



2017 Annual Report

1. Contact information of company spokesperson and deputy spokesperson

	Company Spokesperson	Company Deputy Spokesperson
Name/Title	Hong Rong-Ting / President	Hu Yi-Heng / Senior Assistant vice president
Tel	(02) 2173-6851	(02) 2173-6695
E-mail	DavidHong@yuanta.com	YihengHu@yuanta.com

2. Contact information of YSF

Company Name	Address	
	Website	Tel
Yuanta Securities Finance	12F , No.66 , Dunhua S. Rd., Sec. 1, Taipei Taiwan	
	http://www.yuantafinance.com.tw	(02) 2173-6833

3. Contact information of stock transfer agent

Stock Transfer Agent	Stock-Related Services Dept., Yuanta Securities	Tel	(02) 2586-5859
Website	http://www.yuanta.com.tw/	Address	B1, No.210, Chengde Rd., Sec. 3, Taipei Taiwan

4. Contact information of credit rating agency

Credit Rating Agency	Address	Tel
Taiwan Ratings Corporation	49F, No. 7, Xinyi Rd., Sec. 5, Taipei, Taiwan (Taipei 101 Building)	(02) 8722-5800

5. Contact information of independent accountants

Name	Lin Sk, Kuo Ellen	Tel	(02) 2729-6666
CPA Firm	PricewaterhouseCoopers Taiwan	Address	27F, International Trade Building, No.333, Keelung Rd., Sec. 1, Taipei, Taiwan
Website	http://www.pwc.com/tw/		

6. Name of foreign exchanges listed where company stock is and sources for searching the said foreign listed stock : None

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I. Letter to Shareholders

1. Business report for the 2017 fiscal year

A. Business plan and accomplishments

For the time being, margin trading remains the Company's core business. In recent years, the market share of margin trading conducted by securities finance companies has been declining year by year. Notwithstanding, the market was booming in 2017. The Company's market share of margin trading and short sale operations was recovering. In addition, the Company worked hard to develop secured loan operations and, therefore, the Company's profit was increased remarkably. The Company will continue to serve agency securities firms, reliable, and efficient attitude, and continue to strengthen the risk control, mitigate credit risk and pursue the maximum interest for the Company.

In 2017, the structure of the securities financial agency market remained unchanged. Notwithstanding, the securities market capital kept increasing, the stock price and volume were booming at the same time. The margin trading balance in the market kept hitting record and the Company's margin trading balance remained about NT\$9 billion still, and the Company's market share in the professional securities firm agency market raised to 85% approximately.

For secured loan operations, the Company's major competitor in this business refers to the bank loan secured by stock. Therefore, the Company's development will be focused on major shareholders listed on the TWSE/OTC and the general investors who need short-term working fund (hold securities). The Company also strengthen network or mobile phone (APP) to help customers with application for, sale and repayment of, and search for the stock, etc., to provide customers with a more convenient and effective way to satisfy customers' funding needs. Besides, the Company's operations for this business became more convenient and efficient than applications for loan secured by stock with pledge. This remarkably reflects the Company's business competitiveness. Until December 2017, the balance of secured loans was NT\$13.103 billion. Secured loans will still be the first priority for business in 2018. It is expected that the proportion of business volume and gross operating profit will reach 50% or more in the future. Related business targets as achieved:

Unit: Hundred million NT\$

Average balance of margin purchases and re-financing	Average balance of short sales and stocks re-financing (guarantee fund + margin)	Average balance of secured loan
82.87	18.81	112.43

B. Financial income and expenses / profitability analysis

The increased in operating revenue by 32.70% in 2017 was a result of the increased in average margin purchases balance increased by NT\$1.230 billion, i.e. the increased rate by 17.43%. Further, the secured loan average balance was NT\$11.243 billion, i.e. the increase rate by 118.16%. Due to the increase in the agent fees, the operating cost increased by 53.66%. The operating expenses increased by 2.06%, and operating gain increased by 39.20%. In addition, the non-operating revenue and expense increased by 1,247.58% , primarily as a result of the gain from disposal of the equity of the Company's investment in TDCC in part, NT\$1.724 billion, in 2017 which resulted in the remarkable increase in

the gain from available-for-sale financial assets from 2016. The net profit after tax increased by 572.81% in 2017. Please see the following table:

Year	Total assets (thousand dollars)	Total income (thousand dollars)	Net income (thousand dollars)	EPS(NT\$)
2016	21,895,351	691,307	310,489	0.70
	27,423,118	2,623,833	2,089,011	5.22

C. Research and development

The highlights of development are stated as following:

- (1) Make every endeavor to develop the (focus) secured loan operations, target the major shareholders listing on the TWSE/OTC and the investors who need working fund eagerly, dedicated to boosting the channels inside and outside the Group, and further solicit for related business opportunities and new customers.
- (2) Continue to implement stage II information platform cooperation program—and strengthen securities trader information services to solidify relationships with agent broker and increase the market share of securities finance industry.
- (3) Suggest the competent authorities to allow new business types and lift the restrictions imposed by laws and regulations.

2. Summary of business plan for the 2018 fiscal year

A. Business plan

- (1) Continue to implement stage II information platform, cooperation program, and strengthen agency securities information services to ensure that the Company's agent services are indirectly benefited. Rely on various seminars and promotional activities supporting agents to strengthen the competitiveness of agents, and consolidate relationships.
- (2) Track market information, strengthen analysis of the market share, income, and costs of each business location, and flexibly adjust its competition strategy.
- (3) To be line with two-way securities borrowing/lending operations, promote securities borrowing/lending operations in a flexible manner; develop proprietary securities traders, foreign institutional investors, and corporations who need new arbitrage and hedging to increase the needs for securities borrowing/lending.
- (4) Develop secured loan operations via both the intergroup and external channels, visit to major shareholders who require funds and also the general investors who (should hold securities) need short-term working fund badly, and simultaneously strengthen pages on such mobile device (APP) as network or mobile phone to help customers with searches and operations and to develop business effectively.
- (5) Exert Yuanta Financial Holdings' synergy: Solicit for securities agents as channels, e.g., sub-brokerage, futures IB and co-marketing of funds and secured loan, etc.
- (6) Save operating cost and expenses, and enhance operating profit margin.
- (7) Strictly manage credit risk, reinforce the implementation of risk control and quota mechanism, ensuring that risk control, and sales growth develop in parallel.

B. Expected 2018 Business Status of Operations

Unit: Hundred million NT\$

Average balance of margin purchases and re-financing	Average balance of short sales and stocks re-financing (guarantee fund + margin)	Average balance of secured loan
82.025	14.53	130

3. Future development strategies of the company

- A. Seek new business opportunities for securities finance companies and strive for various business opportunities from the competent authority
- B. Solidify securities finance companies' position in the capital market, and work hard to apply with the competent authority for lifting of the relevant laws and regulations positively.

4. Impact from external competitive environment, regulatory environment and overall operational environment

Margin trading remains the Company's core business. In 2017, the structure of the securities financial market remained unchanged. Notwithstanding, the securities market capital kept increasing, the stock price and volume was booming at the same time. The margin trading balance in the market kept hitting record and the Company's margin trading remained about NT\$9 billion still, and the Company's market share in the professional securities firm agency market raised to 85% approximately. Meanwhile, for secured loan operations (focus), the Company's development is focused on major shareholders listed on the TWSE/OTC and the general investors who need short-term working fund (hold securities). The Company also plans network or mobile phone (APP) to help customers with searches and operations, to provide customers with a more convenient and efficient way to satisfy customers' funding needs. Besides, the Company's operations for this business became more convenient and efficient than applications for loan secured by stock with pledge. This remarkably reflects the Company's business competitiveness. Until December 2017, the balance of secured loans was NT\$13.103 billion. Secured loans will still be the first priority for business in 2018. It is expected that the proportion of business volume and gross operating profit will reach 50% or more in the future.

II. Company Profile

1. Date of establishment

Date founded: March 10, 1980

Date of incorporation: April 21, 1980

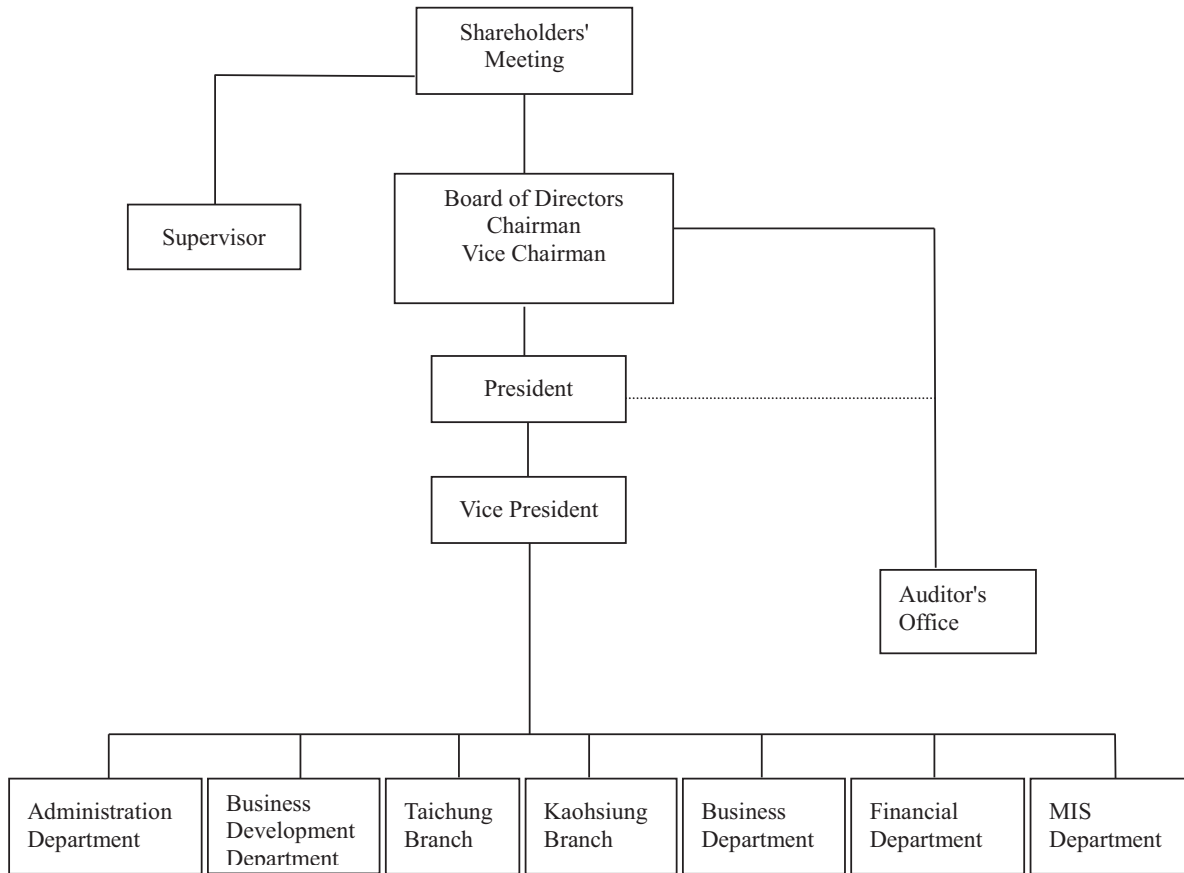
2. Company milestones

April 1980	The company granted permission by the Ministry of Finance and Securities and Futures Bureau to operate just the securities margin purchases and short sales business. The founding vision of the company was to promote growth in the securities market, regulate the supply of money in the securities market and establish a comprehensive securities financing system.
September 1981	Operated stock depository business to provide safe and secure settlement in securities markets.
September 1990	1. Transferred stock depository business, staff, equipment and stock to the depository company. 2. Passage of the amendments to the Rules Governing Securities Finance Enterprises enabled the company to expand its business beyond securities margin purchases and short sales to include refinancing business for securities margin financing firms.
July 1992	Taichung branch established.
September 1993	Kaohsiung branch established.
November 1994	Officially became a listed company, and shared the operating results with the public.
February 2002	Co-transformed with Fuhwa Securities to establish Fuhwa Financial Holding Co., Ltd.
September 2007	Name changed to Yuanta Securities Finance.
November 2007	Completed NT\$1 billion capital increase.
August 2008	Completed NT\$6 billion capital increase.
May 2009	Completed NT\$1.5 billion capital increase via capital reserve.
February 2010	Acquirement of margin purchases and short sales of securities from Entie Securities Finance.
September 2010	Acquirement of margin purchases and short sales of securities and refinancing business from Fubon Securities Finance.
October 2010	Transfer of partial margin purchases and short sales of securities and securities lending business to Yuanta Securities.
November 2010	Completed NT\$6 billion capital increase via statutory surplus and capital reserve.
January 2011	Completed NT\$16.5 billion capital decrease.
June 2011	Completed NT\$3.8 billion capital increase via statutory surplus and capital reserve.
November 2011	Completed NT\$3.8 billion capital decrease.
August 2013	Completed NT\$1 billion capital decrease.
February 2016	Completed NT\$0.6 billion capital decrease.
December 2016	Completed NT\$0.4 billion capital decrease.

