$ 513,888,297   |
| Net worth  |                |                  |                    |                | \$ 290,985,826   |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities |                |                  |                    |                | 129.25%          |
| Ratio of interest rate sensitivity gap to net worth                            |                |                  |                    |                | 176.60%          |



## Interest rate sensitivity analysis on assets and liabilities of MICB (NT Dollars)

December 31, 2020

|  | 1-90 days      | 91-180 days    | 181 days to 1 year | Over 1 year    | Total            |
|--|----------------|----------------|--------------------|----------------|------------------|
| Interest rate sensitive assets   | \$ 796,396,316 | \$ 942,391,694 | \$ 92,156,355      | \$ 137,990,275 | \$ 1,968,934,640 |
| Interest rate sensitive liabilities  | 610,349,253    | 844,287,606    | 55,429,074         | 9,522,032      | 1,519,587,965    |
| Interest rate sensitive gap  | \$ 186,047,063 | \$ 98,104,088  | \$ 36,727,281      | \$ 128,468,243 | \$ 449,346,675   |
| Net worth  |                |                |                    |                | \$ 282,209,651   |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities |                |                |                    |                | 129.57%          |
| Ratio of interest rate sensitivity gap to net worth                            |                |                |                    |                | 159.22%          |

Notes: 1. The above amounts included only New Taiwan dollar amounts, excluded foreign currency by the onshore branches of the Company.

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 sensitive 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.

## Interest rate sensitivity analysis on assets and liabilities of MICB (US Dollars)

December 31, 2021

Unit : In thousands of US Dollars

| Item   | 1-90 days     | 91-180 days     | 181 days to 1 year | Over 1 year | Total           |
|--|---------------|-----------------|--------------------|-------------|-----------------|
| Interest rate sensitive assets   | \$ 31,315,186 | \$ 744,486      | \$ 450,284         | \$ 812,877  | \$ 33,322,833   |
| Interest rate sensitive liabilities  | 23,239,712    | 21,634,945      | 2,089,192          | 126         | 46,963,975      |
| Interest rate sensitive gap  | \$ 8,075,474  | (\$ 20,890,459) | (\$ 1,638,908)     | \$ 812,877  | (\$ 13,641,142) |
| Net worth  |               |                 |                    |             | \$ 557,193      |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities |               |                 |                    |             | 70.95%          |
| Ratio of interest rate sensitivity gap to net worth                            |               |                 |                    |             | ( 2,448.19%)    |

## Interest rate sensitivity analysis on assets and liabilities of MICB (US Dollars)

December 31, 2020

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   | \$ 30,413,504  | \$ 783,232     | \$ 398,409         | \$ 671,968  | \$ 32,267,113   |
| Interest rate sensitive liabilities  | 37,787,700     | 3,079,796      | 2,078,458          | -           | 42,945,954      |
| Interest rate sensitive gap  | (\$ 7,374,196) | (\$ 2,296,564) | (\$ 1,680,049)     | \$ 671,968  | (\$ 10,678,841) |
| Net worth  |                |                |                    |             | \$ 537,724      |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities |                |                |                    |             | 75.13%          |
| Ratio of interest rate sensitivity gap to net worth                            |                |                |                    |             | ( 1,985.93%)    |

Notes: 1. The above amounts included only US dollars denominated assets and liabilities of head office, domestic and foreign branches, and the OBU branch, contingent assets and liabilities are excluded.

2. Interest rate sensitive 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.

## 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, 2021

| Items  | 1-90 days       | 91-180 days  | 181 days to 1 year | Over 1 year    | Total          |
|--|-----------------|--------------|--------------------|----------------|----------------|
| Interest rate sensitivity assets   | \$ 122,788,834  | \$ 7,010,955 | \$ 7,004,317       | \$ 108,084,132 | \$ 244,888,238 |
| Interest rate sensitivity liabilities  | 205,230,604     | 1,807,552    | 49,829             | -              | 207,087,985    |
| Interest-rate sensitivity gap  | (\$ 82,441,770) | \$ 5,203,403 | \$ 6,954,488       | \$ 108,084,132 | \$ 37,800,253  |
| Net worth  |                 |              |                    |                | \$ 40,985,765  |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities |                 |              |                    |                | 118.25%        |
| liabilities Ratio of interest rate sensitivity gap to net worth                |                 |              |                    |                | 92.23%         |

## Interest rate sensitivity analysis on assets and liabilities of MBF

December 31, 2020

| Items  | 1-90 days        | 91-180 days  | 181 days to 1 year | Over 1 year    | Total          |
|--|------------------|--------------|--------------------|----------------|----------------|
| Interest rate sensitivity assets   | \$ 153,707,697   | \$ 6,250,392 | \$ 6,030,767       | \$ 131,411,065 | \$ 297,399,921 |
| Interest rate sensitivity liabilities  | 256,096,003      | 1,723,031    | 357,794            | -              | 258,176,828    |
| Interest-rate sensitivity gap  | (\$ 102,388,306) | \$ 4,527,361 | \$ 5,672,973       | \$ 131,411,065 | \$ 39,223,093  |
| Net worth  |                  |              |                    |                | \$ 41,406,923  |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities |                  |              |                    |                | 115.19%        |
| Ratio of interest rate sensitivity gap to net worth                            |                  |              |                    |                | 94.73%         |

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 sensitive 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, 2021 |                           |
|---|--------------------------------------|---------------------------|
|   | Average amount                       | Average interest rate (%) |
| <b>Assets</b>   |                                      |                           |
| Cash and cash equivalents (Note)                                  | \$ 844,451                           | 0.19                      |
| Financial assets at fair value through profit or loss             | 139,669,429                          | 0.70                      |
| Financial assets at fair value through other comprehensive income | 115,924,514                          | 1.47                      |
| Investments in debt instruments at amortised cost                 | 405,619                              | 4.41                      |
| Securities purchased under resell agreements                      | 98,630                               | 0.15                      |
| <b>Liabilities</b>  |                                      |                           |
| Interbank call loans and overdrafts                               | 13,107,953                           | 0.29                      |
| Securities sold under repurchase agreements                       | 208,734,791                          | 0.22                      |

|   | For the year ended December 31, 2020 |                           |
|---|--------------------------------------|---------------------------|
|   | Average amount                       | Average interest rate (%) |
| <b>Assets</b>   |                                      |                           |
| Cash and cash equivalents (Note)                                  | \$ 866,178                           | 0.22                      |
| Financial assets at fair value through profit or loss             | 132,540,868                          | 0.85                      |
| Financial assets at fair value through other comprehensive income | 126,832,485                          | 1.65                      |
| Investments in debt instruments at amortised cost                 | 426,272                              | 4.40                      |
| Securities purchased under resell agreements                      | 56,012                               | 0.32                      |
| <b>Liabilities</b>  |                                      |                           |
| Interbank call loans and overdrafts                               | 14,497,726                           | 0.44                      |
| Securities sold under repurchase agreements                       | 213,360,061                          | 0.46                      |

Note: Cash and cash equivalents comprise pledged certificates of deposits and bill reserve account.

## (6) Transfer of financial assets

### A. Transferred financial assets that are not derecognized in their entirety

The Mega Group's transferred financial assets that do not meet derecognition conditions are mainly debt instruments with purchase agreements or equity securities lent out based on security lending agreements. These 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 derecognized as the consolidated company is still exposed to interest rate risk and credit risk. Financial assets and associated financial liabilities that do not meet the derecognition conditions are analysed as follows:



| December 31, 2021  |   |   |
|--|---|---|
| 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    | 87,950,588                                      | 87,861,690  |
| Financial assets at fair value through other comprehensive income Repurchase agreement | 52,919,505                                      | 50,097,927  |
| Investments in debt instruments at amortised cost Repurchase agreement                 | 187,675   | 200,399   |

| December 31, 2020  |   |   |
|--|---|---|
| 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    | 107,425,448                                     | 107,393,587   |
| Financial assets at fair value through other comprehensive income Repurchase agreement | 56,523,893                                      | 53,531,606  |
| Investments in debt instruments at amortised cost Repurchase agreement                 | 189,671   | 213,680   |

B. Transferred financial assets that are derecognized in their entirety

The Mega Group does not have any financial asset securitization transaction and do not have any derecognized 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, 2021   |   |   |   |                                     |                          |                        |
|---|---|---|---|-------------------------------------|--------------------------|------------------------|
| 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  | \$ 3,972,247  | \$ 2,471  | \$ 3,969,776  | \$ 2,069,737                        | \$ 52,787                | \$ 1,847,252           |
| 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  | \$ 2,364,222  | \$ 2,471  | \$ 2,361,751  | \$ 329,903                          | \$ 3,845                 | \$ 2,028,003           |
| Repurchase agreement  | 30,906,698  | -   | 30,906,698  | 30,906,494                          | -                        | 204                    |
| Total   | \$ 33,270,920   | \$ 2,471  | \$ 33,268,449   | \$ 31,236,397                       | \$ 3,845                 | \$ 2,028,207           |
| December 31, 2020   |   |   |   |                                     |                          |                        |
| 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  | \$ 5,403,818  | \$ 1,644  | \$ 5,402,174  | \$ 3,415,194                        | \$ 61,549                | \$ 1,925,431           |

| 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  | \$ 3,474,171  | \$ 1,644   | \$ 3,472,527  | \$ 498,075                          | \$ 11,693               | \$ 2,962,759           |
| Repurchase agreement  | 31,741,228  | -  | 31,741,228  | 31,694,416                          | 45,654                  | 1,158                  |
| Total   | \$ 35,215,399   | \$ 1,644   | \$ 35,213,755   | \$ 32,192,491                       | \$ 57,347               | \$ 2,963,917           |

Note :Including netting settlement agreements and non-cash collaterals.

## (8) Changes in interest rate benchmark

To address interest rate benchmark reform, the bank subsidiary sets a LIBOR interest rate benchmark transition team which reports quarterly to the Board of Directors the action plan and subsequent execution progress. The products affected by the interest rate benchmark reform are LIBOR linked loans and discounted, debt instruments and derivatives. The risk is originated from interest rate benchmark reform if the bank subsidiary is not able to complete the negotiation with the counterparty before the replacement of LIBOR. In order to control the risk of interest rate benchmark reform, the bank subsidiary has completed the interest rate benchmark reform plan. Additionally, the modification of contracts, customer communications, the impact assessment on financing and business, revisions of the internal control policies, changes of system and procedure, risk management and adjustment of valuation model will be completed before the replacement of LIBOR. As of December 31, 2021, the bank subsidiary's exposure amounts affected by the interest rate benchmark reform of loans discounted, bonds, derivative instruments and were \$379.649 billion, \$39.452 billion, \$51.147 billion, and negotiable certificates of deposits, respectively.

## 9. Insurance risk management

In order to effectively recognize, 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 risk refers to the risk of loss due to unexpected changes when paying the claims and related expenses by the terms stated in the insurance contract because of assuming the risks transferred from the insured after collecting insurance premium for conducting the insurance business. CKI primarily covers automobile insurance, fire insurance, accident insurance and marine 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 and 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 limit.

#### 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, or over-insurance for catastrophe losses reinsurance contract. 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 not only selects quality businesses through strict underwriting policy but also arranges reinsurance properly for the dispersion of risk and seeks the transfer of dangerous responsibility to reduce or relieve the overloaded responsibility based on insurance types and targets, e.g. hull insurance contracts. The self-retained part is additionally arranged in over-insurance reinsurance contract. 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 is adopted to disperse risks.

### (2) Insurance risk concentration

The over concentration of risks in locations and industries arising from CKI underwriting fire insurance, earthquake insurance and engineering insurance policies is primarily dispersed through reinsurance ceding. For the years ended December 31, 2021 and 2020, the over concentration of insurance risk is displayed respectively as follows through CKI's premium income and self-retained premium of fire insurance, earthquake insurance and engineering insurance.

| Type                  | For the year ended December 31, 2021 |                       | For the year ended December 31, 2020 |                       |
|-----------------------|--------------------------------------|-----------------------|--------------------------------------|-----------------------|
|                       | Premium Income                       | Self-retained Premium | Premium Income                       | Self-retained Premium |
| Earthquake insurance  | \$ 827,895                           | \$ 170,743            | \$ 819,796                           | \$ 178,084            |
| Fire insurance        | 867,398                              | 339,998               | 774,364                              | 346,248               |
| Engineering insurance | 335,655                              | 123,257               | 328,865                              | 112,854               |

### (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), tendency or claim payment methods, which may change the loss development model and the estimated loss rate, affect the estimation of claim reserves, thus, CKI's sensitivity test on the estimated loss rate is as follows:

| Type                 | December 31, 2021                |                                | December 31, 2020                |                                |
|----------------------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
|                      | 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       | \$ 100,204                       | \$ 31,030                      | \$ 93,113                        | \$ 31,498                      |
| Marine Insurance     | 46,423                           | 11,674                         | 42,208                           | 9,572                          |
| Automobile Insurance | 184,034                          | 141,798                        | 190,937                          | 146,284                        |
| Accident Insurance   | 62,500                           | 30,755                         | 59,000                           | 27,731                         |
| Injury Insurance     | 35,188                           | 17,092                         | 27,008                           | 15,487                         |
| Offshore Branches    | 4,129                            | 4,129                          | 4,071                            | 4,071                          |

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 inverse, the above-mentioned claims reserve held is also inverted.



## (4) Claim development tendency

As of December 31, 2021 and 2020, the subsidiary-CKI's claim development tendency is as follows:

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

| December 31, 2021 |                   |            |            |            |            |            |                                      |                            |                                    |                    |  |
|-------------------|-------------------|------------|------------|------------|------------|------------|--------------------------------------|----------------------------|------------------------------------|--------------------|--|
| 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 |
|                   | 2016.12.31        | 2017.12.31 | 2018.12.31 | 2019.12.31 | 2020.12.31 | 2021.12.31 |                                      |                            |                                    |                    |  |
| 2016 and before   | 39,015,357        | 39,271,725 | 39,135,208 | 39,050,288 | 38,978,128 | 38,838,846 | 38,838,846                           | 38,480,595                 | 358,251                            |                    |  |
| 2017              |                   | 2,717,118  | 3,176,160  | 3,270,286  | 3,241,328  | 3,245,287  | 3,245,287                            | 3,166,276                  | 79,011                             |                    |  |
| 2018              |                   |            | 2,841,225  | 3,611,662  | 3,658,774  | 3,680,585  | 3,680,585                            | 3,444,626                  | 235,959                            |                    |  |
| 2019              |                   |            |            | 2,883,148  | 3,991,769  | 4,052,711  | 4,052,711                            | 3,783,215                  | 269,496                            |                    |  |
| 2020              |                   |            |            |            | 3,313,587  | 3,887,198  | 3,887,198                            | 3,092,455                  | 794,743                            |                    |  |
| 2021              |                   |            |            |            |            | 2,835,312  | 2,835,312                            | 1,678,064                  | 1,157,248                          |                    |  |
| Total             |                   |            |            |            |            |            | 56,539,939                           | 53,645,231                 | 2,894,708                          | 1,292,870          | 4,187,578                              |

| December 31, 2020 |                   |            |            |            |            |            |                                      |                            |                                    |                    |  |
|-------------------|-------------------|------------|------------|------------|------------|------------|--------------------------------------|----------------------------|------------------------------------|--------------------|--|
| 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 |
|                   | 2015.12.31        | 2016.12.31 | 2017.12.31 | 2018.12.31 | 2019.12.31 | 2020.12.31 |                                      |                            |                                    |                    |  |
| 2015 and before   | 34,417,246        | 34,690,177 | 34,654,299 | 34,596,229 | 34,486,359 | 34,433,084 | 34,433,084                           | 34,147,842                 | 285,242                            |                    |  |
| 2016              |                   | 4,325,180  | 4,617,426  | 4,538,979  | 4,563,929  | 4,545,044  | 4,545,044                            | 4,405,223                  | 139,821                            |                    |  |
| 2017              |                   |            | 2,717,118  | 3,176,160  | 3,270,286  | 3,241,328  | 3,241,328                            | 3,152,031                  | 89,297                             |                    |  |
| 2018              |                   |            |            | 2,841,225  | 3,611,662  | 3,658,774  | 3,658,774                            | 3,360,132                  | 298,642                            |                    |  |
| 2019              |                   |            |            |            | 2,883,148  | 3,991,769  | 3,991,769                            | 3,087,967                  | 903,802                            |                    |  |
| 2020              |                   |            |            |            |            | 3,313,587  | 3,313,587                            | 1,836,231                  | 1,477,356                          |                    |  |
| Total             |                   |            |            |            |            |            | 53,183,586                           | 49,989,426                 | 3,194,160                          | 1,183,510          | 4,377,670                              |

Note: Claim reserves for credit insurance, nuclear energy insurance and government sponsored earthquake insurance are provided in accordance with related regulations; therefore, the loss development triangle of 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, 2021 |                   |            |            |            |            |            |                                      |                            |                                    |                    |  |
|-------------------|-------------------|------------|------------|------------|------------|------------|--------------------------------------|----------------------------|------------------------------------|--------------------|--|
| 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 |
|                   | 2016.12.31        | 2017.12.31 | 2018.12.31 | 2019.12.31 | 2020.12.31 | 2021.12.31 |                                      |                            |                                    |                    |  |
| 2016 and before   | 23,103,284        | 23,390,360 | 23,359,027 | 23,348,442 | 23,318,990 | 23,216,771 | 23,216,771                           | 23,040,125                 | 176,646                            |                    |  |
| 2017              |                   | 1,578,405  | 1,905,701  | 1,992,756  | 1,984,546  | 1,988,242  | 1,988,242                            | 1,947,640                  | 40,602                             |                    |  |
| 2018              |                   |            | 1,691,109  | 2,213,015  | 2,288,280  | 2,301,534  | 2,301,534                            | 2,214,589                  | 86,945                             |                    |  |
| 2019              |                   |            |            | 1,781,237  | 2,300,125  | 2,385,165  | 2,385,165                            | 2,262,005                  | 123,160                            |                    |  |
| 2020              |                   |            |            |            | 1,875,695  | 2,281,088  | 2,281,088                            | 2,068,560                  | 212,528                            |                    |  |
| 2021              |                   |            |            |            |            | 1,675,304  | 1,675,304                            | 1,086,977                  | 588,327                            |                    |  |
| Total             |                   |            |            |            |            |            | 33,848,104                           | 32,619,896                 | 1,228,208                          | 842,959            | 2,071,167                              |

| December 31, 2020 |                   |            |            |            |            |            |                                      |                            |                                    |                    |  |
|-------------------|-------------------|------------|------------|------------|------------|------------|--------------------------------------|----------------------------|------------------------------------|--------------------|--|
| 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 |
|                   | 2015.12.31        | 2016.12.31 | 2017.12.31 | 2018.12.31 | 2019.12.31 | 2020.12.31 |                                      |                            |                                    |                    |  |
| 2015 and before   | 20,847,345        | 21,131,469 | 21,108,367 | 21,069,564 | 21,045,348 | 21,020,594 | 21,020,594                           | 20,846,989                 | 173,605                            |                    |  |
| 2016              |                   | 1,971,815  | 2,281,993  | 2,289,463  | 2,303,094  | 2,298,396  | 2,298,396                            | 2,250,198                  | 48,198                             |                    |  |
| 2017              |                   |            | 1,578,405  | 1,905,701  | 1,992,756  | 1,984,546  | 1,984,546                            | 1,937,325                  | 47,221                             |                    |  |
| 2018              |                   |            |            | 1,691,109  | 2,213,015  | 2,288,280  | 2,288,280                            | 2,167,725                  | 120,555                            |                    |  |
| 2019              |                   |            |            |            | 1,781,237  | 2,300,125  | 2,300,125                            | 2,058,219                  | 241,906                            |                    |  |
| 2020              |                   |            |            |            |            | 1,875,695  | 1,875,695                            | 1,226,360                  | 649,335                            |                    |  |
| Total             |                   |            |            |            |            |            | 31,767,636                           | 30,486,816                 | 1,280,820                          | 741,756            | 2,022,576                              |



Note: Claim reserves for credit insurance, nuclear energy insurance and government sponsored earthquake insurance are provided in accordance with related regulations; therefore, the loss development triangle of retention 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, CKI 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 ceded, CKI 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", CKI shall disclose the amount of reserve for unqualified reinsurance according to relevant regulations.

##### B. Liquidity risk

Liquidity risk of insurance contract occurs when the Group is unable to realize assets immediately or acquires adequate capital and thus it fails to fulfill payment obligations for insurance. To control this risk, CKI conduct cash flow 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, 2021 and 2020:

|               | December 31, 2021 |           | December 31, 2020 |           |
|---------------|-------------------|-----------|-------------------|-----------|
| Within 1 year | \$                | 3,445,844 | \$                | 4,104,707 |
| 1-5 years     |                   | 741,734   |                   | 272,963   |
| Total         | \$                | 4,187,578 | \$                | 4,377,670 |

##### C. Market risk

Subsidiaries-CKI 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, 2021 |                    |                         |                                |  |   |                          |
|--------------------------------------|--------------------|-------------------------|--------------------------------|--|---|--------------------------|
| 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                 | \$ 396,124         | \$ 174,000              | \$ 167,235                     | \$ 402,889                                 | \$ 4,673  | \$ 407,562               |
| Non-compulsory insurance             | 7,683,363          | 720,380                 | 3,928,423                      | 4,475,320                                  | ( 153,320)                                      | 4,322,000                |
| Total                                | \$ 8,079,487       | \$ 894,380              | \$ 4,095,658                   | \$ 4,878,209                               | (\$ 148,647)                                    | \$ 4,729,562             |

| For the year ended December 31, 2020 |                    |                         |                                |  |   |                          |
|--------------------------------------|--------------------|-------------------------|--------------------------------|--|---|--------------------------|
| 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                 | \$ 417,849         | \$ 175,417              | \$ 176,929                     | \$ 416,337                                 | \$ 3,212  | \$ 419,549               |
| Non-compulsory insurance             | 7,394,966          | 576,372                 | 3,708,661                      | 4,262,677                                  | 10,631  | 4,273,308                |
| Total                                | \$ 7,812,815       | \$ 751,789              | \$ 3,885,590                   | \$ 4,679,014                               | \$ 13,843                                       | \$ 4,692,857             |

The subsidiaries-CKI had no premium income from compulsory insurance in Guam and premium income of \$718,856 and \$720,132 from non-compulsory insurance income for the years ended December 31, 2021 and 2020, respectively.

