Mega Holdings

Stock Code: 5842
Website:
Market Observation Post System
http://newmops.tse.com.tw/
Mega Bills Web Site:
http://www.megabills.com.tw

MEGA BILLS FINANCE CO., LTD.

Annual Report

2018

■ Spokesman and Deputy Spokesman for the Corporation

Spokesman: Yi-Sheng Wang
Job title: Senior Executive Vice President
Tel. No.: (02)2389-3399
Email: wang0421@megabills.com.tw
Deputy spokesman: Chih-Hsiung Chiu
Job title: Assistant General Manager, Treasury Dept.
Tel. No.: (02)2382-6660
Email: chiou516@megabills.com.tw

■ Addresses and Telephone Numbers of the Head Office and Branches

Head Office	Address:	2-5F, No. 91 Hengyang Road, Taipei City
	Tel. No.:	(02) 2383-1616 (Representative)
	Fax No.:	(02) 2382-2878 (Administration Department)
Kaohsiung Branch	Address:	3F, No. 420, Cheng Kung 1st Road, Kaohsiung City
	Tel. No.:	(07) 282-5171(5 Lines)
	Fax No.:	(07) 215-1887
Tainan Branch	Address:	14F-1, No. 307, Sec. 2, Minsheng Road, Tainan City
	Tel. No.:	(07) 228-3131(5 Lines)
	Fax No.:	(06) 229-3654
Taichung Branch	Address:	4F-1, No.268, Sec. 1, Taiwan Blvd., Taichung City
	Tel. No.:	(04) 2220-2176(5 Lines)
	Fax No.:	(04) 2222-5424
Hsinchu Branch	Address:	3F, No. 307 Peida Road, Hsinchu City
	Tel. No.:	(05) 526-6022(5 Lines)
	Fax No.:	(03) 524-5544
Taoyuan Branch	Address:	3F, No. 32, Sec. 1, Cheng Kung Road, Taoyuan City
	Tel. No.:	(05) 335-8877(5 Lines)
	Fax No.:	(03) 333-6137
Panchiao Branch	Address:	3F, No. 69, Zhongzhen Road, Panchiao District, New Taipei City
	Tel. No.:	(05) 2965-2836(5 Lines)
	Fax No.:	(02) 2965-2819
Sanchong Branch	Address:	4F, No. 192, Sec. 3, Chongyang Road, Sanchong District, New Taipei City
	Tel. No.:	(05) 2981-1931(5 Lines)
	Fax No.:	(02) 2980-0374
Taipei Branch	Address:	6F, No.123, Sec 2, Zhongxiao East Road, Taipei
	Tel. No.:	(02) 2356-9696(5Lines)
	Fax No.:	(02) 2391-1717

■ Organization Handling Stock Transfer Affairs

Name: Yuanta Securities Co., Ltd.
Address: B3F., No.210, Sec. 3, Chengde Rd., Taipei
Website: http：//www.yuanta.com.tw/
Tel. No.: (02)2586-3117

■ Credit Rating Organization

Name: Taiwan Ratings Co., Ltd.
Address: 49F, No. 7, Sec. 5, Hsin Yi Road, Taipei (101 Building)
Website: http://www.taiwanratings.com/tw/
Tel. No.: (02)8722-5800

■ CPA Certifying Financial Statements of Most Recent Year

Name: Shu-Mei Ji, CPA Zong-Xi Lai, CPA,
Firm Name: PricewaterhouseCoopers, Certified Public Accountants
Address: 27F, No. 333, Sec. 1, Keelung Road, Taipei City
Website: http://www.pwc.com/tw/
Tel. No.: (02)2729-6666

■ Web Site: http://www.megabills.com.tw/

Table of Contents

Message to Shareholders

Message to Shareholders

One. Business Report 2018

I. Global and Local Financial Environment, 2018

Mei-Chu Liao, Chairperson of the Board

Political and economic uncertainties in 2018 undermined growth and demand on a global scale except for the United States, which still delivered strong performance due to support from private investments. Meanwhile, consumption and investment in the EU were too weak to support the growth of major economies; in Japan, the increase in consumption tax combined with the ongoing global trade disputes posed an impact on the country's economy, price level, and export opportunities; as for China, the trade war with the USA presented obstacles to economic activities and was reflected by slower growth. With respect to the 2019 outlook, the International Monetary Fund (IMF) revised downward its global economic growth forecast to 3.5% in January 2019 out of concern for the outcome of the China-USA trade negotiations, weakened growth in Europe, and no-deal Brexit.

Growth of Taiwan's economy, on the other hand, has slowed down since the 3rd quarter of 2018 as a result of the China-USA trade war and the strengthening dollar that has triggered a worldwide shift of capital to the United States. The Industrial Production Index exhibited a year-over-year decrease of -1.22% in December 2018, whereas import and export volumes grew/fell by 2.2% and -3.0%, respectively, year over year. Meanwhile, consumer confidence weakened, resulting in a 0.05% year on year CPI decrease in the month of December, and a full-year increase of 1.35% for 2018. The annual CPI increase is estimated at 0.96% for 2019, indicating a mild fluctuation of domestic price levels. The composite score for the Monitoring Indicator was concluded at 16 as of December 2018 with the outlook signal turning from yellow-blue to blue, which, combined with the continuous fall of both the Leading Indicator and Coincident Indicator, suggest weakened economic momentum. According to estimates made by the Directorate General of Budget, Accounting, and Statistics in February 2019, economic growth was estimated at 2.63% for 2018 and 2.27% for 2019.

In terms of the domestic monetary policy, the Central Bank of Taiwan has decided to maintain the rediscount rate, rate on accommodations with collateral, and rate on accommodations without collateral unchanged at 1.375%, 1.75%, and 3.625%, respectively, despite the FED has raised the interest rate four times in 2018. This makes it the ninth consecutive quarter without adjustment from the Central Bank. The market generally expects fewer interest rate hikes in the United States in 2019. Following the 2018 4th quarter board meeting, the Central Bank issued a press release stating that it will continue to monitor development of trade protectionism, monetary policies of major economies, fluctuation of financial markets, and geopolitical risks around the world and their impacts on the domestic economy. Changes to the monetary policy will be made as deemed appropriate.

II. Organizational Changes: None.

III. Results of Implementation of Business Plan and Strategy

Unit: NT$ million

Item	Final Accounting Figure, 2018	Final Accounting Figure, 2017	Increase/ Decrease (%)
Underwriting and Purchasing Bills	2,806,666	2,632,704	6.61
Commercial Papers	2,369,796	2,237,849	5.90

Underwritten			
Trading Volume of Bills	8,723,464	8,661,278	0.72
Trading Volume of Bonds	4,911,287	5,116,324	-4.01
Average Balance of Guaranteed Commercial Paper	161,271	152,652	5.65
Overdue Credit Amounts	0	0	-
Percentage of overdue credits (%)	0	0	-

IV. Budget Implementation

Unit: NT$ million

Item	Final Accounting Figure, 2018	Budget Figure, 2018	Achievement Rate (%)
Underwriting and purchasing bills	2,806,666	2,472,600	113.51
Commercial Papers Underwritten	2,369,796	2,198,933	107.77
Trading volume of bills	8,723,464	7,601,450	114.76
Trading volume of bonds	4,911,287	4,603,700	106.68
RP Outstanding Balance of Bills and Bonds	202,310	200,251	101.03
Average Balance of Guaranteed Commercial Paper	161,271	153,000	105.41
Overdue credit amounts	0	0	-
Percentage of overdue credits (%)	0	0	-
Net income	2,558	2,523	101.39

V. Financial Income and Expenditures, and Analysis of Profitability

Unit: NT$ million

Item	Final Accounting Figure, 2018	Item	Final Accounting Figure, 2018
Net revenue	3,778	EPS (NT$)	1.95
Income Before Tax	3,063	ROA (%)	0.94
Net income	2,558	ROE (%)	7.11

VI. Research and Development

(I) Management

1. Support industry association in the issuance of short-term bills in the primary and secondary markets, promotion of paperless transactions, and implementation of relevant information systems.

Chi-Fu Lin, President

2. Implementation of the online learning platform.
3. Continue making adjustments to the internal performance evaluation system.

(II) Product and Business

1. Studied the feasibility of undertaking RP transaction of US dollar bonds with life insurance companies.
2. Continue requesting permission to engage in a broader range of derivatives.

(III) Risk Control

1. Enhanced execution and risk monitoring of AML/CFT
2. Continuously enhanced the self-assessment system of operational risks and

strengthen risk management regarding various business risk categories.

3. Continued planning and adoption of Basel Ⅲ system framework and practices.

Two. Summary of Business Plan 2019

I. Operational Guide

(I) Strengthen organizational management to improve performance efficiency and maintain Company ranking as a market leader.

(II) Implement performance evaluation and strengthen the production efficiency of human resources.

(III) Implement internal control system and strengthen corporate governance.

(IV) Strengthen risk management and maintain the strong financial condition and quality of assets.

II. Expectation of Business Goals

Unit: NT$ million

Item	Budget Figure, 2019
Underwriting and purchasing bills	2,522,294
Commercial Papers Underwritten	2,280,294
Trading volume of bills	7,760,234
Trading volume of bonds	4,617,682
RP outstanding balance of bills and bonds	207,274
Average Balance of Guaranteed Commercial Paper	161,000

Expectation Grounds: Expectation is based upon current market competition and market environment, as well as in accordance with the goals set up by the parent financial holding company.

III. Major Business Policies

(I) 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 repurchase agreements; reduce the cost of capital and increase returns on holding positions without liquidity risks.

(II) Monitor 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 an increased margin to maintain a leading position in the market.

(III) Monitor credit customers' business performance and financial positions; gain insight into customers' industry outlook and funding capability for more robust credit decisions.

(IV) Actively explore opportunities in Syndicated lending as a lead arranger, joint underwriting of non-guarantee commercial paper, NCD, acquisition of guaranteed or non-guarantee bills underwriting for portfolio growth and higher gain potentials from holding positions.

(V) Build position in foreign currency bonds; diversify country risk and increase portfolio weight in foreign currency corporate bonds for higher overall gains and mitigation of U.S. interest rate hike.

(VI) Manage duration of NTD and foreign currency bonds for risk avoidance and gains; allocate capital for greater efficiency and enhance the current risk management system.

(VII) Implement information security protection equipment, enhance information security management practices, and strengthen employees' risk awareness to minimize security threats in response to the increasingly complex hacker attacks.

(VIII) Expand business scope by exploring new service types; promote the use of paperless conference system and paperless report management system as a means to cut back resource usage and fulfill corporate social responsibilities.

IV. Future Development Strategies

(I) Strengthen the position as a market leader of the bills and bonds business.

(II) Adjust borrower structure and maintain appropriate size and margin on bill guarantee service.

(III) Build a profitable bonds portfolio. Expand trading of repurchase agreements and secure profitability with the use of derivatives.

(IV) Enhance operation efficiency by reducing the cost of funding and expanding interest spread.

(V) Enhance corporate governance and enforce corporate social responsibilities.

(VI) Integrate group resources and explore the synergy of cross-selling.

(VII) Improve system efficiency and enhance AML and information security practices.

(VIII) Plan and seek the authority's approval for new service categories and additional counterparties, thereby expanding the scope of service and source of capital.

(IX) Continue efforts in talent development and nurturing.

(X) Make an efficient allocation of capital; strengthen existing risk management and systems.

V. Effect of external competitive environment, regulatory environment, and overall operating environment.

(I) The China-USA trade dispute continues to raise concerns regarding the momentum of the global economy. Lower profit growth expectations combined with increased credit risk premium on corporate bonds provoked risk aversion among investors, causing government bond interest to fall throughout the world, except for USD where short-term LIBOR remained high with yield curve flattened or even inverted. The reducing gains on foreign currency holding positions should probably continue.

(II) The Company will take into consideration a wide variety of factors such as changes in the financial environment, amount of maturing bonds, bank of international settlement ratio, and risk management limits, and closely monitor spreads on holding positions as well as chances of interest rate hikes in order to make flexible adjustments to NTD and foreign currency bond positions for improved profitability, capital allocation, and effective risk management.

(III) Weakened recovery of the global economy is likely to slow down domestic growth, and the ongoing China-USA trade conflict has affected international trade to the point where individual businesses are finding it difficult to operate under the prevailing environment. As borrowers' operational and financial performance become more susceptible to market changes while uncertainties arise with respect to industry competitiveness, credit risk has risen across industries.

(IV) There is an increasing variety of funding channels in the financial market today, meanwhile, banks continue to explore local lending opportunities by offering low-interest rate loans and competing in the underwriting of guarantee-waiver CPs in the primary market. All of these have the potential to undermine the business expansion efforts of bills financing companies.

(V) Due to limitations by capital adequacy and liquidity coverage ratios, the banking system has been conservative about long-term interbank funding and transactions in the secondary market, which affect the market's capital supply and cause higher interest rate volatility in short-term instruments completed at month-end and quarter-end.

(VI) The flow of international capital is largely dictated by interest rate decisions in the U.S. If foreign investors continue to move capital away from the domestic market, there may be an imbalance in the supply of capital that works against the favor of the bills financing business, as it makes funding more difficult and increases the cost of RP and the borrowing rate, which ultimately reduces revenue spread by a substantial extent.

Three. Most Recent Credit Rating and Date of Rating

Credit Rating Organization	Long-Term Credit Rating	Rating Outlook	Short- Term Credit Rating	Date of Announcement
Taiwan Ratings Corp.	twAA+	twA-1+	Stable	2018.9.28

Four. Appreciation and Prospect

The rates of TWD and foreign currency RPs have increased in the last year after a series of interest rate hikes by the U.S. FED that have triggered a substantial outflow of capital. The outflow of foreign investment capital also caused interest rates to rise in the secondary bills market, and the increased funding cost has made businesses more challenging for the Company. Fortunately, the Company was able to achieve its annual profit targets while at the same time leading peers in all performance aspects as a bills financing company with the support of its employees and under the guidance and assistance of its directors, supervisors, and the parent company.

Given the uncertain outlook and slower growth of the global economy and intensified challenges in the external environment in the coming year, the Company and its employees will continue to respond to changes with “integrity, stability, innovation, growth, service efficiency, and sustainability” in mind. Meanwhile, enhanced compliance, internal control, risk management, and corporate social responsibility practices will be undertaken with corresponding improvements made to the information system, so that we may devote greater attention to sustainability and reward shareholders of the financial group with better performance.

Best wishes for all of you

Health and Happiness,

Chairperson of the Board: Mei-Chu Liao President: Chi-Fu Lin

Profile of the Corporation

Profile of the Corporation

One. Founded: May 3, 1976

Two. Company History

I. May 20, 1976, started business, with a paid-in capital of NT$200 million.

II. January 5, 1981, relocated the head office to an acquired property at Section 2 Nanjing East Road, Taipei City.

III. June 26, 1990, completed an initial public offering that increased paid-in capital to NT$2.885 billion.

IV. February 28, 2000, relocated the head office to “Chung Hsing Bills Tower” at Section 2, Zhongxiao East Road, Taipei City; share capital was increased to NT$28.11 billion later in May.

V. June 12, 2002, a resolution was passed during the Regular Meeting of Shareholders to have the Company merged with Bank of communications' Financial Holding Company through a shares exchange arrangement. The exchange of shares took place on August 22 later in that year.

VI. December 31, 2002, Bank of communications' Financial Holding Company, the parent company, was renamed Mega Financial Holding Co. Ltd.

VII. September 1, 2004, share capital was reduced by $3 billion to NT$25.11 billion.

VIII. May 3, 2005, share capital was reduced by $5 billion to NT$20.11 billion.

IX. May 2, 2006, relocated the head office to 2F~5F, 9F and 10F, No. 91 Hengyang Road, Taipei City.

X. June 26, 2006, the Company was renamed Mega Bills Finance Co., Ltd. in an alignment with other subsidiaries of Mega Financial Holding Company.

XI. July 2, 2007, share capital was reduced by $5 billion to NT$15.11 billion.

XII. August 3, 2009, share capital was reduced by $2 billion to NT$13.11 billion.

XIII. November 1, 2012, received the “Best Bills Finance Company Award” at the “6th Annual Taiwan Excellent Financial Elite Award” directed by the Financial Supervisory Commission and organized by the Taiwan Academy of Banking and Finance.

XIV. October 31, 2014, received the “Best Bills Finance Company Award” at the “7th Annual Taiwan Excellent Financial Elite Award” directed by the Financial Supervisory Commission and organized by the Taiwan Academy of Banking and Finance.

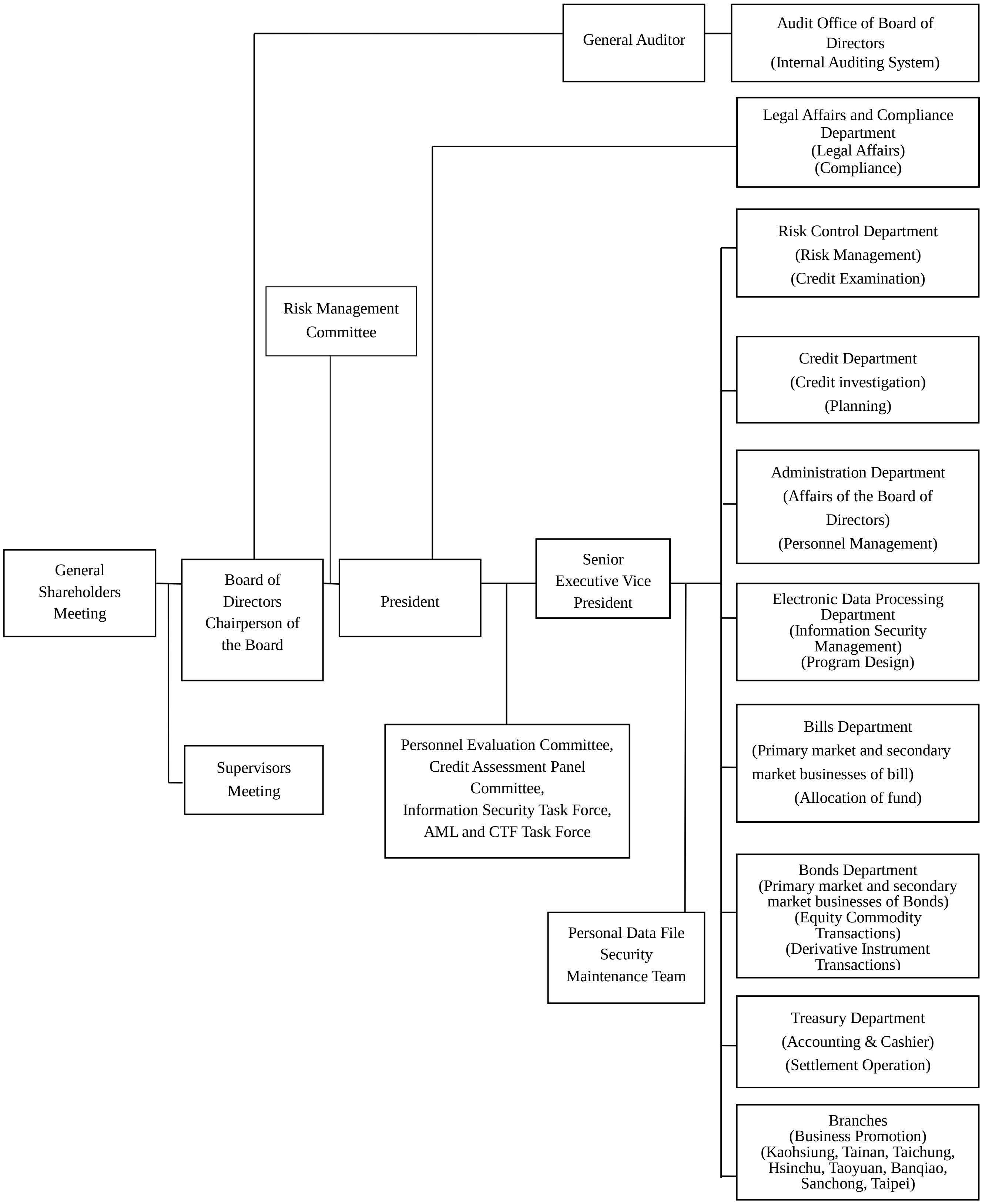
XV. November 1, 2016, received “Best Bills Finance Company Award - Outstanding Achievement” in the “8th Annual Taiwan Excellent Financial Elite Award” directed by the Financial Supervisory Commission and organized by the Taiwan Academy of Banking and Finance.

XVI. December 26, 2018, the Company was awarded the 2018 “Credit Information Security Control Award” by the Joint Credit Information Center.

Corporate Governance Report

Corporate Governance Report

I. Organizational Structure



II. Background Information of Directors, Supervisors, the President, Vice Presidents, Assistant Vice Presidents, Executives of each Departments and Branch Office and Consultants

(I) Directors and Supervisors

1. Information about directors and supervisors (1)

December 31, 2018

Job Title (Note 1)	Country or place of registration	Name	Gender	Date of Election (Appointment)	Term of Office (Note 2)	Date of First Election	Current Share Holding	Main Educational and Professional Background		Current Posts Held at Other Companies Concurrent to MBF Post	Other Executive Officers, Directors or Supervisors Within Two Degrees of Kinship of Self or Spouse
								Education	Experience		
Chairperson of the Board	Republic of China	Mei-Chu Liao	Female	2018.03.01	2021.02.28	2018.03.01	(Note 1)	Department of Banking, NCCU	First Financial Holding - Vice President; First Financial Holding and First Commercial Bank - Secretariat; First Securities - Chairperson; First Commercial Bank - Board of Directors' Special Assistant; FCB Leasing - Director; First Commercial Bank (USA) - Director; First Life Insurance - Supervisor; Financial Information Service Co., Ltd. - Supervisor; First Consulting and First Venture Capital - Director; FSITC - Director	Mega Bills Finance Co., Ltd. – Chairperson	None
Director and President	Republic of China	Chi-Fu Lin	Male	2018.03.01	2021.02.28	2015.03.02		Department of Public Finance, National Chung Hsing University	Mega Bills Finance Co., Ltd. - Vice President, Assistant Vice President, and Head of the Bills Department; Mega Bills Finance Co., Ltd. - Acting Chairperson	Mega Bills Finance Co., Ltd. - Director and President; R.O.C. Bills Finance Association - Director; Mega Charity Foundation - Director	

Independent Director	Republic of China	Yi-Jui Huang	Male	2018.03.01	2021. 02.28	2016.10.26		Ph.D., Jinan University	Licensed CPA of Solomon & Co.,CPAs; Chairperson of Kaohsiung City CPA Association; Standing Director of Taiwan CPA Association; Director of Neoflex Technology Co., Ltd.; Supervisor of Huaku Development Co., Ltd	Owner of Solomon & Co.,CPAs; Chairperson of Taiwan CPA Association; Director of Huaku Development Co., Ltd.; Director of Ma Kuang Healthcare Holding Limited; Chairperson of Weidu Investment Co., Ltd.; Supervisor of i-Kiddo Co., Ltd.; Supervisor of Ma Kuang International Development Co., Ltd.; Director of e-Family Co., Ltd.; Supervisor of PChome Online Inc., Director of Chi Fang Co., Ltd., Independent Director of Mega Securities Co., Ltd.	
Independent Director	Republic of China	Jian-Yu Chen	Male	2018.03.01	2021. 02.28	2018.03.01		Master of National Development, National Taiwan University	Soochow University - Lecturer of Law; Shuang Bang Law Office – Partner; Lexcel Partners Attorneys at Law - Lawyer	Jian-Yu Chen Law Office - Person-in-charge and Licensed Attorney; Gorgeous Space Co., Ltd. – Supervisor.	
Director	Republic of China	Jui-Yun Lin	Female	2018.03.01	2021. 02.28	2006.04.06		Master, Graduate Institute of Public Finance, NCCU	Mega Holdings - Assistant Vice President of Financial Control Department; Taipei Financial Center Corporation - Director; Chung Kao Insurance Co., Ltd-Chairperson; Nuclear Energy Insurance Pool of the Republic of China-Chairperson; Mega Charity Foundation - Director; Mega Financial Holding Co., Ltd. - Lead Member of the Employee Welfare Committee; Taipei Financial Center Corporation - Director.	Mega Holdings - Senior Executive Vice President; Mega Venture Capital Co., Ltd. - Chairperson and President; Non-Life Insurance Association of the Republic of China - Managing Director; Mega Financial Holding Co., Ltd. - Lead Member of the Labor Pension Fund Supervisory Committee.	
Director	Republic of China	Ruey-Yuan Fu	Female	2018.03.01	2021. 02.28	2017.03.29		EMBA, Chengchi University	Yonghe Branch Manager, Nanking East Road Branch Manager, and Central Manager of Mega Bank; Chairperson of ICBC Assets Management & Consulting Co., Ltd.; Director of SmartVision Co., Ltd.	Senior Executive Vice President of Mega Bank; Director of EXCEL Chemical Corp; Director of Taiwan Asset Management Co., Ltd.; Director of Mega Bank Cultural & Educational Foundation; Director of Mitagri Co., Ltd.	

Director	Republic of China	Ya-Ting Chang	Female	2018.03.01	2021. 02.28	2018.03.01		Master of Accounting, University of Illinois Urbana-Champaign	Elite & Co., CPAs - Licensed accountant; Deloitte Taiwan - Deputy Manager of Audit Department; Taiwan Academy of Banking and Finance - Lecturer; Taiwan Junior Chamber - Deputy head and CFO of Grand Songshan Branch; member of Phi Tau Phi Scholastic Honor Society	Elite & Co., CPAs - Licensed Accountant; Elite Management Consultant Co., Ltd. - Director (person-in-charge).	
Director	Republic of China	Yu-Mei Hsiao (Note 2)	Female	2018.03.28	2021. 02.28	2018.03.28		Master of Finance, University of Illinois Urbana-Champaign	Mega Financial Holding Co. Ltd. and Mega Bank - Secretariat; First Commercial Bank - Brisbane Branch Manager; First Commercial Bank - Gongguan Branch Manager; Hotung International Co., Ltd. – Director.	Vice President of Mega Financial Holding Co., Ltd. and Mega Bank, Director of Mega Asset Management Corp., Director of TFASC Taiwan, Chairperson of Mega International Commercial Bank Public Company Limited.	
Supervisor	Republic of China	Yung-Chen Huang (Note 4)	Female	2018.12.19	2021. 02.28	2018.12.19		Master of Economics, New York University	Mega Bank - Head Office Branch Deputy Manager; Mega Bank - Yilan Branch Manager; Mega Bank - Daan Branch Manager; Mega Bank - Sanchong Branch Manager; Mega Bank - Assistant Vice President of the Foreign Businesses Department.	Mega Bank - Chief Auditor.	
Supervisor	Republic of China	Qi-He Chen	Male	2018.03.01	2021. 02.28	2018.03.01		Department of Banking, Chinese Culture University	Mega Bank - Deputy Head of Credit Management Division; Mega Bank - Deputy Head of Overdue Loans & Control Department Management Division; China Real Estate Management – Director.	Mega Bank - Head of Overdue Loans & Control Department	
Supervisor	Republic of China	Shao-Pin Lin (Note 4)	Male	2018.12.19	2021. 02.28	2018.12.19		Ph.D., Department of Technology Management, Chung Hua University	Taiwan Business Bank - Officer and Team Leader of the Foreign Businesses Department; Land Bank of Taiwan - Deputy Section Chief, Section Chief, and Senior Officer of the Foreign Businesses Department; Bank of Taiwan - Secretary and Senior Office of the President's Office; Ching Yun University - Associate Professor of Finance; Joint Credit Information Center - Manager of the Member Services Department and Manager of the Administration Department; Financial Ombudsman Institution - Head of the Administration Division and Vice President.	Shih Chien University - Part-time Associate Professor of Finance; National Open College of Continuing Education Affiliated to Taichung University of Science and Technology - Part-time Associate Professor; Mega Bank - Director; VITAPHILE Co., Ltd. – Supervisor.	

Note:

1. The Company has 1,311,441,084 outstanding shares and is a 100%-owned subsidiary of Mega Financial Holding Co., Ltd. Mega Financial Holding Co., Ltd. reappointed the Company's 15th Board of Directors and supervisors on 3.1.2018 to serve a term from 3.1.2018 until 2.28.2021. The names of the 15th Board of Directors (including independent directors) and supervisors are as follows: Chairperson Mei-Chu Liao, Director and President Chi-Fu Lin, Independent Director Yi-Rui Huang, Independent Director Jian-Yu Chen, Director Jui-Yun Lin, Director Chun-Hsiang Li, Director Rui-Yuan Fu, Director Ya-Ting Chang, Supervisor Jin-Tsun Chen, Supervisor Fu-Rong Chen, and Supervisor Qi-He Chen.
2. Mega Holdings appointed Madam Yu-Mei Hsiao to replace Director Chun-Hsiang Li on 2018.3.28.
3. Jin-Tsun Chen, former supervisor of the Company appointed by Mega Financial Holding Co. Ltd., resigned on 7.26.2018.
4. On 12.19.2018, Mega Financial Holding Co. Ltd. reappointed Madam Yung-Chen Huang to succeed Fu-Rong Chen as supervisor and assigned Mr. Shao-Pin Lin as an additional supervisor.

2. Major shareholders of corporate shareholders

Book Closure Date: December 31, 2018

Name of Corporate shareholder	Major shareholders of Corporate shareholders (with shareholding among the top 10)	Shareholding
Mega Financial Holding Co., Ltd.	Ministry of Finance	8.40%
	The National Development Fund, Executive Yuan of the R.O.C.	6.11%
	Chunghwa Post Co., Ltd.	3.61%
	Fubon Life Insurance Co., Ltd.	3.06%
	Bank of Taiwan Co., Ltd.	2.46%
	Taiwan Life Insurance Co., Ltd.	2.04%
	Shin Kong Life Insurance Co., Ltd.	1.68%
	Cathay Life Insurance Co., Ltd.	1.58%
	Pou Chen Corporation	1.41%
	China Life Insurance Company Limited	1.31%

3. Major Shareholders of Major Corporate Shareholders

Shares transfers suspended on December 31, 2018

Name of corporate entity	Key shareholders of corporate entity (Note)	Shareholding
Ministry of Finance	Government	
The National Development Fund, Executive Yuan of the R.O.C.	Government	
Chunghwa Post Co., Ltd.	Ministry of Transportation and Communications	100.00%
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd.	100.00%
Bank of Taiwan Co., Ltd.	Taiwan Financial Holding Co., Ltd.	100.00%
Taiwan Life Insurance Co., Ltd.	CTBC Financial Holding Co., Ltd.	100.00%
Shin Kong Life Insurance Co.,	Shin Kong Financial Holding Co., Ltd.	100.00%

Ltd.		
Cathay Life Insurance Co., Ltd.	Cathay Financial Holding Co., Ltd.	100.00%
Pou Chen Corporation	PC Brothers Corporation	7.24%
	Quan Mao Investment Co., Ltd.	5.55%
	Red Magnet Developments (BVI) Ltd.	4.60%
	Taishin International Bank in its Capacity as Trustee for Property Account of Chi-Jui Tsai	3.46%
	Bank of Taiwan entrusted with Investment Account of UOB Kay Hian Private Company	2.67%
	Fubon Life Insurance Co., Ltd.	2.66%
	Cathay Life Insurance Co., Ltd.	2.52%
	Standard Chartered Bank in its Capacity as Master Custodian for the Navigator Overseas Growth and Income Fund	2.45%
	Kai Tai Investment Co., Ltd.	2.24%
	Mega International Commercial Bank in its Capacity as Master Custodian for BeeVest Securities	1.86%
China Life Insurance Company Limited	China Development Financial Holding Corp	25.33%
	KGI Securities Co., Ltd.	9.63%
	Videoland Inc.	2.35%
	Citibank entrusted with the Singapore Government Investment Account	1.57%
	J. P. Morgan Taiwan - Taipei Branch entrusted with the Saudi Arabia Central Bank Investment Account	1.53%
	New Labor Pension Fund	1.28%
	Ling-Lang Chan	1.27%
	Cathay Life Insurance Co., Ltd.	1.23%
	Citibank Taiwan in its Capacity as Master Custodian for Investment account of the Central Bank of Norway	1.17%
	JP Morgan Chase Bank Taipei Branch in its capacity as Master Custodian for the Investment Account of Vanguard FTSE Emerging Markets ETF	1.06%

Note: Top 10 shareholders

4. Information about directors and supervisors (2)

December 31, 2018

Qualifications / Name	Having more than 5 Years Work Experience and Professional Qualifications listed below			Status of Compliance With Independence (Note)										Number of other public companies in which the director/supervisor serves as independent directors concurrently
	Lecturer or higher senior post at public or private junior college in fields related to business, law, finance, accounting or other fields that the company's businesses might require	Judges, prosecutors, lawyers, accountants or other specialist professional and technical staff possessing pass certificates for national examinations in other fields required by the company's businesses	Work experience required for business, law, finance, accounting or corporation business	1	2	3	4	5	6	7	8	9	10	
Mei-Chu Liao			V	V	V	V	V	V	V	V	V	V		0
Chi-Fu Lin			V		V	V	V	V	V	V	V	V		0
Yi-Jui Huang		V	V	V	V	V	V	V		V	V	V		1
Jian-Yu Chen		V	V	V	V	V	V	V	V	V	V	V		0
Jui-Yun Lin	V		V			V	V			V	V	V		0
Ruey-Yuan Fu			V			V	V	V		V	V	V		0
Ya-Ting Chang		V	V	V	V	V	V	V	V	V	V	V		0
Yu-Mei Hsiao			V			V	V			V	V	V		0
Yung-Chen Huang			V			V	V	V		V	V	V		
Qi-He Chen			V			V	V	V		V	V	V		0
Shao-Pin Lin	V		v	v		v	v	v		v	v	v		0

Note: Requirements to be met by each director and supervisor two years before their selection and appointment and for the duration of their tenure of the post.

I. Not employed by the Company or any of its affiliated companies.
II. Not a director or supervisor of the Company or any of its affiliated companies (unless he/she is an independent director of the Company or its parent company or any subsidiary companies in which the Company directly or indirectly holds more than 50% of the shares with voting right).
III. Neither himself, his spouse, nor any non-adult male or female child of himself, either in his own or anybody else's name holds more than one percent of the Company's shares, or serves as one of the Company's top-ten natural person shareholders.
IV. Not a spouse, a relative to the second degree or closer, or a direct kin to the third degree or closer to anyone listed in the three preceding criteria.
V. Not a director, supervisor or employee of corporate shareholders directly holding more than five percent of issued shares of the Company or ranking among the first five corporate shareholders.
VI. Not a director, supervisor, or manager of a specific company or organization with financial or business dealings with the Company, or a shareholder of such a specific company or organization holding more than five percent of the shares.
VII. Not a professional, business owner, partner, director, supervisor, or manager of any sole-proprietorship, partnership, company, or institution providing commercial, legal, financial or accounting services or consultation to the bill financing company or any of its affiliated companies; nor a spouse to anyone listed herein. However, this shall not apply to the remuneration committee members who exercise their powers following Article 7 of the Regulations on the Establishment of Remuneration Committees by TWSE/GTSM Listed Companies and their Exercise of Powers.
VIII. Not a spouse of, or related within the second degree of consanguinity to, any other director.
IX. Free from any circumstances referred to in Article 30 of the Company Act.
X. Not have been elected by government, a juridical person or representatives thereof as stipulated by Article 27 of the Company Act.

