



**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.**

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# **Annual Report**

## **2019**

## ■ 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: Po-Ju Kuo, 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/>

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## **Message to Shareholders**

## Message to Shareholders

In 2019, global disturbances such as the U.S.-China trade dispute and Brexit dominated throughout the year, giving rise to uncertainties that undermined consumer confidence and weakened overall demand. As a result, a general slowdown of economic growth was observed in virtually all countries throughout the world. In the World Economic Outlook dated January 2020, the International Monetary Fund (IMF) published its estimates for 2019 growth at 2.9% for the global economy, 1.7% for advanced economies, and 3.7% for emerging economies. At the same time the forecasted 2020 growth was 3.3% for the global economy, 1.6% for advanced economies, and 4.4% for emerging economies under the consideration that market uncertainties should subside as phase 1 of the trade negotiation between China and USA were settled in January 2020 and Brexit was effected at the end of January through an official agreement.

Just as the world was about to recover from the previous year's disturbances, the outbreak of COVID-19 in the beginning of 2020 once again inflicted severe damage to the global economy. According to the latest economic forecast published by world-renowned information provider - IHS Markit in March 2020, China's growth estimate was revised down to 3.9% (from 5.4% in February) due to the government's strict quarantine measures that severely impacted retail, export and capital investment; similarly, growth estimate of Japan was also revised down to -0.8% (from 0.5% in February) as the pandemic impaired tourism, causing curtailment, postponement or cancellation of many major events; meanwhile, given that an increasing number of European countries are imposing border controls at the expense of economic activities, growth estimate for the Eurozone was revised down to -1.5% (from 0.9% in February).

Taiwan, on the other hand, reported quarterly increased growth throughout 2019 (Q1: 1.84%, Q2: 2.6%, Q3: 3.03% and Q4: 3.31%) as the U.S.-China trade dispute caused a supply chain shift that benefited Taiwan. According to the Director-General of Budget, Accounting and Statistics (DGBAS), Executive Yuan,

Taiwan's 2019 growth was estimated at 2.37% in the report dated February 2020, but in light of the recent COVID-19 outbreak and the high degree of uncertainty associated with measures such as lockdown, business suspension and quarantine restrictions adopted in China and many countries around the world, DGBAS expects adverse impacts on production, consumption, transaction and overall economic activities worldwide, which will eventually affect Taiwan's foreign trade, and therefore revised Taiwan's 2020 growth forecast to 2.37% in February, down 0.35 percentage point from the previous estimate of 2.72%. During the central bank's board meeting held on March 19, 2020, a resolution was passed to reduce rediscount rate, rate on accommodations with collateral, and rate on accommodations without collateral down to 1.125%, 1.5%, and 3.375%, respectively, in an attempt to support business operations and maintain economic activities during the time of crisis.

Despite being presented with flattened yield curves, narrower spreads intensifying competition, the Company still turned in strong profit performance in 2019, reporting net income totaling NT\$2,625,352,000 that represented a 111.70% budget attainment rate and a NT\$67,271,000 or 2.63% increase over the NT\$2,558,081,000 concluded in 2018. The following is a report of the Company's business performance in the previous year (2019):

## One. 2019 Business Report

### I. Global and Local Financial Environment, 2019

The Fed has been making preventive rate cuts since 2019 as a response to uncertainties associated with the trade dispute and slowdown of overseas markets and economies. On October 31, the Fed announced its 3rd rate cut for the year, reducing federal funds rate to the range of 1.50% to 1.75%; similarly, the European Central Bank (ECB) reached a decision during its meeting held in September to increase money supply by reducing the overnight rate to -0.5%, re-activating the new bond-buying program and introducing the 3rd round of its “targeted longer-term refinancing operations” (TLTRO). The ECB should continue adopting an expansionary policy given the downside risks and deflation concerns within the Eurozone. In Japan, the central bank has maintained its negative rate policy unchanged and announced its intention to escalate expansionary monetary policy in light of the stagnant economy and potential weakening in exports, production and corporate confidence due to loss of overseas demand, despite expected growth in domestic demand.

With respect to the domestic economy, the Central Bank of Taiwan estimated a GDP growth of 2.60% for the year of 2019 during its Q4 board meeting, which was higher than the 2.40% forecast in Q3. The upward adjustment of GDP growth forecast was mainly due to Taiwan’s above-expectation growth in the first three quarters of 2019, coupled with expectations for increased private investment in Q4 that may continue the growth momentum. Nevertheless, the future outlook will still be largely affected by uncertainties concerning the COVID-19 pandemic, further developments of the China-USA trade dispute, normalization of monetary policies by ECB and Fed, and movement of equity/currency/bond markets worldwide.

In terms of domestic price level, DGBAS has estimated CPI increase at 0.56% and core CPI (excluding food and energy) increase at 0.49% for 2019 in the report dated February 2020. Overall, the falling price of crude oil and commodities

throughout the year caused a fall in the price of related goods, such as garments, that offset the hike of certain product categories, and thereby keeping the domestic inflation rate low to date.

As for the domestic monetary policy, the Central Bank of Taiwan reached a decision during the 4th quarter board meeting held on December 19, 2019 to maintain rediscount rate, rate on accommodations with collateral, and rate on accommodations without collateral unchanged at 1.375%, 1.75%, and 3.625%, respectively, for the 14th consecutive quarter. This decision was primarily based on the expectation that the China-USA trade dispute may cause further supply chain shifts in Taiwan's favor. However, increased volatility in global markets, intensifying global trade disputes and escalating geopolitical risks will ultimately deter trade and investment activities to the detriment of industry growth in Taiwan. Furthermore, uncertainties concerning industry competitiveness will also give rise to credit risks for financial institutions.

II. Organizational Changes: None.

III. Results of Implementation of Business Plan and Strategy

Unit: NT\$ million

Item	Final Accounting Figure, 2019	Final Accounting Figure, 2018	Increase/Decrease (%)
Underwriting and purchasing bills	2,705,942	2,806,666	-3.59
Commercial Papers Underwritten	2,472,063	2,369,796	4.32
Trading volume of bills	8,634,497	8,723,464	-1.02
Trading volume of bonds	4,779,451	4,911,287	-2.68
Average Balance of Guaranteed Commercial Paper	165,614	161,271	2.69
Overdue Credit Amounts	0	0	-
Percentage of overdue credits	0	0	-



#### IV. Budget Implementation

Unit: NT\$ million

Item	Final Accounting Figure, 2019	Budget Figure, 2019	Achievement Rate (%)
Underwriting and purchasing bills	2,705,942	2,522,294	107.28
Commercial Papers Underwritten	2,472,063	2,280,294	108.41
Trading volume of bills	8,634,497	7,760,234	111.27
Trading volume of bonds	4,779,451	4,617,682	103.50
RP outstanding balance of bills and bonds	204,173	207,274	98.50
Average Balance of Guaranteed Commercial Paper	165,614	161,000	102.87
Overdue Credit Amounts	0	0	-
Percentage of overdue credits	0	0	-
Net income	2,625	2,350	111.70

## V. Financial Income and Expenditures, and Analysis of Profitability

Unit: NT\$ million

Item	Final Accounting Figure, 2019	Item	Final Accounting Figure, 2019
Net revenue	3,901	EPS (NT\$)	2.00
Income Before Tax	3,166	ROA (%)	1.00
Net income	2,625	ROE (%)	7.10

## VI. Research and Development

### (I) Management

1. The department performance evaluation system was amended to accommodate business development strategies.
2. Enhancements such as report management platform and standardized accounting processes were made to the management information system.
3. Continue implementation of a paperless conference system and a paperless report management system.

### (II) Product and Business

1. Coordinated with Taiwan Depository and Clearing Corporation in the implementation of electronic delivery for secondary market bill transaction documents.
2. Coordinated with bond passbook digitalization task force of Taiwan Securities Association on the digital transformation of bond passbooks and trade confirmations.

### (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.

## Two. Summary of Business Plan 2020

### I. Operational Policy

- (I) Improve organization performance and maintain industry leadership.
- (II) Enhance risk management practices and secure asset quality.

- (III) Enforce compliance culture and achieve balanced business growth.
- (IV) Strengthen internal control system and implement sound corporate governance.

## II. Projection of Business Goals

Unit: NT\$ million

Item	2020 Budget Figures
Underwriting and purchasing bills	2,718,365
Commercial Papers Underwritten	2,477,948
Trading volume of bills	8,469,151
Trading volume of bonds	4,656,000
RP outstanding balance of bills and bonds	207,477
Average Balance of Guaranteed Commercial Paper	168,000

Projection Grounds: Projection 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 re-purchase agreements; reduce cost of capital and increase returns on holding positions without compromising 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 secure 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 guarantee-waiver commercial paper, NCD, acquisition of guaranteed or guarantee-waiver bills and securities underwriting for portfolio growth and higher gain potentials from holding positions.
- (V) Build position in foreign currency bonds; diversify country risk and maintain yielding spread of holding position.
- (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) Enhance information security management practices and strengthen employees' risk awareness to minimize security threats.
- (VIII) 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.

#### 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 re-purchase agreements and secure profitability with the use of derivatives.
- (IV) Enhance operation efficiency by reducing cost of funding and expanding interest spread.
- (V) Enhance corporate governance and enforce corporate social responsibilities.
- (VI) To integrate the group resources and explore the synergy of cross-selling.
- (VII) Improve system efficiency and enhance 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 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 continue into the future.
- (II) The Company will take into consideration a wide variety of factors such as changes in the financial environment, amount of maturing bonds, capital adequacy ratio, and risk management limits, and closely monitor yielding spreads 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 combined with the COVID-19 pandemic have 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 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) Asset allocation by banks, repatriation of capital by foreign investors and tax payment all reduce capital supply in the market, raising bill selling costs and borrowing costs that ultimately impact spread income.

### Three. Most Recent Credit Rating and Date of Rating

Credit Rating Organization	Long-Term Credit Rating	Short- Term Credit Rating	Rating Outlook	Date of Announcement
Taiwan Ratings Corp.	twAA+	twA-1+	Stable	2019.9.27

### Four. Appreciation and Prospect

The three rate cuts made by Fed in the last year caused both primary and secondary interest rates to fall for foreign currency bonds, and the Company was still able to maintain yielding spread. However, the decision by Central Bank of Taiwan to maintain interest rates unchanged combined with the market's strong demand for Taiwanese bonds caused bond yields to fall to new lows and yielding spread to narrow by a significant degree. The bills market, too, was characterized by falling primary and secondary rates and narrowing spread, albeit at a slower rate under abundant money supply. Overall, the Company was able to achieve its annual profit targets while at the same time lead peers in all performance aspects as a bill financing company with the support of its employees and under the guidance and assistance of its directors, supervisors and the parent company.

Although phase 1 of the China-USA trade negotiation has been settled, there remains uncertainties to the future trade relations between the two countries particularly under the ongoing COVID-19 pandemic. 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 more satisfying performance.

Best wishes for all of you

Health and Happiness,

Chairperson and President: Mei-Chu Liao

# 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\$2.8795 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\$28.11441 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\$25.11441 billion.
- VIII. May 3, 2005, share capital was reduced by \$5 billion to NT\$20.11441 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\$15.11441 billion.
- XII. August 3, 2009, share capital was reduced by \$2 billion to NT\$13.11441 billion.

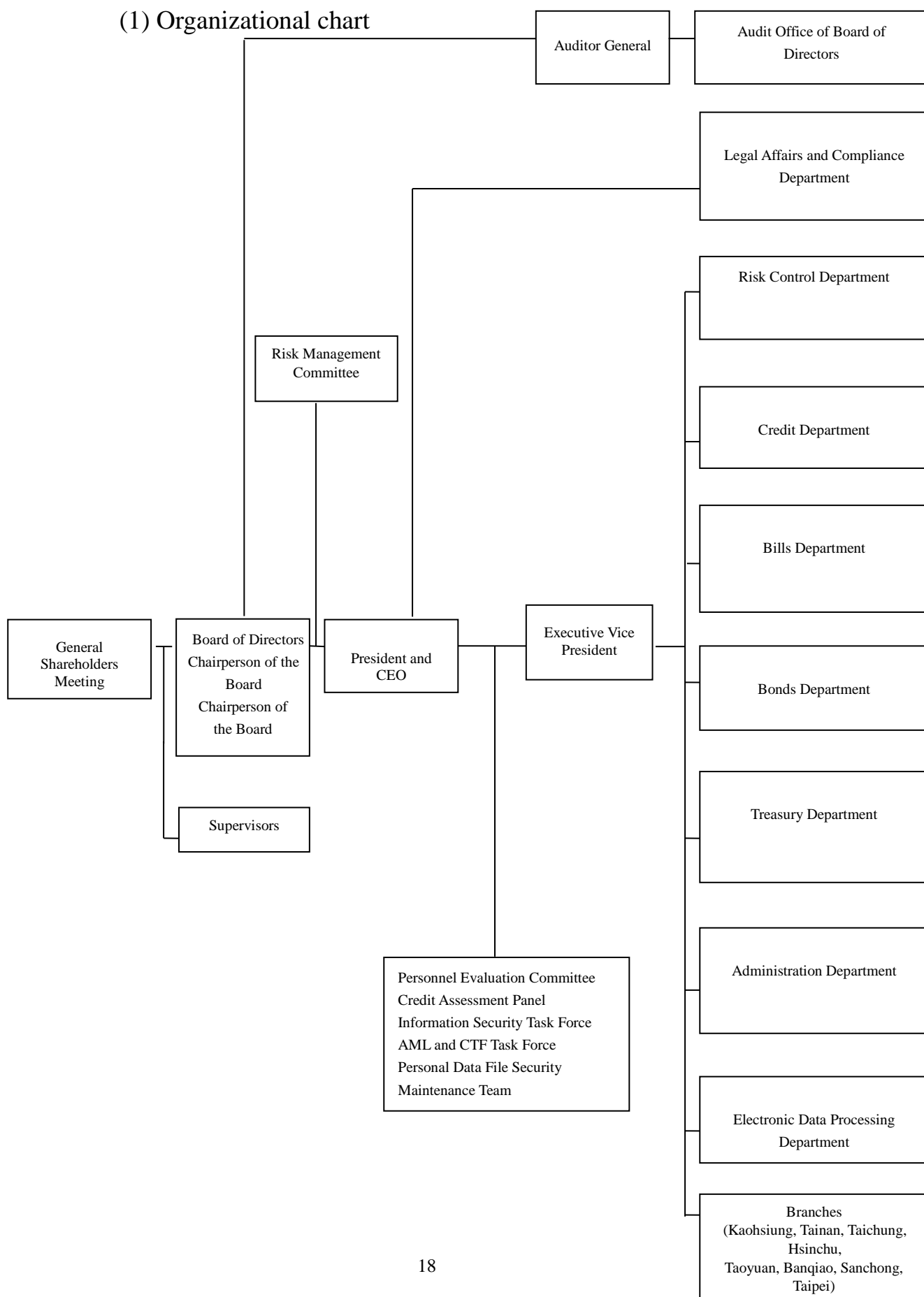


- XIII. November 1, 2012, received the “Best Bills Finance Company Award” at the “6th Annual Taiwan Excellent Financial Elite Award” directed by the Financial Supervisory Commission and organized by the Taiwan Academy of Banking and Finance.
- XIV. October 31, 2014, received the “Best Bills Finance Company 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. December 22, 2014, the Company was awarded the 2014 “Credit Information Security Control Award” by the Joint Credit Information Center.
- XVI. December 25, 2015, the Company was awarded the 2015 “Credit Information Security Control Award” by the Joint Credit Information Center.
- XVII. 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.
- XVIII. December 26, 2018, the Company was awarded the 2018 “Credit Information Security Control Award” by the Joint Credit Information Center.

# Corporate Governance Report

## I. Organization and department responsibilities

### (1) Organizational chart



## (2) Department responsibilities:

- Audit Office of Board of Directors: Planning and execution of audit tasks; auditing of financial and business operations, AML/CTF practices, internal control and compliance for each department; supervision and review of self audits performed by departments.
- Legal Affairs and Compliance Department: Planning and management of internal control and compliance systems; planning, supervision and monitoring of AML/CTF policies and procedures; handling of legal affairs and overdue credit cases.
- Risk Control Department: Planning and management of credit service, establishment and amendment of related policies, and review of credit cases; establishment and amendment of risk management-related policies, consolidation of risk management targets and review of execution progress; planning and monitoring of the capital adequacy ratio.
- Credit Department: Credit assessment-related tasks at the Head Office; planning and implementation of credit assessment practices; establishment of business strategies and review of execution result; consolidation of department annual performance assessment outcomes; management of business investments; coordination for credit rating-related matters.
- Bills Department: Certification, underwriting, brokerage, and proprietary trading of bills of various categories; establishment and amendment of policies relating to bills service, and proposal of related business management strategies; implementation of limits on credit exposure, guarantee-waiver commercial paper, beneficiary securities, asset-backed securities and interbank lending, as well as related practices, for the Head Office; oversees funding and liquidity gap control.
- Bonds Department: Proprietary trading and investment of bonds, investment of equity instruments, and establishment, planning and execution of operational and management strategies and policies for derivative services; supervision and coordination of bond transactions by branches, and handling of requests.
- Treasury Department: Establishment and amendment of financial accounting systems and policies; proposal and preparation of annual budgets and year-end accounts; tax planning and filing; funding and capital transfer, and application and renewal of overdraft/interbank limits;

account payment and collection; use and control of the electronic payment system; settlement and delivery of various transactions; custody of securities and important documents and contracts.

- Administration Department: Establishment and amendment of administrative policies; planning and execution of personnel affairs and human resource development; general affairs, procurement and property management; company registration and shareholder service; corporate governance related matters.
- Electronic Data Processing Department: Planning and execution of IT policy; investigation, analysis and design of application systems; implementation, management and maintenance of information systems; planning, monitoring, and execution of information security management.
- Branches: Carry out business activities and matters outlined in the business license; execute instructions from the Head Office.

## 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, 2019

Job Title	Country or place of registration	Name	Gender	Date of Election (Appointment)	Term of Office	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	Remarks
								Education	Experience			

Chairperson of the Board	Republic of China	Mei-Chu Liao	Female	2018.03.01	2021.02.28	2018.03.01	(Note 1)	NCCU Department of Banking	First Financial Holding Co., Ltd. - Vice President; First Financial Holding and First Commercial Bank – Chief Secretary; First Securities - Chairperson; 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; The Bankers Association of The Republic of China - Director; The Bankers Association of Taipei - Director	None	1. President Chi-Fu Lin retired on 1.16.2020 and was temporarily succeeded by Chairperson Mei-Chu Liao. 2. This temporary succession was requested in accordance with Article 4 of Regulations Governing the Responsible Persons and Business Staff Members of Bills Houses, and has been approved by the authority.
Director and President	Republic of China	Chi-Fu Lin (Note5)	Male	2018.03.01	2021.02.28	2015.03.02		National Chung Hsing University Department of Public Finance	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	Solomon & Co., CPAs - Licensed CPA; Kaohsiung City CPA Association - Chairperson; Taiwan CPA Association - Standing Director; Neoflex Technology Co., Ltd. - Director; Huaku Development Co., Ltd. - Supervisor; i-Kiddo Co., Ltd. - Supervisor	Solomon & Co., CPAs - Owner; Taiwan CPA Association - Chairperson; Huaku Development Co., Ltd. - Director; Ma Kuang Healthcare Holding Limited - Director; Weidu Investment Co., Ltd. - Chairperson; Ma Kuang International Development Co., Ltd. - Supervisor; e-Family Co., Ltd. - Director; PChome Online Inc. - Supervisor; Chi Fang Co., Ltd. - Director, Mega Securities Co., Ltd. - Independent Director		

Independent Director	Republic of China	Jian-Yu Chen	Male	2018.03.01	2021.02.28	2018.03.01	National Taiwan University Master of National Development	Soochow University - Lecturer of Law; Shuang Bang Law Office - Partner; Lexcel Partners Attorneys at Law - Lawyer; LAOHUYATZI Co. Ltd. - Director	Jian-Yu Chen Law Office - Person-in-charge; Gorgeous Space Co., Ltd. - Supervisor; Bryton Inc. - Independent Director; LAOHUYATZI Co. Ltd. - Supervisor		
Director	Republic of China	Jui-Yun Lin	Female	2018.03.01	2021.02.28	2006.04.06	NCCU Master of Finance	Mega Financial Holding Co., Ltd. - Assistant Vice President of Financial Control Department; Chung Kuo Insurance - 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; Non-Life Insurance Association of the Republic of China - Managing Director	Mega Financial Holding Co., Ltd. - Corporate Governance Officer; Mega Venture Capital Co., Ltd. - Chairperson and President; Mega Financial Holding Co., Ltd. - Lead Member of the Labor Pension Fund Supervisory Committee; Chung Kuo Insurance Co., Ltd. - Supervisor; Next Bank - Director of Preparatory Office		
Director	Republic of China	Ruey-Yuan Fu	Female	2018.03.01	2021.02.28	2017.03.29	NCCU EMBA	Mega Bank - Yonghe Branch Manager, Nanking East Road Branch Manager and Head Office Branch Manager; ICBC Assets Management & Consulting Co., Ltd. - Chairperson; SmartVision Co., Ltd. - Director; Taiwan Asset Management Corporation - Director	Mega Bank - Senior Executive Vice President; EXCEL Chemical Corp. - Director; Mega Bank Cultural & Educational Foundation - Director; Mitagri Co., Ltd. - Director		
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	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 - Partner 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	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; Hotung Investment Holdings Limited; Taiwan Financial Asset Services Co., Ltd. - Director	Mega Financial Holding Co., Ltd. and Mega Bank - Vice President; Mega Asset Management Corp. - Director; Mega International Commercial Bank Public Company Limited - Chairperson		
Supervisor	Republic of China	Yung-Chen Huang (Note 4)	Female	2018.12.19	2021.02.28	2018.12.19		Master's of Economics, New York University	Mega Bank - Head Office Branch Deputy Manager; Mega Bank - Yilan Branch Manager, Daan Branch Manager Sanchong Branch Manager and Assistant Vice President of the Foreign Businesses Department.	Mega Bank - Auditor General
Supervisor	Republic of China	Qi-He Chen	Male	2018.03.01	2021.02.28	2018.03.01		Chinese Culture University Department of Banking	Mega Bank - Deputy Head of Credit Management Division; Mega Bank - Deputy Head of Debt Management Division; China Real Estate Management – Director.	Mega Bank - Head of Debt Management Division
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; Chung Hua University Department of Industrial Management - Part-time Associate Professor

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 March 1, 2018 to serve a term from March 1, 2018 until February 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 reappointed Madam Yu-Mei Hsiao to replace Director Chun-Hsiang Li on March 28, 2018
3. Mr. Jin-Tsun Chen, former supervisor of the Company appointed by Mega Financial Holding Co. Ltd., resigned on July 26, 2018.
4. On December 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.
5. Mr. Chi-Fu Lin, former representative for Mega Financial Holding Co. Ltd. who served as Director and President of the Company, retired on January 16, 2020 and resigned from directorship.