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

| Type                     | For the year ended December 31, 2021 |                                 |                                      |                           |
|--------------------------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------|
|                          | Claims incurred (1)                  | Reinsurance claims incurred (2) | Claims recovered from reinsurers (3) | Net claims(4)=(1)+(2)-(3) |
| Compulsory insurance     | \$ 337,202                           | \$ 156,065                      | \$ 200,362                           | \$ 292,905                |
| Non-compulsory insurance | 3,348,818                            | 332,459                         | 1,522,882                            | 2,158,395                 |
| Total                    | <u>\$ 3,686,020</u>                  | <u>\$ 488,524</u>               | <u>\$ 1,723,244</u>                  | <u>\$ 2,451,300</u>       |

| Type                     | For the year ended December 31, 2020 |                                 |                                      |                           |
|--------------------------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------|
|                          | Claims incurred (1)                  | Reinsurance claims incurred (2) | Claims recovered from reinsurers (3) | Net claims(4)=(1)+(2)-(3) |
| Compulsory insurance     | \$ 360,485                           | \$ 153,515                      | \$ 215,276                           | \$ 298,724                |
| Non-compulsory insurance | 3,331,861                            | 293,898                         | 1,322,495                            | 2,303,264                 |
| Total                    | <u>\$ 3,692,346</u>                  | <u>\$ 447,413</u>               | <u>\$ 1,537,771</u>                  | <u>\$ 2,601,988</u>       |

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

|  | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| <b>Assets</b>                            |                   |                   |
| Cash and cash equivalents                | \$ 595,933        | \$ 590,583        |
| Notes and premiums receivable            | 7,702             | 6,876             |
| Claims recoverable from reinsurers       | 24,080            | 26,911            |
| Due from reinsurers and ceding companies | 29,027            | 29,189            |
| Ceded unearned premium reserve           | 89,857            | 95,130            |
| Ceded claims reserve                     | 138,222           | 155,642           |
| Temporary payments                       | 616               | 69                |
| Total                                    | <u>\$ 885,437</u> | <u>\$ 904,400</u> |
| <b>Liabilities</b>                       |                   |                   |
| Due to reinsurers and ceding companies   | \$ 30,660         | \$ 29,746         |
| Unearned premium reserve                 | 247,165           | 257,111           |
| Claims reserve                           | 376,321           | 400,678           |
| Special reserve                          | 230,077           | 215,985           |
| Other liabilities                        | 1,214             | 880               |
| Total                                    | <u>\$ 885,437</u> | <u>\$ 904,400</u> |

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

|   | For the years ended December 31, |                   |
|---|----------------------------------|-------------------|
|   | 2021                             | 2020              |
| <b>Operating revenues</b>                   |                                  |                   |
| Direct written premiums                     | \$ 278,726                       | \$ 294,892        |
| Reinsurance premiums                        | 174,000                          | 175,417           |
| Less: Reinsurance premiums ceded            | ( 167,235)                       | ( 176,929)        |
| Net change in reserve for unearned premiums | 4,673                            | 3,212             |
| Net premiums                                | 290,164                          | 296,592           |
| Interest income                             | 1,630                            | 1,835             |
| Total                                       | <u>\$ 291,794</u>                | <u>\$ 298,427</u> |



|  | For the years ended December 31, |            |
|--|----------------------------------|------------|
|  | 2021                             | 2020       |
| Operating costs                        |                                  |            |
| Claims incurred                        | \$ 337,202                       | \$ 360,485 |
| Reinsurance claims incurred            | 156,065                          | 153,515    |
| Less: Claims recovered from reinsurers | ( 200,362)                       | ( 215,276) |
| Net claims                             | 292,905                          | 298,724    |
| Net change in claims reserve           | ( 6,937)                         | 6,201      |
| Net change in special reserve          | 14,092                           | ( 6,498)   |
| Total                                  | \$ 300,060                       | \$ 298,427 |

#### E. Net premiums limits

CKI's net premiums limits of the respective insurance risk units are as follows:

| Items   | December 31, 2021  | December 31, 2020  |
|---|--------------------|--------------------|
| General fire insurance                                      | \$ 2,800,000       | \$ 2,000,000       |
| Fire & allied perils insurance                              | 2,800,000          | 2,000,000          |
| Marine cargo insurance                                      | 420,000            | 420,000            |
| Marine hull insurance                                       | 200,000            | 200,000            |
| Fishing vessel insurance                                    | 50,000             | 50,000             |
| Aviation insurance  | USD10,000 thousand | USD10,000 thousand |
| Engineering insurance                                       | 2,800,000          | 2,800,000          |
| Money insurance   | 1,000,000          | 700,000            |
| Motor physical damage insurance                             | 15,000             | 15,000             |
| Motor third party liability insurance                       | 120,000            | 120,000            |
| Motor passenger liability insurance                         | 120,000            | 120,000            |
| Compulsory automobile liability insurance for driver injury | 3,000              | 3,000              |
| Car driver injury insurance                                 | 30,000             | 30,000             |
| Driver injury insurance                                     | 3,000              | 3,000              |
| Liability insurance   | 500,000            | 500,000            |
| Fidelity surety bond  | 50,000             | 50,000             |
| Engineering surety bond                                     | 200,000            | 200,000            |
| Bankers' surety bond  | 1,000,000          | 700,000            |
| Other property insurance                                    | 200,000            | 200,000            |
| Other credit and surety insurance                           | 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 summarized content in respect of unqualified reinsurance contract and related explanation for each insurance type are as follows:

The subsidiary-CKI 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   |
|---|--|
| ASIAN RE BANGKOK  | Marine hull insurance: Treaty reinsurance  |
| SANTAM LTD  | Marine hull insurance: Treaty reinsurance  |
| SCHWARZMEER UND OSTSEE VERSICHERUNGS-AKT                  | Fire insurance: Facultative reinsurance  |
| MILLI REASURANS T.A.S                                     | Fire insurance: Treaty reinsurance<br>Marine hull insurance: Treaty reinsurance<br>Cargo insurance: Treaty reinsurance   |
| TUGU INSURANCE (HONG KONG)                                | Marine hull insurance: Treaty reinsurance<br>Cargo insurance: Treaty reinsurance   |
| TRUST RE  | Fire insurance: Facultative reinsurance<br>Engineering insurance: Treaty and facultative reinsurance<br>Marine hull insurance: Treaty reinsurance<br>Cargo insurance: Treaty reinsurance   |
| ARAB INS. GROUP   | Fire insurance: Facultative reinsurance<br>Marine hull insurance: Treaty reinsurance<br>Cargo insurance: Treaty reinsurance  |
| THE ORIENTAL INSURANCE COMPANY LIMITED<br>ACR (SINGAPORE) | Engineering insurance: Treaty reinsurance<br>Fire insurance: Treaty reinsurance<br>Engineering insurance: Treaty reinsurance<br>Liability insurance: Treaty and facultative reinsurance<br>Marine hull insurance: Treaty and facultative reinsurance<br>Cargo insurance: Treaty reinsurance<br>Aviation Insurance: Facultative reinsurance |
| ACR (HK)  | Fire insurance: Facultative reinsurance<br>Marine hull insurance: Treaty and facultative reinsurance<br>Cargo insurance: Treaty reinsurance  |

(B) The unqualified reinsurance expense were \$4,313 and \$24,704 for the years ended December 31, 2021 and 2020, respectively.

(C) As of December 31, 2021 and 2020, details of the unqualified reinsurance reserves are as follows:

|   | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| Ceded unearned premium reserve          | \$ 2,156          | \$ 12,352         |
| Ceded claim reserve-reported but unpaid | 19,640            | 24,142            |
| Claims recoverable from reinsurers      | 871               | 10,612            |

## 10. Capital management

### (1) Objective of capital management

- 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.
- 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 realize optimum utilization of capital allocation.

### (2) Capital management procedures

- 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.
- 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 subsidiaries  
Capital adequacy ratio

December 31, 2021

|  | Ownership percentage held by the Company |     | Eligible capital |     | Minimum capital |
|--|--|-----|------------------|-----|-----------------|
| The Company  | 100.00%                                  |     | \$ 328,386,721   |     | \$ 374,743,865  |
| MICB   | 100.00%                                  |     | 312,007,199      |     | 231,637,103     |
| MS   | 100.00%                                  |     | 16,062,236       |     | 5,920,502       |
| MBF  | 100.00%                                  |     | 39,029,515       |     | 23,280,331      |
| CKI  | 100.00%                                  |     | 8,126,520        |     | 2,600,920       |
| MAM  | 100.00%                                  |     | 2,850,035        |     | 7,508,712       |
| Mega Venture Capital   | 100.00%                                  |     | 1,101,889        |     | 563,060         |
| MITC   | 100.00%                                  |     | 859,618          |     | 473,668         |
| Deduction item   |  |     | 372,904,401      |     | 371,979,622     |
| Subtotal   |  | (A) | \$ 335,519,332   | (B) | \$ 274,748,539  |
| Capital adequacy ratio of the Consolidated Company (C)=(A)÷(B) |  |     |                  | (C) | 122.12%         |

Mega Financial Holding Co., Ltd. and subsidiaries  
Capital adequacy ratio

December 31, 2020

|  | Ownership percentage held by the Company |     | Eligible capital |     | Minimum capital |
|--|--|-----|------------------|-----|-----------------|
| The Company  | 100.00%                                  |     | \$ 326,578,880   |     | \$ 367,966,892  |
| MICB   | 100.00%                                  |     | 302,458,804      |     | 226,191,970     |
| MS   | 100.00%                                  |     | 14,117,338       |     | 5,833,059       |
| MBF  | 100.00%                                  |     | 38,990,116       |     | 23,605,607      |
| CKI  | 100.00%                                  |     | 7,467,330        |     | 2,183,448       |
| MAM  | 100.00%                                  |     | 2,779,978        |     | 7,157,783       |
| Mega Venture Capital   | 100.00%                                  |     | 829,781          |     | 415,739         |
| MITC   | 100.00%                                  |     | 849,740          |     | 463,009         |
| Deduction item   |  |     | 365,766,256      |     | 364,965,483     |
| Subtotal   |  | (A) | \$ 328,305,711   | (B) | \$ 268,852,024  |
| Capital adequacy ratio of the Consolidated Company (C)=(A)÷(B) |  |     |                  | (C) | 122.11%         |

B. As of December 31, 2021 and 2020, the financial holding's net eligible capital are as follows:

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

| Item  | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| Common stocks   | \$ 135,998,240    | \$ 135,998,240    |
| Capital instruments that comply with the Tier 1 capital requirement | -                 | -                 |
| Other preferred stocks and subordinated debts                       | -                 | -                 |
| Capital collected in advance  | -                 | -                 |
| Capital surplus   | 68,194,233        | 68,194,233        |
| Legal reserve   | 43,343,934        | 40,962,325        |
| Special reserve   | 2,538,952         | 2,538,952         |
| Accumulated earnings  | 67,163,598        | 64,706,477        |
| Equity adjustment number  | 11,159,926        | 14,188,733        |
| Less: goodwill and other intangible assets                          | 4,369             | 3,451             |
| deferred assets   | 7,793             | 6,629             |
| treasury stocks   | -                 | -                 |
| Total net eligible capital  | \$ 328,386,721    | \$ 326,578,880    |

## 11. RELATED PARTY TRANSACTIONS

### (1) Names of the related parties and their relationship with the Company

| Names of related parties         | Short name of related parties | Relationship with the Company   |
|----------------------------------|-------------------------------|---|
| Chunghwa Post Co., Ltd.          | Chunghwa Post                 | Director of the Company   |
| Bank of Taiwan                   | BOT                           | Director of the Company   |
| Yung Shing Industries Co.        | Yung Shing Industries         | Sub-subsidiary of the Company   |
| Win Card Co., Ltd.               | Win Card                      | Sub-subsidiary of the Company   |
| Taiwan Bills Finance Corporation | TFC                           | Investments accounted for using the equity method of the company  |
| Next Commercial Bank Co., Ltd.   | Next Bank                     | Investments accounted for using the equity method of the company  |
| Other related parties            |                               | The Company's and subsidiarys' directors, supervisors, managers, their relatives, associated companies and related parties in substance |

### (2) Significant transactions with related parties

#### A. Deposits

Details of the related parties' and Next Bank's deposits placed with MICB recorded under "deposits and remittances" are as follows:

|   | December 31, 2021    | December 31, 2020    |
|---|----------------------|----------------------|
| Others (Note) (individual amounts accounting for less than 10% of the total amount) | \$ 13,537,208        | \$ 5,374,520         |
| Next Bank   | 6,953,028            | 7,812,142            |
|   | <u>\$ 20,490,236</u> | <u>\$ 13,186,662</u> |

Note: Excluding Next Banks.

#### B. Loans

Details of the credits extended to the related parties by MICB and recorded under "loans discounted" are as follows:

|  | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Others (individual amounts accounting for less than 10% of the total amount) | \$ 231,538        | \$ 2,205,746      |

#### C. Bank deposits

|               | December 31, 2021 | December 31, 2020 |
|---------------|-------------------|-------------------|
| Chunghwa Post | \$ 4,003          | \$ 4,184          |
| BOT           | 159,482           | 148,900           |
| Total         | <u>\$ 163,485</u> | <u>\$ 153,084</u> |

#### D. Guarantee deposits held for operation

|     | Collaterals   | December 31, 2021 | December 31, 2020 |
|-----|---|-------------------|-------------------|
| BOT | Financial assets at fair value through other comprehensive income - bonds | \$ 50,428         | \$ 51,067         |

#### E. Sales of notes and bonds

|               | For the years ended December 31 |                       |
|---------------|---------------------------------|-----------------------|
|               | 2021                            | 2020                  |
| Chunghwa Post | \$ 130,158,357                  | \$ 190,633,457        |
| BOT           | 499,878                         | 374,833               |
| Total         | <u>\$ 130,658,235</u>           | <u>\$ 191,008,290</u> |

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

#### F. Notes and bonds sold under repurchase agreements

|               | For the year ended December 31, 2021 |                 |
|---------------|--------------------------------------|-----------------|
|               | Total consideration                  | Ending balances |
| Chunghwa Post | \$ 6,690,210                         | \$ -            |
|               | For the year ended December 31, 2020 |                 |
|               | Total consideration                  | Ending balances |
| Chunghwa Post | \$ 9,750,995                         | \$ -            |





## G. Transactions with other financial institutions

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

|     | December 31, 2021 | December 31, 2020 |
|-----|-------------------|-------------------|
| BOT | \$ 21,265,666     | \$ 18,853,149     |

## (B) Deposits from banks and call loans from banks

|               | December 31, 2021 | December 31, 2020 |
|---------------|-------------------|-------------------|
| Chunghwa Post | \$ 1,025,674      | \$ 1,939,343      |
| BOT           | 6,391,858         | 4,838,199         |
| Total         | \$ 7,417,532      | \$ 6,777,542      |

## H. Commercial paper issued

|              | December 31, 2021 | December 31, 2020 |
|--------------|-------------------|-------------------|
| Taiwan Bills | \$ 525,000        | \$ 1,045,000      |

## I. Collaterals

|   | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| BOT   |                   |                   |
| Financial assets at fair value through profit or loss-negotiable certificates of deposits | \$ 800,109        | \$ -              |
| Financial assets at fair value through other comprehensive income-bonds                   | 1,906,206         | 2,815,594         |
|   | \$ 2,706,315      | \$ 2,815,594      |

## J. Loans

December 31, 2021

| Types                        | Number of accounts or names of related party | Highest balance | Ending balance | Default status |                  | Collaterals | Whether terms and conditions of the related party transactions are different from those of transactions with third parties |
|------------------------------|--|-----------------|----------------|----------------|------------------|-------------|--|
|                              |  |                 |                | Normal loans   | Overdue accounts |             |  |
| Consumer loans for employees | 7  | \$ 5,870        | \$ 5,413       | V              |                  | None        | None   |
| Household mortgage loans     | 106  | 877,049         | 757,929        | V              |                  | Real estate | None   |
| Other loans                  | 4  | 396,455         | 85,979         | V              |                  | Real estate | None   |

December 31, 2020

| Types                        | Number of accounts or names of related party | Highest balance | Ending balance | Default status |                  | Collaterals   | 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 | 9  | \$ 5,037        | \$ 2,487       | V              |                  | None  | None   |
| Household mortgage loans     | 94   | 804,823         | 677,395        | V              |                  | Real estate   | None   |
| Other loans                  | 6  | 2,127,021       | 2,091,760      | V              |                  | Real estate /<br>Certificates of deposits / Credit guarantee fund | None   |

## K. Interest income

|     | For the years ended December 31 |          |
|-----|---------------------------------|----------|
|     | 2021                            | 2020     |
| BOT | \$ 21,876                       | \$ 7,605 |

## L. Interest expense

|               | For the years ended December 31 |           |
|---------------|---------------------------------|-----------|
|               | 2021                            | 2020      |
| BOT           | \$ 10,056                       | \$ 11,155 |
| Chunghwa Post | 2,940                           | 11,264    |
| TFC           | 2,259                           | 3,061     |
| Total         | \$ 15,255                       | \$ 25,480 |



## M. Gains and losses of financial assets and liabilities at fair value through profit or loss (sales of notes and bonds and derivative transaction)

|               | For the years ended December 31 |            |
|---------------|---------------------------------|------------|
|               | 2021                            | 2020       |
| BOT           | (\$ 782)                        | (\$ 6,870) |
| Chunghwa Post | 33,523                          | 36,761     |
| Total         | \$ 32,741                       | \$ 29,891  |

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

|   | For the years ended December 31 |            |
|---|---------------------------------|------------|
|   | 2021                            | 2020       |
| Salaries and other short-term employee benefits | \$ 369,057                      | \$ 374,343 |
| Post-employment benefits                        | 7,322                           | 5,888      |
| Termination benefits                            | 895                             | 902        |
| Total   | \$ 377,274                      | \$ 381,133 |

## 12. PLEDGED ASSETS

| Assets  | Purpose of pledge  | December 31, 2021 | December 31, 2020 |
|---|--|-------------------|-------------------|
| Financial assets at fair value through profit or loss             | Collaterals for Central Bank and bank overdrafts   | \$ 13,000,748     | \$ 13,601,162     |
| 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 for credit cases | 18,403,813        | 19,105,547        |
| Investments in debt instruments at amortized cost                 | Central Bank guarantees  | 7,286,800         | 7,112,429         |
| Other financial assets  | Operation guarantee deposits, Collaterals for bank overdrafts  | 426,050           | 426,050           |
| Property and equipment  | Collaterals for short-term borrowings  | 2,156,720         | 2,413,948         |
| Investment property   | Collaterals for short-term borrowings  | 363,133           | 110,710           |
| Other assets  | Guarantee of insurance business, performance guarantee   | 490,218           | 512,659           |
|   |  | \$ 42,127,482     | \$ 43,282,505     |

## 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 180 million US dollar 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 and 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 recognized appropriately and be declared in accordance with relevant reporting regulations, and transactions are inconsistent with or in violation of the Office of Foreign Assets Control (OFAC) Regulations.

As of reporting date, MICB and MICB NY Branch have completed various supervision and consultation on the abovementioned issues and have positively strengthened, improved and complied with various suggestions, and ensure that each improvement measure is effectively and continuously executed. A retrospective investigation on MICB NY Branch's U.S. dollar clearing transaction activity was conducted by the independent third party, 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. After the review, the competent authority has also notified the close of the case.

Following the examination of 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 (C&D). MICB and the Branches were imposed a fine amounting to US\$29 million and shall jointly submit an individual written plan as well as retain an independent third party to conduct a review of MICB NY Branch's U.S. dollar clearing transaction activity from January 1, 2015 through June 30, 2015.

As of reporting date, except certain items of MICB NY Branch which is needed continuous improvements, and ensure that each improvement measure is effectively and continuously executed, MICB Chicago Branch and MICB Silicon Valley Branch have completed improvements on the abovementioned issues. Those written action plans were seasonally reported to the Board of Directors and submitted to the Federal Reserve Bank and the Illinois Department of Financial and Professional Regulation. A retrospective investigation on MICB NY Branch's U.S. dollar clearing transaction activity was conducted by the independent third party during the abovementioned 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. After the review, the competent authority has also notified the close of the case.