III. Corporate Governance Report

1. Organizational system

A. Organization chart



B. Operating business of the various major departments

- (1) Administration Department: Handles board affairs, human resources, general affairs, cashiering, clerical duties, custodial, security protection, and share affairs, etc.
- (2) Business Development Department: Handles planning, analysis, estimation and evaluation of the Company's overall business, business expansion, legal matters, litigation, debt settlement, recovery and legal advisory service, planning, management and execution of compliance with laws, and information services of agency, etc
- (3) Business Department: Credit transaction account processing, margin purchases and short sales of securities and securities refinancing, cash replenishment and underwriting securities financing, securities underwriter financing, securities settlement financing, securities lending financing , securities secured loans, risk control management, etc.
- (4) Financial Department: Handles financial management, financial scheduling, accounting, settlement, and investees' management, etc.
- (5) MIS Department: Handles the planning, design and implementation of the company's various business data processing affairs.
- (6) Auditor's Office: Audit all internal business divisions.
- (7) Branches: Operates and expands business in the company's respective business locations.

2. Information on directors, supervisors, president, vice president and managers

A. Information on directors and supervisors

Jan. 31, 2018

Title	Nationality or Place of Registration	Name	Gender	Date elected (taken office)	Term (years)	Date when first elected	Shareholding when elected		Current shareholding		Spouse and minor children's current shareholdings		Shareholding using other's name		Education and selected past positions (note 3)	Current additional positions	Other heads, directors, or supervisors as spouse or kin within the second degree		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation ship
Chairman	Republic of China	Representative of Yuanta Financial Holdings Co. Ltd.: Huang Ting-Hsien	M	2016.06.01	3	2014.06.18	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 440,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 400,000 shares	100%	—	—	—	—	M.A. in Administration, National Taiwan University Senior of Science and Technology Chairman and vice Chairman of Yuanta Securities Investment Consulting; President of Yuanta Securities Investment Trust; vice President of Yuanta Securities business department; President of Yongxin Securities	—	—	—	
Director	Republic of China	Representative of Yuanta Financial Holdings Co. Ltd.: Hong Rong-Ting	M	2016.06.01	3	2011.12.12	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 440,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 400,000 shares	100%	—	—	—	—	MBA from Oregon State University Vice President, Assistant Vice President, Senior Manager, Assistant Manager and Chief of the Company	Yuanta Securities Finance President	—	—	—
Director	Republic of China	Representative of Yuanta Financial Holdings Co. Ltd.: Chuang Yu-De	M	2016.06.01	3	2001.05.22	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 440,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 400,000 shares	100%	—	—	—	—	Masters degree from National Cheng Chi University Chairman, President and Vice President of the Company; Director of Yuanta Bank; Chief and Deputy Chief of the Ministry of Finance's Finance Bureau	Executive Vice President, CCO of Yuanta Financial Holdings; Executive Vice President of Yuanta Bank; Director of Yuanta Foundation; Supervisor of Yuanta International Leasing	—	—	—

Title	Nationality or Place of Registration	Name	Gender	Date elected (taken office)	Term (years)	Date when first elected	Shareholding when elected		Current shareholding		Spouse and minor children's current shareholdings		Shareholding using other's name		Education and selected past positions (note 3)	Current additional positions	Other heads, directors, or supervisors as spouse or kin within the second degree	
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name
Director	Republic of China	Representative of Yuanta Financial Holdings Co. Ltd.: Kuo Hsuan-Min	M	2016.06.01	3	2015.04.16	Shares All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 440,000 shares	% 100%	Shares All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 400,000 shares	% 100%	Shares —	% —	Shares —	% —	M.A. in International Business Administration, National Taiwan University Senior Assistant Vice President of Yuanta Financial Holdings; Senior Vice President of Yuanta Securities President of Chinatrust Bank; Assistant Vice President of Yuanta Life; Supervisor of Yuanta Venture Capital; Supervisor of Yuanta I Venture Capital; Director of Yuanta Securities Asia Financial Services	Senior Vice President, CRO of Yuanta Financial Holdings; Supervisor of Yuanta Securities Investment Consulting; Senior Vice President of Yuanta Life; Supervisor of Yuanta Venture Capital; Supervisor of Yuanta I Venture Capital; Director of Yuanta Securities Asia Financial Services	—	—
Director	Republic of China	Yuanta Financial Holdings statutory representative : Liu, Ming-Lang	M	2016.06.01	3	2016.06.01	Shares All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 440,000 shares	% 100%	Shares All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 400,000 shares	% 100%	Shares —	% —	Shares —	% —	Business Administration Dept. of Tamkang University Executive Vice President, Senior Vice-president, Vice-president, Senior assistant vice President of Yuanta Securities	Vice President, Chief Operating Officer of Yuanta Financial Holdings; Executive Vice President of Yuanta Securities	—	—
Supervisor	Republic of China	Yuanta Financial Holdings statutory representative : Ciou Wun-Cing	F	2016.06.01	3	2016.06.01	Shares All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 440,000 shares	% 100%	Shares All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 400,000 shares	% 100%	Shares —	% —	Shares —	% —	Bachelor of Laws, National Chengchi University Senior Assistant Vice President of Yuanta Financial Holdings; Senior Vice President, Vice President and Assistant Vice President of Yuanta Securities	Vice President, CLO of Yuanta Financial Holdings; Senior Vice President of Yuanta Bank; Supervisor of Yuanta Asset Management	—	—
Supervisor	Republic of China	Representative of Yuanta Financial Holdings Co. Ltd.: Liao Yueh-Jung	F	2016.03.01	3	2010.07.28	Shares All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 440,000 shares	% 100%	Shares All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 400,000 shares	% 100%	Shares —	% —	Shares —	% —	Master, National Taiwan University of Accounting Senior Assistant Vice President, Senior President of Yuanta Securities; Assistant Vice President of PwC	Senior Assistant Vice President of Yuanta Securities	—	—

Note: 1. Yuanta Financial Holdings holds all company shares, and assigns all directors and supervisors; the 13th term of directors and supervisors started from 2016.06.01 and will end on 2019.05.31.
2. Yuanta Financial Holdings re-appointed Ms. Huang Shi-Zhen to succeed to Ms. Yueh Jung Liao to hold the position as supervisor as of March 1, 2017.
3. The number of shares held while elected is based on the Yuanta Financial Holdings shares held on 2016.06.01.
4. The date elected is the date that the director or supervisor first takes office.

(1) Main institutional shareholders

Jul. 18, 2017

Institutional Shareholders	Main Shareholders of Institutional Shareholders	
Yuanta Financial Holdings	Tsun Chueh Investment	3.34%
	Yuan Hung Investment	2.91%
	Yuan Hsiang Investment	2.46%
	Yu Yang Investment	2.40%
	Mega International Commercial Bank Co., Ltd. Acting as Custodian for The Investment Account of Beevest Securities	2.38%
	Bank of Taiwan	2.08%
	Lian Ta Investment	1.96%
	Cathay Life Insurance	1.92%
	Dedicated trust property account managed by Yuanta Bank	1.82%
	Standard Chartered Bank Acting as Custodian for ETF Account of Vanguard FTSE Emerging Markets Index ETF	1.61%

Note: Data relating to the top ten shareholders was based on the ex-right date by Yuanta Financial Holdings (2017.7.18).

(2) Major institutional shareholders whose main shareholders are judicial persons

Jan. 31, 2018

Institutional Shareholders	Main Shareholders of Institutional Shareholders	
Tsun Chueh Investment Co., Ltd.	Teng Ta Investment Co. Ltd.	19.69%
	Lian Da Investment Co., Ltd.	19.84%
	Chiu Ta Investment Co., Ltd.	18.36%
	Lien Heng Investment Co., Ltd.	18.92%
	Hsing Tsai Investment Co., Ltd.	10.23%
	Ma Wei-Jian	8.27%
	Du Li-Chuang	4.69%
Yuan Hung Investment Co., Ltd.	Mei Chia Li Investment	45.88%
	Lien Heng Investment Co., Ltd.	33.74%
	Teng Ta Investment Co. Ltd.	15.38%
	Du Li-Chuang	5.00%
Yuan Hsiang Investment Co., Ltd.	Lian Da Investment Co., Ltd.	44.38%
	Lien Heng Investment Co., Ltd.	19.00%
	Teng Ta Investment Co. Ltd.	18.69%
	Chiu Ta Investment Co., Ltd.	9.96%

Institutional Shareholders	Main Shareholders of Institutional Shareholders	
	Du Li-Chuang	5.01%
	Hsing Tsai Investment Co., Ltd.	2.96%
Yu Yang Investment Co., Ltd.	Tsun Chueh Investment Co., Ltd.	100%
Mega International Commercial Bank Co., Ltd. Acting as Custodian for The Investment Account of Beevest Securities	Not applicable	
Bank of Taiwan Co., Ltd.	Taiwan Financial Holdings Co., Ltd.	100%
Lian Da Investment Co., Ltd.	Chiao Hua International Investment Co., Ltd.	45.79%
	Lien Heng Investment Co., Ltd.	37.14%
	Chiu Ta Investment Co., Ltd.	14.02%
	Hsing Tsai Investment Co., Ltd.	2.58%
	Du Li-Chuang	0.47%
Cathay Life Insurance	Cathay Financial Holdings	100%
Fiduciary trust property accounts of Yuanta bank	Not applicable	
Standard Chartered Bank Acting as Custodian for ETF Account of Vanguard FTSE Emerging Markets Index ETF	Not applicable	

(3) Information on independency of directors and supervisors and required professional knowledge

Data baseline date: Jan. 31, 2018

Name	Conditions	Has at least five years of relevant working experience and the following professional qualifications			Compliance with independence criteria (Note 2)										Number of concurrent independent directorships held at listed companies
		Lecturer or higher ranking position at a public or private university / college in business, law, finance, accounting, or other subject relevant to work at the company	Holding a national examination certificate in a profession or expertise needed by the company; or judge, prosecutor, attorney or CPA credentials	Work experience in business, law, finance, accounting, or other area(s) needed by the company	1	2	3	4	5	6	7	8	9	10	
Huang Ting-Hsien			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Hong Rong-Ting			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	None	
Chuang Yu-De			✓			✓	✓				✓	✓	✓	None	
Kuo Hsuan-Min			✓			✓	✓				✓	✓	✓	None	
Liu Ming-Lang			✓		✓	✓	✓	✓			✓	✓	✓	None	
Ciou Wun-Cing			✓			✓	✓				✓	✓	✓	None	
Huang Shi-Zhen			✓		✓	✓	✓	✓			✓	✓	✓	None	

Note: A “✓” is marked in the space beneath a condition number when a director or supervisor has met that condition during the two years prior to election and during his or her period of service; the conditions are as follows:

- (1) Not an employee of the Company or its affiliate.
- (2) Not a director or a supervisor of Company's affiliate (this restriction does not apply, however, when the person is an independent director appointed by the Company or its parent company or subsidiary pursuant to the Act or the local laws and regulations).
- (3) The director, or his or her spouse or minor child, does not hold, in his or her own name or in another name, more than 1% of the Company's total outstanding shares, nor is one of the Company's ten largest natural-person shareholders.
- (4) Not a spouse, relative within the second degree of kinship, or direct blood relative within the third degree of kinship of a person listed in the three foregoing paragraphs.
- (5) Is not the director, supervisor, or employee of an institutional shareholder directly holding more than 5% of the Company's total outstanding shares, nor is the director, supervisor, or employee of one of the five largest institutional shareholders in terms of shareholdings.
- (6) Is neither a director, supervisor, manager, nor a shareholder holding more than 5% of the outstanding shares, of a certain company or organization that has a financial or business relationship with the company.
- (7) Is not a professional providing business, legal, financial, accounting, or consulting services to the company or an affiliate, nor an owner, partner, director, supervisor, or manager, or the spouse of any of the foregoing, of a sole proprietorship, partnership, company, or organization providing such services to the company or an affiliate. However, this shall not apply to the remuneration committee members who exercise their powers in accordance with the Regulations on the Establishment of Remuneration Committees in Article 7 by TWSE/GTSM Listed Companies and their Exercise of Powers.
- (8) Is not the spouse or relative within the second degree of kinship of another director.
- (9) Is not a person of the conditions specified in any of the sub-paragraphs of Article 30 of the Company Act.
- (10) Has not been elected as a government unit, institution, or their representative as prescribed in Article 27 of the Company Act.