(II) Information about President, Senior Executive Vice Presidents, Executive Vice Presidents, and Executives of each Department and Branch Office

March 31, 2019

Job Title	**Nationality**	Name	Gender	Date of Election (Appointment)	Shareholdings		Shareholdings of spouse and underage children		Shares held by proxy		Main Educational and Professional Background		Current post held concurrently in other companies	Other General Managers within two degrees of kinship of self or spouse		
					Quantity	Shareholdings	Quantity	Shareholdings	Quantity	Shareholdings	Education	Experience		Job Title	Name	Relationship
President	Republic of China	Chi-Fu Lin	Male	2015.03.02	–	–	–	–	–	–	Department of Public Finance, National Chung Hsing University	Senior Executive Vice President, Executive Vice President and General Manager of the Bills Department, MBF	–	–	–	–
Senior Executive Vice President	Republic of China	Yi-Sheng Wang	Male	2017.07.16	–	–	–	–	–	–	Dept. of Banking, Tamkang University	Mega Bills Finance - Chief Auditor	–	–	–	–
Senior Executive Vice President	Republic of China	Jung-Kun Wu	Male	2017.07.16	–	–	–	–	–	–	Department of Banking, NCCU	Executive Vice President and Tainan Branch Manager of the Company	–	–	–	–
General Auditor	Republic of China	Yao-Kuang Tsai	Male	2017.07.16	–	–	–	–	–	–	Dept. of Banking, Tamkang University	Executive Vice President and General Manager, Risk Control Dept.	–	–	–	–
Executive Vice President and General Manager, Risk Control Department	Republic of China	Chin-Sheng Huang	Male	2017.07.16	–	–	–	–	–	–	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	Executive Vice President , MBF and General Manager, Bills Dept., MBF	–	–	–	–
Executive Vice President and General Manager, Bills Department	Republic of China	Shih-Yi Chen	Male	2018.08.01	–	–	–	–	–	–	MBA, Katholieke Universiteit Leuven	Mega Bills Finance - Manager of the Bills Department	–	–	–	–
Manager of the Bonds Department	Republic of China	Shuo-Cheng Lee	Male	2018.08.01	–	–	–	–	–	–	Master, Graduate Institute of Economics, National	Mega Bills Finance - Sanchung Branch manager				

											Taiwan University					
Executive Vice President and Manager of the Treasury Department	Republic of China	Chih-Hsiung Chiu	Male	2018.08.01	—	—	—	—	—	—	Master, Graduate Institute of Accounting, Tamkang University	Mega Bills Finance - Manager of the Treasury Department	—	—	—	—
Acting Manager of the Credit Assessment Department	Republic of China	Chun-Hao Chen	Male	2017.09.01	—	—	—	—	—	—	Department of Cooperative Economy, National Chung Hsing University	Deputy General Manager, Credit Dept. MBF	Director, Core Pacific City Co., Ltd.	—	—	—
General Manager, Administration Department	Republic of China	Shih-Ming Wang	Male	2017.09.01	—	—	—	—	—	—	Master of Finance, Tamkang University	Manager, Credit Dept. MBF	—	—	—	—
Executive Vice President and General Manager, Electronic Data Processing Department	Republic of China	Hsi-Bin Yo	Male	2014.05.16	—	—	—	—	—	—	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	General Manager, Electronic Data Processing Department, MBF	—	—	—	—
Legal Affairs and Compliance Department Acting manager	Republic of China	Chih-Wu Lin	Male	2018.01.16	—	—	—	—	—	—	MBA, National Cheng Kung University	Mega Bills Finance - Senior Deputy Manager of Legal Affairs and Compliance Department	—	—	—	—
Executive Vice President and General Manager, Kaohsiung Branch	Republic of China	Tsung-Chung Lin	Male	2016.07.04	—	—	—	—	—	—	Dept. of Business Administration, Chung Yuan Christian University	Executive Vice President and Tainan Branch Manager of the Company	—	—	—	—
Tainan Branch Manager	Republic of China	Hui-Lung Chung	Male	2017.07.16	—	—	—	—	—	—	Master of Finance, National Cheng Kung University	Mega Bills Finance - Senior Officer of Tainan Branch	—	—	—	—
Taichung Branch Manager	Republic of China	Ming-Pao Wang	Male	2017.09.01	—	—	—	—	—	—	Master, Graduate Institute of Accounting and Taxation, Feng Chia University	Mega Bills Finance - Manager of Administration Department	—	—	—	—

General Manager, Hsinchu Branch	Republic of China	Ching-Fa Chang	Male	2018.08.01	–	–	–	–	–	–	MBA, China University of Technology	General Manager, Taoyuan Branch, MBF	–	–	–	–
General Manager, Taoyuan Branch	Republic of China	Li-Chun Hsiao	Male	2018.08.01	–	–	–	–	–	–	MBA, Soochow University	Mega Bills Finance - Senior Deputy Manager of the Bills Department	–	–	–	–
General Manager, Sanchong Branch	Republic of China	Kun-Shui Lin	Male	2018.08.01	–	–	–	–	–	–	Master of Business Administration, I-Shou University	Mega Bills Finance - Hsinchu Branch Manager	–	–	–	–
Executive Vice President and Banqiao Branch manager	Republic of China	Jung-Chieh Cheng	Male	2016.07.04	–	–	–	–	–	–	Master of Commercial Automation and Administration, National Taipei University of Technology	Executive Vice President , MBF and General Manager, Bills Dept., MBF	–	–	–	–
General Manager, Taipei Branch	Republic of China	Chi-Ming Hsu	Male	2017.09.01	–	–	–	–	–	–	Department of Accounting, Chinese Culture University	Deputy General Manager, Treasury Dept. MBF	–	–	–	–

(III) Information of Retired Chairmen and Presidents Re-hired as Consultants: None.

III. Remuneration Paid to Directors, Supervisors, the President, Vice Presidents, and Consultants in the Latest Year

(I) Remuneration to directors (including independent directors)

December 31, 2018; Unit: NTD thousands

Job Title	Name	Remuneration to Director								Total of (A), (B), (C) and (D) in Post-Tax Profit Ratio		Remuneration Drawn by Employees Holding Concurrent Posts								Total of (A), (B), (C), (D), (E), (F) and (G) in Post-Tax Profit Ratio		Whether remuneration is also drawn from non-subsidiary companies in which the company has invested
		Remuneration (A)		Pension (B)		Remuneration (C)		Professional practice expenses (D)				Salaries, bonuses and special allowances (E)		Pension (F)		Employee remuneration (G)						
		The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company		All companies included in the financial statements		The Company	All companies included in the financial statements	
																Amount paid in cash	Amount paid in shares	Amount paid in cash	Amount paid in shares			
Chairperson of the Board	Mei-Chu Liao (Note 1)																					
Director and President	Chi-Fu Lin																					
Independent Director	Yi-Jui Huang																					
Independent Director	Jian-Yu Chen (Note 1)																					
Director	Jui-Yun Lin																					
Director	Ruey-Yuan Fu																					
Director	Ya-Ting Chang (Note 1)																					
Director	Yu-Mei Hsiao (Note 2)																					
Former Independent Director	Tsai-Chih Chen (Note 1)																					
Former Director	Chun-Hsiang Li (Note 2)																					
Former Director	Zong-Ming Yen (Note 1)																					
Total		6,886	6,886	-	-	-	-	1,609	1,609	0.33	0.33	6,670	6,670	-	-	-	-	-	-	0.59	0.59	None

Note:

1. Mega Financial Holding Co. Ltd. appointed the Company's 15th Board of Directors and supervisors on 3.1.2018 to serve a term from 3.1.2018 until 2.28.2021. The names of the 15th Board of Directors (including independent directors) and supervisors are as follows: Chairperson Mei-Chu Liao, Director and President Chi-Fu Lin, Independent Director Yi-Rui Huang, Independent Director Jian-Yu Chen, Director Jui-Yun Lin, Director Chun-Hsiang Li, Director Rui-Yuan Fu, Director Ya-Ting Chang, Supervisor Jin-Tsun Chen, Supervisor Fu-Rong Chen, and Supervisor Qi-He Chen.
2. Mega Financial Holding Co. Ltd. appointed Madam Yu-Mei Hsiao to replace Director Chun-Hsiang Li on 3.28.2018.
3. Directors' remuneration (including independent directors) was accurate as of 12.31.2018.
4. Housing and vehicle lease payments were included in “Professional Practice Expenses (D).” For relevant information, please refer to Schedules A and B on page 18.
5. Performance bonuses to senior management and employees’ remuneration were estimated figures. The actual amount is subject to the parent company's approval.

Scales of Remuneration

Directors' remuneration bracket	Director’s Name			
	Total of A+B+C+D		Total of A+B+C+D+E+F+G	
	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements
Below NT$ 2,000,000	Chi-Fu Lin, Jui-Yun Lin, Ruey-Yuan Fu, Ya-Ting Chang, Yu-Mei Hsiao, Chun-Hsiang Li, Zong-Ming Yen, Yi-Jui Huang, Jian-Yu Chen, Tsai-Chih Chen	Chi-Fu Lin, Jui-Yun Lin, Ruey-Yuan Fu, Ya-Ting Chang, Yu-Mei Hsiao, Chun-Hsiang Li, Zong-Ming Yen, Yi-Jui Huang, Jian-Yu Chen, Tsai-Chih Chen	Jui-Yun Lin, Ruey-Yuan Fu, Ya-Ting Chang, Yu-Mei Hsiao, Chun-Hsiang Li, Zong-Ming Yen, Yi-Jui Huang, Jian-Yu Chen, Tsai-Chih Chen,	Jui-Yun Lin, Ruey-Yuan Fu, Ya-Ting Chang, Yu-Mei Hsiao, Chun-Hsiang Li, Zong-Ming Yen, Yi-Jui Huang, Jian-Yu Chen, Tsai-Chih Chen,
NT$2,000,000 ~ NT$5,000,000				
NT$5,000,000 ~ NT$10,000,000	Mei-Chu Liao	Mei-Chu Liao	Mei-Chu Liao, Chi-Fu Lin	Mei-Chu Liao, Chi-Fu Lin
NT$10,000,000 ~ NT$15,000,000				
NT$15,000,000 ~ NT$30,000,000				
NT$30,000,000 ~ NT$50,000,000				
NT$50,000,000 ~ NT$100,000,000				
NT$ 100,000,000 and above				
Total (NT$ Thousands)	8,495	8,495	15,165	15,165

Note: This remuneration bracket table is accurate as of 12.31.2018.

(II)Remuneration to Supervisors

December 31, 2018; Unit: NTD thousands

Job Title	Name	Supervisors' remuneration								Sum of A, B, C, and D as a percentage of after-tax profits		Whether remuneration is also drawn from non-subsidiary companies in which the company has invested
		Remuneration (A)		Pension (B)		Remuneration (C)		Professional practice expenses (D)				
		The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	
Supervisor	Yung-Chen Huang (Note 3)											
Supervisor	Qi-He Chen (Note 1)											
Supervisor	Shao-Pin Lin (Note 3)											
Former Supervisor	Jin-Tsun Chen (Note 2)											
Former Supervisor	Fu-Rong Chen (Note 3)											
Former Supervisor	Chun-Ke Su (Note 1)											
Total		-	-	-	-	-	-	614	614	0.02	0.02	None

Note:

1. Mega Financial Holding Co. Ltd. reappointed the Company's 15th Board of Supervisors on 3.1.2018; the newly appointed supervisors were: Jin-Tsun Chen, Fu-Rong Chen and Qi-He Chen.
2. Jin-Tsun Chen, former supervisor of the Company appointed by Mega Financial Holding Co. Ltd., resigned on 7.26.2018.
3. On 12.19.2018, Mega Financial Holding Co. Ltd. reappointed Madam Yung-Chen Huang to succeed Fu-Rong Chen as supervisor and assigned Mr. Shao-Pin Lin as an additional supervisor.

Scales of Remuneration

Supervisor' remuneration bracket	Supervisor's Name	
	Total of A+B+C+D	
	The Company	All companies included in the financial statements (E)
Below NT$ 2,000,000	Yung-Chen Huang, Qi-He Chen, Shao-Pin Lin, Jin-Tsun Chen, Fu-Rong Chen, Chun-Ke Su	Yung-Chen Huang, Qi-He Chen, Shao-Pin Lin, Jin-Tsun Chen, Fu-Rong Chen, Chun-Ke Su
NT$2,000,000 ~ NT$5,000,000		
NT$5,000,000 ~ NT$10,000,000		

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 and above		
Total (NT$ Thousands)	614	614

Note: This remuneration bracket table is accurate as of 12.31.2018.

(III) Remuneration to the President and Senior Executive Vice Presidents

December 31, 2018; Unit: NTD thousands

Job Title	Name	Salary (A)		Pension (B)		Bonus and allowance etc (C)		Employee remuneration (D)				Sum of A, B, C, and D as a Percentage of After-tax Profits (%)		Whether remuneration is also drawn from non-subsidiary companies in which the company has invested
		The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company		All companies included in the financial statements		The Company	All companies included in the financial statements	
								Amount paid in cash	Amount paid in shares	Amount paid in cash	Amount paid in shares			
President	Chi-Fu Lin													
Senior Executive Vice President	Yi-Sheng Wang													
Senior Executive Vice President	Jung-Kun Wu													
Former Vice President	Chun-Chang Lee (Note 1)													
General Auditor	Yao-Kuang Tsai													
Total	Total	10,729	10,729			7,793	7,793	2,861	-	2,861	-	0.84	0.84	None

Note:

1. Assistant Vice President Chun-Chang Lee was promoted to Senior Executive Vice President on 8.1.2018, and retired as of 3.27.2019.
2. President's and Senior Executive Vice Presidents' remuneration were calculated as of 12.31.2018.

3. Performance bonus and employees' remuneration were estimated figures. The actual amount is subject to parent company's approval.
4. Refer to Schedules A and B on page 18 for details relating to Company vehicles, gas, and housing subsidies.

Scales of Remuneration

President and Senior Executive Vice Presidents' remuneration brackets	Names of President and Senior Executive Vice Presidents	
	The Company	All companies included in the financial statements
Below NT$ 2,000,000	Chun-Chang Lee	Chun-Chang Lee
NT$2,000,000 ~ NT$5,000,000	Yi-Sheng Wang, Jung-Kun Wu, Yao-Kuang Tsai	Yi-Sheng Wang, Jung-Kun Wu, Yao-Kuang Tsai
NT$5,000,000 ~ NT$10,000,000	Chi-Fu Lin	Chi-Fu Lin
NT$10,000,000 ~ NT$15,000,000		
NT$15,000,000 ~ NT$30,000,000		
NT$30,000,000 ~ NT$50,000,000		
NT$50,000,000 ~ NT$100,000,000		
NT$ 100,000,000 and above		
Total (NT$ Thousands)	21,383	21,383

Schedule A. Vehicles Provided to the Board President, and Senior Executive Vice Presidents, and Imputed Annual Rent Thereof in 2018

December 31, 2018; Unit: NTD thousands

<table>
<tr><th>Job Title</th><th>User</th><th>Purchase of Vehicle</th><th>Imputed Annual Rent</th><th>Fuel Expense</th><th>Remarks</th></tr>
<tr><td>Chairperson of the Board</td><td>Mei-Chu Liao</td><td rowspan="5">-</td><td rowspan="5">1,837</td><td rowspan="5">115</td><td rowspan="5">Rental</td></tr>
<tr><td>President</td><td>Chi-Fu Lin</td></tr>
<tr><td>Senior Executive Vice President</td><td>Jung-Kun Wu</td></tr>
<tr><td>Former Vice President</td><td>Chun-Chang Lee</td></tr>
<tr><td>General Auditor</td><td>Yao-Kuang Tsai</td></tr>
</table>

Note: Drivers' salary and overtime pay totaling NT$1,352,000 were paid in 2018 as compensation for the Chairperson's and President's services.

Schedule B. Housing allowance Provided for the Chairperson, the President, and Senior Executive Vice Presidents in 2018

December 31, 2018; Unit: NTD thousands

<table>
<tr><th>Job Title</th><th>User</th><th>Cost</th><th>Imputed Annual Rent</th><th>Remarks</th></tr>
<tr><td>President</td><td>Chi-Fu Lin</td><td>-</td><td rowspan="3">1,344</td><td rowspan="3"></td></tr>
<tr><td>Senior Executive Vice President</td><td>Jung-Kun Wu</td><td>-</td></tr>
<tr><td>General Auditor</td><td>Yao-Kuang Tsai</td><td>-</td></tr>
</table>

(IV) Compensation to Retired Chairmen and Presidents Re-hired as Consultants: None.

(V) Names of managers entitled to employee remuneration and amount entitled

December 31, 2018; Unit: NTD thousands

	Job Title	Name	Amount paid in shares	Amount paid in cash	Total	As a percentage of after-tax profit (%)
General Managers	Senior Executive Vice President	Yi-Sheng Wang				
	Senior Executive Vice President	Jung-Kun Wu				
	Former Vice President	Chun-Chang Lee				
	General Auditor	Yao-Kuang Tsai				
	Executive Vice President	Chin-Sheng Huang				
	Executive Vice President	Tsung-Chung Lin				
	Executive Vice President	Jung-Chieh Cheng				
	Executive Vice President	Hsi-Bin Yo				
	Executive Vice President	Chih-Hsiung Chiu				
	Executive Vice President	Shih-Yi Chen				
	General Manager	Kun-Shui Lin				
	General Manager	Shuo-Cheng Lee				
	General Manager	Ming-Pao Wang				
	General Manager	Shih-Ming Wang				
	General Manager	Chun-Hao Chen				
	General Manager	Ching-Fa Chang				
	General Manager	Chi-Ming Hsu				
	General Manager	Hui-Lung Chung				
	General Manager	Li-Chun Hsiao				
	General Manager	Chih-Wu Lin				
	Total		-	12,678	12,678	0.50

(VI) Analysis of remuneration paid to directors, supervisors, the President and Vice Presidents

1. Remuneration to directors, supervisors, the President and Senior Executive Vice Presidents as a percentage of after-tax profit

   The sum of remuneration paid to the Company's directors, supervisors, President, and Vice Presidents represented 1.77% and 1.19% of after-tax profit in 2017 and 2018, respectively.

2. Remuneration policies, standards, packages and procedures, and relevance to risks and future business performance

   The Company's directors and supervisors have been entirely appointed by the sole shareholder - Mega Financial Holding Co., Ltd. The Chairperson and the director who co-heads the President position are remunerated according to the policies of the Company and its parent company for services rendered; independent directors are remunerated within limits set by the parent company, whereas all other directors and supervisors are paid travel allowances only. Senior Executive Vice Presidents are remunerated based on performance, subject to the Company's policies.

IV. Corporate governance:

(I) Functionality of the board of directors:

A total of 16 (A) Board of Directors Meetings were held in 2018; attendance records are shown below:

Job Title	Name	Attendance in Person (B)	Attendance by Proxy	Actual Attendance Rate (%) 【B/A】	Remarks
Chairperson of the Board	Mei-Chu Liao	14	0	100	On board since 3.1.2018.
Director and President	Chi-Fu Lin	16	0	100	
Independent Director	Yi-Jui Huang	16	0	100	
Independent Director	Jian-Yu Chen	14	1	93	On board since 3.1.2018.
Director	Jui-Yun Lin	16	0	100	
Director	Ruey-Yuan Fu	16	0	100	
Director	Ya-Ting Chang	14	0	100	On board since 3.1.2018.
Director	Yu-Mei Hsiao	12	2	83	On board since 3.28.2018.
Former Independent Director	Tsai-Chih Chen	2	0	100	Departed since 2.28.2018.
Former Director	Chun-Hsiang Lee	4	0	100	Departed since 3.27.2018.
Former Director	Zong-Ming Yen	2	0	100	Departed since 2.28.2018.

Other notes to be specified:

I. Any board meeting that exhibits the conditions listed in Article 14-3 of the Securities and Exchange Act, or any documented objections or qualified opinions raised by the independent director against board resolutions in relation to matters other than those described above: None.

II. Avoidance of conflicting-interest agendas by directors:

(I) 46th Meeting of the 14 Board of Directors Held on January 23, 2018: 1. Proposal to donate to fund charity projects of Mega Charity Foundation, for which director Chi-Fu Lin avoided all discussion and voting in relation to the motion. 2. Motion to underwrite the non-guarantee commercial paper of King's Town Construction Co., Ltd., for which Director Chun-Hsiang Li, Director Ruey-Yuan Fu, Supervisor Fu-Rong Chen and Supervisor Chun-Ke Su avoided all discussion and voting in relation to the motion.

(II) 47th Meeting of the 14th Board of Directors held on February 23, 2018: Motion to underwrite the non-guarantee commercial paper of Mega Financial Holding Co. Ltd., for which Director Jui-Yun Lin avoided all discussion and voting in relation to the motion.

(III) 1st Meeting of the 15th Board of Directors held on March 1, 2018: Motion to hire Director Chi-Fu Lin as the Company’s President, for which Director Chi-Fu Lin avoided all discussion and voting in relation to the motion.

(IV) 2nd Meeting of the 15th Board of Directors held on March 21, 2018: 1. Payment of monthly salary to Chairperson Mei-Chu Liao, for which the Chairperson avoided all discussion and voting in relation to the motion. 2. Approval of leave days, for which Chairperson Mei-Chu Liao voided all discussion and voting in relation to the motion. 3. Proposal to grant guaranteed commercial paper limits to Dong Yu Investment Co., Ltd., for which Director Chun-Hsiang Li, Director Ruey-Yuan Fu, Supervisor Fu-Rong Chen, and Supervisor Qi-He Chen avoided all discussion and voting in relation to the motion.

(V) 6th Meeting of the 15th Board of Directors held on June 26, 2018: Motion to underwrite the guarantee-waiver commercial paper of Mega Asset Management Corp., for which Director Yu-Mei Hsiao avoided all discussion and voting in relation to the motion.

(VI) 10th Meeting of the 15th Board of Directors held on October 23, 2018: Motion to underwrite the guarantee-waiver commercial paper of Mega Asset Management Corp., in which Director Yu-Mei Hsiao was considered a stakeholder. Director Jui-Yun Lin attended the meeting as a proxy for Director Yu-Mei Hsiao, and disassociated from discussion and voting.

(VII) 12th Meeting of the 15th Board of Directors held on November 27, 2018: Proposal to rent certain floors of the Hengyang Building from Mega Bank while at the same time lease certain floors of the Mega Financial Building owned by the Company to Mega Bank, for which Director Ruey-Yuan Fu and Director Yu-Mei Hsiao (as a proxy for Ruey-Yuan Fu) disassociated from discussion and voting.

(VIII) 12th Meeting of the 15th Board of Directors held on November 27, 2018: Motion to underwrite the non-guarantee commercial paper of Mega Asset Management Corp., for which Director Ruey-Yuan Fu, who was acting as a proxy for Director Yu-Mei Hsiao, disassociated from discussion and voting.

(IX) 14th Meeting of the 15th Board of Directors held on December 25, 2018: Proposal to amend the Company's "Dormitory Provision Rules" and "Employee Year-end Bonus Rules," in which Chairperson Mei-Chu Liao and Director Chi-Fu Lin were considered stakeholders and disassociated from discussion and voting.

III. Enhancements to the functionality of board of directors in the current and the most recent year (e.g. establishment of an Audit Committee, improvement of information transparency, etc.), and the progress of such enhancements: none.

(II) Supervisors' involvements in board of directors meetings:

A total of <u>16</u> (A) Board of Directors Meetings were held in 2018; attendance records are shown below:

Job Title	Name	Attendance in Person (B)	Actual Attendance Rate (%) 【B/A】	Remarks
Supervisor	Qi-He Chen	14	100	On board since 3.1.2018.
Supervisor	Yung-Chen Huang	1	100	On board since 12.19.2018.
Supervisor	Shao-Pin Lin	1	100	On board since 12.19.2018.
Former Supervisor	Jin-Tsun Chen	9	100	Departed since 7.26.2018.
Former Supervisor	Fu-Rong Chen	11	85	Departed since 12.19.2018.
Former Supervisor	Chen-Ke Su	2	100	Departed since 2.28.2018.

Other notes to be specified:

1. Constitution and obligations of supervisors:
   (I) Supervisors' communication with employees and shareholders (e.g. communication channels and methods): supervisors are able to communicate with the Company's employees and shareholders via written correspondence, telephone, fax and other appropriate means.
   TEL: (02)2563-3156/FAX: (02)2356-9801/Address: 5F, No. 123, Section 2, Zhongxiao East Road, Taipei City 100
   (II) Supervisors' communication with Chief Auditor and external auditors (*e.g.* the details, means and outcomes of discussion regarding the Company's financial position and business performance): the Company's internal audit reports and financial statements are submitted regularly for review by the supervisors. Supervisors may also initiate communication with the Chief Auditor and external auditors via meetings, written correspondence, telephone, fax or other appropriate means. In addition, supervisors may be invited to participate in board of directors meeting to gain more insight on the agendas discussed as well as the Company's financial position and business performance.
2. Opinions expressed by supervisors in board meetings; state the date and term of the meeting held, the agenda, the board's resolution, and how the company has responded to supervisors' opinions: None.

(III) Corporate governance information: please refer to the "Statutory Disclosure" section on the Company's website (http://www.megabills.com.tw/)

(IV) Corporate governance execution status and deviation from "Corporate Governance Best-Practice Principles for Bills Finance Companies"

Item	Status			Non-compliance with Corporate Governance Practice Regulations for Bills Finance Companies, and reasons for such non-compliance
	Yes	No	Summary description	
I. Shareholding structure and shareholders' interests (I) Are shareholders' suggestions, queries, disputes and litigations handled properly? (II) Is the company constantly informed of the identities of its major shareholders and the ultimate controller? (III) Has the company established and implemented risk management practices and firewalls for companies it is affiliated with?	 V V V		I. The Company is a 100%-owned subsidiary of Mega Holdings. All above matters are handled according to the policies of Mega Holdings. II. Mega Holdings is the Company's sole shareholder; the identity of the Company's ultimate controller can be established via the parent company. III. The Company is entirely independent from affiliated entities in terms of personnel, assets, and financial decisions. The parent company's "Mega Group Risk Management Policy and Guidelines" and "Mega Holdings and Subsidiaries Firewall Policy" govern dealings with affiliated entities. (I) Information security: the Company has established the transaction authority and file access rights as means of control. (II) Confidentiality of customers' information: accesses to customers' information are subject to proper authorization before proceeding. Customers' consents are obtained before their information can be used and shared for joint marketing purposes. The Company has established confidentiality agreements with other subsidiaries of the group to ensure the secrecy of customers' information. (III) Related party transactions: the Company maintains a list of related parties and reports transactions regularly to the parent company - Mega Holdings, through which related party disclosures are made to the authority.	Compliant with "Corporate Governance Best-Practice Principles for Bills Finance Companies".
II. Constitution and obligations of the board of directors (I) Does the company have independent directors in place? Has the company assembled other functional committees? (II) Are external auditors' independence assessed on a regular basis?	 V V		I. The Company has 8 directors, 2 of whom are independent directors. All directors are appointed by the parent company - Mega Holdings. II. The Company is a 100%-owned subsidiary of Mega Holdings; its directors and supervisors are entirely appointed by Mega Holdings. All major decisions are presented to the Board of Directors for discussion. III. The Company has added an independent director system and functional committee rules into its "Corporate Governance Best Practices" to support decision-making and management. IV. The Company evaluates independence of its external auditors at the time of appointment.	Compliant with "Corporate Governance Best-Practice Principles for Bills Finance Companies".
III. Where the company is a TWSE/TPEx listed company, has the company designated a department or personnel that specializes (or is involved) in corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, convention of board meetings and shareholder meetings, company registration and changes, preparation of board meeting and shareholder meeting minutes, etc.)?	V		The Company is not listed on TWSE or TPEx, and hence does not have any department or personnel that specializes (or is involved) in corporate governance affairs.	Compliant with "Corporate Governance Best-Practice Principles for Bills Finance Companies".
IV. Does the company have means of communication with its stakeholders (including but not limited to shareholders, employees and customers)?	V		The Company has disclosed on its website the hotline and means of contact. By maintaining open channels of communication, the Company strives to protect the rightful interests of its stakeholders.	Compliant with "Corporate Governance Best-Practice Principles for Bills Finance Companies"

V. Information disclosure (I) Has the company established a website that discloses financial, business, and corporate governance-related information? (II) Has the company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)?	 V V		I. The Company has made a Statutory Disclosures section on its website to disclose important information such as financial reports, business performance, interest rate quotations, corporate governance, and credit rating. II. Other means of information disclosure (I) The Company has published an English version of the annual report on its website. (II) The Company has assigned dedicated personnel to gather, maintain and update information published in various sections of its website. (III) The Company has "Spokesperson and Acting Spokesperson Policy" in place to prohibit employees from speaking for the Company, thereby making sure that information is disseminated according to proper procedures. (IV) The Company is not listed on TSEC or GTSM; its information is disclosed via the parent company - Mega Holdings.	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies"
VI. Other important information enabling better understanding of the Company's corporate governance (such as employees' welfare, employee care, investor relations, stakeholders' interest, directors' and supervisors' ongoing education, directors' attendance and supervisors' participation in Board Meetings, implementation of risk management policies and risk measurement standards, implementation of consumer protection or customer policy, insurance against liabilities of directors and supervisors of a bills financing company, and social responsibilities):	V		I. Employee welfare: enforced in accordance with Labor Standards Act and the Company's work rules. II. Employee care: the Company has an Employee Welfare Committee in place to handle matters such as labor insurance, national health insurance, group insurance, workers' health and safety (in compliance with labor safety and health regulation), health checks, wedding and funeral subsidies etc. III. Investor relations: the Company is a 100%-owned subsidiary of Mega Holdings, which is the sole investor. IV. Stakeholders' interests: the Company adopts an open policy that enables employees, customers and vendors to reflect opinions via telephone, physical mail, email, or the customer complaint hotline. V. Directors' and Supervisors' Ongoing Education: Courses completed by directors and supervisors during the year include "AML/CTF Trends and Practices - Supervision of Offshore Branches," "Global and Cross-strait Anti-tax Evasion Policies and Response Measures," "Case Studies of Major Corporate Financial Crimes and Legal Responsibilities," "Directors' Duty of Care (Including Court Judgments and Best Practices)," "Latest Company Act Amendments and Impacts on Corporate Governance, Internal Control, and Directors'/Supervisors' Responsibilities," "The Company Act Amendments and Trends," "AML/CTF Developments Trends and Key Regulations," "Board of Directors Performance and Functionality from Directors' and Supervisors' Perspective," and "Share Ownership Planning and Director/Supervisor Election for TWSE/TPEx Listed Companies" organized by the Taiwan Corporate Governance Association; "Financial Trends in China - AML Workshop for Senior Financial Officers," "Corporate Governance Seminar," and "Corporate Banking Audit Workshop" organized by the Taiwan Academy of Banking and Finance; "AML/CTF Seminar," "2018 First Half Personal Information Protection, Employee Confidentiality, Information Security, and Information Security Protection Training," "2018 Personal Information Protection Act," "2018 Integrity Management Training," "2018 Consumer Protection Act and Financial Consumer Protection Act," "AML/CTF Seminar - AML Trends and Case Studies (for Managers)," "AML/CTF Seminar - FATF's 40 Recommendations (Session 2)," "AML/CTF Seminar - AML and CTF Regulations (Session 2)," "Performance Evaluation (IO4) and the Six Cores seminar (1, 2, 3, 4)," "AML Training - Prevention of Trade Fraud," and "AML/CTF Seminar - MT202 Issue-OFAC Compliance Training 153100245" organized by Mega Bank; "Anti-money Laundering and Compliance," "Directors'/Supervisors' Duties and Decision-making Principles," "Case Studies of Corporate Financial Statement Fraud," "Latest Company Act Amendments and Impacts on Corporate Governance, Internal Control, and Supervisory Responsibilities," and	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies"

			"Analysis and Use of Corporate Financial Information for Decision Making" organized by the Securities & Futures Institute; "2018 Corporate Governance Seminar" and "2018 AML Seminar" organized by the Ministry of Finance; "Company Registration Seminar" and "AML Seminar" organized by the Taiwan Provincial CPA Association; and "Trends of the Latest Company Act Amendments," "Interpretation of the Latest Company Act," "Enforcement of AML Practices," and "Anti-money Laundering" organized by the National Federation of CPA Associations of the R.O.C.. VI. Meeting attendance by directors and supervisors: all directors and supervisors have attended board meetings as required by policy. VII. Risk management policies and risk assessment standards: the Company has been assessing business risks in accordance with the authority's instructions and rules of the parent company - Mega Holdings. It has set risk limits on the various types of activities it performs and monitors to ensure that necessary measures are taken for the safety and performance of the Company. Credit review meetings, Risk Management Committee meetings and various other meetings are held regularly to ensure the effectiveness of risk management policies and evaluate strengths and weaknesses of existing risk practices. This enables the Company to flexibly adjust its control measures in line with the changing circumstances. VIII. Consumer and customer protection: based upon the "Financial Consumer Protection Act" developed by Financial Supervisory Commission and the "Derivative Self-discipline for Bills Finance Companies" developed by Bills Finance Association, the Company has implemented a set of "Bills on Transaction Disputes and Customer Grievance" that outlines the rules the Company is bound to comply with respect to consumers' and customers' interests. The "Bill/Bond Repurchase Master Agreement" has made a comprehensive description of the Company's obligations and claims that consumers and customers are entitled to enforce. An opinion mailbox has been provided on the Company's website while service hotlines are made available as means of contact for consumers and customers. IX. Directors and supervisors' liability insurance: coverage has been procured according to policies. X. Social responsibilities: refer to the section titled "Fulfillment of Social Responsibilities".	
VII. Please explain the improvements made, based on the latest Corporate Governance Evaluation results published by TWSE Corporate Governance Center, and propose enhancement measures for any issues that are yet to be rectified. (Not required as the Company is not subject to evaluation) The Company is not listed on TWSE or TPEx; it is not subject to evaluation and hence this does not apply.				

(V) Fulfillment of Social Responsibilities

Item	Status		
	Yes	No	Summary description
I. Sound corporate governance (I) Does the company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis? (II) Does the company organize social responsibility training on a regular basis? (III) Does the company have a unit that	 V V V	 V	I. The Company is a 100%-owned subsidiary of Mega Holdings; its CSR report is prepared collectively by the parent company on a group level. The Company has not implemented any CSR policy or system, but it conducts daily business activities in accordance with the group's "Corporate Social Responsibilities Policy" and the Company's "Governance Code of Conduct". Some of the initiatives taken by the Company to fulfill corporate social responsibilities include implementing sound corporate governance, complying with laws, providing employees with healthy work environment and reasonable compensation, adopting environmental friendly solutions, and participating in charitable activities.

Item	Status		
	Yes	No	Summary description
specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors? (IV) Has the company implemented a reasonable remuneration system that associates employees' performance appraisals with CSR? Is the remuneration system supported by an effective reward/discipline system?			II. The Company organizes internal training programs each year as deemed necessary by law and business activities. These training programs cover a wide range of topics including: enhancement of professional skills, regulatory compliance, workplace health and safety, employer's and employees' rights, and corporate responsibilities. III. All CSR matters are managed by the Company's Administration Department, from corporate governance, human resources, charity activities, environmental policy, to complying with government regulations. IV. The Company's "Work Rules" and "Performance Appraisal Guidelines" have outlined a reasonable compensation scheme, which is communicated to employees via internal meetings and training programs. The Work Rules and Performance Appraisal Guidelines have conformed to the Company's corporate social responsibility policy in terms of employee welfare, performance assessment, reward and discipline, regulatory compliance, work ethics and business integrity.
II. Fostering a sustainable environment (I) Is the company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment? (II) Has the company developed an appropriate environmental management system, given its distinctive characteristics? (III) Is the company aware of how climate changes affect its business activities? Are there any actions taken to measure and reduce greenhouse gas emission and energy use?	V V V		I. Guided by the parent company's "Corporate Social Responsibility Principles", the Company has pledged itself to obeying regulations and international standards for the protection of natural environment. It aims to achieve the most efficient use of resources and is committed to using reusable materials for the sustainability of Earth's resources. The Company's environmental protection policies were set out to achieve the following: (1) Reduce use of water, electricity and petrol. (2) Replace use of paper with digital process. (3) Make green procurements and use products with environmental certifications. (4) Recycle or dispose of waste properly. II. As a financial service provider, paper accounts for the majority of resources used by the Company and presents the largest impact on the environment. To reduce the volume of paper consumed, the Company has been adopting new practices from electronic forms, paper-less conferences, to reusing paper. Gas, water, electricity and petrol are the main sources of energy used by the Company, for which a variety of volume controls has been imposed on elevators, corridor lighting, air conditioning and water supply during off-peak hours, while company vehicles are subjected to regular maintenance to minimize the impacts they have on the environment. III. Environmental affairs are managed collectively by the Administration Department and individually at branch level. Each unit is bound to comply strictly with energy policies set forth by their building administrators. In 2018, the Company reduced water usage by 8.94% and power usage by 1.48%.
III. Enforcement of public welfare (I) Has the company developed its policies and procedures in accordance with laws and International Bill of Human Rights? (II) Does the company have means through which employees may raise complaints? Are employee complaints being handled properly? (III) Does the company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues? (IV) Does the company have means to communicate with employees on a regular basis, and inform them of operational changes that may be of significant impact? (V) Has the company implemented an effective training program that helps employees develop skills over their career?	V V V V V		I. Compliance with labor laws and internationally-recognized workers' rights; the measures and procedures adopted to protect employees' legal rights and to ensure equality in employment; and how these measures are implemented: (I) Reasonable compensation and bonus/remuneration scheme for employees. (II) Employee training programs. (III) Insurance and leave policy. (IV) Pension contributions. (V) The Company makes no gender distinctions when hiring staff, and is committed to ensuring equal employment opportunities for both genders. The Company hires disabled persons in compliance with the law and has implemented internal policies to facilitate sexual harassment complaints and investigations. II. The Company's "Bills on Employee Suggestions and Complaints" has outlined the appropriate procedures for making complaints; the confidentiality measures are in place to protect employees from retaliation; and the scope and subjects against which complaints or suggestions can be raised. III. The following initiatives have been taken to ensure workplace health and safety: (I) Annual employee health checks. (II) Implementation of "Bills on Prevention of Sexual Harassment" as a complaint channel and a means to maintain order in the workplace. (III) Accidental insurance and health insurance for employees and family members. (IV) Implementation of safety protocols and emergency responses, which are rehearsed on a yearly basis and revised in regular meetings.