B. As of December 31, 2021 and 2020, MICB and its subsidiaries' commitments and contingent liabilities were as follows:

|   | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| Irrevocable arranged financing limit        | \$ 134,727,684    | \$ 129,021,778    |
| Securities sold under repurchase agreement  | 16,884,182        | 12,281,790        |
| Securities purchased under resell agreement | 949,396           | 10,359,690        |
| Credit card commitments                     | 98,659,426        | 95,508,685        |
| Guarantees issued                           | 133,804,193       | 137,972,817       |
| Letters of credit                           | 55,030,177        | 49,880,677        |
| Customers' securities under custody         | 301,061,286       | 266,554,468       |
| Properties under custody                    | 2,571,303         | 2,341,529         |
| Guarantee received                          | 113,558,588       | 111,217,213       |
| Collections for customers                   | 82,342,135        | 73,816,145        |
| Agency loans payable                        | 243,997           | 349,396           |
| Trustee sales license                       | 673               | 846               |
| Payables on consignments-in                 | 1,554             | 1,612             |
| Agent for government bonds                  | 80,549,400        | 115,577,800       |
| Short-dated securities under custody        | 105,556,195       | 113,993,056       |
| Trust liability                             | 648,883,055       | 595,586,435       |
| Certified notes paid                        | 3,513,487         | 3,869,744         |
| Total                                       | \$ 1,778,336,731  | \$ 1,718,333,681  |

C. The subsidiary-MICB committed to provide necessary financial support to Next Bank under the specific circumstance in the future in accordance with the related regulations. The subsidiary-MICB will continually hold more than 25% equity interests in Next Bank only if the regulations are changed or any other banks or financial holding companies are willing to acquire Next Bank with a total shareholding ratio over 25% equity interests.

#### (2) The subsidiaries-MBF

As of December 31, 2021 and 2020, the Company's commitments and contingent liabilities arising from its normal course of business were as follows:

|   | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| Securities sold under repurchase agreements | \$ 189,737,223    | \$ 241,164,641    |
| Guarantees for commercial papers            | 192,848,800       | 177,665,200       |
| Buy fixed rate financial paper              | 24,100,000        | 14,200,000        |
| Buy index rate financial paper              | 72,810,750        | 66,733,750        |
| Sell fixed rate financial paper             | 4,400,000         | -                 |
| Sell index rate financial paper             | 9,300,000         | 1,000,000         |
| Total                                       | \$ 493,196,773    | \$ 500,763,591    |

#### (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, 2021, except for the reserve for claims that had been provided for, CKI still had several lawsuits regarding insurance claims. CKI had appointed attorneys to deal with the lawsuits and had recognized the appropriate claim reserve.

## 14. SIGNIFICANT DISASTER LOSS: None.

## 15. SIGNIFICANT SUBSEQUENT EVENTS:

- (1) On February 22, 2022, MICB issued 5-year unsecured regular sustainability bond 2022 with a face value of NT\$ 1.5 billion and 0.70% coupon rate per annum for the loans of green investment projects and social investment projects.
- (2) In 2019, MICB participated in a syndication loan to Marelli Holdings Co., Ltd. led by Mizuho Bank, Ltd. amounted to EUR5.504 billion. As of December 31, 2021, the remaining participation balance of MICB was approximately EUR79,901 thousand. Marelli Holdings Co., Ltd. (referred herein as the borrower) was established in Japan, and the group which it belong to one of a global top 10 automobile component suppliers. Due to the impact of the Covid-19 pandemic and the semiconductor chip shortage, the borrower had deficits in 2020 and will remain in deficits in 2021. However, the borrower paid principal and interests on the syndicated loans until December 31, 2021. The borrower assessed there will be a capital shortage resulting from continuous chip supply-chain shortage in March 2022. Therefore, the borrower applied for an Alternative Dispute Resolution (ADR) under local legal procedures on March 1, 2022, and will negotiate the debt adjustment plan with financial institution debtors. The financial impact on the MICB's can only be assessed after the borrower provided the debt adjustment plan, updated financial and collateral information and completion of the ADR procedures.

## 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 page175~185 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020.)

- (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(5) for details of transactions with related parties.

### B. Joint promotion of businesses

In order to create economic synergy throughout the various subsidiaries and provide customers financial services in all aspects, the subsidiaries have continuously established specialized counters for other subsidiaries in different businesses (including counters of banking services, securities trading services, and insurance services) in the business locations of its subsidiaries and simultaneously promoted service business in banking, securities and insurance areas.

### C. Information sharing or Operating facilities or premises sharing

Under the Financial Holding Company Act, Computer-Process Personal Data Protection Law and the related regulations stipulated by the Ministry of Finance, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the Company and its subsidiaries or exchanged between the subsidiaries for the purpose of cross-selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are bound to use the information for the specified purposes only. In addition, the Company is required to publish its "Measures for Protection of Customers' Information" at its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

### D. Apportionment of revenues, costs, expenses, gains and losses

For the year ended December 31, 2021



The promotion bonus paid to other subsidiaries by MITC, MICB, CKI and MS amounted to \$33,917, \$33,196, \$28,897 and \$45,988, respectively. As a result of cross-selling by other subsidiaries, the income increased by \$141,362 for MITC; \$74,189 for MICB; \$644,648 for CKI; \$164,001 for MS.

For the year ended December 31, 2020

The promotion bonus paid to other subsidiaries by MITC, MICB, CKI and MS amounted to \$27,260, \$28,097, \$28,916 and \$27,435 respectively. As a result of cross-selling by other subsidiaries, the income increased by \$124,721 for MITC; \$66,732 for MICB; \$560,671 for CKI; \$80,535 for MS.

(8) Information for private placement securities: None.

(9) Adjustment of key organization and significant change in regulatory system

A. To meet Group reorganization, the Board of Directors of the Company resolved to sell a 100% equity interest of the subsidiary-MLIAC to the subsidiary-MICB on April 23, 2019. The merger was completed on May 12, 2020.

B. Effective July 1, 2021, to enhance the management of each branch and increase the value of its channels, MICB established the “Operation Management Administration Group” under the Head Office and transferred Business Administration Department, Foreign Exchange Business Management Department and Operation Department from the Corporate Banking Business Group to Operation Management Administration Group in order to improve its management efficiency and business competitiveness of all branches. Also, MICB established the “Appraisal Center” in response to the implementation of the new policy on the LTV (loan to value), and to ensure a fair and objective valuation on collateral held by MICB. In addition, MICB placed the “Regional Credit Management Group” under Credit Control Department, Credit Analysis Department, and Overdue Loan & Control Department and renamed it to “Regional Credit Management Center Division” to ensure the efficiency of hierarchical authorization management. As for business management, MICB enhanced the business and personnel management of the governance units at the Head Office on each branch through designing a dual reporting line in order to carry out the managerial control of Business Groups.

(10) Financial information by business segments

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES  
Financial Information by Business Segments

| For the year ended December 31, 2021  | Bank division | Insurance division | Bills division | Securities division | Total other divisions | Consolidation |
|---|---------------|--------------------|----------------|---------------------|-----------------------|---------------|
| Interest income, net  | \$ 30,260,964 | \$ 74,950          | \$ 1,231,871   | \$ 986,224          | (\$ 85,664)           | \$ 32,468,345 |
| Revenues other than interest, net   | 14,873,810    | 1,943,594          | 3,690,057      | 6,034,842           | 1,220,198             | 27,762,501    |
| Net revenue   | 45,134,774    | 2,018,544          | 4,921,928      | 7,021,066           | 1,134,534             | 60,230,846    |
| (Provision for) reversal of bad debts expense, commitment and guarantee liability | ( 1,782,406)  | 235                | ( 132,587)     | -                   | 10,324                | ( 1,904,434)  |
| Net change in provisions for insurance liabilities                                | -             | ( 64,520)          | -              | -                   | -                     | ( 64,520)     |
| Operating expenses  | ( 22,802,795) | ( 1,352,830)       | ( 835,612)     | ( 3,813,580)        | ( 800,662)            | ( 29,605,479) |
| Profit from continuing operations before tax                                      | 20,549,573    | 601,429            | 3,953,729      | 3,207,486           | 344,196               | 28,656,413    |
| Income tax (expense) benefit  | ( 2,133,687)  | ( 122,790)         | ( 717,847)     | ( 363,765)          | 412,746               | ( 2,925,343)  |
| Profit from continuing operations   | \$ 18,415,886 | \$ 478,639         | \$ 3,235,882   | \$ 2,843,721        | \$ 756,942            | \$ 25,731,070 |

| For the year ended December 31, 2020  | Bank division | Insurance division | Bills division | Securities division | Total other divisions | Consolidation |
|---|---------------|--------------------|----------------|---------------------|-----------------------|---------------|
| Interest income, net  | \$ 29,765,642 | \$ 85,698          | \$ 1,111,798   | \$ 688,017          | (\$ 100,281)          | \$ 31,550,874 |
| Revenues other than interest, net   | 18,941,815    | 1,687,427          | 3,512,442      | 4,110,085           | 1,007,279             | 29,259,048    |
| Net revenue   | 48,707,457    | 1,773,125          | 4,624,240      | 4,798,102           | 906,998               | 60,809,922    |
| (Provision for) reversal of bad debts expense, commitment and guarantee liability | ( 1,917,068)  | 35,369             | ( 252,093)     | -                   | ( 17,776)             | ( 2,151,568)  |
| Net change in provisions for insurance liabilities                                | -             | ( 227,160)         | -              | -                   | -                     | ( 227,160)    |
| Operating expenses  | ( 23,383,815) | ( 1,216,069)       | ( 790,139)     | ( 2,946,263)        | ( 764,270)            | ( 29,100,556) |
| Profit from continuing operations before tax                                      | 23,406,574    | 365,265            | 3,582,008      | 1,851,839           | 124,952               | 29,330,638    |
| Income tax expense  | ( 3,128,169)  | ( 96,128)          | ( 674,408)     | ( 238,830)          | ( 175,135)            | ( 4,312,670)  |
| Profit from continuing operations   | \$ 20,278,405 | \$ 269,137         | \$ 2,907,600   | \$ 1,613,009        | (\$ 50,183)           | \$ 25,017,968 |

Note: Amount write off after the consolidation.

(11) 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, 2021     | December 31, 2020     | LIABILITIES AND EQUITY              | December 31, 2021     | December 31, 2020     |
|---|-----------------------|-----------------------|-------------------------------------|-----------------------|-----------------------|
| <b>Assets</b>   |                       |                       | <b>Liabilities</b>                  |                       |                       |
| Cash and cash equivalents   | \$ 81,200             | \$ 58,854             | Commercial paper payable, net       | \$ 15,043,990         | \$ 11,483,855         |
| Financial assets at fair value through other comprehensive income | 2,042,180             | 2,278,091             | Payables                            | 25,502,346            | 23,753,085            |
| Receivables, net  | 5                     | -                     | Current tax liabilities             | 1,160,137             | 1,476,085             |
| Current tax assets  | 319,360               | 319,360               | Bonds payable                       | 5,000,000             | 5,000,000             |
| Investments accounted for using equity method, net                | 371,979,622           | 364,965,483           | Provisions                          | 37,554                | 33,969                |
| Other financial assets  | 100                   | 100                   | Lease liabilities                   | 4,770                 | 3,080                 |
| Investment property, net  | 129,572               | 131,083               | Other liabilities                   | 8,907                 | 16,152                |
| Property and equipment, net                                       | 586,865               | 588,220               | <b>Total liabilities</b>            | <b>46,757,704</b>     | <b>41,766,226</b>     |
| Right-of-use assets, net  | 4,706                 | 3,066                 | <b>Equity</b>                       |                       |                       |
| Deferred income tax assets  | 7,793                 | 6,629                 | Common stock                        | 135,998,240           | 135,998,240           |
| Other assets, net   | 5,184                 | 4,300                 | Capital surplus                     | 68,194,233            | 68,194,233            |
|   |                       |                       | Retained earnings                   |                       |                       |
|   |                       |                       | Legal reserve                       | 43,343,934            | 40,962,325            |
|   |                       |                       | Special reserve                     | 2,538,952             | 2,538,952             |
|   |                       |                       | Unappropriated earnings             | 67,163,598            | 64,706,477            |
|   |                       |                       | Other equity interest               | 11,159,926            | 14,188,733            |
|   |                       |                       | <b>Total equity</b>                 | <b>328,398,883</b>    | <b>326,588,960</b>    |
| <b>TOTAL ASSETS</b>   | <b>\$ 375,156,587</b> | <b>\$ 368,355,186</b> | <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 375,156,587</b> | <b>\$ 368,355,186</b> |

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, 2021 | For the year ended December 31, 2020 |
|--|--------------------------------------|--------------------------------------|
| <b>Revenues</b>  |                                      |                                      |
| Interest income  | \$ 2,359                             | \$ 6,081                             |
| Foreign exchange gain  | 1                                    | -                                    |
| Share of profit of associates and joint ventures accounted for using equity method                               | 25,601,093                           | 25,470,382                           |
| Other revenue other than interest income   | 71,978                               | 112,239                              |
| <b>Total revenue</b>   | <b>25,675,431</b>                    | <b>25,588,702</b>                    |
| <b>Expenses and losses</b>   |                                      |                                      |
| Interest expense   | ( 57,991)                            | ( 65,042)                            |
| Foreign exchange loss  | -                                    | ( 4)                                 |
| Employee benefit expenses  | ( 297,163)                           | ( 298,580)                           |
| Depreciation and amortization expenses   | ( 15,615)                            | ( 15,532)                            |
| Other general and administrative expenses  | ( 74,190)                            | ( 89,807)                            |
| <b>Total expenses and losses</b>   | <b>( 444,959)</b>                    | <b>( 468,965)</b>                    |
| <b>Profit from continuing operations before tax</b>  | <b>25,230,472</b>                    | <b>25,119,737</b>                    |
| <b>Income tax benefit (expense)</b>  | <b>500,598</b>                       | <b>( 101,769)</b>                    |
| <b>Profit</b>  | <b>25,731,070</b>                    | <b>25,017,968</b>                    |
| <b>Other comprehensive income (loss)</b>   |                                      |                                      |
| Components of other comprehensive income that will not be reclassified to profit or loss                         |                                      |                                      |
| (Loss) gain on remeasurement of defined benefit plans  | ( 5,820)                             | 15,108                               |
| Share of other comprehensive income of associates and joint ventures accounted for using equity method           | 4,104,642                            | 500,076                              |
| Revaluation gains on investments in equity instruments measured at fair value through other comprehensive income | ( 235,911)                           | ( 409,282)                           |
| Income tax related to components of other comprehensive income that will not be reclassified to profit or loss   | 1,164                                | ( 3,022)                             |
| Components of other comprehensive income that will be reclassified to profit or loss                             |                                      |                                      |
| Share of other comprehensive (loss) income of associates and joint ventures accounted for using equity method    | ( 6,297,500)                         | 526,565                              |
| <b>Other comprehensive (loss) income after tax</b>   | <b>( 2,433,425)</b>                  | <b>629,445</b>                       |
| <b>Total comprehensive income</b>  | <b>\$ 23,297,645</b>                 | <b>\$ 25,647,413</b>                 |
| <b>Earnings Per Share (in dollars)</b>   |                                      |                                      |
| <b>Basic and Diluted Earnings Per Share (in dollars)</b>   | <b>\$ 1.89</b>                       | <b>\$ 1.84</b>                       |



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

|  | Retained earnings |                 |               |                 | Other equity interest   |   |   |  |                    |                |
|--|-------------------|-----------------|---------------|-----------------|-------------------------|---|---|--|--------------------|----------------|
|  | common stock      | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings | Exchange differences on translation of foreign operations | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Other comprehensive income (loss) on reclassification using overlay approach | Other equity-other | Total equity   |
| For the year ended December 31, 2020   |                   |                 |               |                 |                         |   |   |  |                    |                |
| Equity at beginning 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 |
| Profit for the year  | -                 | -               | -             | -               | 25,017,968              | -   | -   | -  | -                  | 25,017,968     |
| Other comprehensive income (loss) for the year   | -                 | -               | -             | -               | ( 516,075)              | ( 1,694,048)  | 2,864,029   | ( 37,841)  | 13,380             | 629,445        |
| Total comprehensive income (loss)  | -                 | -               | -             | -               | 24,501,893              | ( 1,694,048)  | 2,864,029   | ( 37,841)  | 13,380             | 25,647,413     |
| Earnings distribution for 2019   |                   |                 |               |                 |                         |   |   |  |                    |                |
| Legal reserve  | -                 | -               | 2,895,624     | - ( 2,895,624)  |                         | -   | -   | -  | -                  | -              |
| Reversal of special reserve  | -                 | -               | -             | ( 6,199)        | 6,199                   | -   | -   | -  | -                  | -              |
| Cash dividends   | -                 | -               | -             | -               | ( 23,119,701)           | -   | -   | -  | -                  | ( 23,119,701)  |
| Disposal of investments in equity instruments measured at fair value through other comprehensive income (loss) | -                 | -               | -             | -               | ( 685,802)              | -   | 685,802   | -  | -                  | -              |
| Equity at end of year  | \$135,998,240     | \$ 68,194,233   | \$ 40,962,325 | \$ 2,538,952    | \$ 64,706,477           | \$ 4,107,628  | \$ 18,349,008   | \$ 35,934  | \$ 16,713          | \$ 326,588,960 |
| For the year ended December 31, 2021   |                   |                 |               |                 |                         |   |   |  |                    |                |
| Equity at beginning of year  | \$135,998,240     | \$ 68,194,233   | \$ 40,962,325 | \$ 2,538,952    | \$ 64,706,477           | \$ 4,107,628  | \$ 18,349,008   | \$ 35,934  | \$ 16,713          | \$ 326,588,960 |
| Profit for the year  | -                 | -               | -             | -               | 25,731,070              | -   | -   | -  | -                  | 25,731,070     |
| Other comprehensive income (loss) for the year   | -                 | -               | -             | -               | 599,599                 | ( 1,158,569)  | ( 1,919,573)  | 43,085   | 2,033              | ( 2,433,425)   |
| Total comprehensive income (loss)  | -                 | -               | -             | -               | 26,330,669              | ( 1,158,569)  | ( 1,919,573)  | 43,085   | 2,033              | 23,297,645     |
| Earnings distribution for 2020   |                   |                 |               |                 |                         |   |   |  |                    |                |
| Legal reserve  | -                 | -               | 2,381,609     | - ( 2,381,609)  |                         | -   | -   | -  | -                  | -              |
| Cash dividends   | -                 | -               | -             | -               | ( 21,487,722)           | -   | -   | -  | -                  | ( 21,487,722)  |
| Disposal of investments in equity instruments measured at fair value through other comprehensive income (loss) | -                 | -               | -             | -               | ( 4,217)                | -   | ( 15,874)   | -  | 20,091             | -              |
| Equity at end of year  | \$135,998,240     | \$ 68,194,233   | \$ 43,343,934 | \$ 2,538,952    | \$ 67,163,598           | \$ 5,266,197  | \$ 16,413,561   | \$ 7,151   | \$ 5,411           | \$ 328,398,883 |



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

|   | For the year ended<br>December 31, 2021 | For the year ended<br>December 31, 2020 |
|---|---|---|
| <b>Cash Flows from Operating Activities</b>                     |   |   |
| Profit before tax   | \$ 25,230,472                           | \$ 25,119,737                           |
| Income and expenses having no effect on cash flows              |   |   |
| Income and expenses   |   |   |
| Depreciation expense  | 13,867                                  | 13,670                                  |
| Amortization expense  | 1,748                                   | 1,862                                   |
| Interest revenue  | ( 2,359 )                               | ( 6,081 )                               |
| Interest expense  | 57,991                                  | 65,042                                  |
| Dividend income   | ( 64,602 )                              | ( 104,612 )                             |
| Share of profit of associates accounted for using equity method | ( 25,601,093 )                          | ( 25,470,382 )                          |
| Loss on disposal of property and equipment                      | -                                       | 1,521                                   |
| Changes in operating assets and liabilities                     |   |   |
| Changes in operating assets:                                    |   |   |
| Increase in receivables   | ( 5 )                                   | -                                       |
| Decrease in other assets  | 35                                      | 344                                     |
| Changes in operating liabilities:                               |   |   |
| Increase (decrease) in payables                                 | 503                                     | ( 273,597 )                             |
| Decrease in provisions for liabilities                          | ( 2,235 )                               | ( 28,021 )                              |
| (Decrease) increase in other liabilities                        | ( 10,373 )                              | 9,629                                   |
| Cash flows used in operations                                   | ( 376,051 )                             | ( 670,888 )                             |
| Interest received   | 2,359                                   | 6,081                                   |
| Cash dividend received  | 16,458,698                              | 19,749,744                              |
| Interest paid   | ( 57,991 )                              | ( 38,946 )                              |
| Income tax refunded (paid)                                      | 184,650                                 | ( 211,621 )                             |
| Net cash flows from operating activities                        | 16,211,665                              | 18,834,370                              |
| <b>Cash Flows from Investing Activities</b>                     |   |   |
| Proceeds from disposal of ownership interests in subsidiaries   | -                                       | 141,187                                 |
| Acquisition of property and equipment                           | ( 9,280 )                               | ( 6,924 )                               |
| Acquisition of intangible assets                                | ( 2,667 )                               | ( 32 )                                  |
| Net cash flows (used in) from investing activities              | ( 11,947 )                              | 134,231                                 |
| <b>Cash Flows from Financing Activities</b>                     |   |   |
| Increase (decrease) in commercial papers issued                 | 3,560,000                               | ( 1,860,000 )                           |
| Decrease in other borrowings                                    | -                                       | ( 1,400,000 )                           |
| Proceeds from issuance of bonds                                 | -                                       | 5,000,000                               |
| Payment of lease liabilities                                    | ( 1,671 )                               | ( 1,778 )                               |
| Increase in guarantee deposits received                         | 3,128                                   | 2,334                                   |
| Cash dividends paid   | ( 19,738,829 )                          | ( 20,737,777 )                          |
| Net cash flows used in financing activities                     | ( 16,177,372 )                          | ( 18,997,221 )                          |
| Net increase (decrease) in cash and cash equivalents            | 22,346                                  | ( 28,620 )                              |
| Cash and cash equivalents at beginning of year                  | 58,854                                  | 87,474                                  |
| Cash and cash equivalents at end of year                        | \$ 81,200                               | \$ 58,854                               |