## 2. Major shareholders of corporate shareholders

Book Closure Date: December 31, 2019

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.	3.47%
	Bank of Taiwan Co., Ltd.	2.46%
	Taiwan Life Insurance Co., Ltd.	2.42%
	China Life Insurance Company Limited	2.08%
	Shin Kong Life Insurance Co., Ltd.	1.98%
	Citibank (Taiwan) in its capacity as Master Custodian for Investment Account of GIC Pte Ltd. (Singapore)	1.53%
	Old Labor Pension Fund	1.43%

## 3. Major Shareholders of Major Corporate Shareholders

Book Closure Date: December 31, 2019

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.	Chinatrust Financial Holding Co., Ltd.	100.00%
Shin Kong Life Insurance Co., Ltd.	Shin Kong Financial Holding Co., Ltd.	100.00%
China Life Insurance Company Limited	China Development Financial Holding Corp	26.16%
	KGI Securities Co., Ltd.	8.66%
	Cathay Life Insurance Co., Ltd.	3.21%
	Videoland Inc.	2.53%
	Citibank entrusted with the Singapore Government Investment Account	1.61%
	Ling-Lang Chan	1.24%
	New Labor Pension Fund	1.20%
	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%
	JP Morgan Chase Bank Taipei Branch in its Capacity as Master Custodian for Investment Account of PGIA Progress International ETF	1.02%

Note: Top 10 shareholders

#### 4. Information about directors and supervisors (2)

December 31, 2019

Qualifications	Five-Year or More Work Experience and Following Professional Qualifications	Status of Compliance with Independence (Note)	Number of other public
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Name	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	11	12	companies in which the director/supervisor serves as independent directors concurrently
Mei-Chu Liao			V	V	V	V	V	V	V	V	V	V	V	V		0
Chi-Fu Lin			V		V	V	V	V		V	V	V	V	V		0
Yi-Jui Huang	V	V	V	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	V	V		1
Jui-Yun Lin	V		V			V	V			V		V	V	V		0
Ruey-Yuan Fu			V			V	V	V		V		V	V	V		0
Ya-Ting Chang		V	V	V	V	V	V	V	V	V	V	V	V	V		0
Yu-Mei Hsiao			V			V	V			V		V	V	V		0
Yung-Chen Huang			V			V	V	V		V		V	V	V		0
Qi-He Chen			V			V	V	V		V		V	V	V		0
Shao-Pin Lin	V		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.

1. Not employed by the Company or any of its affiliated companies.
2. Not a director or supervisor of the company or any of its affiliated companies (this restriction does not apply to concurrent independent director positions in the company, its parent company, subsidiary, or another subsidiary of the parent that is compliant with Securities and Exchange Act or local laws).

3. Does not hold more than 1% of the company's outstanding shares in their own names or under the name of spouse, underage children or proxy shareholder; nor is a top-10 natural-person shareholder of the company.
4. Not a manager listed in 1, or a spouse, 2nd-degree relative or closer or 3rd-degree direct relative or closer to any personnel listed in 2 or 3.
5. Not a director, supervisor, or employee of any corporate shareholder that: 1. holds 5% or more of the company's outstanding shares; 2. is a top-5 shareholder; or 3. appoints director/supervisor representative in the company according to Paragraph 1 or 2, Article 27 of The Company Act. (This excludes concurrent independent director positions held within the company and its parent/subsidiary, or in other subsidiary of the parent company that are compliant with the Securities and Exchange Act or local laws).
6. Not a director, supervisor, or employee of any other company that controls directorship in the company or where more than half of total voting rights are controlled by a single party (this excludes concurrent independent director positions held within the company and its parent/subsidiary, or in other subsidiary of the parent company that are compliant with the Securities and Exchange Act or local laws).
7. Does not assume concurrent duty as Chairperson, President, or equivalent role, and is not a director, supervisor, or employee of another company or institution owned by spouse. (This excludes concurrent independent director positions held within the company and its parent/subsidiary, or in other subsidiary of the parent company that are compliant with Securities and Exchange Act or local laws).
8. Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the Company (however, this excludes concurrent independent director positions held within companies or institutions that hold more than 20% but less than 50% outstanding shares of the company, or in the company's parent or subsidiary, or in another subsidiary of the parent that is compliant with the Securities and Exchange Act or local laws).
9. Not a professional who provides audit service, or commercial, legal, financial, accounting or related services for an accumulated sum of less than NT\$500,000 in the last 2 years, to the company or its affiliate, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliated companies. This excludes roles as Remuneration Committee, Public Acquisition Review Committee, or M&A Special Committee member appointed in accordance with the Securities and Exchange Act or Business Mergers and Acquisitions Act.
10. Not a spouse of, or related within the second degree of consanguinity to, any other director.
11. Free from any circumstances referred to in Article 30 of the Company Act.
12. 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 and CEO, Senior Executive Vice Presidents, Executive Vice Presidents, and Executives of each Department and Branch Office

April 1, 2020

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			Remarks
					Quantity	Shareholdings	Quantity	Shareholding	Quantity	Shareholdings	Education	Experience		Job Title	Name	Relationship	
Chairperson and President	Republic of China	Mei-Chu Liao	Female	2018.03.01	—	—	—	—	—	—	Department of Banking, NCCU	Chairperson of the Company	—	—	—	—	1. President Chi-Fu Lin retired on 1.16.2020 and was temporarily succeeded by Chairperson Mei-Chu Liao. 2. This temporary succession was requested in accordance with Article 4 of Regulations Governing the Responsible Persons and Business Staff Members of Bills Houses, and has been approved by the authority.
Senior Executive Vice President	Republic of China	Yi-Sheng Wang	Male	2017.07.16	—	—	—	—	—	—	Dept. of Banking, Tamkang University	Auditor General, MBF	—	—	—	—	
Senior Executive Vice President	Republic of China	Chin-Sheng Huang	Male	2019.05.10	—	—	—	—	—	—	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	Executive Vice President and General Manager, Risk Control Dept. MBF	—	—	—	—	
Senior Executive Vice President	Republic of China	Jung-Chieh Cheng	Male	2019.11.08	—	—	—	—	—	—	Master of Commercial Automation and Administration, National Taipei University of Technology	Executive Vice President and General Manager, Risk Control Dept. MBF	—	—	—	—	
Auditor General	Republic of China	Yao-Kuang Tsai	Male	2017.07.16	—	—	—	—	—	—	Dept. of Banking, Tamkang University	Executive Vice President and General Manager, Risk Control Dept. MBF	—	—	—	—	
Executive Vice President and General Manager of Bills Department	Republic of China	Shih-Yi Chen	Male	2018.08.01	—	—	—	—	—	—	MBA, Katholieke Universiteit Leuven	General Manager of the Bills Department, MBF	—	—	—	—	
Executive Vice President and General Manager of the Bonds Department	Republic of China	Shuo-Cheng Lee	Male	2020.04.01	—	—	—	—	—	—	Master, Graduate Institute of Economics, National Taiwan University	General Manager of the Company's Bond Department, MBF	—	—	—	—	

Executive Vice President and General Manager of Treasury Department	Republic of China	Chih-Hsiung Chiu	Male	2018.08.01	—	—	—	—	—	—	Master, Graduate Institute of Accounting, Tamkang University	General Manager of the Treasury Department, MBF	—	—	—	—
General Manager of Risk Control Department	Republic of China	Li-Chun Hsiao	Male	2020.04.01	—	—	—	—	—	—	MBA, Soochow University	General Manager, Taoyuan Branch, MBF	—	—	—	—
General Manager, Credit Department	Republic of China	Chih-Wu Lin	Male	2020.04.01	—	—	—	—	—	—	MBA, National Cheng Kung University	General Manager of Legal Affairs and Compliance Department of the Company 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	General Manager, Credit Dept. MBF	—	—	—	—
Executive Vice President and General Manager of Electronic Data Processing Department	Republic of China	Hsi-Bin Yo	Male	103.05.16	—	—	—	—	—	—	Master, Graduate Institute of Engineering, National Taiwan University of Science and Technology	General Manager, Electronic Data Processing Department, MBF	—	—	—	—
Legal Affairs and Compliance Department General Manager	Republic of China	Chi-Ming Hsu	Male	2020.04.01	—	—	—	—	—	—	Department of Accounting, Chinese Culture University	General Manager, Taipei Branch, MBF	—	—	—	—
General Manager, Kaohsiung Branch	Republic of China	Ching-Fa Chang	Male	2020.01.16	—	—	—	—	—	—	MBA, China University of Technology	General Manager, Hsinchu Branch, MBF	—	—	—	—
General Manager Tainan Branch	Republic of China	Hui-Lung Chung	Male	2017.07.16	—	—	—	—	—	—	Master of Finance, National Cheng Kung University	Senior Officer of Tainan Branch, MBF	—	—	—	—
Executive Vice President and General Manager, Taichung Branch	Republic of China	Ming-Pao Wang	Male	2019.07.01	—	—	—	—	—	—	Master of Accounting and Taxation, Fengchia University	General Manager, Taichung Branch, MBF	—	—	—	—
General Manager, Hsinchu Branch	Republic of China	Kuei-Yuan Chen	Male	2020.01.16	—	—	—	—	—	—	Postgraduate Institute of Financial Management, National	Senior Deputy Manager, Kaohsiung Branch, MBF	—	—	—	—

											Kaohsiung First University of Science and Technology						
General Manager, Taoyuan Branch	Republic of China	Fu-Yuan Cheng	Male	2020.04.01	—	—	—	—	—	—	Master of Business Administration, Yuan Ze University	Senior Deputy Manager, Banqiao Branch, MBF	—	—	—	—	
General Manager, Banqiao Branch	Republic of China	Yung-Fu Fang	Male	2019.07.16	—	—	—	—	—	—	Department of Economics, National Taiwan University	Senior Deputy Manager, Sanchong Branch, MBF	—	—	—	—	
General Manager, Sanchong Branch	Republic of China	Shao-Shih Lu	Male	2019.07.16	—	—	—	—	—	—	Master of Management Science, Ming Chuan University	Deputy General Manager, Risk Control Dept. MBF	—	—	—	—	
General Manager, Taipei Branch	Republic of China	Chun-Hao Chen	Male	2020.04.01	—	—	—	—	—	—	Department of Cooperative Economy, National Chung Hsing University	General Manager, Credit Dept. MBF	—	—	—	—	

Note: Reassignment of Executive Vice President Shuo-Cheng Lee, General Manager Li-Chun Hsiao, General Manager Chih-Wu Lin, General Manager Chi-Ming Hsu, General Manager Fu-Yuan Cheng, and General Manager Chun-Hao Chen was passed during the 33rd meeting of the 15th board of directors held on March 24, 2020 and effected since April 1, 2020.

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

### III. Compensation paid to non-independent directors, independent directors, supervisors, the President, vice presidents, and consultants in the last year

#### I. Compensation to non-independent and independent directors

December 31, 2019; 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		Compensation from parent company and business investments other than subsidiaries
		Remuneration (A)		Pension (B)		Director 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			
Chairperson of the Board	Mei-Chu Liao																					
Director	Jui-Yün Lin																					
Director	Ruey-Yuan Fu																					
Director	Ya-Ting Chang																					
Director	Yu-Mei Hsiao																					
Director	Chi-Fu Lin (Note1)																					
Sub-total		6,643	6,643					2,038	2,038	0.33	0.33	6,694	6,694							0.59	0.59	5,569
Independent Director	Yi-Jui Huang																					
Independent Director	Jian-Yu Chen																					
Sub-total		1,200	1,200							0.05	0.05									0.05	0.05	
Total		7,843	7,843	-	-	-	-	2,038	2,038	0.38	0.38	6,694	6,694	-	-	-	-	-	-	0.64	0.64	5,569

Note: 1. Director/President Chi-Fu Lin retired on January 1, 2020; Lin's President role was temporarily succeeded by Chairperson Mei-Chu Liao.

2. Housing and vehicle lease payments were included in "Professional Practice Expenses (D)." For relevant information, please refer to Schedules A and B on page 20.

3. Performance bonuses to senior management and employees' remuneration were estimated figures. The actual amount is subject to the parent company's approval.

4. Policy, system, standards, and structure by which independent director compensation is paid, and association between the amount paid and independent directors' responsibilities, risks and time committed: Compensation for the Company's independent directors is determined by the financial holding parent based on the responsibilities assumed, the risks undertaken, and time invested among other factors.

### 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 (H)	The Company	Parent company and all business investments (I)
Below NT\$ 1,000,000	Chi-Fu Lin, Jui-Yun Lin, Ruey-Yuan Fu, Ya-Ting Chang, Yu-Mei Hsiao, Yi-Jui Huang, Jian-Yu Chen	Chi-Fu Lin, Jui-Yun Lin, Ruey-Yuan Fu, Ya-Ting Chang, Yu-Mei Hsiao, Yi-Jui Huang, Jian-Yu Chen	Jui-Yun Lin, Ruey-Yuan Fu, Ya-Ting Chang, Yu-Mei Hsiao, Yi-Jui Huang, Jian-Yu Chen	Ruey-Yuan Fu, Ya-Ting Chang, Yu-Mei Hsiao, Yi-Jui Huang, Jian-Yu Chen
NT\$1,000,000 ~ NT\$2,000,000				
NT\$2,000,000 ~ NT\$3,500,000				
NT\$3,500,000 ~ NT\$5,000,000				
NT\$5,000,000 ~ NT\$10,000,000	Mei-Chu Liao	Mei-Chu Liao	Mei-Chu Liao, Chi-Fu Lin	Mei-Chu Liao, Chi-Fu Lin, Jui-Yun 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)	9,881	9,881	16,575	22,144

Note: This remuneration bracket table is accurate as of December 31, 2019.



## II. Remuneration to Supervisors

December 31, 2019; unit: NTD thousands

Job Title	Name	Supervisors' remuneration								Sum of A, B, C, and D as a percentage of after-tax profits		Compensation from parent company and business investments other than subsidiaries
		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											
Supervisor	Qi-He Chen											
Supervisor	Shao-Pin Lin											
Amount paid to Mega Holdings												
Total		-	-	-	-	-	-	713	713	0.03	0.03	None

### 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\$ 1,000,000	Yung-Chen Huang, Qi-He Chen, Amount paid to Mega Holdings	Yung-Chen Huang, Qi-He Chen, Amount paid to Mega Holdings
NT\$1,000,000 ~ NT\$2,000,000		
NT\$2,000,000 ~ NT\$3,500,000		
NT\$3,500,000 ~ NT\$5,000,000		
NT\$5,000,000 ~ NT\$10,000,000		
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)	713	713

Note: This remuneration bracket table is accurate as of December 31, 2019.

### III. Remuneration to the President and CEO and Senior Executive Vice Presidents

December 31, 2019; unit: NTD thousands

Job Title	Name	Salary (A)		Pension (B)		Bonus and Special Allowance, et al. (C)		Employee remuneration (D)				Total of (A), (B), (C) and (D) in Post-Tax Profit Ratio (%)		Compensation from parent company and business investments other than subsidiaries
		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	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
President and CEO	Chi-Fu Lin													
Senior Executive Vice President	Yi-Sheng Wang													
Senior Executive Vice President	Chin-Sheng Huang (Note 1)													
Senior Executive Vice President	Jung-Chieh Cheng (Note 1)													
Auditor General	Yao-Kuang Tsai													
Former Vice President	Chun-Chang Lee (Note 2)													
Former Vice President	Jung-Kun Wu (Note 2)													
Total	Total													

Note:

1. Executive Vice Presidents Chin-Sheng Huang and Jung-Chieh Cheng were promoted to Senior Executive Vice President on May 10, 2019 and November 8, 2019, respectively.
2. Former Senior Executive Vice Presidents Chun-Chang Lee and Jung-Kun Wu retired on March 27, 2019 and November 4, 2019, respectively.
3. President's and Senior Executive Vice Presidents' remuneration were calculated as of December 31, 2019.

4. Performance bonus and employees' remuneration were estimated figures. The actual amount is subject to parent company's approval.
5. Refer to Schedules A and B on page 20 for details relating to company vehicles, gas, and housing subsidies.

#### Scales of Remuneration

President and CEO and Senior Executive Vice Presidents' remuneration brackets	Names of President and CEO and Senior Executive Vice Presidents	
	The Company	All companies included in the financial statements
Below NT\$ 1,000,000	Jung-Chieh Cheng	Jung-Chieh Cheng
NT\$1,000,000 ~ NT\$2,000,000		
NT\$2,000,000 ~ NT\$3,500,000	Chin-Sheng Huang	Chin-Sheng Huang
NT\$3,500,000 ~ NT\$5,000,000	Yi-Sheng Wang, Yao-Kuang Tsai	Yi-Sheng Wang, 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	Chun-Chang Lee	Chun-Chang Lee
NT\$15,000,000 ~ NT\$30,000,000	Jung-Kun Wu	Jung-Kun Wu
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)	49,477	49,477

Note: Compensation to former Senior Executive Vice Presidents Chun-Chang Lee and Jung-Kun Wu includes severance pay and pension.

Schedule A. Vehicles Provided to the Board, President and CEO, and Senior Executive Vice Presidents, and Imputed Annual Rent Thereof in 2019

December 31, 2019; unit: NTD thousands

Job Title	User	Purchase of Vehicle	Imputed Annual Rent	Fuel Expense	Remarks
Chairperson of the Board	Mei-Chu Liao	-	2,091	145	Rental
President and CEO	Chi-Fu Lin				
Former Vice President	Jung-Kun Wu				
Former Vice President	Chun-Chang Lee				
Senior Executive Vice President	Chin-Sheng Huang				
Senior Executive Vice President	Jung-Chieh Cheng				
Auditor General	Yao-Kuang Tsai				

Note: The Chairperson's and President's Drivers' salaries and overtime pay totaling NT\$1,714,000 were paid in 2019 as compensation for their services.

Schedule B. Housing allowance Provided for the Chairperson, the President, and Senior Executive Vice Presidents in 2019

December 31, 2019; unit: NTD thousands

Job Title	User	Cost	Imputed Annual Rent	Remarks
Chairperson of the Board	Mei-Chu Liao	-	1,337	
President	Chi-Fu Lin			

and CEO				
Former Vice President	Jung-Kun Wu			
Auditor General	Yao-Kuang Tsai			

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, 2019; 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	Chin-Sheng Huang				
	Senior Executive Vice President	Jung-Chieh Cheng				
	Former Vice President	Chun-Chang Lee				
	Former Vice President	Jung-Kun Wu				
	Auditor General	Yao-Kuang Tsai				
	Executive Vice President	Hsi-Bin Yo				
	Executive Vice President	Chih-Hsiung Chiu				
	Executive Vice President	Shih-Yi Chen				
	Executive Vice President	Ming-Pao Wang				
	General Manager	Kun-Shui Lin				
	General Manager	Shuo-Cheng Lee				
	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				
	General Manager	Yung-Fu Fang				

	General Manager	Shao-Shih Lu				
	Total		-	11,953	11,953	0.46

#### VI. Analysis of compensation paid to directors, supervisors, the President, and vice presidents in the last 2 years

##### 1. Compensation to directors, supervisors, the President, and Vice Presidents as a percentage of after-tax profit

The sum of compensation paid to the Company's directors, supervisors, President, and Senior Executive Vice Presidents represented 1.19% and 2.29% of after-tax profit in 2018 and 2019, respectively.

##### 2. Compensation 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 2019; attendance records are shown below:

Job Title	Name	Attendance in Person (B)	Attendance by Proxy	Actual Attendance Rate (%) <b>【B/A】</b>	Remarks
Chairperson of the Board	Mei-Chu Liao	16	0	100	
Director and President	Chi-Fu Lin	15	1	94	
Independent Director	Yi-Jui Huang	14	2	88	
Independent Director	Jian-Yu Chen	16	0	100	
Director	Jui-Yun Lin	16	0	100	
Director	Ruey-Yuan Fu	15	1	94	
Director	Ya-Ting Chang	16	0	100	
Director	Yu-Mei Hsiao	16	0	100	

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) 15th Meeting of the 15 Board of Directors was held on January 22, 2019: 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. Underwrite guarantee-waiver commercial papers of Mega Financial Holding Co., Ltd.; Director Jui-Yun Lin and Director Yu-Mei Hsiao recused themselves from voting and the discussion.
  - (II) 20th Meeting of the 15th Board of Directors was held on May 28, 2019: 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.
  - (III) 25th Meeting of the 15th Board of Directors was held on September 24, 2019: Motion to underwrite the guarantee-waiver commercial paper of Mega Securities Co., Ltd., for which Independent Director Yi-Jui Huang avoided all discussion and voting in relation to the motion.
- 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 16 (A) Board of Directors Meetings were held in 2019; attendance records are shown below:

Job Title	Name	Attendance in Person (B)	Actual Attendance Rate (%) 【B/A】	Remarks
Supervisor	Qi-He Chen	16	100	
Supervisor	Yung-Chen Huang	14	88	
Supervisor	Shao-Pin Lin	16	100	

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 Auditor General 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 Auditor General and external auditors via meetings, audit conference, internal control defect review conference, 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 motions 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. Existing corporate governance execution 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	
<p>I. Shareholding structure and shareholders' interests</p> <p>(I) Are shareholders' suggestions, queries, disputes and litigations handled properly?</p> <p>(II) Is the company constantly informed of the identities of its major shareholders and the ultimate controller?</p> <p>(III) Has the company established and implemented risk management practices and firewalls for companies it is affiliated with?</p>	V		<p>I. The Company is a 100%-owned subsidiary of Mega Holdings. All above matters are handled according to the policies of Mega Holdings.</p> <p>II. Mega Holdings is the Company's sole shareholder; the identity of the Company's ultimate controller can be established via the parent company.</p> <p>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.</p> <p>(I) Information security: The Company has established the transaction authority and file access rights as means of control.</p> <p>(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.</p> <p>(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.</p>	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies".
<p>II. Constitution and obligations of the board of directors</p> <p>(I) Does the company have independent directors in place? Has the company assembled other functional committees?</p> <p>(II) Has the TWSE/TPEX listed bills financing company established a set of policies and assessment tools for evaluating board performance, and conducted performance evaluation on a yearly basis? Are performance evaluation results reported to the board of directors and used as reference for compensation, remuneration, and nomination decisions?</p> <p>(III) Are external auditors' independence assessed on a regular basis?</p>	V	-	<p>I. The Company is a 100%-owned subsidiary of Mega Holdings; its directors and supervisors are entirely appointed by Mega Holdings. The Company has 8 directors, 2 of whom are independent directors. The Company has added functional committee rules into its "Corporate Governance Code of Conduct" to support decision-making and management.</p> <p>II. The Company is neither listed on TWSE nor TPEX, therefore it has not established Board of Directors Performance Assessment Policy.</p> <p>III. The Company evaluates independence of its external auditors at the time of appointment each year.</p>	Compliant with "Corporate Governance Best-Practice Principles for Bills Finance Companies".
<p>III. Has the company allocated adequate number of competent corporate governance staff and appointed a corporate governance officer to oversee corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, assisting directors/supervisors with compliance issues, convention of board meetings and shareholder meetings, and preparation of board/shareholder meeting minutes)?</p>	V		The Company has appointed a corporate governance officer with board of directors' approval, and created a Corporate Governance Section that specializes in corporate governance-related affairs.	Compliant with "Corporate Governance Best-Practice Principles for Bill Financing Companies".