Item	Status		
	Yes	No	Summary description
(VI) Has the company implemented consumer protection and grievance policies concerning its research, development, procurement, production, operating and service activities? (VII) Has the company complied with laws and international standards with regards to the marketing and labeling of products and services? (VIII) Does the company evaluate suppliers' environmental and social conducts before commencing business relationships? (IX) Is the company entitled to terminate supply agreement at any time with a major supplier, if the supplier is found to have violated its corporate social responsibilities and caused significant impacts against the environment or the society?	V V V V		IV. Presence of a communication channel between the company and its employees, and the means through which employees are notified of material changes in the company's operations: (I) The Company communicates regularly with its employees through daily/weekly/monthly meetings and reporting sessions, during which the senior management exchanges opinions with unit managers and staff about where the Company is progressing. Proceedings of these meetings are recorded in the NOTES system to serve as reference for future decisions. (II) Any changes in internal policy, employment terms or organization that are material to employees' interests will be discussed during employer-employee meetings and implemented with consensus from both sides. Details of such meetings are also recorded in the NOTES system. (III) Furthermore, the Company has established "Bills on Employee Suggestions and Complaints" to introduce broader means of communication. V. The Company's "Work Rules" and "Staff Promotion Review Principles" provide detailed job descriptions, skills criteria, education, promotion opportunities and other information relevant to the employees' career development. VI. Pursuant to FSC Letter No. Jin-Kuan-Fa-Zi-1040054727 dated May 25, 2015, financial institutions are required to develop consumer dispute resolution systems and implement them with the approval of the board of directors. To ensure fair and efficient resolution of customers' disputes involving financial transactions while at the same time protect financial consumers' interests, the Company has revised its "Notes on Transaction Disputes and Customer Grievance" based on FSC's "Financial Consumer Protection Act" and later renamed the policy as "Financial Consumer Dispute Resolution Rules". The Rules outline the Company's duty to abide to the contractual terms agreed with customers, as well as standardized procedures for handling consumer disputes. Consumers can hold the Company liable for violation against the rules. An opinion mailbox has been provided on the Company's website while service hotlines are made available as a means to express grievances. All complaints are handled by the Company's Administration Department. VII. All marketing, labeling, advertising, solicitation and promotional activities relating to products and services are conducted in accordance with the "Regulations Governing Advertising, Business Solicitation and Promotion" and in conformity with common ethical standards and integrity. VIII. The Company requires all renovation works to be carried out using as many environmentally friendly materials and construction methods as possible, and all office equipment to be certified by the Environmental Protection Administration. When making future procurement of office equipment and supplies, the Company will take into account suppliers' commitment to environmental protection, energy conservation, carbon reduction, mitigation of environmental impacts, and fulfillment of corporate social responsibilities. IX. The Company follows the practices of its parent company by demanding all contractors to sign a "Declaration of Corporate Social Responsibility" as a commitment to: (1) Comply with labor regulations and globally recognized workers' rights, and to protect employees' rightful interests (including freedom of association and collective bargaining) without discrimination in terms of gender, race, age, marital and family status. (2) Implement and strictly enforce workplace health and safety policies. (3) Prohibit use of child labor (under 16 years of age) and forced labor of any kind. (4) Adopt energy-saving solutions while continually improve and innovate to minimize impacts on the environment. (5) Comply with minimum legal requirements on waste disposal, handling of hazardous materials, and discharge of waste. For purchases amounting to NT$1 million and more, suppliers are required to issue declarations of commitment to the above. Furthermore, to enforce suppliers' corporate social responsibilities, all procurement contracts are drafted with a clause that reads: "If the supplier is proven to have committed any violations against the terms of the corporate social responsibility

Item	Status		
	Yes	No	Summary description
			policy that results in significant impact against the environment or the community from which the supply is originated, the Company shall be entitled to terminate or cancel the contract at any time." X. Involvements in community development and charitable activities: (I) The Company has collaborated with several universities to offer internships for students. (II) Made donations to fund charity activities of the Mega Charity Foundation. (III) Made donations to the "Hualien 0206 Earthquake Account" to assist victims in reconstruction. (IV) Sponsored Business Today and Wealth Magazine in the organization of economic and financial forums. (V) Sponsored Mega Holdings and the National Taxation Bureau of Taipei in hosting the "2018 Uniform Invoice Cup Road Running" in Taipei City. (VI) Sponsored the Taiwan Financial Services Roundtable in the organization of the "2018 Financial Service Charity Carnival - Taoyuan Session". (VII) Sponsored the 2018 CNY Chiayi Lantern Festival. (VIII) Sponsored the General Association of Chinese Culture in organizing the "2018 October 10 Light Show".
IV. Enhanced information disclosure Has the company disclosed relevant and reliable CSR information on its website and at the Market Observation Post System?	V		The Company's social responsibility activities are disclosed in annual reports and on the Company's website.
V. If the company has established code of conducts in accordance with "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies", please describe its current practices and any deviations from the Best Practice Principles: None			
VI. Other important information useful to the understanding of corporate social responsibilities: None.			
VII. Describe the criteria undertaken by any institution to certify the Company's CSR Report: None.			

(VI)Fulfillment of Ethical Corporate Management

Item	Actual governance		
	Yes	No	Summary description
I. Formulate integrity policies and solutions (I) Has the company stated in its Articles of Incorporation or external correspondence about the policies and practices it has to maintain business integrity? Are the board of directors and the management committed to fulfilling this commitment? (II) Does the company have any policies against dishonest conducts? Are these policies enforced by proper procedures, behavioral guidelines, disciplinary actions and complaint systems? (III) Has the company taken steps to prevent occurrences listed in Article 7, Paragraph 2 of "Ethical Corporate Management Best Practice Principles for	 V V V		I. The Company adopts a business philosophy of "integrity, pragmatism, service, efficiency, innovation and growth." In order to establish integrity as the Company's corporate culture and growth foundation, a set of "Integrity Code of Conduct" and "Procedures for Ethical Management and Guidelines for Conduct" have been developed and implemented within the organization. Together, they emphasize integrity as the priority and foundation to the Company's operational policy, corporate governance and risk management, and thereby ensure a sustainable business environment. II. According to the Company's "Work Rules" and "Grievance Resolution Rules," employees who are found to have violated laws or committed acts of fraud, embezzlement, etc. will be subject to disciplinary actions such as warnings, demotion, or

Item	Actual governance		
	Yes	No	Summary description
TWSE/GTSM-Listed Companies" or business conducts that are prone to integrity risks?			involuntary dismissal; misconduct may even be referred to the justice system if they involve criminal liabilities. The above policies help enhance the internal control system and prevent misconducts. "Bills on Employee Suggestions and Complaints" have clearly outlined the scope and procedures through which employees may raise their complaints. III. According to the Work Rules and "Integrity Manual," directors, managers and employees are prohibited from accepting treatments, gifts, kickbacks or illegal benefits of any kind in relation to their duties and neither are they permitted to exploit their authorities for personal gains or gains of others, or to engage in private financial arrangements with customers or the Company.
II. Fulfillment of Ethical Corporate Management (I) Does the company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners? (II) Does the company have a unit that specializes (or is involved) in business integrity? Does this unit report its progress to the board of directors on a regular basis? (III) Does the company have any policy that prevents conflict of interest, and channels that facilitate the reporting of conflicting interests? (IV) Has the company implemented effective accounting and internal control systems for maintaining business integrity? Are these systems reviewed by internal or external auditors on a regular basis? (V) Does the company organize internal or external training on a regular basis to maintain business integrity?	 V V V V V		I. All daily business activities are carried out in a fair and transparent manner. The Company checks credit records such as returned cheque history to avoid dealing with less-credible counterparties; furthermore, the Company may terminate agreements at any time if a counterpart is found to have been involved in dishonest behaviors. II. The Company has taken steps to improve corporate governance by developing compliance systems, internal controls, audit practices and risk management measures, and by enhancing board of directors' functionalities, supervisors' authorities, information transparency, and dedication to stakeholder interests. III. The Company has developed a compliance system based on "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" to institute business integrity. Meanwhile, directors, supervisors, managers and employees are encouraged to raise suggestions regarding conducts of integrity. IV. The Company has developed its accounting system based on the authority's policies, and prepared financial reports in accordance with generally accepted accounting principles and Financial Statement Preparation for Public Listed Bills Finance Companies. No secret accounts are kept outside of those reported in the financial statements. For proper internal controls, the Company has explicitly required cash disbursements and bookkeeping activities to be performed by different persons, whereas trading and settlement responsibilities need to be clearly separated. To

Item	Actual governance		
	Yes	No	Summary description
			reduce chances of dishonest behaviors in high-risk activities, the Company's "Leave Policy" requires all employees to take a leave of absence for at least three consecutive days in a year, while internal auditors have been assigned to perform regular audits on employees' compliance with the above requirement. V. Courses on regulatory compliance, internal controls and business integrity have been included as part of the training program.
III. Reporting malpractice (I) Does the company provide incentives and means for employees to report malpractices? Does the company assign dedicated personnel to investigate the reported malpractices? (II) Has the company implemented any standard procedures or confidentiality measures for handling reported malpractices? (III) Does the company assure malpractice reporters that they will not be mistreated for making such reports?	 V V V		I. The Company has established a set of Grievance Resolution Rules to guide resolution of complaint cases. The Audit Office is responsible for the acceptance and investigation of grievance cases, and has publicly disclosed all available complaint channels including written correspondence, telephone, and e-mail. Anyone who uncovers illegal conduct is entitled to raise a report. The rules also outline the categories of cases accepted and employees' reward and discipline standards. II. The Company has outlined standard operating procedures and review criteria for reported cases, and requires all subjects of investigation and witnesses to sign confidentiality agreements. They are also informed of the severe legal consequences associated with a violation of the confidentiality commitment. III. The Company has outlined rules concerning the informant's identity, confidentiality of the reported case, and protection of work rights to protect informants against mistreatment. Employees may report to independent directors or supervisors for any mistreatment encountered.
IV. Enhanced information disclosure Has the company disclosed its integrity principles and progress onto its website and MOPS?	V		The Company's integrity activities are disclosed in annual reports and on the Company's website.
V. If the company has established business integrity policies in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies", please describe its current practices and any deviations from the Best Practice Principles: The Company has conformed to "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies".			
VI. Other information relevant to understanding the Company's business integrity (e.g. revision of business integrity principles): The Board of Directors passed amendments to the Company's "Procedures for Ethical Management and Guidelines for Conduct" during the meeting held on October 23, 2018, and exercised authority on behalf of shareholders to amend the Company's "Integrity Code of Conduct" during the meeting held on November 27, 2018.			

(VII) State of the internal control system to be disclosed:

1. Internal Control Declaration

Internal Control Declaration of Mega Bills Finance Co., Ltd.

Representing the declaration by Mega Bills, the Company, from January 1, 2018 to December 31, 2018 has truly abided by the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries". The company has established an internal control system, implemented risk management, and undertook inspection by an impartial and independent audit department, periodically reporting to the Board of Directors and supervisors. While conducting bills business, and in accordance with the determinants of effectiveness of internal control systems stipulated in the "Standards for Establishment of Internal Control Systems in Securities and Future Systems", drafted and decreed by the Securities and Futures Bureau under the Financial Supervisory Commission, determined whether the design and implementation of the internal control system were effective. Careful evaluation has shown that each department's internal control and legal and regulatory compliance, apart from the items listed in the accompanying chart, can all be accurately and effectively enforced. This Declaration will constitute the main content of the Company's annual report and prospectus, and will be open to external scrutiny. The illegal inclusion of falsehoods or the illegal concealment of information in the above public data, will incur legal liability in relation to Articles 20, 32, 171 and 174 of the Securities and Exchange Act.

Respectful to

Financial Supervisory Commission R.O.C (Taiwan),

Declarers

Chairperson of the Board: Mei-Chu Liao

President: Chi-Fu Lin

General Auditor: Yao-Kuang Tsai

Legal Compliance Officer,

Head Office: Chi-Wu Lin

Date: January 22, 2019

Required Internal Control System Improvement and Corrective Action Plan of Mega Bills Finance Co., Ltd.

Date: December 31, 2018

Required Improvement	Corrective Action	When Improvement Scheduled to be Completed
Letter No.10702160200 issued by the Financial Supervisory Commission 2018.11.26 identified defects in the collection, documentation, and maintenance of stakeholders' information, which resulted in certain stakeholder loans being processed as normal loans. This practice is potentially detrimental to the integrity of the Company's operations, and order of rectification was issued as a result.	I. Amend the rule of "Implementation of a Compliance System" to practice new managers' training about laws and regulations, and train the managers about compliance on reporting of stakeholders within one month before or after the managers hold their position. II. Amend the rule of "Processing of Transactions with Stakeholders" to strengthen the knowledge about reporting of stakeholders and include relatives by blood within the 3^{rd} degree of kinship and relatives by marriage within the 2^{nd} degree of kinship to prevent any omission or error. III. Amend the "Regulations Governing Transactions With Stakeholders" to expressly provide that certain discipline shall be rendered pursuant to work rules if false stakeholder information is provided. IV. Issue a letter to remind each manager that stakeholder information must be duly reported, and	The Company has made improvements to the defects mentioned in Financial Supervisory Commission's instructions mentioned on 11.26.2018.

	that discipline will be rendered pursuant to work rules, if false stakeholder information is provided.	

2. Disclosure of the audit report where a CPA has been entrusted to audit the Company's internal control system: None

(VIII) Penalties imposed against the company in the last 2 years due to violation; describe the weaknesses found, the improvements made, and provide the following disclosures:

1. Prosecution against company representatives or staff for criminal conducts: none.
2. Fines imposed by Financial Supervisory Commission (FSC) for violations: none.
3. Penalties imposed by FSC in accordance with Article 51 of Act Governing Bills Finance Business and Article 61-1 of the Banking Act: none.
4. Disclosure of losses exceeding NT$50 million incurred during the year, whether in one event or aggregately over several events, as a result of extraordinary non-recurring incidents (such as fraud, theft, embezzlement, fictitious transactions, forgery of documents and securities, kickbacks, natural disasters, external forces, hackers' attacks, theft and leakage of confidential information, disclosure of customers' details or other material occurrences), or accidents arising due to failure on safety measures: none.
5. Other disclosures mandated by FSC: none.

(IX) Significant resolutions made in shareholder meetings and board of directors meetings in the last financial year, up to the publication date of this annual report

1. Resolutions Passed on Behalf of Shareholders During the 6th Meeting of the 15th Board of Directors Held on June 26, 2018:
   Amendments to the "Mega Bills Finance Co., Ltd. Board of Directors Conference Rules."
2. Resolutions Passed on Behalf of Shareholders During the 12th Meeting of the 15th Board of Directors Held on November 27, 2018:
   (1)Amendments to the "Mega Bills Finance Co., Ltd. Integrity Principles."
   (2)Amendments to "Mega Bills Finance Derivative Trading Procedures".
3. Resolutions Passed on Behalf of Shareholders During the 14th Meeting of the 15th Board of Directors Held on December 25, 2018:
   Amended "Mega Bills Finance Articles of Incorporation".

(X) Documented opinions or declarations made by directors or supervisors against the board's resolutions in the most recent year up till the publication date of this annual report: none.

(XI) Resignation or dismissal of personnel related to financial statement preparations (including the Chairperson, President, head of accounting, and chief internal auditor) in the most recent year up till the publication date of this Annual Report: None.

V. Information about professional fees paid to CPA:

Name of accounting firm	CPA's Name		Audit period	Remarks
PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji	Zong-Xi Lai	2018/1/1-2018/12/31	

Amount Unit: NT$ thousands

	Range \ Audit remuneration	**Audit remuneration**	**Non-Audit Fees**	**Total**
1	Below NT$ 2,000,000			
2	NT$2,000,000 ~ NT$4,000,000	1,379	1,090	2,469
3	NT$4,000,000~ NT$6,000,000			
4	NT$6,000,000 ~ NT$8,000,000			
5	NT$8,000,000 ~ NT$10,000,000			
6	NT$10,000,000 and above			

(I) Non-audit remuneration to external auditors, accounting firms and related businesses that amount to one-quarter or higher of audit remuneration:

Name of accounting firm	CPA's Name	Audit remuneration	Non-Audit Fees					Audit period	Remarks
			System design	License registration	Human resources	Others	Sub-total		
PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji Zong-Xi Lai	1,379				1,090	1,090	2018/1/1-2018/12/31	Others represents audit fees for personal information protection and AML/CTF projects.

(II) Any replacement of accounting firm and reduction in audit remuneration paid compared with the previous year: none.

(III) Any reduction in audit remuneration by more than 15% compared with the previous year: none.

VI. Information about change of CPA:

(I) About former CPA:

<table>
<tr><td>Date of Change</td><td colspan="5">(1). Ratified at the Board Meeting on February 21, 2017
(2). Ratified at the Board Meeting on February 26, 2019</td></tr>
<tr><td>Cause of Change and Explanation Thereof</td><td colspan="5">(1). Following a reorganization within PricewaterhouseCoopers Taiwan, the Company’s financial statements have been audited by CPAs Shu-Mei Ji and CPA Zong-Xi Lai since 2017, instead of CPAs Shu-Mei Ji and CPA Chien-Hung Chou.
(2). Following a reorganization within PricewaterhouseCoopers Taiwan, the Company’s financial statements have been audited by CPAs Po-Ju Kuo and CPA Zong-Xi Lai since 2019, instead of CPAs Shu-Mei Ji and CPA Zong-Xi Lai.</td></tr>
<tr><td rowspan="3">Was the termination of audit services initiated by the client or by the auditor</td><td colspan="2">Parties
Situation</td><td colspan="2">Auditor</td><td>Principal</td></tr>
<tr><td colspan="2">Service terminated by</td><td colspan="2">(1). Shu-Mei Ji, Chien-Hung Chou
(2). Shu-Mei Ji, Zong-Xi Lai</td><td></td></tr>
<tr><td colspan="2">Service no longer accepted (continued) by</td><td colspan="2"></td><td></td></tr>
<tr><td>Reasons for issuing opinions other than unqualified opinions in the recent 2 years</td><td colspan="5">None</td></tr>
<tr><td rowspan="7">Disagreements with the Company</td><td rowspan="5">Yes</td><td colspan="2"></td><td colspan="2">Accounting policy or practice</td></tr>
<tr><td colspan="2"></td><td colspan="2">Financial statement disclosure</td></tr>
<tr><td colspan="2"></td><td colspan="2">Audit coverage or procedures</td></tr>
<tr><td colspan="2"></td><td colspan="2">Others</td></tr>
<tr><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>None</td><td colspan="4">✓</td></tr>
<tr><td colspan="5">Description</td></tr>
<tr><td>Other disclosures (disclosures deemed necessary under Item 1-4, Subparagraph 6, Article 10 of the Guidelines)</td><td colspan="5">None</td></tr>
</table>

(II) About new CPA:

Firm Name	PricewaterhouseCoopers, Certified Public Accountants
CPA's Name	(1). Shu-Mei Ji, Zong-Xi Lai (2). Po-Ju Kuo, Zong-Xi Lai
Date of Appointment	(1). Ratified at the Board Meeting on February 21, 2017 (2). Ratified at the Board Meeting on February 26, 2019
Inquiries and replies relating to the accounting practices or accounting principles of certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment	N/A
Written disagreements from the succeeding auditor against opinions of the former auditor	N/A

(III) Former CPA's response relating to Item 1 and Item 2-3, Subparagraph 6, Article 10 of the Guidelines: Not applicable.

VII. Any of the company's Chairperson, President, or accounting/finance managers employed by the auditing firm or any of its affiliated business in the recent year; disclose their names, job titles, and duration of employment at auditing firm or any of its affiliated company: none.

VIII. Transfer or pledge of shares by directors, supervisors or managers in the last year up till the publication date of this annual report that is subject to reporting under Article 10 of Act Governing Bills Finance Business: none.

IX. Relationships characterized as spouse or second degree relatives or closer among top-ten shareholders: none.

X. Investments jointly held by the company, the company's directors, supervisors, president, vice presidents, Executive Vice Presidents, department heads, branch managers, and directly/indirectly controlled entities:

December 31, 2018; Unit: shares; %

Investee	The Company	Directors, supervisors, President, senior executive vice presidents, executive vice presidents and heads of departments and branches and the business directly or indirectly controlled by the Company	Combined Investment

	Quantity	Shareholding	Quantity	Shareholding	Quantity	Shareholding
Core Pacific City Corporation	37,380,000	2.617	—	—	37,380,000	2.617
Taiwan Financial Asset Services Co., Ltd.	5,000,000	2.941	—	—	5,000,000	2.941
Taiwan Depository and Clearing Co., Ltd.	2,325,886	0.628	—	—	2,325,886	0.628
Taiwan Asset Management Co., Ltd.	6,000,000	0.568	—	—	6,000,000	0.568
Taiwan Futures Exchange Co., Ltd.	1,712,213	0.512	—	—	1,712,213	0.512
Agora Garden Co., Ltd.	21,090	0.030	—	—	21,090	0.030

Capital Overview

Capital Overview

One. Information on share capital and dividends:

I. Source of capital stock as the publication date of annual report

Unit: NTD thousands; shares

Year/ month	Issue Price	Authorized capital		Paid-in capital		Remarks	
		Shares	Amount	Shares	Amount	Source of share capital	Others
2019.3	10	1,311,441,084	13,114,410,840	1,311,441,084	13,114,410,840	Public offering	—

Unit: shares

Category of shares	Authorized Capital			Remarks
	Outstanding shares	Unissued shares	Total	
Common stocks	1,311,441,084	0	1,311,441,084	Publicly offered Not listed on TWSE or TPEx

II. Shareholder structure

March 31, 2019

Shareholder / Quantity	Government	Financial institutions	Other corporations	Natural persons	Foreign institutions and foreigners	Total
Number of person	0	1	0	0	0	1
Shares held (shares)	0	1,311,441,084	0	0	0	1,311,441,084
Shareholding	0	100%	0	0	0	100%

III. Diversification of Shareholdings

Face Value: NT$10 per share; as of March 31, 2019.

Shareholding range	Number of shareholders	Quantity of Shares Held	Shareholding
1 to 1,000,000	—	—	—
1,000,001 and above	1	1,311,441,084 shares	100%
Total	1	1,311,441,084 shares	100%

IV. Major Shareholders

Shares / Name of Major Shareholders	Quantity of Shares Held	Shareholding
Mega Financial Holding Co., Ltd.	1,311,441,084 shares	100%

V. Market value, net worth, earnings, dividends and other related information for the last two years

Item			2017	2018	Year-to-date March 31, 2019
Market price per share	Maximum		-	-	-
	Minimum		-	-	-
	Average		-	-	-
Net value per share	Before allocation		27.48	27.17	28.44
	After allocation		26.03	(Note)	-
EPS	Weighted average outstanding shares		1,311,441,084	1,311,441,084	1,311,441,084
	EPS		2.06	1.95	0.44
Dividends per share	Cash dividends		1.45	1.62 (Note)	-
	Stock dividends	From earnings	-	-	-
		From capital surplus	-	-	-
	Cumulative unpaid dividends		-	-	-
Analysis of ROI	P/E ratio		-	-	-
	Price to dividends ratio		-	-	-
	Cash dividends yield		-	-	-

Note: As of the publication date of this Annual Report, the 2018 earnings appropriation plan was passed by the Board of Directors and was pending the shareholders' resolution, the Board of Directors will exercise decision-making authority on shareholders' behalf.

VI. Dividends policy and implementation

(I) Dividends policies stated in the Company's Articles of Incorporation

Dividends should be distributed in cash, but the percentage of which may be adjusted depending on business development, capital plans and other relevant factors.

(II) Dividends distribution proposed for the next annual general meeting

Mega Financial Holding is the sole shareholder of the Company, to which cash dividends totaling NT$2,124,534,556 or NT$1.62 per share have been proposed.

VII. Impact on the Company's business performance and EPS by the allocation of stock dividends discussed at this shareholders' meeting: None.

VIII. Employees'/Directors'/Supervisors' remuneration

(I) Percentage and range of employees'/directors'/supervisors' remuneration stated in the Articles of Incorporation

1. Employees' remuneration

Profits concluded from each financial year shall have employee remuneration provided at 1.75% ~ 3% of the surplus; however, profits shall first be taken to offset accumulated losses if any.

The above employee remuneration shall be approved in a board meeting with at least two-thirds of directors present, and with the consent of more than half of attending directors. Payments can be made upon approval and reported during a shareholders' meeting afterwards.

2. Directors and supervisors' remuneration: None.

(II) Basis of calculation for employees'/directors'/supervisors' remuneration and share-based compensations; and accounting treatments for any discrepancies between the amounts estimated and the amounts paid

1. Basis of calculation for employees'/directors'/supervisors' remuneration and share-based compensations

   The Company had estimated its 2018 employee remuneration at NT$62,501,977. This estimate was made based on the amount of current pre-tax profits before employee remuneration, and the percentage stipulated in the Articles of Incorporation. The Company did not estimated director/supervisor remuneration or propose to pay employee remuneration in shares for 2018.

2. Accounting treatments for any discrepancies between the amount of employee remuneration estimated and the amount paid

   Any differences between the amount resolved by the board of directors and the amount actually paid will be treated as a change of accounting estimate.

(III) Remuneration passed by the board of directors

1. Cash or share payment of employees'/directors'/supervisors' remuneration

   Pursuant to the Articles of Incorporation and resolution of the 17th Meeting of the 15th Board of Directors held on March 26, 2019, the 2018 employee remuneration was determined at NT$56,251,779, to be distributed in cash. The Company did not propose any share payment for employees'/directors'/ supervisors' remuneration. The NT$56,251,779 cash payment of 2018 employee remuneration resolved by the Board of Directors was different from the NT$62,501,977 previously recognized in the 2018 Financial Statements, by a discrepancy of NT$6,250,198. This discrepancy was attributable to a change of employee remuneration percentage and has been adjusted into the 2019 profit and loss.

2. Percentage of employees' remuneration paid in shares, relative to after-tax profit and total employees' remuneration of the current period: None.

(IV) Employees'/directors'/supervisors' remuneration paid in the previous year

1. Actual payment of employee remuneration

   Pursuant to the Articles of Incorporation and resolution of the 2nd Meeting of the 15th Board of Directors held on March 21, 2018, the 2017 employee remuneration was determined at NT$56,889,510, to be distributed in cash. The NT$56,889,510 cash payment of 2017 employee remuneration was different from the NT$65,016,483 previously recognized in the 2017 Financial Statements, by a discrepancy of NT$8,126,973. This decrease was attributable to a change of employee remuneration percentage, and has been adjusted into the 2018 profit and loss.

2. Actual payment of directors'/supervisors' remuneration: None.

IX. Repurchase of the Company's shares: None

Two. Corporate Bond, Preferred Stock, Employee Stock Option, Merger and Acquisition or Assignment to Other Financial Institutions: None.

Three. Execution of Funding Utilization Plan: None.

Overview of Business Operations

Overview of Business Operations

One. Business Scope

I. Main business

(I) Major business activities by segment

1. Bills Business

(1)Acting as a certifier, underwriting, broker and proprietary trader with respect to short-term bills (including USD bills).

(2)Acting as a guarantor or endorser of CP2.

2. Bonds Business

(1)Proprietary trading of government bonds

(2)Acting as a certifier, underwriter, broker or and proprietary trader with respect to bank debentures

(3)Proprietary trading of corporate bonds

(4)Proprietary trading and investment of fixed income securities

(5)Proprietary trading and investment of foreign bonds

3. Equity investment business

4. Others

(II) Each business assets and income as a proportion of total assets and income, and growth and changes therein.

1. Assets

Unit: NT$ thousands

Year / Item	2018		2017	
	Amount	As a proportion of total assets (%)	Amount	As a proportion of total assets (%)
Bills Business	122,165,266	46.14	132,729,168	47.48
Bonds Business	134,649,394	50.85	138,900,103	49.69
Equity investment business	1,562,266	0.59	1,414,346	0.51
Others	6,411,634	2.42	6,478,232	2.32
Total assets	264,788,560	100.00	279,521,849	100.00

2. Revenues

Unit: NT$ thousands

Year / Item	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Bills Business	2,419,982	44.82	2,522,561	47.93

Bonds Business	2,667,555	49.41	2,497,190	47.44
Equity investment business	72,712	1.35	123,150	2.34
Others	238,847	4.42	120,641	2.29
Total Revenues	5,399,096	100.00	5,263,542	100.00

II. Business plan of the year

(I) Bills Business

1. Monitor credit customers' operation/financial performance industry prospects and funding capability for making decision of credit extension.
2. Actively search for opportunities to lead-arrange syndicated loans and syndicated underwriting of non-guarantee commercial papers; hence expand portfolio and increase fee income.
3. Adjust borrower structure and maintain appropriate size and margin on bill guarantee service.
4. Actively explore opportunities in NCD, acquisition of guaranteed or non-guarantee bills and underwriting for portfolio growth and higher gains.
5. The Company will aim to 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.
6. Monitor 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 maintain a leading position in the market.

(II) Bonds Business

1. Improve trade performance by executing outright purchases and sells in line with NTD bond maturity.
2. Build position in foreign currency bonds; diversify country risk and increase portfolio weight in foreign currency corporate bonds for higher holding gains.
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 cost of capital and increase returns on holding positions without compromising liquidity risks.

4. Buy convertible bonds issued and CBAS by companies with good credit ratings, in order to increase profits.
5. Manage duration of NTD and foreign currency bonds for risk avoidance and higher gains.

(III) Equity investment business

1. Aim to profit from equity investments by gaining insight into corporate fundamentals and timing share price movements.
2. Build position in shares with good credit and high dividend yields to replace corporate bonds that offer low returns.

III. Market analysis

(I) Regions of business operations, future supply and demand in market, and the market potential for growth.

1. Regions of business operations

Apart from the Taipei head office, the Company has 8 branches nationwide to conduct credit, bills and bond-related services.

2. Future market supply, demand and growth

(1)Market changes

1) Issuance of Non-physical Commercial Papers(CP2): Following the dematerialization of commercial papers on September 18, 2017, Taiwan Depository & Clearing Corporation took one step further in 2018 to issue registered commercial paper-related documents in electronic form over a public platform. Rules concerning the above developments have been approved by the authority, and all non-guarantee commercial paper issuers have already adopted the electronic approach. This digital movement helps reduce operational risks associated with securities issuance.

2) Amendments to the Self-discipline Rules on Derivative Trading for Bills

Finance Companies by the Bills Finance Association of the Republic of China:

This amendment of the self-discipline rules largely concerned derivative trading of bills finance companies, and outlined the eligibility and on-job training requirements for relevant personnel. The new rules also specify bills finance companies' role as service provider when offering derivative services.

(2)Market conditions

1) Bills market

The global economy only managed to achieve a modest expansion in 2018 due to the ongoing China-USA trade conflict. The FED raised interest rates four times in 2018 whereas the European Central Bank, too, ended its quantitative easing measures in 2018. Although the Central Bank of Taiwan maintained interest rates unchanged, the market generally expected domestic rates to move in sync with the United States, and the significant outflow of investment capital caused short-term bill rates to rise in the second half of the year. In 2018, the value of CP2 underwritten by all bills financing companies in the primary market amounted to NT$8,751.026 billion, increased NT$462.991 billion (or 5.59%) from 2017, in which the Company occupied a market share of 27.08%. The value of transactions completed by all bills finance companies in the secondary market amounted to NT$28,721.267 billion in 2018, increased NT$2,387.609 billion (or 9.07%) from 2017, in which the Company represented a market share of 30.37%. The Company has secured its position as the top performer in the bills financing industry. Looking to 2019, the monetary policies of major advanced economies have gradually normalized, international funds are possibly going to return to Europe and the United States, and the US-China trade conflict has not stopped. The global economic and trade situation is still tense. It is expected that the Central Bank should maintain a monetary policy in a relatively neutral pattern, considering overall economic development, monetary policy adjustment, and international capital flow status. However, the short-term Taiwan Bills Rate of this year is expected to show an easy rise and hard to fall status.

2) Bonds market

In terms of yield spread, yield curve of foreign currency bonds continued to flatten in 2018 after four interest rate hikes and balance sheet shrinkage in the United States that raised the cost of USD capital from 1.69% to 2.82% (LIBOR). However, in light of how the China-USA trade conflict has provoked instability and credit risk in the global capital market and weakened economic growth prospects around the world, the market generally expects the U.S. to adopt a more neutral monetary policy, which may stop short-term USD LIBOR from rising further and help maintain yield spread of foreign currency bonds in 2019. As for NTD bonds, the secondary market is seeing a slight upward movement in the short-term rate, whereas the primary market is facing increased short-term costs and a flattened yield curve due to the monetary policy being left unchanged and a supply-demand imbalance that gave major financial institutions the need to build long positions.

Overall, the Company managed to maintain the consistent funding cost of TWD bonds and therefore maintain the stable spread of its holding position throughout 2018. The funding cost of foreign currency bonds (USD RP and interbank borrowing), however, rose substantially in line with the LIBOR Rate, which significantly narrowed the spread on holding position.

The shady outlook of the global economy combined with increased uncertainties of the U.S. interest rate policy have prevented governments from making substantial changes to monetary policy. The NTD bond market currently exhibits no supply-demand imbalance, but the rising short-term rate increases funding costs and presents a somewhat significant concern. In the foreign currency bond market, profits from dealing corporate bonds have become limited and difficult compared to the past due to increased credit risk. Fortunately, short-term stability of USD LIBOR will help maintain gains on foreign currency bonds. Overall, the spread of TWD bonds in 2019 is expected to be lower than 2018, and the spread of foreign currency bonds may cease to shrink sometime this year

3) Equity investment business

Most key compositions of TAIEX saw their share prices peak sometime around July 2018 before going into descent in the third quarter. In October, TAIEX took a sharp dive that signified the end of the market’s bullish run. There are many uncertainties concerning the outlook of the global economy in 2019, including the outcome of China-USA trade negotiations, the USA’s trade negotiations with other countries, the Brexit and possibilities of a second referendum, and relationship between the Trump administration and the new congress. Institutional investors generally expect growth of the global economy to slow down in 2019 without going into recession. However, ongoing interest rate normalization by major central banks around the world may still give rise to significant corrections in risky assets such as equity. Global markets should exhibit a greater level of volatility in 2019.

(II) Competitive advantages, opportunities, threats, and responsive strategies

1. Advantageous Factors

Following the FSC’s amendment to Article 8 of the "Regulations Governing Foreign Currency Bond Brokerage, Proprietary Trading, and Investment by Bills Finance Companies" on February 13, 2018, the Company was approved by the Central Bank to increase foreign currency risk ceiling from US$ 50 million up to US$ 100 million on July 20, 2018, which will enable greater flexibility in the trading of foreign currency bonds.

2. Disadvantageous Factors

(1) Uncertainties associated with the U.S. interest rate policy and increased market volatility have made NTD/foreign currency bond investments all the more difficult.

(2) Weakened recovery of the global economy is likely to slow down domestic growth, and the ongoing China-USA trade conflict has affected international

trade to the point where individual businesses are finding it difficult to operate under the prevailing environment. As borrowers' operational and financial performance become more susceptible to market changes while uncertainties arise with respect to industry competitiveness, credit risk has risen across industries.

(3)There is an increasing variety of funding channels in the financial market today, meanwhile, banks continue to explore local lending opportunities by offering low-interest rate loans and competing in the underwriting of non-guarantee CPs in the primary market. All of these have the potential to undermine the business expansion efforts of bills financing companies.

(4)Due to limitations by capital adequacy and liquidity coverage ratios, the banking system has been conservative about long-term interbank funding and transactions in the secondary market, which affect the market's capital supply and cause higher interest rate volatility in short-term instruments completed at month-end and quarter-end.

3. Responsive strategies

(1)Maintain long-term relationships with financial institutions for more diverse funding sources. Negotiate for lower costs of capital and actively monitor market information to enable timely reactions to the changing environment.

(2)The Company will take the initiative in sourcing NCDs above a certain spread, purchasing/underwriting guaranteed and guarantee-waiver bills and lead-arrange or participate in syndicated loan/underwriting projects. In doing so, the Company will be able to expand the source of non-self-guaranteed bills while at the same time secure its market position and increase revenues from bills.

(3)Expand source of capital in the secondary market by exploring customers that are characterized by stability and low funding costs. Reduce the position of bills and bonds held on hand, and thereby reduce funding costs and increase profit margins.

(4)Build position in foreign currency bonds and explore diverse foreign currency funding channels. Enhance foreign currency funding capabilities and spread.

(5)In order to respond the interest rate and exchange rate risks presented by foreign currency bonds, the Company will aim to reduce overall exposure by undertaking USD bond futures, USD interest rate swaps and foreign currency derivatives at the appropriate times.

(6)Invest in companies characterized by prospective industry, growing revenues and profits. Choose sectors that present future potential and observe to determine the right timing of entry.

IV. Financial Product Research and Overview of Business Development

(I) Premium financial products and new banking units, their sizes and status of profit for the most recent two years and until the date of publication of this annual report: None.

(II) R&D expenditure and results for the most recent two years:

1. R&D expenses

Unit: NT$ thousands

Item	R&D expenses	
	2018	2017
Costs of employee participation in various research and training programs	1,636	1,673

2. R&D results

(1)2017

1) Study the feasibility of undertaking RP transaction of US dollar bonds with life insurance companies. .