B. Information concerning the president, vice presidents, assistant vice presidents, and department and branch managers

Jan. 31, 2018

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date elected (taken office)	Shares held		Shareholdings of spouse and underage children		Shareholding using other's name		Education and selected past positions (Note 2)	Concurrent position at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
President	Republic of China	Hong Rong-Ting	M	2014.06.18	—	—	—	—	—	—	MBA from Oregon State University Vice President, Assistant Vice President, Senior Manager, Manager, Assistant Manager and Chief of the Company; Nan Ya Plastics Assistant Cost Executive	—	—	—	
Senior Assistant Vice president of Finance Department	Republic of China	Hu Yi-Heng	M	2012.01.01	—	—	—	—	—	—	Department of Financial and Economic Law in Fu Jen Catholic University Senior Assistant vice president of Finance Department, Assistant Vice President, Manager and Assistant Manager of the Company; Senior Assistant vice president of Finance Department of Yuanta Securities Co., Ltd.	—	—	—	
Senior Assistant Vice President of MIS Dept.	Republic of China	Chen Ying-Ling	F	2005.12.01	—	—	—	—	—	—	Department of Business in Providence University Manager of MIS Department of Yuanta Core Pacific Securities; programmer of Union Insurance Company	—	—	—	
Senior Assistant Vice President of Business Development Dept.	Republic of China	Wang Chia-Hsiang	M	2014.08.01	—	—	—	—	—	—	MSc Finance Institute from Tamkang University Senior Manager, Manager, Assistant Manager of the Company; Business Department Manager, Assistant Manager of Entie Securities Finance	—	—	—	
Assistant Vice President of Business Dep	Republic of China	Huang Shi- Chun	F	2010.05.01	—	—	—	—	—	—	Accounting Department in Jinwen University of Science and Technology The Company's senior manager, manager, deputy manager, assistant manager and section chief, Section Chief and also Editor-in-Chief and Researcher of World Securities Limited.	—	—	—	

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date elected (taken office)	Shares held		Shareholdings of spouse and underage children		Shareholding using other's name		Education and selected past positions (Note 2)	Concurrent position at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Senior Manager of Administration Department	Republic of China	Lin, Shu-Hsiu	F	2016.03.22	—	—	—	—	—	—	Department of Business, National Open University The Company's manager, assistant vice president, assistant manager and section manager	Assistant Manager of Administration Department and also Assistant Manager of Secretariat of Yuanta Financial Holdings	—	—	—
President of Audit Office	Republic of China	Cheng Shu-Chin	F	2010.05.01	—	—	—	—	—	—	Master's degree, Fo Guang University Assistant Manager of Yuanta Securities; Manager of Fuhwa Securities; Manager of Shrong Securities	—	—	—	—
President of Taichung Branch	Republic of China	Teng Kai-Hung	M	2017.04.01	—	—	—	—	—	—	Master of Graduate Institute of Management Sciences, Nanhua University Deputy Manager and Assistant Manager of The Company's Taichung Branch; Manager of Administration Dept., Yuanta Securities (formerly known Fuhwa Securities)	—	—	—	—
Senior President of Kaohsiung Branch	Republic of China	Chen Chi-Ping	M	2006.11.01	—	—	—	—	—	—	National Cheng chi University Department of Public Administration Senior Assistant Manager, Assistant Manager and Section Chief of the Company	—	—	—	—
Former Senior Assistant Vice President of Taichung Branch	Republic of China	Liu Ying-Shih	M	2002.07.01	—	—	—	—	—	—	Graduated from Department of Industrial Management, Van Nung Institute of Industry Manager of The Company's Taichung Branch and Kaohsiung Branch; Designer of The Financial Data Center, Ministry of Finance	—	—	—	—

Note: 1. The Company is a subsidiary of Yuanta Financial Holdings that holds 100% of the shares.

2. The former senior assistant vice president of the Company's Taichung Branch, Mr. Liu Ying-Shih, resigned as of April 1, 2017. Manager Teng Kai-Hung from Taichung Branch succeeded to his position as supervisor in Taichung Branch.

3. Remuneration to directors, supervisors, president and vice presidents

A. Remuneration to directors(Disclose aggregate remuneration information, with the name(s) indicated for each remuneration range.)

Title	Name	Directors' remuneration						Remuneration to concurrent employees				Sum of A, B, C, D, E, F and G and that sum as percentage of net income after tax		Remuneration from investment in a non-subsidary enterprise		
		Wages (A)	Severance and retirement payments (B)	Directors' remuneration (C)	Service expenses (D)	Sum of A, B, C and D as percentage of net income after tax	Wages, bonuses, and special allowance, etc. (E)	Severance and retirement payments (F)	Employee bonuses from distribution of earnings (G)	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries			
		The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	Cash bonuses	Stock bonuses	The company	Consolidated subsidiaries	
Chairman	Yuanna Financial Holdings statutory representative; Director; Ting-Hsien															
Director	Yuanna Financial Holdings statutory representative; Chairman; Yu-De Chang															
Director	Yuanna Financial Holdings statutory representative; Director; Hong-Rong-Jing															
Director	Yuanna Financial Holdings statutory representative; Kuo Hsuan-Shin	9,500,000				1,215,000		0.50%	6,360,634		41,675			0.81%		None
Director	Yuanna Financial Holdings statutory representative; Liu Ming-Lang															
Former Director	Yuanna Financial Holdings statutory representative; Peng Yi-Chang															

Note: Chairmen have been assigned a corporate Vehicle and a driver.

Range of remuneration

Breakdown of remuneration to company directors Units: NT\$	Directors			
	Sum of foregoing four items (A+B+C+D)		Sum of foregoing seven items (A+B+C+D+E+F+G)	
	The company	All enterprises invested by the Company I	The company	All enterprises invested by the company J
Below 2,000,000	Hong Rong-Ting, Chuang Yu-De, Kuo Hsuan-Min, Liu Ming-Lang	Hong Rong-Ting, Chuang Yu-De, Kuo Hsuan-Min, Liu Ming-Lang	Chuang Yu-De, Kuo Hsuan-Min, Liu Ming-Lang	Chuang Yu-De, Kuo Hsuan-Min, Liu Ming-Lang
2,000,000 (inclusive) - 5,000,000				
5,000,000 (inclusive) - 10,000,000	Huang Ting-Hsien	Huang Ting-Hsien	Huang Ting-Hsien, Hong Rong-Ting	Huang Ting-Hsien, Hong Rong-Ting
10,000,000 (inclusive) - 15,000,000				
15,000,000 (inclusive) - 30,000,000				
30,000,000 (inclusive) - 50,000,000				
50,000,000 (inclusive) - 100,000,000				
Over 100,000,000				
Total	Huang Ting-Hsien, Chuang Yu-De, Hong Rong-Ting, Kuo Hsuan-Min, Liu Ming-Lang	Huang Ting-Hsien, Chuang Yu-De, Hong Rong-Ting, Kuo Hsuan-Min, Liu Ming-Lang	Huang Ting-Hsien, Chuang Yu-De, Hong Rong-Ting, Kuo Hsuan-Min, Liu Ming-Lang	Huang Ting-Hsien, Chuang Yu-De, Hong Rong-Ting, Kuo Hsuan-Min, Liu Ming-Lang

B. Remuneration to supervisors

Title	Name	Supervisors' remuneration						Sum of A, B, C and that sum as percentage of net income after tax		Remuneration from investment in a non-subsiidiary enterprise
		Wages (A)		Allocated from distribution of earnings (B)		business execution expenses (C)				
		The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	
Supervisor	Yuanta Financial Holdings statutory representative: Chiu Wen-Ching									
Supervisor	Yuanta Financial Holdings statutory representative: Huang Shi-Zhen	—	—	—	—	360,000	360,000	0.13%	0.13%	None
Former Supervisor	Yuanta Financial Holdings statutory representative: Liao Yueh-Jung									

Range of remuneration

Breakdown of remuneration to supervisors Units: NT\$	Supervisors	
	The company	Sum of foregoing three items (A+B+C)
Below 2,000,000	Chiu Wen-Ching, Huang Shi-Zhen, Liao Yueh-Jung	Chiu Wen-Ching, Huang Shi-Zhen, Liao Yueh-Jung
2,000,000 (inclusive) - 5,000,000		
5,000,000 (inclusive) - 10,000,000		
10,000,000 (inclusive) - 15,000,000		
15,000,000 (inclusive) - 30,000,000		
30,000,000 (inclusive) - 50,000,000		
50,000,000 (inclusive) - 100,000,000		
Over 100,000,000		
Total	Chiu Wen-Ching, Huang Shi-Zhen, Liao Yueh-Jung	Chiu Wen-Ching, Huang Shi-Zhen, Liao Yueh-Jung

C. Remuneration to the president and vice presidents (Disclose aggregate remuneration information, with the name(s) indicated for each remuneration range.)

Title	Name	Wages (A)		Severance and retirement payments (B)		Bonuses and special allowances (C)		Employee bonuses from distribution of earnings (D)				Sum of A, B, C, D and that sum as percentage of net income after tax %		Remuneration from investment in a non-substantary enterprise
		The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	Cash dividend amount	Stock dividend amount	The company	Consolidated subsidiaries	
President	Hong Rong-Ting	6,360,634	6,360,634	—	—			41,675	—	41,675	—	0.31%	0.31%	None

Note: President have been assigned a corporate Vehicle.

Range of remuneration

Breakdown of remuneration to president and vice presidents Units: NT\$	President and vice presidents	
	The company	All companies in the consolidated statement (E)
Below 2,000,000		
2,000,000 (inclusive) - 5,000,000		
5,000,000 (inclusive) - 10,000,000	Hong Rong-Ting	Hong Rong-Ting
10,000,000 (inclusive) - 15,000,000		
15,000,000 (inclusive) - 30,000,000		
30,000,000 (inclusive) - 50,000,000		
50,000,000 (inclusive) - 100,000,000		
Over 100,000,000		
Total	Hong Rong-Ting	Hong Rong-Ting

D. Employee Bonus Allotment to Managers

Jan 31, 2017

	Title	Name	Stock dividend amount	Cash dividend amount	Total	Percentage of total amount to net profits after tax (%)
Managers	President	Hong Rong-Ting	-	206,521	206,521	0.01%
	Senior Assistant vice president of Finance Department	Hu Yi-Heng				
	Senior manager of Administration Department	Lin, Shu-Hsiu				
	Senior Assistant Vice President of MIS Dept.	Chen Ying-Ling				
	Senior Assistant Vice President of Business Development Dept.	Wang Chia-Hsiang				
	Assistant Vice President of Business Dept.	Huang Shi- Chun				
	President of Auditing Office	Cheng Shu-Chin				
	President of Taichung Branch	Teng Kai-Hung i				
	Senior President of Kaohsiung Branch	Chen Chi-Ping				

* The employee bonuses allotments are estimated value as it is not issued yet.

E. Analysis of Remuneration for Director(s), Supervisor(s), President and Vice-President(s) in the past two years

- (1) Ratio of total amount to the net profits after tax of remuneration to Director(s), Supervisor(s), President and Vice-President(s):

Ratio of total amount to the net profits after tax of remuneration to director(s), supervisor(s), President and Vice-President(s) was around 4.40% in 2016; and around 0.82% in 2017.

- (2) The relationships between the policy, standard, and combination of remuneration, remuneration establishment procedure and operating performance:

The remuneration to directors, supervisors, presidents and vice presidents, is in accordance with the regulations of Articles of Incorporation, and considers the company's operating performance and relevant reward bonus measures. The Company's net profits after tax in 2017 was NT\$2,089,011 thousand, about 6.728% the net profits after tax in 2016 (NT\$310,489 thousand). Due to the increase in net profits after tax, the total remuneration to directors, supervisors, presidents and vice presidents increase slightly, but the percentage of the total remuneration to net profits after tax of the Company decreased slightly.

4. State of corporate governance

A. Operation of the Board of Directors

A total of 11 (A) board meetings were held in 2017; the attendance of Directors and Supervisors is listed below:

Title	Name	Actual Attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note 2)	Remarks
Chairman	Huang Ting-hsien	13	0	100	
Director	Chuang Yu-De	13	0	100	
Director	Hong Rong-Ting	12	1	92	
Director	Kuo Hsuan-Min	13	0	100	
Director	Liu Ming-Lang	8	0	100	Appointed on June. 1, 2016; a total of 8 board meetings were held during active duty
Supervisor	Ciou Wun-Cing	7	0	88	Appointed on June. 1, 2016; a total of 8 board meetings were held during active duty
Supervisor	Huang Shi-Zhen	9	0	100	Hold the position as of March 1, 2017, and 9 meetings held by the Board of Directors during the term of office.
Former Supervisor	Liao Yueh-Jung	2	0	100	Discharged from the position as of March 1, 2017, and 2 meetings held by the Board of Directors during the term of office.

Note: 1. The attendance rate (%) for Director(s) and Supervisor(s) is calculated by dividing the actual attendance by the total of number of meetings held during the period.