IV. Has the company provided proper communication channels and created dedicated sections on its website to address corporate social responsibility issues that are of significant concern to stakeholders (including but not limited to shareholders, employees, customers and suppliers)?	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 Bill Financing 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)? (III) Does the company publish and make official filing of annual financial reports according to The Act Governing Bills Finance Business and Securities and Exchange Act within the required timeframe after the end of an accounting period, and publish/file Q1, Q2, and Q3 financial reports plus monthly business performance before the specified due dates?	V  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. III. The Company publishes and files annual report within the required timeframe, and publishes/files Q1, Q2, and Q3 financial reports along with monthly business performance before the designated due dates.	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 included: “2019 Corporate Governance Seminar” organized by the Ministry of Finance; “Directors’ and Supervisors’ Criminal Risks and Responses - Fraud and Money Laundering Prevention,” “The Company Act Amendments and Effects on Corporate Governance, Internal Control and Directors’/Supervisors’ Responsibilities,” “The Last Defense of Corporate Governance - Director and Supervisor Liability Insurance,” “Audit Committee Practices,” “2019 Global Trend Analysis - Risks and Opportunities,” “Conference on Sustainable Corporate Governance for Long-term Value,” “Importance of Environmental, Social and Governance (ESG) Elements in Investment Decision - Aberdeen Standard Investments,” “Practical Application and Case Study of FinTech and RegTech” “Trends of Digital Technology and AI and Risk Management,” “Key Audit Issues and Fundamental Responses for the Board,” “Detecting Fraud in Financial Statements,” “Introduction to Due Diligence and Commercial Contract in Corporate M&A,” “Roles and Duties of Directors, Supervisors and Managers,” “Analysis of Annual Report Information and Responsibilities: From Directors’/Supervisors’ Perspective,” “Digital Resilience in Practice - Directors’, Supervisors’ and Senior Managers’ Response,” “Cause of	Compliant with “Corporate Governance Best-Practice Principles for Bill Financing Companies”

			<p>Fraud and Directors'/Supervisors' Legal Responsibilities - Case Studies," "Board Functionality and Performance Evaluation," "Anti-tax Evasion Laws and Taiwan's CRS - Impacts and Responses of Offshore Companies from a Corporate Governance Perspective," "Reforms and Prospects of Limited Liability Companies under New Company Act Amendments" and "Legal Risks and Crisis Management in Business Operations" organized by Taiwan Corporate Governance Association; "Trends and Impacts of Risk-based AML," "Sharing of Cross-strait Financial Practices - AML Practical Workshop for Senior Finance Managers" and "Anti-money Laundering and Counter Terrorism Financing Seminar" organized by Taiwan Academy of Banking and Finance; "2019 AML Training Workshop," "AML/CTF Seminar," "2019 First Half Information Security Awareness Training," "Fair Customer Treatment in Theory and Practice for the Financial Industry," "The Domestic AML/CTF Legal Framework and 2018 Bank-wide ML/TF Risk and Sanction Risk Assessment," "2019 Personal Information Protection Act" and "2019 Second Half Social Engineering Training" organized by Mega Bank; "Analysis and Use of Corporate Financial Information for Decision Making" and "Advanced Conference for Directors, Supervisors (Independent Directors) and Corporate Governance Officers - AML and CTF Practices" organized by Securities and Futures Institute; "Notes on Repatriation of Overseas Capital" and "Taxation Risk Control through Consultation" organized by CPA Associations R.O.C.; "Enterprise Income Tax Amendments," "Tax Laws on Repatriation of Capital by Taiwanese Enterprises," "Practical Implications of the Latest Tax Laws," "Response to Money Laundering Control Act," "Company Registration Practices under The Company Act," "Response to New Company Act Amendment" and "Analysis of Enterprise Accounting Standards" organized by Taiwan CPA Association; "AML/CTF Trends and Practices" organized by Mega Bills Finance"; "Latest AML/CTF Laws and Trends" organized by Raphael AML Consulting; and "Corporate Governance Seminar - Analysis of Financial Consumer Protection Act and Fair Customer Treatment Principles" organized by Taiwan Insurance Institute.</p> <p>VI. Meeting attendance by directors and supervisors: all directors and supervisors have attended board meetings as required by policy.</p> <p>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.</p> <p>VIII. Consumer and customer protection: The Company has established a set of "Financial Consumer Dispute Resolution Guidelines" based on "Financial Consumer Protection Act" developed by the Financial Supervisory Commission that outlines rules that the Company is bound to comply. In addition, the "Bond Repurchase Master Agreement" provides a comprehensive description of the Company's obligations that consumers or customers may enforce to protect their interests. 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.</p> <p>IX. Directors and supervisors' liability insurance: coverage has been procured according to policies.</p> <p>X. Social responsibilities: refer to the section titled "Fulfillment of Social Responsibilities".</p>	
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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 and deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies

Item	Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
1. Has the company conducted risk assessment on environmental, social and corporate governance issues that are relevant to its operations, and implemented risk management policies or strategies based on principles of materiality?	V		The Company is a 100%-owned subsidiary of Mega Holdings, and the latter of which prepares the corporate social responsibility report. All routine activities are carried out according to the “Corporate Social Responsibility Policy” and Corporate Social Responsibility Code of Conduct” of the financial holding parent for proper enforcement of corporate social responsibilities.  The Company conducts risk assessment on environmental, social and governance aspects of its operation and sets annual risk management targets and CSR plans accordingly, which are executed with the approval of the financial holding parent.	The Company is neither listed on TWSE nor TPEX, hence not required.
2. Does the company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and does the unit report its progress to the board of directors?	V		The Administration Department is concurrently involved in the enforcement of corporate social responsibilities within the Company. From corporate governance, personnel system, charity involvement to environmental protection and energy conservation measures, the department reports its CSR progress to the board of directors on a yearly basis.	

<p>3. Environmental issues</p> <p>(1) Has the company developed an appropriate environmental management system, given its distinctive characteristics?</p> <p>(2) Is the company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment?</p> <p>(3) Does the company assess potential risks and opportunities associated with climate change, and undertake measures in response to climate issues?</p> <p>(4) Does the company maintain statistics on greenhouse gas emission, water usage and total waste volume in the last two years, and implement policies aimed at reducing energy, carbon, greenhouse gas, water, and waste?</p>	<p>V</p> <p>V</p> <p>V</p> <p>V</p>	<p>I. 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.</p> <p>II. 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:</p> <p>(1) Reduce use of water, electricity, and petrol.</p> <p>(2) Replace use of paper with digital process.</p> <p>(3) Make green procurements and use products with environmental certifications.</p> <p>(4) Recycle or dispose of waste properly.</p> <p>III. The financial holding parent has been participating in the CDP Climate Change Questionnaire since 2018, and the Company actively supports group policies by regularly identifying risks and opportunities in climate change, assessing potential impacts and adopting appropriate management measures.</p> <p>IV. The Company surveys greenhouse gas emission, water usage and total waste volume on a yearly basis to assist the financial holding parent in the preparation of corporate social responsibility reports. The Company has set its short-term goal to reduce energy and carbon by 1% each year, and was able to reduce power consumption by 1.66% and fuel consumption by 3.51% in 2019.</p>	
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4. Social issues				
(1) Has the company developed its policies and procedures in accordance with laws and International Bill of Human Rights?	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: (1) Reasonable compensation and bonus/remuneration scheme for employees. (2) Employee training programs. (3) Insurance and leave policy. (4) Pension contributions. (5) 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.	
(2) Has the company developed and implemented reasonable employee welfare measures (including compensation, leave of absence and other benefits), and appropriately reflected business performance or outcome in employees' compensations?	V			
(3) Does the company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?	V		II. The Company's personnel policy introduces reasonable employee welfare measures that comply with or are more favorable than what the labor laws require. The Company also has a bonus and compensation system that reflects corporate and individual performance in employees' compensation.	
(4) Has the company implemented an effective training program that helps employees develop skills over their career?	V		III. The following initiatives have been taken to ensure workplace health and safety: (1) Annual employee health checks. (2) Implementation of "Bills on Prevention of Sexual Harassment" as a complaint channel and a means to maintain order in the workplace. (3) Accidental insurance and health insurance for employees and family members. (4) Implementation of safety protocols and emergency responses, which are rehearsed on a yearly basis and revised in regular meetings.	
(5) Has the bill financing company complied with laws and international standards with respect to customers' health, safety and privacy, marketing and labeling in all products and services offered, and implemented consumer protection policies and complaint procedures?	V		IV. 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.	
(6) Has the company implemented a supplier management policy that regulates suppliers' conducts with respect to environmental protection, occupational safety and health or work rights/human rights issues, and tracked suppliers' performance on a regular basis?	V		V. The Company has established a set of "Financial Consumer Dispute Resolution Guidelines" based on "Financial Consumer Protection Act" implemented by the Financial Supervisory Commission to protect financial consumers and ensure fair, reasonable and efficient resolution of financial consumer dispute. Grievance channels have also been clearly stated on the Company's website for this purpose. 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.  VI. The Company has a set of "Supplier CSR Enforcement Guidelines" in place that outlines the environmental protection laws, labor regulations, and workplace safety and health requirements that suppliers are bound to comply. Prior to commencing business dealing, the Company would evaluate its supplier for history of adverse environmental or social conduct, and avoid dealing with suppliers that violate the guidelines. In addition, the Company purchases green and locally produced goods as the first priority, and uses environmentally certified products where possible.	

5. Does the bill financing company prepare corporate social responsibility report or any report of non-financial information based on international reporting standards or guidelines? Are the abovementioned reports supported by assurance or opinion of a third-party certifier?	V	CSR report prepared by the financial holding parent covers non-financial information of the Company. This report has been issued independent assurance from British Standards Institution.
6. If the company has established CSR principles in accordance with “Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies,” please describe its current practices and any deviations from the Best Practice Principles:		
7. Other information useful to the understanding of corporate social responsibilities: <ul style="list-style-type: none"> <li>(1) The Company has collaborated with several universities to offer internships for students.</li> <li>(2) Made donations to fund charity activities of the Mega Charity Foundation.</li> <li>(3) Sponsored the “2019 MOF Run” organized by Ministry of Finance.</li> <li>(4) Sponsored Taiwan Financial Services Roundtable in the organization of “2019 Financial Service Charity Carnival - Tainan Session.”</li> <li>(5) Sponsored the General Association of Chinese Culture in organizing “2019 October 10 Presidential Office Light Show.”</li> <li>(6) Students from Postgraduate Institute of Finance and Banking, Shih Chien University, were invited for a visit to the Company.</li> </ul>		



## VI. Enforcement of business integrity, deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies

Item	Status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Summary description	
<p>1. Formulate integrity policies and solutions</p> <p>(1) Has the company established a set of board-approved business integrity policy, and stated in its Memorandum or external correspondence about the policies and practices it implements to maintain business integrity? Are the board of directors and the senior management committed to fulfilling this commitment?</p> <p>(2) Has the company developed systematic practices for assessing integrity risks? Does the company perform regular analyses and assessments on business activities that are prone to higher risk of dishonesty, and implement preventions against dishonest conducts that include at least the measures mentioned in Paragraph 2, Article 7 of “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”?</p> <p>(3) Has the company defined and enforced operating procedures, behavioral guidelines, penalties and grievance systems as part of its preventive measures against dishonest conducts? Are the above measures reviewed and revised on a regular basis?</p>	V		<p>I. The Company adopts a business philosophy of “integrity, stability, innovation, efficiency and sustainability” when pursuing growth. In order to establish integrity as the dominant corporate culture and the foundation for future growth, a set of “Business Integrity Code of Conduct” and “Procedures for Ethical Management and Guidelines for Conduct” have been implemented within the Company with board of directors’ approval. Together, they emphasize integrity as the priority and foundation for the Company’s operational policy, corporate governance and risk management, and ensure a sustainable business environment. The Company discloses integrity measures and progress through website and annual reports; both the directors and senior management have issued letters of commitment to comply with business integrity policy.</p> <p>II. The Company’s “Procedures for Ethical Management and Guidelines for Conduct” have addressed operating activities that present high integrity risk, as listed in “Paragraph 2 of Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies,” by implementing preventive measures such as regular training, internal control system enhancement, and incentives to insiders and outsiders for reporting dishonesty or misconduct.</p> <p>III. The Company’s “Procedures for Ethical Management and Guidelines for Conduct” explicitly prohibit employees from offering or committing to lobbying fees, exercising unfair competition, offering or accepting improper gains and engaging in dishonest conducts in general. Relevant procedures and disciplinary actions have been implemented for enforcement. The “Work Rules” and “Grievance Resolution Rules” have specified disciplinary actions for conducts that are in violation of law or are construed as fraud or embezzlement. Furthermore, the scope and procedures through which complaints can be raised are clearly explained in “Notes on Employee Suggestions and Complaints.” Enforcement of business integrity policy is reviewed once every six months, during which preventive measures are examined for possible improvements.</p>	The Company is neither listed on TWSE nor TPEX, hence not required.

2. Fulfillment of Ethical Corporate Management			I. According to the Company's "Supplier CSR Enforcement Guidelines," all counterparties must be checked for history of adverse environmental or social conduct before commencing business dealings. The Company should also avoid transacting or contracting with counterparties that exhibit history of dishonesty. The Company requires suppliers to issue declarations and borrowers to sign agreements in relation to the above, under which the Company is entitled to terminate contract at any time upon discovery of dishonest conduct.
(1) 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?	V		
(2) Does the company have a unit that enforces business integrity directly under the board of directors? Does this unit report its progress (regarding implementation of business integrity policy and prevention against dishonest conducts) to the board of directors on a regular basis (at least once a year)?	V		II. The Company has passed a set of "Procedures for Ethical Management and Guidelines for Conduct" with board of directors' approval, and appointed the Administration Department as the unit responsible for enforcing the Guidelines and making annual reports to the board.
(3) Does the company have any policy that prevents conflict of interest, and channels that facilitate the reporting of conflicting interests?	V		III. According to the Company's Board of Directors Conference Rules: if a director, or the corporate entity that the director represents, is considered a stakeholder to the discussed motion, the director must state the stakes involved during the current meeting session and shall disassociate from all discussions and voting if such stakes are in conflict against the Company's interests. In which case, the director may not exercise voting rights on behalf of other directors. A director would be considered to hold self interest in a topic raised in the abovementioned meeting if the director's spouse, 2nd-degree direct relative or closer, or any of the director's controlled or controlling entities holds stake in the said topic. Directors made a total of 5 recusals in 2019. Furthermore, the "Procedures for Ethical Management and Guidelines for Conduct" contain preventions against conflict of interest. No motion discussed in 2019 required recusal from supervisors, and except for personnel decisions, no motion discussed in 2019 required recusal from managers.
(4) Has the company implemented effective accounting policy and internal control system to maintain business integrity? Has an internal or external audit unit been assigned to devise audit plans based on the outcome of integrity risk assessment, and to audit employees' compliance with various preventions against dishonest conduct?	V		IV. The Company has developed "accounting system" based on the authority's policies, and prepares quarterly financial reports in accordance with generally accepted accounting principles and Regulations Governing the Preparation of Financial Reports by Public Bill Financing Companies. The Company has implemented its own internal audit and self-audit systems. Self-audit of the internal control system is conducted in December each year; in addition, the Company engages external auditors to perform audit on the internal control system on a yearly basis.
(5) Does the company organize internal or external training on a regular basis to maintain business integrity?	V		V. Each internal department organizes separate courses on regulatory compliance, internal control and business integrity on a yearly basis. A total of 205 people had participated in the integrity training course held in October 2019.

<p>3. Whistleblowing system</p> <p>(1) Does the company provide incentives and means for employees to report malpractices? Does the company assign dedicated personnel to investigate the reported malpractices?</p> <p>(2) Has the company implemented any standard procedures for handling reported misconducts, and subsequent actions and confidentiality measures to be undertaken upon completion of an investigation?</p> <p>(3) Does the company assure malpractice reporters that they will not be mistreated for making such reports?</p>	<p>V</p> <p>V</p> <p>V</p>		<p>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. "Grievance Resolution Rules" were passed by the board of directors on September 25, 2018; since then, no misconduct had been received by the Audit Office as of the end of 2019.</p> <p>II. The Company has outlined standard operating procedures and review criteria for misconduct reports, and requires all subjects of investigation and witnesses to sign a confidentiality agreement that informs them of the severe legal consequences involved in a violation of confidentiality commitment. Post-investigation processes, such as distribution of investigation report and reward/disciplinary measures for concerned employees, are also duly implemented.</p> <p>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.</p>	
<p>4. Enhanced information disclosure</p> <p>Has the company disclosed its integrity principles and progress onto its website and MOPS?</p>	<p>V</p>		<p>The Company's integrity activities are disclosed in annual reports and on the Company's website.</p>	
<p>5. 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:</p> <p>The Company has established "Business Integrity Code of Conduct" based on "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and enforced accordingly, hence no deviation was found.</p>				
<p>6. Other information relevant to understanding business integrity (e.g. review and amendment of existing integrity principles):</p> <p>1. On October 24, 2019, the board of directors passed a set of "Employee Behavior Guidelines" that explicitly prevents conflict of interest and prohibits dishonest conducts.</p> <p>2. During the board of directors meeting held on January 21, 2020, a resolution was passed to amend the Company's "Business Integrity Code of Conduct" and "Procedures for Ethical Management and Guidelines for Conduct."</p>				

## VII. Disclosures relating to the execution of internal control system

### 1. Internal Control Declaration

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

Representing the declaration by Mega Bills, the Company, from January 1, 2019 to December 31, 2019 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 and CEO: Mei-Chu Liao

Auditor General: Yao-Kuang Tsai

Legal Compliance Officer,

Head Office: Chi-Wu Lin

Date: January 21, 2020

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

Date: December 31, 2019

Required Improvement	Corrective Action	When Improvement Scheduled to be Completed
None	None	None

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 in accordance with Article 51 of Act Governing Bills Finance Business and Article 61-1 of the Banking Act: Letter No. Jin-Guan-Yin-Kong-10702160200 issued by the Financial Supervisory Commission November 26, 2018 has 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 an order of rectification was issued as a result. The Company has taken the following improvement measures in response to the identified defects:
  - (1) Amend the "Policy on Implementation of 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.
  - (2) Amend the "Notes to Processing of Transactions with Stakeholders" to strengthen the knowledge about reporting of stakeholders and include relatives by blood within the 3<sup>rd</sup> degree of kinship and relatives by marriage within the 2<sup>nd</sup> degree of kinship to prevent any omission or error.
  - (3) 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.

- (4) Issue a letter to remind each manager that stakeholder information must be duly reported, and that discipline will be rendered pursuant to work rules, if false stakeholder information is provided.

4. Any penalty imposed by the bill financing company against its insider for violation of internal control system; where the penalty is likely to have material impact on shareholders' interest or security price, or meets any of the conditions mentioned in Article 2 of FSC's Regulations Governing Announcement of Major Penalties Imposed for Violation of Financial Regulations: None.
5. 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.
6. 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 18th meeting of the 15th board of directors held on April 23, 2019:  
Acknowledgment of 2018 year-end accounts and earnings appropriation plan.
2. Resolutions passed on behalf of shareholders during the 22nd meeting of the 15th board of directors held on July 23, 2019:  
(I) Amendments to "Mega Bills Finance Co., Ltd. Asset Acquisition and Disposal Procedures."  
(II) Abolishment of "Mega Bills Finance Co., Ltd. Shareholder Meeting Conference Rules."
3. Resolutions passed on behalf of shareholders during the 28th meeting of the 15th board of directors held on November 26, 2019:  
Amendments to "Mega Bills Finance Co., Ltd. Board of Directors Conference Rules."

- 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 finance, head of accounting, chief internal auditor and corporate governance officer) in the most recent year up till the publication date of annual report:

January 16, 2020

Job Title	Name	Date of Appointment	Date Discharged	Cause of Resignation or Discharge
President and CEO	Chi-Fu Lin	2015.3.2	2020.1.16	Retired

#### V. Information about professional fees paid to CPA

Name of accounting firm	CPA's Name		Audit period	Remarks
PricewaterhouseCoopers, Certified Public Accountants	Po-Ju Kuo	Zong-Xi Lai	2019/1/1-2019/12/31	

Amount Unit: NT\$ thousands

Audit remuneration Range		Audit remuneration	Non-Audit Fees	Total
1	Below NT\$ 2,000,000			
2	NT\$2,000,000 ~ NT\$4,000,000	1,389	990	2,379
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					Auditor Audit period	Remarks
			System design	License registration	Human resources	Others	Sub-total		
PricewaterhouseCoopers, Certified Public Accountants	Po-Ju Kuo Zong-Xi Lai	1,389				990	990	2019/1/1-2019/12/31	Others include fees for transfer pricing, personal information protection procedure and AML/CTF assurance services.

(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 10% compared with the previous year: None.