2) Request for permission to engage in a broader range of derivatives.

3) To adopt new accounting policies and information systems for accommodating the implementation of IFRS9.

4) Continued development of personal information risk analysis system.

5) Enhanced execution and risk monitoring on the AML/CFT..

(2)2018

1) Optimized execution and risk monitoring on the AML/CFT.

2) Continue requesting for permission to engage in a broader range of

derivatives.

3) Establish compliance plans for CRS.
4) Support industry association in the issuance of short-term bills in the primary market, promotion of paperless transactions, and implementation of relevant information systems.
5) Implementation of the personal electronic file risk analysis system.
6) Implementation of online learning platform.

(3)Future R&D plans

1) Continued enhanced execution and risk monitoring on the Company's anti-money laundering and counter terrorism financing efforts.
2) Strengthen macroeconomic and industry research capacity; capitalize on profit opportunities and diversify industry risks by building a position in NTD/foreign currency bonds, convertible bonds, equity, and the fixed income portion of the convertible bond asset exchange.
3) Continuously request for the authority's permission to issue CP2 up to 3 years in tenor (up to today, CP2 could only be issued up to 1 year).
4) Continue requesting for permission to engage in a broader range of derivatives.
5) Introduction of visual analysis tools and enhanced information security management.
6) Support the industry association in paperless deal confirmation for non-physical short-term bills in the secondary market and implement relevant information systems.

V. Long-term and short-term business plans

(I) Short-term

1. Monitor credit customers' business performance and financial positions; gain insight into customers' industry outlook and funding capability for more robust credit decisions.
2. Actively search for opportunities to lead-arrange syndicated loans and syndicated underwriting of non-guarantee commercial papers; hence expand portfolio and increase fee income.

3. Actively explore opportunities in NCD, acquisition of guaranteed or guarantee-waiver bills and securities underwriting to achieve portfolio growth and higher gains.
4. Monitor the Central Bank's monetary policy and movements of the financial market to enable flexible adjustment of primary and secondary deal rates; manage and expand bills portfolio at increased margin to secure a leading position in the market.
5. Closely monitor local and foreign political, economic and interest rate developments, and flexibly adjust TWD and foreign currency bond holding positions. In view of rising interest rates, the Company will strive to explore sources low-interest and stable capital in TWD and foreign currency, and thereby maximize the spread of its bond holding position.
6. Build position of shares that offer good credibility and yield to replace corporate bonds of relatively low interest. Search for quality CB and CBAS while at the same time building up equity trading positions that are suitable given TAIEX's relatively high level.
7. Make ongoing enhancements to the efficiency of information system and internal processes, and develop a CRS system for regulatory reporting.
8. Promote the use of paperless conference system and take steps toward developing a paperless report management system. Conserve the Earth's resources and thereby contribute to the Company's corporate social responsibilities.
9. Enhance information security protection measures and training as means to reduce security threats.
10. In order to continuously optimize anti-money laundering and anti-terrorism management mechanisms, the Company will hold fundamental risk education and training, and enhance employees' awareness of anti-money laundering risks and suspicious transaction identification.

(II) Long-term

1. Strengthen the position as market leader of the bills and bonds business.
2. Adjust borrower structure and maintain appropriate size and margin on bills

guarantee service.

3. Build a profitable bonds portfolio. Expand trading of re-purchase agreements and secure profitability with the use of derivatives.
4. Enhance operation efficiency by reducing cost of funding and expanding interest spread.
5. Enhance corporate governance and enforce corporate social responsibilities.
6. To integrate the group resources and explore the synergy of cross-selling.
7. Improve system efficiency and enhance AML and information security practices.
8. Plan and seek the authority's approval for new service categories and additional counterparties, thereby expanding the scope of service and source of capital.
9. Continue efforts in talent development and nurturing.
10. Make efficient allocation of capital; strengthen existing risk management and systems.

Two. Employee Data for the Most Recent Two Years and Cut-off Date of Publication for this Annual Report

Year		2017	2018	Up to March 31, 2019
Employee count	Staff	193	203	202
	Total	193	203	202
Average age		46.99	46.17	46.15
Average length of service		17.98	16.60	16.53
Distribution of academic background	PhD	1	1	1
	Master	90	95	94
	Bachelor	97	102	102
	Senior high school	5	5	5
	Below senior high school	0	0	0
Professional certificates held by employees	Bill Finance Specialist	189	198	197
	Securities Investment Analyst	9	8	7
	Senior Securities Specialist	146	144	142

	Securities Specialist	75	73	75
	Securities Investment Trust and Consulting Professional	87	86	86
	Trust Operations Personnel	116	120	120
	Futures Specialist	77	72	73
	Life Insurance Specialist	126	121	119
	Property Insurance Specialist	118	111	109
	Bank Internal Control Specialist	102	105	106
	Financial Planning Personnel	71	68	68
	Basic Foreign Exchange Personnel	12	15	15
	Basic Bank Lending Personnel	41	42	42
	Advanced Bank Lending Personnel	6	5	5

Three. Corporate Responsibility and Ethical Conduct

Please refer to pages 21 and 22 of the Corporate Governance Report, titled "Fulfillment of Social Responsibilities" and "Fulfillment of Ethical Corporate Management”.

Four. Number of non-managerial staff, amount of average employee welfare expenses, and differences from the previous year

Unit: NT$ thousands

Year	Number of non-managerial staff	Welfare expense (average)
2017	173	2,393
2018	181	2,207

Five. Computer equipment

I. Computer system hardware and software configuration and maintenance

System	Business	Platform	Development	Maintenance
MIS	NTD and foreign currency bills exchange, NTD and foreign currency bonds, credit investigation, credit extension, financial accounting, personnel, fixed assets, and risk management	RS/6000	Self-developed	Self-maintained
Correspondents	Inter-bank payments	DELL	Outsourced	Outsourced
Notes	Email, bulletin boards, e-Form	Notes/WINDOWS	Self-developed	Self-maintained

II. Emergency contingency and security protection measures

The Company completed the establishment of the Linkou Information Facility Remote Replication Center in 2007, and will deal with the Company's application system server IBM RS/6000 update program at the same time to update the computer equipment of the recovery center at different location in 2014. The Company is dedicated to carrying out data recovery drills every year, in order to reduce information operating risk and protect customer trading safety and move towards sustainable management.

III. Future development or purchase plans

(I) Develop a CRS system.

(II) Enhance anti-money laundering information system.

(III) Replace the Company’s external firewall.

(IV) Enhanced information security management system.

(V) Introduction of visual analysis tools.

Six. Labor Relations

I. Employee welfare measures:

Welfare Committee, employee remuneration, health checkup, incentive trip and childbirth subsidy.

II. Retirement system and its implementation:

Handled in accordance with the Company’s retirement regulations, applying the provisions either more favorable than those of the Labor Standard Law, in line with those of the Labor Standard Law, or in line with those of the Labor Pension Act.

III. Agreement between employer and labors:

Subject to the Labor Standard Law and the Company’s work rules.

IV. Measures to protect employees’ interests and rights:

Subject to the Labor Standard Law and the Company’s work rules.

V. Loss caused by labor dispute in the most recent year and until the date of publication of this annual report: None.

Seven. Major contracts: None.

Financial Statements

Financial Statements

One. Condensed balance sheets and income statements for the last five years

I.Condensed balance sheets and income statements

Condensed balance sheets

Unit: NT$ thousands

Year / Item	Financial information for the last five years				
	2018	2017	2016	2015	2014
Cash, cash equivalents, central bank deposits, interbank call loans	326,207	793,634	346,391	321,356	444,266
Financial assets at fair value through profit and loss	126,577,565	136,554,017	125,297,488	115,285,106	117,026,616
Financial Assets at Fair Value Through Other Comprehensive Income	131,955,095	-	-	-	-
Debt Instruments Carried at Cost After Amortization	440,070	-	-	-	-
Available-for-sale financial assets	-	135,888,342	132,867,186	100,816,225	83,333,880
Bills and bonds purchased under resale agreements	-	501,259	-	1,000,000	9,805,054
Receivables - net	1,534,617	1,651,477	1,531,891	1,185,047	1,004,365
Held-to-maturity financial assets	-	100,000	350,000	600,000	850,000
Other financial assets - net	497,703	875,137	820,362	818,540	802,252
Property and equipment - net	363,438	363,606	370,177	375,457	370,378
Investment property - net	2,507,096	2,517,760	2,528,424	2,539,088	2,549,752
Intangible assets - net	4,140	4,920	3,310	2,427	2,886
Deferred income tax assets - net	532,673	222,666	152,104	106,254	95,088
Other assets	49,956	49,031	34,868	48,225	25,511
Total assets	264,788,560	279,521,849	264,302,201	223,097,725	216,310,048
Interbank overdraft and call loans	23,074,279	31,124,272	15,714,592	11,294,776	15,926,613
Financial liabilities at fair value through profit and loss	5,892	632	22,543	6,149	411
Bills and bonds payable under repurchase agreements	202,310,405	208,414,735	210,809,807	173,109,248	163,777,891
Payables	560,256	947,769	602,808	504,042	502,801
Current income tax liabilities	69,738	40,412	191,490	131,256	74,713
Provisions for liabilities	2,696,915	2,759,489	2,728,105	2,757,420	2,774,969
Deferred income tax liabilities	86,060	45,675	22,700	12,647	790

Other liabilities		356,264	151,008	431,098	828,935	116,541
Total liabilities	Before allocation	229,159,809	243,483,992	230,523,143	188,644,473	183,174,729
	After allocation	Note	245,385,581	232,555,877	190,721,796	185,248,117
Equity attributable to parent company shareholders		35,628,751	36,037,857	33,779,058	34,453,252	33,135,319
Capital stock	Before allocation	13,114,411	13,114,411	13,114,411	13,114,411	13,114,411
	After allocation	Note	13,114,411	13,114,411	13,114,411	13,114,411
Capital surplus		320,929	320,929	320,929	320,929	320,929
Retained earnings	Before allocation	22,012,449	21,013,426	20,375,867	19,490,920	18,597,142
	After allocation	Note	19,111,837	18,343,133	17,413,597	16,523,754
Other equity		180,962	1,589,091	(32,149)	1,526,992	1,102,837
Treasury stock		-	-	-	-	-
Non-controlling interest		-	-	-	-	-
Total equity	Before allocation	35,628,751	36,037,857	33,779,058	34,453,252	33,135,319
	After allocation	Note	34,136,268	31,746,324	32,375,929	31,061,931

Note: As of the publication date of this Annual Report, the 2018 earnings appropriation plan was passed by the Board of Directors and was pending the shareholders' resolution, the Board of Directors will exercise decision-making authority on shareholders' behalf.

Condensed income statements

Unit: NT$ thousands

Item \ Year	Financial information for the last five years				
	2018	2017	2016	2015	2014
Interest Income	3,446,303	3,382,516	3,322,888	2,930,965	2,791,448
Less: Interest Expense	(1,603,543)	(1,209,251)	(899,280)	(901,456)	(980,992)
Interest income, net	1,842,760	2,173,265	2,423,608	2,029,509	1,810,456
Non-interest income, net	1,934,919	1,792,655	1,898,101	2,134,405	1,736,249
Net revenues	3,777,679	3,965,920	4,321,709	4,163,914	3,546,705
Provisions	54,058	11,068	45,896	134,508	660,965
Operating expenses	(769,140)	(765,467)	(796,560)	(792,612)	(780,358)
Income before Income Tax from Operating Unit	3,062,597	3,211,521	3,571,045	3,505,810	3,427,312
Income tax (expense) gain	(504,516)	(506,292)	(590,919)	(495,374)	(426,465)
Net Income Tax from Operating Unit	2,558,081	2,705,229	2,980,126	3,010,436	3,000,847
Income (loss) from discontinued operations	-	-	-	-	-
Net Income (loss)	2,558,081	2,705,229	2,980,126	3,010,436	3,000,847
Other comprehensive income for the current period (net of tax expense)	(1,386,976)	1,586,304	(1,576,997)	385,439	(230,955)
Total Comprehensive Income	1,171,105	4,291,533	1,403,129	3,395,875	2,769,892
Net income attributable to parent company shareholders	2,558,081	2,705,229	2,980,126	3,010,436	3,000,847
Net income attributable to non-controlling shareholders	-	-	-	-	-
Comprehensive income attributable to parent company shareholders	1,171,105	4,291,533	1,403,129	3,395,875	2,769,892
Comprehensive income attributable to non-controlling shareholders	-	-	-	-	-
EPS (NT$)	1.95	2.06	2.27	2.30	2.29

II. Independent Auditor's Names and Opinion

Year	CPA Firm	CPA's Name	Auditing opinion
2018	PricewaterhouseCoopers, Taiwan	Shu-Mei Ji, Zong-Xi Lai	Unqualified opinion
2017	PricewaterhouseCoopers, Taiwan	Shu-Mei Ji, Zong-Xi Lai	Unqualified opinion
2016	PricewaterhouseCoopers, Taiwan	Shu-Mei Ji, Chien-Hung Chou	Unqualified opinion
2015	PricewaterhouseCoopers, Taiwan	Chien-Hung Chou, Shu-Mei Ji	Unqualified opinion
2014	PricewaterhouseCoopers, Taiwan	Chien-Hung Chou, Po-Ju Kuo	Unqualified opinion

Two. Financial analysis for the last five years

Unit: NT$ thousands; %

Item	Year	2018	2017	2016	2015	2014
		Financial information for the recent five years				
Managerial ability	Average number of days of bill and bond holding	6.26	6.64	6.12	5.12	4.92
	NPL ratio	0	0	0	0	0
	Total assets turnover rate	0.01	0.01	0.02	0.02	0.02
	Average yield per employee	15,356	16,876	18,709	18,183	15,905
	Average profit per employee	10,399	11,512	12,901	13,146	13,457
Profitability	ROA (%)	0.94	0.99	1.22	1.37	1.37
	ROE (%)	7.11	7.75	8.74	8.91	9.20
	Net profit margin (%)	67.72	68.21	68.96	72.30	84.61
	EPS (NT$)	1.95	2.06	2.27	2.30	2.29
Financial structure	Liability to total assets ratio (%)	85.71	86.29	86.37	83.52	83.57
	Property and equipment to stockholder equity ratio (%)	1.02	1.01	1.10	1.09	1.12
Growth rate	Asset growth rate (%)	-5.38	5.76	18.47	3.14	-2.41
	Profit growth rate (%)	-4.64	-10.07	1.86	2.21	12.22
Cash flow	Cash flow ratio (%)	4.20	N/A	N/A	3.57	3.89
	Cash flow adequacy ratio (%)	233.62	153.75	156.13	182.30	154.37
Credit extended to stakeholders		97,000	97,000	97,000	97,000	520,000
Percentage of credits extended to stakeholders (%)		0.06	0.06	0.07	0.06	0.36
Scale of operations	Asset market share (%)	26.15	27.08	26.83	23.83	26.48
	Net value market share (%)	28.80	29.44	28.83	29.44	29.60
	Market share for guaranteed CP2(%)	30.08	29.74	29.23	31.54	31.42

	Market share for each type of bill and bond issue and first time purchase (%)	26.11	26.21	27.46	29.65	29.05
	Market share for each type of bill and bond transaction (%)	29.78	30.80	31.85	33.18	35.07
Capital adequacy ratio	Capital adequacy ratio (%)	13.57	13.64	13.53	13.88	13.84
	Eligible capital	34,898,052	35,146,019	33,248,864	31,288,743	28,548,890
	Total value of risk assets	257,108,287	257,742,056	245,674,749	225,367,830	206,332,882
	Tier 1 capital as a % of total risk-weighted assets	13.57	13.33	13.53	13.55	13.59

	Significant variations in the last 2 years: (for variations above 20%) 1. Asset growth rate decreased mainly due to reduced holding of bills and bonds. 2. Profit growth rate increased mainly due to exchange gains recognized in the current year, which mitigated the fall in pre-tax profit compared to the previous year. 3. Cash flow adequacy ratio increased mainly due to higher net cash flow from operating activities in the last five years.

Note: Equations for analysis items:

1. Managerial ability

(1) Average number of days of bills and bonds holdings = 365/bills and bonds turnover rate (Bills and bonds turnover rate = Amount of each type of bill or bond transaction/average balance of each installment of bills or bonds).

(2) NPL ratio = NPL (including non-accrual loans)/total loans (including non-accrual loans).

(3) Total assets turnover rate = Income/average total assets.

(4) Average yield per employee = Income/total number of employees.

(5) Average profit per employee = Net Income/total number of employees.

2. Profitability

(1) ROA = Net income /average total assets.

(2) ROE =Net Income /average equity, net.

(3) Net profit margin = Net income /income. (Income = interest income + revenues other than interest income).

(4) Earnings per share = (income and loss attributed to owners of parent company – dividends of the preferred stocks)/weighted average numbers of outstanding shares.

3. Financial structure

(1) Liability to total assets ratio = Total liabilities/total assets.

(2) Property and equipment to stockholders' equity ratio = Property and equipment net/total stockholders' equity.

(3) Total liabilities should exclude allowances for the guarantee liability.

4. Growth rate

(1) Asset growth rate = (Total assets in current period-total assets for the previous period)/total assets for the

previous year.

(2) Profit growth rate = (Income before tax in current period -income before tax for the previous year)/income before tax for the previous year.

5. Cash flow

(1) Cash flow ratio = Net cash flow from operating activities/(interbank overdraft and call loans +commercial promissory note payable + financial liabilities at fair value through profit and loss + bills and bonds payable under repurchase agreements + payables –with maturity within one year).

(2) Net cash flows adequacy ratio = Net cash flow from operating activities for the most recent five years/(capital expenditure + cash dividends) for the most recent five years.

6. Scale of operations

(1) Asset market share = Total assets/total assets of all bills finance companies.

(2) Net value market share = Net value/total net of all bills finance companies.

(3) Market share for guaranteed CP2 = Balance of guaranteed CP2/total balance of CP2 guaranteed and endorsed by all bills finance companies.

(4) Market share for each type of bill and bond issue and first time purchase = Amount of each type of bill and bond issue and first time purchase/total amount of each type of bill and bond issue and first purchase by all bills finance companies.

(5) Market share for each type of bill and bond transaction = Amount of each type of bill and bond transaction/total amount of each type of bill and bond transaction by all bills finance companies.

7. Capital adequacy ratio

(1) Capital adequacy ratio = Eligible capital/total risk assets.

(2) Eligible capital = Tier I capital + Tier II eligible capital + Tier III eligible and used capital.

(3) Total risk assets = Credit risk weighted risk assets + (operational risk capital requirement +market risk capital requirements) x 12.5.

(4) Ratio of Tier I capital to risk - weighted assets = Tier I capital/total risk assets.

Three. Supervisors' Audit Report of Financial Statements in the Most Recent Year

Supervisor's Audit Report

We have reviewed the Company's 2018 business reports, Financial Statements, property registries, and earnings appropriation proposal prepared by the Board of Directors. The abovementioned Financial Statements were audited and certified by CPA Shu-Mei Ji and CPA Zong-Xi Lai of PricewaterhouseCoopers Taiwan. The supervisors found no misstatements in the business reports, financial statements, property registries or earnings appropriation proposals above, and have issued this review report in accordance with Article 219 of the Company Act and Article 36 of the Securities and Exchange Act.

To

2019 Annual General Meeting of Mega Bills Finance Co., Ltd.

Supervisor: Qi-He Chen

Supervisor: Shao-Pin Lin

Supervisor: Yung-Chen Huang

Four. Mega Bills Finance Co., Ltd. Financial Statements, including Report of Independent Accountants, Balance Sheets, Statement of Comprehensive Income, Statements of Changes in Equity, Statements of Cash Flows and Notes to Financial Statements

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR18000523

To the Board of Directors and Stockholders
Mega Bills Finance Co., Ltd.

Opinion

We have audited the accompanying balance sheets of Mega Bills Finance Co., Ltd. as at December 31, 2018 and 2017, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mega Bills Finance Co., Ltd. as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies", "Regulations Governing the Preparation of Financial Reports by Securities Firms" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

Reserve for guarantee liabilities of financial guarantee contracts

Description

For the accounting policy for reserve for guarantee liabilities of financial guarantee contracts, please refer to Note 4(18) of the financial statements; for critical accounting judgments, estimates, and key sources of assumption uncertainty of reserve for guarantee liabilities, please refer to Note 5(1) of the financial statements; As of December 31, 2018, Mega Bills Finance Co., Ltd. provisioned NT$2,217,157 thousand for the reserve of guarantee liabilities. Please refer to Note 6(16) for details of the account.

Mega Bills Finance Co., Ltd. provisions the reserve for guarantee liablility of financial guarantee contracts based on the measurement of expected credit losses (ECLs) under IFRS 9, 'Financial instruments'. Mega Bills Finance Co., Ltd. also sets out relating policy and adopts provision model to ensure the recognition in a proper manner. Provision model and parameter assumptions are adopted with reference to actual loss rate in the past years and annual macro-economic projections in terms of business cycle released by government agencies. If the credit risk of debtor has not been significantly increased since initial recognition, 12-month ECLs is recognised. If the credit risk of debtor has been significantly increased since initial recognition, lifetime ECLs is recognised after taking into consideration factors such as any adverse change resulted from the debtor's repayment history, industrial information related to payment overdue and the collateral's value.

In addition, in accordance with "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt" and related regulations, after off balance sheet credit assets are classified according to the status of their loan collaterals and length of time in arrears, the reserves for guarantee liabilities are calculated, based on the classification amounts and respective fixed rates, to determine the appropriate amount of provisions, therein allowing the reserve for guarantee liabilities to be adequately provisioned.

Because the aforementioned assessment of the possibility of guarantee obligation occurrences from financial guarantee contracts and the assessment of the amount of possible losses involve subjective judgment and numerous assumptions and estimates, we believe the method of determining assumptions and estimates will directly affect related recognised amounts. Thus, we have included the reserve for guarantee liabilities of financial guarantee contracts as one of the key audit matters in our audit.

How our audit addressed the matter

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

1. Understood and assessed the reasonableness of Mega Bills Finance Co., Ltd.'s policies, internal control, provision model and processing procedures related to the provisioning of reserve for guarantee liabilities.
2. Assessed whether the indicators scaling the significant increase of credit risk are reasonable; selected samples and reviewed to confirm that the classification and calculation are both accurate.
3. Assessed whether the modelling and parameter assumptions are justifiable, for instance, to evaluate the historical loss figures and forward-looking economic factors are properly adopted,

and updated regularly.

4. Tested a selection of appraisal reports on the debtor's collateral to assess whether the point in time of estimated future cash flows and assumptions are reasonable and whether the calculation is accurate.
5. Sampled and tested information on the debtor's time in arrears and status of loan collaterals for financial guarantee contracts, confirming the completeness of the reports and the appropriateness of the logic for classifications; sampled and tested the appropriateness of provisions that were calculated according to classifications and respective fixed rates as stipulated under "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".

Fair value measurement of unlisted stocks without active market

Description

For accounting policy on unlisted stocks without active market (shown as financial assets at fair value through other comprehensive income), please refer to Note 4(6); for critical accounting judgements, estimates, and key sources of assumption uncertainty, please refer note 5(3); As of December 31, 2018, unlisted stocks without active market held by Mega Bills Finance Co., Ltd. amounted to NT$595,804 thousand. Please refer to Note 6(3) for details of the account.

The fair value of unlisted stocks without active market is determined using valuation techniques given a lack of quoted prices in active markets. Management measures fair value using market approach. The key assumption for this valuation technique is to calculate based on the latest price-book-value ratio of comparable companies. Meanwhile, market liquidity and discount in the specialised risks are also taken into account.

Multiple assumptions and significant unobservable inputs as well as management's subjective judgement result in great uncertainty in the estimation of fair value. Mega Bills Finance Co., Ltd.'s financial condition is ultimately affected by any change in the final accounting estimates if any change in judgements and estimates exists. Hence, we regard it as one of key audit matters.

How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

1. Understood and assessed the related to policies, internal control, valuation model and approval procedure.
2. Assessed whether the management adopts a valuation technique widely adopted in the industry.
3. Assessed whether the management adopts reasonable parameters from comparable companies.
4. Examined the inputs and formula in the valuation model and agreed supporting documentation with reference information.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”, “Regulations Governing the Preparation of Financial Reports by Securities Firms” 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Mega Bills Finance Co., Ltd’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 Bills Finance Co., Ltd or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Mega Bills Finance Co., Ltd’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the 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 liquidate Mega Bills Finance Co., Ltd’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 liquidate Mega Bills Finance Co., Ltd’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may

cause liquidate Mega Bills Finance Co., Ltd to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Chi, Shu-Mei

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

Febuary 26, 2019

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

MEGA BILLS FINANCE CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	Notes	December 31, 2018 AMOUNT		December 31, 2017 AMOUNT	
Cash and cash equivalents	6(1) and 7	$	326,207	$	793,634
Financial assets at fair value through profit or loss	6(2)(7), 7 and 8		126,577,565		136,554,017
Financial assets at fair value through other comprehensive income	6(3)(7), 7 and 8		131,955,095		-
Investments in debt instruments at amortized cost	6(4)(7)		440,070		-
Available-for-sale financial assets	6(7), 7, 8 and 15(4)		-		135,888,342
Bills and bonds investment with resale agreements	6(5)(7)		-		501,259
Receivables – net	6(6) and 15(4)		1,534,617		1,651,477
Held-to-maturity financial assets	15(4)		-		100,000
Other financial assets – net	6(9), 7, 8 and 15(4)		497,703		875,137
Property and equipment - net	6(10)		363,438		363,606
Investment property - net	6(11)		2,507,096		2,517,760
Intangible assets - net			4,140		4,920
Deferred income tax assets - net	6(29)		532,673		222,666
Other assets – net	6(12) and 7		49,956		49,031
TOTAL ASSETS		$	264,788,560	$	279,521,849
Liabilities and equity					
Interbank overdraft and call loans	6(13), 7 and 8	$	23,074,279	$	31,124,272
Financial liabilities at fair value through profit or loss	6(14)		5,892		632
Bills and bonds payable under repurchase agreements	6(2)(3)(5)(7)(8), 7 and 15(4)		202,310,405		208,414,735
Payables	6(15)		560,256		947,769
Current income tax liabilities	6(29)		69,738		40,412
Provisions for liabilities	6(16)(17), 7 and 15(4)		2,696,915		2,759,489
Deferred income tax liabilities	6(29)		86,060		45,675
Other liabilities	7		356,264		151,008
TOTAL LIABILITIES			229,159,809		243,483,992
Stockholders' Equity					
Common stocks	6(18)		13,114,411		13,114,411
Capital surplus	6(19)		320,929		320,929
Retained earnings	6(20)				
Legal reserve			18,902,523		18,098,666
Special reserve			203,090		235,239
Unappropriated retained earnings			2,906,836		2,679,521
Other equity interest			180,962		1,589,091
TOTAL EQUITY			35,628,751		36,037,857
TOTAL LIABILITIES AND EQUITY		$	264,788,560	$	279,521,849

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

MEGA BILLS FINANCE CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

Items	Notes	For the years ended December 31, 2018 AMOUNT	For the years ended December 31, 2017 AMOUNT
Interest income	6(21)	$ 3,446,303	$ 3,382,516
Less: interest expense	6(21) and 7	(1,603,543)	(1,209,251)
Interest income, net		1,842,760	2,173,265
Non-interest income, net			
Service fee and commission income, net	6(22) and 7	922,292	954,340
Gain or loss from financial assets and liabilities at fair value through profit or loss	6(2)(14)(23) and 7	495,452	554,321
Realized gain on financial assets at fair value through other comprehensive income	6(3)(24)	337,985	-
Realized gain or loss on available-for-sale financial assets	15(4)	-	236,419
Foreign exchange gain or loss, net		44,323	(69,904)
Reversal of impairment loss on assets		6,542	-
Other non-interest income or loss, net			
Leasehold income	7	107,528	103,911
Others		20,797	13,568
Net revenues		3,777,679	3,965,920
Reversals (provisions)	6(25)	54,058	11,068
Operating expenses			
Employee benefit expense	6(17)(26)	(526,892)	(531,788)
Depreciation and amortization	6(10)(11)(27)	(25,683)	(25,010)
Other business and administrative expenses	6(28) and 7	(216,565)	(208,669)
Total operating expenses		(769,140)	(765,467)
Income before income tax from operating unit		3,062,597	3,211,521
Income tax expense	6(29)	(504,516)	(506,292)
Net income		2,558,081	2,705,229
Other comprehensive income			
Not reclassifiable to profit or loss:			
Remeasurement of defined benefit plans	6(17)	(47,769)	(42,091)
Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income	6(3)	(85,869)	-
Income tax relating to items that are not reclassifiable to profit or loss	6(29)	9,554	7,155
Potentially reclassifiable to profit or loss subsequently:			
Unrealized profit or loss on valuation of available-for-sale financials assets		-	1,621,240
Gains (losses) on investments in debt instruments measured at fair value through other comprehensive income	6(3)	(1,562,145)	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(29)	299,253	-
Total other comprehensive income(loss) (after income tax)		(1,386,976)	1,586,304
Total comprehensive income		$ 1,171,105	$ 4,291,533
Earnings per share			
Basic and diluted earnings per share	6(30)	$ 1.95	$ 2.06

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

MEGA BILLS FINANCE CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

			Retained Earnings			Other equity interest		
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Gains or losses on financial assets measured at fair value through other comprehensive income	Unrealised valuation gain or loss of available-for-sale financial assets	Total equity
For the year ended December 31,2017								
Balance at January 1, 2017	$ 13,114,411	$ 320,929	$ 17,209,762	$ 203,090	$ 2,963,015	$ -	($ 32,149)	$ 33,779,058
Net income for 2017	-	-	-	-	2,705,229	-	-	2,705,229
Total other comprehensive (loss) income for 2017	-	-	-	-	(34,936)	-	1,621,240	1,586,304
Total comprehensive income for 2017	-	-	-	-	2,670,293	-	1,621,240	4,291,533
Appropriation of 2016 earnings								
Legal reserve	-	-	888,904	-	(888,904)	-	-	-
Special reserve	-	-	-	32,149	(32,149)	-	-	-
Cash dividends	-	-	-	-	(2,032,734)	-	-	(2,032,734)
Balance at December 31, 2017	$ 13,114,411	$ 320,929	$ 18,098,666	$ 235,239	$ 2,679,521	$ -	$ 1,589,091	$ 36,037,857
For the year ended December 31,2018								
Balance at January 1, 2018	$ 13,114,411	$ 320,929	$ 18,098,666	$ 235,239	$ 2,679,521	$ -	$ 1,589,091	$ 36,037,857
Effects of retrospective application and retrospective restatement	-	-	-	-	346,880	1,563,589	(1,589,091)	321,378
Balance at 1 January after adjustments	13,114,411	320,929	18,098,666	235,239	3,026,401	1,563,589	-	36,359,235
Net income for 2018	-	-	-	-	2,558,081	-	-	2,558,081
Total other comprehensive loss for 2018	-	-	-	-	(38,215)	(1,348,761)	-	(1,386,976)
Total comprehensive income for 2018	-	-	-	-	2,519,866	(1,348,761)	-	1,171,105
Appropriation of 2017 earnings								
Legal reserve	-	-	803,857	-	(803,857)	-	-	-
Special reserve	-	-	-	(32,149)	32,149	-	-	-
Cash dividends	-	-	-	-	(1,901,589)	-	-	(1,901,589)
Disposal of investment in equity instruments designated at fair value through other comprehensive income	-	-	-	-	33,866	(33,866)	-	-
Balance at December 31, 2018	$ 13,114,411	$ 320,929	$ 18,902,523	$ 203,090	$ 2,906,836	$ 180,962	$ -	$ 35,628,751

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

MEGA BILLS FINANCE CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 3,062,597	$ 3,211,521
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(27)	21,750	21,329
Amortization	6(27)	3,933	3,681
(Reversal) recognition for bad debts and various reserves	6(16)	(52,590)	40,063
Interest income	6(21)	(3,446,303)	(3,382,516)
Dividend income		(86,620)	(64,849)
Interest expense	6(21)	1,603,543	1,209,251
Reversal of impairment loss on assets		(6,542)	-
Gains on disposal of property and equipment		(58)	(62)
Changes in operating assets and liabilities			
Changes in operating assets			
Decrease (increase) in financial assets at fair value through profit or loss		9,976,452	(11,256,529)
Decrease in financial assets at fair value through other comprehensive income		3,058,020	-
Increase in investments in debt instruments measured at amortized cost		(440,184)	-
Decrease (increase) in bills and bonds investment with resale agreements		501,259	(501,259)
Decrease in receivables		39,902	14,487
Increase in available-for-sale financial assets		-	(1,399,916)
Decrease in held-to-maturity financial assets		-	250,000
Decrease (increase) in other financial assets		33,134	(54,775)
Increase in other assets		(1,767)	(16,473)
Increase (decrease) in financial liabilities at fair value through profit or loss		5,260	(21,911)
Decrease in bills and bonds payable under repurchase agreements		(6,104,330)	(2,395,072)
(Decrease) increase in payables		(436,197)	349,909
Decrease in provisions for liabilities		(57,803)	(50,707)
Increase (decrease) in other liabilities		205,256	(280,090)
Interest received		3,522,858	3,248,380
Interest paid		(1,554,859)	(1,214,199)
Dividend received		86,620	64,849
Income tax paid		(436,005)	(697,802)
Net cash flows from (used in) operating activities		9,497,326	(12,922,690)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	6(10)	(10,967)	(4,095)
Increase in intangible assets		(340)	(2,376)
Increase in other assets		(1,971)	(605)
Proceeds from disposal of property and equipment		107	63
Net cash flows used in investing activities		(13,171)	(7,013)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) increase in interbank overdraft and call loans		(8,049,993)	15,409,680
Payments of cash dividends		(1,901,589)	(2,032,734)
Net cash flows (used in) from financing activities		(9,951,582)	13,376,946
Net (decrease) increase in cash and cash equivalents		(467,427)	447,243
Cash and cash equivalents at beginning of year	6(1)	793,634	346,391
Cash and cash equivalents at end of year	6(1)	$ 326,207	$ 793,634

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

MEGA BILLS FINANCE CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Express in thousands of New Taiwan dollars)

1. HISTORY AND ORGANISATION

(1) Mega Bills Finance Co., Ltd. (the "Company") formerly known as Chung Hsing Bills Finance Co., Ltd., was established on May 3, 1976. In accordance with the Explanatory Letter Jing-Shou-Shang-Zi Ruling 09501114390 of Economic Affairs, R.O.C., dated June 14, 2006, the Company was renamed as Mega Bills Finance Co., Ltd. The Company is mainly engaged in (1) acting as guarantor and endorser of commercial paper (CP2); (2) approval, underwriting, brokerage and proprietary trading service of short-term negotiable instruments; (3) approval, underwriting, brokerage and proprietary trading service of bank debentures; (4) proprietary trading service of government bonds; (5) proprietary trading service of corporate bonds; (6) transactions of derivative financial instruments; (7) investments of equity instruments; (8) proprietary trading and investment service of fixed income securities; (9) corporate financial consulting service and (10) other business approved by the authorities.

(2) The common stock of the Company was originally traded on the Taiwan Stock Exchange. Pursuant to a resolution in the 2002 annual stockholders' meeting, the Company was merged into Mega Financial Holding Co., Ltd. (hereinafter referred to as "Mega Holding") by way of a share swap. The ratio of the share swap was 1.39 shares of the Company's common stock for one common share of Mega Holding. As a result, the Company was de-listed from the Taiwan Stock Exchange on August 22, 2002.

(3) Mega Holding is the parent company of the Company (Ultimate parent).

(4) The number of employees (including directors) of the Company was 252 and 241 as of December 31, 2018 and 2017, respectively.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE FINANCIALSTATEMENTS AND PROCEDURES FOR AUTHORISATION

These financial statements were authorized for issuance by the Board of Directors on February 26, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

A. IFRS 9, 'Financial instruments'

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

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

The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

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

The Company has elected to apply IFRS 9 by modified retrospective approach when applying "IFRSs" effective in 2018 as endorsed by the FSC. For details of the significant effect as at January 1, 2018, please refer to Notes 15.

Please refer to Note 13(3) for detailed information on the credit risk related to the adoption of IFRS 9 on January 1, 2018. Please refer to the Note 15(4) for detailed information on the credit risk related to the adoption of IAS 39 for the periods before December 31, 2017.

The initial application of IFRS 9 uses the modified retrospective approach. In Note 6, only information pertaining to December 31, 2018 and for the year ended December 31, 2018 are disclosed. For information pertaining to December 31, 2017, and for the year ended December 31, 2017, please refer to Note 15(4).

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

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

A. IFRS 16, 'Leases'

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

(b) The Company has elected to apply IFRS 16 by modified retrospective approach when applying “IFRSs” effective in 2019 as endorsed by the FSC. The Company expects to recognise the lease contract of lessees in line with IFRS 16. Accordingly, on January 1, 2019, the Company will have to increase ‘right-of-use asset’ by $14,856 thousand and increase lease liability by $14,856 thousand.