2. Baseline date: December 31, 2017.

Other required Items:

1. Where the operation of the board of directors meets any of the following circumstances, the minutes concerned shall clearly state the meeting date, term, contents of motions, opinions of all independent directors and the Company's resolution of said opinions:
 - A. The circumstances referred to Article 14-3 of the Securities and Exchange Act.
The board of directors did not meet the circumstances referred to herein.
 - B. Any other resolution(s) passed but with independent directors voicing opposing or qualified opinions on the record or in writing.
None. The Company does not have independent directors.
2. In instances where a director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director's name, contents of the proposal and resolution thereof, reason for not voting and actual voting counts:
 - A. 9th meeting of the 13th board of directors on January 23, 2017
Resolve the multiple of the Chairman's performance bonus to the President's in 2016.
Resolution:
 - a. Chairman Huang Ting-Hsien, who was an interested party, recused themselves from the voting, and Director Chuang Yu-De acted as the chairperson at the time of voting.
 - b. Apart from the interested party, who recused himself, the remaining directors present agreed to pass the motions.
 - B. 10th meeting of the 13th board of directors on February 22, 2017
In order to continue promoting the Group's philosophy of "what is taken from the people is used in the interests of the people", fulfill the corporate social responsibility and upgrade the corporate identity, the Company donated NT\$2 million to Yuanta Foundation.
Resolution:
 - a. Director Yu De Chuang, who was interested party as he held the position as director of Yuanta Foundation concurrently, recused himself from the voting on the motion.
 - b. Apart from the interested party, who recused himself, the remaining directors present agreed to pass the motions.
 - C. 11th meeting of the 13th board of directors on March 24, 2017
For the purpose of management, the motion for The Company's allocation of remuneration to employees 2016 was proposed.
Resolution: Except Director Rong Tin Hong, who recused himself due to conflict of interest, the motion was agreed by the remaining present directors and reported to the general shareholders' meeting this year.
 - D. 11th meeting of the 13th board of directors on March 24, 2017
Yuanta Asset Management stopped executing the subscription for the equity of TDCC invested by the Company.
Resolution: Director Liu Ming-Lang, who was an interested party recusing himself, the remaining directors present agreed to pass the motions.
 - E. 13th meeting of the 13th board of directors on May 3, 2017
The motion for The Company's acquisition of 7F of "Tatung Building" as its own business place.
Resolution: Director Chuang Yu-De, who was an interested party recusing himself, the remaining directors present agreed to pass the motions.
 - F. 15th meeting of the 13th board of directors on June 28, 2017
The follow-up on The Company's disposition of the equity of TDCC invested by the Company.
Resolution: Except Director Ming Lang Liu, who was interested party and recused himself, the remaining directors present agreed to pass the amended motion.
 - G. 16th meeting of the 13th board of directors on August 17, 2017
Sold the equity of TDCC invested by the Company to the interest parties, Yuanta Securities and Ta Chong Bank
Resolution:
 - a. Director Chuang Yu-De and Liu Ming-Lang who were interested parties recusing himself, the remaining directors present agreed to pass the motions.
 - b. According to Article 15 of the Company's "Regulations Governing the Acquisition and Disposal of Assets", Supervisor Wen Ching Chu ratified the motion on the part of Yuanta Securities after being inquired for his opinion, and Supervisor Wen Ching Chu and Supervisor Shi-Zhen Huang ratified the motion on the part of Ta Chong Bank after being inquired for their opinion.
 - H. 16th meeting of the 13th board of directors on August 17, 2017
Establishment of the Company's "Regulations Governing Appointment and Management of Managerial Officers" (Draft).

Resolution: Director Hong Rong-Ting, who was an interested party recusing himself, the remaining directors present agreed to pass the motions.

I. 19th meeting of the 13th board of directors on December 27, 2017

The Company renewed the “securities investment consulting service agreement” with Yuanta Securities Investment Consulting.

Resolution: Director Kuo Hsuan-Min, who was an interested party recusing himself, the remaining directors present agreed to pass the motions.

J. 19th meeting of the 13th board of directors on December 27, 2017

To respond to the Government’s policy and activate assets, the Company plans to participate in the Tatung Building urban renewal project.

Resolution: Director Chuang Yu-De and ,Liu Ming-Lang who were interested parties recusing himself, the remaining directors present agreed to pass the motions.

3. Measures undertaken during the current year and past year in order to strengthen the functions of the board of directors (such as the establishment of an audit committee and improvement of information transparency, etc.) and assessment of their implementation: None.

B. Operations of the Audit Committee and Supervisor(s) Attendance of Board Meetings:

(1) The company does not have an audit committee.

(2) Supervisor attendance of board meetings:

A total of 11(A) board meetings were held in the most recent year (2017) and the attendance records of the supervisor(s) are listed below:

Title	Name	Actual Attendance (B)	Attendance by proxy	Attendance rate (%) (B / A) (note)	Remark
Supervisor	Yuanta Financial Holdings statutory representative: Ciou Wun-Cing	10	0	91	
Supervisor	Representative of Yuanta Financial Holdings Co. Ltd: Huang Shi-Zhen	9	0	100	Hold the position as of March 1, 2017, and 9 meetings held by the Board of Directors during the term of office.
Former Supervisor	Representative of Yuanta Financial Holdings Co. Ltd: Liao Yueh-Jung	2	0	100	Discharged from the position as of March 1, 2017, and 2 meetings held by the Board of Directors during the term of office.

Other required Items:

1. Supervisor composition and duties:

A. Communication between supervisors, company employees and shareholders:

In order to establish solid supervisory functions for the board of directors and supervisors, a suggestion and complaint mailbox has been set up on the website for use in receiving and handling major deficiencies, fraud and corruption cases and accepting suggesting and complains that can assist with Company business management and development in order to promote smooth communication between the board of directors and employees, investors and interested parties.

B. Communication between supervisors, internal audit supervisors and CPAs (for example communication items, methods and results regarding company finances and sales conditions):

- (1) Engaged in the communication with CPAs for one time at the end of 2017, and notified the communication with the unit dedicated to corporate governance in writing to supervisors upon the audit.
- (2) According to Article 16 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", After the submission of the audit report and follow-up reports, the completed audit items are passed to the supervisors for checking and the audit supervisor review the internal control system deficiencies before the end of the following month.
- (3) Audit supervisors should review the deficiencies of internal control system and have a regular annual meeting with the person-in-charge (director, supervisor) and minutes are kept of the meeting.

2. If the supervisor states an opinion at a board meeting, record the date, term, resolution contents, director resolution results and how the opinion stated by the supervisor is handled by the board: None.

Note: 1. The attendance rate (%) is calculated by dividing the actual attendance by the total of number of meetings held during the period.

2. Baseline date: December 31, 2017.

C. Status of corporate governance, non-compliance with the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies and related reasons:

Scope of assessment	Status(Note)		Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	
1. Whether the company has followed "Corporate Governance Best-Practice Principle for Financial Holding Companies" and discloses information?	V		The company has established corporate governance best practice principles in accordance with regulations. On the home page of the company's website, the "Corporate Governance" section discloses information related to the operations of corporate governance at the company. There was no significant departure in this respect.
2. Equity structure and shareholders' rights of the company		V	N/A.
(1) Whether the company has defined some internal operating procedure to deal with suggestions, questions, disputes and legal actions from shareholders, and implemented the procedure?	V		(1) Yuanta Financial Holdings is the sole shareholder of the company; therefore, the company doesn't have this problem.
(2) Whether the company controls the financial holding company's major shareholders and who are their ultimate owners?	V		(2) Yuanta Financial Holdings is the sole shareholder of the company. The only major shareholder with control over the company is Yuanta Financial Holdings.
(3) Whether the company establishes or implements some risk control and firewall mechanisms between the Company and its affiliates?	V		(3) a. The company followed the Yuanta Financial Holdings has established a "Risk Management Department" being responsible for supervising and implementing risk management measures. Each subsidiary has an independent risk management unit in place, depending on their respective sizes and risk attributes, to monitor the various risks involved. b. The company has complied with Articles 44 and 45 of the Financial Holding Company Act, regarding credit and non-margin trading with stakeholders. In order to ensure proper financial dealings with affiliates, while preventing inappropriate channeling of corporate interests and non-arms length transactions, asset disposals, or loans etc with related parties, the company has established a set of policies to govern financial dealings among affiliates and non-credit authorizations to stakeholders as means of control. There was no significant departure in this respect.

Scope of assessment	Status(Note)		Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	
(4) Whether the company stipulated internal regulations to prohibit company insiders from trading securities using information not disclosed to the market?	V		(4) The company has promulgated “Regulations Governing Insiders for Securities Trading” to prohibit company insiders from trading securities directly or indirectly with information obtained from the occupation, and provide statement for insiders to sign. Meanwhile, the company has formulated procedures and priorities of the insider trading in the internal control system.
3. Composition and responsibilities of board of directors			N/A.
(1) Whether the board of directors formulated an appropriate policy on diversity for its composition and fully implemented its policy?		V	
(2) Whether the company, in addition to establishing the remuneration committee and audit committee pursuant to laws, is willing to establish any other functional committees voluntarily?		V	The company has not formed any functional committees, while Yúanta Financial Holdings, the sole shareholder of the company, has assigned the proper representatives to exercise the functional duties and power of directors and supervisors. The assignment would be reviewed annually to fulfill the duty of board of directors.
(3) Whether the company stipulated rules and procedures for board of directors’ performance assessments and periodically evaluated the performance each year?		V	
(4) Whether the company assesses the independence of the CPAs periodically?	V		An evaluation of the independence of CPAs is submitted to the Board of Directors each year which approves their appointment.
4. Whether the financial holding company which is also an exchange-listed and OTC-listed Company delegates the unit or personnel dedicated to (concurrently in charge of) corporate governance (including but not limited to, provision of information required by directors for carrying out business, organization of directors’ meetings and shareholders’ meetings, registration of incorporation and registration of changes, and production of directors’ meeting and shareholders’ meeting minutes)?	V		The Company has delegated the unit and personnel dedicated to (concurrently in charge of) corporate governance, although the Company is not an exchange-listed and OTC-listed company: (1) Administration Department is responsible for handling the affairs related to meetings held by the board of directors, and designating the personnel dedicated to communicating and providing the relevant information required by directors for carrying out business. (2) The Company’s Administration Department is responsible for shareholders’ meeting for which the board of directors acts as the proxy, production of shareholders’ meeting minute, and registration of incorporation and changes.
			There was no significant departure in this respect.
			There was no significant departure in this respect.

Scope of assessment	Status(Note)		Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	
5. Whether the Company established communication channel with stakeholders (including but not limited to, shareholders, employees and customers, et al.) and designated a stakeholders section on its website to respond to important issues of the corporate social responsibility properly?	V		There was no significant departure in this respect.
6. Whether the company entrusted a professional stock agency to handle businesses of the shareholder's meeting?	V		There was no significant departure in this respect.
7. Information Disclosure (1) Whether the company establishes a corporate website to disclose information concerning financial affairs and corporate governance?	V		There was no significant departure in this respect.
(2) Whether the company has undertaken other information disclosure channels (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, the broadcasting of investor conferences via the Company website and etc.)?	V		There was no significant departure in this respect.
8. Whether the company has other important information enabling a better understanding of the Company's corporate governance (including but not limited to employee rights and interests, employee care, investor relations, suppliers, stakeholders' rights and interests, continuing education of directors and supervisors, implementation of risk management policies and risk measurement criteria, implementation of customer policy, purchase of liability insurance by the Company for directors and supervisors and etc.)?	V		There was no significant departure in this respect.

Scope of assessment	Status(Note)		Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	
			business model, achieve operational targets and increase shareholder value. The company has also set up risk management mechanisms for its subsidiaries based on their operational scale and risk level; within the management guidelines for various areas of business, it sets various quotas and limits to monitor risk situations. Risk reports and significant risk issues are periodically submitted to the top management in order to effectively control and manage risk. (7) Implementation of customer policy: The company followed the Yuanta Financial Holdings has established "protects customer privacy based on Confidentiality Measures on Customer Information for Yuanta Financial Holdings and Its Subsidiaries", The company has established "Personal Data Protection Policy" and "Personal Data Management Rules". The company uses customer information in accordance with the forgoing measures and within the scope of the law so as to fulfill its obligations in maintaining the confidentiality of customer information and protect customer privacy. (8) Purchase of liability insurance by the company for directors and supervisors: Yuanta Financial Holding has purchased liability insurance for all directors and supervisors.
9. Please specify the status of correction based on the corporate governance assessment report released by the Corporate Governance Center of TWSE in the most recent year, and the priority corrective actions and measures against the remaining deficiencies. (Not required to specify any companies excluded from the assessment.)		V	N/A.

Note: Regardless of "Yes" or "No", the status shall be stated in the "Summary" section.

D. Establishment, Responsibility and Operation Status of Remuneration Committee: The Company has not yet established Remuneration Committee.

E. Implementation of social responsibility:

Scope of assessment	Status		Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	
<p>I. Exercising Corporate Governance</p> <p>(1) Whether the Company has defined corporate social responsibility policies within the Company; the progress and effectiveness of such policies?</p>	V	V	There was no significant departure in this respect.
<p>(2) Whether the Company organizes any corporate social responsibility education and training program periodically?</p>	V		There was no significant departure in this respect.
<p>(3) Whether the Company establishes a dedicated unit (concurrently engaged in) to promote corporate social responsibility under supervision by the high-rank management authorized by the Board of Directors who shall be responsible for reporting the status thereof to the Board of Directors?</p>		V	N/A.
<p>(4) Whether the Company has defined some reasonable compensation policy, integrated corporate social responsibility with employees' performance evaluation, and established some clear and effective reward/disciplinary system?</p>	V		There was no significant departure in this respect.

Scope of assessment	Status		Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	
<p>2. Fostering a Sustainable Environment</p> <p>(1) Whether the Company enhances to upgrade the efficient use of available resources, and the use of environmental-friendly materials?</p>	V		There was no significant departure in this respect.
<p>(2) Whether the Company establishes environmental policies suitable for the Company's industry characteristics?</p>	V		There was no significant departure in this respect.
<p>(3) Whether the Company is aware of how climate changes impact business operations, or conducts investigation on greenhouse gases, or defines some energy saving and carbon/greenhouse gas reduction strategies?</p>	V		There was no significant departure in this respect.