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

| Item  | December 31, 2021       | December 31, 2020       | Item   | December 31, 2021       | December 31, 2020       |
|---|-------------------------|-------------------------|--|-------------------------|-------------------------|
| <b>ASSETS</b>   |                         |                         | <b>LIABILITIES</b>   |                         |                         |
| Cash and cash equivalents   | \$ 133,169,080          | \$ 114,564,541          | Deposits from the Central Bank and banks                   | \$ 366,830,881          | \$ 388,001,739          |
| Due from the Central Bank and call loans to banks                 | 443,563,175             | 376,563,615             | Due to the Central Bank and banks                          | 46,890,696              | 20,363,979              |
| Financial assets at fair value through profit or loss             | 56,992,991              | 57,167,478              | Financial liabilities at fair value through profit or loss | 18,871,360              | 20,351,947              |
| Financial assets at fair value through other comprehensive income | 407,244,111             | 396,955,384             | Securities sold under repurchase agreements                | 16,836,542              | 12,271,411              |
| Investments in debt instruments at amortized cost                 | 642,398,399             | 528,350,771             | Payables   | 30,200,660              | 37,306,869              |
| Securities purchased under resell agreements                      | 949,170                 | 10,357,834              | Current tax liabilities                                    | 9,737,196               | 8,426,060               |
| Receivables, net  | 38,756,829              | 37,874,725              | Deposits and remittances                                   | 2,955,815,426           | 2,602,036,479           |
| Current tax asset   | 2,386                   | 62                      | Financial bonds payable                                    | 1,000,000               | 13,000,000              |
| Loans discounted, net   | 2,015,685,891           | 1,870,200,468           | Other financial liabilities                                | 6,339,600               | 8,134,052               |
| Investments accounted for using equity method, net                | 10,057,482              | 10,515,436              | Provisions   | 16,534,453              | 16,876,167              |
| Other financial assets, net                                       | 245,968                 | 108,415                 | Lease liabilities  | 1,823,542               | 1,888,498               |
| Property and equipment, net                                       | 14,783,275              | 14,809,966              | Deferred income tax liabilities                            | 2,385,723               | 2,755,194               |
| Right-of-use assets, net  | 1,773,541               | 1,842,825               | Other liabilities  | 6,534,550               | 7,689,312               |
| Investment property, net  | 583,197                 | 583,624                 | Total liabilities  | 3,479,800,629           | 3,139,101,707           |
| Deferred income tax assets  | 6,054,635               | 5,172,819               | <b>EQUITY</b>  |                         |                         |
| Other assets, net   | 6,646,888               | 8,617,173               | Common stock   | 85,362,336              | 85,362,336              |
|   |                         |                         | Capital surplus  | 62,219,540              | 62,219,540              |
|   |                         |                         | Retained earnings  | 145,870,972             | 139,995,250             |
|   |                         |                         | Other equity interest                                      | 5,653,541               | 7,006,303               |
|   |                         |                         | Total equity   | 299,106,389             | 294,583,429             |
| <b>TOTAL ASSETS</b>   | <b>\$ 3,778,907,018</b> | <b>\$ 3,433,685,136</b> | <b>TOTAL LIABILITIES AND EQUITY</b>                        | <b>\$ 3,778,907,018</b> | <b>\$ 3,433,685,136</b> |



## Financial Information

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

| Item  | December 31, 2021    | December 31, 2020    | Item                                     | December 31, 2021    | December 31, 2020    |
|---|----------------------|----------------------|--|----------------------|----------------------|
| <u>ASSETS</u>   |                      |                      | <u>LIABILITIES</u>                       |                      |                      |
| Current assets  | \$ 81,016,974        | \$ 69,636,266        | Current liabilities                      | \$ 67,380,074        | \$ 57,525,616        |
| Financial assets at fair value through other comprehensive income-non-current | 1,047,486            | 772,528              | Provisions for liabilities - non-current | 122,035              | 136,274              |
| Investments accounted for using equity method                                 | 918,252              | 832,983              | Lease liabilities - non-current          | 59,718               | 71,950               |
| Property and equipment, net   | 2,308,495            | 2,542,645            | Deferred income tax liabilities          | 2,884                | 5,476                |
| Right-of-use assets, net  | 116,481              | 135,651              | Other liabilities - non-current          | 7,221                | 7,216                |
| Investment property, net  | 401,319              | 149,805              | Total liabilities                        | 67,571,932           | 57,746,532           |
| Intangible assets, net  | 77,420               | 74,940               | <u>EQUITY</u>                            |                      |                      |
| Deferred income tax assets  | 91,072               | 87,261               | Common stock                             | 11,600,000           | 11,600,000           |
| Other assets - non-current  | 908,228              | 881,317              | Capital surplus                          | 971,161              | 971,161              |
|   |                      |                      | Retained earnings                        | 5,518,810            | 3,867,842            |
|   |                      |                      | Other equity interest                    | 1,223,824            | 927,861              |
|   |                      |                      | Total equity                             | 19,313,795           | 17,366,864           |
| <b>TOTAL ASSETS</b>   | <b>\$ 86,885,727</b> | <b>\$ 75,113,396</b> | <b>TOTAL LIABILITIES AND EQUITY</b>      | <b>\$ 86,885,727</b> | <b>\$ 75,113,396</b> |



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

| Item  | December 31, 2021     | December 31, 2020     | Item   | December 31, 2021     | December 31, 2020     |
|---|-----------------------|-----------------------|--|-----------------------|-----------------------|
| <b>ASSETS</b>   |                       |                       | <b>LIABILITIES</b>   |                       |                       |
| Cash and cash equivalents   | \$ 337,259            | \$ 310,489            | Interbank overdraft and call loans                         | \$ 17,350,762         | \$ 17,012,187         |
| Financial assets at fair value through profit or loss             | 132,751,383           | 159,366,161           | Financial liabilities at fair value through profit or loss | 29,122                | -                     |
| Financial assets at fair value through other comprehensive income | 114,538,586           | 139,211,496           | Securities sold under repurchase agreements                | 189,737,223           | 241,164,641           |
| Investments in debt instruments at amortized cost                 |                       |                       | Payables   | 531,342               | 507,353               |
| Receivables, net  | 402,162               | 406,437               | Current tax liabilities                                    | 632,641               | 544,324               |
| Other financial assets, net                                       | 1,120,769             | 1,404,106             | Provisions   | 2,985,472             | 2,823,445             |
| Property and equipment, net                                       | 504,509               | 471,412               | Lease liabilities  | 12,127                | 37,070                |
| Right-of-use assets, net  | 353,761               | 356,187               | Deferred income tax liabilities                            | 244,851               | 607,047               |
| Investment property, net  | 12,249                | 36,870                | Other liabilities  | 251,387               | 202,476               |
| Intangible assets, net  | 2,475,104             | 2,485,768             | Total liabilities  | 211,774,927           | 262,898,543           |
| Deferred income tax assets  | 8,529                 | 6,522                 | <b>EQUITY</b>  |                       |                       |
| Other assets, net   | 197,736               | 185,044               | Common stock   | 13,114,411            | 13,114,411            |
|   | 58,645                | 64,974                | Capital surplus  | 320,929               | 320,929               |
|   |                       |                       | Retained earnings  | 24,745,092            | 23,393,231            |
|   |                       |                       | Other equity interest                                      | 2,805,333             | 4,578,352             |
|   |                       |                       | Total equity   | 40,985,765            | 41,406,923            |
| <b>TOTAL ASSETS</b>   | <b>\$ 252,760,692</b> | <b>\$ 304,305,466</b> | <b>TOTAL LIABILITIES AND EQUITY</b>                        | <b>\$ 252,760,692</b> | <b>\$ 304,305,466</b> |



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

| Item  | December 31, 2021    | December 31, 2020    | Item                                | December 31, 2021    | December 31, 2020    |
|---|----------------------|----------------------|-------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      | <b>LIABILITIES</b>                  |                      |                      |
| Cash and cash equivalents   | \$ 4,187,842         | \$ 4,066,034         | Payables                            | \$ 1,737,897         | \$ 1,576,684         |
| Receivables   | 1,077,881            | 888,814              | Current tax liabilities             | 83,929               | 65,048               |
| Current tax assets  | 8,203                | 59,499               | Insurance liabilities               | 10,100,190           | 9,969,250            |
| Assets classified as held for sale                                | 15,813               | 15,813               | Provisions                          | 113,785              | 160,205              |
| Financial assets at fair value through profit or loss             | 2,391,222            | 1,962,393            | Lease liabilities                   | 30,175               | 28,921               |
| Financial assets at fair value through other comprehensive income | 2,030,382            | 1,958,736            | Other liabilities                   | 136,083              | 93,291               |
| Investments in debt instruments at amortized cost                 | 3,516,440            | 3,128,710            | Total liabilities                   | 12,202,059           | 11,893,399           |
| Investments accounted for using equity method                     | 36,336               | 36,760               | <b>EQUITY</b>                       |                      |                      |
| Right-of-use assets, net  | 30,078               | 28,859               | Common stock                        | 3,000,000            | 3,000,000            |
| Investment property, net  | 294,438              | 295,972              | Capital surplus                     | 1,084,811            | 1,084,811            |
| Reinsurance contracts assets                                      | 4,990,018            | 5,170,035            | Retained earnings                   | 3,579,835            | 3,001,900            |
| Property and equipment, net                                       | 765,146              | 767,894              | Other equity interest               | 193,382              | 156,689              |
| Intangible assets, net  | 50,553               | 45,987               | Total equity                        | 7,858,028            | 7,243,400            |
| Deferred income tax assets  | 29,027               | 38,359               |                                     |                      |                      |
| Other assets, net   | 636,708              | 672,934              |                                     |                      |                      |
| <b>TOTAL ASSETS</b>   | <b>\$ 20,060,087</b> | <b>\$ 19,136,799</b> | <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 20,060,087</b> | <b>\$ 19,136,799</b> |



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

| Item  | December 31, 2021 | December 31, 2020 | Item                                | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|-------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   | <b>LIABILITIES</b>                  |                   |                   |
| Current assets  |                   |                   | Current liabilities                 | \$ 77,647         | \$ 61,653         |
| Financial assets at fair value through other comprehensive income | \$ 775,346        | \$ 761,309        | Lease liabilities                   | 258               | 689               |
| Property and equipment, net                                       | 1,357             | 1,130             | Liabilities - non-current           | 9,812             | 13,935            |
| Right-of-use assets, net  | 129,581           | 132,666           | Total liabilities                   | 87,717            | 76,277            |
| Intangible assets, net  | 684               | 1,379             | <b>EQUITY</b>                       |                   |                   |
| Deferred income tax assets  | 2,139             | 776               | Common stock                        | 527,000           | 527,000           |
| Other assets - non-current  | 1,960             | 2,780             | Capital surplus                     | 3,675             | 3,675             |
|   | 36,268            | 25,977            | Retained earnings                   | 329,085           | 319,435           |
|   |                   |                   | Other equity interest               | ( 142)            | ( 370)            |
| <b>TOTAL ASSETS</b>   | <b>\$ 947,335</b> | <b>\$ 926,017</b> | Total equity                        | 859,618           | 849,740           |
|   |                   |                   | <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 947,335</b> | <b>\$ 926,017</b> |

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

| Item                        | December 31, 2021    | December 31, 2020    | Item                                | December 31, 2021    | December 31, 2020    |
|-----------------------------|----------------------|----------------------|-------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>               |                      |                      | <b>LIABILITIES</b>                  |                      |                      |
| Current assets              | \$ 14,694,867        | \$ 13,962,858        | Current liabilities                 | \$ 11,162,136        | \$ 10,601,335        |
| Property and equipment, net | 890                  | 237                  | Long-term loans                     | 999,818              | 899,746              |
| Investment property, net    | 213,861              | 237,334              | Lease liabilities                   | 1,284                | 958                  |
| Right-of-use assets, net    | 1,967                | 8,166                | Other liabilities - non-current     | 4,150                | 33,548               |
| Intangible assets, net      | 858                  | 47                   | Total liabilities                   | 12,167,388           | 11,535,587           |
| Deferred income tax assets  | 100,457              | 102,400              | <b>EQUITY</b>                       |                      |                      |
| Other assets - non-current  | 4,523                | 4,523                | Common stock                        | 2,000,000            | 2,000,000            |
|                             |                      |                      | Capital surplus                     | 1,261                | 1,261                |
|                             |                      |                      | Retained earnings                   | 848,774              | 778,717              |
| <b>TOTAL ASSETS</b>         | <b>\$ 15,017,423</b> | <b>\$ 14,315,565</b> | Total equity                        | 2,850,035            | 2,779,978            |
|                             |                      |                      | <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 15,017,423</b> | <b>\$ 14,315,565</b> |



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

| Item  | December 31, 2021   | December 31, 2020 | Item                                | December 31, 2021   | December 31, 2020 |
|---|---------------------|-------------------|-------------------------------------|---------------------|-------------------|
| <b>ASSETS</b>   |                     |                   | <b>LIABILITIES</b>                  |                     |                   |
| Current assets  | \$ 341,242          | \$ 344,333        | Current liabilities                 | \$ 24,230           | \$ 1,696          |
| Financial assets at fair value through profit or loss | 784,877             | 487,144           | Total liabilities                   | 24,230              | 1,696             |
|   |                     |                   | <b>EQUITY</b>                       |                     |                   |
|   |                     |                   | Common stock                        | 1,000,000           | 1,000,000         |
|   |                     |                   | Accumulated surplus (deficit)       | 101,889             | (170,219)         |
|   |                     |                   | Total equity                        | 1,101,889           | 829,781           |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 1,126,119</b> | <b>\$ 831,477</b> | <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 1,126,119</b> | <b>\$ 831,477</b> |

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<br>December 31, 2021 | %     | For the year ended<br>December 31, 2020 | %     |
|---|---|-------|---|-------|
| Interest income   | \$ 39,410,949                           | 88    | \$ 46,145,992                           | 95    |
| Less: Interest expense  | ( 9,625,761)                            | ( 22) | ( 16,821,731)                           | ( 35) |
| Interest income, net  | 29,785,188                              | 66    | 29,324,261                              | 60    |
| Revenues other than interest income, net                        | 15,199,213                              | 34    | 19,166,617                              | 40    |
| Net revenue   | 44,984,401                              | 100   | 48,490,878                              | 100   |
| Bad debts expense, commitment and guarantee liability provision | ( 1,837,715)                            | ( 4)  | ( 1,877,830)                            | ( 4)  |
| Operating expenses  | ( 22,636,867)                           | ( 50) | ( 23,203,951)                           | ( 48) |
| Income before income tax from continuing operations             | 20,509,819                              | 46    | 23,409,097                              | 48    |
| Income tax expense  | ( 2,052,499)                            | ( 5)  | ( 3,077,016)                            | ( 6)  |
| Net income  | 18,457,320                              | 41    | 20,332,081                              | 42    |
| Other comprehensive loss  | ( 788,560)                              | ( 2)  | ( 959,022)                              | ( 2)  |
| Total comprehensive income                                      | \$ 17,668,760                           | 39    | \$ 19,373,059                           | 40    |
| Earnings per share  |   |       |   |       |
| Basic and diluted earnings per share ( after taxes )            | \$ 2.16                                 |       | \$ 2.38                                 |       |





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<br>December 31, 2021 | %     | For the year ended<br>December 31, 2020 | %     |
|--|---|-------|---|-------|
| Revenues   | \$ 7,199,526                            | 100   | \$ 4,509,146                            | 100   |
| Service fee expenditure  | ( 413,313)                              | ( 6)  | ( 233,026)                              | ( 5)  |
| Employee benefit expense   | ( 2,586,177)                            | ( 36) | ( 1,963,214)                            | ( 44) |
| Other operating expenditures   | ( 79,377)                               | ( 1)  | ( 131,345)                              | ( 3)  |
| Operating expenses   | ( 1,211,954)                            | ( 17) | ( 940,927)                              | ( 21) |
| Other gains and losses   | 144,997                                 | 2     | 474,510                                 | 11    |
| Share of profit of associates and joint ventures accounted for using equity method | 47,951                                  | 1     | 57,361                                  | 1     |
| Income before income tax from continuing operations                                | 3,101,653                               | 43    | 1,772,505                               | 39    |
| Income tax expense   | ( 353,323)                              | ( 5)  | ( 225,905)                              | ( 5)  |
| Net income   | 2,748,330                               | 38    | 1,546,600                               | 34    |
| Other comprehensive income   | 274,805                                 | 4     | 80,888                                  | 2     |
| Total comprehensive income   | \$ 3,023,135                            | 42    | \$ 1,627,488                            | 36    |
| Earnings per share   |   |       |   |       |
| Basic and diluted earnings per share ( after taxes )                               | \$ 2.37                                 |       | \$ 1.33                                 |       |

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<br>December 31, 2021 | %     | For the year ended<br>December 31, 2020 | %     |
|--|---|-------|---|-------|
| Interest income                                      | \$ 2,702,451                            | 54    | \$ 3,245,618                            | 69    |
| Less: Interest expense                               | ( 503,632 )                             | ( 10) | ( 1,050,854 )                           | ( 22) |
| Interest income, net                                 | 2,198,819                               | 44    | 2,194,764                               | 47    |
| Revenues other than interest income, net             | 2,797,855                               | 56    | 2,489,776                               | 53    |
| Net revenue  | 4,996,674                               | 100   | 4,684,540                               | 100   |
| Provisions   | ( 132,586 )                             | ( 3)  | ( 252,093 )                             | ( 5)  |
| Operating expenses                                   | ( 868,279 )                             | ( 17) | ( 827,041 )                             | ( 18) |
| Income before income tax from continuing operations  | 3,995,809                               | 80    | 3,605,406                               | 77    |
| Income tax expense                                   | ( 717,847 )                             | ( 14) | ( 674,409 )                             | ( 14) |
| Net income   | 3,277,962                               | 66    | 2,930,997                               | 63    |
| Other comprehensive (loss) income                    | 1,790,973                               | ( 36) | 2,026,850                               | 43    |
| Total comprehensive income                           | \$ 1,486,989                            | 30    | \$ 4,957,847                            | 106   |
| Earnings per share                                   |   |       |   |       |
| Basic and diluted earnings per share ( after taxes ) | \$ 2.50                                 |       | \$ 2.23                                 |       |

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<br>December 31, 2021 | %         | For the year ended<br>December 31, 2020 | %        |
|--|---|-----------|---|----------|
| Operating revenue                                    | \$ 5,839,253                            | 100       | \$ 5,717,564                            | 100      |
| Operating cost                                       | ( 3,864,055 )                           | ( 66)     | ( 4,146,873 )                           | ( 72)    |
| Operating expense                                    | ( 1,346,081 )                           | ( 23)     | ( 1,180,594 )                           | ( 21)    |
| Operating income                                     | 629,117                                 | 11        | 390,097                                 | 7        |
| Non-operating income and expense                     | ( 1,216 )                               | -         | 7,862                                   | -        |
| Income before income tax from continuing operations  | 627,901                                 | 11        | 397,959                                 | 7        |
| Income tax expense                                   | ( 122,790 )                             | ( 2)      | ( 96,128 )                              | ( 2)     |
| Net income   | 505,111                                 | 9         | 301,831                                 | 5        |
| Other comprehensive income (loss)                    | 109,517                                 | 2         | ( 124,840 )                             | ( 2)     |
| Total comprehensive income                           | <u>\$ 614,628</u>                       | <u>11</u> | <u>\$ 176,991</u>                       | <u>3</u> |
| Earnings per share                                   |   |           |   |          |
| Basic and diluted earnings per share ( after taxes ) | <u>\$ 1.68</u>                          |           | <u>\$ 1.01</u>                          |          |

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<br>December 31, 2021 | %         | For the year ended<br>December 31, 2020 | %         |
|--|---|-----------|---|-----------|
| Operating revenue                                    | \$ 400,521                              | 100       | \$ 389,722                              | 100       |
| Operating expense                                    | ( 304,037 )                             | ( 76)     | ( 293,094 )                             | ( 75)     |
| Operating income                                     | 96,484                                  | 24        | 96,628                                  | 25        |
| Non-operating income and expense                     | 5,507                                   | 2         | 5,331                                   | 1         |
| Income before income tax                             | 101,991                                 | 26        | 101,959                                 | 26        |
| Income tax expense                                   | ( 19,032 )                              | ( 5)      | ( 19,901 )                              | ( 5)      |
| Net income   | 82,959                                  | 21        | 82,058                                  | 21        |
| Other comprehensive income                           | 2,311                                   | -         | 1,703                                   | -         |
| Total comprehensive income                           | <u>\$ 85,270</u>                        | <u>21</u> | <u>\$ 83,761</u>                        | <u>21</u> |
| Earnings per share                                   |   |           |   |           |
| Basic and diluted earnings per share ( after taxes ) | <u>\$ 1.57</u>                          |           | <u>\$ 1.56</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<br>December 31, 2021 | %      | For the year ended<br>December 31, 2020 | %      |
|--|---|--------|---|--------|
| Operating revenue                                    | \$ 437,804                              | 100    | \$ 424,589                              | 100    |
| Operating cost                                       | ( 1,910 )                               | -      | ( 1,432 )                               | ( 1 )  |
| Gross profit   | 435,894                                 | 100    | 423,157                                 | 99     |
| Operating expense                                    | ( 65,038 )                              | ( 15 ) | ( 93,908 )                              | ( 22 ) |
| Operating income                                     | 370,856                                 | 85     | 329,249                                 | 77     |
| Non-operating income and expense                     | ( 47,052 )                              | ( 11 ) | ( 68,695 )                              | ( 16 ) |
| Income before income tax                             | 323,804                                 | 74     | 260,554                                 | 61     |
| Income tax expense                                   | ( 65,235 )                              | ( 15 ) | ( 52,114 )                              | ( 12 ) |
| Net income   | 258,569                                 | 59     | 208,440                                 | 49     |
| Other comprehensive income                           | 40                                      | -      | 1,063                                   | -      |
| Total comprehensive income                           | \$ 258,609                              | 59     | \$ 209,503                              | \$ 49  |
| Earnings per share                                   |   |        |   |        |
| Basic and diluted earnings per share ( after taxes ) | \$ 1.29                                 |        | \$ 1.04                                 |        |