(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
Amendment to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 17, ‘Insurance contracts’	January 1, 2021

The above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”, “Regulations Governing the Preparation of Financial Reports by Securities Firms”, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis for preparation

A. Except for the following items, these financial statements have been prepared under the historical cost convention:

(A) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(B) Financial assets and financial liabilities at fair value through other comprehensive income

(C) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company'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.

C. In adopting IFRS 9 effective January 1, 2018, the Company has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ("IAS 39") and related financial reporting interpretations. Please refer to Note 15 for details of significant accounting policies and credit risk information.

(3) Foreign currency translations

A. Functional and presentation currency

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

B. Transactions and balances

(A) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(B) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the spot exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(4) Cash and cash equivalents

"Cash and cash equivalents" include cash on hand, demand deposits, short-term highly liquid time deposits or investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. Time deposits refer to those with short-term maturity used to satisfy short-term cash commitments that are not held for investment purposes or other purposes.

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

A. 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. Or 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.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

D. The Company recognises the gain or loss of dividend income in profit or loss when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(6) 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 Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

(a) The objective of the Company'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. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:

(a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably. Unless the dividend apparently represents recovery of investment cost, the Company recognises dividend income in profit or loss.

(b) Except for the recognition of impairment profit or loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(7) Investments in debt instrument at amortized cost

A. Investments in debt instrument qualifying equity instrument are those that meet all of the following criteria:

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

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

B. On a regular way purchase or sale basis, investments in debt instrument at amortized cost are recognised and derecognised using trade date accounting.

C. At initial recognition, the Company 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 recognised in profit or loss when the asset is derecognised or impaired.

(8) Bills and bonds under repurchase or resale agreements

Bills and bonds under repurchase or resale agreements are stated at the amount actually received from or paid to the counterparties. When transactions of bills and bonds with a condition of resale agreements occur, the actual payment shall be recognised in bills and bonds investment with resale agreements. When transactions of bills and bonds with a condition of repurchase agreements occur, the actual receipt shall be recognised in bills and bonds payable under repurchase agreements. Any difference between the actual payment/receipt and predetermined resale (repurchase) price is recognised in interest income or interest expens

(9) Accounts receivable and overdue receivables

Accounts receivable include accounts receivable, notes receivable and other receivables. Accounts receivable are accounted for as follows:

A. The commercial papers guaranteed by the Company which matures without being presented immediately within six months from the maturity, shall be accounted for as accounts receivable. Receivables overdue for longer than six months shall be accounted for as overdue receivables.

B. During the period which guaranteed commercial papers are issued for, the collateral is subject to provisional attachment yet the borrower still pays the interest regularly. In order to extend a grace period for the borrower to apply for removal of such attachment, if such commercial paper matures without being presented immediately, the balance of the commercial paper shall be accounted for as notes receivable.

C. Other receivables represent accounts receivable except for those listed under designated accounts.

D. Accounts receivable and overdue receivables are initially recognised at fair value, which includes the price of transaction, significant costs of transaction, significant handling fees paid or received, discount and premium, etc., and subsequently measured at amortized cost using the effective interest method.

(10) Property and equipment

A. Property and equipment are initially recorded at cost.

B. Land is not depreciated. Other property and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 and equipment are as follows: buildings, 60 years; machinery and computer equipment, 3 to 8 year; miscellaneous equipment, 3 to 18 years.

C. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(11)Operating leases

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

(12)Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 60 years.

(13)Intangible assets

A.Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 3 to 8 years.

B.Intangible assets are subsequently measured using the cost model.

(14)Impairment of financial assets

For accounts receivable, debt instruments measured at fair value through other comprehensive income and financial assets at amortized cost and financial guarantee contracts, at each reporting date, the Company recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. The Company measures expected credit losses of a financial instrument 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 credit assets, Mega Bills Finance Co., Ltd. assesses the loss allowance at the balance sheet date in accordance with legislations such as "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" 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.

(15) Impairment of non-financial assets

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

(16) Derecognition of financial assets and liabilities

The Company derecognises a financial asset when one of the following conditions is met:

A. The contractual rights to receive the cash flows from the financial asset expire.
B. The contractual rights to receive cash flows of the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.
C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Company has not retained control of the financial asset.

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expires.

(17) Offsetting financial instruments

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

(18) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The Company initially recognises financial guarantee contracts at fair value on the date of issuance. The Company charges a service fee when the contract is signed and therefore the service fee income charged is the fair value at the date that the financial guarantee contract is signed. Service fee received in advance is recognised in deferred accounts and amortized through straight-line method during the contract term.

Subsequently, the Company provisions for the financial guarantee contracts at the higher of:

A. Loss allowance based on expected credit loss model, and

B. The amount on initial recognition less cumulative gains recognised under IFRS 15 wherever needed.

Except for the above, the Company assesses the possible loss on credit assets off balance sheets in accordance with "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt", and provisions at the higher of the above amounts.

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

A. When all the following criteria are met, the Company shall recognise a provision:

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

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

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

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

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

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

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

(20) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

The pension plan of the Company includes both defined contribution plans and defined benefit plans.

(A) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(B) Defined benefit plans

a. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. 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 Company uses market yields on government bonds (at the balance sheet date) instead.

b. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

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

C. Employees' remuneration

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

(21) Revenue and expense

Income and expense of the Company are recognised as incurred, the main components are as follows:

A. Interest income and expense: Interest income means interest income generated from holding bills and bonds, bills and bonds investment with resale agreements, various deposits, and other financial assets. Interest expense means various interest expenses resulting from bills and bonds payable under repurchase agreements and financing from banks. All the interest income and interest expense generated from interest-bearing financial instruments are calculated by effective interest rate according to relevant regulations and recognised as interest income and interest expense.

B. Service fee income and expense: Service fee income means service fee income earned from provision of guarantee, certification, and underwriting services. Service fee expense means expenses resulting from authorizing others to handle various procedures. Amounts the Company receives when providing the services, such as guarantee service, is recognised as service fee income on a straight-line basis over the guarantee period. If the amounts earned are classified as income from implementation of significant activities, such as certification service, the amounts shall be recognised as income when the certification service is completed.

C. Operating expenses: operating expenses refer to expenditures required to carry out business operations, which primarily comprise employee benefit expense, depreciation and amortization expenses, and other business and administrative expenses.

(22) Income tax

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

B. 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 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 year the stockholders resolve to retain the earnings. Pursuant to the amendments to the Income Tax Act which was enacted on February 7, 2018, an additional 5% income tax is levied on the unappropriated retained earnings beginning the year ended December 31, 2018.

C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.

E. Although the Company's income tax returns are filed jointly with Mega Holding, the Company's parent company, and its other subsidiaries starting 2003, income taxes are accounted for by the same principles stated above. The estimated amount of receivables (payables) arising from the joint filing of income tax returns is recorded under "Current income tax assets (liabilities)".

F. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the 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.

(23) Common Stocks

Net of incremental costs directly attributable to the issuance of new shares will be removed from equity after related income tax expense is eliminated. Dividends on ordinary shares are recognised in equity in the year in which they are approved by the shareholders. Cash dividends are recorded as liabilities. They are not recognised and only disclosed as subsequent event in the notes to the financial statements if the dividend declaration date is later than the balance sheet date.

(24) Share-based payment

When the parent company reserves shares from cash capital increase for employee preemption, fair value of the services received shall be measured at the fair value of equity instruments granted at the grant date and recognised as employee benefit expense in accordance with IFRS 2, ‘Share-based Payment’.

(25) Presentation of financial statements

In accordance with the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”, assets and liabilities in the accompanying financial statements are not classified into current and non-current items.

(26) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

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

The preparation of these financial statements requires management to make critical judgements in applying the Company’s accounting policies and make critical assumptions and estimates concerning future events. Judgements and estimates are continually evaluated and adjusted based on historical experience and other factors. The above information is addressed below:

(1) Reserve for guarantee liabilities

The Company provisions the reserve for financial guarantee contracts by adopting related policies on expected credit losses and models. Unless otherwise regulated by laws, the Company assesses whether provision is appropriate at the balance sheet date.

A. Model and parameter assumptions are adopted with reference to actual loss rate in the past years and yearly macro-economic projections in terms of business cycle released by government agencies.

B. If the credit risk of debtor has not been significantly increased since initial recognition, 12-month ECLs is recognised. If the credit risk of debtor has been significantly increased since initial recognition, lifetime ECLs is recognised after taking into consideration factors such as any adverse change resulted from the debtor’s repayment history, industrial information related to payment overdue and the collateral’s value.

C. The Company regularly reviews the assumptions to deduce from the factors above to mininize the difference between expected credit losses and actual losses.

(2) Expected credit losses

For financial assets, the measurement of expected credit losses adopts complex models and multiple assumptions associated with macro-economic outlook and debtor’s situations in terms of the probability of default and resulting losses.

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 factors to be taken into consideration in terms of different products.

D. Grouping the financial instruments to include financial assets with the same characteristics into one group.

Please refer to Note 13(3) for the aforementioned judgements and estimates with respect of ECLs.

(3) Fair value measurement of unlisted stocks without active market

Since unlisted stocks lack quoted prices in active markets, management determined measuring fair value by using valuation technique such as market approach. The key assumption for this valuation technique is based on the latest price-to-book ratio of comparable listed firms in similar industry and take into account any potential discounts regarding liquidity and specialized risks. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(1) for the financial instruments fair value information.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Checking deposits	$ 230,004	$ 253,382
Demand deposits	95,503	539,552
Petty cash	700	700
Total	$ 326,207	$ 793,634

A. For bank deposits due from related parties, please refer to Note 7.

B. As of December 31, 2018 and 2017, demand deposits in USD amounted to US$579 thousand and US$1,225 thousand, respectively, and the exchange rate of USD to NTD was 1:30.733 and 1: 29.648, respectively. (Exchange rates of USD to NTD shown below are all the same).

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

	December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss, mandatorily measured at fair value		
Commercial paper	$ 104,340,008	$ 103,716,816
Fixed rate commercial paper purchased	25,505	30,597
Negotiable certificates of time deposit	17,799,753	28,981,755
Convertible corporate bonds	225,959	286,234
Convertible corporate bond asset swaps	4,144,399	-
Stocks	18,445	-
Funds	23,496	16,883
Subtotal	126,577,565	133,032,285
Financial assets designated as at fair value through profit or loss		
Convertible corporate bond asset swaps	-	3,521,732
Subtotal	-	3,521,732
Total	$ 126,577,565	$ 136,554,017

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	2018	2017
Financial assets mandatorily measured at fair value through profit or loss		
Short-term bills	$ 473,286	$ 509,951
Debt instruments	23,668	34,761
Equity instruments	3,759	(1,258)
	500,713	543,454
Financial assets designated as at fair value through profit or loss on initial recognition		
Debt instruments	-	(10,568)
	-	(10,568)
Total	$ 500,713	$ 532,886

B. As of December 31, 2018 and 2017, the transaction carrying amount of bills with repurchase agreement of above financial assets at fair value through profit or loss, mandatorily measured at fair value were $84,588,323 thousand and $86,259,956 thousand, respectively.

C. As of December 31, 2018 and 2017, the above negotiable certificates of time deposits used for bank overdraft collateral have maturities within one year. Please refer to Notes 7 and 8 for details.

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

		December 31, 2018
Debt instruments		
Government bonds	$	62,875,529
Foreign currency government bonds		684,318
Financial bonds		8,789,293
Foreign currency financial bonds		26,002,863
Corporate bonds		21,825,472
Foreign currency corporate bonds		9,661,491
Subtotal		129,838,966
Equity instruments		
Listed stocks		1,520,325
Unlisted stocks		595,804
Subtotal		2,116,129
Total	$	131,955,095

A. Revelation details of unlisted stocks are as follows:

		December 31, 2018
Core Pacific City Co., Ltd.	$	192,133
Taiwan Futures Exchange Co., Ltd.		169,920
Taiwan Depository & Clearing Co., Ltd.		149,531
Taiwan Asset Management Co., Ltd.		51,120
Taiwan Financial Asset Services Co., Ltd.		33,100
Agora Garden Co., Ltd.		-
	$	595,804

B. The Company has elected to classify stock investments that are not acquired principally to obtain capital gains by selling as financial assets at fair value through other comprehensive income.

C. Aiming to raise capital adequacy ratio, the Company sold listed stock amounting to $181,103 thousand and resulted in cumulative gains on $33,866 thousand for the year ended December 31, 2018.

D. Amounts recognised in other comprehensive income in relation to financial assets at fair value through other comprehensive income are listed as follows:

	2018
Investments in equity instruments designated at fair value through other comprehensive income	
Fair value change recognized in other comprehensive income	($ 85,869)
Cumulative gains reclassified to retained earnings due to derecognition	$ 33,866
Dividend income recognized in profit or loss	
Held at end of period	$ 83,870

	2018
Investments in debt instruments designated at fair value through other comprehensive income	
Fair value change recognized in other comprehensive income	($ 1,301,416)
Cumulative other comprehensive income reclassified to profit or loss	
Reclassified due to impairment recognition	(6,614)
Reclassified due to derecognition	(254,115)
	($ 1,562,145)

E. As of December 31, 2018, the transactions in relation to the abovementioned bonds with repurchase agreement under financial assets at fair value through other comprehensive income amounted to $114,942,047 thousand.

F. As of December 31, 2018, the above negotiable certificates of government bonds and corporate bonds used for bank overdraft collateral. Please refer to Notes 7 and 8 for details.

G. As of December 31, 2018, in accordance with the relevant regulations, the Company deposited refundable deposits in Central Bank or other institutions. Bonds are collateralized as refundable deposits amounting to $840,891 thousand.

H. As of December 31, 2018, the fair values of government bonds, financial bonds, and corporate bonds denominated in USD were US$22,266 thousand, US$846,089 thousand, and US$314,369 thousand, respectively;

I. In consideration of increasing interest revenue, the Company holds a securitized SPT beneficial security, which was issued in 2014 by the Land Bank of Taiwan on behalf of Chailease Finance Co., Ltd.'s commission. The legal maturity date of the asset-backed security investment was July 24, 2021. However, investments are subject to an early termination according to the underlying's status of principal repayments

J. As of December 31, 2018 the company's investment in the abovementioned structured entities was subject to an early termination with the ending balance of $0, in addition, interest income arising from investing in the structured entities was $1,146 thousand for the year ended December 31, 2018.

K. The stockholders of Core Pacific City Co., Ltd. resolved capital reduction to cover losses at special stockholders' meeting on January 17, 2018. It led to a decrease of 22,620 thousand shares in total in proportion to the Company's ownership.

L. On June 7, 2018 the Shareholder Meeting of Taiwan Asset Management Co., Ltd. resolved capital reduction, with the effective date set on August 27, 2018, the proceeds to the company in proportion to the capital reduction amount was $15,000 thousand.

(4) Investments in debt instruments at amortized cost

Items	December 31, 2018
Foreign currency financial bonds	$ 440,184
Less: Accumulated impairment	(114)
Total	$ 440,070

A. Amounts recognised in profit or loss in relation to investments in debt instruments at amortized cost are listed below:

	2018
Interest income	$ 7,433
Expected credit losses	(114)
Total	$ 7,319

B. On December 31, 2018, the transaction carrying amount of investments in debt instruments at amortized cost with repurchase agreement was $440,070 thousand.

C. On December 31, 2018, the fair values of financial bonds denominated in USD were US$15,000 thousand.

(5) Bills and bonds under repurchase or resale agreements

	December 31, 2018	December 31, 2017
Bills and bonds investment with resale agreements	$ -	$ 501,259
Bills and bonds payable under repurchase agreements	$ 202,310,405	$ 208,414,735

A. As of December 31, 2017, the interest rate of bills and bonds investment with resale agreements was 0.39%. The fair value of collaterals (bonds) obtained by transaction amounted to $557,215 thousand.

B. As of December 31, 2018 and 2017, the interest rate of bills and bonds payable under repurchase agreements in NTD were 0.20%~0.88% and 0.23%~0.82%, respectively.

C. As of December 31, 2018 and 2017, please refer to Note 7 for the balances of repo trades with related parties.

D. As of December 31, 2018 and 2017, the interest rate of bills and bonds payable under repurchase agreements in USD were 1.80%~3.70% and 1.20%~2.78%, and recognised amount of USD denominated bills and bonds payable under repurchase agreements were US$1,151,547 thousand and US$1,125,496 thousand, respectively.

E. As of December 31, 2017, the above bills and bonds investments under resale agreements used as underlying assets for repurchase agreements were $501,259 thousand.

(6) Receivables – net

	December 31, 2018
Interest receivable	$ 1,528,943
Other receivables – others	6,772
Subtotal	1,535,715
Less: loss allowance–interest receivables (Note)	(453)
Less: loss allowance–other receivables	(645)
Receivables, net	$ 1,534,617

Note: The expected credit loss was recognised based on underlying bonds.

(7) Transfer of financial assets

Transferred financial assets that are not derecognised in their entirety

In the Company’s ordinary course of transactions, transferred financial assets that are not derecognised in their entirety are financial instruments provided as liens for the counterparty through repurchase agreements. Because such transactions reflect a liability where the Company is obligated to repurchase transferred assets with a fixed price in the future, for such transactions, the Company may not use, sell or pledge such transferred financial assets within the effective period of the transactions; however, the Company still bears the interest rate risk and credit risk, thus they are not derecognised in their entirety. The following table analyzes information on financial assets not derecognised in their entirety and their related liabilities:

December 31, 2018		
Financial assets category	Carrying amount of transferred financial assets	Carrying amount of related financial liabilities
Financial assets at fair value through profit or loss		
Repurchase agreements	$ 84,588,323	$ 84,598,740
Financial assets at fair value through other comprehensive income		
Repurchase agreements	$ 49,522,659	$ 47,364,672
Investments in debt instruments at amortized cost		
Repurchase agreements	$ 440,070	$ 406,303

December 31, 2017		
Financial assets category	Carrying amount of transferred financial assets	Carrying amount of related financial liabilities
Financial assets at fair value through profit or loss		
Repurchase agreements	$ 86,259,956	$ 86,282,941
Available-for-sale financial assets		
Repurchase agreements	$ 52,846,559	$ 50,215,834

(8) Offsetting financial assets and financial liabilities

When the Company has entered into an enforceable master netting arrangement with a counterparty, and both parties elect to settle by the net amount, the settlement may be based on the net amount after offsetting financial assets and financial liabilities. Related information is listed as follows:

A. Financial assets

The balance as of December 31, 2018 and 2017 were both $0.

B. Financial liabilities

December 31, 2018						
				Not set off in the balance sheet		
Description	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off	Net amounts of financial liabilities presented in the balance sheet	Financial instruments	Cash collateral pledged	Net amount
Repurchase agreement	$ 27,314,321	$ -	$ 27,314,321	$ 27,314,321	$ -	$ -

December 31, 2017						
				Not set off in the balance sheet		
Description	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off	Net amounts of financial liabilities presented in the balance sheet	Financial instruments	Cash collateral pledged	Net amount
Repurchase agreement	$ 16,634,074	$ -	$ 16,634,074	$ 16,634,074	$ -	$ -

(9) Other financial assets – net

	December 31, 2018
Certificate of deposit pledged	$ 400,000
Designated account for allowance to pay back short–term bills	97,703
Net	$ 497,703

A. The above certificate of deposit pledged were provided as collaterals for bank overdrafts as of December 31, 2018. Please refer to Note 8 for details.

(10)Property, plant and equipment

	Land	Buildings	Machinery and computer equipment	Miscellaneous equipment	Equipment prepayment	Total
January 1, 2018						
Cost	$ 227,347	$ 166,118	$ 80,169	$ 56,997	$ -	$ 530,631
Accumulated depreciation	-	(71,180)	(49,331)	(46,514)	-	($ 167,025)
Net Book Value	227,347	94,938	30,838	10,483	-	363,606
Additions-Cost	-	-	5,893	1,954	3,120	10,967
Disposals-Cost	-	-	(5,251)	(1,341)	-	(6,592)
Disposals-Accumulated depreciation	-	-	5,222	1,321	-	6,543
Depreciation	-	(2,721)	(6,760)	(1,605)	-	(11,086)
December 31, 2018	$ 227,347	$ 92,217	$ 29,942	$ 10,812	$ 3,120	$ 363,438
December 31, 2018						
Cost	$ 227,347	$ 166,118	$ 80,811	$ 57,610	$ 3,120	$ 535,006
Accumulated depreciation	-	(73,901)	(50,869)	(46,798)	-	(171,568)
Net Book Value	$ 227,347	$ 92,217	$ 29,942	$ 10,812	$ 3,120	$ 363,438

	Land	Buildings	Machinery and computer equipment	Miscellaneous equipment	Equipment prepayment	Total
January 1, 2017						
Cost	$ 227,347	$ 166,118	$ 80,407	$ 56,422	$ -	$ 530,294
Accumulated depreciation	-	(68,459)	(46,286)	(45,372)	-	(160,117)
Net Book Value	227,347	97,659	34,121	11,050	-	370,177
Additions-Cost	-	-	3,131	964	-	4,095
Disposals-Cost	-	-	(3,369)	(389)	-	(3,758)
Disposals-Accumulated depreciation	-	-	3,368	389	-	3,757
Depreciation	-	(2,721)	(6,413)	(1,531)	-	(10,665)
December 31, 2017	$ 227,347	$ 94,938	$ 30,838	$ 10,483	$ -	$ 363,606
December 31, 2017						
Cost	$ 227,347	$ 166,118	$ 80,169	$ 56,997	$ -	$ 530,631
Accumulated depreciation	-	(71,180)	(49,331)	(46,514)	-	(167,025)
Net Book Value	$ 227,347	$ 94,938	$ 30,838	$ 10,483	$ -	$ 363,606

Note: All property and equipment were neither provided as collateral nor revalued.

(11)Investment property – net

	Land	Buildings	Total
January 1, 2018			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(199,002)	(199,002)
Net Book Value	2,204,894	312,866	2,517,760
Depreciation	-	(10,664)	(10,664)
December 31, 2018	$ 2,204,894	$ 302,202	$ 2,507,096
December 31, 2018			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(209,666)	(209,666)
Net Book Value	$ 2,204,894	$ 302,202	$ 2,507,096
January 1, 2017			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(188,338)	(188,338)
Net Book Value	2,204,894	323,530	2,528,424
Depreciation	-	(10,664)	(10,664)
December 31, 2017	$ 2,204,894	$ 312,866	$ 2,517,760
December 31, 2017			
Cost	$ 2,204,894	$ 511,868	$ 2,716,762
Accumulated depreciation	-	(199,002)	(199,002)
Net Book Value	$ 2,204,894	$ 312,866	$ 2,517,760

A. No investment property was provided as collateral.

B. Rental income from the lease of the investment property for the years ended December 31, 2018 and 2017 were $105,353 thousand and $101,737 thousand, respectively.

C. The fair value of the investment property held by the Company as at December 31, 2018 and 2017 were $3,805,837 thousand and $3,812,943 thousand, respectively, which were revalued by independent valuers and based on the price with comprehensive reference to comparison approach and direct capitalization under income approach. The capitalization rate used in valuation was 1.96%~2.18%. The fair value of investment property held by the Company is classified as Level 2.

(12) Other assets – net

	December 31, 2018	December 31, 2017
Prepaid salaries	$ 19,634	$ 18,382
Refundable deposits	11,058	10,989
Guarantee deposits held for operation and funds for security settlements	5,908	5,997
Other deferred assets	8,861	9,703
Others	4,495	3,960
Total	$ 49,956	$ 49,031

(13) Interbank overdraft and call loans

	December 31, 2018	Period	Interest Rate (%)
Bank overdrafts	$ 205,000	Nov.22.2018-Nov.21.2019(Note)	1.38
Call loans-NTD	20,300,000	Dec.14.2018-Jan.17.2019	0.60~0.63
Call loans-USD	2,569,279	Dec.24.2018-Jan.03.2019	3.43~4.80
Total	$ 23,074,279		

	December 31, 2017	Period	Interest Rate (%)
Bank overdrafts	$ 268,000	Nov.23.2017-Nov.23.2018(Note)	1.38
Call loans-NTD	29,700,000	Dec.15.2017-Jan.22.2018	0.42~0.44
Call loans-USD	1,156,272	Dec.27.2017-Jan.05.2018	2.20~3.10
Total	$ 31,124,272		

Note: Represents contract period.

A. Please refer to Note 7 for details of bank overdrafts and call loans granted by the related parties.

B. Please refer to Note 8 for details for collaterals provided for bank overdrafts and loans as of December 31, 2018 and 2017.

C. As of December 31, 2018 and 2017, call loans in USD amounted to US$83,600 thousand and US$39,000 thousand, respectively.

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

	December 31, 2018	December 31, 2017
Fixed rate commercial paper purchased	$ 5,892	$ 161
Fixed rate commercial paper sold	-	471
	$ 5,892	$ 632

The Company recognised net (loss) gain of ($5,261) thousand and $21,435 thousand on financial liabilities at fair value through profit or loss for the years ended December 31, 2018 and 2017, respectively.

(15) Payables

	December 31, 2018	December 31, 2017
Bonus payable	$ 147,980	$ 178,248
Interest payable	104,104	55,420
Receipts under custody payable (Note)	81,160	107,850
Payables of transactions under repurchase agreements on maturity	75,173	500,081
Employees' remuneration payable	62,502	65,016
Settlement payables on bonds and stocks investment	45,968	-
Others	43,369	41,154
Total	$ 560,256	$ 947,769

Note: This represents withholding taxes on interest income from bills and bonds pertaining to former
purchasers.

(16) Provisions for liabilities

	December 31, 2018
Reserve for guarantee liabilities	$ 2,217,157
Net defined benefit liability	479,758
Total	$ 2,696,915

Movements in allowance and reserves for accounts receivable, overdue loans and guarantee liabilities are as follows:

	Loss allowance for accounts receivable and overdue loans	Reserve for guarantee liabilities	Total
January 1, 2018	$ 695	$ 2,289,701	$ 2,290,396
Reversal	(50)	(52,540)	(52,590)
Write-off	(20,004)	-	(20,004)
Transfer	20,004	(20,004)	-
December 31, 2018	$ 645	$ 2,217,157	$ 2,217,802

(17) Pensions

A. (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. In accordance with the plan, an amount equal to 8% of the total monthly payroll was contributed by the Company to the retirement fund deposited with Bank of

Taiwan, the trustee, under the name of the independent retirement fund committee. Benefits under this plan are calculated based on the number of years of service, salaries, meal allowances, overtime wages and other regular payments made in accordance with the Labor Standards Act. The maximum number of basic points used for the purpose of benefit calculation is limited to 61 points for employees who worked before April 30, 2005 and limited to 45 points for employees who worked after May 1, 2005.

(B) The amounts recognised in the balance sheet are determined as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	$ 785,527	$ 763,168
Fair value of plan assets	(305,769)	(293,380)
Net defined benefit liability	$ 479,758	$ 469,788

(C) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit Obligation	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	$ 763,168	($ 293,380)	$ 469,788
Current service cost	23,268	-	23,268
Interest expense (income)	7,498	(3,017)	4,481
	793,934	(296,397)	497,537
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(8,843)	(8,843)
Change in financial assumptions	27,080	-	27,080
Experience adjustments	29,532	-	29,532
	56,612	(8,843)	47,769
Pension fund contribution	-	(43,931)	(43,931)
Paid pension	(65,019)	43,402	(21,617)
Balance at December 31	$ 785,527	($ 305,769)	$ 479,758

	Present value of defined benefit Obligation	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	$ 760,948	($ 288,546)	$ 472,402
Current service cost	23,018	-	23,018
Interest expense (income)	9,038	(3,428)	5,610
	793,004	(291,974)	501,030
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	591	591
Change in financial assumptions	26,700	-	26,700
Experience adjustments	14,800	-	14,800
	41,500	591	42,091
Pension fund contribution	-	(24,885)	(24,885)
Paid pension	(71,336)	22,888	(48,448)
Balance at December 31	$ 763,168	($ 293,380)	$ 469,788

(D)The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(E)The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2018	2017
Discount rate	0.90%	1.00%
Future salary increases	2.40%	2.10%

Assumptions regarding future mortality rate for 2018 and 2017 are set based on the 5th

Chart of Life Span Estimate Used by the Taiwan Life Insurance Enterprises.

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2018				
Effect on present value of defined benefit obligation	($ 17,844)	$ 18,474	$ 17,310	($ 16,822)
December 31, 2017				
Effect on present value of defined benefit obligation	($ 17,301)	$ 17,923	$ 16,883	($ 16,395)

(F) Expected contributions to the defined benefit pension plans of the Company amounts to $9,394 thousand in the coming year.

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, 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 benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017 were $4,870 thousand and $4,557 thousand, respectively.

(18) Common stock

As of December 31, 2018 and 2017, the Company's paid-in capital was both $13,114,411 thousand, consisting of 1,311,441 thousand shares with a par value of $10 dollars per share.

(19) Capital surplus

A. As required by Company Law, capital reserve of additional paid-in capital and income from donation after offsetting accumulated deficit, the legal reserve may be used exclusively to increase capital by issuing new shares or distribute cash dividends according to original shareholders in proportion to the number of shares being held by each of them given there is no accumulated deficit in a company. In addition, according to Securities and Exchange Act, the capital reserve used for capital increase shall not exceed 10% of total paid-in capital. Unless the earnings reserve is insufficient to offset the capital deficit, the capital reserve shall not be used.

B. As of December 31, 2018 and 2017, the details of the Company's capital surplus is as follows:

	December 31, 2018	December 31, 2017
Share premium	$ 312,823	$ 312,823
Share-based payment transactions(Note)	8,106	8,106
	$ 320,929	$ 320,929

Note: the above-mentioned share-based payments are payments by the parent company, Mega Financial Holding Co., Ltd., conducted in accordance with Article 267 Paragraph 1 of the Company Act, where upon issuing new shares for a capital increase, 10% was reserved for subscription by employees of the group.

(20) Retained earnings

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 to the Ordinary Stockholders' Meeting for approval.

B. Stock dividends are distributed by cash; however, the cash distribution ratio is adjusted based on the business development, plan on capital and other relevant factors.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

D. (A) Appropriation of 2016 and 2015 earnings as resolved by the Board of Directors on behalf of the stockholders on April 24, 2018 and April 25, 2017, respectively, were as follows:

	2017		2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 803,857		$ 888,904	
Special reserve	-		32,149	
Cash dividends of stockholders	1,901,589	$ 1.450	2,032,734	$ 1.550

(B) The appropriation of 2018 earnings resolved by the Board of Directors on February 26, 2019 is set forth follows:

	2018	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 767,424	
Cash dividends of stockholders	2,124,535	$ 1.620

(C) The Company in accordance with Order No.Financial-Supervisory-Securities-Firms-1010012865 by the Financial Supervisory Commission, accrued a special reserve from current years' profit or loss and prior years' unappropriated earnings commensurate to the net deduction of other equity recognised in the current year. Special reserves accrued in the prior year from unappropriated earnings, which were commensurate to prior year accumulated net deduction of other equity, should not be distributed; however, entities that accrue special reserve under the aforementioned regulation should accrue special reserve based on the difference between the accrued amount and net deduction of other equity. Thus, in accordance with the above regulation, the Company accrued special reserve of $32,149 thousand when distributing earnings for 2016; the Company reserved accrued special reserve of $32,149 thousand when distributing earning for 2017 because of the unrealized profit on valuation of available for-sale financial assets.

E.For information relating to employees' remuneration, please refer to Note 6(26).

(21) Interest income, net

	For the years ended December 31,	
	2018	2017
Interest income		
Interest income from bills	$ 1,016,452	$ 1,028,592
Interest income from bonds (Note)	2,388,812	2,351,462
Others	41,039	2,462
Subtotal	3,446,303	3,382,516
Interest expense		
Interest expense of bills payable under repurchase agreements	(360,198)	(311,522)
Interest expense of bonds payable under repurchase agreements	(1,056,202)	(774,595)
Interest expense of overdraft and call loans	(186,592)	(122,930)
Others	(551)	(204)
Subtotal	(1,603,543)	(1,209,251)
Net	$ 1,842,760	$ 2,173,265

Note: Including interest income of $55,227 thousand and $74,107 thousand from convertible bond asset swap recognised for the years ended December 31, 2018 and 2017, respectively.

(22) Service fee and commission income, net

	For the years ended December 31, 2018	For the years ended December 31, 2017
Service fee income from guarantee service	$ 606,521	$ 609,832
Service fee income from certification service	-	44,905
Service fee income from underwriting service	300,635	287,744
Others	23,094	20,288
Subtotal	930,250	962,769
Service fee expense	(7,958)	(8,429)
Net	$ 922,292	$ 954,340

(23) Gain or loss from financial assets and liabilities at fair value through profit or loss

	For the years ended December 31, 2018	For the years ended December 31, 2017
Realized (Loss) Gain		
Dividends income	$ 2,750	$ -
Bills	470,061	509,401
Bonds	10,887	22,735
Derivatives	-	(477)
Others	939	-
	481,887	531,659
Subtotal	484,637	531,659
Valuation (Loss) Gain		
Bills	(2,036)	22,461
Bonds(Note)	12,781	1,459
Others	70	(1,258)
Subtotal	10,815	22,662
Total	$ 495,452	$ 554,321

Note: Including gain (loss) of $18,668 thousand and ($10,568) thousand on convertible bond asset swap recognised for the years ended December 31, 2018 and 2017, respectively.

(24) Realized gains or losses on financial assets at fair value through other comprehensive income

	2018
Dividends income	$ 83,870
Bonds	254,115
Total	$ 337,985

(25) Provisions (Reversal)

	For the years ended December 31, 2018	For the years ended December 31, 2017
Bad debt recovery	($ 1,468)	($ 51,131)
(Reversal) provision for guarantee reserve	(52,590)	40,063
Total	($ 54,058)	($ 11,068)

(26) Employee benefit

	For the years ended December 31, 2018	For the years ended December 31, 2017
Wages and salaries	$ 442,288	$ 452,171
Directors' remuneration	2,740	2,962
Pension costs	32,619	33,185
Labor and health insurance fees	24,221	24,146
Other employee benefits	25,024	19,324
Total	$ 526,892	$ 531,788

A. In accordance with the Company's Articles of Incorporation, if there are earnings for the fiscal year, 1.75%~3% shall be appropriated as employees' compensation. However, when there are accumulated deficits, earnings to cover the deficit shall first be retained.

B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at $62,502 thousand and $65,016 thousand, respectively. The aforementioned amounts were recognised in salary expenses. The employees' compensation was estimated and accrued based on 2% of distributable profit of current year for the years ended December 31, 2018 and 2017, respectively.

C. The Company distributed employees' cash compensation and recognised in employees' compensation expense on financial statements were $56,890 thousand, $63,707 thousand and $65,016 thousand, $86,459 thousand for the years ended December 31, 2017 and 2016, respectively. Because the ratios of employee's compensation changed, the differences $8,126 thousand and $22,752 thousand, had been adjusted the income for the years ended December 31, 2018 and 2017, respectively.

D. Information about employees' 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.

(27) Depreciation and amortization

	For the years ended December 31, 2018	For the years ended December 31, 2017
Depreciation	$ 21,750	$ 21,329
Amortization	3,933	3,681
Total	$ 25,683	$ 25,010

(28) Other business and administrative expenses

	For the years ended December 31,	
	2018	2017
Tax and official fee	$ 68,302	$ 68,886
Rental expense	45,426	45,006
Professional expense	10,943	8,981
Repairs and maintenance	6,560	5,662
Insurance expense	3,107	3,481
Others	82,227	76,653
Total	$ 216,565	$ 208,669

(29) Income taxes

A. Components of income tax expense:

(A)Components of income tax expense:

	For the years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the period	$ 459,908	$ 482,550
Tax on undistributed surplus earnings	-	848
Prior year income tax underestimation	5,423	63,326
Total current tax	465,331	546,724
Deferred tax:		
Origination and reversal of temporary differences	52,791	(40,432)
Impact of change in tax rate	(13,606)	-
Total deferred tax	39,185	(40,432)
Income tax expense	$ 504,516	$ 506,292

(B)The income tax relating to components of other comprehensive income is as follows:

	For the years ended December 31,	
	2018	2017
Changes in fair value of debt instruments at fair value through other comprehensive income	$ 299,253	$ -
Remeasurement of defined benefit obligations	9,554	7,155
	$ 308,807	$ 7,155

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate	$ 612,519	$ 545,959
Effects from items disallowed by tax regulation	(61,518)	(84,657)
Effects from tax exempt income	(38,302)	(19,184)
Prior year income tax underestimation	5,423	63,326
Impact of change in tax rate	(13,606)	-
Tax on undistributed surplus earnings	-	848
Income tax expense	$ 504,516	$ 506,292

C. Temporary differences resulting in deferred income tax assets or liabilities as of December 31, 2018 and 2017:

	For the year ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Pension unfunded	$ 109,520	$ 11,768	$ 9,554	$ 130,842
Unrealized gains (losses) on foreign bonds	-	-	299,253	299,253
Administrative remedy	99,890	(4,762)	-	95,128
Others	13,256	(5,806)	-	7,450
Subtotal	$ 222,666	$ 1,200	$ 308,807	$ 532,673
- Deferred tax liabilities:				
Unrealized Interest income, bonds	($ 43,170)	($ 40,350)	$ -	($ 83,520)
Others	(2,505)	(35)	-	(2,540)
Total	($ 45,675)	($ 40,385)	$ -	($ 86,060)

	For the year ended December 31, 2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Pension unfunded	$ 109,964	($ 7,599)	$ 7,155	$ 109,520
Administrative remedy	37,860	62,030	-	99,890
Others	2,863	10,393	-	13,256
Subtotal	$ 150,687	$ 64,824	$ 7,155	$ 222,666
- Deferred tax liabilities:				
Unrealized Interest income, bonds	($ 22,596)	($ 20,574)	$ -	($ 43,170)
Others	1,313	(3,818)	-	(2,505)
Total	($ 21,283)	($ 24,392)	$ -	($ 45,675)

D. As of December 31, 2018, the Company’s income tax returns through 2014 had been assessed by the Tax Authorities. The Company disagreed with the assessment for 2010 and 2011, and has filed for a reassessment and recognised the related adjustment of tax.