Scope of assessment	Status		Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	
			<p>in Taichung City for the relevant requirements about (1) air conditioner temperature management; (2) tap water test; (3) replacement with power-saving lights; and (4) procurement of green power, etc.</p> <p>b. The corporate headquarter building already complies with a number of green building regulations.</p> <p>c. In order to realize water conservation, energy conservation, carbon and greenhouse gas reduction, we regularly report the outcome of conservation measures for water, electricity and other items of energy consumption.</p> <p>d. Smoking is completely prohibited inside our offices. Smokers must use designated outdoor places. In order to meet regulations we regularly carry out disinfection, rodent and insect control.</p> <p>e. Urge the colleagues who are out of the office to adopt the car pooling system as possible as they could, or take shuttle buses to reduce the air pollution emissions from vehicle and avoid increasing air source heat.</p> <p>f. The Company extended the ISO 14064-1 inspection to Taichung Branch and Kaohsiung Branch in 2017. The total emissions from the Building and two branches directly plus the emissions from indirect sources were 146 tons CO₂e/year. Meanwhile, as validated by BSI, compared with the direct emission sources in 2016, the control over carbon reduction achieved remarkable efficiency (achievement of the carbon reduction target by 15% or more) in 2017.</p>
<p>3. Preserving Public Welfare</p> <p>(1) Whether the Company establishes the related management policies and procedures in accordance with the relevant laws and international human right conventions?</p>	V		<p>Except the sub-paragraph (9), there was no departure in this respect. For the relevant departures, please see the Remarks.</p>

Scope of assessment	Status		Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	
(2) Whether the Company establishes any employee complaining mechanism and channel, and takes care of the complaint adequately?	V		<p>age and marriage, in order to establish an employment equality environment and protect employee rights. Meanwhile, we also called a labor and employer meeting periodically to facilitate communication between both parties and harmonize the relationship between laborers and employer.</p> <p>(2) The company has established reporting systems and channels, employees can utilize these methods by communicating with their department manager or proposing through the employee-management meetings, and based on applicable regulations, the "Personnel Committee" would review the case if reward and punishment. In addition, the company has formulated regulations for workplace sexual harassment preventions, complaints and disciplinary actions to protect interested party's right and privacy.</p>
(3) Whether the Company provides the existence of a safe and healthy work environment; regular safety and health training to company employees?	V		<p>(3) The company has regular disinfection, sanitation, illumination, fire inspections of the work environment. Based on the "Regulations for Labor Safety and Health" the company has regular training on safety and health for employees. E.g. Set precautionary and measures contingency plan quickly on influenza, arrange employee grouping and subdivision work. To decrease business operational risk and staff infection.</p>
(4) Whether the Company establishes the mechanism for periodic communication with employees, and notification to employees of the circumstances which might materially affect the operation in a reasonable manner?	V		<p>(4)</p> <p>a. The company calls a labor and employer meeting periodically to establish a communication platform between laborers and employer to upgrade employees' participation and identification in the company's policies so as to form a positive interactive model and to create a win-win situation.</p> <p>b. The various regulations and systems and benefit information for employees are posted in the intranet to help employees understand their own interests and</p>

Scope of assessment	Status		Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	
(5) Whether the Company establishes some effective career development training plan for employees?	V		<p>rights. Meanwhile, a dedicated unit posts important daily news of the Financial Holding on the intranet for employees' easy access so as to understand updated industrial development important messages.</p> <p>c. Material changes in the Company's operation will also be published via email from time to time, so that employees will have access to timely.</p> <p>(5) The company has followed the corporate to set up a multi-track development system, which includes management posts, professional posts, and business posts. And through those diverse development paths and training systems, the company has provided opportunities like in-service training, employee training, job rotating, project assigning, and digital learning to encourage employees to develop multiple skills, meet their self-fulfillments and achieve their ideal goals of pursuing excellent. In addition, by making maximum using of the company's subsidiaries, the corporate encourages employees to apply position transferring or arranges rotation between subsidiaries for operational needs to promote talent flow and diverse development.</p>
(6) Whether the Company establishes the related consumer protection policies and complaining procedures toward the R&D, procurement, production, operation and service procedures?	V		<p>(6)</p> <p>a. In order to fulfill our responsibility to keep customer information confidential the corporate has set up the "Yuanta Financial Holding Co. Ltd. and Subsidiaries Customer Information Confidentiality Measures", "Statement of Customers' Privacy Protection" and posted their content on the corporate website. The Company has set up the Personal Data Protection Policy and Personal Data Management Rules to follow.</p> <p>b. The company uses the following avenues and procedures to handle customer complaints:</p>

Scope of assessment	Status		Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	
			<p>(i) TEL: 02-2173-6896</p> <p>(ii) E-mail: auditcomm.sf@yuanta.com</p> <p>(iii) If a customer complaint is received, the relevant unit will be immediately notified to handle the complaint. The Company will take Moderately measure respond to the customer.</p>
(7) Whether the Company markets and labels products and services in accordance with the related laws and international practices?	V		(7) The company has established the "Regulation Governing Advertisements, Business Solicitation and Marketing Campaigns" to conduct business marketing and labeling.
(8) Whether the Company has assessed the supplier's record about environmental protection and society before trading with the supplier?	V		(8) The Company worked with Yuanta Financial Holdings to be dedicated to the green procurement to make contribution the Company's power to the earth. The Company purchased green products from green suppliers and thereby indirectly urged the suppliers to develop various green products. The Company would purchase the green products manufactured the green suppliers as the first priority, if necessary. The Company followed The Yuanta Financial Holdings asks suppliers to comply with the integrity and ethical principles with the Company. For tangible product suppliers to enter into a procurement contract with the Company, as of June 2013, the Company will ensure they understand the Company's integrity and ethical principles and corporate social responsibility strategies and approaches in accordance with "Ethical Management and Guidelines for Conduct". The Company will also ask them to submit a written undertaking of integrity and ethical proof showing no record of corruption and bribery, in order to comply with the integrity and ethical principles and maintain corporate social responsibility.
(9) Whether the contract between the Company and its main supplier includes the provision stating that where the supplier is suspected of violating its corporate social			(9) Meanwhile, the Company worked with Yuanta Financial Holdings to demand that the suppliers engaged in producing and processing the products should comply

Scope of assessment	Status		Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	
responsibility policies or renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract?			with the corporate social responsibility policy established by Yuanta Financial Holdings, including efforts in maintaining the green environment and such employment treatments as basic worker human right, care for the disadvantaged and no child labor. Where the suppliers were found harming the environment and against the corporate social responsibility, the Company should be entitled to terminate or rescind the contract at any time.
4. Enhancing Information Disclosure (1) Whether the Company discloses relevant and reliable information relating to corporate social responsibility on its website or Market Observation Post System?	V		Yuanta Financial Holdings disclosed the green power procurement in its CSR policy 2017. The Company fulfilled its corporate social responsibility and responded to the green power policy boosted by the Government, as it procured the green power of 10,000 degrees voluntarily in the same year and received the "green power purchase certificate" from TPC. Yuanta Financial Holdings also compiled and disclosed the relevant information on its website.
5. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies", please describe any discrepancy between the principles and their implementation: None.			There was no significant departure in this respect.
6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices: For further details please view our corporate website.			
7. If the Company's Corporate Social Responsibility Reports have met the assurance standards of relevant certification institutions, they shall be stated below: None.			

F. Fulfillment of ethical management

Scope of assessment	Status		Discrepancy between the Company's principles and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons thereof
	Yes	No	
<p>I. Enactment of ethical management policy and program</p> <p>(1) Whether the Company expressly states the ethical policy and its fulfillment by the board of directors and the management in its Articles of Incorporation and public documents?</p>	V		There was no significant departure in this respect.
<p>(2) Whether the Company defines the policy against unethical conduct, and expressly states the SOP, guidelines and reward and disciplinary & complaining systems for misconduct, and also implements the policy precisely?</p>	V	<p>(1) The Company followed the "Ethical Management Principles" and "Procedures for Ethical Management and Guidelines for Conduct" established by Yuanfa Financial Holdings, and had its compliance unit responsible for the related procedures and reporting the status of implementation thereof to the Board of Directors periodically. Based on clean, transparent and responsible management philosophy, the Company will continue to promote a policy based on integrity. The Company will also establish good corporate governance and risk management mechanisms to create a sustainable business environment.</p> <p>(2) a. Yuanfa Financial Holdings expressly outlined in its "Ethical Management Principles" and "Procedures for Ethical Management and Guidelines for Conduct" a list of dishonest behaviors and conflicting interests, and prohibits any bribery, illegitimate political contributions, and improper donations, sponsorships, gifts, treatments, or benefits. Regular training sessions are organized, and proper reporting systems and disciplinary policies have also been created.</p> <p>b. Any unethical conduct of the Company's staff, the Company will render discipline pursuant to relevant laws or the Company's regulations after verifying the same, and claim damages through legal action, if necessary, to maintain the Company's goodwill and interest. The disciplined employee who disagrees with the discipline may apply for reconsideration</p>	

Scope of assessment	Status		Discrepancy between the Company's principles and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons thereof
	Yes	No	
(3) Whether the Company takes any prevention measures against the operating activities involving high unethical conduct under Paragraph 2 of Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" or within other operating areas?	V	<p>under the complaint system. Upon verification of the case, the relevant unit will be delegated to review the internal control system and SOP and propose the corrective action to prevent the same from occurring again and fulfill the management philosophy of ethical business.</p> <p>(3) The Company has already undertaken measures against bribery and illegal political donation with respect to operating activities with higher risk of unethical conduct. All procurement projects of the company have to be conducted in accordance with the "Procedures for Ethical Management and Guidelines for Conduct" of Yuanta Financial Holdings.</p>	
2. Implementation of ethical business	V		
(1) Whether the Company assesses a trading counterpart's ethical management record, and expressly state the ethical management clause in the contract to be signed with the trading counterpart?	V	<p>The Company would assess external procurement suppliers' ethical management record when negotiating and concluding contract with the suppliers involving the buyout/sellout of ownership of products, pursuant to said "Guidelines for Conduct". Further, when concluding the procurement contract, the Company would take into consideration the supplier's compliance with the conclusion of ethical management clauses and Article 20 of the "Guideline for Conduct".</p>	There was no significant departure in this respect.
(2) Whether the Company establishes a dedicated unit (concurrently engaged in) to promote corporate ethical management, and reports the execution thereof to the Board of Directors?	V	<p>(2) The Company followed the dedicated unit established by Yuanta Financial Holdings to handle and executed related matters with respect to the YFH Procedures for Ethical. Periodic reports about status of implementation of ethical management for the previous year will be submitted to the board of directors each year.</p>	
(3) Whether the Company defines any policy against conflict of interest, provides adequate channel thereof, and fulfill the same precisely?	V	<p>(3) a. According to the "Ethical Management Principles" and "Guideline for Conduct" of Yuanta Financial Holdings, and the Company's "Code of Ethics", the</p>	

Scope of assessment	Status		Discrepancy between the Company's principles and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons thereof
	Yes	No	
<p>(4) Whether the Company has fulfilled the ethical management by establishing an effective accounting system and internal control system, and had an internal audit unit conduct periodic audits, or appointed an external auditor to conduct audits?</p>	V		<p>Company expressly provided that where any directors or managerial officers of the Company per se, by their job positions and authorities, have their spouses, lineal relatives by blood or relatives within 3rd degree of kinship and the entities in which the spouses or relatives work participate in the Company's business, they shall state the fact voluntarily and take appropriate actions or recuse themselves in a proper manner. The Company established the sound management mechanism and executed the same in internal management and external business activities to upgrade the effect of the Company's ethical management.</p> <p>b. Any recusal from conflict of interest, disclosure of business secrets, prohibition of insider trading and non-disclosure agreement related to the Company's related personnel (including directors and supervisors) shall apply the relevant requirements.</p> <p>(4)</p> <p>a. Under the "Ethical Management Principles" of Yuanta Financial Holdings, the Company has linked the other relevant internal control regulations intensively to help various departments comply with the internal control and SOPs, and to prevent any staff misconduct, e.g. the Code of Ethics, Parliamentary Rules for Board of Directors' Meetings, and Guidelines Governing Donations to the Public. Where any of the Company personnel is suspected of engaging in unethical conduct, the dedicated unit would report the unethical conduct, responsive measures and corrective actions to the Board of Directors. Where the Company found that another person engaged in unethical conduct and illegal activities against the Company, the Auditing</p>

Scope of assessment	Status		Discrepancy between the Company's principles and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons thereof
	Yes	No	
(5) Whether the Company organizes internal/external education training program for ethical management periodically?	V		<p>Office would provide its audit result to the Company's legal personnel, so that the legal personnel would help the Company notify the justice and prosecution authorities.</p> <p>b. The Company's accounting system was established in accordance with IFRSs. Unless otherwise provided in laws, the Company's related accounting affairs are all processed in accordance with the Company's accounting system. The quarterly financial statement would be audited (certified) by PricewaterhouseCoopers Certified Public Accountants. The operating result would also be reported to the Board of Directors periodically. The Company will accept the internal audit, and audit by Financial Examination Bureau and the external auditor, in order to ensure that design and execution of the Company's accounting system still works.</p> <p>(5) The Company organizes the "Anti-bribery & Anti-corruption Promotion" training program on All staff have to take part in the program and pass the test, to ensure that employees have correct knowledge and basic judgment of relevant laws and ethical conduct, and that the corporate ethical management policy may be fulfilled.</p>
3. Status of the Company's complaint system (1) Whether the Company has defined a specific complaints and rewards system, and established some convenient complaint channel, and assigned competent dedicated personnel to deal with the situation?	V		<p>(1) Yuanta Financial Holdings has set up an exclusive area on the Internet and intranet to encourage the Company's staff, investors and other interested parties to submit any suggestions helpful for business development or any doubts about extraordinary circumstances. It would assign dedicated personnel to deal with the same and provide feedback in a timely manner.</p> <p>There was no significant departure in this respect.</p>