VI. Information about change of CPA:

(I) About former CPA:

Date of Change	Ratified at the Board Meeting on February 26, 2019		
Cause of Change and Explanation Thereof	Following a reorganization within PricewaterhouseCoopers Taiwan, the Company's financial statements have been audited by CPAs Po-Ju Kuo and CPA Tsung-Hsi Lai since 2019, instead of CPAs Shu-Mei Chi and CPA Tsung-Hsi Lai.		
Was the termination of audit services initiated by the client or by the auditor	Parties	Auditor	Principal
	Situation		
	Service terminated by	Shu-Mei Ji, Zong-Xi Lai	
	Service no longer accepted (continued) by		
Reasons for issuing opinions other than unqualified opinions in the recent 2 years	None		
			Accounting policy or practice



Disagreements with the Company	Yes		Financial statement disclosure
			Audit coverage or procedures
			Others
	None	✓	
Description			
Other disclosures (disclosures deemed necessary under Item 1-4, Subparagraph 6, Article 10 of the Guidelines)	None		

(II) About new CPA:

Firm Name	PricewaterhouseCoopers, Certified Public Accountants
CPA's Name	Po-Ju Kuo, Tsung-Hsi Lai
Date of Appointment	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, 2019; Unit: shares; %

Investee	The Company		Directors, supervisors, President and CEO, 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	2.436	—	—	37,380,000	2.436
Taiwan Financial Asset Services Co., Ltd.	5,000,000	2.941	—	—	5,000,000	2.941
Taiwan Depository and Clearing Co., Ltd.	2,384,033	0.628	—	—	2,384,033	0.628
Taiwan Asset Management Co., Ltd.	6,000,000	0.568	—	—	6,000,000	0.568
Taiwan Futures Exchange Co., Ltd.	1,814,945	0.512	—	—	1,814,945	0.512
Agora Garden Co., Ltd.	21,090	0.030	—	—	21,090	0.030

# 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
2020.3	10	1,311,441,084	13,114,410,840	1,311,441,084	13,114,410,840	Public offering	—

Unit: shares

Share category	Authorized Capital			Remarks
	Outstanding shares	Unissued shares	Total	
Common stocks	1,311,441,084	0	1,311,441,084	Publicly offered but not listed on TWSE/TPEX

### II. Shareholder structure

March 31, 2020

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, 2020

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

Year		2018	2019	Year-to-date March 31, 2020
Item				
Market price per share	Maximum	-	-	-
	Minimum	-	-	-
	Average	-	-	-
Net value per share	Before allocation	27.17	29.19	29.33
	After allocation	25.55	(Note)	-
EPS	Weighted average outstanding shares	1,311,441,084	1,311,441,084	1,311,441,084
	EPS	1.95	2.00	0.54
Dividends per share	Cash dividends	1.62	1.394 (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 2019 earnings appropriation had been passed by the board of directors and was pending for shareholders' resolution, which the board of directors will exercise decision-making authority on behalf.

Resolved under vested authority.

VI. Dividends policy and implementation

(I) Dividends policies stated in the 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 Holdings is the sole shareholder of the Company, to which cash dividends totaling NT\$1,828,148,871 or NT\$1.394 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 at the end of each financial year be subject to employee remuneration of 1.75% ~ 3%;

however, profits shall first be taken to offset against cumulative 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 2019 employee remuneration at NT\$64,611,830. 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 estimate director/supervisor remuneration or propose to pay employee remuneration in shares for 2019.

#### 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 33rd Meeting of the 15th Board of Directors held on March 24, 2020, the 2019 employee remuneration has been determined at NT\$58,150,647, to be distributed in cash. The Company did not propose any share payment for employees'/directors'/supervisors' remuneration. The NT\$58,150,647 cash payment of 2019 employee remuneration resolved by the Board of Directors was different from the NT\$64,611,830 previously recognized in the 2019 Financial Statements, by a difference of NT\$6,461,183. This difference was attributable to a change of employee remuneration percentage and has been adjusted into the 2020 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 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 NT\$56,251,779 cash payment of 2018 employee remuneration was different from the NT\$62,501,977 previously recognized in the 2018 Financial Statements, by a difference of NT\$6,250,198. This difference was attributable to a change of employee remuneration percentage, and has been adjusted into the 2019 profit and loss.

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

IX. Re-purchase 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

## 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 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	2019		2018	
	Amount	As a proportion of total assets (%)	Amount	As a proportion of total assets (%)
Bills Business	122,269,664	46.92	122,165,266	46.14
Bonds Business	129,156,547	49.56	134,649,394	50.85
Equity investment business	1,918,065	0.74	1,562,266	0.59
Others	7,256,963	2.78	6,411,634	2.42
Total assets	260,601,239	100.00	264,788,560	100.00

## 2. Revenues

Unit: NT\$ thousands

Item \ Year	2019		2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Bills Business	2,545,939	43.19	2,419,982	44.82
Bonds Business	3,074,570	52.16	2,667,555	49.41
Equity investment business	94,650	1.61	72,712	1.35
Others	179,632	3.04	238,847	4.42
Total Revenues	5,894,791	100.00	5,399,096	100.00

## II. Business plan of the year

### (I) Bills Business

1. Monitor credit customers' business performance and industry prospects and funding capability for making decision of credit extension. Actively search for opportunities to lead-arrange syndicated loans and syndicated underwriting of guarantee-waiver commercial papers; hence expand portfolio and increase fee income.
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 guarantee-waiver bills and securities underwriting to achieve 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. Closely monitor political, economic and interest rate changes local and abroad, and flexibly adjust TWD and foreign currency bond holding positions to increase trade gains.
2. Allocate capital to selected foreign currency bonds within the prescribed risk management limits, and aim to diversify country and industry risks.
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. Purchase convertible bonds of good credit standing and fixed income parts of convertible bond asset swaps, and thereby increase income source at manageable credit risk level.
5. Manage duration of NTD and foreign currency bonds for risk avoidance and higher gains.

## (III) Equity investment business

1. Analyze in-depth the fundamentals of the performance of benchmark stock companies and changes to their share prices technically, keep track of market dynamics to cope with the changing trends overall on the stock market and adequately engage in short-term swap transactions in order to earn return on capital.
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

The Company operates a total of 9 offices (including the Head Office and branches) throughout the nation. Each office is responsible for overseeing credit, bill, and bond-related services within the local region.

#### 2.Future market supply, demand and growth

##### (1) Market changes

- 1) Digitalization of the commercial paper issuance process (CP2): Taiwan Depository & Clearing Corporation implemented its “Commercial Paper Digitalization Process” on October 29, 2018, followed by fully digitalized delivery of issuance documents and deal confirmations for guarantee-waiver commercial papers in April 2019. These processes help minimize operational risks associated with bill issuance.
- 2) According to Article 4 of “Regulations Governing the Financial Investment, Management, and Utilization of Repatriated Offshore Funds” implemented by the authority, capital repatriated from abroad can be allocated to instruments including government bond, corporate bond, bank debenture, and international bond offerings. All NTD bonds and Foreign bonds undertaken by the Company are approved financial instruments under this regulation.

##### (2) Market conditions

###### 1) Bills market

Impacted by uncertainties brought about by the US-China trade clash and the slowing global economy, the FED activated preventive interest rate cuts three times throughout 2019. The European Central Bank announced maximization of its quantitative easing policy in September. The Japanese Central Bank kept its decision over a negative interest rate. Our Central Bank remained unchanged with its interest rate policy. The

financial situation as a whole was still at ease. Short-term rates on the market appeared to be steadily sliding. In 2019, the value of CP2 underwritten by all bills financing companies in the primary market amounted to NT\$9,089.13 billion, increased NT\$338.104 billion (or 3.86%) from 2018, in which the Company occupied a market share of 27.20%. The value of transactions completed by all bills financing companies in the secondary market amounted to NT\$28,649.253 billion in 2018, down NT\$72.014 billion (or -0.25%) from 2018, in which the Company represented a market share of 30.14%. The above results put the Company well ahead of peers as the top performer in the bills financing industry. There are signs that indicate normalization of monetary policies among world's advanced economies in 2020, but tension persists in global economic outlook due to ongoing trade conflict between China and USA, UK's exit from EU and uncertainties associated with geopolitical risks. The outbreak of COVID-19 since the beginning of 2020 has escalated to a global crisis and continues to accumulate casualties throughout the world. Various measures taken to contain the virus have severely undermined global economic activities and caused massive losses to equity markets in the U.S. and Europe, forcing the FED to make two consecutive unannounced rate cuts by as much as 2 ticks and 4 ticks, respectively. In addition to lowering federal funds rate to 0%-0.25%, the U.S. government also undertook QE measures for the first time in six years. In response, the central bank of Taiwan reduced policy rate by one tick to a historic low given the pandemic's increasing impact on the financial system and the aggressiveness of expansionary monetary policies undertaken by world's major economies to support business activities and enforce financial stability.

## 2) Bonds market

In terms of yielding income, the Company was still able to maintain yielding income on foreign currency bonds as both primary and secondary interest rates have fallen. As for NTD bonds, the central bank continued its expansionary monetary policy and the market's strong demand for bond instruments drove bond yields to new low, which significantly reduced yielding income.

In terms of market development, NTD bond yields continued to fall whereas the yield curve exhibited flattening in addition to a downward shift for a number of reasons including: strengthened NTD, limited supply, strong demand for banks to cover short positions, the Fed's emergence rate cuts by a total of 6 ticks, and the central bank's rate cut by 1 tick in response to the pandemic. Given the over demand for NTD bonds, yields should remain low in the near future. Credit risk premium on foreign currency corporate bonds has widened as the worldwide spread of COVID-19 raised concerns for downside risk in economic and profit outlooks. Fed's recent announcement of unlimited QE provided much relief to the liquidity shortage, and the introduction of US\$2-trillion economic incentives successfully restored market confidence and lessened the impacts the pandemic has on the economy. Given how central banks around the world have responded to the crisis with an expansionary monetary policy, yields of foreign currency bonds should remain low in the future.

Uncertainties concerning the China-USA trade war and the ongoing pandemic should continue bringing volatility into the financial market; meanwhile, increasing downside risks and further slowdown in economic expansion will force world's main central banks to respond with loose money supply, which favors the bond market. Overall, yield curves of both NTD and foreign

currency bonds will flatten in 2020, with yielding spread falling below that of 2019.

### 3) Equity investment business

Taiwan's equity market posted progressive gains throughout 2019 due to abundant supply of capital in the world. There are still many uncertainties concerning the global outlook in 2020; variables such as phase 2 of the China-USA trade negotiation, pandemic control and further impacts of UK's exit from EU will continue contributing volatility to financial markets worldwide. While world's main central banks continue to maintain an expansionary monetary policy, risky assets such as equity may still exhibit high volatility due to short-term flow of excess capital. Overall, global markets will see higher volatility in 2020.

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

### 1. Advantageous Factors

Uncertainties concerning China-USA trade negotiation and the COVID-19 pandemic present downside risk to the future economic outlook, which the world's main central banks will continue to respond with an expansionary monetary policy that helps reduce funding costs.

### 2. Disadvantageous Factors

(1) 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.

- (2) There is an increasing variety of funding channels in the financial market today, meanwhile, banks continue to explore local lending opportunities 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.
- (3) Asset allocation by banks, repatriation of capital by foreign investors and tax payment all reduce capital supply in the market, raising bill selling costs and borrowing costs that ultimately impact spread income.
- (4) Yield curves of both NTD and foreign currency bonds have flattened, which puts the Company at a disadvantage in yielding and future purchase.
- (5) The China-USA trade conflict and COVID-19 pandemic will have profound yet immeasurable impacts on the world's political and economic development. The market should expect higher volatility across all financial instruments, making it much more difficult to implement trading strategies.

### 3. Responsive strategies

- (1) Maintain long-term relationships with financial institutions for more diverse funding sources. Negotiate for lower cost capital and 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	
	2019	2018
Costs of employee participation in various research and training programs	1,912	1,636

##### 2. R&D results

- (1)2018

- 1)Optimized execution and risk monitoring on the Company's anti-money laundering and counter terrorism financing efforts.
- 2)Establish compliance plans for CRS.
- 3)Support industry association in the issuance of short-term bills in the primary market, promotion of paperless transactions, and implementation of relevant information systems.
- 4)Implementation of the personal electronic file risk analysis system.
- 5)Implementation of online learning platform.

(2)2019

- 1)Continued working with the association to promote electronic delivery of all issuance documents and deal confirmations for guarantee-waiver commercial papers over a common platform, and implemented related information systems.
- 2)Continued enhanced execution and transaction monitoring on the Company's anti-money laundering and counter terrorism financing efforts.
- 3)Introduction of visual analysis tools and enhanced information security management

(3)Future R&D plans

- 1)Adopted a blacklist database and a risk rating and case management software for enhanced AML/CTF.
- 2)Seek the authority's approval for engaging life insurance companies in USD RP deals.
- 3)Strengthen macroeconomic and industry research capacity; capitalize on profit opportunities and diversify industry risks by building position of NTD/foreign currency bonds, convertible bonds, equity, and fixed income part of convertible bond asset swap.
- 4)Support the industry association in paperless deal confirmation



for non-physical short-term bills in the secondary market and implement relevant information systems.

5) Coordinated with Financial Information Service Co. Ltd. on the promotion of financial blockchain confirmation service.

## 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 guarantee-waiver 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. The Company will strive to explore sources low-interest and stable capital in TWD and foreign currency, and thereby maximize yielding income.
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. Adopt enhanced information security protection measures and training as means to reduce security threats.
10. Continue enhancement of AML/CTF practices and organize AML compliance testing and risk-based training.

(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 bill 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 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		2018	2019	2020 up till March 31
Employee count	Staff	203	206	202
	Total	203	206	202
Average age		46.17	45.89	45.79
Average length of service		16.60	16.30	16.25
Distribution of academic background	PhD	1	1	1
	Master	95	99	99
	Bachelor	102	101	98
	Senior high school	5	5	4
	Below senior high school	0	0	0
Professional certificates held by employees	Bill Finance Specialist	198	204	201
	Securities Investment Analyst	8	9	9
	Senior Securities Specialist	144	157	154
	Securities Specialist	73	76	76
	Securities Investment Trust and Consulting Professional	86	87	85
	Trust Operations Personnel	120	116	114
	Futures Specialist	72	72	70
	Life Insurance Specialist	121	121	119
	Property Insurance Specialist	111	109	107
	Bank Internal Control Specialist	105	108	106

	Financial Planning Personnel	68	69	67
	Basic Foreign Exchange Personnel	15	18	18
	Basic Bank Lending Personnel	42	46	44
	Advanced Bank Lending Personnel	5	5	5

### Three. Corporate Responsibility and Ethical Conduct

Please refer to pages 24 and 25 of the Corporate Governance Report, titled “Fulfillment of Social Responsibilities” and “Fulfillment of Ethical Corporate Management.”

Four. No. of full-time non-managerial employees, mean and median salary of full-time non-managerial employees, and differences from the previous year

Unit: NT\$ thousands

Year	Employee count (Note)	Mean salary	Median salary
2018	206	1,658	1,591
2019	219	1,755	1,499

Note: Weighted average employee count at each month-end.

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) Continual development of a CRS system.
- (II) Incorporate blacklist database and risk rating and case management software into AML practice.
- (III) Replacement of backup network equipment.

- (IV) Replacement of audit software server.
- (V) Upgrade to Oracle database and Weblogic.
- (VI) Upgrade of PC operating system from Win7 to Win10.
- (VII) Upgrade of Windows Server 2008 to version Windows Server 2016 and above.

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

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

## I. Condensed balance sheets and income statements

### Summary Balance Sheet

Unit: NT\$ thousands

Item \ Year	Financial information for the last five years				
	2019	2018	2017	2016	2015
Cash, cash equivalents, deposit at Central Bank and peer banks	356,298	326,207	793,634	346,391	321,356
Financial assets at fair value through profit and loss	127,382,706	126,577,565	136,554,017	125,297,488	115,285,106
Financial Assets at Fair Value Through Other Comprehensive Income	126,416,773	131,955,095	-	-	-
Debt Instruments Carried at Cost After Amortization	431,553	440,070	-	-	-
Available-for-sale financial assets	-	-	135,888,342	132,867,186	100,816,225
Bills and bonds purchased under resale agreements	-	-	501,259	-	1,000,000
Receivables - net	2,303,800	1,534,617	1,651,477	1,531,891	1,185,047
Held-to-maturity financial assets	-	-	100,000	350,000	600,000
Other financial assets - net	585,426	497,703	875,137	820,362	818,540
Property, plant and equipment - net	353,131	363,438	363,606	370,177	375,457
Right-of-use assets - net	73,532	-	-	-	-
Investment properties - net	2,496,432	2,507,096	2,517,760	2,528,424	2,539,088
Intangible assets - net	6,195	4,140	4,920	3,310	2,427
Deferred income tax assets - net	135,853	532,673	222,666	152,104	106,254
Other assets	59,540	49,956	49,031	34,868	48,225
Total assets	260,601,239	264,788,560	279,521,849	264,302,201	223,097,725
Interbank overdraft and call loans	14,132,031	23,074,279	31,124,272	15,714,592	11,294,776
Financial liabilities at fair value through profit and loss	2,475	5,892	632	22,543	6,149
Bills and bonds payable under repurchase agreements	204,173,461	202,310,405	208,414,735	210,809,807	173,109,248
Payables	592,668	560,256	947,769	602,808	504,042
Current income tax liabilities	136,891	69,738	40,412	191,490	131,256
Liabilities reserve	2,589,139	2,696,915	2,759,489	2,728,105	2,757,420
Lease liabilities	73,785	-	-	-	-

Deferred income tax liabilities		324,149	86,060	45,675	22,700	12,647
Other liabilities		299,415	356,264	151,008	431,098	828,935
Total liabilities	Before allocation	222,324,014	229,159,809	243,483,992	230,523,143	188,644,473
	After allocation	Note	231,284,344	245,385,581	232,555,877	190,721,796
Equity attributable to parent company shareholders		38,277,225	35,628,751	36,037,857	33,779,058	34,453,252
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	22,499,419	22,012,449	21,013,426	20,375,867	19,490,920
	After allocation	Note	19,887,914	19,111,837	18,343,133	17,413,597
Other equity		2,342,466	180,962	1,589,091	(32,149)	1,526,992
Treasury stock		-	-	-	-	-
Non-controlling interest		-	-	-	-	-
Total equity	Before allocation	38,277,225	35,628,751	36,037,857	33,779,058	34,453,252
	After allocation	Note	33,504,216	34,136,268	31,746,324	32,375,929

Note: As of the publication date of this Annual Report, the 2019 earnings appropriation plan had been passed by the Board of Directors and was pending shareholders' resolution, which the Board of Directors will exercise decision-making authority on shareholders' behalf.



## Summary Statement of Comprehensive Income

Unit: NT\$ thousands

Year Item	Financial information for the last five years				
	2019	2018	2017	2016	2015
Interest Income	3,490,129	3,446,303	3,382,516	3,322,888	2,930,965
Less: Interest Expense	(1,940,494)	(1,603,543)	(1,209,251)	(899,280)	(901,456)
Interest income, net	1,549,635	1,842,760	2,173,265	2,423,608	2,029,509
Revenues other than interest income, net	2,351,222	1,934,919	1,792,655	1,898,101	2,134,405
Net income	3,900,857	3,777,679	3,965,920	4,321,709	4,163,914
Provisions	69,684	54,058	11,068	45,896	134,508
Operating expenses	(804,561)	(769,140)	(765,467)	(796,560)	(792,612)
Income before Income Tax from Operating Unit	3,165,980	3,062,597	3,211,521	3,571,045	3,505,810
Income tax (expense) gain	(540,628)	(504,516)	(506,292)	(590,919)	(495,374)
Net Income Tax from Operating Unit	2,625,352	2,558,081	2,705,229	2,980,126	3,010,436
Income (loss) from discontinued operations	-	-	-	-	-
Net Income (loss)	2,625,352	2,558,081	2,705,229	2,980,126	3,010,436
Other comprehensive income for the current period (net of tax expense)	2,147,657	(1,386,976)	1,586,304	(1,576,997)	385,439
Comprehensive Income for the current period	4,773,009	1,171,105	4,291,533	1,403,129	3,395,875
Net income attributable to parent company shareholders	2,625,352	2,558,081	2,705,229	2,980,126	3,010,436
Net income attributable to non-controlling shareholders	-	-	-	-	-
Comprehensive income attributable to parent company shareholders	4,773,009	1,171,105	4,291,533	1,403,129	3,395,875
Comprehensive income attributable to non-controlling shareholders	-	-	-	-	-
EPS (NT\$)	2.00	1.95	2.06	2.27	2.30

## II. Independent Auditor's Names and Opinion

Year	Name of accounting firm	CPA's Name	Audit opinion
2019	PricewaterhouseCoopers, Certified Public Accountants	Po-Ju Kuo, Tsung-Hsi Lai	Unqualified opinion
2018	PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji, Zong-Xi Lai	Unqualified opinion
2017	PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji, Zong-Xi Lai	Unqualified opinion
2016	PricewaterhouseCoopers, Certified Public Accountants	Shu-Mei Ji, Chien-Hung Chou	Unqualified opinion
2015	PricewaterhouseCoopers, Certified Public Accountants	Chien-Hung Chou, , and Shu-Mei Ji,	Unqualified opinion

## Two. Financial analysis for the last five years

Unit: NT\$ thousands; %

<div>Year</div> <div>Item</div>		Financial information for the recent five years				
		2019	2018	2017	2016	2015
Managerial ability	Average number of days of bill and bond holding	8.02	6.26	6.64	6.12	5.12
	NPL ratio	0	0	0	0	0
	Total assets turnover rate	0.01	0.01	0.01	0.02	0.02
	Average yield per employee	15,729	15,356	16,876	18,709	18,183
	Average profit per employee	10,586	10,399	11,512	12,901	13,146
Profitability	ROA (%)	1.00	0.94	0.99	1.22	1.37
	ROE (%)	7.10	7.11	7.75	8.74	8.91
	Net profit margin (%)	67.30	67.72	68.21	68.96	72.30
	EPS (NT\$)	2.00	1.95	2.06	2.27	2.30
Financial structure	Liability to total assets ratio (%)	84.49	85.71	86.29	86.37	83.52
	Property and equipment to stockholder equity ratio (%)	0.92	1.02	1.01	1.10	1.09
Growth rate	Asset growth rate (%)	-1.58	-5.38	5.76	18.47	3.14
	Profit growth rate (%)	3.38	-4.64	-10.07	1.86	2.21
Cash flow	Cash flow ratio (%)	5.10	4.20	不適用	不適用	3.57
	Cash flow adequacy ratio (%)	265.71	233.62	153.75	156.13	182.30
Credit extended to stakeholders		97,000	97,000	97,000	97,000	97,000
Percentage of credits extended to stakeholders (%)		0.06	0.06	0.06	0.07	0.06
Scale of operations	Asset market share (%)	25.98	26.15	27.08	26.83	23.83
	Net value market share (%)	29.80	28.80	29.44	28.83	29.44
	Market share for guaranteed CP2(%)	30.03	30.08	29.74	29.23	31.54
	Market share for each type of bill and bond issue and first time purchase (%)	26.18	26.11	26.21	27.46	29.65
	Market share for each type of bill and bond transaction (%)	27.15	29.78	30.80	31.85	33.18
Capital adequacy ratio	Capital adequacy ratio (%)	13.58	13.57	13.64	13.53	13.88
	Eligible capital	36,622,230	34,898,052	35,146,019	33,248,864	31,288,743
	Total value of risk assets	269,696,338	257,108,287	257,742,056	245,674,749	225,367,830
	Tier 1 capital as a % of total risk-weighted assets	13.16	13.57	13.33	13.53	13.55

Significant variations in the last 2 years: (for variations above 20%)

1. Average bill and bond holding days lengthened mainly due to funding concerns, for which the Company had adopted a trading strategy that focused primarily on outright sale and reducing transaction volume on short-term bill repurchase and negotiable certificates of deposit that present low spread.
2. Asset growth rate increased mainly due to slower decrease in bill and bond holding positions compared to the previous year.
3. Profit growth rate increased mainly due to higher net revenue from bills and bonds, which increased pre-tax profit.
4. Cash flow ratio increased mainly due to higher net cash flow from operating activities.