E. The Company’s income tax returns are filed jointly with Mega Holding, the Company’s parent company, and its other subsidiaries starting 2003.

F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company’s applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(30) Earnings per share

	2018		
	Amount after tax	Weighted-average number of shares outstanding (share in thousands)	Basic and diluted earnings per share (In dollars)
Net income	$ 2,558,081	1,311,441	$ 1.95

	2017		
	Amount after tax	Weighted-average number of shares outstanding (share in thousands)	Basic and diluted earnings per share (In dollars)
Net income	$ 2,705,229	1,311,441	$ 2.06

7. RELATED PARTY TRANSACTIONS

(1) Names of the related parties and their relationship with the Company

Names of related parties	Relationship with the Company
Mega Financial Holding Co., Ltd. (Mega Holding)	The Company's parent company
Chunghwa Post Co., Ltd. (Chunghwa Post)	The director of the Company's parent company
Bank of Taiwan (BOT)	The director of the Company's parent company
Mega International Commercial Bank Co., Ltd (MICB)	Subsidiary of Mega Holding
Mega Securities Co., Ltd. (MS)	Subsidiary of Mega Holding
Mega International Investment Trust Co., Ltd (MIIT)	Subsidiary of Mega Holding
Chung Kuo Insurance Co., Ltd. (CKI)	Subsidiary of Mega Holding
Mega Asset Management Co., Ltd. (MAM)	Subsidiary of Mega Holding
Mega Diamond Money Market Fund	Fund issued by subsidiaries of Mega Holding
Mega Prosperity Private Placement Fund	Fund issued by subsidiaries of Mega Holding
Mega USD Money Market Fund	Fund issued by subsidiaries of Mega Holding
Others	The Company's directors, supervisors, general managers, vice general managers, assistant managers, managers, and close relatives of the Company's directors, supervisors, general managers, and vice general managers.

(2) Significant transactions and balances with related parties

A. Bank deposits

	December 31, 2018		
	Demand deposits	Checking deposits	Total
Management of the parent			
BOT	$ 1,096	$ 49,120	$ 50,216
Fellow subsidiary			
MICB	64,395	48,860	113,255
Total	$ 65,491	$ 97,980	$ 163,471

	December 31, 2017		
	Demand deposits	Checking deposits	Total
Management of the parent			
BOT	$ 20,834	$ 48,636	$ 69,470
Fellow subsidiary			
MICB	493,458	59,006	552,464
Total	$ 514,292	$ 107,642	$ 621,934

B. Other financial assets

	December 31, 2018	December 31, 2017
Management of the parent		
BOT	$ 7,116	$ 11,934
Fellow subsidiary		
MICB	83,440	31,420
Total	$ 90,556	$ 43,354

The above-mentioned other financial assets include the designated accounts for allowance to pay back short-term bills.

C. Interbank overdraft and call loans

	For the year ended December 31, 2018			
	Highest balance	Ending balance	Interest rate(%)	Interest expense
Bank overdrafts				
Management of the parent				
BOT	$ 1,113,000	$ 205,000	1.38	$ 7,812
Call loans				
Management of the parent				
BOT	13,000,000	4,600,000	0.37~0.62	32,015
Chunghwa Post	7,000,000	4,500,000	0.38~0.63	4,264
Fellow subsidiary				
MICB	8,129,080	6,092,917	0.37~4.80(Note1)	68,031
Total		$ 15,397,917		$ 112,122

(Note 1)Interest rates for call loans denominated in NTD and foreign currency were 0.37% ~ 0.63% and 1.82% ~4.80%, respectively.

	For the year ended December 31, 2017			
	Highest balance	Ending balance	Interest rate(%)	Interest expense
Bank overdrafts				
Management of the parent				
BOT	$ 1,357,000	$ 268,000	1.38	$ 7,812
Call loans				
Management of the parent				
BOT	15,500,000	12,900,000	0.33~0.57	28,752
Chunghwa Post	9,900,000	2,300,000	0.36~0.45	5,074
Fellow subsidiary				
MICB	5,761,713	1,566,832	0.33~3.10(Note2)	25,128
Total		$ 17,034,832		$ 66,766

(Note 2)Interest rates for call loans denominated in NTD and foreign currency were 0.33% ~0.43% and 1.05%~3.10%, respectively.

Interest rates for call loans applied to the related parties are the same as those offered to other financial institutions.

D. Purchase of bills and bonds

	For the years ended December 31,	
	2018	2017
Ultimate parent		
Mega Holding	$ 20,481,373	$ 16,488,478
Management of the parent		
Chunghwa Post	50,645	-
Fellow subsidiary		
MAM	17,780,814	14,174,213
MS	4,758,953	1,242,042
Total	$ 43,071,785	$ 31,904,733

The terms of the above transactions are the same as those with non-related parties.

E. Sale of bills and bonds

	For the year ended December 31, 2018	
	Amount	Gain from financial assets and liabilities at fair value through profit or loss
Management of the parent		
Chunghwa Post	$ 220,314,917	$ 36,580
BOT	91,263,790	4,910
Fellow subsidiary		
MICB	293,113,775	75,044
MS	50,097	589
Other related parties		
Mega Diamond Money Market Fund	16,825,741	4,077
Total	$ 621,568,320	$ 121,200

	For the year ended December 31, 2017	
	Amount	Gain from financial assets and liabilities at fair value through profit or loss
Management of the parent		
Chunghwa Post	$ 251,333,419	$ 62,718
BOT	41,836,723	1,864
Fellow subsidiary		
MICB	102,044,015	29,940
MS	49,773	5
Other related parties		
Mega Diamond Money Market Fund	45,706,845	10,903
Total	$ 440,970,775	$ 105,430

The terms of the above transactions are the same as those with non-related parties.

F. Financial assets at fair value through profit or loss

	December 31, 2018					
	Type of instrument	Issuance date	Maturity date	Interest rate (%)	Face value	Cost
Ultimate parent						
Mega Holding	Commercial Paper	2018.11.02	2019.02.27	0.66	$ 500,000	$ 498,942
	Commercial Paper	2018.11.19	2019.02.15	0.66	2,150,000	2,146,579
	Commercial Paper	2018.11.19	2019.02.15	0.66	350,000	349,443
Total					$ 3,000,000	$ 2,994,964

	December 31, 2017					
	Type of instrument	Issuance date	Maturity date	Interest rate (%)	Face value	Cost
Fellow subsidiary						
MAM	Commercial Paper	2017.12.08	2018.01.05	0.49	$ 1,065,000	$ 1,064,600

G. Bills and bonds under repurchase agreements

	For the year ended December 31, 2018		
	Amount	Ending balance	Interest expense
Fellow subsidiary			
MICB	$ 41,955,399	$ 2,466,388	$ 19,065
CKI	2,250,785	99,932	662
MS	1,108,512	-	8
Other related parties			
Mega USD Money Market Fund	587,701	46,727	488
MIIT	299,580	-	139
Other	-	-	21
Total	$ 46,201,977	$ 2,613,047	$ 20,383

	For the Year ended December 31, 2017		
	Amount	Ending balance	Interest expense
Fellow subsidiary			
CKI	$ 3,904,199	$ 149,808	$ 947
MICB	3,393,024	-	808
MS	899,753	-	13
Other related parties			
Mega Prosperity Private Placement Fund	9,061,336	-	9,461
Mega Diamond Money Market Fund	1,348,997	-	81
Mega USD Money Market Fund	1,246,734	-	748
Other	34,591	5,937	18
Total	$ 19,888,634	$ 155,745	$ 12,076

The terms of the above transactions are the same as those with non-related parties.

H. Financial derivative transactions

As of December 31, 2018, financial derivative transactions: None.

As of December 31, 2017, the realized loss of financial derivative transactions with BOT was $176 thousand.

As of December 31, 2018 and 2017 uncovered positions: None.

I. The issuance of non-guaranteed commercial papers from consigned related parties

	For the year ended December 31, 2018			
	Highest Balance	Ending Balance	Rates (%)	Fees income
Ultimate parent				
Mega Holding	$ 4,000,000	$ 4,000,000	0.41~0.67	$ 301
Fellow subsidiary				
MAM	1,585,000	1,565,000	0.48~0.883	143
MS	1,010,000	-	0.44~0.66	25
		$ 5,565,000		$ 469

	For the year ended December 31, 2017			
	Highest Balance	Ending Balance	Rates (%)	Fees income
Ultimate parent				
Mega Holding	$ 4,000,000	$ 3,500,000	0.46~0.63	$ 226
Fellow subsidiary				
MAM	1,310,000	1,310,000	0.47~0.62	121
MS	500,000	-	0.47	10
		$ 4,810,000		$ 357

The terms of the above non-guaranteed commercial papers are the same as those with non-related parties.

J. Collaterals provided to related parties for bank overdrafts

		December 31, 2018	December 31, 2017
	Pledged Asset	2018	2017
Management of the parent			
BOT	Financial assets at fair value through profit or loss		
	- Negotiable certificates of time deposit	$ -	$ 700,263
	Financial assets at fair value through other comprehensive income		
	- Government bonds	302,632	-
	- Corporate bonds	2,516,035	-
	Available-for-sale financial assets		
	- Government bonds	-	303,902
	- Corporate bonds	-	1,711,144

	Pledged Asset	December 31, 2018	December 31, 2017
Fellow subsidiary			
MICB	Financial assets at fair value through profit or loss		
	- Negotiable certificates of time deposit	2,800,878	2,800,416
	Financial assets at fair value through other comprehensive income		
	- Government bonds	2,269,060	-
	Available-for-sale financial assets		
	- Government bonds	-	2,304,077
Total		$ 7,888,605	$ 7,819,802

K. Assets provided as operating deposits for securities firm:

	Pledged Asset	December 31, 2018	December 31, 2017
Management of the parent			
BOT	Financial assets at fair value through other comprehensive income - Government bonds	$ 50,915	$ -
	Available-for-sale financial assets - Government bonds	-	51,131
Total		$ 50,915	$ 51,131

L. Leasehold income

Lessee	Leased Property	Period	For the years ended December 31, 2018	For the years ended December 31, 2017
Fellow subsidiary				
MICB	Office and parking lots	Jan. 1, 2016- Dec. 31, 2018	$ 79,779	$ 79,779
CKI	Office	Dec. 1, 2016- Nov. 30, 2021	1,170	1,169
			$ 80,949	$ 80,948

(A) The Company rented office space in Mega Financial Holding’s building in Taipei City to MICB for office use. The lease agreement was signed with the $14,041 thousand deposit already received.

(B) The Company’s Sanchong branch rented the storage house to CKI for office use. The lease agreement was signed with the $170 thousand dollar deposit already received.

(C) The rent is determined based on the comparable rental expense in the surrounding area.

M. Rental expenses

Lessor	Rental Property	Period	For the years ended December 31, 2018		2017	
Fellow subsidiary						
MICB	Office	Jan. 1, 2016-Dec. 31, 2018	$	34,183	$	34,183
MICB	Office	-		-		45
CKI	Warehouse	Dec. 1, 2016-Nov. 30, 2021		475		474
			$	34,658	$	34,702

(A) The Company rented partial office space located at HengYang Rd., Taipei City from MICB. The lease agreement was signed with the $5,853 thousand deposit already paid.

(B) The Company leased the office on Hengyang Rd., Taipei City from MICB based on a daily rent for education and training venues.

(C) The Company rented Keelung lodge from CKI for file storage. The lease agreement was signed with the $52 thousand deposit already paid.

(D) The rent is determined based on the comparable rental expense in the surrounding area.

N. Insurance expenses

	For the years ended December 31, 2018		2017	
Fellow subsidiary				
CKI	$	3,330	$	3,811

(3) Information on remunerations to the Company's directors, supervisors, general managers and assistant general manager:

	For the years ended December 31, 2018		2017	
Salaries and other short-term employee benefits	$	25,676	$	28,153
Post-employment benefits		741		863
	$	26,417	$	29,016

8. PLEDGED ASSETS

The Company has pledged the following assets as collaterals for bank overdrafts, call loans and refundable deposit.

	For the years ended December 31,	
	2018	2017
Financial asset at fair value through profit or loss		
- negotiable certificates of time deposit (Note 1)	$ 12,803,642	$ 9,003,333
Financial asset at fair value through other comprhensive income		
- Government bonds (Note 2)	4,444,174	-
- Corporate bonds (Note 3)	4,764,481	-
Available-for-sale financial assets		
- Government bonds (Note 2)	-	6,759,221
- Corporate bonds (Note 3)	-	1,711,144
Other financial assets		
- Certificate of deposit pledged (Note 3)	400,000	400,000
Total	$ 22,412,297	$ 17,873,698

Purpose of collateral as follows:

Note 1: Collateral for Central Bank and other bank's overdrafts.

Note 2: Operating bond for bills and securities firms, reserve for GTSM Electronic Bond Trading System (EBTS), bank overdraft and call loan collateral as well as court collateral.

Note 3: Bank overdrafts.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

As of December 31, 2018 and 2017, the commitments and contingencies arising from the Company's normal course of business were as follows:

	For the years ended December 31,	
	2018	2017
Securities bills and bonds investment with resale agreements	$ -	$ 501,259
Securities bills and bonds payable under repurchase agreements	202,310,405	208,414,735
Guarantees on commercial papers	164,692,100	156,971,100
Fixed rate commercial paper purchased	20,050,000	17,050,000
Fixed rate commercial paper sold	-	500,000
Index rate commercial paper purchased	44,459,000	33,310,000
Index rate commercial paper sold	1,500,000	4,500,000

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. FINANCIAL INSTRUMENTS AFTER THE BALANCE SHEET DATE

(1) Fair value and level information of financial instruments

A. Fair value information of financial instruments

(a) The carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, bills and bonds investment with resale agreements, accounts receivable, certificate of deposit pledged, designated account for allowance to pay back short-term bills, guarantee deposits held for operation and funds for security settlements, refundable deposits, interbank overdraft and call loans, bills and bonds payable under repurchase agreements, payables, and other liabilities) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(1)B. In addition, information on the counterparty's and Company's credit risk is also considered and assessed throughout the valuation process.

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments in debt instruments at amortized cost	$ 440,070	$ 420,036	$ -	$ -
Held-to-maturity financial assets	$ -	$ -	$ 100,000	$ 101,632

Investments in debt instruments at amortized cost and held-to-maturity financial assets are Level 2.

B. Level information of financial instruments at fair value and Fair value estimation

(A) Three definitions of the Company's financial instruments at fair value

a. Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

b. Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

c. Level 3

Unobservable inputs for the asset or liability.

(B)Information of fair value hierarchy of financial instruments

	December 31, 2018			
Recurring fair value measurement	Total	Level 1	Level 2	Level 3
Non-derivative Financial Instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets at fair value through profit or loss, mandatorily measured at fair value				
Investment in stock	$ 18,445	$ 18,445	$ -	$ -
Investment in bills	122,165,266	-	122,165,266	-
Investment in bonds	4,370,358	-	4,370,358	-
Other	23,496	23,496	-	-
Financial assets at fair value through comprehensive income				
Investment in stock	2,116,129	1,520,325	-	595,804
Investment in bonds	129,838,966	3,155,891	126,683,075	-
Liabilities				
Financial liabilities at fair value through profit or loss	(5,892)	-	(5,892)	-

	December 31, 2017			
Recurring fair value measurement	Total	Level 1	Level 2	Level 3
Non-derivative Financial Instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Investment in bills	$ 132,729,168	$ -	$ 132,729,168	$ -
Investment in bonds	286,234	-	286,234	-
Other	16,883	16,883	-	-
Financial assets designated as at fair value through profit or loss on initial recognition	3,521,732	-	3,521,732	-
Available-for-sale financial assets				
Investment in stock	1,397,463	1,397,463	-	-
Investment in bonds	134,262,944	3,516,866	130,746,078	-
Beneficiary or asset-backed securities	227,935	-	227,935	-
Liabilities				
Financial liabilities at fair value through profit or loss	(632)	-	(632)	-

(C) The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Company's stocks, funds, benchmark bonds with transaction price, and the derivatives with a quoted price in an active market, are all included in level 1.

Fair values of stocks (excluding emerging stocks) listed on the Taiwan Stock Exchange or Over-The-Counter (hereinafter OTC) are determined by the closing price at the balance sheet date. Fair values of open-ended funds are determined by the net asset value at the balance sheet date. Fair value of benchmark bond is determined by the transaction price at the balance sheet date for fair value of bonds of different maturities bulletined by OTC. Fair values of derivatives traded on the Taiwan Futures Exchange are determined by the closing prices at the balance sheet date.

(D) If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If non-derivatives held by the Company have no active market, a valuation technique or quoted price offered by the counterparties will be adopted to measure their fair values. The fair value obtained through the valuation technique may take reference to the current fair value of other financial instruments with similar characteristics and actual terms, discounted cash flow method, or other valuation techniques, including the available market information obtained through the exercise of model calculations at the balance sheet date. When assessing non-standardized financial instruments with lower complexity, such as interest rate swaps, currency swaps and options, the Company adopts the valuation technique generally accepted by market users. The inputs used in the valuation models for these kinds of financial instruments are generally observable information in the market.

Bills and bonds (except for benchmark bonds with transaction price), fixed income securities, and derivatives (except for those traded in Taiwan Futures Exchange) are all included in level 2.

Fair values of short-term bills are determined by the secondary trading's offered rate index indicated by quotation's interest rate index. Government bonds are valued by the fair values of government bonds fair value offered by OTC or Bloomberg L.P at the balance sheet date; bank debentures, corporate bonds, foreign currency bonds and marketable securities of fixed income are valued by the corporate bonds reference rates or the volume-weighted average yield/price offered by OTC or the information of average prices of foreign currency bonds and marketable securities offered by Bloomberg L.P. The Company used the evaluation system for interest rate swaps, currency swaps, convertible corporate bond asset swaps and fixed rate commercial papers. Fair values are determined by individual contracts. The yield curve used in calculating fair values of instruments with maturity within one year is based on the TAIBIR secondary market fixed rate; those with maturity above one year is based on the average price of the Reuters. The exchange rate adopted is the spot average rate of MICB and BOT.

(E) The fair value of unlisted stock held by the Company is measured with a valuation model that uses the price/book ratio of market approach and all inputs are unobservable. Model assumptions are based on calculations of market prices and net assets of comparable listed companies or industries, and liquidity discounts are adjusted according to individual circumstances. These type of investments are classified to Level 3.

(F) Movements of financial assets classified into Level 3 of fair value are as follows:

	For the year ended December 31, 2018						
			Addition		Reduction		
Item	January 1, 2018	Valuation gain or loss Recognised as other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	December 31, 2018
Financial assets at fair value through other comprehensive income							
Investment in stock	$ 664,540	($ 53,736)	$ -	$ -	($ 15,000)	$ -	$ 595,804

(G) There was no significant transfer between level 1 and level 2 for the years ended December 31, 2018 and 2017.

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

The unit responsible for the fair value measurement of the Company's Level 3 financial assets confirms the independence and reliability of the data sources by assessing the valuation model, input parameters, sources of parameter data and calculation method. The valuation model is calibrated at irregular intervals and the parameters and calculation methods are adjusted to ensure the valuation results are reasonable.

(I) The following is the qualitative information of significant unobservable inputs to the valuation model used in Level 3 fair value measurement:

	For the year ended December 31, 2018				
	Fair value	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Financial assets at fair value through other comprehensive income					
Investment in stock	$ 595,804	Market approach	Price-book value ratio	0.89-2.06	The higher price-book value ratio multiple , the higher fair value.
			Lack of liquidity discount	10%-50%	The higher liquidity discount , the lower fair value.

(J) Sensitivity analysis of Level 3 fair value measurement with reasonable and interchangeable assumptions. The Company's fair value measurement of financial instruments is deemed to be reasonable. However, different valuation models or inputs may produce different valuation results. The following is the effect of other comprehensive income from financial instruments categorized within Level 3 if the inputs used to valuation models have changed upward or downward by 10%:

	Changes in the fair value recognized in the comprehensive income or loss	
December 31, 2018	Favorable changes	Unfavorable changes
Financial assets at fair value through other comprehensive income		
Investment in stock	$ 59,580	($ 59,580)

13. THE MANAGEMENT OBJECTIVES AND POLICIES OF FINANCIAL RISKS

(1) Overview

Except for complying with the laws and regulations, the Company's risk management aims to confine various operating risks to the tolerable scopes, maintain sound capital adequacy ratio, and pursue sustainable development. In order to maintain asset security and financial quality, risk management system was established for all employees to follow and work accordingly. With respect to various businesses, the Company established risk management mechanism for identification, measurement, supervision, and reporting purpose and set up relevant control methods such as specific risk management objectives, warning, and stop-loss limit.

The Company's activities expose it to a variety of financial risks: credit risk, market risk liquidity risk and operating risk. Market risk including interest rate risk, price risk and foreign exchange risk.

(2) The organization framework of risk management

The Company's Board of Directors has the ultimate approval right in risk management. Major management risk items that include the Company-wide risk management policy, risk tolerance limit, and authority must be approved by the Board of Directors. Risk management committee established under the jurisdiction of general manager is responsible for examination of business risks such as credit risk, market risk, and operational risk and supervision of enforcement of risk management objectives. Credit management company and stock investment company were also set up under the jurisdiction of general manager to respectively examine and manage risks relevant to credit and investment transactions.

Department of risk management is responsible for supervision of overall risk positions and concentration, assessment of capital adequacy, and submitting reports concerning enforcement of various risk management objectives to the Board of Directors. Additionally, relevant risk management affairs are planned, supervised, or implemented in accordance with regulations by regulatory authorities and Mega Financial Holding Co., Ltd.

The Company also set up an audit department responsible for audit and assessment of internal control system to ensure sustained and effective implementation.

(3) Credit risk

A. The source and definition of credit risk

Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. Credit risk faced by the Company may arise from accounts in and off balance sheet. For accounts balance sheet, credit risk mainly arises from debt instruments investment and derivatives. Off balance sheet accounts mainly comprise financial guarantees.

Above-mentioned financial guarantees refer to guarantees for underwriting of commercial papers issued. Such guarantees agreement normally comes with a 1 year expiration period. The range of contract period for commercial papers is normally from 10 days to 180 days and the expiration dates are not concentrated on the specific period.

B. Credit risk management policies

(A) Policy and procedure

The Company's credit risk management aims to control risk of loss from borrower or counterparty default because their financial status worsened or for other reasons and fails to fulfill the contract obligations. The Company established credit risk management standard and mechanism to ensure the credit risk is controlled within the tolerable scope. In avoidance of high risk concentration, the Company established summary of regulations governing credit risk concentration to define concentration limits by client (including the same person, the same company), location and country risk and set up early-warning indicator and monitoring mechanism.

a. Credit extensions

(a) The Company set up regulations governing credit risk to define ratio of credit ceiling by industry, ratio of credit ceiling on specific security requirements, and administration of limit on credit risk acceptance.

(b) The Company set up "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt" and evaluation method of asset quality and classification with regular review to check up on provision of allowance for losses.

b. Investments in financial instruments

Financial instruments held by the Company are mainly classified by credit ratings of counterparties. The Company regularly reviews, checks, and evaluates changes in the credit ratings to enhance control over credit risk taken by the Company. The Company also established rules governing control over credit risk on non-government bonds purchased to define administration of setting limits under credit ratings of bond debtor (issuer or guarantor) or specific debt.

(B) Measurement method

The Company's credit risk measurement system and statement comprises summary of total exposure to credit risk and ratio of overdue credits, credit ceiling by industry, underwriting limits for guarantee, credit ceiling for a single entity, the same associates, and the same related parties.

C. Policies of hedging and mitigation of credit risk

(A) Collaterals

The Company's credit extension cases are processed following the procedure of credit extension and checking. According to the client's financial position and credit status, the Company may consider obtaining collaterals and guarantors and setting of notices for handling of credit review to enhance management upon credit extension.

(B) Master netting arrangements

The Company’s transactions predominantly settle at gross amount. A portion of transactions have entered into master netting arrangements with counterparties or upon the event of a default may cease all transactions with the counterparties and settle by net amount in order to further reduce credit risk.

(C)Other credit enhancements

A portion of the Company’s held financial instruments have obtained guarantees from financial institutions in order to reduce credit risk.

(D) Credit risk limit and credit risk concentration control

The Board of Directors assesses the annual risk management objectives concerning credit extension business, including ratio of overdue credits, coverage ratio of overdue credits, limit control over industry credit, specific security requirements, and the same entity or company’s investments. Risk control department analyzes details of credit asset quality and credit risk concentration and reports to the general manager on a monthly basis. Risk control department also reports exposure to credit extension business, credit risk concentration, and enforcement of risk management objectives to the risk management committee and the Board of Director on a quarterly basis.

D.Recognition and measurement of expected credit losses

The measurement of expected credit losses takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available without undue cost or effort. At the reporting date, it is determined whether there has been significant increase in credit risk since initial recognition or whether credit impairment has occurred. The assessed financial assets are categorised into one of the following three stages: no significant increase in credit risk or low credit risk (Stage 1), significant increase in credit risk (Stage 2) or credit-impaired (Stage 3).

The definition and expected credit losses recognised for each stage are as follows:

Item/Stage	Stage 1	Stage 2	Stage 3
Definition	Financial assets with no significant increase in credit risk since initial recognition or low credit risk at the reporting date	Financial assets with significant increase in credit risk since initial recognition but not impaired	Credit-impaired financial assets at the reporting date
Recognition of expected credit losses	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

(A)Determining whether there has been significant increase in credit risk since initial recognition.

At each reporting date, the Company assesses whether there has been changes in the default risk of credit assets and debt instruments measured at fair value through other comprehensive income in order to determine whether there has been significant increase in credit risk since initial recognition.

a. Credit business

The major indicators for significant increase in credit risk used by the credit business of the Company are as follows:

(a) The most recent external credit rating of the borrower has decreased by more than 3 scales and is of non-investment grade.

(b) The internal credit rating assigned to the borrower by the Company is grade 12 or grade 13, and the customer credit risk is considered to have significantly increased.

(c) The borrower is placed on an observation list for credit or has other records of bad credit:

i. The borrower has applied for interest-only payments or initiated debt negotiations.

ii. Negotiable instruments issued by the borrower are not accepted.

iii. The borrower has delayed payments owed to other financial institutions.

iv. Other records of bad credit.

b. Debt instruments

A debt instrument is considered to have significant increase in credit risk if any of the following conditions apply:

(a) Contractual payments, including interest, are 30 days past due

(b) Credit rating at the reporting date is of non-investment grade and has decreased by more than 3 scales since initial recognition.

(B) Definition of a credit-impaired financial asset

a. Credit business

(a) The borrower has payments past due.

(b) Other apparent damages to the Company’s rights as a creditor.

b. Debt instruments

A debt instrument is considered credit-impaired if any of the following conditions apply:

(a) Contractual payments, including interest, are over 3 months past due.

(b) Credit rating at the reporting date is of default grade.

(c) The issuer has filed for bankruptcy, reorganisation or other debt relief procedures, or another party has filed for such procedures on behalf of the issuer.

(C) Write-off policy

The Company writes off its non-performing and non-accrual loans as bad debt, less the estimated recoverable amount, if any of the following conditions apply:

a. The debt cannot be fully or partially recovered due to the dissolution of, disappearance of, settlement with, or declaration of bankruptcy by the debtor.

b. The collateral and assets of the primary and secondary debtors cannot be used to recover the debt due to more senior claims on such assets or low value of such assets.

c. The collateral and assets of the primary and secondary debtors could not be auctioned off after multiple attempts.

d. The non-performing and non-accrual loans are two years past due, and could not be recovered from collection procedures.

e. The non-performing and non-accrual loans less than two years past due, which could not be recovered from collection procedures, can be written off as bad debt, less the estimated recoverable amount.

f. Unsecured non-performing and non-accrual loans are required to be written off as bad debt when they are over six months past due; however, loans for which it is possible to go after the assets of the primary or secondary debtor are not subject to this requirement.

(D) Measurement of expected credit losses

The expected credit losses of the credit business is measured using the loss rate method, which has loss rate and exposure at default as the main parameters and incorporates forward-looking information. The expected credit loss (ECL) model of debt instruments is primarily based on the following three parameters: probability of default, loss given default and exposure at default.

a. Credit business

(a) Loss rate: Calculated from the actual amounts used under financial guarantee contracts and actual loss amounts from the past.

(b) Exposure at default: The issued balance that is self-insured.

(c) Forward-looking information: The expected credit loss rate is adjusted based on the total score of the monitoring indicators published by the National Development Council of the Executive Yuan.

(d) The reserve for guarantee liabilities is recongised in each Stage as follows:

i. Stage 1: Perform a regular assessment of the reserve for guarantee liabilities related to credit assets in accordance with IFRS 9 and calculate the amount with the loss rate that was adjusted according to forward-looking information.

ii. Stage 2: With significant increase in credit risk, probability of default is assessed according to the individual circumstances of the borrower. The potential loss is calculated as the difference between the amount used by the individual borrower under the financial guarantee contract and possible cash flows from the liquidation of collateral.

iii. Stage 3: The borrowers in this category already have past due debts. The potential loss is calculated as the difference between the amount used by the individual borrower under the financial guarantee contract and possible cash flows from the liquidation of collateral.

b. Debt instruments

(a) Probability of default: Use data from external credit ratings.

(b) Loss given default: The average loss given default in data from external credit ratings.

(c) Exposure at default: Total carrying amount, including interest receivable.

(d) Forward-looking information: Consider data published by external credit rating agencies, whose credit ratings already incorporate forward-looking information.

E. Maximum credit risk exposure

(A) The maximum exposure to credit risk of assets in the balance sheet, without consideration of the collateral or other credit enhancements, is equivalent to the carrying amount. The maximum exposure amount related to off-balance-sheet items is as follows:

Off-balance-sheet items	Carrying amount	Maximum credit risk exposure amount
December 31, 2018		
Off-balance-sheet guarantees	$ -	$ 164,692,100
December 31, 2017		
Off-balance-sheet guarantees	-	156,971,100

(B) As of December 31, 2018 and 2017, the off-balance sheet contract amount for the guarantees of commercial papers subject to potential credit risks is $315,160 million and $298,932 million, respectively.

(C) Since the Company is only subject to payments in the event of default on the issuer of commercial papers in such guarantee contracts, the contract amount for such financial instruments does not represent the expected future cash outflow. In fact, the demand for future cash flow is less than the contract amount. When the guaranteed amount has been drawn upon and the underlying collateral or other collaterals have completely lost its values, the amount of credit risk exposure will equal to the contract amount, which is the maximum potential loss.

(D) In granting guarantees for the issuance of commercial papers, the Company undertakes strict credit assessment and also demands appropriate collaterals from the customers as necessary. As of December 31, 2018 and 2017, the percentage of guarantees with collaterals is 67.64% and 67.92%, respectively. Collaterals provided normally include real estate properties, circulating securities or other properties, etc. In the event of customer defaults, the Company assumes rights on such collaterals.

(E) Information on the financial impact of collateral, master netting arrangements and other credit enhancements of the Company's assets subject to credit exposure is as follow:

December 31, 2018	Collateral	Other credit enhancements	Total
Financial assets measured at fair value through profit or loss-debt instruments	$ -	$ 9,639,300	$ 9,639,300
Financial assets measured at fair value through other comprehensive income-debt instruments	-	9,889,024	9,889,024
Off-balance-sheet guarantees	111,396,225	-	111,396,225

December 31, 2017	Collateral	Other credit enhancements	Total
Financial assets measured at fair value through profit or loss-debt instruments	$ -	$ 4,911,200	$ 4,911,200
Available-for-sale financial assets-debt instruments	-	9,029,395	9,029,395
Bills and bonds investment with resale agreements	501,259	-	501,259
Off-balance-sheet guarantees	106,607,001	-	106,607,001

Note 1: Collaterals include property, movable property, securities and certificates of deposits.

(1) Value of collaterals pledged for assets that arise from lending is the lower of collateral value/ market value and maximum exposure amount. If the collateral value cannot be obtained, value of collaterals must be assessed.

(2) Value of collaterals pledged for assets that do not arise from lending is the lower of market value and maximum exposure amount.

Note 2: For explanations on master netting arrangements and other credit enhancements, please refer to Note 13(3)C(B) and (C).

F. Credit risk concentration

There will be a significant concentration of credit risk when the counterparty of the financial instruments is highly concentrated in a single customer or a company of counterparties who engage mostly in similar business activities with similar economic nature, and such business activities make their abilities to fulfill the contractual obligations influenced similarly by the economic affairs or other situations. The Company does not engage in transactions that are concentrated significantly in a single customer or counterparty. However, significant credit risk concentrations for provision of guarantees for commercial papers are as follows:

(A)Industry (guarantee service)

	December 31, 2018		December 31, 2017	
	Amount	Ratio(%)	Amount	Ratio(%)
Real estate	$ 45,459,200	27.60	$ 41,845,500	26.66
Financial & insurance	45,309,100	27.51	45,163,000	28.77
Manufacturing	33,925,500	20.60	35,782,400	22.80
Wholesale & retail	11,624,800	7.06	10,559,100	6.73
Accommodation and Food	9,808,500	5.96	8,399,900	5.35
Others – less than 5% of balance of guarantees at period end	18,565,000	11.27	15,221,200	9.69
Total	$ 164,692,100	100.00	$ 156,971,100	100.00

(B)Collateral (guarantee service)

	December 31, 2018		December 31, 2017	
	Amount	Ratio(%)	Amount	Ratio(%)
Unsecured	$ 53,295,875	32.36	$ 50,364,099	32.08
Secured				
Secured by stocks	29,676,628	18.02	28,222,229	17.98
Secured by bonds	4,323,117	2.63	4,293,453	2.74
Secured by real estate	75,399,219	45.78	72,648,562	46.28
Others	1,997,261	1.21	1,442,757	0.92
Total	$ 164,692,100	100.00	$ 156,971,100	100.00

G. Changes in the Company’s allowance for bad debt and accumulated impairment:

(A) Credit business

a. The reconciliation of reserve for guarantee liabilities for the year ended December 31, 2018 is as follows:

Year ended December 31, 2018		12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Total impairment recognized under IFRS 9	Difference in impairment provided in accordance with “Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt”	Recognized amount of reserve for guarantee liabilities
Beginning balance		$ 143,369	$ 53,350	$ -	$ 196,719	$ 2,092,982	$ 2,289,701
- Transferred to 12-month expected credit loss	Stage 2－>Stage 1	-	-	-	-		
	Stage 3－>Stage 1	-	-	-	-		
- Transferred to lifetime expected credit losses	Stage 1－>Stage 2	(18)	18	-	-		
	Stage 3－>Stage 2	-	-	-	-		
- Transferred to credit-impaired financial assets	Stage 1－>Stage 3	-	-	-	-		
	Stage 2－>Stage 3	-	-	-	-		(52,540)
Increased provision and reversal for financial instruments recognised at the beginning of period		-	17,785	-	17,785	(77,515)	
Originated or purchased guarantees		7,190	-	-	7,190		
Guarantees derecognised in the current period		-	-	-	-		
Write-off as bad debt		-	-	-	-		-
Change in foreign exchange rate		-	-	-	-		-
Other changes		-	(20,004)	-	(20,004)		(20,004)
Ending balance		$ 150,541	$ 51,149	$ -	$ 201,690	$ 2,015,467	$ 2,217,157

b.Movements in loss allowance is as follows:

		2018
		Loss allowance for accounts receivable and overdue loans
January 1,2018_ IAS 39	$	695
Adjustments under new standards		-
January 1,2018_IFRS 9		695
Reversal	(	50)
Transfer		20,004
Write-off	(	20,004)
December 31, 2018	$	645

(B) Bond investments

a. The reconciliation of the accumulated impairment of financial assets at fair value through other comprehensive income for the year ended December 31, 2018 is as follows:

<table>
<tr><th colspan="2">Year ended December 31, 2018</th><th>12-month expected credit losses (Stage 1)</th><th>Lifetime expected credit losses (Stage 2)</th><th>Lifetime expected credit losses (Stage 3)</th><th>Total impairment recognized under IFRS 9</th><th>Recognized amount of reserve for bad debt</th></tr>
<tr><td colspan="2">Beginning balance</td><td>$ 51,325</td><td>$ -</td><td>$ -</td><td>$ 51,325</td><td>$ 51,325</td></tr>
<tr><td rowspan="2">- Transferred to 12-month expected credit loss</td><td>Stage 2－＞Stage 1</td><td>-</td><td>-</td><td>-</td><td>-</td><td rowspan="9">(7,076)</td></tr>
<tr><td>Stage 3－＞Stage 1</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">- Transferred to lifetime expected credit losses</td><td>Stage 1－＞Stage 2</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Stage 3－＞Stage 2</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">- Transferred to credit-impaired financial assets</td><td>Stage 1－＞Stage 3</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Stage 2－＞Stage 3</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Increased provision and reversal for financial instruments recognised at the beginning of period</td><td>(6,340)</td><td>-</td><td>-</td><td>(6,340)</td></tr>
<tr><td colspan="2">Originated or purchased debt instruments</td><td>5,386</td><td>-</td><td>-</td><td>5,386</td></tr>
<tr><td colspan="2">Debt instruments derecognised in the current period</td><td>(6,122)</td><td>-</td><td>-</td><td>(6,122)</td></tr>
<tr><td colspan="2">Write-off as bad debt</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Change in foreign exchange rate</td><td>462</td><td>-</td><td>-</td><td>462</td><td>462</td></tr>
<tr><td colspan="2">Other changes</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Ending balance</td><td>$ 44,711</td><td>$ -</td><td>$ -</td><td>$ 44,711</td><td>$ 44,711</td></tr>
</table>

b.The reconciliation of the accumulated impairment of investments in debt instruments measured at amortized cost for the year ended December 31, 2018 is as follows:

<table>
<tr><th colspan="2">Year ended December 31, 2018</th><th>12-month expected credit losses (Stage 1)</th><th>Lifetime expected credit losses (Stage 2)</th><th>Lifetime expected credit losses (Stage 3)</th><th>Total impairment recognized under IFRS 9</th><th>Recognized amount of reserve for loss allowance</th></tr>
<tr><td colspan="2">Beginning balance</td><td>$ -</td><td>$ -</td><td>$ -</td><td>$ -</td><td>$ -</td></tr>
<tr><td rowspan="2">- Transferred to 12-month expected credit loss</td><td>Stage 2－＞Stage 1</td><td>-</td><td>-</td><td>-</td><td>-</td><td rowspan="9">113</td></tr>
<tr><td>Stage 3－＞Stage 1</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">- Transferred to lifetime expected credit losses</td><td>Stage 1－＞Stage 2</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Stage 3－＞Stage 2</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">- Transferred to credit-impaired financial assets</td><td>Stage 1－＞Stage 3</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Stage 2－＞Stage 3</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Increased provision and reversal for financial instruments recognised at the beginning of period</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Originated or purchased debt instruments</td><td>113</td><td>-</td><td>-</td><td>113</td></tr>
<tr><td colspan="2">Debt instruments derecognised in the current period</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Write-off as bad debt</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Change in foreign exchange rate</td><td>1</td><td>-</td><td>-</td><td>1</td><td>1</td></tr>
<tr><td colspan="2">Other changes</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Ending balance</td><td>$ 114</td><td>$ -</td><td>$ -</td><td>$ 114</td><td>$ 114</td></tr>
</table>

c.Movements in loss allowance is as follows:

	2018
	Receivable interest (Note)
January 1,2018_ IAS 39	$ -
Adjustments under new standards	495
January 1,2018_IFRS 9	495
Reversal	(42)
December 31, 2018	$ 453

Note: Expected credit losses is recognised based on the same bonds.