Scope of assessment	Status		Discrepancy between the Company's principles and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons thereof
	Yes	No	
(2) Whether the Company has defined the standard operating procedure and non-disclosure mechanism toward the investigation on the complaints as accepted?	V	(2) The complaints accepted by the Company will be treated as confidential and special cases. The certified documents provided by the informant or complainant shall be maintained with care. All of the team members shall also be obligated to keep the same confidential. If some misconduct is found upon investigation on the complaints, the Company will protect the complainant's interest and right, and will punish the offender or pursue their legal liability. If any suggestion is adopted upon thorough evaluation, the Company will extend commendation, praise or appreciation to the concerned party in a timely manner.	
(3) Whether the Company has adopted any measures to prevent the complainants from being abused after filing complaints?	V	(3) Upon receipt of any complaint, unless in order to meet the need for investigation or audit, the complainant's identity and the case shall be kept confidential before the complainant grants his/her consent, so that the complainant may be saved from any harassment or revenge.	
4. Enhancing Information Disclosure (1) Whether the Company has disclosed the Ethical Management Principles and effect of implementation thereof on its website and Market Observation Post System?	V	(1) Yuanta Financial Holdings has disclosed its "Ethical Management Principles" and "Guideline for Conduct" in the "CSR" area of its website and on the Market Observation Post System (MOPS). The effect of implementation thereof was also stated in the corporate annual report and CSR report disclosed on said websites.	There was no significant departure in this respect.
5. If the Company has established ethical management principles based on "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation: None.			
6. Other information material to the understanding of ethical business operation: (e.g. discussion and amendment to the ethical business best practice principles defined by the Company) When procuring products and before signing the contract, the Company will ask the supplier to issue a written undertaking for ethical business and will search whether the trading counterpart has any unethical business record, such as bribery or illegal political donations, and include the ethical business clauses and relevant matters into the contract.			

G. Methods for inquiring about the Company's Corporate Governance Best Practice Principles and related rules and regulations: Posted on the Company's website.

H. Other important information that will facilitate understanding of Company corporate governance and working: None

I. Implementation of internal controls:

1. Declaration on Internal Control Statement: See page 42.
2. Appointment of CPAs to review internal control system: None

Schedule: Continuing education of directors' and supervisors'

Data baseline date: 01/31/2017

Title	Name	Course duration		Organizing agency	Course name	Course hours
		From	To			
Chairman	Ting Hsien Huang	2017.03.07	2017.03.07	Taiwan Securities Association	Amendments to and Trend of Important Taxation Laws and Discussion of Profit-gaining Function of the Board of Directors	3
		2017.06.14	2017.06.14	Taiwan Securities Association	Organizational Resilience - Challenge and Opportunity for Financial Digitalization	3
		2017.09.06	2017.09.06	Taiwan Securities Association	Insider Trading and Money Laundering Control	3
Director	Rong Tin Hong	2017.03.07	2017.03.07	Taiwan Securities Association	Amendments to and Trend of Important Taxation Laws and Discussion of Profit-gaining Function of the Board of Directors	3
		2017.06.14	2017.06.14	Taiwan Securities Association	Organizational Resilience - Challenge and Opportunity for Financial Digitalization	3
		2017.10.16	2017.10.16	Taiwan Academy of Banking and Finance	Domestic and foreign laws and regulations related to anti-money laundering and countering terrorism financing	4
Director	Yu De Chuang	2017.03.07	2017.03.07	Taiwan Securities Association	Amendments to and Trend of Important Taxation Laws and Discussion of Profit-gaining Function of the Board of Directors	3
		2017.04.07	2017.04.07	Securities and Futures Institute	2017 Insider trading and corporate social responsibility seminar	3
		2017.06.14	2017.06.14	Taiwan Securities Association	Organizational Resilience - Challenge and Opportunity for Financial Digitalization	3
		2017.09.06	2017.09.06	Taiwan Securities Association	Insider Trading and Money Laundering Control	3
Director	Liu Ming-Lang	2017.03.07	2017.03.07	Taiwan Securities Association	Amendments to and Trend of Important Taxation Laws and Discussion of Profit-gaining Function of the Board of Directors	3
		2017.06.08	2017.06.08	Taiwan Securities Association	Revolution and Challenge of Capital Market Development in Taiwan	3
		2017.06.14	2017.06.14	Taiwan Securities Association	Organizational Resilience - Challenge and Opportunity for Financial Digitalization	3
		2017.09.06	2017.09.06	Taiwan Securities Association	Insider Trading and Money Laundering Control	3
Director	Hsuan Min Kuo	2017.03.07	2017.03.07	Taiwan Securities Association	Amendments to and Trend of Important Taxation Laws and Discussion of Profit-gaining Function of the Board of Directors	3
		2017.06.14	2017.06.14	Taiwan Securities Association	Organizational Resilience - Challenge and Opportunity for Financial Digitalization	3
		2017.09.06	2017.09.06	Taiwan Securities Association	Insider Trading and Money Laundering Control	3
Supervisor	Wen Ching Chu	2017.03.07	2017.03.07	Taiwan Securities Association	Amendments to and Trend of Important Taxation Laws and Discussion of Profit-gaining Function of the Board of Directors	3
		2017.09.06	2017.09.06	Taiwan Securities Association	Insider Trading and Money Laundering Control	3
Supervisor	Huang Shi-Zhen	2017.06.07	2017.06.12	Accounting Research and Development Foundation	Taiwan Stock Exchange Corporation Chief Accounting Officer's Ongoing Education for Securities Issuers	12
		2017.09.06	2017.09.06	Taiwan Securities Association	Insider Trading and Money Laundering Control	3

Yuanta Securities Finance Co., Ltd

Declaration on Internal Control System

Date: Feb. 26, 2018

The declarations of the self-inspection result of the company's internal control system on 2017 are listed below:

1. The internal control system establishment, implementation and maintenance are the duty of the board and managers. The system has been established to ensure the achievement of operating efficiency (including profit, performance and safeguarding asset security), reliability, timeliness and transparent of financial reports and the observance of relevant regulations, etc. Accomplish objectives reasonable assurance.
2. The internal control system has its inherent limitations. No matter how well designed it is, the effective internal control system is only able to provide reasonable guarantees for the three above mentioned objectives; moreover, due to the changes of environment and situations, the effectiveness of the internal control system may change as well. The company's internal control system has a self-monitoring mechanism, therefore, when the mistakes are identified, the company will immediately take corrective actions.
3. The company uses the Securities and Futures Market Internal Control System Guidelines (SFMICS Guidelines) to regulate the judgmental items for the effectiveness of the internal control system. The judgment items that SFMICS Guidelines use have divided the internal control system into five elements according to the management control process, which are: 1. Control environment, 2. Risk assessment, 3. Control operation, 4. Information and communication, and 5. Supervision. Each element also includes various items. Please refer to the regulation of SFMICS Guidelines.
4. The company has used the above mentioned internal control system judgmental items to assess the effectiveness of the internal control system design and implementation.
5. Based on the assessment results, the design and implementation of the company's internal control system (The internal control system includes the monitoring and management of the subsidiaries.) is effective on Dec. 31, 2017. Include, understanding the degree of operational effectiveness and efficiency goal reached, reliability, timeliness and transparent of financial reports and the observance of relevant regulations. Accomplish above objectives reasonable assurance.
6. This declaration will be included in the annual report and the prospectus for perusal by the public. Any false statement or concealment in the said documents will be a violation against Articles 20, 32, 171, and 174 of the Securities Exchange Act.
7. This declaration was approved by the board on February 26, 2018. None of the 5 attending directors had negative opinions.

Yuanta Securities Finance Co., Ltd

Chairman: (signature)

President: (signature)

- J. Legal penalties imposed by regulatory authorities on the company or its employees for violations of internal control regulations, and major flaws and revisions of said regulations in the past year and as of publication of this annual report: No.
- K. Major resolutions of the shareholders' meetings and board meetings in the most recent fiscal year or in the current fiscal year before the date of publication of the annual report: (After the company became a 100% shareholding subsidiary of Yuanta Financial Holding Co., Ltd on Feb. 04, 2002, the board of directors exercises the powers of the shareholders' meeting).
1. 9th meeting of the 13th board of directors on January 23, 2017
 - (1) Approved the evaluation on independence of the CPAs in accordance with the Company's "Corporate Governance Best-Practice Principles", and appointed the CPAs from PricewaterhouseCoopers Certified Public Accountants to audit and certify the Company's financial and tax statements 2017.
 - (2) Approved the motion for definition of the Company's risk limits in 2017.
 - (3) Approved the reporting on the Company's customers who are offered the securities secured facility amounting to more than NT\$300 million.
 - (4) Approved the amendment to the Company's "Level of Authority" for business.
 2. 10th meeting of the 13th board of directors on February 22, 2017
 - (1) Approved the Company's 2017 business plan.
 - (2) Approved the Company's 2017 financial plan.
 - (3) Approved the Company's 2016 Statement on Internal Control System.
 3. 11th meeting of the 13th board of directors on March 24, 2017
 - (1) Approved the Company's 2016 business report.
 - (2) Approved the Company's 2016 financial report.
 - (3) Approved the Company's 2016 earnings distribution plan.
 4. 12th meeting of the 13th board of directors on April 26, 2017
 - (1) Ratified the Company's 2016 business report and financial report.
 - (2) Ratified the Company's 2016 earnings distribution plan.
 - (3) Ratified the amendments to certain articles of the Company's "Articles of Association".
 - (4) Approved the amendments to certain articles of the Company's "Regulations Governing the Acquisition and Disposal of Assets".
 - (5) Approved the appointment of the Company's dedicated AML/CFT officers for business.
 5. 13th meeting of the 13th board of directors on May 3, 2017

Approved the acquisition of 7F of "Tatung Building" as the Company's own business place.
 6. 15th meeting of the 13th board of directors on June 28, 2017
 - (1) Approved the follow-up on the Company's disposition of the equity of TDCC invested by the Company.

- (2) Approved the amendment to the Company's fund liquidity risk limit.
 - (3) Approved the amendment to the Company's "Internal Control System" and "Internal Audit Implementation Rules".
 - (4) Approved the amendments to the Company's "Breakdown of Responsibilities" and "Level of Authority".
7. 16th meeting of the 13th board of directors on August 17, 2017
- (1) Approved the Company's update to its 2017 financial plan.
 - (2) Approved the Company's financial statements Q2 of 2017.
 - (3) Approved the sale of the equity of TDCC invested by the Company to the interest parties, Yuanta Securities and Ta Chong Bank.
 - (4) Approved the reporting on the Company's customers who are offered the securities secured facility amounting to more than NT\$300 million.
 - (5) Approved the amendments to certain articles of the Company's "Personnel Management Rules".
 - (6) Approved the establishment of the Company's "Regulations Governing Appointment and Management of Managerial Officers".
8. 17th meeting of the 13th board of directors on October 25, 2017
- Approved the establishment of the Company's "Anti-money Laundering and Combating the Financing of Terrorism Policy".
9. 18th meeting of the 13th board of directors on November 8, 2017
- Approved the amendments to the Company's "Regulations Governing Financial Inspection Report".
10. 19th meeting of the 13th board of directors on December 27, 2017
- (1) Approved the Company's renewal of the "securities investment consulting service agreement" with Yuanta Securities Investment Consulting.
 - (2) Approved the amendments to the Company's "Capital Adequacy Management Regulations", "Market Risk Management Regulations", "Financial Transaction Credit Risk Management Regulations", "Market Liquidity Risk Management Regulations", "Capital Liquidity Risk Management Regulations", and "Large Exposure Management Regulations".
 - (3) Approved the motion for definition of the Company's risk limits in 2018.
 - (4) Approved the amendments to certain articles of the Company's "Rules for Trading with Self-Regulated Subjects".
 - (5) Approved the amendments to certain articles of the Company's operating regulations governing provision of evaluation loss reserve for assets and collection of bad debt".
 - (6) Approved the amendments to the Company's accounting system.
 - (7) Approved the Company's 2018 "Audit Plan".
 - (8) Approved the establishment of the Company's new "Guidelines Governing Anti-Money Laundering and Combating the Financing of Terrorism" and appendix and attachments thereto, and abolishment of the Company's existing guidelines governing anti-money laundering and combating the financing of

terrorism and attachments thereto.