Note: Equations for analysis items:

1. Managerial ability

- (1) Average number of days of bills and bonds holdings =  $365 / \text{bills/bond turnover rate}$  (Bills/bonds turnover rate = Amount of each type of bill or bond transaction/average balance of each installment of bills or bonds).
- (2) NPL ratio =  $\text{NPL (including non-accrual loans)} / \text{total loans (including non-accrual loans)}$ .
- (3) Total assets turnover rate =  $\text{Income} / \text{average total assets}$ .
- (4) Average yield per employee =  $\text{Income} / \text{total number of employees}$ .
- (5) Average profit per employee =  $\text{Income after tax} / \text{total number of employees}$ .

2. Profitability

- (1)  $\text{ROA} = \text{Income after tax} / \text{average total assets}$ .
- (2)  $\text{ROE} = \text{Income after tax} / \text{average equity, net}$ .
- (3) Net profit margin =  $\text{Income after tax} / \text{income}$ . (Income = interest income + revenues other than interest income).
- (4) Earnings per share =  $(\text{income and loss attributed to owners of parent company} - \text{dividends of the preferred stocks}) / \text{weighted average numbers of outstanding shares}$ .

3. Financial structure

- (1) Liability to total assets ratio =  $\text{Total liabilities} / \text{total assets}$ .
- (2) Property and equipment to stockholders' equity ratio =  $\text{Property and equipment net} / \text{total stockholders' equity}$ .
- (3) Total liabilities should exclude allowances for the guarantee liability.

4. Growth rate

- (1) Asset growth rate =  $(\text{Total assets in current period} - \text{total assets for the previous period}) / \text{total assets for the previous year}$ .
- (2) Profit growth rate =  $(\text{Income before tax in current period} - \text{income before tax for the previous year}) / \text{income before tax for the previous year}$ .

5. Cash flow

- (1) Cash flow ratio =  $\text{Net cash flow from operating activities} / (\text{interbank overdraft and call loans} + \text{commercial promissory note payable} + \text{financial liabilities at fair value through profit and loss} + \text{bills and bonds payable under repurchase agreements} + \text{payables} - \text{current portion})$ .
- (2) Net cash flows adequacy ratio =  $\text{Net cash flow from operating activities for the most recent five years} / (\text{capital expenditure} + \text{cash dividends}) \text{ for the most recent five years}$ .

6. Scale of operations

- (1) Asset market share =  $\text{Total assets} / \text{total assets of all bills financial companies}$ .
- (2) Net value market share =  $\text{Net value} / \text{total net of all bills financial companies}$ .
- (3) Market share for guaranteed CP2 =  $\text{Balance of guaranteed CP2} / \text{total balance of CP2 guaranteed and endorsed by all bills financial companies}$ .
- (4) Market share for each type of bill and bond issue and first time purchase =  $\text{Amount of each type of bill and bond issue and first time purchase} / \text{total amount of each type of bill and bond issue and first purchase by all bills financial companies}$ .
- (5) Market share for each type of bill and bond transaction =  $\text{Amount of each type of bill and bond}$

transaction/total amount of each type of bill and bond transaction by all bills financial 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 2019 business reports, Financial Statements, property registries, and earnings appropriation proposal prepared by the Board of Directors. The abovementioned Financial Statements were audited by CPA Po-Ju Kuo and CPA Tsung-Hsi 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

2020 Annual General Meeting of Mega Bills Finance Co., Ltd.

Supervisor: Chi-Ho Chen

Supervisor: Shao-Pin Lin

Supervisor: Yung-Chen Huang

March 24, 2020

- 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

PWCR19002691

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, 2019 and 2018, 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, 2019 and 2018, 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

For the year ended December 31, 2019, we conducted our audit in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants”, Jin-Guan-Yin-Fa-Zi Letter No.10802731571 and generally accepted auditing standards in the Republic of China (ROC GAAS); for the year ended December 31, 2018, we conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants” and ROC GAAS. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the 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.

Mega Bills Finance Co., Ltd.’s key audit matters for the year ended December 31, 2019 are addressed as follows:

## **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(20) 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, 2019, Mega Bills Finance Co., Ltd. provisioned NT\$2,151,208 thousand for the reserve of guarantee liabilities. Please refer to Note 6(17) for details of the account.

Mega Bills Finance Co., Ltd. provisions the reserve for guarantee liability of financial guarantee contracts are assessed 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 recognized. If the credit risk of debtor has been significantly increased since initial recognition, lifetime ECLs is recognized 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 recognized 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 Mega Bills Finance Co., Ltd.'s policies, internal control and processing procedures related to the provisioning of reserve for guarantee liabilities.
2. Assessed the measurement indicators of significant increase in credit risk, and conduct sampling inspection to measure the classification of expected credit loss reduction stages ;



3. Sampled and checked the default probability, loss rate, forward-looking economic factors and other guarantee liabilities calculation parameters.
4. Tested a selection of appraisal reports on the debtor's collateral to assess estimated future cash flows and assumptions are reasonable and whether the calculation is accurate.
5. Sampled and tested whether the amount of guarantee liabilities provision is in accordance with the regulations of "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, 2019, unlisted stocks without active market held by Mega Bills Finance Co., Ltd. amounted to NT\$886,756 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 and cost method. The key assumption for market approach 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. The cost method mainly refers to the evaluation of the assets and liabilities covered by the assessment target, to reflect its overall value and take into account any potential discounts regarding liquidity and specialized risks.

Multiple assumptions and significant unobservable inputs as well as management's subjective judgement result in great uncertainty in the estimation of fair value. The final results are affected by any change with the estimates and judgements. 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. Sampled and examined the parameter inputs、data sources 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, including supervisors, 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 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.

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Kuo, Puo-Ju

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Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

February 25, 2020

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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.

			December 31, 2019	December 31, 2018
Assets		Notes	AMOUNT	AMOUNT
11000	Cash and cash equivalents	6(1) and 7	\$ 356,298	\$ 326,207
12000	Financial assets at fair value through profit or loss	6(2)(7), 7 and 8	127,382,706	126,577,565
12100	Financial assets at fair value through other comprehensive income	6(3)(7), 7 and 8	126,416,773	131,955,095
12200	Investments in debt instruments at amortised cost	6(4)(7)	431,553	440,070
13000	Receivables – net	6(6)	2,303,800	1,534,617
15500	Other financial assets – net	6(9) and 8	585,426	497,703
18500	Property and equipment - net	6(10)	353,131	363,438
18600	Right of use asset- net	6(11)	73,532	-
18700	Investment property - net	6(12)	2,496,432	2,507,096
19000	Intangible assets - net		6,195	4,140
19300	Deferred income tax assets - net	6(30)	135,853	532,673
19500	Other assets – net	6(13) and 7	59,540	49,956
TOTAL ASSETS			\$ 260,601,239	\$ 264,788,560
Liabilities and equity				
21000	Interbank overdraft and call loans	6(14), 7 and 8	\$ 14,132,031	\$ 23,074,279
22000	Financial liabilities at fair value through profit or loss	6(15)	2,475	5,892
22500	Bills and bonds payable under repurchase agreements	6(2)(3)(4)(5)(7) and 7	204,173,461	202,310,405
23000	Payables	6(16)	592,668	560,256
23200	Current income tax liabilities	6(30) and 7	136,891	69,738
25600	Provisions for liabilities	6(17)(18)	2,589,139	2,696,915
26000	Lease liabilities	6(11) and 7	73,785	-
29300	Deferred income tax liabilities	6(30)	324,149	86,060
29500	Other liabilities		299,415	356,264
TOTAL LIABILITIES			222,324,014	229,159,809
31100	Stockholders' Equity			
31101	Common stocks	6(19)	13,114,411	13,114,411
31500	Capital surplus	6(20)	320,929	320,929
32000	Retained earnings	6(21)		
32001	Legal reserve		19,669,947	18,902,523
32003	Special reserve		203,090	203,090
32005	Unappropriated retained earnings		2,626,382	2,906,836
32500	Other equity interest		2,342,466	180,962
TOTAL EQUITY			38,277,225	35,628,751
TOTAL LIABILITIES AND EQUITY			\$ 260,601,239	\$ 264,788,560

MEGA BILLS FINANCE CO., LTD.  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

		For the years ended December 31,	
		2019	2018
Items	Notes	AMOUNT	AMOUNT
41000 Interest income	6(22)	\$ 3,490,129	\$ 3,446,303
51000 Less : interest expense	6(22) and 7	( 1,940,494)	( 1,603,543)
<b>Interest income, net</b>		<b>1,549,635</b>	<b>1,842,760</b>
<b>Non-interest income, net</b>			
49100 Service fee and commission income, net	6(23) and 7	923,508	922,292
49200 Gain or loss from financial assets and liabilities at fair value through profit or loss	6(2)(15)(24) and 7	522,379	495,452
49310 Realized gain on financial assets at fair value through other comprehensive income	6(3)(25)	782,811	337,985
49600 Foreign exchange gain or loss, net	(	27,206)	44,323
55000 Impairment (loss) reversal of gain on assets	(	639)	6,542
<b>Other non-interest income or loss, net</b>			
49851 Leasehold income	7	114,389	107,528
48001 Others		35,980	20,797
<b>Net revenues</b>		<b>3,900,857</b>	<b>3,777,679</b>
58200 Reversals (provisions)	6(26)	69,684	54,058
<b>Operating expenses</b>			
58500 Employee benefit expense	6(18)(27)	( 574,655)	( 526,892)
59000 Depreciation and amortization	6(10)(11)		
	(12)(28)	( 65,127)	( 25,683)
59500 Other business and administrative expenses	6(29) and 7	( 164,779)	( 216,565)
<b>Total operating expenses</b>		<b>( 804,561)</b>	<b>( 769,140)</b>
61001 <b>Income before income tax from operating unit</b>		<b>3,165,980</b>	<b>3,062,597</b>
61003 Income tax expense	6(30)	( 540,628)	( 504,516)
64000 <b>Net income</b>		<b>2,625,352</b>	<b>2,558,081</b>
<b>Other comprehensive income</b>			
<b>Not reclassifiable to profit or loss:</b>			
65201 Remeasurement of defined benefit plans	6(18)	( 17,641)	( 47,769)
65204 Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income	6(3)	372,762	( 85,869)
65220 Income tax relating to items that are not reclassifiable to profit or loss	6(30)	3,528	9,554
<b>Potentially reclassifiable to profit or loss subsequently:</b>			
65309 Gains (losses) on investments in debt instruments measured at fair value through other comprehensive income	6(3)	2,287,000	( 1,562,145)
65320 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(30)	( 497,992)	299,253
65000 <b>Total other comprehensive income(loss) (after income tax)</b>		<b>2,147,657</b>	<b>( 1,386,976)</b>
66000 <b>Total comprehensive income</b>		<b>\$ 4,773,009</b>	<b>\$ 1,171,105</b>
67500 <b>Earnings per share</b>			
<b>Basic and diluted earnings per share</b>	6(31)	<b>\$ 2.00</b>	<b>\$ 1.95</b>

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

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	<u>13,114,411</u>	<u>320,929</u>	<u>18,098,666</u>	<u>235,239</u>	<u>3,026,401</u>	<u>1,563,589</u>	<u>-</u>	<u>36,359,235</u>
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	-	-	-	-	<u>2,519,866</u>	<u>( 1,348,761 )</u>	-	<u>1,171,105</u>
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	<u>\$ 13,114,411</u>	<u>\$ 320,929</u>	<u>\$ 18,902,523</u>	<u>\$ 203,090</u>	<u>\$ 2,906,836</u>	<u>\$ 180,962</u>	<u>\$ -</u>	<u>\$ 35,628,751</u>
<u>For the year ended December 31, 2019</u>								
Balance at January 1, 2019	\$ 13,114,411	\$ 320,929	\$ 18,902,523	\$ 203,090	\$ 2,906,836	\$ 180,962	\$ -	\$ 35,628,751
Net income for 2019	-	-	-	-	2,625,352	-	-	2,625,352
Total other comprehensive loss for 2019	-	-	-	-	( 14,113 )	2,161,770	-	2,147,657
Total comprehensive income for 2019	-	-	-	-	<u>2,611,239</u>	<u>2,161,770</u>	-	<u>4,773,009</u>
Appropriation of 2018 earnings								
Legal reserve	-	-	767,424	-	( 767,424 )	-	-	-
Cash dividends	-	-	-	-	( 2,124,535 )	-	-	( 2,124,535 )
Disposal of investment in equity instruments designated at fair value through other comprehensive income	-	-	-	-	266	( 266 )	-	-
Balance at December 31, 2019	<u>\$ 13,114,411</u>	<u>\$ 320,929</u>	<u>\$ 19,669,947</u>	<u>\$ 203,090</u>	<u>\$ 2,626,382</u>	<u>\$ 2,342,466</u>	<u>\$ -</u>	<u>\$ 38,277,225</u>

MEGA BILLS FINANCE CO., LTD.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 3,165,980	\$ 3,062,597
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(28)	60,681	21,750
Amortization	6(28)	4,446	3,933
Reversal recognition for bad debts and various reserves	6(26)	( 65,949 )	( 52,590 )
Interest income	6(22)	( 3,490,129 )	( 3,446,303 )
Dividend income		( 99,246 )	( 86,620 )
Interest expense	6(22)	1,940,494	1,603,543
Impairment loss (reversal of gain) on asset		639	( 6,542 )
Gains on disposal of property and equipment		-	( 58 )
Changes in operating assets and liabilities			
Changes in operating assets			
(Increase) Decrease in Financial assets at fair value through profit or loss		( 805,141 )	9,976,452
Decrease in financial assets at fair value through other comprehensive income		8,197,464	3,058,020
Decrease (Increase) in investments in debt instruments measured at amortised cost		8,514	( 440,184 )
Decrease in Bills and bonds investment with resale agreements		-	501,259
(Increase) Decrease in receivables		( 737,974 )	39,902
(Increase) Decrease in other financial assets		( 87,723 )	33,134
Decrease (increase) in other assets		1,938	( 1,767 )
Changes in operating liabilities			
(Decrease) Increase in financial liabilities at fair value through profit or loss		( 3,417 )	5,260
Increase (Decrease) in Bills and bonds payable under repurchase agreements		1,863,056	( 6,104,330 )
Increase (Decrease) in payables		38,819	( 436,197 )
Decrease in provisions for liabilities		( 59,468 )	( 57,803 )
(Decrease) Increase in Other liabilities		( 56,849 )	205,256
Interest received		3,458,904	3,522,858
Interest paid		( 1,946,901 )	( 1,554,859 )
Dividend received		99,246	86,620
Income tax paid		( 333,030 )	( 436,005 )
Net cash flows from operating activities		<u>11,154,354</u>	<u>9,497,326</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property and equipment	6(10)	( 12,327 )	( 10,967 )
Increase in intangible assets		( 2,980 )	( 340 )
Proceeds from disposal of property and equipment		-	107
Increase in other assets		( 4,306 )	( 1,971 )
Net cash flows used in investing activities		<u>( 19,613 )</u>	<u>( 13,171 )</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in interbank overdraft and call loans		( 8,942,248 )	( 8,049,993 )
Principal refundment of lease liabilities		( 37,867 )	-
Payments of cash dividends		( 2,124,535 )	( 1,901,589 )
Net cash flows used in financing activities		<u>( 11,104,650 )</u>	<u>( 9,951,582 )</u>
Net increase (decrease) in cash and cash equivalents		30,091	( 467,427 )
Cash and cash equivalents at beginning of year	6(1)	<u>326,207</u>	<u>793,634</u>
Cash and cash equivalents at end of year	6(1)	<u>\$ 356,298</u>	<u>\$ 326,207</u>

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, 2019 AND 2018  
(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 254 and 252 as of December 31, 2019 and 2018, respectively.

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

These financial statements were authorized for issuance by the Board of Directors on February 25, 2020.

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

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

New standards, interpretations and amendments endorsed by 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 compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

#### 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.
- (C) The Company has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
  - a. Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
  - b. The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
  - c. The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rental expense of \$1,032 thousand was recognised for the year ended December 31, 2019.
  - d. The exclusion of initial direct costs for the measurement of 'right-of-use asset'.
  - e. The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

- (D) The Company calculated the present value of lease liabilities by using the weighted average

incremental borrowing interest rate of 0.762%.

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

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$	16,261
Less: Short-term leases	(	1,254)
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019		15,007
Incremental borrowing interest rate at the date of initial application		0.762%
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	\$	<u>14,856</u>

(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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, ‘Interest rate benchmark reform’	January 1, 2020

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

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 17, ‘Insurance contracts’	January 1, 2021
Amendments to IAS 1, ‘Classification of liabilities as current or	January 1, 2022

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 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.

(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 expenses

(9) Accounts receivable

Accounts receivable include interest receivable, settlement receivable and other receivables. Accounts receivable are accounted for as follows:

Accounts receivable 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.
- C. 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 20 years.

- D. 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) Leasing arrangements (lessee) – right-of-use assets/ lease liabilities

Effective 2019

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the following:
- (A) Fixed payments, less any lease incentives receivable;
  - (B) Variable lease payments that depend on an index or a rate;
  - (C) Amounts expected to be payable by the lessee under residual value guarantees;
  - (D) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
  - (E) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

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

(12) Operating leases (lessee)

Effective 2018

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.

(13) Leasing arrangements (lessor) — Operating leases

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

(14) Investment property

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.

(15) Intangible assets

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

(16) 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.

(17) 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.

(18) 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.

(19) 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.

(20) 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.

(21) 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.

(22) 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 government bonds with a currency and term consistent with the currency and term of the related pension liability.
- 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.

## (23) 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.

## (24) 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.

(25) Common Stocks and dividend declared

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.

(26) 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'.

(27) 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.

(28) 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 minimize 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 and cost method. The key assumption for market approach 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. The cost method mainly refers to the evaluation of the assets and liabilities covered by the assessment

target, to reflect its overall value 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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Checking deposits	\$ 263,020	\$ 230,004
Demand deposits	92,578	95,503
Petty cash	700	700
Total	<u>\$ 356,298</u>	<u>\$ 326,207</u>

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

B. As of December 31, 2019 and 2018, demand deposits in USD amounted to US\$509 thousand and US\$579 thousand, respectively, and the exchange rate of USD to NTD was 1:29.987 and 1 : 30.733, respectively. (Exchange rates of USD to NTD shown below are all the same).

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Financial assets at fair value through profit or loss, mandatorily measured at fair value		
Commercial paper	\$ 105,326,755	\$ 104,340,008
Negotiable certificates of time deposit	16,899,666	17,799,753
Convertible corporate bond asset swaps	4,555,327	4,144,399
Government bonds	447,993	-
Convertible corporate bonds	79,773	225,959
Stocks	29,949	18,445
Fixed rate commercial paper purchased	43,243	25,505
Funds	-	23,496
Total	<u>\$ 127,382,706</u>	<u>\$ 126,577,565</u>

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

	<u>2019</u>	<u>2018</u>
Financial assets mandatorily measured at fair value through profit or loss		
Short-term bills	\$ 515,433	\$ 473,286
Debt instruments	( 2,755)	23,668
Equity instruments	7,343	3,759
Total	<u>\$ 520,021</u>	<u>\$ 500,713</u>

B. As of December 31, 2019 and 2018, 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 \$93,423,345 thousand and \$84,588,323 thousand, respectively.