H. The following information is disclosed in accordance with "Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies".

(A) Asset quality

Items	December 31, 2018	December 31, 2017
Guarantees in arrear and guaranteed credits overdue for no longer than three months	$ -	$ -
Overdue credits (including overdue receivables)	-	-
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 regulation	2,178,118	2,152,284
Provision for bad debts and guarantees actually reserved	2,217,157	2,289,701

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

(B) Primary business activities

Items	December 31, 2018	December 31, 2017
Total guarantees and endorsement for short-term bills	$ 164,692,100	$ 156,971,100
Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment)	4.93	5.06
Total bills and bonds payable under repurchase agreements	202,310,405	208,414,735
Bills and bonds payable under repurchase agreements / Net amount (after deducting final accounts allotment)	6.06	6.72

(C)Concentration of credit risk

Items	December 31, 2018		December 31, 2017	
Credits extended to related parties	$ 97,000		$ 97,000	
Percentage of credits extended to related parties (%) (Note 1)	0.06		0.06	
Percentage of credits extended secured by stocks (%) (Note 2)	18.02		17.98	
Industry concentration (Top 3 industries with maximum industry credit ratio)	Industry	Ratio(%)	Industry	Ratio(%)
	Real estate	27.60	Real estate	26.66
	Financial and insurance	27.51	Financial and insurance	28.77
	Manufacturing	20.60	Manufacturing	22.80

Note 1: The ratio of credit extensions to related parties = the amount of credit extensions to related parties / the total amount of all credit extensions.

Note 2: The ratio of credit extensions secured by stocks = the amount of credit extensions secured by stocks / the total amounts of all credit extensions.

Note 3: Total amount of credit extensions include loans, bills discounted, acceptances receivable, guarantees receivable, and advance accounts for factoring receivable.

(D)Policy of reserve for losses and movements of allowance for credit losses:

The Company has evaluated the allowance and reserves for bills receivable, accounts receivable, overdue loans, and the ending balance guaranteed by commercial papers by considering unrecoverable risks and analyzed the possibility of loss based on "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". For details of changes in allowance for doubtful accounts, please refer to Note 13(3)G.

(4)Liquidity risk

A. Definition and sources of liquidity risk

Liquidity risk is defined as possible losses to the Company when the Company is unable to realize the assets or obtain funds to meet the obligations soon to be matured. It can also be defined as risk of impact on the Company's financial position due to adverse changes in interest rates. Gap in liquidity risk position refers to differences between assets with liquidity risk and liabilities with liquidity risk classified by maturity structure.

B. Procedures for management of liquidity risk

Liquidity risk management of the Company mainly refers to control over the limit management made to gaps in liquidity risk position across different periods that have been through business operation.

(A) Policies and procedures

Policies and procedures were created to establish rules governing liquidity risk management, effectively measure liquidity risk position, and maintain appropriate liquidity with ability to pay assured. Relevant control measures comprise:

a. Establishing limit on gap of each time period and supervising the Company's cash flow gap of each time period on a daily basis to appropriately hedge fund liquidity risk.

b. Establishing emergency response management mechanism for funding, which can start immediately to call on risk management committee for deliberation of emergency measures when prolonged capital austerity, prolonged increase in interest rates or unexpected financial events result in liquidity risk with significant impact.

c. With respect to the Company's control over liquidity risk, bills and bonds segments are responsible for daily operation of domestic and foreign currency and control over fund liquidity gap; and finance segment is responsible for reporting liquidity risk mentioned.

(B) Risk measurement methods

Risk measurement methods are applied to set limit on cash flow gap of each time period based on the ability to allocate and transfer capital. Measurement system and statistics comprise: control over total major liabilities and limit control over funding gap of each time period.

C. Maturity date analysis for financial assets and liabilities held

(A) Most of financial instruments held by the Company have an open market. These financial instruments are expected to be sold easily and immediately at a price approximate to the fair value and they are sufficient to fulfill the payment obligation and potential emergent fund demand in the market.

(B) The Company's fundamental management policy is to match the maturity date and interest rate on assets and liabilities and control cap arising from any mismatch. Due to uncertainty of terms and variety of types, maturity date and interest rate on assets and liabilities usually cannot fully match up, such mismatch may result to either potential gain or loss. As of December 31, 2018 and 2017, the carrying amounts of financial assets and financial liabilities are classified according to their time-to-maturity as follows:

	December 31, 2018						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	$ 326,207	$ -	$ -	$ -	$ -	$ -	$ 326,207
Financial assets at fair value through profit or loss non-derivative financial instruments	62,672,513	56,061,083	4,085,540	397,161	3,648,327	-	126,864,624
Financial assets at fair value through other comprehensive income	868,346	1,812,688	3,273,953	6,775,487	70,287,106	70,666,127	153,683,707
Investments in debt instruments at amortized cost	8,644	-	-	8,644	69,149	521,500	607,937
Receivables	6,077	50	-	-	-	-	6,127
Other financial assets	97,895	385	578	400,614	-	-	499,472
Total assets	63,979,682	57,874,206	7,360,071	7,581,906	74,004,582	71,187,627	281,988,074
Liabilities							
Interbank overdraft and call loans	(23,083,364)	-	-	-	-	-	(23,083,364)
Financial liabilities at fair value through profit or loss non-derivative financial instruments	-	-	-	(5,782)	(110)	-	(5,892)
Bills and bonds payable under repurchase agreements	(178,254,472)	(22,645,538)	(1,532,310)	(48,328)	-	-	(202,480,648)
Payables	(256,845)	(2,626)	(103,159)	(93,522)	-	-	(456,152)
Other funds outflow upon maturity	(288,866)	-	-	(3,308)	(15,629)	-	(307,803)
Total liabilities	(201,883,547)	(22,648,164)	(1,635,469)	(150,940)	(15,739)	-	(226,333,859)
Net liquidity gap	($ 137,903,865)	$ 35,226,042	$ 5,724,602	$ 7,430,966	$ 73,988,843	$ 71,187,627	$ 55,654,215

	December 31, 2017						
	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	$ 793,634	$ -	$ -	$ -	$ -	$ -	$ 793,634
Financial assets at fair value through profit or loss - non-derivative financial instruments	66,043,128	56,805,859	10,372,248	844,048	2,745,931	-	136,811,214
Available-for-sale financial assets	956,366	1,243,295	1,262,068	8,925,306	75,887,865	67,595,314	155,870,214
Bills and bonds investment with resale agreements	501,585	-	-	-	-	-	501,585
Receivables	45,979	-	-	-	-	-	45,979
Held-to-maturity financial assets	1,100	-	-	1,100	102,200	-	104,400
Other financial assets	131,005	335	200,336	200,505	-	-	532,181
Total assets	68,472,797	58,049,489	11,834,652	9,970,959	78,735,996	67,595,314	294,659,207
Liabilities							
Interbank overdraft and call loans	(31,130,341)	-	-	-	-	-	(31,130,341)
Financial liabilities at fair value through profit or loss - non-derivative financial instruments	-	-	(471)	-	(161)	-	(632)
Bills and bonds payable under repurchase agreements	(181,754,128)	(25,011,126)	(1,722,338)	(35,248)	-	-	(208,522,840)
Payables	(153,242)	(111,886)	(108,730)	(518,491)	-	-	(892,349)
Other funds outflow upon maturity	(85,826)	-	-	(14,041)	(6,459)	-	(106,326)
Total liabilities	(213,123,537)	(25,123,012)	(1,831,539)	(567,780)	(6,620)	-	(240,652,488)
Net liquidity gap	($ 144,650,740)	$ 32,926,477	$ 10,003,113	$ 9,403,179	$ 78,729,376	$ 67,595,314	$ 54,006,719

(C)Structure analysis for maturity of derivative financial assets and liabilities - gross basis

There were no derivatives that were settled on a gross basis as at December 31, 2018 and 2017.

(D)Structure analysis for maturity of derivative financial assets and liabilities-net basis

There were no derivatives that were settled on a net basis as at December 31, 2018 and 2017.

D. Analysis on maturity value of off balance sheet accounts

The following table illustrates the maturity analysis for off balance sheet accounts of the Company by the remaining maturity from the balance sheet date to the contract expiration date. In terms of the Company's commercial paper business, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 5 years	Total
December 31, 2018						
Off-balance sheet items						
Guarantees for commercial papers	$ 115,672,600	$ 46,719,600	$ 2,299,900	$ -	$ -	$ 164,692,100
December 31, 2017						
Off-balance sheet items						
Guarantees for commercial papers	$ 110,069,100	$ 45,268,000	$ 1,519,000	$ 115,000	$ -	$ 156,971,100

E. Maturity analysis for lease contract and capital expense commitment

Operating lease commitment is the total minimum lease payments that the Company should make as a lessee or lessor under an operating lease term which is not cancelable. The Company has no capital expenditure commitment.

December 31, 2018	Below 1 year	1 to 5 years	Over 5 years	Total
Lease commitment				
Operating lease expense (lessee)	($ 7,433)	($ 8,828)	$ -	($ 16,261)
Operating income (lessor)	111,937	192,369	-	304,306
Total	$ 104,504	$ 183,541	$ -	$ 288,045

December 31, 2017	Below 1 year	1 to 5 years	Over 5 years	Total
Lease commitment				
Operating lease expense (lessee)	($ 40,024)	($ 10,569)	$ -	($ 50,593)
Operating income (lessor)	102,038	19,514	-	121,552
Total	$ 62,014	$ 8,945	$ -	$ 70,959

F. Additional information disclosed in accordance to the “Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies”

Sources and Utilization of Capital
As of December 31, 2018
(Expressed in Millions of NT Dollars)

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

Sources and Utilization of Capital
As of December 31, 2017
(Expressed in Millions of NT Dollars)

	1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year
Utilization of capital					
Bills	65,813	56,606	9,966	314	-
Bonds	1,002	390	863	8,115	128,029
Bank deposit	793	-	200	200	-
Loans extended	-	-	-	-	-
Bills and bonds investment with resale agreements	501	-	-	-	-
Total	68,109	56,996	11,029	8,629	128,029
Sources of capital					
Loans borrowed	31,124	-	-	-	-
Bills and bonds payable under repurchase agreements	181,672	24,988	1,720	35	-
Own capital	-	-	-	-	36,038
Total	212,796	24,988	1,720	35	36,038
Net capital	(144,687)	32,008	9,309	8,594	91,991
Accumulated net capital	(144,687)	(112,679)	(103,370)	(94,776)	(2,785)

(5) Market risk

A. Definition and sources of market risk

Market risk refers to the risk of fluctuation in the fair value or future cash flows of financial instruments held by the Company as a result of the change in market price. The so-called market price include interest rate, exchange rate, and price of equity securities. The market risk faced by the Company mainly arises from the fluctuations in interest rates. Fluctuations in interest rates will result in change in fair value of bills and bonds investment held by the Company.

B. Procedures for management of market risk

The Company's market risk management aims to control the probable losses arising from on and off balance sheet positions as a result of adverse change in market price. The Company established not only market risk management standard to control market risk assumed for holding financial instrument position but also sales management rules such as standard governing authorization of bill trading, standard governing operations and authorization of bond trading, standard governing brokerage and proprietary trading business and authorization of fixed income securities, procedures for engaging in derivatives transactions, and procedures for engaging in equity investments to define control measures for relevant businesses, which include:

(A) Monitoring relevant risk management objectives such as position limits, loss limits, and sensitivity limits on bills, bonds, stocks, derivatives, and various businesses on a daily basis.

(B) Performing interest rate sensitivity analysis on positions of bills and bonds on a daily basis.

(C) Performing valuation and verification on derivatives on a monthly basis.

C. Methods used in market risk measurement

Methods used in market risk measurement primarily aims to set limits based on risk characteristics of risk positions arising from bills, bonds, stocks, and derivatives, perform valuation and control loss limits according to operations of positions and hedge strategy, and set adverse scenarios for assessment of significant loss the Company may assume. Measurement system and statistics include: details of gains and losses, risk life, sensitivity analysis, and stress testing on positions of various bills, bonds, stocks, and derivatives.

D. Policies of hedging and mitigation of market risk

The Company's hedge strategy for financial assets aims to use hedging instruments individually or collectively to manage risk of change in fair value and achieve risk management objectives. The hedge strategy also aims to periodically review and revise various transaction risk limits based on change in economic and financial situation and adjustment of business strategy to ensure relevant risk measures and procedures conform to established policies, internal control, and operational procedures.

E. Interest rate risk management

(A) Interest rate risk mainly arises from bond positions of interest rate instruments, which are primarily held for earning spread between short-term and long-term interest rates because bonds are primarily recognised in available-for-sale financial assets. Interest rate risk management aims to assess bearable extent of interest rate risk assumed by comparing weighted yields on bond position held with interest rate level of bonds under repurchase agreements.

(B) The Company's interest rate risk management mainly refers to the business plan and objectives of budget surplus to set position limits, loss limits, and sensitivity limits on bond business as annual risk management objectives. The interest rate risk management is also applied to evaluate the economic situation, predict future path of interest rates, and draft operation strategy according to domestic and foreign economic data.

(C) Relevant control measures include: daily supervision on risk management objectives relevant to various bond businesses; daily price assessment and sensitivity analysis on bill and bond positions; monthly stress testing with an assumption of 100 bp increase in interest rates; and reporting to the Risk Management Committee quarterly.

F. Foreign exchange risk

(A) Foreign exchange risk faced by the Company refers to movement in fair values of foreign currency denominated assets less foreign currency denominated liability, and plus derivative position as a result of exchange rate fluctuations may result in losses to the Company.

(B) In terms of foreign exchange risk management, the Company mainly supervises position limits and loss limits on relevant businesses. Related control measures include daily supervision on exposure position, price assessment, and control over loss limits, daily calculation of currency position and analysis on foreign exchange sensitivity, monthly stress testing on the currency position held with an assumption of ±3% exchange rate fluctuations; and reporting to the Risk Management Committee quarterly.

(C) Company's foreign exchange risk exposure

(Expressed in Thousands of NT Dollars)

	December 31, 2018
	USD
Cash and cash equivalents	$ 17,790
Financial assets at fair value through other comprehensive income	36,348,672
Investments in debt instruments measured at amortised cost	440,070
Receivables - net	716,980
Total assets	37,523,512
Interbank overdraft and call loans	2,569,279
Bills and bonds sold under repurchased agreements	35,390,480
Payables	66,042
Total liabilities	38,025,801
On-balance sheet foreign exchange gap	($ 502,289)
Off-balance sheet currency swaps	$ -
Exchange rate to NTD	30.7330
Foreign exchange gain (loss)	$ 44,323

(Expressed in Thousands of NT Dollars)

	December 31, 2017	
	USD	RMB
Cash and cash equivalents	$ 36,316	$ -
Available-for-sale financial assets	34,706,239	-
Receivables - net	526,568	-
Other financial assets-net	80,811	-
Total assets	35,349,934	-
Interbank overdraft and call loans	1,156,272	-
Bills and bonds sold under repurchased agreements	33,368,709	-
Payables	21,939	-
Total liabilities	34,546,920	-
On-balance sheet foreign exchange gap	$ 803,014	$ -
Off-balance sheet currency swaps	$ -	$ -
Exchange rate to NTD	29.6480	4.5382
Foreign exchange gain (loss)	($ 69,436)	($ 468)

G. Equity securities risk management

(A) The Company's equity securities market risk comprises the risk of individual equity security coming from the security's market price changes and the general market risk coming from overall equity securities market price changes.

(B) For equity securities risk management, the Company has set trading strategies for two categories of positions: (a) positions held for selling and earning capital gain in short-term; and (b) positions not held for selling and earning capital gain, and set annual loss limits to the tolerable scopes.

(C) Related control measures include: daily market price valuation to control loss limits, monthly stress-testing calculating probable amount of loss on investment portfolio held by the Company on the assumption that overall market price decrease by 15%, and reporting to the Risk Management Committee quarterly.

H. Sensitivity Analysis

December 31, 2018			
Risks	Extent of variation	Effect on profit or loss	Effect on other comprehensive income
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%.	($ 9,924)	$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	9,924	-
Interest rate risk	Major increased in interest rates 1bp	(2,220)	(68,051)
Interest rate risk	Major declined in interest rates 1bp	2,221	68,096
Equity securities risk	TAIEX declined by 1%.	118	(10,007)
Equity securities risk	TAIEX increased by 1%	(118)	10,007

December 31, 2017			
Risks	Extent of variation	Effect on profit or loss	Effect on other comprehensive income
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%.	($ 8,030)	$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	8,030	-
Interest rate risk	Major increased in interest rates 1bp	(2,149)	(72,719)
Interest rate risk	Major declined in interest rates 1bp	2,150	72,774
Equity securities risk	TAIEX declined by 1%.	156	(9,399)
Equity securities risk	TAIEX increased by 1%	(156)	9,399

I. Additional information disclosed in accordance to 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

December 31, 2018

Unit: In thousands of NT Dollars, %

Items	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	120,580,458	6,771,822	6,224,624	123,937,758	257,514,662
Interest rate sensitive liabilities	223,806,788	1,529,700	48,196	-	225,384,684
Interest rate sensitive gap	(103,226,330)	5,242,122	6,176,428	123,937,758	32,129,978
Net worth					35,628,751
Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%)					114.26
Ratio of interest rate sensitivity gap to net worth (%)					90.18

December 31, 2017

Unit: In thousands of NT Dollars, %

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

Note 1: Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.

Note 2: Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities.

Note 3: Interest rate sensitivity gap = Interest rate sensitive assets – Interest rate sensitive liabilities

(B) Average amounts and average interest rates of interest-earning assets and interest-bearing liabilities

	For the year ended December 31, 2018	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	$ 1,096,095	0.19
Financial assets at fair value through profit or loss	125,689,438	0.85
Bills and bonds investment with resale agreements	771,851	0.40
Financial assets at fair value through other comprehensive income	132,144,109	1.76
Investments in debt instruments at amortized cost	172,345	4.31
Liabilities		
Interbank overdraft and call loans	24,606,113	0.76
Bills and bonds payable under repurchase agreements	203,847,525	0.69

	For the year ended December 31, 2017	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	$ 1,193,105	0.19
Financial assets at fair value through profit or loss	124,499,079	0.89
Bills and bonds investment with resale agreements	734,151	0.38
Available-for-sale financial assets	131,296,912	1.73
Held-to-maturity financial assets	312,329	2.06
Liabilities		
Interbank overdraft and call loans	24,015,388	0.51
Bills and bonds payable under repurchase agreements	202,675,048	0.54

Note: Cash and cash equivalents include certificate of deposit pledged and designated account for allowance to pay back short-term bills.

(6) Operating risk and legal risk

The Company's operational risk management mainly aims to effectively implement internal control and reduce losses from operational risk due to improper internal operational procedures, personnel mistakes, system failure, or external events to achieve business and management objectives.

A. Risk management policy

The Company established operational risk management guidelines and risk management mechanism with objective review of effective implementation of operational risk management mechanism in accordance with independent internal audit process. The Company also set up emergency response plan and business continuity planning to ensure rapid operation recovery and maintenance of normal business operation in case of major contingencies and disaster.

B. Methods used in risk measurement

(A) The Company establishes operational loss database, gathers statistics on frequency and amount of loss for individual loss event, and screen key risk indicators for the purpose of enhancing current management mechanism of pointer event and decreasing operational loss.

(B) The Company set up system of operational risk control self-assessments to perform annual operational risk control self-assessments. The possibility and effect of loss are used as loss measure indicators for self-assessments to generate risk mapping and enhance control over businesses rated as medium risk. Besides, the Company follows suggestion for self-assessments to improve current control mechanism for the purpose of reducing losses from operational risk.

C. Additional information disclosed in accordance to the "Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies"

Information on Breach of Applicable Laws or Regulations

December 31, 2018

	Reason and amount incurred
Indictment of the Company's chairman or employees for breach of applicable laws or regulations in the latest year	None
Penalties imposed by the regulatory authority for breach of the Bills Financing Act in the latest year	None
Rectification requested by the Ministry of Finance for business misconduct in the latest year	The company was rectification requested by the Banking Bureau on November 26, 2018. It was due to the fact that the company's collection, documentation and maintenance of the information of interested parties were not appropriate. And the company adopts the procedures of general credit cases to process the renewal of credit, unclear obstacles to sound management. Then, rectify it.
Frauds committed by the Company's employees, major contingencies, or incidents caused by non-compliance with the Safety Rules Governing the Financial Institutions, which have incurred a total loss exceeding $50 million on one single incident or all the incidents in the latest year	None
Others	None

Note: The latest period denotes one-year time from the current period of disclosure.

14. CAPITAL MANAGEMENT

For the purpose of establishing assessment procedure for capital adequacy and maintaining adequate capital to assume overall risk arising from operations, the Company set up capital adequacy self-assessment procedure and regulations to specify all significant risks that should be assessed under capital management and adequate capital required for acceptance of such risks. Moreover, the Company set up capital adequacy ratio for annual risk management objectives and periodically report capital adequacy ratio with disclosure of information about capital adequacy. Objectives, policies, and procedures of the Company's capital management are as follows:

(1)The objectives of capital management

A. Methods used in assessment of capital required for acceptance of various risks should follow the principle of supervisory review for capital adequacy by the competent authority except standardized approach used in assessment of credit risk and market risk, and basic indicator approach used in assessment of operational risk.

B. The Company's capital management should not only meet the minimum regulated capital adequacy ratio but also evaluate the risk profile, strategy, and operational plan that could be sufficiently handled by the internal eligible self-owned capital to set capital adequacy ratio as the objective of internal capital management.

(2)Policies and procedures of capital management

A. The Company shall keep meeting the capital adequacy ratio regulated by the competent authority and establish capital adequacy self-assessment procedure that conforms to the risk profile based on the business size, status of credit risk, market risk, and operational risk, as well as future trend in operation. The Company shall also set up strategy to maintain adequate capital and supervise the capital adequacy.

B. The risk control department annually sets target value and alarm value of capital adequacy ratio as the annual risk management objectives, which will be reviewed by the risk management committee of the Company and submitted to the risk control department of Mega Financial Holding co., Ltd. For deliberation and then the risk management committee of Mega Financial Holding Co., Ltd. For reference after approval by the Company's Board of Directors. The risk control department supervises enforcement of risk management objectives and quarterly reports it to the risk management committee and Board of Directors of the Company.

C. The risk control department calculates capital adequacy ratio, assesses the capital adequacy, and reports the details to the general manager on a monthly basis. Assessment of capital adequacy includes the following: capital structure and risk tolerance, impact of major business risks on the capital, simulation analysis on operational plan, capital adequacy ratio for capital increase/reduction plan or significant capital utilization, and stress testing.

(3)Capital adequacy ratio

Items \ Year		December 31, 2018	December 31, 2017
Eligible capital	Tier 1 Capital, net	34,879,969	34,353,797
	Tier 2 Capital, net	-	66,367
	Tier 3 Capital, net	18,083	725,855
	Eligible capital, net	34,898,052	35,146,019
Risk-weighted assets, total	Credit risk	167,377,026	161,985,831
	Operation risk	7,739,525	7,476,775
	Market risk	81,991,736	88,279,450
	Risk-weighted assets, total	257,108,287	257,742,056
Capital adequacy ratio (%)		13.57	13.64
Ratio of Tier I capital to risk - weighted assets (%)		13.57	13.33
Ratio of Tier II capital to risk - weighted assets (%)		-	0.03
Ratio of Tier III capital to risk - weighted assets (%)		-	0.28
Ratio of common stocks to total assets (%)		4.95	4.69

A. Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets

B. The total amount of assets equals the total assets presented in the balance sheet.

C. The ratio is calculated for the end of June and December which were also disclosed in the first and third quarter financial statements.

D. The above eligible capital and risk-weighted assets are calculated and recorded in accordance with “Regulations Governing Capital Adequacy of Bills Finance Companies” and “Calculation and Forms of Own Capital and Risk Assets of Bills Finance Companies”.

15. Effects on initial application of IFRS 9

(1) Summary of significant accounting policies adopted in 2017:

A. Accounts receivable and overdue receivables

Accounts receivable include accounts receivable, notes receivable and other receivables.

Accounts receivable are accounted for as follows:

(A) The commercial papers guaranteed by the Company which matures without being presented immediately within six months from the maturity, shall be accounted for as accounts receivable. Receivables overdue for longer than six months shall be accounted for as overdue receivables.

(B) During the period which guaranteed commercial papers are issued for, the collateral is subject to provisional attachment yet the borrower still pays the interest regularly. In order to extend a grace period for the borrower to apply for removal of such attachment, if such commercial paper matures without being presented immediately, the balance of the commercial paper shall be accounted for as notes receivable.

(C) Other receivables represent accounts receivable except for those listed under designated accounts.

(D) Accounts receivable and overdue receivables are initially recognised at fair value, which includes the price of transaction, significant costs of transaction, significant handling fees paid or received, discount and premium, etc., and subsequently measured at amortized cost using the effective interest method.

(E) Allowance for doubtful accounts for claims such as accounts receivable and overdue receivables is recognised by assessing at balance sheet date whether objective evidence exists indicating impairment losses generated from material individual financial assets, and impairment losses generated individually or as a company from immaterial individual financial assets. An impairment loss is recognised when there is objective evidence of impairment. The amount of the impairment loss is the difference between the financial assets' book value and the estimated future cash flow discounted using the original effective interest rate. In the subsequent period, if the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amounts shall not exceed the amortized cost that would have been determined had no impairment loss been recognised in prior years.

B. Financial guarantee contracts

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

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

(A) the amount determined in accordance with IAS 37, "Provisions, contingent liabilities and contingent assets" and

(B) The amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18, "Revenue".

The best estimate of the liability amount of a financial guarantee contract requires management to exercise their judgment combined with historical loss data based on the similar transaction experiences. The increase in liabilities due to financial guarantee contract is recognised in "Provisions".

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

C. Available-for-sale financial assets

(A) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

(B) On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

(C) Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently re-measured and stated at fair value. Any changes in the fair value of these financial assets are recognised in other comprehensive income and shall be recognised as profit or loss in the period when available-for-sale financial assets are derecognised.

(D) When the reduction of fair value of available-for-sale financial asset has been recognised in other comprehensive income and with objective evidence indicating that the impairment has incurred, even if the financial asset has not been derecognised, accumulated losses recognised in other comprehensive income shall be reclassified from equity items to gain and loss. The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(E) In respect of investment in equity instruments classified as available-for-sale, whose impairment loss recognised in profit or loss shall not be reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income. For debt instruments classified as available-for-sale, impairment loss can be reversed and recognised in profit or loss if subsequent increase in the fair value of the investment can be objectively related to an event occurring after the impairment loss is recognised in profit or loss.

D. Held-to-maturity financial assets

(A) Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables and those that are designated as at fair value through profit or loss or as available-for-sale on initial recognition.

(B) On a regular way purchase or sale basis, held-to-maturity financial assets are recognised and derecognised using trade date accounting.

(C) Held-to-maturity financial assets are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognised in profit or loss.

(D) An impairment loss is recognised when there is objective evidence of impairment. The amount of the impairment loss is the difference between the financial assets' book value and the estimated future cash flow discounted using the original effective interest rate. In the subsequent period, if the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amounts shall not exceed the amortized cost that would have been determined had no impairment loss been recognised in prior years.

E. Financial assets measured at cost

(A) Financial assets measured at cost refer to investments in equity instruments that do not have a quoted market price in an active market or derivatives that are linked to unquoted equity instruments without reliably measured fair value and must be settled by delivery of such unquoted equity instruments.

(B) Financial assets measured at cost are accounted for using trade date accounting. These assets are initially recognised at fair value plus transaction costs of acquisition. The fair value can be reasonably estimated when the following criteria are met at the balance sheet date: (a) the variability in the range of reasonable fair value estimates is insignificant for that instrument, or (b) the probabilities of the estimates within the range can be reasonably assessed and used in estimating fair value. If the variability in the range of reasonable fair value estimate could vary significantly, and the probabilities of the various estimates cannot be reasonably measured, then it should be assessed by cost instead of fair value.

(C) When there is objective evidence of impairment indicating an impairment loss has occurred on the financial assets carried at cost, the impairment loss should be recognised under asset impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset. Such impairment loss is not reversible.

F. Impairment of financial assets

(A) The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a company of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated.

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

a. Significant financial difficulty of the issuer or debtor;

b. A breach of contract, such as a default or delinquency in interest or principal payments;

c. The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

d. It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

e. The disappearance of an active market for that financial asset because of financial difficulties;

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

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

h. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; or

i. Other objective evidence.

(C) When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment shall be made according to the category of financial assets as mentioned previously.

(2) The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Financial assets at fair value through other comprehensive income - Equity instruments	Financial assets at fair value through other comprehensive income - Debt instruments	Available-for-sale financial assets - Equity instruments	Available-for-sale financial assets - Debt instruments	Held-to-maturity financial assets	Receivables – net	Other financial assets – net	Total	Retained earnings	Other equity
Amount under IAS 39 at December 31,2017	$ -	$ -	$ 1,397,463	$ 134,490,879	$ 100,000	$ 1,651,477	$ 875,137	$ 138,514,956	$ 2,679,521	$ 1,589,091
Transferred into and measured at fair value through other comprehensive income	1,741,763	134,590,879	(1,397,463)	(134,490,879)	(100,000)	-	(344,300)	-	-	-
Fair value adjustments	320,241	1,632	-	-	-		-	321,873	398,700	(76,827)
Expected credit loss adjustments	-	-	-	-	-	(495)	-	(495)	(51,820)	51,325
Amount under IFRS 9 at January 1,2018	$ 2,062,004	$ 134,592,511	$ -	$ -	$ -	$ 1,650,982	$ 530,837	$ 138,836,334	$ 3,026,401	$ 1,563,589

A. Under IAS 39, because the contractual cash flows of debt instruments, which were classified as: available-for-sale financial assets and held-to-maturity financial assets, amounting to $134,490,879 thousand and $100,000 thousand, respectively, met the condition that it is intended to settle the principal and interest on the outstanding principal balance, and the Company holds these assets for the purpose of cash inflow and sale, they were reclassified as 'financial assets at fair value through other comprehensive income－debt instruments' and the original held-to-maturity financial assets were re-measured at fair value. As a result, 'financial assets measured at fair value through other comprehensive income－debt instruments' and other equity interest increased by $134,592,511 thousand and $1,632 thousand, respectively. In addition, the expected credit losses of the aforementioned debt instruments were measured in accordance with IFRS 9, which led to the decrease of retained earnings by $51,325 thousand and the increase of other equity interest by $51,325 thousand.

B. Under IAS 39, because the equity instruments, which were classified as: available-for-sale financial assets and other financial assets, net, amounting to $1,397,463 thousand and $344,300 thousand, respectively, were not held for the purpose of trading, they were reclassified as 'financial assets at fair value through other comprehensive income－equity instruments'. The equity instruments originally included in other financial assets, net were re-measured at fair value. As a result, 'financial assets at fair value through other comprehensive income－equity instruments' increased by $2,062,004 thousand; accumulated impairment from prior years was reversed, increasing retain earnings by $398,700 thousand; re-measurement of fair value resulted in the decrease of other equity interest by $78,459 thousand.

C. Under IFRS 9, the expected credit losses of interest receivables arising from 'financial assets at fair value through other comprehensive income－debt instruments', included in accounts receivable－net, were measured at $495 thousand, resulting in a decrease of $495 thousand in retained earnings.

(3) The reconciliation of the balance of loss allowances and provisions as of December 31, 2017, which was prepared under the incurred loss approach of IAS 39 and IAS 37, to that as of January 1, 2018, which was prepared under the expected credit loss approach of IFRS 9, is as follows:

	Receivables – net	Financial assets at fair value through other comprehensive income	Reserve for guarantee liabilities	Total
Amount under IAS 39 & IAS37 at December 31,2017	($ 695)	$ -	($ 2,289,701)	($ 2,290,396)
Expected credit loss adjustments	(495)	(51,325)	-	(51,820)
Amount under IFRS 9 at January 1,2018	($ 1,190)	($ 51,325)	($ 2,289,701)	($ 2,342,216)

(4) The significant accounts as of December 31, 2017 are as follows:

A. Available-for-sale financial assets

	December 31, 2017
Government bonds	$ 65,902,154
Foreign currency government bonds	306,779
Financial bonds	9,797,306
Foreign currency financial bonds	25,538,098
Corporate bonds	23,857,245
Foreign currency corporate bonds	8,861,362
Beneficiary or asset-backed securities	227,935
Stocks	1,397,463
Total	$ 135,888,342

(A) As of December 31, 2017, the transaction carrying amount of bonds and beneficiary or asset-backed securities with repurchase agreement of above available-for-sale bonds were $120,662,360 thousand.

(B) The government bonds and corporate bonds were provided as collaterals for bank overdrafts as of December 31, 2017. Please refer to Notes 7 and 8 for details.

(C) As of December 31, 2017, in accordance with the relevant regulations, the Company deposited refundable deposits in Central Bank or other institutions. Bonds are collateralized as refundable deposits amounting to $848,614 thousand.

(D) As of December 31, 2017, the fair values of government bonds denominated in USD were US$10,347 thousand; as of December 31, 2017, the fair values of financial bonds denominated in USD were US$861,377 thousand; as of December 31, 2017, the fair values of corporate bonds denominated in USD were US$298,886 thousand.

(E) In consideration of increasing interest revenue, the Company holds a securitized SPT beneficial security, which was issued in 2014 by the Land Bank of Taiwan on behalf of Chailease Finance Co., Ltd.'s commission. The legal maturity date of the asset-backed security investment was July 24, 2021. However, investments are subject to an early termination according to the underlying's status of principal repayments.