- (9) Approved the reporting on the Company's customers who are offered the securities secured facility amounting to more than NT\$300 million.
 - (10) Approved the amendments to the Company's "Breakdown of Responsibilities" and "Level of Authority".
 - (11) Approved the amendments to certain articles of the Company's "Regulations Governing Sales Bonus for Securities Secured Loan Operations".
 - (12) Approved the amendments to certain articles of the Company's "Regulations Governing Continuing Education of Directors/Supervisors" to be in line with amendments to the relevant laws.
 - (13) Approved the Company's plan to participate in the Tatung Building urban renewal project to respond to the Government's policy and activate assets.
11. The 7th Meeting of the 13th Board of Directors on December 5, 2016
Approved the disposition of equity of TDCC invested by the Company.
 12. The 8th Meeting of the 13th Board of Directors on December 27, 2016
 - (1) Approved the motion for sale of shares of TDCC invested by the Company to the interested parties, Yuanta Securities and Yuanta Asset Management.
 - (2) Approved the Company signed the "Securities Investment Consulting Appointment contract" with the Yuanta Securities Investment Consulting.
 - (3) Approved the amendments to the "Yuanta Securities Finance Money Laundering Prevention and Combating of Financing to Terrorists" in part.
 - (4) Approved the establishment of the Company's "Regulations Governing Establishment of Team Dedicated to Review on Loan Secured by Securities".
 - (5) Approved the Company's 2017 Audit plan.
- L. Recorded or written statements made by any director or supervisor which specified dissent to important resolutions passed by the board of directors in recent years and up to the date of this annual report's publication: None.
- M. Resignation of any individual associated with the financial statements in recent years as of publication of this annual report: None.

5. Information on Service Fees Charged by the Certified Public Accountants (CPAs)

Range of Service fees by CPAs

Name of accounting firm	Name of CPAs		Audit period	Remarks
PricewaterhouseCoopers Taiwan	Sk Lin	Ellen Kuo	2017.1.1 - 2017.12.31	

Note: If changes of accounting firms or CPAs occurred in the current fiscal year, separate itemized listing and reasons are required.

Units : thousand NT\$

Range		Fees Item	Audit fees	Non-Audit expenses	Total
1	Less than 2000		✓	✓	✓
2	2,000 (inclusive) ~ 4,000		-	-	-
3	4,000 (inclusive) ~ 6,000		-	-	-
4	6,000 (inclusive) ~ 8,000		-	-	-
5	8,000 (inclusive) ~ 10,000		-	-	-
6	10,000 (inclusive) and above		-	-	-

- A. Instances where the ratio of non-audit related expenses made up more than one quarter of audit fees: None.
- B. Replacement of independent auditing firm and reduction in audit fees paid during the year of replacement compared with the previous year: None.
- C. Reduction in audit fees by more than 15% compared with the previous year: None.

6. Information on the replacement of CPAs: None

7. Chairman, President, or Managers in Charge of Finance or Accounting Affairs, Who Were Employed by the CPA Firm or its Affiliates over the Past One Year: None.

8. Equity Change, Share Transfers and Pledges Made by Directors, Supervisor(s), Manager(s), or Major Shareholder(s) who hold more than 10% of the Company's shares in Recent Years up to the Publication of This Annual Report:

A. Change in equity

Title	Name	2017		Ending Jan. 31, 2018	
		Increase (decrease) in number of shares held	Increase (decrease) in number of shares pledged	Increase (decrease) in number of shares held	Increase (decrease) in number of shares pledged
Chairman	Representative of Yuanta Financial Holdings Co. Ltd: Huang Ting-Hsien				
Director	Representative of Yuanta Financial Holdings Co. Ltd: Chuang Yu-De				
Director	Representative of Yuanta Financial Holdings Co. Ltd: Hong Rong-Ting				
Director	Representative of Yuanta Financial Holdings Co. Ltd: Kuo Hsuan-Min				
Director	Representative of Yuanta Financial Holdings Co. Ltd: Liu Ming-Lang	-	-	-	-
Supervisor	Representative of Yuanta Financial Holdings Co. Ltd: Chu Wen-Ching				
Supervisor	Representative of Yuanta Financial Holdings Co. Ltd: Liao Yueh-Jung (resigned on 2017/03/01) Huang Shi-Zhen (onboard since 2017/03/01)				
Major Shareholder	Yuanta Financial Holdings	-	-	-	-
President	Hong Rong-Ting	-	-	-	-
Senior assistant vice President	Hu Yi-Heng	-	-	-	-
Senior Assistant Vice President	Chen Ying-Ling	-	-	-	-
Senior Assistant Vice President	Wang Chia-Hsiang	-	-	-	-
Assistant Vice President	Huang Shih-Chun				
Senior President	Chen Chi-Ping	-	-	-	-
Senior Manager	Chen Chi-Ping	-	-	-	-
Senior Manager	Lin Shu-Hsiu	-	-	-	-
Manager	Teng Kai-Hung (onboard since 2017/04/01)	-	-	-	-
Former Senior Assistant Vice President	Liu Ying-Shih (resigned on 2017/04/01)	-	-	-	-

Note: Yuanta Financial Holdings Co., Ltd. holds all of the Company's shares.

B. Information on transfer of shares: None.

C. Information on equity pledged: None.

9. Information on the top 10 shareholders being related parties:

Jan. 31, 2018

Name	Shareholding Under Own Name		Shareholdings of spouse and underage children		Shareholding using other's name		Disclosure of information on related parties or spousal relationship or relations within second degree of kinship, among top ten shareholders, including their names and Name relationships		Remark
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Representative of Yuanta Financial Holdings Co. Ltd: Rong Jou Wang	400,000,000	100%	—	—	—	—	—	—	—

Note: Yuanta Financial Holdings Co., Ltd holds all shares of the company.

10. Ratio of Comprehensive Shareholdings to the Same Business Entity That is Directly or Indirectly Controlled by Directors, Supervisors, or Management: None.

IV. Financing Status

1. Corporate Capital and shareholdings

A. Sources of capital

Jan. 31, 2018

Date	Issue Price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Shares (thousand shares)	Amount (thousand NT\$)	Shares (thousand shares)	Amount (thousand NT\$)	Source of capital	Capital increase by assets other than cash	Other
2001.07	10	1,470,000	14,700,000	1,470,000	14,700,000	Capital increase via capital reserve \$700,000,000	None	Note 1
2002.07	10	1,220,000	12,200,000	1,220,000	12,200,000	Capital reduction \$2,500,000,000	None	Note 2
2005.04	10	800,000	8,000,000	800,000	8,000,000	Capital reduction \$4,200,000,000	None	Note 3
2007.11	10	900,000	9,000,000	900,000	9,000,000	Capital increase (private placement) \$1,000,000,000	None	Note 4
2008.08	10	1,500,000	15,000,000	1,500,000	15,000,000	Capital increase (private placement) \$6,000,000,000	None	Note 5
2009.05	10	1,650,000	16,500,000	1,650,000	16,500,000	Capital increase via capital reserve \$1,500,000,000	None	Note 6
2010.11	10	2,250,000	22,500,000	2,250,000	22,500,000	Capital increase via statutory surplus and capital reserve \$6,000,000,000	None	Note 7
2011.01	10	2,250,000	22,500,000	600,000	6,000,000	Capital reduction \$16,500,000,000	None	Note 8
2011.06	10	2,250,000	22,500,000	980,000	9,800,000	Capital increase via statutory surplus and capital reserve \$3,800,000,000	None	Note 9
2011.11	10	2,250,000	22,500,000	600,000	6,000,000	Capital reduction \$3,800,000,000	None	Note 10
2013.08	10	2,250,000	22,500,000	500,000	5,000,000	Capital reduction \$1,000,000,000	None	Note 11
2016.02	10	2,250,000	22,500,000	440,000	4,400,000	Capital reduction \$600,000,000	None	Note 12
2016.12	10	2,250,000	22,500,000	400,000	4,000,000	Capital reduction NT\$400,000,000	None	Note 13

- Note 1: Approved on July 13, 2001 by Securities and Futures Commission letter Tai-Tsai-Cheng- (4)-Tzu no. 145372.
 Note 2: Approved on July 19, 2002 by Securities and Futures Commission letter Tai-Tsai-Cheng-4-Tzu No. 0910140309.
 Note 3: Approved on April 8, 2005 by Financial Supervisory Commission letter Jin-Guan-Cheng-4-Tzu No. 0940111322.
 Note 4: Approved on October 19, 2007 by Financial Supervisory Commission letter Jin-Guan-Yin-6-Tzu No. 09600441890.
 Note 5: Approved on July 29, 2008 by Financial Supervisory Commission letter Jin-Guan-Yin-6-Tzu No. 09700260910.
 Note 6: Approved on April 1, 2009 by Financial Supervisory Commission letter Jin-Guan-Cheng-4-Tzu No. 0980012602.
 Note 7: Approved on November 05, 2010 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No. 0990060491.
 Note 8: Approved on January 10, 2011 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No. 0990073675.
 Note 9: Approved on May 11, 2011 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No. 1000019441.
 Note 10: Approved on October 12, 2011 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No. 1000048613.
 Note 11: Approved on August 06, 2013 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No.1020030434.
 Note 12: Approved on January 29, 2016 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No.1050002558.
 Note 13: Approved on December 05, 2016 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No.1050049578.

Jan. 31, 2018/ Unit: shares

Category of shares	Authorized capital			Remarks
	Outstanding shares (Note)	Unissued shares	Total	
Common shares	400,000,000	1,850,000,000	2,250,000,000	

Note: Unlisted company shares.

B. Shareholder structure

Jan. 31, 2018/ Unit: shares

Shareholders type Number	Governmental institutions	Financial institutions	Other institutions	Individuals	Foreign institutions and natural persons	Total
No. of shareholders	0	1	0	0	0	1
Shares held	0	400,000,000	0	0	0	400,000,000
Shareholding ratio (%)	0	100	0	0	0	100

Note: Yuanta Financial Holdings Co., Ltd. holds all of the Company's shares.

C. Distribution profile and shareholder ownership

(1) Common shares

Face value per share: 10 dollars

Jan. 31, 2018/ Unit: shares

Shareholding category	Number of shareholders	Shares held	Shareholding ratio (%)
1,000,001 and above	1	400,000,000	100%

Note: Yuanta Financial Holdings Co., Ltd. holds all of the Company's shares.

(2) Preferred shares: None

D. Major shareholders

Jan. 31, 2018/ Unit: shares

Shares	Shares held	Shareholding ratio (%)
Major shareholders		
Yuanta Financial Holdings	400,000,000	100%

Note: Yuanta Financial Holdings Co., Ltd. holds all of the Company's shares.

E. Market price per share, net value, earnings, dividends and related information for the past two years

Items		Years	2016	2017	Ending January 31, 2018 (Note 2)
Market price per share (Note1)		Highest	—	—	—
		Lowest	—	—	—
		Average	—	—	—
Net value per share		Before distribution (NT\$)	26.05	27.54	—
		After distribution (NT\$)	25.51	Note 1	—
Earnings per share		Weighted average Number of shares	445,519,126	400,000,000	—
		Earnings per share (NT\$)	0.70	5.22	—
Dividends per share		Cash dividend (NT\$)(Note 5)	0.54	3.66	—
	Stock dividend	From retained earnings	—	—	—
		From Capital Reserve	—	—	—
		Outstanding dividend accumulated	—	—	—
Return analysis		Price / earnings (P/E) ratio (Note 6)	—	—	—
		Price / dividend (P/D) ratio (Note 7)	—	—	—
		Cash dividend yield (note 8)	—	—	—

Note 1: The Company's 2017 earnings distribution motion was proposed by the Board of Directors and approved on March 21, 2018. Notwithstanding, it has not yet been resolved by the Board of Directors meeting on behalf of a shareholders' meeting.

Note 2: The information available until the date of publication of the annual report, which has been audited (reviewed) by the external auditor.

F. Dividend policy and implementation status

(1) Company dividend policy:

The company has adopted a balanced dividend policy to uphold shareholder rights and achieve long-term business sustainability goals. The total proposed dividend by the board of directors in principle may be 80% to 100% of net earnings for the year following payment taxes, amendment of losses, allocation of legal reserve, director(s) and supervisor(s) remuneration and employee bonuses. The cash portion of the dividend shall make up 50% to 100% and stock portion of the dividend shall comprise 50% or less of the total dividend distributed.

Regarding the aforementioned principle, the company will decide the most appropriate policy for the distribution of stock dividends depending on actual profitability and capital conditions accordingly. The board will prepare a proposal for such distribution plan and submit it to the shareholders' meeting for approval and execution.

(2) Implementation status: According to the Company's 2017 earnings distribution plan, the Company scheduled to allocate the cash dividend to shareholders at NT\$3.66 per share, and the total cash dividend to be allocated amounted to NT\$1,464,605 thousand. The motion is still pending resolution by the Board of Directors meeting (on behalf of a shareholders' meeting).

G. Impact on company financial results and EPS due to the issuance of bonus shares as proposed in the shareholders' meeting

Not applicable, as the Company's 2017 earnings distribution plan didn't provide the allocation of stock dividends to shareholders.

H. Employee, directors' and supervisors' remuneration

(1) The range of Employee, directors' and supervisors' remuneration as set forth in the Company's Articles of Incorporation:

Following the Company's Articles of Incorporation, if the Company is in a state of profit upon the year's final accounting (less the income before tax prior to allocation of remuneration to employees) amendment of losses from previous years, of the remaining amount, 0.01% - 5% shall be appropriated as remuneration to employees.

(2) The accounting treatment of the discrepancy for the current period, if any, between the actual distributed amount and the estimated figure (for estimating the amount of employee, directors' and supervisors' remuneration, and calculating the number of shares to be distributed as stock remuneration):

The Company is in a state of profit upon the year's final accounting (less the income before tax prior to allocation of remuneration to employees) amendment of losses from previous years, of the remaining amount, 0.01% - 5% shall be appropriated as remuneration to employees. The estimates of employee remuneration are recognized as current period's operating expenses. In case of the difference in employee remuneration between the resolution of the board of directors' meeting and the estimation, the accounting treatment will be the estimated figure.