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<br>December 31, 2021 | %      | For the year ended<br>December 31, 2020 | %      |
|--|---|--------|---|--------|
| Operating revenue                                    | \$ 316,561                              | 100    | \$ 87,000                               | 100    |
| Operating cost                                       | -                                       | -      | -                                       | -      |
| Gross profit   | 316,561                                 | 100    | 87,000                                  | 100    |
| Operating expense                                    | ( 41,137 )                              | ( 13 ) | ( 17,504 )                              | ( 20 ) |
| Operating income                                     | 275,424                                 | 87     | 69,496                                  | 80     |
| Non-operating income and expense                     | 267                                     | -      | 159                                     | -      |
| Income before income tax                             | 275,691                                 | 87     | 69,655                                  | 80     |
| Income tax expense                                   | ( 3,584 )                               | ( 1 )  | ( 1,351 )                               | ( 1 )  |
| Net income   | \$ 272,107                              | 86     | \$ 68,304                               | 79     |
| Earnings per share                                   |   |        |   |        |
| Basic and diluted earnings per share ( after taxes ) | \$ 2.72                                 |        | \$ 0.68                                 |        |

## (12) Profitability of the Company and subsidiaries:

### A. Profitability

#### a. The Company

UNIT : %

| Items             |           | MEGA FINANCIAL HOLDING CO., LTD      |                                      |
|-------------------|-----------|--------------------------------------|--------------------------------------|
|                   |           | For the year ended December 31, 2021 | For the year ended December 31, 2020 |
| Return on assets  | Pre-tax   | 6.79                                 | 6.87                                 |
|                   | After-tax | 6.92                                 | 6.84                                 |
| Return on equity  | Pre-tax   | 7.70                                 | 7.72                                 |
|                   | After-tax | 7.86                                 | 7.69                                 |
| Net profit margin |           | 100.22                               | 97.77                                |

UNIT : %

| Items             |           | MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES |                                      |
|-------------------|-----------|---|--------------------------------------|
|                   |           | For the year ended December 31, 2021              | For the year ended December 31, 2020 |
| Return on assets  | Pre-tax   | 0.71  | 0.78                                 |
|                   | After-tax | 0.64  | 0.66                                 |
| Return on equity  | Pre-tax   | 8.75  | 9.02                                 |
|                   | After-tax | 7.86  | 7.69                                 |
| Net profit margin |           | 42.72   | 41.14                                |

#### b. The subsidiary

UNIT : %

| Items             |           | MICB                                 |                                      |
|-------------------|-----------|--------------------------------------|--------------------------------------|
|                   |           | For the year ended December 31, 2021 | For the year ended December 31, 2020 |
| Return on assets  | Pre-tax   | 0.57                                 | 0.69                                 |
|                   | After-tax | 0.51                                 | 0.60                                 |
| Return on equity  | Pre-tax   | 6.91                                 | 7.98                                 |
|                   | After-tax | 6.22                                 | 6.93                                 |
| Net profit margin |           | 41.03                                | 41.93                                |

UNIT : %

| Items             |           | MS                                   |                                      |
|-------------------|-----------|--------------------------------------|--------------------------------------|
|                   |           | For the year ended December 31, 2021 | For the year ended December 31, 2020 |
| Return on assets  | Pre-tax   | 3.83                                 | 2.55                                 |
|                   | After-tax | 3.39                                 | 2.22                                 |
| Return on equity  | Pre-tax   | 16.91                                | 10.47                                |
|                   | After-tax | 14.99                                | 9.13                                 |
| Net profit margin |           | 38.17                                | 34.30                                |

UNIT : %

| Items             |           | MBF                                  |                                      |
|-------------------|-----------|--------------------------------------|--------------------------------------|
|                   |           | For the year ended December 31, 2021 | For the year ended December 31, 2020 |
| Return on assets  | Pre-tax   | 1.43                                 | 1.28                                 |
|                   | After-tax | 1.18                                 | 1.04                                 |
| Return on equity  | Pre-tax   | 9.70                                 | 9.05                                 |
|                   | After-tax | 7.96                                 | 7.36                                 |
| Net profit margin |           | 65.60                                | 62.57                                |



UNIT : %

| Items             |           | CKI                                  |                                      |
|-------------------|-----------|--------------------------------------|--------------------------------------|
|                   |           | For the year ended December 31, 2021 | For the year ended December 31, 2020 |
| Return on assets  | Pre-tax   | 3.20                                 | 2.18                                 |
|                   | After-tax | 2.58                                 | 1.65                                 |
| Return on equity  | Pre-tax   | 8.32                                 | 5.56                                 |
|                   | After-tax | 6.69                                 | 4.22                                 |
| Net profit margin |           | 8.65                                 | 5.28                                 |

Note 1: Return on assets = Income (loss) before (after) income tax ÷ Average total assets

Note 2: Return on equity = Income (loss) before (after) 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, 2021 and 2020.

- (13) In accordance with Article 17 of Enforcement Rules of the Trust Enterprise Law, the disclosures of the trust balance sheets, trust income statements and list of investment for trust business are as follows:

(Please refer to page 199-200 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020)

## 17. ADDITIONAL DISCLOSURES

The transactions between and among subsidiaries have been write off after 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 201-202 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020)

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: None.

G. Information on categories of securitization of assets 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 203-205 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020)

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. Information on selling non-performing loans of subsidiaries: None.

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 period as of December 31, 2021:

(Please refer to page 206-208 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019.)

### (3) Information on investments in Mainland China

(Please refer to page 209-210 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020)

### (4) Major shareholders information

| Name of major shareholders                | Shares | Number of shares held | Ownership (%) |
|---|--------|-----------------------|---------------|
| Ministry of Finance                       |        | 1,143,043,883         | 8.40          |
| National Development Fund, Executive Yuan |        | 830,973,202           | 6.11          |

A. The major shareholders' information was from the data that the Company issued common shares (including treasury shares) and preference shares in dematerialized form which were registered and held by the shareholders with above 5% ownership on the last operating date of each quarter and was calculated by the Taiwan Depository & Clearing Corporation. The share capital which was recorded on the financial statements may be different from the actual number of shares in dematerialized form due to the difference in calculation basis.

B. If the aforementioned data contains shares which were kept in the trust by the shareholders, the data was disclosed as separate account of client which was set by the trustee. As for the shareholder who reports share equity as an insider whose shareholding ratio is greater than 10% in accordance with Securities and Exchange Act, the shareholding ratio including the self-owned shares and trusted shares, at the same time, persons who have power to decide how to allocate the trust assets. For the information of reported share equity of insider, please refer to Market Observation Post System.

### (5) Significant transactions between parent company and subsidiaries

(Please refer to page 211-212 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020)

### (6) 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 212-213 of the CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020)

### (7) 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 customers' margin based on market price of positions held by each client, regulations of Taiwan Futures Exchange and the Company to minimize the risk.

Futures' trading and futures option trading are with high financial leverage risk. When MS futures department 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 futures department sell options, market price risk is the fluctuation of TAIEX Index Option contracts. Futures department of MS have established relevant risk control mechanism and set up stop-loss limits, in order to monitor changes on positions held and their prices. Thus, the 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 write-off 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), impairment loss of loan, net gain (loss) on financial instruments and other operating gain (loss). Measurement basis does not include non-recurring items, e.g. litigation expenses.

## (2) Measurement of segment information

The Mega Group's chief operating decision maker mainly focuses on the operating results of the whole group, which is consistent with the statement of comprehensive income 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

Major part of 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 region for relevant components of income balances.

## (5) Information about segment profit or loss, assets and liabilities

| Items   | For the year ended December 31, 2021 |                      |                  |                       |                   |                          | Total         |
|---|--------------------------------------|----------------------|------------------|-----------------------|-------------------|--------------------------|---------------|
|   | Bank Department                      | Insurance Department | Bills Department | Securities Department | Other Departments | Adjustment and write-off |               |
| Interest income, net  | \$ 30,273,741                        | \$ 75,142            | \$ 1,214,891     | \$ 986,685            | (\$ 88,357)       | \$ 6,243                 | \$ 32,468,345 |
| Revenues other than interest income   | 15,044,658                           | 1,973,984            | 3,781,783        | 6,039,870             | 26,829,650        | ( 25,907,444)            | 27,762,501    |
| Net revenue   | 45,318,399                           | 2,049,126            | 4,996,674        | 7,026,555             | 26,741,293        | ( 25,901,201)            | 60,230,846    |
| (Provision for) reversal of bad debts expense, commitment and guarantee liability | ( 1,782,406)                         | 235                  | ( 132,586)       | -                     | 10,323            | -                        | ( 1,904,434)  |
| Provisions for insurance liabilities  | -                                    | ( 64,520)            | -                | -                     | -                 | -                        | ( 64,520)     |
| Operating expenses  | ( 22,944,987)                        | (1,356,940)          | ( 868,279)       | ( 3,914,460)          | (819,656)         | 298,843                  | ( 29,605,479) |
| Profit (loss) from continuing operations before tax                               | 20,591,006                           | 627,901              | 3,995,809        | 3,112,095             | 25,931,960        | ( 25,602,358)            | 28,656,413    |
| Income tax (expense) benefit  | ( 2,133,686)                         | ( 122,790)           | ( 717,847)       | ( 363,765)            | 412,745           | -                        | ( 2,925,343)  |
| Profit (loss)   | \$ 18,457,320                        | \$ 505,111           | \$ 3,277,962     | \$ 2,748,330          | \$ 26,344,705     | (\$ 25,602,358)          | \$ 25,731,070 |



| For the year ended December 31, 2020  |                 |                      |                  |                       |                   |                          |               |
|---|-----------------|----------------------|------------------|-----------------------|-------------------|--------------------------|---------------|
| Items   | Bank Department | Insurance Department | Bills Department | Securities Department | Other Departments | Adjustment and write-off | Total         |
| Interest income, net  | \$ 29,808,639   | \$ 85,654            | \$ 1,072,807     | \$ 681,556            | (\$ 112,727)      | \$ 14,945                | \$ 31,550,874 |
| Revenues other than interest income   | 19,097,413      | 1,722,782            | 3,611,733        | 4,119,170             | 26,484,475        | ( 25,776,525)            | 29,259,048    |
| Net revenue   | 48,906,052      | 1,808,436            | 4,684,540        | 4,800,726             | 26,371,748        | ( 25,761,580)            | 60,809,922    |
| (Provision for) reversal of bad debts expense, commitment and guarantee liability | ( 1,917,068)    | 35,369               | ( 252,093)       | -                     | ( 17,776)         | -                        | ( 2,151,568)  |
| Provisions for insurance liabilities  | -               | ( 227,160)           | -                | -                     | -                 | -                        | ( 227,160)    |
| Operating expenses  | ( 23,528,734)   | ( 1,218,686)         | ( 827,041)       | ( 3,015,296)          | ( 802,069)        | 291,270                  | ( 29,100,556) |
| Profit (loss) from continuing operations before tax                               | 23,460,250      | 397,959              | 3,605,406        | 1,785,430             | 25,551,903        | ( 25,470,310)            | 29,330,638    |
| Income tax expense  | ( 3,128,169)    | ( 96,128)            | ( 674,409)       | ( 238,830)            | ( 175,134)        | -                        | ( 4,312,670)  |
| Profit (loss)   | \$ 20,332,081   | \$ 301,831           | \$ 2,930,997     | \$ 1,546,600          | \$ 25,376,769     | (\$ 25,470,310)          | \$ 25,017,968 |

| For the year ended December 31, 2021 |                  |                      |                  |                       |                   |                          |                  |
|--------------------------------------|------------------|----------------------|------------------|-----------------------|-------------------|--------------------------|------------------|
| Items                                | Bank Department  | Insurance Department | Bills Department | Securities Department | Other Departments | Adjustment and write-off | Total            |
| Segment assets                       | \$ 3,798,147,301 | \$ 20,060,087        | \$ 252,760,692   | \$ 92,138,726         | \$ 392,247,465    | (\$ 387,089,412)         | \$ 4,168,264,859 |
| Segment liabilities                  | \$ 3,499,040,912 | \$ 12,202,059        | \$ 211,774,927   | \$ 72,824,931         | \$ 59,037,040     | (\$ 15,013,893)          | \$ 3,839,865,976 |

| For the year ended December 31, 2020 |                  |                      |                  |                       |                   |                          |                  |
|--------------------------------------|------------------|----------------------|------------------|-----------------------|-------------------|--------------------------|------------------|
| Items                                | Bank Department  | Insurance Department | Bills Department | Securities Department | Other Departments | Adjustment and write-off | Total            |
| Segment assets                       | \$ 3,451,678,220 | \$ 19,136,799        | \$ 304,305,466   | \$ 79,217,420         | \$ 384,428,247    | (\$ 382,389,620)         | \$ 3,856,376,532 |
| Segment liabilities                  | \$ 3,157,094,791 | \$ 11,893,399        | \$ 262,898,543   | \$ 61,850,556         | \$ 53,379,786     | (\$ 17,329,503)          | \$ 3,529,787,572 |

## (6) Geographical information about net revenue and identifiable assets

| For the years ended December 31, |                   |                   |  |
|----------------------------------|-------------------|-------------------|--|
|                                  | December 31, 2021 | December 31, 2020 |  |
| Asia                             | \$ 55,694,545     | \$ 56,117,419     |  |
| America                          | 2,943,764         | 3,014,252         |  |
| Other                            | 1,592,537         | 1,678,251         |  |
| Total net revenue                | \$ 60,230,846     | \$ 60,809,922     |  |

| For the years ended December 31, |                   |                   |  |
|----------------------------------|-------------------|-------------------|--|
|                                  | December 31, 2021 | December 31, 2020 |  |
| Asia                             | \$ 3,808,096,488  | \$ 3,465,051,435  |  |
| America                          | 256,331,558       | 283,076,820       |  |
| Other                            | 103,836,813       | 108,248,277       |  |
| Total identifiable assets        | \$ 4,168,264,859  | \$ 3,856,376,532  |  |

## 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 | 2021          | 2020          | Difference    |          |
|--|------|---------------|---------------|---------------|----------|
|  |      |               |               | Amount        | %        |
| Cash and cash equivalents, due from the Central Bank and call loans to banks |      | 582,160,503   | 494,892,806   | 87,267,697    | 17.63    |
| Financial assets at fair value through profit or loss, net                   |      | 202,834,657   | 228,608,073   | ( 25,773,416) | ( 11.27) |
| Financial assets at fair value through other comprehensive income            |      | 543,790,346   | 560,779,813   | ( 16,989,467) | ( 3.03)  |
| Investments in debt instruments at amortized cost, net ( Note 1)             |      | 648,132,418   | 534,327,284   | 113,805,134   | 21.30    |
| Securities purchased under resell agreements                                 |      | 949,170       | 950,137       | ( 967)        | ( 0.10)  |
| Receivables, net   |      | 96,630,962    | 89,970,775    | 6,660,187     | 7.40     |
| Current tax assets   |      | 331,977       | 379,014       | ( 47,037)     | ( 12.41) |
| Assets classified as held for sale   |      | 15,813        | 15,813        | 0             | 0.00     |
| Loans discounted, net  |      | 2,037,354,980 | 1,889,958,222 | 147,396,758   | 7.80     |
| Reinsurance contract assets, net   |      | 4,990,018     | 5,170,035     | ( 180,017)    | ( 3.48)  |
| Investments accounted for using equity method, net                           |      | 5,449,161     | 5,519,229     | ( 70,068)     | ( 1.27)  |
| Other financial assets, net  |      | 6,095,575     | 5,134,375     | 961,200       | 18.72    |
| Investment property, net   |      | 1,341,321     | 1,111,518     | 229,803       | 20.67    |
| Property and equipment, net  |      | 21,670,526    | 21,950,817    | ( 280,291)    | ( 1.28)  |
| Right-of-use assets, net   |      | 1,854,439     | 1,837,841     | 16,598        | 0.90     |
| Intangible assets, net   |      | 1,017,030     | 960,918       | 56,112        | 5.84     |
| Deferred income tax assets   |      | 6,505,527     | 5,629,637     | 875,890       | 15.56    |
| Other assets, net (Note 2)   |      | 7,140,436     | 9,180,225     | ( 2,039,789)  | ( 22.22) |
| Total assets   |      | 4,168,264,859 | 3,856,376,532 | 311,888,327   | 8.09     |
| Deposits from the Central Bank and banks                                     |      | 385,049,995   | 405,296,111   | ( 20,246,116) | ( 5.00)  |
| Due to the Central Bank and banks (Note 3)                                   |      | 46,890,696    | 20,363,979    | 26,526,717    | 130.26   |
| Financial liabilities at fair value through profit or loss                   |      | 19,344,092    | 20,934,933    | ( 1,590,841)  | ( 7.60)  |
| Securities sold under repurchase agreements                                  |      | 225,056,762   | 269,355,119   | ( 44,298,357) | ( 16.45) |
| Commercial paper issued, net (Note 4)  |      | 32,917,848    | 22,392,125    | 10,525,723    | 47.01    |
| Payables   |      | 84,963,858    | 89,502,574    | ( 4,538,716)  | ( 5.07)  |
| Current income tax liabilities   |      | 12,298,301    | 11,007,264    | 1,291,037     | 11.73    |
| Deposits and remittances   |      | 2,959,789,704 | 2,613,890,191 | 345,899,513   | 13.23    |
| Bonds payable (Note 5)   |      | 6,000,000     | 18,000,000    | ( 12,000,000) | ( 66.67) |
| Other borrowings   |      | 1,260,000     | 338,028       | 921,972       | 272.75   |
| Provisions   |      | 29,941,604    | 30,059,406    | ( 117,802)    | ( 0.39)  |
| Other financial liabilities  |      | 12,453,364    | 13,160,602    | ( 707,238)    | ( 5.37)  |
| Lease liabilities  |      | 1,903,356     | 1,881,625     | 21,731        | 1.15     |
| Deferred income tax liabilities  |      | 2,635,979     | 3,370,193     | ( 734,214)    | ( 21.79) |
| Other liabilities (Note 6)   |      | 19,360,417    | 10,235,422    | 9,124,995     | 89.15    |
| Total liabilities  |      | 3,839,865,976 | 3,529,787,572 | 310,078,404   | 8.78     |
| Equity attributable to owners of parent                                      |      | 328,398,883   | 326,588,960   | 1,809,923     | 0.55     |
| Common stock   |      | 135,998,240   | 135,998,240   | 0             | 0        |
| Capital surplus  |      | 68,194,233    | 68,194,233    | 0             | 0        |
| Retained earnings  |      | 113,046,484   | 108,207,754   | 4,838,730     | 4.47     |
| Other equity interest (Note 7)   |      | 11,159,926    | 14,188,733    | ( 3,028,807)  | ( 21.35) |
| Total Equity   |      | 328,398,883   | 326,588,960   | 1,809,923     | 0.55     |



## Change analysis:

1. Financial liabilities measured at amortized cost increased mainly due to an increase in certificates of deposit from CBC.
2. Other assets decreased mainly due to decreased refundable deposits.
3. Loans from CBC and peer banks increased mainly due to increase in loans from peer banks.
4. Commercial papers payable increased mainly due to the allocation of short-term funds, which increased the distribution of commercial papers.
5. Debentures payable decreased mainly due to the expiration of debentures.
6. Other liabilities increased mainly due to increase in funds for subscription of shares collected for an underwriter.
7. Other equity decreased mainly due to decrease in unrealized gains on valuation of debt instruments.

## 7.2 Analysis of Financial Performance

Unit: NT\$1,000

| Item  | 2021          | 2020          | Difference   | %         |
|---|---------------|---------------|--------------|-----------|
| Interest income   | 42,796,556    | 49,724,053    | ( 6,927,497) | ( 13.93)  |
| Less: interest expense (Note 1)                                 | ( 10,328,211) | ( 18,173,179) | 7,844,968    | ( 43.17)  |
| Net interest revenue  | 32,468,345    | 31,550,874    | 917,471      | 2.91      |
| Net revenue other than interest                                 | 27,762,501    | 29,259,048    | ( 1,496,547) | ( 5.11)   |
| Net revenue   | 60,230,846    | 60,809,922    | ( 579,076)   | ( 0.95)   |
| Bad debts expense, commitment and guarantee liability provision | ( 1,904,434)  | ( 2,151,568)  | 247,134      | ( 11.49)  |
| Net change in provisions for insurance liabilities              | ( 64,520)     | ( 227,160)    | 162,640      | ( 71.60)  |
| Operating expenses  | ( 29,605,479) | ( 29,100,556) | ( 504,923)   | 1.74      |
| Profit from continuing operations before tax                    | 28,656,413    | 29,330,638    | ( 674,225)   | ( 2.30)   |
| Income tax expense (Note 2)                                     | ( 2,925,343)  | ( 4,312,670)  | 1,387,327    | ( 32.17)  |
| Profit for the year   | 25,731,070    | 25,017,968    | 713,102      | 2.85      |
| Total other comprehensive income (after income tax)             | ( 2,433,425)  | 629,445       | ( 3,062,870) | ( 486.60) |
| Total comprehensive income                                      | 23,297,645    | 25,647,413    | ( 2,349,768) | ( 9.16)   |
| Profit attributable to owners of parent                         | 25,731,070    | 25,017,968    | 713,102      | 2.85      |
| Comprehensive income attributable to owners of parent           | 23,297,645    | 25,647,413    | ( 2,349,768) | ( 9.16)   |

## Change analysis:

1. Interest expense decreased mainly due to decrease in interest expense incurred from deposits, interest expense due to the other banks, and interest expense incurred as a result of liabilities from bills and bonds under repurchase agreements.
2. Income tax expense decreased mainly due to recognition of tax benefits following the approval of previous year's business income tax by the National Taxation Bureaus.