C. As of December 31, 2019 and 2018, 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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Debt instruments		
Government bonds	\$ 48,059,390	\$ 62,875,529
Foreign currency government bonds	-	684,318
Financial bonds	8,998,481	8,789,293
Foreign currency financial bonds	20,213,695	26,002,863
Corporate bonds	27,673,197	21,825,472
Foreign currency corporate bonds	18,697,138	9,661,491
Subtotal	<u>123,641,901</u>	<u>129,838,966</u>
Equity instruments		
Listed stocks	1,888,116	1,520,325
Unlisted stocks	886,756	595,804
Subtotal	<u>2,774,872</u>	<u>2,116,129</u>
Total	<u>\$ 126,416,773</u>	<u>\$ 131,955,095</u>

- A. 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.
- B. Aiming to raise capital adequacy ratio, the Company sold listed stock amounting to \$92,611 thousand and \$181,103 thousand and resulted in cumulative gains on \$266 thousand and \$33,866 thousand for the year ended December 31, 2019 and 2018.
- C. Amounts recognised in other comprehensive income in relation to financial assets at fair value through other comprehensive income are listed as follows:

	2019	2018
<u>Investments in equity instruments designated at fair value through</u>		
Fair value change recognized in other comprehensive income	\$ 372,762	(\$ 85,869)
Cumulative gains reclassified to retained earnings due to derecognition	\$ 266	\$ 33,866
Dividend income recognized in profit or loss		
Held at end of period	\$ 96,026	\$ 83,870
Derecognition during the period	\$ 885	\$ -
	2019	2018
<u>Investments in debt instruments designated at fair value through</u>		
Fair value change recognized in other comprehensive income	\$ 2,972,280	(\$ 1,301,416)
Cumulative other comprehensive income reclassified to profit or loss		
Reclassified due to impairment recognition (reversal)	\$ 620	( 6,614)
Reclassified due to derecognition	( 685,900)	( 254,115)
	\$ 2,287,000	(\$ 1,562,145)

- D. As of December 31, 2019 and 2018, the transactions in relation to the abovementioned bonds with repurchase agreement under financial assets at fair value through other comprehensive income amounted to \$106,496,086 thousand and \$114,942,047 thousand.
- E. As of December 31, 2019 and 2018, the above negotiable certificates of government bonds, corporate bonds, and financial bonds used for bank overdraft collateral. Please refer to Notes 7 and 8 for details.
- F. As of December 31, 2019 and 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 \$837,971 thousand and \$840,891 thousand.
- G. As of December 31, 2019 and 2018, the fair values of government bonds denominated in USD were US\$0 thousand and US\$22,266 thousand, as of December 31, 2019 and 2018, the fair values of financial bonds denominated in USD were US\$674,082 thousand and US\$846,089 thousand, and as of December 31, 2019 and 2018, the fair values of corporate bonds denominated in USD were US\$623,508 thousand and US\$314,369 thousand, respectively;

(4) Investments in debt instruments at amortized cost

Items	December 31, 2019	December 31, 2018
Foreign currency financial bonds	\$ 431,670	\$ 440,184
Less: Accumulated impairment	( 117)	( 114)
Total	\$ 431,553	\$ 440,070

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

	2019	2018
Interest income	\$ 19,587	\$ 7,433
Expected credit losses and effect of exchange rates	( 3)	( 114)
Total	<u>\$ 19,584</u>	<u>\$ 7,319</u>

- B. On December 31, 2019 and 2018, the transaction carrying amount of investments in debt instruments at amortized cost with repurchase agreement was \$414,829 thousand and \$440,070 thousand.
- C. On December 31, 2019 and 2018, the fair values of financial bonds denominated in USD were both US\$15,000 thousand.

(5) Bills and bonds under repurchase or resale agreements

	December 31, 2019	December 31, 2018
Bills and bonds payable under repurchase agreements	<u>\$ 204,173,461</u>	<u>\$ 202,310,405</u>

- A. As of December 31, 2019 and 2018, there were no bills and bonds investment with resale agreements.
- B. As of December 31, 2019 and 2018, the interest rate of bills and bonds payable under repurchase agreements in NTD were 0.20%~1.0946% and 0.20%~0.88%, respectively.
- C. As of December 31, 2019 and 2018, please refer to Note 7 for the balances of repo trades with related parties.
- D. As of December 31, 2019 and 2018, the interest rate of bills and bonds payable under repurchase agreements in USD were 1.95%~2.70% and 1.80%~3.70%, and recognised amount of USD denominated bills and bonds payable under repurchase agreements were US\$1,112,681 thousand and US\$1,151,547 thousand, respectively.

(6) Receivables – net

	December 31, 2019	December 31, 2018
Interest receivable	\$ 1,560,168	\$ 1,528,943
Settlement receivables on bond investment	725,113	-
Other receivables – others	19,633	6,772
Subtotal	2,304,914	1,535,715
Less: loss allowance–interest receivables (Note)	( 469)	( 453)
Less: loss allowance–other receivables	( 645)	( 645)
Receivables, net	<u>\$ 2,303,800</u>	<u>\$ 1,534,617</u>

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, 2019		
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	\$ 94,120,223	\$ 94,139,420
Financial assets at fair value through other comprehensive income		
Repurchase agreements	\$ 37,224,217	\$ 35,944,539
Investments in debt instruments at amortized cost		
Repurchase agreements	\$ 201,391	\$ 211,262

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	\$ 49,522,659	\$ 47,364,672
Repurchase agreements		
Investments in debt instruments at amortized cost		
Repurchase agreements	\$ 440,070	\$ 406,303

(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, 2019 and 2018 were both \$0.

B. Financial liabilities

December 31, 2019						
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	Not set off in the balance sheet		
				Financial instruments	Cash collateral pledged	Net amount
Repurchase agreement	<u>\$ 21,080,271</u>	<u>\$ -</u>	<u>\$ 21,080,271</u>	<u>\$ 21,080,271</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2018

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	Not set off in the balance sheet		
				Financial instruments	Cash collateral pledged	Net amount
Repurchase agreement	<u>\$ 27,314,321</u>	<u>\$ -</u>	<u>\$ 27,314,321</u>	<u>\$ 27,314,321</u>	<u>\$ -</u>	<u>\$ -</u>

(9) Other financial assets – net

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Certificate of deposit pledged	\$ 400,000	\$ 400,000
Designated account for allowance to pay back short-term bills	<u>185,426</u>	<u>97,703</u>
Net	<u>\$ 585,426</u>	<u>\$ 497,703</u>

The above certificate of deposit pledged were provided as collaterals for bank overdrafts as of December 31, 2019 and 2018. Please refer to Note 8 for details.

(Blank Below)

(10) Property, plant and equipment

	Land	Buildings	Machinery and computer equipment	Miscellaneous equipment	Equipment prepayment	Total
January 1, 2019						
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
Additions-Cost	-	-	2,589	2,121	7,617	12,327
Transfer-Cost	-	-	-	-	( 10,737)	( 10,737)
Disposals-Cost	-	-	( 1,733)	( 537)	-	( 2,270)
Disposals-Accumulated depreciation	-	-	1,733	537	-	2,270
Depreciation	-	( 2,721)	( 7,337)	( 1,839)	-	( 11,897)
December 31, 2019	<u>\$ 227,347</u>	<u>\$ 89,496</u>	<u>\$ 25,194</u>	<u>\$ 11,094</u>	<u>\$ -</u>	<u>\$ 353,131</u>
December 31, 2019						
Cost	\$ 227,347	\$ 166,118	\$ 81,667	\$ 59,194	\$ -	\$ 534,326
Accumulated depreciation	-	( 76,622)	( 56,473)	( 48,100)	-	( 181,195)
Net Book Value	<u>\$ 227,347</u>	<u>\$ 89,496</u>	<u>\$ 25,194</u>	<u>\$ 11,094</u>	<u>\$ -</u>	<u>\$ 353,131</u>

	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	<u>\$ 227,347</u>	<u>\$ 92,217</u>	<u>\$ 29,942</u>	<u>\$ 10,812</u>	<u>\$ 3,120</u>	<u>\$ 363,438</u>
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	<u>\$ 227,347</u>	<u>\$ 92,217</u>	<u>\$ 29,942</u>	<u>\$ 10,812</u>	<u>\$ 3,120</u>	<u>\$ 363,438</u>

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

(11) Leasing arrangements — lessee

Effective 2019

A. The Company leases various assets including buildings, business vehicles and multifunction printers. Rental contracts are typically made for periods of 3 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

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

	December 31, 2019	2019
	Book Value	Depreciation Expense
Buildings	\$ 65,629	\$ 33,168
Transportation equipment (Business vehicles)	7,903	4,952
	<u>\$ 73,532</u>	<u>\$ 38,120</u>

C. For the year ended December 31, 2019, the addition to right-of-use assets was \$96,796 thousand.

D. The information on profit and loss accounts relating to lease contracts is as follows:

Items affecting profit or loss	2019
Interest expense on lease liabilities	\$ 726
Expense on short-term lease contracts	1,755

E. For the year ended December 31, 2019, the Company's total cash outflow for leases was \$40,348 thousand.

(12) Investment property – net

	Land	Buildings	Total
January 1, 2019			
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
Depreciation	-	( 10,664)	( 10,664)
December 31, 2019	<u>\$ 2,204,894</u>	<u>\$ 291,538</u>	<u>\$ 2,496,432</u>
December 31, 2019			
Cost	\$ 2,204,894	\$ 511,868	\$ 2,716,762
Accumulated depreciation	-	( 220,330)	( 220,330)
Net Book Value	<u>\$ 2,204,894</u>	<u>\$ 291,538</u>	<u>\$ 2,496,432</u>

	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	<u>\$ 2,204,894</u>	<u>\$ 302,202</u>	<u>\$ 2,507,096</u>
December 31, 2018			
Cost	\$ 2,204,894	\$ 511,868	\$ 2,716,762
Accumulated depreciation	-	( 209,666)	( 209,666)
Net Book Value	<u>\$ 2,204,894</u>	<u>\$ 302,202</u>	<u>\$ 2,507,096</u>

A. No investment property was provided as collateral.

B. Rental income from the lease of the investment property for the years ended December 31, 2019 and 2018 were \$112,203 thousand and \$105,353 thousand, respectively.

C. The fair value of the investment property held by the Company as at December 31, 2019 and 2018 were \$3,792,492 thousand and \$3,805,837 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 were 1.99%~2.19% and 1.96%~2.18%. The fair value of investment property held by the Company is classified as Level 2.

(13) Other assets – net

	December 31, 2019	December 31, 2018
Refundable deposits	10,939	\$ 11,058
Other deferred assets	20,383	8,861
Guarantee deposits held for operation and funds for security settlements	1,594	5,908
Prepaid salaries	19,755	19,634
Others	6,869	4,495
Total	<u>\$ 59,540</u>	<u>\$ 49,956</u>

(14) Interbank overdraft and call loans

	December 31, 2019	Period	Interest Rate (%)
Bank overdrafts	\$ 189,000	Nov.22.2019-Nov.22.2020(Note)	1.38
Call loans-NTD	9,400,000	Dec.17.2019-Jan.15.2020	0.56~0.575
Call loans-USD	4,543,031	Dec.27.2019-Jan.03.2020	2.10~2.55
Total	<u>\$ 14,132,031</u>		

	<u>December 31, 2018</u>	<u>Period</u>	<u>Interest Rate (%)</u>
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	<u>2,569,279</u>	Dec.24.2018-Jan.03.2019	3.43~4.80
Total	<u>\$ 23,074,279</u>		

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, 2019 and 2018.

C. As of December 31, 2019 and 2018, call loans in USD amounted to US\$151,500 thousand and US\$83,600 thousand, respectively.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Fixed rate commercial paper purchased	\$ <u>2,475</u>	\$ <u>5,892</u>

The Company recognised net (loss) gain of 2,358 thousand and \$(5,261) thousand on financial liabilities at fair value through profit or loss for the years ended December 31, 2019 and 2018, respectively.

(16) Payables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Settlement payables on bonds and stocks investment	\$ 55,543	\$ 45,968
Bonus payable	188,644	147,980
Interest payable	97,697	104,104
Payables of transactions under repurchase agreements on maturity	75,173	75,173
Receipts under custody payable (Note)	65,422	81,160
Employees' remuneration payable	64,612	62,502
Interest tax withheld payable	10,689	12,196
Clearing fee and settlement payables	9,680	8,544
Business tax payable	9,392	8,394
Others	<u>15,816</u>	<u>14,235</u>
Total	<u>\$ 592,668</u>	<u>\$ 560,256</u>

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



(17) Provisions for liabilities

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Reserve for guarantee liabilities	\$ 2,151,208	\$ 2,217,157
Net defined benefit liability	<u>437,931</u>	<u>479,758</u>
Total	<u>\$ 2,589,139</u>	<u>\$ 2,696,915</u>

Movements in allowance and reserves for accounts receivable, overdue loans and guarantee liabilities in 2019 and 2018 are as follows:

	<u>Loss allowance for accounts receivable and overdue loans</u>	<u>Reserve for guarantee liabilities</u>	<u>Total</u>
January 1, 2019	\$ 645	\$ 2,217,157	\$ 2,217,802
Reversal	-	( 65,949)	( 65,949)
December 31, 2019	<u>\$ 645</u>	<u>\$ 2,151,208</u>	<u>\$ 2,151,853</u>
	<u>Loss allowance for accounts receivable and overdue loans</u>	<u>Reserve for guarantee liabilities</u>	<u>Total</u>
January 1, 2018	\$ 695	\$ 2,289,701	\$ 2,290,396
Transfer	20,004	( 20,004)	-
Reversal	( 50)	( 52,540)	( 52,590)
Write-off	( 20,004)	-	( 20,004)
December 31, 2018	<u>\$ 645</u>	<u>\$ 2,217,157</u>	<u>\$ 2,217,802</u>

(18) Pensions

- (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:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	\$ 786,944	\$ 785,527
Fair value of plan assets	( 349,013)	( 305,769)
Net defined benefit liability	<u>\$ 437,931</u>	<u>\$ 479,758</u>

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

	<u>Present value of defined benefit Obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
Year ended December 31, 2019			
Balance at January 1	\$ 785,527	(\$ 305,769)	\$ 479,758
Current service cost	24,253	-	24,253
Interest expense (income)	7,034	( 2,947)	4,087
	<u>31,287</u>	<u>( 2,947)</u>	<u>28,340</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	( 11,123)	( 11,123)
Change in financial assumptions	13,862	-	13,862
Experience adjustments	14,902	-	14,902
	<u>28,764</u>	<u>( 11,123)</u>	<u>17,641</u>
Pension fund contribution	-	( 51,034)	( 51,034)
Paid pension	( 58,634)	21,860	( 36,774)
Balance at December 31	<u>\$ 786,944</u>	<u>(\$ 349,013)</u>	<u>\$ 437,931</u>

	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
	<u>30,766</u>	<u>( 3,017)</u>	<u>27,749</u>
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
	<u>56,612</u>	<u>( 8,843)</u>	<u>47,769</u>
Pension fund contribution	-	( 43,931)	( 43,931)
Paid pension	( 65,019)	43,402	( 21,617)
Balance at December 31	<u>\$ 785,527</u>	<u>(\$ 305,769)</u>	<u>\$ 479,758</u>

(D) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2019 and 2018 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	For the years ended December 31,	
	2019	2018
Discount rate	0.70%	0.90%
Future salary increases	2.40%	2.40%

Assumptions regarding future mortality rate for 2019 and 2018 are set based on the 5th Chart of Life Span Estimate Used by the Taiwan Life Insurance Enterprises.

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2019				
Effect on present value of defined benefit obligation	(\$ 17,269)	\$ 17,863	\$ 16,710	(\$ 16,255)
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 17,844)	\$ 18,474	\$ 17,310	(\$ 16,822)

(F)Expected contributions to the defined benefit pension plans of the Company amounts to \$39,796 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, 2019 and 2018 were \$5,213 thousand and \$4,870thousand, respectively.

#### (19) Common stock

As of December 31, 2019 and 2018, 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.

#### (20) 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, 2019 and 2018, the details of the Company's capital surplus is as follows:

	December 31, 2019	December 31, 2018
Share premium	\$ 312,823	\$ 312,823
Share-based payment transactions(Note)	8,106	8,106
	<u>\$ 320,929</u>	<u>\$ 320,929</u>

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.

(21) 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 2018 and 2017 earnings as resolved by the Board of Directors on behalf of the stockholders on April 23, 2019 and April 24, 2018, respectively, were as follows:

	2018		2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 767,424		\$ 803,857	
Cash dividends of stockholders	2,124,535	\$ 1.62	1,901,589	\$ 1.45

- (B) 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 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(27)

(22) Interest income, net

	For the years ended December 31,	
	2019	2018
<u>Interest income</u>		
Interest income from bonds (Note)	\$ 2,384,744	\$ 2,388,812
Interest income from bills	1,094,832	1,016,452
Others	10,553	41,039
Subtotal	<u>3,490,129</u>	<u>3,446,303</u>
<u>Interest expense</u>		
Interest expense of bonds payable under repurchase agreements	( 1,303,732)	( 1,056,202)
Interest expense of bills payable under repurchase agreements	( 457,284)	( 360,198)
Interest expense of overdraft and call loans	( 178,538)	( 186,592)
Others	( 940)	( 551)
Subtotal	<u>( 1,940,494)</u>	<u>( 1,603,543)</u>
Net	<u>\$ 1,549,635</u>	<u>\$ 1,842,760</u>

Note: Including interest income of \$76,401 thousand and \$55,227 thousand from convertible bond asset swap recognised for the years ended December 31, 2019 and 2018, respectively.

(23) Service fee and commission income, net

	For the years ended December 31,	
	2019	2018
Service fee income from guarantee service	\$ 614,308	\$ 606,521
Service fee income from underwriting service	292,352	300,635
Others	25,666	23,094
Subtotal	932,326	930,250
Service fee expense	( 8,818)	( 7,958)
Net	<u>\$ 923,508</u>	<u>\$ 922,292</u>

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

	For the years ended December 31,	
	2019	2018
<u>Realized (Loss) Gain</u>		
Dividends income	\$ 2,335	\$ 2,750
Bonds	10,827	10,887
Bills	499,093	470,061
Derivatives	( 1,059)	-
Others	4,563	939
Subtotal	515,759	484,637
<u>Valuation (Loss) Gain</u>		
Bonds(Note)	( 13,582)	12,781
Bills	19,757	( 2,036)
Others	445	70
Subtotal	6,620	10,815
Total	<u>\$ 522,379</u>	<u>\$ 495,452</u>

Note: Including (loss) gain of (\$14,471) thousand and \$18,668 thousand on convertible bond asset swap recognised for the years ended December 31, 2019 and 2018, respectively.

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

	For the years ended December 31,	
	2019	2018
Dividends income	\$ 96,911	\$ 83,870
Bonds	685,900	254,115
Total	<u>\$ 782,811</u>	<u>\$ 337,985</u>

(26)Provisions (Reversal)

	For the years ended December 31,	
	2019	2018
Bad debt recovery	(\$ 3,735)	(\$ 1,468)
(Reversal) provision for guarantee reserve	( 65,949)	( 52,590)
Total	(\$ 69,684)	(\$ 54,058)

(27)Employee benefit

	For the years ended December 31,	
	2019	2018
Wages and salaries	\$ 491,711	\$ 442,288
Labor and health insurance fees	24,575	24,221
Pension costs	33,553	32,619
Directors' remuneration	2,350	2,127
Other employee benefits	22,466	25,637
Total	\$ 574,655	\$ 526,892

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, 2019 and 2018, employees' compensation was accrued at \$64,612 thousand and \$62,502 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, 2019 and 2018, respectively.

C. The Company distributed employees' cash compensation and recognised in employees' compensation expense on financial statements were \$56,252 thousand, \$56,890 thousand and \$62,502 thousand, \$65,016 thousand for the years ended December 31, 2018 and 2017, respectively. Because the ratios of employee's compensation changed, the differences \$6,250 thousand and \$8,126 thousand, had been adjusted the income for the years ended December 31, 2019 and 2018, 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.

(28)Depreciation and amortization

	For the years ended December 31,	
	2019	2018
Depreciation	\$ 60,681	\$ 21,750
Amortization	4,446	3,933
Total	\$ 65,127	\$ 25,683



(29) Other business and administrative expenses

	For the years ended December 31,	
	2019	2018
Tax and official fee	\$ 70,098	\$ 68,302
Computer software usage fee	11,004	9,698
Professional expense	12,007	10,943
Business promotion fee	8,857	7,976
Building management fee	7,508	7,189
Repairs and maintenance	6,825	6,560
Rental expense	1,755	45,426
Insurance expense	3,310	3,107
Others	43,415	57,364
Total	<u>\$ 164,779</u>	<u>\$ 216,565</u>

(30) Income taxes

A. Components of income tax expense:

(A) Components of income tax expense:

	For the years ended December 31,	
	2019	2018
Current tax:		
Current tax on profits for the period	\$ 520,399	\$ 459,908
Tax on undistributed surplus earnings	433	-
Prior year income tax (Overestimation)		
underestimation	( 25,521)	5,423
Total current tax	<u>495,311</u>	<u>465,331</u>
Deferred tax:		
Origination and reversal of temporary		
differences	45,317	52,791
Impact of change in tax rate	-	( 13,606)
Total deferred tax	<u>45,317</u>	<u>39,185</u>
Income tax expense	<u>\$ 540,628</u>	<u>\$ 504,516</u>

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

	For the years ended December 31,	
	2019	2018
Changes in fair value of debt instruments at fair value through other comprehensive income	(\$ 497,992)	\$ 299,253
Remeasurement of defined benefit obligations	3,528	9,554
	<u>(\$ 494,464)</u>	<u>\$ 308,807</u>

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2019	2018
Tax calculated based on profit before tax and statutory tax rate	\$ 633,196	\$ 612,519
Effects from items disallowed by tax regulation	( 3,155)	( 61,518)
Effects from tax exempt income	( 64,325)	( 38,302)
Prior year income tax (Overestimation) underestimation	( 25,521)	5,423
Impact of change in tax rate	-	( 13,606)
Tax on undistributed surplus earnings	433	-
Income tax expense	<u>\$ 540,628</u>	<u>\$ 504,516</u>

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

For the year ended December 31, 2019

	Recognized in other				
	January 1	Recognized in profit or loss	comprehensive income	Other	December 31
Temporary differences:					
- Deferred tax assets:					
Pension unfunded	\$ 130,842	(\$ 11,894)	\$ 3,528	\$ -	\$ 122,476
Unrealized gains (losses) on foreign bonds	299,253	-	( 299,253)	-	-
Administrative remedy	95,128	-	-	( 95,128)	-
Others	<u>7,450</u>	<u>5,927</u>	<u>-</u>	<u>-</u>	<u>13,377</u>
Subtotal	<u>\$ 532,673</u>	<u>(\$ 5,967)</u>	<u>(\$ 295,725)</u>	<u>(\$ 95,128)</u>	<u>\$ 135,853</u>
- Deferred tax liabilities:					
Unrealized Interest	(\$ 83,520)	(\$ 35,399)	\$ -	\$ -	(\$ 118,919)
Unrealized gains (losses) on foreign bonds	-	-	( 198,739)	-	( 198,739)
Others	( 2,540)	( 3,951)	-	-	( 6,491)
Total	<u>(\$ 86,060)</u>	<u>(\$ 39,350)</u>	<u>(\$ 198,739)</u>	<u>\$ -</u>	<u>(\$ 324,149)</u>

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	<u>\$ 222,666</u>	<u>\$ 1,200</u>	<u>\$ 308,807</u>	<u>\$ 532,673</u>
- Deferred tax liabilities:				
Unrealized Interest income, bonds	(\$ 43,170)	(\$ 40,350)	-	(\$ 83,520)
Others	( 2,505)	( 35)	-	( 2,540)
Total	<u>(\$ 45,675)</u>	<u>(\$ 40,385)</u>	<u>\$ -</u>	<u>(\$ 86,060)</u>

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. The above reassessment has received the Company's income tax returns reassessment report on 29 March and 25 June, 2019. and the tax refunds of \$35,943 thousand and \$59,185 thousand were recovered on May 3 and July 18, 2019, respectively.