(F) As of December 31, 2017, the maximum credit risk of the Company's investment in the above-mentioned structured entities was $227,935 thousand. In addition, for the years ended December 31, 2017, interest revenue from investing in the structured entities was $8,210 thousand.

B. Receivables – net

	December 31, 2017
Interest receivable	$ 1,605,498
Trade receivables on bond investment and stocks	27,569
Retractable rights of convertible bonds receivables	18,400
Other receivables – others	705
Subtotal	1,652,172
Less: Allowance for doubtful accounts	(695)
Receivables, net	$ 1,651,477

C. Held-to-maturity financial assets

	December 31, 2017
Corporate bonds	$ 100,000
Less: Accumulated impairment	-
Net	$ 100,000

D. Other financial assets – net

	December 31, 2017
Certificate of deposit pledged	$ 400,000
Financial assets carried at cost-net	344,300
Guarantee deposits held for trading the foreign currency bonds under repurchase agreements	80,811
Designated account for allowance to pay back short–term bills	50,026
Net	$ 875,137

(a) The above certificate of deposit pledged were provided as collaterals for bank overdrafts as of December 31, 2017. Please refer to Note 8 for details.

(b) For above-mentioned financial assets carried at cost, as the variability in the range of reasonable fair value estimate could vary significantly, and the probabilities of the various estimates cannot be reasonably measured, the assets are measured at cost. Relevant details are as follows:

	December 31, 2017	
	Amount	% of Shareholding
Unlisted stock investments		
Core Pacific City Co., Ltd.	$ 600,000	2.938
Taiwan Asset Management Co., Ltd.	75,000	0.568
Taiwan Financial Asset Services Co., Ltd.	50,000	2.941
Taiwan Futures Exchange Co., Ltd.	10,250	0.512
Taiwan Depository & Clearing Co., Ltd.	6,850	0.628
Agora Garden Co., Ltd.	900	0.030
Subtotal	743,000	
Less:Accumulated impairment	(398,700)	
Net	$ 344,300	

As of December 31, 2017, the Company had recognised impairment loss for the above listed investees as follows:

	December 31, 2017
Core Pacific City Co., Ltd.	$ 397,800
Agora Garden Co., Ltd.	900
Total	$ 398,700

E. Provisions for liabilities

	December 31, 2017
Reserve for guarantee liabilities	$ 2,289,701
Net defined benefit liability	469,788
Total	$ 2,759,489

Movements in allowance and reserves for accounts receivable, overdue loans and guarantee liabilities are as follows:

	Allowance for accounts receivable and overdue loans	Reserve for guarantee liabilities	Total
January 1, 2017	$ 632	$ 2,255,703	$ 2,256,335
Provision	63	40,000	40,063
Write-off	(6,002)	-	(6,002)
Transfer	6,002	(6,002)	-
December 31, 2017	$ 695	$ 2,289,701	$ 2,290,396

F. Realized gain or loss on available-for-sale financial assets

	For the years ended December 31,2017
Dividends income	$ 51,958
Stocks	65,633
Bonds	118,828
Total	$ 236,419

G.Financial assets credit quality and analysis of past due and impairment

Financial assets held by the Company mainly comprise financial assets at fair value through profit or loss, investments in bills and bonds with resale agreements, available-for-sale financial assets, held-to-maturity financial assets, and financial assets measured at cost. Most of these assets have sound and satisfactory asset quality.

For the Company's classification of asset quality, credit asset quality is based on the Company's internal credit rating (categorized into thirteen levels). Other financial asset quality is based on the external credit rating of counterparty, which is categorized into four levels: sound, satisfactory, fair, and weak.

Each of these four levels has internal and external credit rating equivalents in the following table:

	Equivalent default rate	Internal credit rating	Corresponding to S&P	Corresponding to Taiwan Ratings (long-term)
Sound	Below 0.4% (included)	1~5	AAA~BBB-	twAAA ~ twA
Satisfactory	0.4% above ~1.68%(included)	6~8	BB+~ BB-	twA- ~ twBBB-
Fair	1.68% above ~4.3%(included)	9~10	B+	twBB+
Weak	4.3% above	11~13	B and below	twBB and below

(a) Credit quality analysis on securities investment

Financial assets	Neither past due nor impaired: Excellent	Satisfactory	Fair	Weaker	No rating(note)	Past due but not impaired	Impaired	Total	Reserve for losses	Net amount
	December 31, 2017									
Financial assets at fair value through profit or loss										
Investment in bills	$ 62,632,867	$ 48,303,600	$ 17,724,354	$ 3,696,786	$ 371,561	$ -	$ -	$ 132,729,168	$ -	$ 132,729,168
Investment in bonds	2,012,596	98,745	-	-	1,696,625	-	-	3,807,966	-	3,807,966
Available-for-sale financial assets										
Investment in bonds	130,732,218	911,541	-	-	2,619,185	-	-	134,262,944	-	134,262,944
Beneficiary or asset-backed securities	227,935	-	-	-	-	-	-	227,935	-	227,935
Bill and bonds investment with resale agreements	-	501,259	-	-	-	-	-	501,259	-	501,259
Held-to-maturity financial assets	-	100,000	-	-	-	-	-	100,000	-	100,000
Financial assets carried at cost	-	-	-	-	-	-	600,900	600,900	398,700	202,200

Note: Bills without ratings are mainly guaranteed bills, which do not have credit ratings as they are newly formed businesses and no complete annual financial reports are available. Bonds without ratings are mainly convertible corporate bonds listed and traded through the open market and foreign currency bonds.

(b) Credit quality analysis on credit business

There were no accounts receivable as of December 31, 2017.

H. Analysis of impaired financial assets of the Company

Financial assets	Carrying amount prior to recognition of impairment loss	Amount of the impairment loss	Carrying amount after recognition of impairment loss	Available collateral and other credit strengthening collateral
December 31, 2017				
Financial assets carried at cost	$ 600,900	$ 398,700	$ 202,200	None
Other receivables	695	695	-	None

16. ADDITIONAL DISCLOSURES

(1) Significant transaction information:

A. Marketable securities acquired or disposed of, at costs or prices of at least NT$100 million or 20% of the issued capital: None.

B. Acquisition of individual real estate, at costs or prices of at least NT$100 million or 20% of the issued capital: None.

C. Disposal of individual real estate, at costs or prices of at least NT$100 million or 20% of the issued capital: None.

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

E. Receivables from related parties amounting to at least NT$100 million or 20% of the issued capital: None.

F. Sales of non-performing loans : None.

G. Securitization products and its related information that applied by subsidiaries in compliance with the “Financial Asset Securitization Act” or “Real Estate Securitization Act” : None.

H. Significant inter-company transactions : None.

I. Other significant transactions which may affect the decisions of users of financial reports: None.

(2) Information on the subsidiaries: None.

(3) Supplementary disclosure regarding investee companies: None.

(4) Information on investments in Mainland China: None.

(5) Information on the apportionment of the revenues, costs, expenses, gains and losses arising from the transactions among the Company, Mega Financial Holding Co., Ltd. and its subsidiaries, joint promotion of businesses, and sharing of information, operating facilities or premises:

A. Transactions between the Company and its subsidiaries

Please refer to Note 7 for details.

B. Joint promotion of businesses

In order to create synergies within the company and provide customers financial services in all aspects, the Company provides mobility service (e.g. visiting clients) or promotes through telephone, mobile phone or email.

C. Sharing of information and operating facilities or premises

Under the Financial Holding Company Act, Personal Data Protection Law and the related regulations stipulated by FSC, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the company 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 and operating premises. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

D. Apportionment of revenues, costs, expenses, gains and losses

When the company conducts cross-selling of products with the parent company and other subsidiaries, it shall agree the method of apportionment based on details, returns, expenses, responsibilities, payment methods of cross-selling of products.

17. DISCLOSURE OF FINANCIAL INFORMATION BY SEGMENTS

(1) General information

The Company determines the responsible segments for information reporting depending on the information used by Chief Operating Decision-Maker (CODM). There are three segments of the Company which are responsible for reporting: bills, bonds, and the branch segment. The branch segment refers to eight branches with similar economic and business characteristics which do not satisfy the criteria for quantitative threshold and are into a reporting segment.

The bills segment is responsible for the commercial bill guarantee, short-term bill issuance in the primary market and the repo trade in the secondary market. The bonds segment is responsible for the business of bonds, bonds under repurchase or reverse sell agreements, fixed-income instruments, equity investment and businesses of financial derivative transactions. The branches are responsible for bills and bonds businesses other than the abovementioned trades for equity investment and derivative instruments.

The main income sources of the Company are from bills and bonds businesses. And the bills and bonds business managed by the branches shares a similarity with the head office, adding that the clients for primary market and investors in secondary market usually have a strong regional characteristic. Therefore, the Company manages through a comprehensive system by business nature and location.

(2) Measurement for segmental information

The gains and losses of both bills and bonds segments of the Company are assessed by net income, whereas those of the branches are assessed by profit before income tax and used as basis for performance evaluation. The inter-segment bills and bonds transactions of the Company are regarded as transactions with a third party and are evaluated by current market prices. The Company does not amortize the operating expenses and income tax expense to bills segment and bonds segment. The amounts reported should be consistent with the report submitted to the CODM. All the accounting policies of operating segments are the same with the significant accounting policies summarized in Note 4. There is no material change in the basis for formation of entities and division of segments in the Company or in the measurement basis for segment information during this period.

(3)Reconciliation for segment

Segmental information provided to CODM :

Items	For the year ended December 31, 2018 Bills segment	Bonds segment	Branch segment	Adjustments	Total
Net revenues (Note)	$ 801,689	$ 1,260,174	$ 1,437,887	$ 277,929	$ 3,777,679
Net revenues from external clients	1,587,871	1,378,580	863,201	(51,973)	3,777,679
Net bills revenues	1,532,852	-	521,670	-	2,054,522
Net bond revenues	-	1,309,425	307,510	-	1,616,935
Net equity investment revenues	-	69,155	-	-	69,155
Other net revenues	55,019	-	34,021	(51,973)	37,067
Net inter-segment revenues	(786,182)	(118,406)	574,686	329,902	-
Net bills revenues	(786,182)	-	620,592	165,590	-
Net bond revenues	-	(118,406)	(23,101)	141,507	-
Other net revenues	-	-	(22,805)	22,805	-
Interest income	748,199	1,026,813	215,974	(148,226)	1,842,760
Gains (losses) from reportable segments	801,689	1,260,174	1,148,628	(147,894)	3,062,597
Reportable segment assets	70,164,921	116,155,224	69,292,450	9,175,965	264,788,560
Reportable segment liabilities	42,642,276	95,400,583	67,801,043	23,315,907	229,159,809

Items	For the year ended December 31, 2017 Bills segment	Bonds segment	Branch segment	Adjustments	Total
Net revenues (Note)	$ 858,526	$ 1,488,421	$ 1,511,781	$ 107,192	$ 3,965,920
Net revenues from external clients	1,687,155	1,527,681	844,440	(93,356)	3,965,920
Net bills revenues	1,687,155	-	523,846	-	2,211,001
Net bond revenues	-	1,411,125	308,764	-	1,719,889
Net equity investment revenues	-	116,332	-	-	116,332
Other net revenues	-	224	11,830	(93,356)	(81,302)
Net inter-segment revenues	(828,629)	(39,260)	667,341	200,548	-
Net bills revenues	(828,629)	-	681,361	147,268	-
Net bond revenues	-	(39,260)	(10,535)	49,795	-
Other net revenues	-	-	(3,485)	3,485	-
Interest income	827,584	1,270,075	196,547	(120,941)	2,173,265
Gains (losses) from reportable segments	858,526	1,488,421	1,202,165	(337,591)	3,211,521
Reportable segment assets	87,392,313	118,946,956	68,055,978	5,126,602	279,521,849
Reportable segment liabilities	44,965,805	99,208,544	66,448,494	32,861,149	243,483,992

Note: Net revenues include net interest income and net non - interest income. Additionally, net bills revenues and net bond revenues of the net revenues include net interest income.

Five. Latest audited standalone financial reports: None.

Six. Financial distress encountered by the company or any of its affiliated companies in the recent year, up until the publication date of this annual report, and impacts on the company’s financial position: none.

Analysis of Financial Condition and Financial Performance, and Risk Management

Analysis of Financial Condition and Financial Performance

One. Financial Condition

Unit: NT$ thousands

Year / Item	2018	2017	Variation	
			Amount	%
Cash and cash equivalents	326,207	793,634	(467,427)	(58.90)
Financial assets at fair value through profit and loss	126,577,565	136,554,017	(9,976,452)	(7.31)
Financial Assets at Fair Value Through Other Comprehensive Income	131,955,095	-		
Debt Instruments Carried at Cost After Amortization	440,070	-		
Available-for-sale financial assets	-	135,888,342		
Bills and bonds purchased under resale agreements	-	501,259	(501,259)	(100.00)
Receivables - net	1,534,617	1,651,477	(116,860)	(7.08)
Held-to-maturity financial assets	-	100,000		
Other financial assets - net	497,703	875,137	(377,434)	(43.13)
Property and equipment - net	363,438	363,606	(168)	(0.05)
Investment property– net	2,507,096	2,517,760	(10,664)	(0.42)
Intangible assets - net	4,140	4,920	(780)	(15.85)
Deferred income tax assets- net	532,673	222,666	310,007	139.23
Other assets - net	49,956	49,031	925	1.89
Total assets	264,788,560	279,521,849	(14,733,289)	(5.27)
Interbank overdraft and call loans	23,074,279	31,124,272	(8,049,993)	(25.86)
Financial liabilities at fair value through profit and loss	5,892	632	5,260	832.28
Bills and bonds payable under repurchase agreements	202,310,405	208,414,735	(6,104,330)	(2.93)

Payables	560,256	947,769	(387,513)	(40.89)
Current income tax liabilities	69,738	40,412	29,326	72.57
Liabilities reserve	2,696,915	2,759,489	(62,574)	(2.27)
Deferred income tax liabilities	86,060	45,675	40,385	88.42
Other liabilities	356,264	151,008	205,256	135.92
Total liabilities	229,159,809	243,483,992	(14,324,183)	(5.88)
Capital stocks	13,114,411	13,114,411	-	-
Capital surplus	320,929	320,929	-	-
Retained earnings	22,012,449	21,013,426	999,023	4.75
Other equity	180,962	1,589,091	(1,408,129)	(88.61)
Total equity	35,628,751	36,037,857	(409,106)	(1.14)

Ratio change analysis: (Ratio change before and after over 20%; moreover, amount change for up to NT$10,000 thousand)

1. The 2018 figures were prepared according to IFRS 9, whereas the 2017 figures were prepared based on the 2013 version of the IFRS.
2. Cash and cash equivalents decreased mainly due to transfer of matured RP proceeds from a deceased customer to the inheritor.
3. Investment in reverse sell bills and bonds decreased due to the absence of a resale investment holding balance at the end of 2018.
4. Decrease in other financial assets - net was mainly due to reclassification of non-TWSE/TPEx listed shares totaling NT$344,300,000 into “financial assets at fair value through other comprehensive income” in accordance with IFRS9.
5. Increase in deferred income tax assets - net was mainly due to recognition of additional deferred income tax assets on unrealized loss on valuation of offshore bonds.
6. The decrease in interbank overdraft and call loans was the result of smaller position of bills held in the Company's possession.
7. Payables decreased mainly due to transfer of matured RP proceeds from a deceased customer to the inheritor.
8. Increase in income tax liabilities for the current year was mainly attributed to a rising tax rate.
9. Increase in deferred income tax liabilities was mainly attributed to the recognition of deferred income tax liabilities on unrealized bond interest income.
10. Increase in other liabilities was mainly due to higher amounts of bill repayment proceeds collected from borrowers in advance.
11. Other equity items decreased mainly due to changes in the market interest rate that resulted in lower unrealized gain on valuation of foreign currency bonds.

Two. Financial performance

Unit: NT$ thousands

Accounts	2018	2017	Increase (Decrease) amount	Ratio Change (%)
Interest income, net	1,842,760	2,173,265	(330,505)	(15.21)
Revenues other than interest income, net	1,934,919	1,792,655	142,264	7.94
Net income	3,777,679	3,965,920	(188,241)	(4.75)
Provisions	54,058	11,068	42,990	388.42
Operating expenses	(769,140)	(765,467)	(3,673)	0.48
Income before Income Tax from Operating Unit	3,062,597	3,211,521	(148,924)	(4.64)
Income tax (expense) gain	(504,516)	(506,292)	1,776	(0.35)
Net Income	2,558,081	2,705,229	(147,148)	(5.44)
Other comprehensive income for the current period (net of tax expense)	(1,386,976)	1,586,304	(2,973,280)	(187.43)
Comprehensive Income for the current period	1,171,105	4,291,533	(3,120,428)	(72.71)

Explanation of analysis of changes: (Ratio change over 20%)

1. Increase in the reversal of various provisions was largely due to higher amounts of guarantee liability provisions reversed following borrowers' repayment.
2. Other current comprehensive income decreased mainly due to changes in the market interest rate and unrealized gain on bond valuation.

Three. Cash flow

I. Liquidity analysis for the last two years

Item \ Year	2018	2017	Increase/Decrease (%)
Cash flow ratio (%)	4.20	N/A	-
Cash flow adequacy ratio (%)	233.62	153.75	51.95
Explanation of analysis of changes: (Ratio change over 20%) Cash flow adequacy ratio increased mainly due to higher net cash flow from operating activities in the last five years.			

II. Liquidity analysis for the next year

Unit: NT$ thousands

Opening Cash Balance ①	Projected Net Cash Flow From Operating Activities ②	Projected Cash Outflow ③	Projected cash surplus (deficit) ①＋②－③	Remedial measures for estimated cash deficit	
				Investment Plan	Financial Plan
326,207	(3,128,655)	25,293,028	(28,095,476)	-	28,420,000

1. Current cash flow analysis:
   (1) Operating Activities: The Company expects net cash outflow from operating activities due to increase in bond holding position accounted as financial assets at fair value through other comprehensive income profit and loss.
   (2) Investing activities: no major increase in investment has been expected.
   (3) Financing activities: mainly comprise of cash dividend payments and repayment of interbank overdraft and call loans.
2. Liquidity analysis and financing of projected cash deficits: deficits are expected to be supported by interbank overdraft and call loans.

Four. Impact of major capital expenditure on financial operations in the most recent years: None.

Five. Investment Policies in the Last Year; Describe Any Causes of Profit or Loss, Improvement Plans, and Investment Plans for the Next Year

I. Investment policy and investment plan for the next year

The Company's investment policy has been established in accordance with the Regulations Governing Investments by Bills Finance Companies in Other

Enterprises, which requires that the Company seek the parent company's and the authority's approval before investing in new businesses, except for investments that had already been approved prior to the implementation of The Act Governing Bills Finance Business. The Company does not have any new investments planned in the next year.

II. The cause of investment profit or loss and the corresponding corrective action

In 2018, the Company received cash dividends totaling NT$18,475,000 from invested businesses, and stock dividends totaling 56,728 shares from the Taiwan Depository and Clearing Corporation and 96,917 shares from the Taiwan Futures Exchange Corporation.

Six. Risk Management

I. Risk management organizational framework and policy

(I) Risk management organizational framework

The Board of Directors is the highest authority for the Company’s risk management; therefore, the Board of Directors takes ultimate responsibility for establishing the Company’s risk management system and ensuring its effective operation. The Company has a Risk Management Committee in which the Chairperson serves as the convener. The committee is responsible for reviewing risk management reports, allocating risk limits and assets, monitoring execution of risk management targets, and managing risk-related affairs across all business categories.

The Risk Control Department is responsible for enacting the risk management-related regulations, enforcing the plans under the risk management mechanism pursuant to the Basel II, 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 working with the competent authority and holding Company to plan, supervise, or execute the risk management matters required by the competent authority and holding company.

(II) Risk management policy

The Company relies on the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries”, “Mega Financial Holding Company Risk Management Policies and Guidelines,” and the Company’s “Internal Control System Enforcement Rules” to regulate the Company’s

"Risk Management Policies" as the guidance for business risk management in order to establish the Company's risk management system, ensure that the operational risk control is within tolerance, and maintain a sound capital adequacy ratio.

II. Qualitative and quantitative information about various risks:

(I) Credit risk management system and capital requirement

1. Credit risk management system

2018

Aspects	Contents
(1) Strategy, objective, policy and procedure	For the establishment of the credit risk management mechanism and ensuring credit risk control within the tolerance of management objectives, the "Credit Risk Management Guidelines" is stipulated to control default loss risk resulted from the non-performance of borrowers or counterparties due to business deterioration or other factors. The relevant risk control measures include: (1) Define the credit limit ratio by type of business and specific security terms, and define credit risk limit management in accordance with the "Credit Risk Management Guidelines". (2)Define the risk concentration ratio, set up alert standard, and control mechanism for preventing excessive risk concentration by customers (including one individual, one related party, and one affiliated enterprise), businesses, and nations in accordance with the "Regulations Governing Credit Risk Concentration".
(2) Organization and framework of credit risk management system	With respect to the credit risk in the Company's granting of loans and various financial instruments, the Loan Review team and Risk Management Committee are responsible for supervising and reviewing various management regulations, granting of loans and business risk management objectives. Meanwhile, the Bills Department, Bond Department and all branches are the main operational units for credit risk control.
(3) Scope and characteristics of credit risk reporting and the measurement	The Company has set up the Risk Management Committee to monitor operational risks. All business supervision units in the Head Office are to present the business risk report by the Department to the Risk Management Committee on a quarterly basis. The Risk Management Department is to report the risk management profile to the Board of Directors periodically. The credit risk report covers the total credit risk

Aspects	Contents
system	exposures by customer, industry, and country, and current credit risk exposure. The measurement system and reporting include the summarization of total credit risk exposures by customer, industry, and country, NPL ratio, maximum limit of credit extension by business, maximum limit by security, and maximum limit of credit extension to a same enterprise, same affiliate, and same related party.
(4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	The Company grants loans in accordance with a defined credit investigation procedure, and requests collaterals and guarantors based on the customer’s financial and credit status. Meanwhile, the Company established the “Notes to Loan Review Operation” to enhance the post-credit extension management. The financial instruments are primarily managed in accordance with the credit ratings of issuers and trading counterparts, and reviewed, followed up on, and evaluated periodically, in order to enhance the ability to bear the credit risk.
(5) Approach to require the authorized capital	Standard Method

2. Capital requirement of credit risk and risk assets amount (Standard Method)

March 31, 2019 Unit: NTD thousands

Exposure type	Capital requirement	Risk-weighted assets
Sovereign state	0	0
Non-central government public sectors	9,979	124,737
Bank (including multilateral development banks)	204,856	2,560,698
Corporate (including securities and insurance company)	12,953,980	161,924,746
Retail creditor's right	82,431	1,030,391
Investments in equity securities	59,808	747,600
Credit extended to parent company or subsidiary and credit secured by marketable securities issued by parent company or subsidiary	0	0
Other assets	263,677	3,295,961
Total	13,574,731	169,684,133

(II) Operational risk management system and capital requirement

1. Operational risk management system

2018

Aspects	Contents
(1) Strategy and procedure of operational risk management	The "Operational Risk Management Guidelines" have been stipulated for the establishment of a sound operational risk management framework and reduction of operational risk losses. The framework referred to above involves: defined internal control and management measures of operational risk and objective review on effective implementation of operational risk management mechanism in accordance with independent internal auditing procedures; establishment of operational risk identification, assessment, measurement, communication, and monitoring processes and implementing countermeasures; establishment of risk management information framework including loss event notification, follow-up and verification, and systematic control of individual loss event frequency, severity, and related information; establishment of emergency response and business continuity plans; assuring prompt resumption of operations during an extraordinary event or disaster; and maintaining normal business operations.
(2) Organization and framework of	The Company's operational risk controls mean the express enactment of various operational manuals, which may be amended from time to time

Aspects	Contents
operational risk management system	due to changes in the laws and regulations, or if required, in order to help the workers follow the same. Risk Control Department shall design and introduce the operational risk management framework approved by the Board of Directors. The various units shall comply with the internal controls, laws, and the requirements about operating risk self-assessment system, fulfill the self-assessment periodically. The auditing unit shall review the effective implementation of risk management mechanisms independently and objectively to promote the Company's well-founded operation.
(3) Scope and characteristics of operational risk reporting and the measurement system	The business management units of the Head Office report the corrective actions against important operational risk loss events, operating procedures and operating systems to Risk Management Committee on a quarterly basis by functions; Risk Control Department reports the annual operational risk map to Risk Management Committee periodically, analyze the operational risk event loss data and other information, and report to the Board of Directors the development of qualitative risk management objectives (various projects); the audit unit shall report the audit result to the Board of Directors and follow up and control required improvements periodically.
(4) Hedging policies, strategy and process of monitoring the continuing effectiveness of hedging	It is mainly to assess the probability of risk losses and the size of potential losses. The choices of counter-measures include avoidance, control and the transfer of offset. Establish business surveillance reports and daily cross-examine the balance of business operations, risk management objectives, and limits set by external regulations. Check whether the risk exposures exceed the limit and make an alert when it reaches the vigilance level so as not to exceed the limits set by law or the Company.
(5) Approach to require the authorized capital	Basic Indicator Method

2. Capital requirement of operational risk and risk assets amount (Basic Indicator Method)

March 31, 2019 Unit: NTD thousands

Year	Gross Profits	Capital requirement	Risk-weighted assets
2018	3,750,340		
2017	3,952,352		
2016	4,287,851		
Total	11,990,543	599,527	7,494,090

(III) Market risk management system and capital requirement

1. Market risk management system

2018

Items	Contents
(1) Strategy and procedure of market risk management	The “Market Risk Management Guidelines” are stipulated for the managing of market risk of financial instrument position. Control adverse movement resulted from market price causing possible losses inside and outside the Balance Sheet as guidelines for business operation. Based on domestic and foreign economic data, measure economic status, predict interest rate, and draft up operating strategies to plan control measures. The measures include: Daily monitoring of risk management objectives including position limit, loss limit, and sensitivity limit of bills, bonds, equities, and derivatives; daily interest rate sensitivity analyses on bill and bond holding positions; and monthly validation of derivatives and transaction valuation.
(2) Organization and framework of market risk management system	The Company’s market risk is mainly the price risk of bills, bonds, equities, and derivatives. The Risk Management Committee reviews the risk management objectives of all financial instruments. The Bills Department, Bond Department, and all branches are the main operational units for market risk control.

Items	Contents
(3) Scope and characteristics of market risk reporting and the measurement system	The business management units of the Head Office shall submit economic reports, interest rate analyses, trade reports on bills, bonds, equities, and derivatives, capital cost, and allocation, and hedging strategies and implementation to the Risk Management Committee on a quarterly basis by functions. The Risk Control Department reports market risk management objectives and progress to the Board of Directors on a quarterly basis. The Audit Office submits derivative transaction audit reports to the Board of Directors on a monthly basis. The risk measurement system and reports cover bill, bond, equity, and derivative positions, profit and loss, risk duration and stress tests, and sensitivity analysis.
(4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	The Company's trade hedging strategy is to avoid price risk, implement derivatives as operating tools, and periodically assess profit and loss.
(5) Approach to require the authorized capital	Standard Method

2. Capital requirement of market risk and risk assets amount (Standard Method)

March 31, 2019 Unit: NT$ thousands

Type	Capital requirement	Risk-weighted assets
Interest rate risk	6,540,884	81,761,050
Equity security risk	282,588	3,532,350
Foreign exchange risk	59,568	744,600
Product risk	0	0
Stock option processed with simplified method	0	0
Total	6,883,040	86,038,000

(IV) The liquidity risk includes the analysis about maturity of assets and liabilities, and also explains the method to manage the asset liquidity and funding gap liquidity.

1. By the characteristics of business lines, the Company's liquidity assets include bonds, Treasury bills, Central Bank Certificate of Deposits, and short-term promissory notes, with low credit risk and liquidity.

2. The "Liquidity Risk Management Guidelines" are stipulated for the measuring of liquidity risk position effectively, maintaining adequate liquidity, and ensuring solvency. The relevant control measures include: 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, and convene the Risk Management Committee to form contingency measures.

3. Liquidity risks are controlled by the Risk Control Department while the Bills Department and the Bonds Department are responsible for day-to-day trading. TWD and foreign currency liquidity gaps are managed using a system that constantly keeps track of cash flow shortages in each maturity interval. The Treasury Department is responsible for reporting total liabilities and any irregularities relating to liquidity risks.

Analysis on Maturity of Assets and Liabilities

March 31, 2019 Unit: NT$ millions

	Total	Amount of the remaining period to maturity date				
		0 – 30 Days	31 – 90 Days	91 – 180 Days	181 Days – 1 Year	Over 1 Year
Assets	260,649	52,914	58,344	17,289	3,945	128,157
Liabilities	225,985	198,512	25,587	1,401	333	152
Deficit	34,664	-145,598	32,757	15,888	3,612	128,005
Accumulated deficit		-145,598	-112,841	-96,953	-93,341	34,664

III. Impact on the Company's financial standing due to changes in domestic or foreign policies and laws, and corresponding countermeasures.

(I) Financial impacts in the event of changes in local and foreign regulations

1. Enforcement of the Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions: In reference to the common reporting and due diligence principles of the "Automatic Exchange Principle of Financial Accounting Information for Taxation Purpose" issued by the Organization for Economic Co-operation and Development (OECD), the Ministry of Finance has set up the "Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions" to align with international compliance standards and to improve the effectiveness of international cooperation. The Company may have to reject business dealing with reluctant customers and incur additional operating costs just to ensure compliance.
2. Amendments to the Self-discipline Rules on Derivative Trading for Bills Finance Companies by Bills Finance Association of the Republic of China: This amendment of the self-discipline rules largely concerns derivative trading of bills finance companies, and outlines the eligibility and on-job training requirements for relevant personnel. The new rules also specify bills finance companies' role as service providers when offering derivative services.

(II) The Company's counter-measures

1. The Company will take the initiative in explaining policy implications to customers, and prepare suitable forms and documents to help customers complete the reporting of their tax residence status.

2. The Company's "Derivative Trading Procedures" will be amended accordingly. Furthermore, all officers involved in the trading, settlement, and risk management of derivatives, and managers of the Trade Department will be required to participate in annual derivative training courses.

IV. The impact of technical changes and industrial changes on the Company's finance and business and the countermeasures

(I) The impact of technical changes and industrial changes on the Company's finance and business

1. The transactions and risk control financial engineering and system are increasingly sophisticated to the advantage of bills finance company's financial and business operation.
2. The competent authorities open up new businesses (foreign currency bills and bonds, and treasury bills) that help diverse business operations and increase operating spaces to the advantage of enhancing the scale of operations. However, uncertainties remain with regards to the prospects of the world's major economies, which may complicate trading decisions.

(II) The Company's counter-measures

1. Outsource systems and develop systems in-house to support transactions and risk control.
2. Actively explore new services for higher income. In the meantime, the Company will pay attention to changes in the economic and financial environment, and take actions to minimize risks and negative impacts.

V. The impact of change of the Company's corporate identity, and the countermeasures: None.

VI. Expected effect of acquisition and the possible risk: None.

VII. Expected effect and possible risk of expanding business locations and the countermeasures: None.

VIII. Risk of business concentration and countermeasures

The Company holds relatively high position of interest rate-sensitive assets due to the nature of its business, and hence is prone to interest rate volatility. To address this situation, the Company has implemented risk management targets for note and bond-related activities based on the overall economy and growth requirements. Enhanced measures are being taken to control risk exposure and duration, and hence avoid adverse changes in market risks. In terms of credit/guarantee services, the Company is prone to the concentration risk of guaranteed parties, which it aims to address by following the group's "Notes on Credit Control for Single Group of Borrowers". Borrowers' credit balances are being controlled based on credit conduct, industry prospect, business performance, financial position, debt levels and credit rating on both individual and group levels.

IX. Impact of changes in operating concessions on bills finance company, the related risk, and the countermeasures: None.

X. Impact or risk associated with large transfers or changes in shareholdings by directors or major shareholders holding over 1%: None.

XI. Litigious or non-litigious matters: None.

XII. Other significant risks and response actions

The Company has business risk management objectives defined annually in accordance with the laws and policies of the competent authorities, the development of the macro economy, features of instruments, and competition in financial services sector; also, convenes Risk Management Committee meeting on a quarterly basis for ensuring all business operations in compliance with the defined risk management objects and reducing operational risk.

Seven. Crisis Management and Emergency Response

The Company has defined a management crisis contingency measure to help the Company resolve crisis and resume business operation on a timely manner while suffering a huge loss of fund or faces a severe shortage of liquidity that is detrimental to the Company's solvency and sustainable management. A crisis management and reporting system has been implemented in line with the group's risk management policies and will be activated should any exceptional event occur.

In terms of liquidity risk, strictly control capital deficit of each term, maintain adequate liquidity, and ensure solvency. Activate emergency response mechanism promptly upon the occurrence of liquidity crunch, soaring interest rate or unexpected financial events causing serious impact on capital by utilizing business channels and resources of the holding parent company and subsidiaries for quick access to funds pour.

In terms of information safety, define the process recovery procedures of the server system, database, terminal system, application system, computer-related facilities; also, set up remote backup center in order to resume business operation promptly.

In terms of emergency rescue and protection, the disaster prevention measures and emergency response strategies are defined and the Company’s disaster prevention and rescue system is established to help minimize the impact on and damage to business operation, office equipment, document archives, and employee safety.

Eight. Other important issues: None.

Special Recorded Items

Special Recorded Items

One. Affiliated enterprises

I. Consolidated business report of affiliated enterprises: None.

II. Consolidated financial statements of affiliated enterprises: None.

III. Affiliation report

(I) Declaration of Mega Bills Finance Co., Ltd.

Declaration

The Company's 2018 Affiliation Report (from January 1 to December 31, 2018) has been prepared in accordance with "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises." There was no material discrepancy between information disclosed in the Affiliation Report and information disclosed in footnotes of Financial Statements for the corresponding period.

Sincerely yours,

Company: Mega Bills Finance Co., Ltd

Chairperson: Mei-Chu Liao

February 26, 2019

(II) Independent Auditor’s Report

Mega Bills Finance Co., Ltd.

Affiliation Report - Independent Auditor’s Report

Tze-Huei-Tsung-Tze No. 18008573

To Mega Bills Finance Co., Ltd.

The 2018 Affiliation Report dated March February 26, 2019, was claimed to have been prepared in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" with no material discrepancy between information disclosed in the above report and notes to Financial Statements for the corresponding period.

We, the auditors, have compared the Company's Affiliation Report against footnote disclosures presented in the 2018 Financial Statements based on the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises”, and found no material contradiction to the above claims.

PricewaterhouseCoopers, Taiwan

Shu-Mei Ji, CPA

February 26, 2019

(III) Relationship between subsidiary and parent company

Administration Department

Unit: shares; %

Parent Company	Cause of Control	Shareholdings and pledge by parent company			Directors, Supervisors and Managers appointed by parent company	
		Quantity of Shares Held	Shareholding	Pledged shares	Job Title	Name
Mega Financial Holding Co., Ltd.	Wholly owned	1,311,441,084	100%	0	Chairperson of the Board Director and President Independent Director Independent Director Director Director Director Director Supervisor Supervisor Supervisor	Mei-Chu Liao Chi-Fu Lin Yi-Jui Huang Jian-Yu Chen Jui-Yun Lin Yu-Mei Hsiao Ruey-Yuan Fu Ya-Ting Chang Yung-Chen Huang Qi-He Chen Shao-Pin Lin

(IV) Transactions

1. Purchase (sales) transaction: None.
2. Property trade: None.
3. Financing transaction: None.
4. Assets leasing: None.
5. Other important transactions:

Bills and bonds trade

Unit: NT$ thousands

Transactions conducted with parent company		Trade terms and conditions with parent company	Remarks
Item	Amount		
Purchase of bills and bonds	20,481,373	Terms of trade transactions are same as non-related party's trade terms	None
Financial assets at fair value through profit and loss	2,994,964	Terms of trade transactions are same as non-related party's trade terms	None
The highest balance of guarantee-free commercial paper issued.	4,000,000	Terms of trade transactions are same as non-related party's trade terms	Fee Income: NT$301,000
The ending balance of guarantee-free commercial paper issued.	4,000,000		

(V) Endorsement and guarantee: None.

(VI) Other matters with a significant impact on finance and business: None.

Two. Offering of marketable securities as of last year and the Annual Report publication date: None.

Three. Subsidiary holds or disposes the shares of the Company as of last year and the Annual Report publication date: None.

Four. Other supplementary information: None.

Five. Matters that have a significant impact on the shareholders’ equity or securities price as defined in Securities Exchange Act Article 36.2.2 as of last year and the Annual Report publication date: None.

MEGA BILLS FINANCE CO., LTD.

Chairperson of the Board: Mei-Chu Liao

Head Office

2~5F, No. 91 Heng-yang Road, Taipei City

Tel. No.: (02) 2383-1616 (Representative)

Fax: (02) 2382-2878 (Administration Department)

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