## 7.3 Analysis of Cash Flow

### 7.3.1 Cash Flow Analysis for 2021

Unit: %

| Item \ Year              | 2021    | 2020    | %      |
|--------------------------|---------|---------|--------|
| Cash flow ratio          | 11.44%  | Note 2  | NA     |
| Cash flow adequacy ratio | 288.64% | 218.10% | 32.34% |
| Cash flow coverage ratio | Note 1  | Note 2  | NA     |

Note:

1. The net cash flow from investing activities is negative, and therefore not included in the analysis herein.
2. The net cash flow from operating activities is negative, and therefore not included in the analysis herein.

Change Analysis:

The increase of cash flow adequacy ratio is due to the increase of net cashflow from operating activities resulting from the increase of deposits.

### 7.3.2 Cash Flow Analysis for the coming year

Unit: NT\$1,000

| Cash and cash equivalents at beginning of the year (1) | Estimated net cash flow from operating activities in current period (2) | Estimated cash outflow in current period (3) | Estimated cash surplus (deficit) (1)+(2)-(3) | Remedy cash deficit |                 |
|--|---|--|--|---------------------|-----------------|
|  |   |  |  | Investment plans    | Financing plans |
| 140,618,308  | (64,310,766)  | (48,805,182)                                 | 125,112,724                                  | None                | None            |

## 7.4 Influences from Major Capital Expenditures in 2021: None.

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

### 7.5.1 Investment Policies in 2021

- 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)

The company reported a net profit after tax in 2021 of NT\$ 18,457,320 thousand, a decrease of 9.22% from NT\$20,332,081 thousand in 2020, mainly due decrease of NT\$4.139 billion in net income from financial operation. The Bank will promote its business with a completely new way of thinking and innovative approaches. In addition to expanding its client base and business diversification, the company will seek to increase customer adhesion, diversify sources of income, and create product added value, thereby bolstering its competitiveness.

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

MSC reported a net profit after tax in 2021 of NT\$2,748,330 thousand, an increase of 77.70% from NT\$1,546,600 thousand in 2020. This increase was mainly due to an increase of average daily trading volume by NT\$224.3 billion compared to 2020, reaching NT\$477.8 billion. Furthermore, the weighted stock price index rose by 23.66% in 2021, resulting in increased fee income and income from financial operation compared to 2020.

### Mega Bills Finance Co., Ltd. (MBF)

MBF reported a net profit after tax in 2021 of NT\$3,277,962 thousand, an increase of 11.84% from NT\$2,930,997 thousand in 2020. This increase was because the bill asking rate in the secondary market fell in the first half of 2021 due to the CBC maintaining a loose money market, and because quotes in the primary market fell by a lesser degree, bill spread had widened in 2021 compared to 2020, resulting in increased bill net income.

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

CKI reported a net profit after tax in 2021 of NT\$505,111 thousand, an increase of 67.35% from NT\$301,831 thousand in 2020, mainly due to increase of underwriting profits by NT\$163,359 thousand as a result of 7.55% lower retained loss rate compared to 2020. In addition, because of adequate asset allocation and financial operation, financial revenue increased by NT\$66,583 thousand.

### Mega Assets Management Co., Ltd. (AMC)

AMC reported a net profit after tax in 2021 of NT\$258,569 thousand, an increase of 24.05% from NT\$208,440 thousand in 2020, mainly due to recovery of multiple bad debts, disposal of investment properties, and reduced cost of funds resulting from easing of market funds, among other factors.

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

MVC reported a net profit after tax in 2021 of NT\$272,107 thousand, an increase of 298.38% from NT\$68,304 thousand in 2020. The reason was that MVC disposed those invested competitive companies, thus the profit of disposition and gain on valuation were more than those in 2020.

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

MIIT reported a net profit after tax in 2021 of NT\$ 82,959 thousand, an increase of 1.1% from NT\$82,058 thousand in 2020, mainly due to growth of sales performance in discretionary investments.

## Taipei Financial Center Corporation (TFCC)

TFCC reported a net profit in 2021 of NT\$1,288,154 thousand, a increase of NT\$ 14,043 thousand or 1.10%, from NT\$1,274,111 thousand in 2020, mainly due to the increase of non-operating revenue of NT\$69,758 thousand along with the decrease of operating revenue of NT\$47,245 thousand from the decrease of visitors of observatory, the adjustment of rent condition, and the decrease of department store sale.

## Taiwan Depository & Clearing Corporation (TDC)

TDC reported a net profit after tax in 2021 of NT\$ 6,114,978 thousand, an increase of NT\$ 2,306,314 thousand or 60.55% from NT\$3,808,664 thousand in 2020, mainly due to the huge increase of Taiwan stock trade volume. The services revenue regarding security-related services increased NT\$ 3,061,448 thousand. The operating revenue increased NT\$ 2,820,987 thousand.

### 7.5.3 Investment Plans for 2022

- 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 Compliance Department takes charge of planning, managing and executing the compliance practice. The Auditing Office 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 risk management of each company, the Board of Directors of 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 take 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 Control 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 Co., Ltd. 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 Co., Ltd. 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 Co., Ltd. has a Risk Management Committee in charge of various risk management, while Mega International Investment Trust Co., Ltd. set up the Risk Management Department in charge of risk management. Mega Venture Capital Co., Ltd. have designated a dedicated unit to monitor and management various risk.

## 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, we 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) 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.

#### (5) 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.

### 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 monitor risk management objectives including the relevant position limit, loss limit, and sensitivity limit of bills, bonds, equities, and derivatives; daily conduct 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 objectively are formulated. It stipulates operational risk identification, assessment, measurement, communication, and monitoring the management processes of implementing countermeasures; establish risk management information framework for systematic control of individual loss event frequency, severity, and related information; establish emergency response and business continuity plans; ensure the resumption of operations promptly during an emergency or disaster; and maintain 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.

### (1) Credit risk

Follow the authority's relevant regulation on this industry and the company's internal control systems and processing procedures to evaluate the counterparty's credit level before the transaction is done and confirm the legitimacy. Regularly review the credit status of counterparties and investment targets, continuously control credit risks, and regularly evaluate various credit enhancement measures.

### (2) Market risk

Determine the scope of use of self-owned funds, the investment limit of investment targets, and the approved level of investment. Reviewing the investment target's loss/profit and setting up stop loss point. For those targets that reach the goals, a weekly review in weekly fund manager meeting is conducted.

### (3) Operational risk

Filling up operational risk loss events periodically and setting up risk database and operational risk self-evaluation system. Each department follow the internal control system and processing procedures to conduct self-review periodically. Internal and external auditor will audit randomly. Setting up important random event risk management mechanism to make sure a quick recover if important random event or disaster happens.

### (4) Liquidity risk

Considering the concentration of investment portion and market transaction volume, to conduct stock market liquidity risk management. Evaluating and monitoring each currency's short term need and setting up fund liquidity management mechanism and fund emergency coping plan to lower liquidity risk from fund scheduling needs.



## Mega Assets Management Co., Ltd.

### (1) Credit risk

Setting up fund using rules and asset investment management rules and periodically summarizing credit risk exposures and asset evaluation categories to monitor overall credit risk portion, concentration, control status of each limits, and the change of asset quality. Periodical reports to the financial holding parent and board of directors are conducted.

### (2) Market risk

Making interest rate sensitivity reports to evaluate interest rate risk. To cope with borrowing interest rate change, the internal return has been added in borrowing cost. Setting up “asset evaluation loss reserve and disposition principles” and “Notices for asset fair value evaluation” as the asset fair value evaluation and categorization base for those assets purchased but not yet disposed.

### (3) Operational risk

For each risk, business management rules, and important random event crisis management, relevant principles and operation procedures has been set to follow and control.

### (4) Liquidity risk

Weekly cash liquidity gap report has been provided. Also the report need to be uploaded to financial holding parent via cash liquidity information management system on/before 10th of each month. Liquidity management rules and liquidity gap limit management have been set.

## 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 Co., Ltd.. In addition, the company has formulated internal risk management rules, setting both qualitative and quantitative annual risk management goals in accordance with the “Risk Management Policies and Operating Guidelines” and conduct relevant review on a periodic basis.

## B. Organization of risk management

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

The Board of Directors is the highest risk oversight unit and is responsible for approving risk management strategies, organizations, objectives, important regulations and various risk limits.

### (1) Credit risk

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 the Company.

## (2) 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 the Company.

## (3) Operational risk

Related units at the Head Office manage business-related operational risks, and formulates business-related goals, regulations, and operational rules. The Risk Management Department formulates operational risk management policies and objectives, supervises the implementation of objectives, establishes operational risk management mechanisms and urges all units to report operational risk exposures. The Auditing Department of the Board of Directors regularly checks the effectiveness of the operational risk management mechanism of each unit, as well as supervising and tracking improvements of operational deficiencies.

## (4) Liquidity risk

The Treasury Department manages the daily liquidity risks. The Risk Management Department Review of Financial Conditions, Operating Results, and Risk Management periodically reports the monitoring status of liquidity risk to the Capital Review Committee, the Assets & Liabilities Management Committee, and the (Managing) Board of Directors.

## (5) Securitization risk

The target assets, securitization structure and risk positions of 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.

## Mega Bills Finance Co., Ltd.

The Board of Directors is the highest risk management unit and is ultimately responsible for establishing a risk management system and ensuring its effective operation.

## (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 Corporate Finance Department, Trading 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 Corporate Finance Department, Trading Department, Bond Department, and all branches are the main operational units for market risk control.

## (3) Operational risk

The affairs with regard to operational risk are periodically reported to the Risk Management Committee and board of Directors by the risk management unit. 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 Trading 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.

The Board of Directors is the decision-making body of the risk management organization and is responsible for approving risk management policies and ensuring effective risk management and taking the ultimate responsibility for risk management.

## (1) Credit risk

Risk Management Office monitors the risk management mechanism and execution of each department according to “Risk Management Principles” and “Credit Monitoring Management Execution Principles”, including the authorization structure at all levels, reporting process and operation content, credit evaluation before the transaction, credit rating management, post-transaction credit monitoring and over-limit countermeasures, etc.

## (2) Market risk

Risk Management Office monitors the risk management mechanism and execution of each department according to “Risk Management Principles”, including the authorization structure of each level, reporting process and operation content, transaction scope, market risk measurement method, market risk limit and approval level and over-limit countermeasures, etc.

## (3) Operational risk

According to feature of product risk of operation procedures, each department enacted “standard operational procedure” covering internal control specification and control point. Each department additionally set up “Self-inspection Item for Management of Business” for necessary supervision, management and anomaly tracking and improvement.

## (4) Liquidity risk

The identification, measurement and management of liquidity risk are the responsibility of the Finance Department. According to the “Rules of Risk Management,” Risk Management Office is in charge of measurement and supervision of liquidity positions.



#### (5) Other risk

The legal risk management is the duties of Legal Compliance Office. In order to improve abilities to respond to occurrence of significant accidental event, “Rules Governing Handling Operation of Significant Accidental Event” has been enacted 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 Board of Directors ensures the effectiveness of risk management and assumes the ultimate responsibility for overall risk management; each business unit is responsible for implementing credit, market, operational and insurance risk business. 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.

The Board of Directors shall be ultimately responsible for the effective operation of risk management; the investment and transaction departments are responsible for regularly and irregularly reviewing the credit status of investment targets and counterparties. The finance department is responsible for compiling and reporting relevant management reports and information. the risk control department is responsible for Monitor and regularly summarize reports, and the audit office regularly checks the effectiveness of the actual implementation of each department.

### 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

All units report operational risk events in accordance with regulations, review and develop improvement plans. The business supervisory unit of the head office inspects the relevant regulations, processes or systems, and tracks and improves the handling situation. The Risk Control and Management Office reports operational risk events on a monthly basis, and reports it to the Risk Management Committee and the Board of Directors quarterly. Conduct self-assessment of operational risks on a regular basis every year to measure operational risk exposures. The improvement suggestions put forward by the respective evaluation units shall be developed by the business supervisory unit of the Headquarters and notified to the relevant units for compliance. The Risk Control and Management Office will submit the assessment results and improvement implementation to the Risk Management Committee, and report to the Board of Directors and the Financial Control Risk Management Committee.

## (4) 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.

## (5) 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.

### 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 and sent to Mega Financial Holding by the Risk Management Office.

## (4) Liquidity risk

Periodical reports are submitted to Risk Management Committee, Board of Directors and 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.

### (1) Credit risk

A transaction portion limit is set based on the investment target and counterparty's credit. Periodically and Randomly reviewing of investment targets and counterparty's credit level are conducted.





## (2) Market risk

Market risk management reports of investment targets using the company's owned fund is made periodically and reported to "investments using owned fund review meeting." A daily profit/loss is disclosed.

## (3) Operational risk

Monthly operational risk event loss data report is reported and subsequently tracked by the Risk Management Department to Mega Financial Holding. The aforementioned contents will also be included in the risk management profile tracking and reporting to the board on a quarterly basis. Each department conduct compliance self-inspection each half year and the result is reported to the Board by legal and compliance department. Each year the auditing office will report to the Board of Directors regarding internal control system assessment result.

## (4) Liquidity risk

Regarding stock liquidity, a daily report of overall amount of shares can be purchased by overall fund managed by the company according to the stock market volume is made. A list of limited investment targets is reported in monthly risk management meeting. Regarding fund liquidity, an in-time adjustment of investment portfolios based on daily fund liquidity estimation reports is made to cope with fund need. Also, monthly report of money market fund asset allocation is reported to risk control meeting. Interest rate team meeting is held monthly to discuss fund asset allocation.

### Mega Venture Capital Co., Ltd.

Regularly report to the Board of Directors the changes in cash and equity positions of investment enterprises, the impact of interest rates, exchange rates, stock markets and other economic conditions, investment policies (including risk limits) and other market risks, as well as the credit and operational status of trading partners and investment enterprises.

## D. Hedging or risk mitigation policy, strategies, and procedures

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

## (1) Credit risk

The bank will 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 is responsible for conducting inspections to ensure legal compliance by the contractors..

## (4) Liquidity risk

In response to the liquidity risk, the liquidity emergency response plan is in place to reduce the liquidity risk.

## (5) Securitization risk

Securitization is embarked on taking into consideration the industrial concentration, economic performance cycle risk and effective utilization of capital for risk-weighted assets. Cost-effectiveness is discussed from time to time thereafter in order to effectively evaluate the appropriate timing for securitization.

### 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

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” enacted by each unit based on its professional management requirement, 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) For 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) For market risk, based on economic and market situation, investment portfolio is flexibly adjusted to mitigate market risk arising from interest rate, exchange rate, and price change. Loss and profit is evaluated periodically.
- (3) For 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) For insurance risk, insurance underwriting principle and retention limit of each risk unit are enacted. Exposure in excess of the retention limit should to be arranged properly for reinsurance before issuing any policy to divert business risk.

## Mega Venture Capital Co., Ltd.

The investment limit for a single case of investment shall not exceed 20% of the paid-in capital, and the total shareholding of the group shall not exceed 15% of the equity of the case; the company’s concentration in a single industry shall not exceed 40% of the company’s paid-in capital. The total investment shall not exceed 150% of the net value to control the overall 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, 2021; Unit: NT\$ thousand

| Exposure types   | Exposures after credit mitigation | Capital requirement (Note 1) |
|--|-----------------------------------|------------------------------|
| Sovereigns   | 827,751,874                       | 1,842,791                    |
| Non-central government public sector entities                    | 7,376,961                         | 119,406                      |
| Banks (including multilateral development banks)                 | 437,246,053                       | 11,678,821                   |
| Enterprises (including securities firms and insurance companies) | 1,135,731,747                     | 75,709,559                   |
| Regulatory retail portfolios                                     | 76,833,435                        | 3,216,862                    |
| Residential property (Note 2)                                    | 1,196,241,064                     | 65,954,067                   |
| Equity investment (Note 2)                                       | 48,671,257                        | 3,987,142                    |
| Other assets   | 40,179,873                        | 2,635,525                    |
| Total  | 3,770,032,264                     | 165,144,173                  |

Note 1: Capital requirement is the risk exposure after risk offset multiplies by risk weights and minimum capital adequacy.

Note 2: On January 12, 2021, the FSC has published the revised "Methods and Formula for Calculating Bank's regulatory capital and Risk Weighted Assets" in which the item "Residential Property" was changed to "Real Estate Exposure." In equity investments, the risk exposure of venture capital and fund after offset was NT\$ 3,204,001 thousand and capital reserved should be NT\$ 349,762 thousand.

#### (2) Market risk

##### The Capital Requirement for Market Risk

December 31, 2021; Unit: NT\$ thousand

| Risk type             | Capital requirement |
|-----------------------|---------------------|
| Interest rate risk    | 1,241,882           |
| Equity risk           | 1,050,114           |
| Foreign exchange risk | 546,704             |
| Commodities risk      | 0                   |
| Total                 | 2,838,700           |

#### (3) Operational risk

##### The Capital Charge for Operational Risk

December 31, 2021; Unit: NT\$ thousand

| Year  | Gross profits | Capital requirement |
|-------|---------------|---------------------|
| 2021  | 45,057,800    |                     |
| 2020  | 45,064,811    |                     |
| 2019  | 52,245,108    |                     |
| Total | 142,367,719   | 7,218,386           |

#### (4) Liquidity Risk

##### Analysis of the Maturity Structure-NT Dollar

December 31, 2021; 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  | \$2,608,442,833  | \$ 295,911,282                                   | \$ 301,670,734 | \$ 259,224,343   | \$ 273,389,872   | \$ 252,660,491   | \$1,225,586,111 |
| Major Outflows of Matured Funds | 3,302,335,570    | 128,910,679                                      | 256,766,139    | 482,254,510      | 373,925,411      | 759,645,310      | 1,300,833,521   |
| Period Gap                      | (\$ 693,892,737) | \$ 167,000,603                                   | \$ 44,904,595  | (\$ 223,030,167) | (\$ 100,535,539) | (\$ 506,984,819) | (\$ 75,247,410) |

Note: The above table reports the N.T. dollars position held by the Bank.



## Analysis of the Maturity Structure-US Dollar

December 31, 2021; 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  | \$ 62,102,993  | \$ 22,727,143                                    | \$ 8,522,989 | \$ 6,316,107 | \$ 9,138,768   | \$ 15,397,986  |
| Major Outflows of Matured Funds | 70,999,550     | 27,903,024                                       | 7,993,207    | 6,939,535    | 9,204,965      | 18,958,819     |
| Period Gap                      | (\$ 8,896,557) | (\$ 5,175,881)                                   | \$ 529,782   | (\$ 623,428) | (\$ 66,197)    | (\$ 3,560,833) |

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, 2021; 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  | \$ 19,015,582  | \$ 8,902,041                                     | \$ 2,272,457 | \$ 755,368   | \$ 1,007,486   | \$ 6,078,230 |
| Major Outflows of Matured Funds | 20,424,670     | 10,809,314                                       | 1,307,396    | 990,236      | 1,108,520      | 6,209,204    |
| Period Gap                      | (\$ 1,409,088) | (\$ 1,907,273)                                   | \$ 965,061   | (\$ 234,868) | (\$ 101,034)   | (\$ 130,974) |

## (5) Securitization risk

## The Exposure and Capital Charge for Securitization Framework

December 31, 2021; Unit: NT\$ thousand

| Bank category        | Risk exposure category<br><br>Book type | Asset category                      | Traditional       |                                  |                                |              |                    | Synthetic            |                    | Total                |                            |                                      |
|----------------------|---|-------------------------------------|-------------------|----------------------------------|--------------------------------|--------------|--------------------|----------------------|--------------------|----------------------|----------------------------|--------------------------------------|
|                      |   |                                     | Exposure          |                                  |                                |              | Capital Charge (2) | Exposure             | Capital charge (4) | Exposure (5)=(1)+(3) | Capital Charge (6)=(2)+(4) | Capital charge before securitization |
|                      |   |                                     | Hold or purchased | Provide the liquidity facilities | Provide the credit enhancement | Subtotal (1) |                    | Hold or purchase (3) |                    |                      |                            |                                      |
| Non-originating bank | Banking book                            | Mortgage-backed Securities          | 1,796,081         | -                                | -                              | 1,796,081    | 28,737             | -                    | -                  | 1,796,081            | 28,737                     |                                      |
|                      |   | Collateralized Mortgage Obligations | 52,279,587        | -                                | -                              | 52,279,587   | 836,473            | -                    | -                  | 52,279,587           | 836,473                    |                                      |
|                      | Trading book                            |                                     |                   |                                  |                                |              |                    |                      |                    |                      |                            |                                      |
|                      |   |                                     |                   |                                  |                                |              |                    |                      |                    |                      |                            |                                      |
|                      | Sub-total                               |                                     | 54,075,668        | -                                | -                              | 54,075,668   | 865,211            | -                    | -                  | 54,075,668           | 865,211                    |                                      |
| Originating bank     | Banking book                            |                                     |                   |                                  |                                |              |                    |                      |                    |                      |                            |                                      |
|                      |   |                                     |                   |                                  |                                |              |                    |                      |                    |                      |                            |                                      |
|                      | Trading book                            |                                     |                   |                                  |                                |              |                    |                      |                    |                      |                            |                                      |
|                      |   |                                     |                   |                                  |                                |              |                    |                      |                    |                      |                            |                                      |
|                      | Sub-total                               |                                     | -                 | -                                | -                              | -            | -                  | -                    | -                  | -                    | -                          |                                      |
| Total                |   |                                     | 54,075,668        | -                                | -                              | 54,075,668   | 865,211            | -                    | -                  | 54,075,668           | 865,211                    |                                      |

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.