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

(31) Earnings per share

2019			
	Amount after tax	Weighted-average number of shares outstanding (share in thousands)	Basic and diluted earnings per share (In dollars)
Net income	\$ 2,625,352	1,311,441	\$ 2.00
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

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 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, 2019		
	<u>Demand deposits</u>	<u>Checking deposits</u>	<u>Total</u>
Management of the parent BOT	\$ 1,141	\$ 48,616	\$ 49,757
Fellow subsidiary MICB	<u>68,507</u>	<u>50,614</u>	<u>119,121</u>
Total	<u>\$ 69,648</u>	<u>\$ 99,230</u>	<u>\$ 168,878</u>
	December 31, 2018		
	<u>Demand deposits</u>	<u>Checking deposits</u>	<u>Total</u>
Management of the parent BOT	\$ 1,096	\$ 49,120	\$ 50,216
Fellow subsidiary MICB	<u>64,395</u>	<u>48,860</u>	<u>113,255</u>
Total	<u>\$ 65,491</u>	<u>\$ 97,980</u>	<u>\$ 163,471</u>

B. Other financial assets

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Management of the parent BOT	\$ 9,126	\$ 7,116
Fellow subsidiary MICB	<u>167,060</u>	<u>83,440</u>
Total	<u>\$ 176,186</u>	<u>\$ 90,556</u>

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, 2019				
	Highest balance	Ending balance	Interest rate(%)	Interest expense
<u>Bank overdrafts</u>				
Management of the parent				
BOT	\$ 1,407,000	\$ 189,000	1.38	\$ 7,869
<u>Call loans</u>				
Management of the parent				
BOT	8,500,000	-	0.56~0.70	8,682
Chunghwa Post	9,650,000	-	0.50~0.68	7,542
Fellow subsidiary				
MICB	11,421,900	6,492,053	0.41~3.16(Note1)	51,243
Total		<u>\$ 6,681,053</u>		<u>\$ 75,336</u>

(Note 1) Interest rates for call loans denominated in NTD and foreign currency were 0.41% ~ 0.68% and 1.83% ~3.16%, respectively.

For the year ended December 31, 2018				
	Highest balance	Ending balance	Interest rate(%)	Interest expense
<u>Bank overdrafts</u>				
Management of the parent				
BOT	\$ 1,113,000	\$ 205,000	1.38	\$ 7,812
<u>Call loans</u>				
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(Note2)	68,031
Total		<u>\$ 15,397,917</u>		<u>\$ 112,122</u>

(Note 2) Interest rates for call loans denominated in NTD and foreign currency were 0.37% ~0.63% and 1.82%~4.80%, 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,	
	2019	2018
Ultimate parent		
Mega Holding	\$ 15,280,528	\$ 20,481,373
Management of the parent		
Chunghwa Post	-	50,645
Fellow subsidiary		
MAM	16,757,797	17,780,814
MS	919,832	4,758,953
Total	<u>\$ 32,958,157</u>	<u>\$ 43,071,785</u>

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, 2019			
	Amount	Gain from financial assets and liabilities at fair value through profit or loss	Gains from financial assets at fair value through other comprehensive income
Management of the parent			
Chunghwa Post	\$ 190,394,591	\$ 28,519	\$ -
Fellow subsidiary			
MICB	323,824,303	82,137	-
MS	600,913	365	2,161
Other related parties			
Mega Diamond Money			
Market Fund	12,662,962	1,823	-
Total	<u>\$ 527,482,769</u>	<u>\$ 112,844</u>	<u>\$ 2,161</u>
For the year ended December 31, 2018			
	Amount	Gain from financial assets and liabilities at fair value through profit or loss	Gains from financial assets at fair value through other comprehensive income
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	<u>\$ 621,568,320</u>	<u>\$ 120,611</u>	<u>\$ 589</u>

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, 2019						
	Type of instrument	Issuance date	Maturity date	Interest rate (%)	Face value	Cost
Ultimate parent						
Mega Holding	Commercial Paper	2019.11.01	2020.02.19	0.66	\$ 1,400,000	\$ 1,397,215
	Commercial Paper	2019.12.03	2020.02.25	0.68	700,000	698,905
Fellow subsidiary						
MAM	Commercial Paper	2019.12.23	2020.02.21	0.76	150,000	149,813
Total					<u>\$ 2,250,000</u>	<u>\$ 2,245,933</u>
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
					<u>\$ 3,000,000</u>	<u>\$ 2,994,964</u>

The company recognized the interest income of financial products issued by related parties in 2019 and 2018 were \$9,673 thousand and \$4,745 thousand respectively

#### G.Bills and bonds under repurchase agreements

For the year ended December 31, 2019			
	Amount	Ending balance	Interest expense
Management of the parent			
Chunghwa Post	\$ 8,056,937	\$ -	\$ 1,377
Fellow subsidiary			
MICB	61,143,007	3,294,416	44,171
CKI	3,166,017	-	1,092
Other related parties			
Mega USD Money			
Market Fund	1,072,091	2,999	805
Other	4,708	4,644	13
Total	<u>\$ 73,442,760</u>	<u>\$ 3,302,059</u>	<u>\$ 47,458</u>

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	
MIIT	299,580	-	139	
Other related parties				
Mega USD Money				
Market Fund	587,701	46,727	488	
Other	-	-	21	
Total	<u>\$ 46,201,977</u>	<u>\$ 2,613,047</u>	<u>\$ 20,383</u>	

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

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

For the year ended December 31, 2019				
	Highest Balance	Ending Balance	Rates (%)	Fees income
Ultimate parent				
Mega Holding	\$ 4,000,000	\$ 4,000,000	0.55~0.69	\$ 283
Fellow subsidiary				
MAM	1,820,000	1,820,000	0.60~0.883	151
MS	300,000	-	0.60~0.66	3
		<u>\$ 5,820,000</u>		<u>\$ 437</u>
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
		<u>\$ 5,565,000</u>		<u>\$ 469</u>

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

#### I. Financial derivative transactions

As of December 31, 2019, the realized loss of financial derivative transactions with BOT was \$757 thousand.

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

As of December 31, 2019 and 2018 uncovered positions: None.

J. Collaterals provided to related parties for bank overdrafts

		December 31,	
		2019	2018
	Pledged Asset		
Management of the parent			
BOT	Financial assets at fair value through other comprehensive income		
	- Government bonds	149,248	302,632
	- Corporate bonds	2,663,352	2,516,035
Fellow subsidiary			
MICB	Financial assets at fair value through profit or loss		
	- Negotiable certificates of time deposit	2,800,709	2,800,878
	Financial assets at fair value through other comprehensive income		
	- Government bonds	-	2,269,060
	- Corporate bonds	1,318,135	-
	- Financial bonds	918,397	-
Total		<u>\$ 7,849,841</u>	<u>\$ 7,888,605</u>

K.Assets provided as operating deposits for securities firm:

		December 31,	
		2019	2018
	Pledged Asset		
Management of the parent			
BOT	Financial assets at fair value through other comprehensive income -		
	Government bonds	<u>\$ 50,901</u>	<u>\$ 50,915</u>

L. Current income tax liabilities

		December 31,	
		2019	2018
Ultimate parent			
Mega Holding		<u>\$ 136,891</u>	<u>\$ 69,738</u>

The above payables to the parent company were the net payables of the company's consolidated settlement declaration of profit-seeking enterprise income tax and the parent company adopting the income taxes were accounted for by the same principles since 2003.

#### M. Lease transactions - lessor

Lessee	Leased Property	Period	For the years ended December 31,	
			2019	2018
Fellow subsidiary MICB	Office and parking lots	Jan. 1, 2019- Dec. 31, 2021	\$ 85,735	\$ 79,779
CKI	Office	Dec. 1, 2016- Nov. 30, 2021	1,180	1,170
			<u>\$ 86,915</u>	<u>\$ 80,949</u>

(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.

#### N. Lease transactions – lessee

The Company leases buildings from MICB and CKI. Rental contracts are typically made for periods from January 1, 2019 to December 31, 2021 and from December 1, 2016 to November 30, 2021. Rents are paid at the end of month. Additionally, the amounts of refundable deposits arising from leasing buildings from MICB and CKI were 5,853 thousand and 52 thousand, respectively.

#### Effective 2019

##### (A) Acquisition of right-of-use assets

	For the years ended December 31,
	2019
Fellow subsidiary	
MICB	\$ 95,385
CKI	1,388
	<u>\$ 96,773</u>

##### (B) Lease liabilities

##### a. Outstanding balance

	December 31, 2019
Fellow subsidiary	
MICB	\$ 63,835
CKI	918
	<u>\$ 64,753</u>

b. Interest expense

	For the years ended December 31,	
	2019	
Fellow subsidiary		
MICB	\$	627
CKI		9
	\$	636

Effective 2018

Rental expense

	For the years ended December 31,	
	2018	
Fellow subsidiary		
MICB	\$	34,183
CKI		475
	\$	34,658

O. Insurance expenses

	For the years ended December 31,	
	2019	2018
Fellow subsidiary		
CKI	\$ 3,237	\$ 3,330

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

	For the years ended December 31,	
	2019	2018
Salaries and other short-term employee benefits	\$ 32,913	\$ 28,511
Post-employment benefits	689	640
	\$ 33,602	\$ 29,151

## 8. PLEDGED ASSETS

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

	December 31,	
	2019	2018
Financial asset at fair value through profit or loss		
- negotiable certificates of time deposit (Note 1)	\$ 13,304,302	\$ 12,803,642
Financial asset at fair value through other comprehensive income		
- Government bonds (Note 2)	1,928,439	4,444,174
- Corporate bonds (Note 3)	6,224,644	4,764,481
- Financial bonds (Note 3)	918,397	-
Other financial assets		
- Certificate of deposit pledged (Note 3)	400,000	400,000
Total	<u>\$ 22,775,782</u>	<u>\$ 22,412,297</u>

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, 2019 and 2018, the commitments and contingencies arising from the Company's normal course of business were as follows:

	December 31,	
	2019	2018
Securities bills and bonds payable under repurchase agreements	\$ 204,173,461	\$ 202,310,405
Guarantees on commercial papers	169,807,100	164,692,100
Fixed rate commercial paper purchased	17,650,000	20,050,000
Index rate commercial paper purchased	48,500,950	44,459,000
Index rate commercial paper sold	1,000,000	1,500,000

## 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.

Item	Carrying Value	Fair Value
December 31, 2019		
Investments in debt instruments at amortized cost	\$ 431,553	\$ 474,286
December 31, 2018		
Investments in debt instruments at amortized cost	\$ 440,070	\$ 420,036

Investments in debt instruments at amortized cost 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, 2019				
Recurring fair value measurement	Total	Level 1	Level 2	Level 3
<u>Non-derivative Financial Instruments</u>				
<u>Assets</u>				
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	\$ 29,949	\$ 29,949	\$ -	\$ -
Investment in bills	122,269,664	-	122,269,664	-
Investment in bonds	5,083,093	447,993	4,635,100	-
Financial assets at fair value through comprehensive income				
Investment in stock	2,774,872	1,888,116	-	886,756
Investment in bonds	123,641,901	2,140,412	121,501,489	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	( 2,475)	-	( 2,475)	-
December 31, 2018				
Recurring fair value measurement	Total	Level 1	Level 2	Level 3
<u>Non-derivative Financial Instruments</u>				
<u>Assets</u>				
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	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	( 5,892)	-	( 5,892)	-

- (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 international bonds theoretical value offered by OTC 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; 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, 2019							
Item	January 1, 2019	Valuation gain or loss Recognised as other comprehensive income	Addition		Reduction		December 31, 2019
			Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through other comprehensive income							
Investment in stock	\$ 595,804	\$ 290,952	\$ -	\$ -	-	\$ -	\$ 886,756

For the year ended December 31, 2018							
Item	January 1, 2018	Valuation gain or loss Recognised as other comprehensive income	Addition		Reduction		December 31, 2018
			Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
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, 2019 and 2018.

(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:

December 31, 2019					
	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	\$ 506,228	Market approach	Price-book value ratio	1.02-2.94	The higher price-book value ratio multiple , the higher fair value.
			Lack of liquidity discount	10%-30%	The higher liquidity discount , the lower fair value.
	380,528	Cost method	Not applicable	Not applicable	Not applicable
			Lack of liquidity discount	20%	The higher liquidity discount , the lower fair value.
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%:

December 31, 2019	Changes in the fair value recognized in the comprehensive income or loss	
	Favorable changes	Unfavorable changes
Financial assets at fair value through other comprehensive income		
Investment in stock	\$ 88,676	(\$ 88,676)

December 31, 2018	Changes in the fair value recognized in the comprehensive income or loss	
	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 recognised 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, 2019		
Off-balance-sheet guarantees	\$ -	\$ 169,807,100
December 31, 2018		
Off-balance-sheet guarantees	-	164,692,100

- (B) As of December 31, 2019 and 2018, the off-balance sheet contract amount for the guarantees of commercial papers subject to potential credit risks is \$327,686 million and \$315,160 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, 2019 and 2018, the percentage of guarantees with collaterals is 71.69% and 67.64%, 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, 2019	Collateral	Other credit enhancements	Total
Financial assets measured at fair value through profit or loss-debt instruments	\$ -	\$ 8,762,400	\$ 8,762,400
Financial assets measured at fair value through other comprehensive income-debt instruments	-	10,098,026	10,098,026
Off-balance-sheet guarantees	121,737,633	-	121,737,633

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

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, 2019		December 31, 2018	
	Amount	Ratio(%)	Amount	Ratio(%)
Real estate	\$ 46,884,800	27.61	\$ 45,459,200	27.60
Financial & insurance	48,366,000	28.48	45,309,100	27.51
Manufacturing	33,905,500	19.97	33,925,500	20.60
Wholesale & retail	11,241,700	6.62	11,624,800	7.06
Accommodation and Food	10,721,500	6.31	9,808,500	5.96
Others – less than 5% of balance of guarantees at period end	18,687,600	11.01	18,565,000	11.27
Total	<u>\$ 169,807,100</u>	<u>100.00</u>	<u>\$ 164,692,100</u>	<u>100.00</u>

(B)Collateral (guarantee service)

	December 31, 2019		December 31, 2018	
	Amount	Ratio(%)	Amount	Ratio(%)
Unsecured	\$ 48,069,467	28.31	\$ 53,295,875	32.36
Secured				
Secured by real estate	82,206,007	48.41	75,399,219	45.78
Secured by stocks	34,088,890	20.08	29,676,628	18.02
Secured by bonds	3,315,694	1.95	4,323,117	2.63
Others	2,127,042	1.25	1,997,261	1.21
Total	<u>\$ 169,807,100</u>	<u>100.00</u>	<u>\$ 164,692,100</u>	<u>100.00</u>

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 years ended December 31, 2019 and 2018 are as follows:

Year ended December 31, 2019		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		\$ 150,541	\$ 51,149	\$ -	\$ 201,690	\$ 2,015,467	\$ 2,217,157
- 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	-	-	-	-		
	Stage 3 – > Stage 2	-	-	-	-		
- Transferred to credit- impaired financial assets	Stage 1 – > Stage 3	-	-	-	-		
	Stage 2 – > Stage 3	-	-	-	-		
Increased provision ( reversal ) for financial instruments recognised at the beginning of period		( 17,904)	25,063	-	7,159	( 73,108)	( 65,949)
Originated or purchased guarantees		-	-	-	-		
Guarantees derecognised in the current period		-	-	-	-		
Write-off as bad debt		-	-	-	-		-
Change in foreign exchange rate		-	-	-	-		-
Other changes		-	-	-	-		-
Ending balance		\$ 132,637	\$ 76,212	\$ -	\$ 208,849	\$ 1,942,359	\$ 2,151,208

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	-	-	-	-	( 77,515)	( 52,540)
	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	-	-	-	-		
Increased provision ( reversal ) for financial instruments recognised at the beginning of period		-	17,785	-	17,785		
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 for accounts receivable and overdue loans, please refer to Note 6(17).

(B) Bond investments

a.The reconciliation of the accumulated impairment of financial assets at fair value through other comprehensive income for the years ended December 31, 2019 and 2018 are as follows:

Year ended December 31, 2019		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	Recognized amount of reserve for bad debt
Beginning balance		\$ 44,711	\$ -	\$ -	\$ 44,711	\$ 44,711
- Transferred to 12-month expected credit loss	Stage 2 – > Stage 1	-	-	-	-	944
	Stage 3 – > Stage 1	-	-	-	-	
- Transferred to lifetime expected credit losses	Stage 1 – > Stage 2	-	-	-	-	
	Stage 3 – > Stage 2	-	-	-	-	
- Transferred to credit- impaired financial assets	Stage 1 – > Stage 3	-	-	-	-	
	Stage 2 – > Stage 3	-	-	-	-	
Increased provision ( reversal ) for financial instruments recognised at the beginning of period		3,611	-	-	3,611	
Originated or purchased debt instruments		10,073	-	-	10,073	
Debt instruments derecognised in the current period (Disposal)		( 12,740)	-	-	( 12,740)	
Write-off as bad debt		-	-	-	-	-
Change in foreign exchange rate		( 324)	-	-	( 324)	( 324)
Other changes		-	-	-	-	-
Ending balance		\$ 45,331	\$ -	\$ -	\$ 45,331	\$ 45,331

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	Recognized amount of reserve for bad debt
Beginning balance		\$ 51,325	\$ -	\$ -	\$ 51,325	\$ 51,325
- Transferred to 12-month expected credit loss	Stage 2 – > Stage 1	-	-	-	-	( 7,076)
	Stage 3 – > Stage 1	-	-	-	-	
- Transferred to lifetime expected credit losses	Stage 1 – > Stage 2	-	-	-	-	
	Stage 3 – > Stage 2	-	-	-	-	
- Transferred to credit- impaired financial assets	Stage 1 – > Stage 3	-	-	-	-	
	Stage 2 – > Stage 3	-	-	-	-	
Increased provision ( reversal ) for financial instruments recognised at the beginning of period		( 6,340)	-	-	( 6,340)	
Originated or purchased debt instruments		5,386	-	-	5,386	
Debt instruments derecognised in the current period (Disposal)		( 6,122)	-	-	( 6,122)	
Write-off as bad debt		-	-	-	-	-
Change in foreign exchange rate		462	-	-	462	462
Other changes		-	-	-	-	-
Ending balance		\$ 44,711	\$ -	\$ -	\$ 44,711	\$ 44,711

b. The reconciliation of the accumulated impairment of investments in debt instruments measured at amortized cost for the years ended December 31, 2019 and 2018 are as follows:

Year ended December 31, 2019		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	Recognized amount of reserve for loss allowance
Beginning balance		\$ 114	\$ -	\$ -	\$ 114	\$ 114
- Transferred to 12-month expected credit loss	Stage 2 – > Stage 1	-	-	-	-	6
	Stage 3 – > Stage 1	-	-	-	-	
- Transferred to lifetime expected credit losses	Stage 1 – > Stage 2	-	-	-	-	
	Stage 3 – > Stage 2	-	-	-	-	
- Transferred to credit- impaired financial assets	Stage 1 – > Stage 3	-	-	-	-	
	Stage 2 – > Stage 3	-	-	-	-	
Increased provision ( reversal ) for financial instruments recognised at the beginning of period		6	-	-	6	
Originated or purchased debt instruments		-	-	-	-	
Debt instruments derecognised in the current period (Disposal)		-	-	-	-	
Write-off as bad debt		-	-	-	-	-
Change in foreign exchange rate		( 3)	-	-	( 3)	( 3)
Other changes		-	-	-	-	-
Ending balance		\$ 117	\$ -	\$ -	\$ 117	\$ 117

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	Recognized amount of reserve for loss allowance
Beginning balance		\$ -	\$ -	\$ -	\$ -	\$ -
- Transferred to 12-month expected credit loss	Stage 2 – > Stage 1	-	-	-	-	113
	Stage 3 – > Stage 1	-	-	-	-	
- Transferred to lifetime expected credit losses	Stage 1 – > Stage 2	-	-	-	-	
	Stage 3 – > Stage 2	-	-	-	-	
- Transferred to credit- impaired financial assets	Stage 1 – > Stage 3	-	-	-	-	
	Stage 2 – > Stage 3	-	-	-	-	
Increased provision ( reversal ) for financial instruments recognised at the beginning of period		-	-	-	-	
Originated or purchased debt instruments		113	-	-	113	
Debt instruments derecognised in the current period (Disposal)		-	-	-	-	
Write-off as bad debt		-	-	-	-	-
Change in foreign exchange rate		1	-	-	1	1
Other changes		-	-	-	-	-
Ending balance		\$ 114	\$ -	\$ -	\$ 114	\$ 114

c. Movements in loss allowance for accounts interests are as follows:

	2019	2018
January 1_ IAS 39	\$ -	\$ -
Adjustments under new standards	-	495
January 1_IFRS 9	453	495
Net change for the period	16 (	42)
December 31, 2019	\$ 469	\$ 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, 2019	December 31, 2018
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	2,077,011	2,178,118
Provision for bad debts and guarantees actually reserved	2,151,208	2,217,157

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

(B) Primary business activities

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

(C)Concentration of credit risk

Items	December 31, 2019		December 31, 2018	
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)		20.08		18.02
Industry concentration (Top 3 industries with maximum industry credit ratio) (Note 3)	Industry	Ratio(%)	Industry	Ratio(%)
	Real estate	27.61	Real estate	27.60
	Financial and insurance	28.48	Financial and insurance	27.51
	Manufacturing	19.97	Manufacturing	20.60

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, 2019 and 2018, the carrying amounts of financial assets and financial liabilities are classified according to their time-to-maturity as follows:

	December 31, 2019						
	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
<u>Assets</u>							
Cash and cash equivalents	\$ 356,298	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 356,298
Financial assets at fair value through profit or loss							
non-derivative financial instruments	46,885,396	68,607,090	8,036,779	731,149	2,986,130	464,062	127,710,606
Financial assets at fair value through other comprehensive income	133,696	2,179,635	2,653,005	6,045,323	59,544,241	76,351,063	146,906,963
Investments in debt instruments at amortized cost	8,434	-	-	8,434	67,471	491,974	576,313
Receivables	744,101	-	-	-	-	-	744,101
Other financial assets	185,618	385	578	400,831	-	-	587,412
Total assets	<u>48,313,543</u>	<u>70,787,110</u>	<u>10,690,362</u>	<u>7,185,737</u>	<u>62,597,842</u>	<u>77,307,099</u>	<u>276,881,693</u>
<u>Liabilities</u>							
Interbank overdraft and call loans	( 14,136,566)	-	-	-	-	-	( 14,136,566)
Financial liabilities at fair value through profit or loss							
non-derivative financial instruments	-	-	-	( 2,475)	-	-	( 2,475)
Bills and bonds payable under repurchase agreements	( 153,465,666)	( 49,532,592)	( 1,216,321)	( 141,454)	-	-	( 204,356,033)
Payables	( 283,241)	( 3,957)	( 113,825)	( 75,943)	( 18,005)	-	( 494,971)
Lease liabilities	( 3,236)	( 6,387)	( 9,699)	( 19,229)	( 35,825)	-	( 74,376)
Other funds outflow upon maturity	( 224,126)	( 300)	-	-	( 22,170)	-	( 246,596)
Total liabilities	<u>( 168,112,835)</u>	<u>( 49,543,236)</u>	<u>( 1,339,845)</u>	<u>( 239,101)</u>	<u>( 76,000)</u>	<u>-</u>	<u>( 219,311,017)</u>
Net liquidity gap	<u>(\$ 119,799,292)</u>	<u>\$ 21,243,874</u>	<u>\$ 9,350,517</u>	<u>\$ 6,946,636</u>	<u>\$ 62,521,842</u>	<u>\$ 77,307,099</u>	<u>\$ 57,570,676</u>

	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
<u>Assets</u>							
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
<u>Liabilities</u>							
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

(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, 2019 and 2018.