## Mega Bills Finance Co., Ltd.

### (1) Credit risk

#### The Capital Charge for Credit Risk under Standardized Approach

December 31, 2021; Unit: NT\$ thousand

| Exposure types  | Capital charge | Risk assets |
|---|----------------|-------------|
| Sovereigns  | 0              | 0           |
| Non-central government public sector entities                     | 2,618          | 32,727      |
| Banks (including multilateral development banks)                  | 155,204        | 1,940,054   |
| Corporations (including securities firms and insurance companies) | 15,432,657     | 192,908,213 |
| Regulatory retail portfolios                                      | 69,365         | 867,061     |
| Equity investment   | 95,676         | 1,195,942   |
| Other assets  | 263,050        | 3,288,122   |
| Total   | 16,018,570     | 200,232,119 |

### (2) Market risk

#### The Capital Charge for Market Risk under Standardized Approach

December 31, 2021; Unit: NT\$ thousand

| Exposure type                         | Capital charge | Risk assets (Note) |
|---------------------------------------|----------------|--------------------|
| Interest rate risk                    | 6,046,569      | 75,582,113         |
| Equity risk                           | 432,038        | 5,400,475          |
| Foreign exchange risk                 | 167,637        | 2,095,457          |
| Commodities risk                      | 0              | 0                  |
| Option adopted by simplified approach | 0              | 0                  |
| Total                                 | 6,646,244      | 83,078,045         |

Note: Capital charge times 12.5

### (3) Operational risk

#### The Capital Charge for Operational Risk under Basic Indicators Method

December 31, 2021; Unit: NT\$ thousand

| Year  | Gross profits | Capital charge | Risk assets |
|-------|---------------|----------------|-------------|
| 2021  | 4,968,537     |                |             |
| 2020  | 4,694,495     |                |             |
| 2019  | 3,865,516     |                |             |
| Total | 13,528,548    | 676,427        | 8,455,343   |

### (4) Liquidity risk

#### Analysis of the Maturity Structure of Assets and Liabilities

December 31, 2021; 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         | 246,526 | 75,653   | 47,912     | 7,188       | 7,526          | 108,247    |
| Liabilities    | 208,456 | 167,174  | 38,553     | 2,584       | 136            | 9          |
| Gap            | 38,070  | ( 91,521)  | 9,359      | 4,604       | 7,390          | 108,238    |
| Cumulative gap |         | ( 91,521)  | (82,162)   | ( 77,558)   | ( 70,168)      | 38,070     |



## Mega Securities Co., Ltd.

### (1) Credit risk

#### Credit risk analysis of Mega Securities and its subsidiaries

December 31, 2021; Unit: NT\$ thousand

| Exposure type         | Mega Securities Co., Ltd. | Mega Futures Co., Ltd. | Mega International Investment Services Co., Ltd. | Total      |
|-----------------------|---------------------------|------------------------|--|------------|
| Deposits              | 5,249,441                 | 481,010                | 15,501   | 5,745,952  |
| Marketable Securities | 26,487,579                | 31,914                 | 43,441   | 26,562,934 |
| Financial Derivatives | 259,636                   | 0                      | 0  | 259,636    |
| Long-term Investments | 729,802                   | 9,280                  | 0  | 739,082    |
| Total                 | 32,726,458                | 522,204                | 58,942   | 33,307,604 |

#### Country credit risk analysis

December 31, 2021; Unit: NT\$ thousand

| Country Exposure | Deposits | Securities | Derivatives | Total   | As a percentage of shareholder's equity |
|------------------|----------|------------|-------------|---------|---|
| China            | 0        | 656,854    | 0           | 656,854 | 3.78%                                   |
| USA              | 0        | 526,362    | 0           | 526,362 | 3.03%                                   |
| Australia        | 0        | 248,472    | 0           | 248,472 | 1.43%                                   |
| Cayman Island    | 0        | 55,404     | 0           | 55,404  | 0.32%                                   |
| France           | 0        | 29,799     | 0           | 29,799  | 0.17%                                   |
| Japan            | 0        | 27,668     | 0           | 27,668  | 0.16%                                   |
| Ireland          | 0        | 27,644     | 0           | 27,644  | 0.16%                                   |
| Belgium          | 21,117   | 0          | 0           | 21,117  | 0.12%                                   |

### (2) 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, risk 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.

### (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, 2021; Unit: NT\$ million

|                     | 1~10 days | 1~30 days | 1~90 days | 1~181 days | 1day~1 year | 1day~Over 1 year | Total  |
|---------------------|-----------|-----------|-----------|------------|-------------|------------------|--------|
| Major cash inflows  | 35,643    | 48,342    | 50,886    | 53,138     | 65,811      | 72,894           | 72,894 |
| Major cash outflows | 31,766    | 48,465    | 51,690    | 54,455     | 58,460      | 59,578           | 59,578 |
| Cumulative gap      | 3,877     | -123      | -804      | -1,317     | 7,351       | 13,316           | -      |



## 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, 2021; Unit: NT\$ thousand

| Exposure   | Risk-based capital | As a percentage of the risk capital before adjustment |
|--|--------------------|---|
| R0: Asset risk—Related party risk                | 146,279            | 2.77%   |
| R1: Asset risk —Unrelated party risk             | 1,051,397          | 19.92%  |
| R2: Credit risk                                  | 215,289            | 4.08%   |
| R3a: Underwriting risk—Reserve risk              | 844,167            | 15.99%  |
| R3b: Underwriting risk —Premium risk             | 1,512,288          | 28.65%  |
| R3c: Underwriting risk —Long-term insurance risk | 6                  | 0.00%   |
| R3d: Natural disaster risk                       | 1,423,456          | 26.96%  |
| R4 : Asset & liability allocation risk           | 1,200              | 0.02%   |
| R5 : Other risk                                  | 85,103             | 1.61%   |
| Risk-based capital before adjustment             | 5,279,186          | 100.00%   |
| Risk-based capital                               | 1,300,460          |   |
| Adjusted net capital                             | 8,126,520          |   |
| Capital Adequacy Ratio                           | 624.90%            |   |

### 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

- (1) In 2021, the Central Bank adjusted its selective credit controls for the third time, tightening regulations on loan ratios and grace periods. It did so in order to promote financial stability and improve banking businesses, prevent excessive flow of bank credit resources to real estate loans, and respond to deepening concerns over financial risk and substantial investments in unfavorable manufacturing businesses. Meanwhile, the Financial Supervisory Commission (FSC) strengthened its financial inspection of real estate-related loans to curb improper speculation. During a press conference held after the meeting of its Board of Supervisors in December, the Central Bank expressed that further adjustment to its selective credit controls is imminent.
- (2) As recommended in an evaluation by the Asia/Pacific Group on Money Laundering (APG), the Central Bank plans to revise the Regulations Governing the Establishment and Administration of Foreign Currency Exchange Counters to enhance the effectiveness of anti-money laundering and counter terrorism financing and strengthen the management of foreign currency exchange counters. The revisions include a reduction in currency exchange limit, preserving documents related to enhanced review to facilitate auditing, and strengthening customer due diligence measures to improve existing laws and regulations.



- (3) Following changes that permit electronic payment institutions to process domestic and foreign small-amount remittances, the Central Bank amended the Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions to strengthen the implementation of foreign exchange management. One of the amendments states that the Bank may, in view of economic or financial conditions, or the needs for maintaining the order of foreign exchange market, issue an order to flexibly adjust the basis for establishing the amount of annual aggregate foreign exchange purchased or sold for transactions of specific nature and individual declarant to reduce foreign exchange speculation.
- (4) The Central Bank amended the Directions Governing Authorized Banks for Operating Foreign Exchange Businesses through Electronic or Communications Equipment to assist banks in developing digital channels and further simplify the application procedures for authorized banks operating foreign exchange businesses through electronic or communications equipment.
- (5) The Financial Supervisory Commission promulgated the Guidelines for Domestic Banks' Climate Risk Financial Disclosure which is aimed to promote the core strategy for the development of sustainable finance in the Green Finance Action Plan 2.0 and strengthen the management of climate-related risks by domestic banks. The Guidelines are expected to be implemented starting from 2022. Accordingly, domestic banks shall, beginning from 2023, perform the financial disclosure of climate-related risks for the previous year before the end of June each year.

#### **B. Countermeasures**

In response to the development of financial technology, the Company will continue to optimize user experience, taking into consideration the different habits of users to increase customer stickiness and boost the competitiveness of the company's digital financial services. The Company will revise its internal rules and regulations in accordance with the laws and regulations of the competent authority, to prevent excessive flow of bank credit resources to mortgage loans, enhance its anti-money laundering and countering terrorism financing system, strengthen climate-related risk management, and comply with internal and external rules and reinforce the company's compliance and risk management mechanism.

### **7.6.4 Impact on the Company's financial standing due to technological (including cyber security risks) or industrial changes, and corresponding countermeasures**

#### **A. Impact of technological (including cyber security risks) and corresponding countermeasures:**

##### **a. Impact on the bank's financial standing due to technological (including cyber security risks) changes**

To keep pace with the trends of technology development and digital transformation, the Company has accelerated its R&D initiatives and improved various digital financial services, while seeking cross-industry cooperation opportunities to expand its service scope and develop new clients. To align with customers' thoughts on digital services, the Company has also increased the use of data analysis and other technological methods to ascertain customer preferences and insights, so as to optimize product designs and processes to better meet customers' potential needs. At the same time, in response to the rapid changes in emerging technologies, we actively seek to understand and participate in the development of laws and regulations and effectively combine technology with new market trends. In addition to meeting the differentiated needs of customers, this can also gradually achieve the goal of improving digital supervision. Impacts on the bank's financial standing due to technological changes are as follows:

- 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 institutions 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 shall 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 to cope with the high demand for digitalization.
- In light of the growing number of cyber incidents, Mega Bank has set up a Security Operation Center (SOC). By establishing reporting and response processes and using event related analysis techniques, the Center performs 7x24 continuous monitoring to detect, report, and handle events related to cyber security risks as early as possible.
- Mega Bank has established Guidelines for Use of Emerging Technologies to combat web threats and information risks brought about by technological applications (e.g., cloud services, social media, mobile devices, and biometric data) and ensure the sustainable development and reputation of the Bank. In December 2021, the Company continued to renew the "e-commerce and information security liability insurance (cyber security insurance)" for all of its branches, both at home and abroad, covering the period starting from December 1, 2021 to December 1, 2022.

## 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, and online account opening in order to satisfy the needs of customers and shape a young digital brand image. A video identity verification platform was also established in response to the trends of mobile financial services. Online video calls are used as substitute for some counter service operations to promptly provide more convenient digital financial services for customers.



- The Company actively cultivates the consumer banking market, launching a variety of "MegaBee" services (mortgage loan, personal loan, and wealth management) to provide individuals with quick online inquiries about housing prices, credit limit interest rates, robo-advisor services, etc. This one-stop service meets the various online loan and financial planning needs of the general public. The service is also integrated with AI Big Data analysis, as well as financial technologies, such as robotic process automation, to create smart valuation and price quoting procedures, thereby making the loan approval process much more efficient. Among these initiatives, the smart valuation model and process for mortgage loan applications have obtained six patents from the Taiwan Intellectual Property Office of the Ministry of Economic Affairs, and also won the Best Consumer Finance prize in the 10th Taiwan Banking and Finance Best Practice Awards. In the future, more loan and wealth management products will be integrated into the platform to provide more comprehensive consumer finance services.
- Mega Bank launched "Taiwan Pay" a debit and credit card mobile payment service, offering money transfer, shopping, tax payment, and utility payment functions. A merchant payment collection system has been set up as well to increase the opportunity for merchants to interact with 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 cooperated with LINE to market its business through LINE account services, and to provide personalized account notification functions, including notifications related to transactions, credit card spending, loans, financing, and investments. Such cooperation helps boost customer adhesion and reinforce the digital brand image of Mega Bank. To support the Open Banking initiative promoted by the competent authority of Taiwan, Mega Bank cooperated with Taiwan Depository & Clearing Corporation (TDCC) and completed Phase 2 of this initiative, which allows customers to directly use TDCC's App to check their personal banking details. Through this initiative, Mega Bank actualizes the spirit of sharing financial data securely and maximizing benefits for consumers and the society. The Bank is planning to cooperate with more third-party service providers, integrating inter-industry data and services to create greater data value.
- Regarding the digital transformation of bank branches, Mega Bank has deployed Smart Teller Machine (STM) in its branches. The STM is designed with standard and digital account opening processes, which enable customers to open an account in 17 minutes on average and greatly reduce the workloads of bank clerks. Currently, the Bank is still busy introducing this service in the process for opening other types of accounts, with the aim to integrate it across all account opening integrated platforms to improve the operating efficiency of clerks and shorten the waiting time for customers. Meanwhile, the Bank has set up a cloud-based service on its official website to provide OMO services, such as taking a digital queue ticket, inquiring queue progress, booking an appointment for opening an account, applying for a credit card online. These services improve customer satisfaction.
- Mega Bank has set up a Security Operation Center (SOC). By establishing reporting and response processes and using event related analysis techniques, the Center performs 7x24 continuous monitoring to detect, report, and handle events related to cyber security risks as early as possible. Mega Bank continued to purchase the "e-commerce and information security liability insurance (cyber security insurance)" to ensure the sustainable development and reputation of the bank.

- 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.
- To integrate the resources of Mega Holdings Group, Mega Bank cooperated with Mega Securities to provide a digital financial service, in which customers can open multiple accounts (digital deposit account and securities account) at the same time without having to fill out a bunch of paperwork. This service is aimed at improving user experience and harnessing the synergy of Mega Holdings Group in integrated marketing. In addition, Mega Bank and Chung Kuo Insurance collaborated to link online foreign currency settlement to a travel insurance purchase service, thereby continuing to create an ecosphere for convenient digital living.
- The Company continues to organize digital banking training for employees to strengthen their ability to know exactly the "who and when" when promoting a digital product, and to improve their computer knowledge and skills. This training also equips employees with the basic concept of digital banking to serve as the foundation for building a culture of digital banking.
- Through recruiting digital financial technology talent, by organizing creative competitions in Fintech, and by cultivating cooperative projects between companies and universities, we can go beyond creating industry-academia exchanges to further gain insights into the needs of the youth market and provide a practical field for those students possessing creativity in fintech. This would allow such creativity an outlet for expression and enable the corresponding cultivation of financial technology professionals as a result. Such activities would enhance our brand image and attract professionals in the field to join our pool of scientific and technological talent, thereby enhancing our future competitiveness.
- Focusing on the five technical dimensions for cloud-computing, information security, mobile applications, big data, and the Internet of Things, the Company 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.
- In response to the phasing out of LIBOR and the product demands of the financial market, the Company will set up financial systems and lending business systems that feature modules for calculating compound interest rates and alternative overnight rates to the London Interbank Offered Rate (LIBOR).
- The Company sets up a reporting platform integrating bank-wide sources of financial data to automate system operations, streamline manual operations of financial reporting, and improve reporting efficiency and accuracy.
- The Company sets up a data event-driven platform, which collects the streaming data of various business activities and uses the event-driven rules of each activity to understand and ascertain customer behaviors in real time. Accordingly, marketing that is suitable to the customer at the right time and right place can be achieved to promote more business opportunities. Subsequently, the Company will integrate the architecture of Mega Bank's data platform to facilitate the real-time tagging of customers and big data application. Business rules based on the experience of experts will be applied to set up a customer behavior pre-warning system, generate a customer risk map, and monitor changes in the risks of customers in real time to achieve the strategic objective of dynamic risk management.



## B. Impacts of changes in the industry and responsive measures

### a. Impacts of changes in the industry on banks' finance and business

- The COVID-19 pandemic has affected the world for more than two years, changing not only the way people work but also the way businesses operate. Market demands for stay-at-home economy, remote video, IoT applications, and cloud services have increased, thus increasing business opportunities related to software and hardware applications, including 5G infrastructure, Big Data centers, and artificial intelligence. This trend prompted the transformation and production expansion of industries. The trends of cloud technology, artificial intelligence (AI), and digital ecosystems have also accelerated the development of digital banking, shifting financial transactions toward mobile payment, Internet banking, and mobile banking. In response, banks placed their focus on novel financial services, such as consumer behavior analysis and instant provision of suitable financial and consumption advices, to strengthen customer stickiness.
- Under the impact of COVID-19, extreme weather events around the world, and other environmental variables, international investment trends and the government worldwide are paying increased attention to environmental, social, and corporate governance (ESG) issues. In response, the Taiwan government also implemented policies such as the Green Finance Action Plan 2.0, where banks will play a role in guiding enterprises to value the importance of environmental protection and also providing Taiwanese firms with flexible and reliable financial support to create a positive loop in which investments and industries both pursue sustainable development.

### 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 employees to access and review in real time online but also hold the Business Workshop and invite experts or professionals to hold seminars periodically in order to reduce credit and investment 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. In response to the trends of digital transformation, we actively adopt a digital communication platform to digitally transform and continuously optimize our business services.

## 7.6.5 The impacts and correspondent measures of the crisis management for the corporate image change of the Company and its subsidiaries

- The Company emphasizes ethical management, legal compliance, AML/CFT, and risk control. Through the profession, diversity, and independence of our board directors, the Company builds a safe and sound operating environment and transparent corporate management system to support and comply with the government's financial policies. Concurrently, environmental sustainability and social prosperity issues are considered to achieve a robust business management that helps us to establish a positive corporate image.
- 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 Bank C&E 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.

Mega 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.

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.





The 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 2021, 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 2021, relevant shareholders of government agencies totally hold around 27.25% stakes of the Company. There has been no risk of ownership/management change as yet.

#### 7.6.10 Litigious and non-litigious matters

| Facts of the dispute   | Amount at stake      | Date of litigation commencement | Main parties        | Status of the dispute  |
|--|----------------------|---------------------------------|---------------------|--|
| Ex-Chairman Mr. Tsai and Ex-President Mr. Wu of Mega International Commercial Bank failed to proactively handle and respond to deficiencies to be improved as indicated in the report of examination by New York State Department of Financial Services (NYDFS), leading to a fine of US\$180 million (equivalent to NT\$5,751,953,509) as per the consent order entered into by and between Mega International Commercial Bank and NYDFS on August 19, 2016. Also because of this, Mega International Commercial Bank was determined by the Financial Supervisory Commission to have violated Article 45-1 Paragraph 1 of the Banking Act and was fined NT\$10 million. The Board of Directors of Mega International Commercial Bank resolved to make claims against Mr. Tsai and Mr. Wu on September 23, 2016. | NT\$200,000 thousand | September 30, 2016              | Mr. Tsai and Mr. Wu | The Bank has appealed partly on January 13, 2021. The second instance is in process. |

Note: The original amount claimed is NT\$5,761,953 thousand. Taipei District Court has ruled the Bank lost the lawsuit. The Bank's Board of Directors has resolved to appeal partly on January 11, 2021. Thus the amount at stake is changed to NT\$ 200,000 thousand.

#### 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. See Page 142 of the Company's 2021 Annual Report for more information on how the Company manages its information security in response to changes in the trends of information security risks faced by enterprises. The implementation status of our climate-related risk management is described as follows:

## Mega International Commercial Bank Co., Ltd.

Climate change has an increasingly significant impact on the world. To reduce GHG emissions and strengthen climate risk management, the Company has included the management of emerging risks (including climate change risks) in its "Risk Management Policy and Guidance Principles", and established the "Climate Risk Management Guidelines" taking progressive steps to incorporate climate change and related risk factors into its existing risk management mechanism to identify, assess, manage climate risks and establish management objectives to facilitate climate risk management.

## Mega Bills Finance Co., Ltd.

The flood risk of areas in Taiwan is classified into five levels, assuming the RCP 8.5 scenario as described by the Ministry of Science and Technology. Using the list of emission-intensive companies in Taiwan published by the Environmental Protection Administration, we calculated the percentage of loans outstanding to companies that are on the list and to whom we have extended credit. The installation of relevant information program systems has been successively completed.

## Mega Securities Co., Ltd.

To address the impact of climate change risks and achieve corporate sustainable development, the company is slowly integrating climate change risks into its existing risk management process; Subsidiary Mega International Investment Trust has been asked to take into consideration the impact of climate risks when assessing industries and individual stocks. We also stipulated that the proprietary trading and underwriting of securities held by emission-intensive industries shall not exceed a certain ratio of their total investment.

## Chung Kuo Insurance Co., Ltd.

The company has included climate change risks into its risk management policy in compliance with the Risk Management Policy and Guidance Principles of Mega Holdings, and established climate risk management guidelines in accordance with the regulatory authority's Guidelines for Financial Disclosure of Climate-Related Risks of Insurance Enterprise and the Climate Risk Management Guidelines of Mega Holdings. Later, the company will arrange matters related to the disclosure of climate-related risks in accordance with the Guidelines for Financial Disclosure of Climate-Related Risks of Insurance Enterprise and relevant regulations of Mega Holdings and the company.

## Mega International Investment Trust Co., Ltd.

The Company has included climate change risks and emerging risks into its Risk Management Policy and Guidance Principles. The Securities Investment Trust & Consulting Association is planning to draft practical guidelines for the disclosure of ESG information and workflows for the ESG investments and risk management of securities and investment trust businesses. In the future, we will amend our regulations and rules once the above guidelines and workflows have been established and confirmed.

## 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

According to “Mega Financial Holding Co., Ltd.’s intellectual property rights management policy”, the right of the patent completed by employee associated with the work 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 disobeys 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

(1) The Company has reported matters concerning patents received by the Group to the 22nd meeting of the Board of the 8th term on February 22, 2022. The Company established a trademark management plan in 2002 and established an intellectual property management system in 2018. In 2022, the Company will comply with amendments to intellectual property laws and strengthen its awareness and understanding of intellectual property protection. The patents acquired are as follows:

- A. Market risk assessment system
- B. Financial products of high risk country system
- C. Warning system of corporate financials

(2) Mega Bank has planned to introduce the Taiwan Intellectual Property Management Standard (TIPS), and is expected to obtain the A-grade certification of the standard before the end of 2022.

## 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

December 31, 2021, Expressed in thousands of dollar

| 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 insurance 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<br>Underwriting, brokerage, and proprietary of financial bonds<br>Proprietary of government or corporate bonds.<br>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 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 Asset Management Co., Ltd.                     | 12.05.2003            | 6F, No. 91, Hengyang Road, Taipei, Taiwan   | NTD 2,000,000   | Urban renewal, creditor's right (monetary) of financial institution, real estate trading and leasing, and other business approved by competent authority  |
| Mega Venture Capital Co., Ltd.                      | 12.13.2005            | 7F, No. 91, Hengyang Road, Taipei, Taiwan   | NTD 1,000,000   | Venture capital investment  |
| Mega Futures Co., Ltd.                              | 07.29.1999            | 2F, No. 95, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan                                       | NTD 400,000     | Futures brokerage and futures advisory services   |
| Mega International Investment Services Co., Ltd.    | 11.20.1997            | 10F, No. 95, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan                                      | NTD 50,000      | Securities investment research and advisory   |
| Mega Management Consulting Co., Ltd.                | 01.16.2002            | 7F, No. 91, Hengyang Road, Taipei, Taiwan   | NTD 10,000      | Venture capital management consulting, investment consulting and business administration consulting   |
| 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, general purchasing 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  |
| 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  |
| Ramlett Finance Holdings Inc.                       | 12.30.1981            | Avenida Balboa, Torre Davivienda, Piso 9, Oficina No. 9A-B, Panama                          | USD 20          | Real estate investment  |
| 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 business includes deposits, loans, foreign exchange, and import/export bills   |

## 8.1.3 Companies Presumed to Have a Relationship of Control and Subordination under Article 369-3 of the Company Act: None.

## 8.1.4 Business Scope of the Affiliated Companies

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 2021, nearly 100% of the securities brokerage business is conducted by Mega Securities.

Both Mega Bills and Mega 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 businesses for Mega Bank. In 2021, 6.5% of the commercial papers guaranteed by Mega Bank is underwritten by itself and 69.76% is underwritten by Mega Bills.

## 8.1.6 Directors, Supervisors and Presidents of Affiliated Companies

December 31, 2021

| Company                            | Title                         | Name   | Shareholding  |     |
|------------------------------------|-------------------------------|--|---------------|-----|
|                                    |                               |  | No. of Shares | %   |
| Mega International Commercial Bank | Chairman                      | Chao-Shun Chang (Representative of Mega Financial Holding Co., Ltd.)   | 8,536,233,631 | 100 |
|                                    | Managing Director & President | Yong -Yi Tsai (Representative of Mega Financial Holding Co., Ltd.)     |               |     |
|                                    | Managing Director             | Kuang-Hua Hu (Representative of Mega Financial Holding Co., Ltd.)      |               |     |
|                                    | Managing Director             | Chien -Liang Chiu (Representative of Mega Financial Holding Co., Ltd.) |               |     |
|                                    | Managing Independent Director | Fu-Long Chen (Representative of Mega Financial Holding Co., Ltd.)      |               |     |
|                                    | Independent Director          | Ying Wu (Representative of Mega Financial Holding Co., Ltd.)           |               |     |
|                                    | Independent Director          | Chih-Jen Hsu (Representative of Mega Financial Holding Co., Ltd.)      |               |     |
|                                    | Director                      | Shin-Horng Chen (Representative of Mega Financial Holding Co., Ltd.)   |               |     |
|                                    | Director                      | Shao-Pin Lin (Representative of Mega Financial Holding Co., Ltd.)      |               |     |
|                                    | Director                      | Chao-Hung Kuo (Representative of Mega Financial Holding Co., Ltd.)     |               |     |
|                                    | Director                      | Yen-Te Wu (Representative of Mega Financial Holding Co., Ltd.)         |               |     |
|                                    | Director                      | Chih-Yang Cheng (Representative of Mega Financial Holding Co., Ltd.)   |               |     |
|                                    | Director                      | Chia-Chung Chen (Representative of Mega Financial Holding Co., Ltd.)   |               |     |
|                                    | Director                      | Chun-Lan Yen (Representative of Mega Financial Holding Co., Ltd.)      |               |     |
|                                    | Director                      | Cheng-Chiang Hsu (Representative of Mega Financial Holding Co., Ltd.)  |               |     |
|                                    | Managing Supervisor           | Sheng-Chang Liu (Representative of Mega Financial Holding Co., Ltd.)   |               |     |
|                                    | Supervisor                    | Miao-Hsiang Chen (Representative of Mega Financial Holding Co., Ltd.)  |               |     |
|                                    | Supervisor                    | Yu-ling Hung (Representative of Mega Financial Holding Co., Ltd.)      |               |     |
| Mega Securities Co., Ltd.          | Supervisor                    | Ming-Sung Kao (Representative of Mega Financial Holding Co., Ltd.)     | 1,160,000,000 | 100 |
|                                    | Supervisor                    | Yung-Cheng Yang (Representative of Mega Financial Holding Co., Ltd.)   |               |     |
|                                    | Chairman                      | Pei-Chun Chen (Representative of Mega Financial Holding Co., Ltd.)     |               |     |
|                                    | Director & President          | Ming-Tsung Wu (Representative of Mega Financial Holding Co., Ltd.)     |               |     |
|                                    | Independent Director          | Yih-Ray Hwang (Representative of Mega Financial Holding Co., Ltd.)     |               |     |
|                                    | Independent Director          | Ling Hsu (Representative of Mega Financial Holding Co., Ltd.)          |               |     |
|                                    | Director                      | Han-Yin Ting (Representative of Mega Financial Holding Co., Ltd.)      |               |     |
|                                    | Director                      | Chia-Lin Chang (Representative of Mega Financial Holding Co., Ltd.)    |               |     |
|                                    | Director                      | Ing-Jun Kuo (Representative of Mega Financial Holding Co., Ltd.)       |               |     |
|                                    | Supervisor                    | Yu-Chun Liu (Representative of Mega Financial Holding Co., Ltd.)       |               |     |
|                                    | Supervisor                    | Lan-Jong An (Representative of Mega Financial Holding Co., Ltd.)       |               |     |
|                                    | Supervisor                    | Shueh-Yun Tsai (Representative of Mega Financial Holding Co., Ltd.)    |               |     |





| Company  | Title  | Name   | Shareholding  |     |
|--|--|--|---------------|-----|
|  |  |  | No. of Shares | %   |
| Mega Bills Finance Co., Ltd.                     | Chairman<br>Director & President<br>Independent Director<br>Independent Director<br>Director<br>Director<br>Director<br>Director<br>Supervisor<br>Supervisor                           | Mei-Chu Liao (Representative of Mega Financial Holding Co., Ltd.)<br>Yao-Kuang Tsai (Representative of Mega Financial Holding Co., Ltd.)<br>Chian-Yue Chen (Representative of Mega Financial Holding Co., Ltd.)<br>Yih-Ray Hwang (Representative of Mega Financial Holding Co., Ltd.)<br>Jui-Yun Lin (Representative of Mega Financial Holding Co., Ltd.)<br>Nian-Tzy Yeh (Representative of Mega Financial Holding Co., Ltd.)<br>Ya-Ting Chang (Representative of Mega Financial Holding Co., Ltd.)<br>Yu-Mei Hsiao (Representative of Mega Financial Holding Co., Ltd.)<br>Yung-Chen Huang (Representative of Mega Financial Holding Co., Ltd.)<br>Chi-Ho Chen (Representative of Mega Financial Holding Co., Ltd.)  | 1,311,441,084 | 100 |
| Chung Kuo Insurance Co., Ltd.                    | Chairman<br>Director & President<br>Independent Director<br>Independent Director<br>Director<br>Director<br>Director<br>Director<br>Director<br>Supervisor<br>Supervisor<br>Supervisor | Cheng-Te Liang (Representative of Mega Financial Holding Co., Ltd.)<br>Chien-Fong Yu (Representative of Mega Financial Holding Co., Ltd.)<br>To-Fa Wang (Representative of Mega Financial Holding Co., Ltd.)<br>Shih-Hsin Huang (Representative of Mega Financial Holding Co., Ltd.)<br>Fu-Fong Hsiao (Representative of Mega Financial Holding Co., Ltd.)<br>Ta-Sheng Chen (Representative of Mega Financial Holding Co., Ltd.)<br>Lih-Hwang Chiou (Representative of Mega Financial Holding Co., Ltd.)<br>Wang-Chung Ko (Representative of Mega Financial Holding Co., Ltd.)<br>Tao-Yuan Lin (Representative of Mega Financial Holding Co., Ltd.)<br>Jui-Yun Lin (Representative of Mega Financial Holding Co., Ltd.)<br>Chia-Min Hong (Representative of Mega Financial Holding Co., Ltd.)<br>Tsui Ting Ko (Representative of Mega Financial Holding Co., Ltd.) | 300,000,000   | 100 |
| Mega International Investment Trust Co., Ltd.    | Chairman<br>Director & President<br>Director<br>Director<br>Director<br>Director<br>Director<br>Supervisor<br>Supervisor   | Pei-Chun Chen (Representative of Mega Financial Holding Co., Ltd.)<br>Ta-Chuan Huang (Representative of Mega Financial Holding Co., Ltd.)<br>Kuang-Hua Hu (Representative of Mega Financial Holding Co., Ltd.)<br>Meng-Hsueh Lin (Representative of Mega Financial Holding Co., Ltd.)<br>Hui-Ling Yu (Representative of Mega Financial Holding Co., Ltd.)<br>Hsiu-Ling Tsai (Representative of Mega Financial Holding Co., Ltd.)<br>Ming-Chih Lu (Representative of Mega Financial Holding Co., Ltd.)<br>Ta-Sheng Chen (Representative of Mega Financial Holding Co., Ltd.)<br>Chun-Yi Hou (Representative of Mega Financial Holding Co., Ltd.)  | 52,700,000    | 100 |
| Mega Asset Management Co., Ltd.                  | Chairman<br>Director & President<br>Director<br>Director<br>Director<br>Supervisor   | Yun-Chien Lin (Representative of Mega Financial Holding Co., Ltd.)<br>Long Hsing Liao (Representative of Mega Financial Holding Co., Ltd.)<br>Yu-Mei Hsiao (Representative of Mega Financial Holding Co., Ltd.)<br>Ming-Chih Lu (Representative of Mega Financial Holding Co., Ltd.)<br>Chia-Lin Chang (Representative of Mega Financial Holding Co., Ltd.)<br>Mei-Li Chao (Representative of Mega Financial Holding Co., Ltd.)  | 200,000,000   | 100 |
| Mega Venture Capital Co., Ltd.                   | Chairman & President<br>Director<br>Director<br>Supervisor   | Jui-Yun Lin (Representative of Mega Financial Holding Co., Ltd.)<br>Lan-Jong An (Representative of Mega Financial Holding Co., Ltd.)<br>Mu-Ping Chiang (Representative of Mega Financial Holding Co., Ltd.)<br>Ching-Yi Li (Representative of Mega Financial Holding Co., Ltd.)  | 100,000,000   | 100 |
| Mega Futures Co., Ltd.                           | Chairman<br>Director & President<br>Director<br>Director<br>Director<br>Supervisor   | Pei-Chun Chen (Representative of Mega Securities Co., Ltd.)<br>Yung-Hung Ling (Representative of Mega Securities Co., Ltd.)<br>Ming-Tsung Wu (Representative of Mega Securities Co., Ltd.)<br>His-Jui Chao (Representative of Mega Securities Co., Ltd.)<br>Chiu-Lu Hung (Representative of Mega Securities Co., Ltd.)<br>Ching-Hsien Kung (Representative of Mega Securities Co., Ltd.)   | 40,000,000    | 100 |
| Mega International Investment Services Co., Ltd. | Chairman & President<br>Director<br>Director<br>Supervisor   | Hsiu-Li Lee (Representative of Mega Securities Co., Ltd.)<br>Ching-Yi Ku (Representative of Mega Securities Co., Ltd.)<br>Cheng-Hsiung Chang (Representative of Mega Securities Co., Ltd.)<br>Yi-Che Chen (Representative of Mega Securities Co., Ltd.)  | 5,000,000     | 100 |
| Mega Management Consulting Co., Ltd.             | Chairman<br>Director<br>Director<br>Supervisor   | Pi-Tien Chen (Representative of Mega International Commercial Bank)<br>Te-Jen Hsu (Representative of Mega International Commercial Bank)<br>Yu Hui Huang (Representative of Mega International Commercial Bank)<br>Jin-Chich Lee (Representative of Mega International Commercial Bank)  | 1,000,000     | 100 |



| Company   | Title  | Name  | Shareholding  |       |
|---|--|---|---------------|-------|
|   |  |   | No. of Shares | %     |
| China Products Trading Corp., Ltd.                  | Chairman<br>Director<br>Director<br>Director<br>Director                           | Chen-Shan Lee (Representative of Mega International Commercial Bank)<br>Ta-Sheng Chen (Representative of Mega International Commercial Bank)<br>Shaw Hwa Su (Representative of Mega International Commercial Bank)<br>Li-Fen Hung (Representative of Mega International Commercial Bank)<br>Shyh-Tzer Horng (Representative of Mega International Commercial Bank)  | 68,274        | 68.27 |
|   | Supervisor   | Li-Li Lee   | 0             | 0     |
| Yung-Shing Industries Co., Ltd.                     | Chairman<br>Director<br>Director<br>Director<br>Director                           | Hui-Ling Chou (Representative of Mega International Commercial Bank)<br>Yue-Gean Kuo (Representative of Mega International Commercial Bank)<br>Yu- Hui Huang (Representative of Mega International Commercial Bank)<br>Yen-San Chang (Representative of Mega International Commercial Bank)<br>Ya -Ping Liu (Representative of Mega International Commercial Bank)  | 298,668       | 99.56 |
|   | Supervisor   | vacancy (Note)  | 0             | 0     |
| Win Card Co., Ltd.                                  | Chairman<br>Director & President<br>Director<br>Director<br>Director<br>Supervisor | Chao-Jung Chen (Representative of Yung-Shing Industries Co., Ltd.)<br>Chung-Hsiang Lin (Representative of Yung-Shing Industries Co., Ltd.)<br>Jen-Fu Chang (Representative of Yung-Shing Industries Co., Ltd.)<br>Chun-Yi Hou (Representative of Yung-Shing Industries Co., Ltd.)<br>Pin Shao (Representative of Yung-Shing Industries Co., Ltd.)<br>Ching-Yi Li (Representative of Yung-Shing Industries Co., Ltd.)                  | 200,000       | 99.56 |
|   | Chairman<br>Director & President<br>Director<br>Director<br>Supervisor             | Tsuey-Ping Chang (Representative of Yung-Shing Industries Co., Ltd.)<br>Tzu-Chien Wang (Representative of Yung-Shing Industries Co., Ltd.)<br>Te-Jen Hsu (Representative of Yung-Shing Industries Co., Ltd.)<br>Te-Shao Chen (Representative of Yung-Shing Industries Co., Ltd.)<br>Hui-Ling Yu (Representative of Yung-Shing Industries Co., Ltd.)   | 2,000,000     | 99.56 |
| Cathay Investment & Warehousing Ltd.                | Chairman<br>Director<br>Director   | Shiow Ling Wu (Representative of Mega International Commercial Bank)<br>Shih-Kuan Chuang (Representative of Mega International Commercial Bank)<br>Huai-Te Liu (Representative of Mega International Commercial Bank)   | 1,000         | 100   |
| Ramlett Finance Holdings Inc.                       | Chairman<br>Director & President<br>Director                                       | Shiow Ling Wu (Representative of Mega International Commercial Bank)<br>Shih-Kuan Chuang (Representative of Mega International Commercial Bank)<br>Huai-Te Liu (Representative of Mega International Commercial Bank)   | 1,500         | 100   |
| Mega International Commercial Bank Public Co., Ltd. | Chairman<br>Director & President<br>Director<br>Director<br>Director<br>Director   | Yu-Mei Hsiao (Representative of Mega International Commercial Bank)<br>Juei-Heng Chia (Representative of Mega International Commercial Bank)<br>Kuo-Pao Chen (Representative of Mega International Commercial Bank)<br>Wan-Ling Jwang (Representative of Mega International Commercial Bank)<br>Ku- Li Lai (Representative of Mega International Commercial Bank)<br>Chin Chen (Representative of Mega International Commercial Bank) | 400,000,000   | 100   |
|   | Independent Director<br>Independent Director<br>Independent Director               | Wittaya Supatanakul<br>Apichart Jarikasem<br>Niramom Asavamanee   | 0             | 0     |

Note: Mr. Hung Tseng resigned the supervisor position on December 31, 2021. Mr. Chien-Hua Lee was elected as the supervisor during the extraordinary general meeting on January 13, 2022.

### 8.1.7 Operational Highlights of Affiliated Companies in 2021

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

| Company   | Paid-in Capital | Total Assets  | Total Liabilities | Stockholders' Equity | Revenues (Net Revenue*) | Operating Profit (Profit Before Income Tax*) | Profit (After Tax) | Earnings per share (After Tax) |
|---|-----------------|---------------|-------------------|----------------------|-------------------------|--|--------------------|--------------------------------|
| Mega International Commercial Bank                  | 85,362,336      | 3,778,907,018 | 3,479,800,629     | 299,106,389          | 44,984,401*             | 20,509,819*                                  | 18,457,320         | 2.16                           |
| Mega Securities Co., Ltd.                           | 11,600,000      | 86,885,727    | 67,571,932        | 19,313,795           | 7,199,526               | 2,908,705                                    | 2,748,330          | 2.37                           |
| Mega Bills Finance Co., Ltd.                        | 13,114,411      | 252,760,692   | 211,774,927       | 40,985,765           | 4,996,674*              | 3,995,809*                                   | 3,277,962          | 2.50                           |
| Chung Kuo Insurance Co., Ltd.                       | 3,000,000       | 20,060,087    | 12,202,059        | 7,858,028            | 5,839,253               | 629,117                                      | 505,111            | 1.68                           |
| Mega Asset Management Co., Ltd.                     | 2,000,000       | 15,017,423    | 12,167,388        | 2,850,035            | 437,804                 | 370,856                                      | 258,569            | 1.29                           |
| Mega Venture Capital Co., Ltd.                      | 1,000,000       | 1,126,119     | 24,230            | 1,101,889            | 316,561                 | 275,424                                      | 272,107            | 2.72                           |
| Mega International Investment Trust Co., Ltd.       | 527,000         | 947,335       | 87,717            | 859,618              | 400,521                 | 96,484                                       | 82,959             | 1.57                           |
| Mega Futures Co., Ltd.                              | 400,000         | 6,416,356     | 5,628,152         | 788,204              | 338,327                 | 28,756                                       | 47,044             | 1.18                           |
| Mega International Investment Services Co., Ltd.    | 50,000          | 68,477        | 13,210            | 55,267               | 38,200                  | 616  | 484                | 0.22                           |
| Mega Management & Consulting Corporation            | 10,000          | 115,302       | 21,004            | 94,298               | 81,212                  | 66,124                                       | 55,228             | 55.23                          |
| China Products Trading Corp., Ltd.                  | 5,000           | 48,780        | 29,272            | 19,508               | 0                       | (664)  | 1,288              | 12.88                          |
| Yung-Shing Industries Co., Ltd.                     | 30,000          | 1,030,109     | 252,867           | 777,242              | 207,452                 | 8,035  | 39,062             | 130.21                         |
| Win Card Co., Ltd.                                  | 20,000          | 59,247        | 17,699            | 41,548               | 152,194                 | 9,047  | 7,455              | 37.27                          |
| ICBC Assets Management & Consulting Co., Ltd.       | 20,000          | 21,359        | 41                | 21,318               | 0                       | (189)  | (79)               | (0.04)                         |
| Cathay Investment & Warehousing Ltd.                | 27,647          | 27,159        | 172               | 26,987               | 588                     | (3,906)                                      | (3,906)            | (3,906.16)                     |
| Ramlett Finance Holdings Inc.                       | 553             | 36,559        | 48,025            | (11,466)             | 295                     | (5,849)                                      | (5,849)            | (3,899.18)                     |
| Mega International Commercial Bank Public Co., Ltd. | 3,314,000       | 24,574,034    | 19,850,871        | 4,723,163            | 720,950*                | 632,829*                                     | 321,673            | 0.80                           |

Note: The accounting item "Profit Before Income Tax" and "Net Revenue" applies to Mega International Commercial Bank, Mega Bills Finance Co., Ltd., and Mega International Commercial Bank Public Co., Ltd., while the accounting item "Operating Profits" and "Revenues" 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 3 of Article 36 of the Securities and Exchange Act: None.**





Mega Financial Holding Co., Ltd.



Chairman

*Esehang*



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