(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, 2019 and 2018.

#### 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.

	<u>1 to 30 days</u>	<u>31 to 90 days</u>	<u>91 to 180 days</u>	<u>181 days to 1 year</u>	<u>Total</u>
<u>December 31, 2019</u>					
<u>Off-balance sheet items</u>					
Guarantees for					
commercial papers	\$ 101,870,800	\$ 64,599,900	\$ 3,336,400	\$ -	\$ 169,807,100
<u>December 31, 2018</u>					
<u>Off-balance sheet items</u>					
Guarantees for					
commercial papers	\$ 115,672,600	\$ 46,719,600	\$ 2,299,900	\$ -	\$ 164,692,100

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.

Effective 2019

<u>December 31, 2019</u>	<u>Below 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>Total</u>
<u>Lease commitment</u>					
Lease transactions expense (lessee)	(\$ 38,940)	(\$ 35,090)	(\$ 691)	(\$ 43)	(\$ 74,764)
Lease transactions income (lessor)	<u>98,242</u>	<u>94,146</u>	<u>-</u>	<u>-</u>	<u>192,388</u>
Total	<u>\$ 59,302</u>	<u>\$ 59,056</u>	<u>(\$ 691)</u>	<u>(\$ 43)</u>	<u>\$ 117,624</u>

Effective 2018

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

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, 2019  
(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	46,601	68,126	7,499	-	-
Bonds	201	1,746	2,649	5,618	118,943
Bank deposit	356	-	-	400	-
Total	47,158	69,872	10,148	6,018	118,943
Sources of capital					
Loans borrowed	14,132	-	-	-	-
Bills and bonds payable under repurchase agreements	153,364	49,455	1,213	141	-
Own capital	-	-	-	-	38,277
Total	167,496	49,455	1,213	141	38,277
Net capital	( 120,338)	20,417	8,935	5,877	80,666
Accumulated net capital	( 120,338)	( 99,921)	( 90,986)	( 85,109)	( 4,443)

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)



## (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  $\pm 3\%$  exchange rate fluctuations; and reporting to the Risk Management Committee quarterly.
- (C) Company's foreign exchange risk exposure

	(Expressed in Millions of NT Dollars)	
	December 31, 2019	December 31, 2018
	USD	
Cash and cash equivalents	\$ 15,256	\$ 17,790
Financial assets at fair value through other comprehensive income	38,910,833	36,348,672
Investments in debt instruments at amortized cost	431,553	440,070
Receivables-net	904,810	716,980
Total assets	40,262,452	37,523,512
Interbank overdraft and call loans	4,543,031	2,569,279
Bills and bonds payable under repurchase agreements	33,365,971	35,390,480
Payables	62,641	66,042
Total liabilities	37,971,643	38,025,801
On-balance sheet foreign exchange gap	\$ 2,290,809	(\$ 502,289)
Exchange rate to NTD	29.9870	30.7330
foreign exchange gain (loss)	(\$ 27,206)	\$ 44,323

#### 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 gains, 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, 2019

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%.	(\$ 12,278)	\$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	12,278	-
Interest rate risk	Major increased in interest rates 1bp	( 2,437)	( 70,782)
Interest rate risk	Major declined in interest rates 1bp	2,439	70,557
Equity securities risk	TAIEX declined by 1%.	( 194)	( 10,152)
Equity securities risk	TAIEX increased by 1%	194	10,152

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

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, 2019

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	117,029,746	10,147,551	6,018,385	118,942,884	252,138,566
Interest rate sensitive liabilities	216,951,364	1,213,297	140,831	-	218,305,492
Interest rate sensitive gap	( 99,921,618)	8,934,254	5,877,554	118,942,884	33,833,074
Net worth					38,277,225
Ratio of interest rate sensitive assets to interest rate sensitive liabilities (%)					115.50
Ratio of interest rate sensitivity gap to net worth (%)					88.39

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

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, 2019	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	\$ 937,583	0.24
Call loans to banks	1,644	0.19
Financial assets at fair value through profit or loss	129,868,666	0.90
Financial assets at fair value through other comprehensive income	129,203,448	1.77
Bills and bonds investment with resale agreements	435,251	0.49
Investments in debt instruments at amortized cost	443,692	4.41
Liabilities		
Interbank overdraft and call loans	20,656,690	0.86
Bills and bonds payable under repurchase agreements	208,789,330	0.84
	For the year ended December 31, 2018	
	Average amount	Average interest rate (%)
Assets		
Cash and cash equivalents (Note)	\$ 1,096,095	0.19
Financial assets at fair value through profit or loss	125,689,438	0.85
Financial assets at fair value through other comprehensive income	132,144,109	1.76
Investments in debt instruments at amortized cost	172,345	4.31
Bills and bonds investment with resale agreements	771,851	0.40
Liabilities		
Interbank overdraft and call loans	24,606,113	0.76
Bills and bonds payable under repurchase agreements	203,847,525	0.69

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, 2019

	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

Year		December 31, 2019	December 31, 2018
Items			
Eligible capital	Tier 1 Capital, net	35,496,108	34,879,969
	Tier 2 Capital, net	-	-
	Tier 3 Capital, net	1,126,122	18,083
	Eligible capital, net	36,622,230	34,898,052
Risk-weighted assets, total	Credit risk	174,042,637	167,377,026
	Operation risk	7,494,088	7,739,525
	Market risk	88,159,613	81,991,736
	Risk-weighted assets, total	269,696,338	257,108,287
Capital adequacy ratio (%)		13.58	13.57
Ratio of Tier I capital to risk - weighted assets (%)		13.16	13.57
Ratio of Tier II capital to risk - weighted assets (%)		-	-
Ratio of Tier III capital to risk - weighted assets (%)		0.42	-
Ratio of common stocks to total assets (%)		5.03	4.95

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. 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.

### 16. 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.

(Blank Below)

(3) Reconciliation for segment

A. Segmental information provided to CODM:

For the year ended December 31, 2019					
Items	Bills segment	Bonds segment	Branch segment	Adjustments	Total
Net revenues (Note)	\$ 770,011	\$ 1,448,470	\$ 1,446,136	\$ 236,240	\$ 3,900,857
Net revenues from external clients	1,631,341	1,550,437	840,844	( 121,765)	3,900,857
Net bills revenues	1,594,975		493,679	-	2,088,654
Net bond revenues		1,465,812	297,706	-	1,763,518
Net equity investment revenues		85,614	-	-	85,614
Other net revenues	36,366	( 989)	49,459	( 121,765)	(36,929)
Net inter-segment revenues	( 861,330)	( 101,967)	605,292	358,005	-
Net bills revenues	( 861,330)		678,264	183,066	-
Net bond revenues		( 101,967)	( 37,476)	139,443	-
Other net revenues	-	-	( 35,496)	35,496	-
Interest income	760,958	782,341	179,817	( 173,481)	1,549,635
Gains (losses) from reportable segments	770,011	1,448,470	1,220,744	( 273,245)	3,165,980
Reportable segment assets	72,823,093	108,898,704	71,890,771	6,988,671	260,601,239
Reportable segment liabilities	48,860,429	86,294,045	70,270,748	16,898,792	222,324,014

For the year ended December 31, 2018					
Items	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

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.

B. The adoption of IFRS 16, 'Leases', had the following impact on the segment information in 2019.

	Bills segment	Bonds segment	Branch segment	Adjustments	Total
Depreciation expense increased	-	-	-	38,120	38,120
Segment assets increased	-	-	-	73,532	73,532
Segment liabilities increased	-	-	-	73,785	73,785

(Report of Independent Accountants) — Sign and seal

(Details of financial report)—Signed

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

## One. Financial Condition

Unit: NT\$ thousands

Item \ Year	2019	2018	Variation	
			Amount	%
Cash and cash equivalents	356,298	326,207	30,091	9.22
Financial assets at fair value through profit and loss	127,382,706	126,577,565	805,141	0.64
Financial Assets at Fair Value Through Other Comprehensive Income	126,416,773	131,955,095	(5,538,322)	(4.20)
Debt Instruments Carried at Cost After Amortization	431,553	440,070	(8,517)	(1.94)
Receivables - net	2,303,800	1,534,617	769,183	50.12
Other financial assets - net	585,426	497,703	87,723	17.63
Property and equipment - net	353,131	363,438	(10,307)	(2.84)
Right-of-use assets - net	73,532	-	73,532	-
Investment property– net	2,496,432	2,507,096	(10,664)	(0.43)
Intangible assets - net	6,195	4,140	2,055	49.64
Deferred income tax assets- net	135,853	532,673	(396,820)	(74.50)
Other assets - net	59,540	49,956	9,584	19.18
Total assets	260,601,239	264,788,560	(4,187,321)	(1.58)
Interbank overdraft and call loans	14,132,031	23,074,279	(8,942,248)	(38.75)
Financial liabilities at fair value through profit and loss	2,475	5,892	(3,417)	(57.99)
Bills and bonds payable under repurchase agreements	204,173,461	202,310,405	1,863,056	0.92
Payables	592,668	560,256	32,412	5.79



Current income tax liabilities	136,891	69,738	67,153	96.29
Liabilities reserve	2,589,139	2,696,915	(107,776)	(4.00)
Lease liabilities	73,785	-	73,785	-
Deferred income tax liabilities	324,149	86,060	238,089	276.65
Other liabilities	299,415	356,264	(56,849)	(15.96)
Total liabilities	222,324,014	229,159,809	(6,835,795)	(2.98)
Capital stocks	13,114,411	13,114,411	-	-
Capital surplus	320,929	320,929	-	-
Retained earnings	22,499,419	22,012,449	486,970	2.21
Other equity	2,342,466	180,962	2,161,504	1,194.45
Total equity	38,277,225	35,628,751	2,648,474	7.43

Ratio change analysis: (Ratio change before and after over 20%; moreover, amount change for up to NT\$10,000 thousand)

1. Net receivables increased mainly due to an increase in settlement proceeds receivable.
2. Right-of-use assets - net and lease liabilities increased mainly due to the recognition of right-of-use assets and lease liabilities following the adoption of IFRS 16 in 2019.
3. Decrease in deferred income tax assets - net was mainly due to recognition of enterprise income tax refund following a re-examination of 2010 and 2011 tax returns, and due to the fact that unrealized loss on valuation of foreign bonds had turned to gains, thereby reducing deferred income tax assets.
4. The decrease in interbank overdraft and call loans was the result of smaller position of bonds held in the Company's possession.
5. Current income tax liabilities increased mainly because previous year's taxable income was significantly reduced by a one-time transaction, in which the Company recognized a capital reduction in its investee to offset cumulative losses incurred by the investee.
6. Increase in deferred income tax liabilities was mainly due to the fact that unrealized loss on valuation of foreign bonds had turned to gains, which increased deferred income tax liabilities.
7. Other equity items increased mainly due to changes in the market interest rate that resulted in higher unrealized gain on valuation of foreign currency bonds.

## Two. Financial performance

Unit: NT\$ thousands

Accounts	2019	2018	Increase (Decrease) amount	Ratio Change (%)
Interest income, net	1,549,635	1,842,760	(293,125)	(15.91)
Revenues other than interest income, net	2,351,222	1,934,919	416,303	21.52
Net income	3,900,857	3,777,679	123,178	3.26
Provisions	69,684	54,058	15,626	28.91
Operating expenses	(804,561)	(769,140)	(35,421)	4.61
Income before Income Tax from Operating Unit	3,165,980	3,062,597	103,383	3.38
Income tax (expense) gain	(540,628)	(504,516)	(36,112)	7.16
Net Income	2,625,352	2,558,081	67,271	2.63
Other comprehensive income for the current period (net of tax expense)	2,147,657	(1,386,976)	3,534,633	(254.84)
Comprehensive Income for the current period	4,773,009	1,171,105	3,601,904	307.56
Explanation of analysis of changes: (Ratio change over 20%)				
1. Increase in non-interest net revenue was mainly due to increase in the gain on bond disposal.				
2. Increase in the reversal of various provisions was largely due to higher amounts of guarantee liability provisions reversed following borrowers' repayment.				
3. Other current comprehensive income increased 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	2019	2018	Increase/Decrease (%)
Cash flow ratio (%)	5.10	4.20	21.43
Cash flow adequacy ratio (%)	265.71	233.62	13.74
Explanation of analysis of changes: (Ratio change over 20%) Cash flow ratio increased mainly due to higher net cash flow from operating activities.			

#### 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
356,298	(8,680,356)	16,040,822	(24,364,880)	-	24,698,500
<p>1. Current cash flow analysis:</p> <p>(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.</p> <p>(2) Investing activities: No major increase in investment has been expected.</p> <p>(3) Financing activities: Mainly comprise of cash dividend payments and repayment of interbank overdraft and call loans.</p> <p>2. Liquidity analysis and financing of projected cash deficits: deficits are expected to be supported by interbank overdraft and call loans.</p>					

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 2019, the Company received cash dividends totaling NT\$18,640,000 from business investments, and stock dividends totaling 58,147 shares from Taiwan Depository and Clearing Corporation and 102,732 shares from 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

2019

Aspects	Contents
(1) Strategy, objective, policy	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

Aspects	Contents
and procedure	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 system	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 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 for collateral and guarantor based on each customer’s financial and credit condition. Meanwhile, the Company has a set of “Notes to Loan Review Operation” in place to enhance post-credit extension management. Financial instruments are primarily managed based on issuer credit rating and counterparties’ credit, 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, 2020

Unit: NT\$ thousands

Exposure type	Capital requirement	Risk-weighted assets
Sovereign state	0	0
Non-central government public sectors	32,058	400,723
Bank (including multilateral development banks)	220,801	2,760,014
Corporate (including securities and insurance company)	13,299,768	166,247,098
Retail creditor's right	95,494	1,193,681
Investments in equity securities	115,669	1,445,858
Credit extended to parent company or subsidiary and credit secured by marketable securities issued by parent company or subsidiary	0	0
Other assets	330,199	4,127,486
Total	14,093,989	176,174,860

(II) Risk management system, exposure and capital requirement of asset securitization

1. Risk management system of asset securitization

2019

Aspects	Contents
(1) Asset securitization management strategy and procedure	<p>(1) The Company has “TWD Fixed Income Securities Brokerage and Trading Guidelines” and “Investment Principles for TWD Beneficiary Securities, Asset-backed Securities and Funds” in place to regulate trading of securitized instruments, and “Underwriting and Trading Principles for Guarantee-waiver of Short-term Bills” and “Bills on Underwriting and Trading of Beneficiary Securities and Asset-backed Securities” available to regulate underwriting and purchasing of guarantee-waiver short-term bills. All the above mentioned policies require employees to approve and review limits and exercise risk/business management based on the terms of issue, revenue potentials, issuer’s (or guarantor’s) credit rating, or credit rating pertaining to a specific debt issue.</p> <p>(2) The relevant control measures include daily monitoring of single beneficiary security bought in, evaluation on market value of asset-based securities, limit of tolerable market risk (value of change per basic point or per market transaction); underwriting and buy-in of guarantee-free short-term bills positions; reporting the beneficiary securities invested by the Company, balance of asset-based securities and income thereof to the Board of Director on a quarterly basis.</p>
(2) Organization and framework of asset securitization management	<p>Under the Company’s asset securitization product risk management framework, the Company’s Board of Directors has defined the limit of various securitization products or limit of position and limit of loss. Bonds Dept. is responsible for the management of beneficiary securities and asset-based securities. Bills Dept. is responsible for the business management of securitization short-term bills, dedicated to reviewing the changes of credit rating related to asset securitization products and researching and defines the relevant countermeasures when the limit of loss is met. The Risk Control Department is responsible for controlling the change in the entire risk of asset securitization products</p>
(3) Scope and characteristics of asset securitization risk reporting and the measurement system	<p>The business management units of the Head Office submit the asset securitization product risk report to Risk Management Committee on a quarterly basis by functions in order to explain the changes of credit relating related to various asset securitization products, asset portfolio and analysis about position income. The measurement system and reports include credit ratings and income management</p>



Aspects	Contents
	statement related to beneficiary securities, asset-based securities related fund and guarantee-free asset securitization short-term bills.
(4) Hedging policies, strategy, and process of monitoring the continuing effectiveness of hedging	The Company's asset securitization product hedging strategy is to avoid price risk, implement derivatives as operating tools, periodically assess profit and loss and report the same to the Board of Directors.
(5) Approach to require the authorized capital	Standard Method

## 2. Updates on securitization

Date: March 31, 2020

Tranche	Total sum issued	Outstanding balance	Balance bought back
None			

### (III) Operational risk management system and capital requirement

#### 1. Operational risk management system

2019

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 operational risk management system	The Company’s operational risk controls mean the express enactment of various operational manuals, which may be amended from time to time 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

Aspects	Contents
	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, 2020

Unit: NT\$ thousands

Year	Gross Profits	Capital requirement	Risk-weighted assets
2019	3,865,516		
2018	3,750,340		
2017	3,952,352		
Total	11,568,208	578,410	7,230,130

(IV)Market risk management system and capital requirement

1. Market risk management system

2019

Aspects	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	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,

Aspects	Contents
system	and all branches are the main operational units for market risk control.
(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, 2020		Unit: NT\$ thousands
Type	Capital requirement	Risk-weighted assets
Interest rate risk	6,284,806	78,560,069
Equity security risk	283,291	3,541,146
Foreign exchange risk	103,491	1,293,641
Product risk	0	0

Stock option processed with simplified method	0	0
Total	6,671,588	83,394,856

(V) Liquidity risk and management approach

1. Analysis on Maturity of Assets and Liabilities

March 31, 2020		Unit: NTD 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	266,156	65,366	62,961	12,429	8,597	116,803
Liabilities	230,521	198,093	30,455	1,454	303	216
Deficit	35,635	-132,727	32,506	10,975	8,294	116,587
Accumulated deficit		-132,727	-100,221	-89,246	-80,952	35,635

2. Asset liquidity and maturity gap management methods

- (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.

III. The impact of domestic and foreign policies and changes in law on the Company's finance and business and the countermeasures:

(I) Financial impacts in the event of changes in local and foreign regulations

1. According to "Self-regulatory Rules on Liquidity Risk Management of Bills Finance Company" implemented by Bills Finance Association: The self-regulatory rules are mainly intended to establish limits on 0~30day NTD liquidity gap as a percentage of total NTD assets and appropriate management practices. For any sources of large-sum capital, the allocation decision and concentration risk shall be duly examined. Emergency response plans should be subjected to stress testing at times of major political or financial change.
2. The Financial Supervisory Commission has notified bill finance companies in writing to make adequate liability provisions of at least 1.5% on the balance of real estate guarantees by no later than the end of 2021.

(II) The Company's counter-measures

1. "Liquidity Risk Management Rules" and related policies will be amended accordingly.
2. The Company will make adequate liability provisions for the outstanding balance of real estate guarantees before the end of 2021, and include any additional cost of real estate lending that arises as a result in future quotations.

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. The emergency response system, the business continuity plan and external reporting system will all 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

## 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 2019 Affiliation Report (from January 1 to December 31, 2019) 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 25, 2020

(II) Independent Auditor's Report

<p style="text-align: center;">MEGA BILLS FINANCE CO., LTD. Affiliation Report - Independent Auditor's Report</p> <p style="text-align: right;">Tze-Huei-Tsung-Tze No. 19008810</p> <p>To MEGA BILLS FINANCE CO., LTD.</p> <p>The 2019 Affiliation Report dated February 25, 2020, 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.</p> <p>We, the auditors, have compared the Company's Affiliation Report against footnote disclosures presented in the 2019 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.</p> <p style="text-align: center;">PricewaterhouseCoopers, Certified Public Accountants</p> <p style="text-align: center;">Po-Ju Kuo, CPA</p> <p style="text-align: center;">February 25, 2020</p>	
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(III) Relationship between subsidiary and parent company

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	Mei-Chu Liao Chi-Fu Lin Yi-Jui Huang Jian-Yu Chen Jui-Yun Lin

					Director	Yu-Mei Hsiao
					Director	Ruey-Yuan Fu
					Director	Ya-Ting Chang
					Supervisor	Yung-Chen Huang
					Supervisor	Qi-He Chen
					Supervisor	Shao-Pin Lin

Note: Mr. Chi-Fu Lin, former representative for Mega Financial Holdings Co. Ltd. who served as Director and President of the Company, retired on 1.16.2020 and resigned from directorship; his role as President was temporarily succeeded by Chairperson Mei-Chu Liao.

#### (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	15,280,528	Terms of trade transactions are same as non-related party's trade terms	None
Financial assets at fair value through profit and loss	2,096,120	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\$283,000
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:

Current income tax liabilities of NT\$136,891,000: Represents net amount payable under the consolidated tax system adopted by the Company and the financial holding parent.

- 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.