(3) Employee remuneration approved by the board of directors:

Employees were allocated cash rewards totaling NT\$604,780 on 2017. The employee remuneration are recognized as current period's operating expenses on 2017. There was no discrepancy between the employee remuneration and recognized of the financial report.

(4) Distribution of earnings from the previous year as employee remuneration and

remuneration to directors, supervisors:

There was no discrepancy between employee bonuses and the amount allocated from the Company's 2016 earnings as passed by the board of directors and the actual amount paid out. Cash bonuses paid to employees amounted to NT\$631,410.

- I. Information on Company's share repurchase: None.

- 2. Corporate bonds Issuance: None**

- 3. Preferred Shares Issuance: None**

- 4. Global depository receipts (GDRs) issuance: None**

- 5. Employee stock options issuance: None**

- 6. Mergers and acquisitions (M&A) or sales of shares in other company for issue of new shares: None**

- 7. Implementation of Capital Utilization Plans: None**

V. Operational Highlights

1. Business Activities

A. Business scope

- (1) Main business services
 - a. Margin purchases and short sales of securities.
 - b. Refinancing to securities firms.
 - c. Cash replenishment and underwriting securities financing.
 - d. Securities underwriting financing.
 - e. Securities settlement financing.
 - f. Securities lending.
 - g. Secured loan.
 - h. Other relevant operations approved by the competent authority.

(2) Revenue summary

Unit: thousand NT\$

Items \ Years	2015		2016		2017	
	Revenue	(%)	Revenue	(%)	Revenue	(%)
Margin trading and short sale	592,784	94.50	424,049	76.98	485,318	66.40
Refinancing	14,886	2.37	12,892	2.34	13,691	1.87
Securities lending	8,853	1.41	13,034	2.37	19,364	2.65
Secured loan	10,784	1.72	100,866	18.31	212,574	29.08
Total	627,307	100.00	550,841	100.00	730,947	100.00

(3) New financial products and services in development

Seek the approval from the competent authority to include the “non-discretionary money trust” (managed by the securities finance industry) into the loan portfolios of securities secured loan and lift the restrictions imposed by laws and regulations..

B. Industry overview

(1) Margin trading and short sale

In 2017, the structure of the securities financial market remained unchanged. Notwithstanding, the securities market capital kept increasing, the stock price and volume were booming at the same time. The margin trading balance in the market kept hitting record and the Company’s margin trading balance remained about NT\$9 billion still, and the Company’s market share in the professional securities firm agency market raised to 85% approximately. Since securities firms were permitted to process margin trading and short sale operations, the market share of margin trading and short sale services provided by Yuanta Securities Finance has been declining year by year. Notwithstanding, the market was booming in 2017. The Company’s market share of margin trading and short sale operations was recovering. For the time being, the margin trading and short sale operations are still the Company’s core business areas. It will continue to serve agency securities firms, reliable, and efficient attitude, and establish collaboration partnerships with agents,

achieving a win-win outcome.

(2) Refinancing business

Refinancing services are chiefly aimed at securities traders, and not ordinary investors. Due to the relaxed funds market in recent years, securities traders have increased their capital, which has sharply reduced the need for refinancing from securities finance companies. As for stock loans to brokers, this accommodation provides stocks to securities traders so that they can make financed sales or repay shares, and is not a source of financing shares for short sale by securities trader investors. As a consequence, its balance of stock loans to brokers has always remained low. The Company's margin trading and short sale operations accounted for about 1.87% of its operating revenue in 2017.

(3) Securities lending service

The Company is still dedicated to managing securities lending operations. Notwithstanding, given that securities firms are allowed to offer wealth management services, a part of the securities lending customers turn to lend securities from the wealth management account which charges less commission. Upon the competent authority's allowance of two-way securities lending, TWSE securities lending center was added into the Company's channel for securities lending. Therefore, the Company secured wider channels for securities lending and more sources of securities. Therefore, its securities lending operations will be more active. The Company's securities lending operations accounted for about 2.65% of its operating revenue.

(4) Securities-secured financing business

The major competitor of the Company in this business refers to the secured loan by banks. The Company is primarily developing major listed on the TWSE/OTC shareholders who require funds and the general investors who hold securities and need short-term working fund badly. The Company also strengthen network or mobile phone (APP) to help customers with searches and operations, to provide customers with a more convenient and efficient way to satisfy customers' funding needs. Besides, the Company's operations for this business became more convenient and efficient than applications for loan secured by stock with pledge. This reflects the Company's business competitiveness remarkably.

Until December 2017, the balance of secured loans was NT\$13.103 billion. Secured loans will still be the first priority for business in 2018. It is expected that the proportion of business volume and gross operating profit will reach 50% or more in the future.

C. Technology and R&D:

The Company is continuing to implement an information platform and in-depth cooperation program, strengthen securities trader information services, and engage in diversified business through a franchise channel approach in conjunction with the group's diversified products, ensuring that the Company's agent services indirectly benefit.

D. Long-term and short-term business development plans

Responding to fast-changing domestic and foreign economic and financial trends, and attempting to secure a competitive advantage in the securities finance market, The Company's long-term and short-term business plans will focus on the following:

(1) Short-term plans:

- a. Solidify financing, upgrade market share, and achieve maximum benefit for the

Company:

Take advantage of its nearly 85% share of agents to embark on diversified operations including information and channel franchises, while blocking price-cutting competition by rivals. This will boost the Company's share of the margin trading and short sale balance, and maximize performance of value-added services.

- b. Stimulation of securities lending:
Upon the competent authority's allowance of two-way securities lending, TWSE securities lending center was added into Yuanta Securities Finance's channel for securities lending. Therefore, Yuanta Securities Finance secured wider channels for securities lending and more sources of securities. Therefore, its securities lending operations will be more active.

(2) Long-term plans:

- a. Secured loan operations:
Focus business on major listed/OTC shareholders, and investors who need access to funds. The sales objective is set as NT\$13.5 billion in 2018. It is expected that the objective will grow year by year.
- b. Continue to implement stage II information platform and cooperation program:
Strengthen securities trader information services to ensure that the Company's agent services are indirectly benefited to solidify relationships and increase the market share of securities finance services.
- c. Reduce operating expense ratio:
Save operating expenses to make such expenses stay less than 32% of the operating revenue, in order to stabilize the profit.
- d. Suggest the competent authority to allow new business and lift the restrictions imposed by laws and regulations:
In order to seek sustainability and long-term stable profit, the Company expects that the competent authority may allow more diversified business and flexibility.

2. Market and business Overviews

A. Market analysis

(1) Supply, demand conditions, and growth potentials

As of 2017, there were 37 consolidated securities firms and 2 security finance firms engaged in the security financing business. Looking at domestic securities market, the total stock market turnover in 2017 was NT\$ 23.9722 trillion with over 593.6 billion shares traded. At the end of 2017, the market securities margin trading balance was NT\$ 172.9 billion, the security short sale balance was 548.97 million shares, and the Company's year-end market share of margin trading was 3.83% and the market share of short sale was 2.91%. In 2017, the OTC annual stock turnover was NT\$7.6835 trillion, and the total volume was 135 billion shares. At the end of 2017, the OTC securities margin trading balance was NT\$72.8 billion and the short sale balance was 189.97 million shares. The Company's year-end security margin trading market share was 4.03% and market share of short sale was 3.5%. Thru December 2017, the balance of secured loans was NT\$13.103 billion. Secured loans will still be the first priority for business in 2018. It is expected that the proportion of the business volume and gross operating profit will reach 50% or more in the future.

- (2) Competitive niches
- a. Utilize financial holding synergy: Synergies may be created between the company's businesses and the various subsidiaries in the financial holding group. As the blueprint for the financial holding company takes shape, strategies of overall resources may be put to use, service functions can put to full effect. By expanding overall marketing channels across businesses, the company can stay on top of the pulse of the time and seize financial opportunities.
 - b. Reduce operating cost: Operation costs may be reduced by streamlining of personnel and distribution of costs throughout the group.
 - c. Strictly control credit risks: Implementation of effective and strict risk controls can raise credit quality and prevent bad debts.
- d. Develop outstanding reputation and professional level of service: Company was the first domestic securities margin trading and short sale company in Taiwan's securities market. Through the experience accumulated in financial practices and marketing networks, the company provides investors with the safe and reliable services about credit transactions margin trading and wins trust from customers with its ethical management to maintain customers' interest and right based on sustainable development.
- (3) Advantages and disadvantages for future development and response measures
- a. Advantages
 - (i) Hold more sufficient stocks source than other securities finance companies: the company has 85% market share, and owns more sufficient stocks source compared with other security finance companies and is in a position to offer more stocks for agency dealers, and investors to short sale.
 - (ii) Diversified business service: People are paying more attention to financial planning. The company can greatly enhance its competitiveness through offering a diverse range of services and leveraging the combined resources of the group.
 - b. Disadvantages
 - (i) Concern about trend for agency securities companies to be consolidated or to set up independent security financing businesses by themselves: As the market skewed towards the needs of economy of scale, many agency securities companies have been consolidated, or established their own independent security financing business which has led to decline in the agency business. As of the end of 2017, independent securities firms' share of the security finance business reached 95.49%.
 - (ii) Concern about raising of the funding cost resulting in reduction in interest spread: Interest escalation expected in the U.S.A. might cause the interest rate in the money market to escalate sluggishly, and the fund-raising cost increases in the future and thereby causes the interest spread to reduce.
 - c. Response strategies
 - (i) Consolidated security firms: Consolidated security firms with smaller scale are restricted by their small equity value and lack of security sources resulting in difficulties to expand their credit transaction volumes. The company can leverage its current advantage to assist them to turn into agency securities firms. This can reduce their risk and also increase their business volume and earnings
 - (ii) Agency securities firms: The Company will provide professional service, information, adequate source of securities, outstanding risk control, and stable operations to make Yuanta Securities Finance the only choice for agency securities firms.

B. Business Overviews

(1) Security Margin trading business

Unit: Million NT\$

Items		2016		2017	
		Amount	%	Amount	%
Investors' securities margin trading	TWSE market	4,971	70.36%	5,696	69.18%
	OTC market	2,081	29.46%	2,538	30.82%
Refinancing to securities firms	TWSE market	7	0.1%	0	0%
	OTC market	6	0.08%	0	0%
Total		7,065	100.00%	8,234	100.00%

The amounts listed above are annualized averages.

(2) Security Short sale business

Items		2016		2017	
		thousand shares	%	thousand shares	%
Investors' Security Short sale	TWSE market	13,186	59.89%	12,408	59.65%
	OTC market	4,246	19.28%	4,182	20.11%
Securities firms securities Short sale	TWSE market	3,540	16.08%	3,450	16.59%
	OTC market	1,046	4.75%	760	3.65%
Total		22,018	100.00%	20,800	100.00%

The amounts listed above are annualized averages.

(3) Secured loan operations

Unit: Million NT\$

Items		2016		2017	
		Amount	%	Amount	%
Average balance of secured loan		5,154	100.00%	11,243	100.00%

The amounts listed above are annualized averages.

- C. Usage and manufacturing processes for the company's main products : N/A.
- D. Supply situation for the company's major raw materials : N/A.
- E. A list of any suppliers and clients accounting for 10 percent or more of the company's total procurement (sales) amount in either of the 2 most recent fiscal years : None.
- F. An indication of the production volume for the 2 most recent fiscal years : N/A.
- G. An indication of the volume of units sold for the 2 most recent fiscal years : N/A.

3. Employee demographics

Jan. 31, 2018

Years		2016	2017	2018 (Note)
Number of employees	Sales personnel	36	36	37
	Administrative personnel	7	7	7
	Total	43	43	44
Average age		49.24	49.61	49.53
Average years of service		17.22	17.21	17.08
Educational level	Ph. D.	0.00%	0.00%	0.00%
	Masters	27.27%	30.23%	29.54%
	College/University	65.90%	62.79%	63.63%
	Senior high school	6.83%	6.98%	6.83%
	Below senior high school	0.00%	0.00%	0.00%

Note: Information available until the date of publication of the annual report.

4. Environmental Protection Expenditure Information: None

5. Labor Relations:

A. Retirement plans and pension funds

Following the establishment of the company in 1980, pension and severance measures were adopted and approved at the fifth board meeting of the first term to fully safeguard employees' interests. The employee pension fund management committee, formally established in March 1981, is made up of nine members who are in charge of managing the pension funds, retirement, severance, death or resignation matters in accordance with regulations. On March 1, 1998, the company revised their retirement and severance regulations in line with the Labor Standards Law. A "Pension Fund Supervision Committee" was formed and contributions to the pension fund were set at a monthly rate of 8% of salaries and wages paid. This fund has been reported to the competent authority "The Taipei City Bureau of Labor". The original employee pension fund management committee is in charge of the management and use of the chairman and management pension funds which is disbursed at the same rate as regular employees.

On July 1, 2005, with the pass of Labor Pension Act, new pension system went into effect. Under the new system, the company is obligated to contribute no less than 6% of monthly paid salaries into pension accounts with the Labor Insurance Bureau which established a more comprehensive and diverse corporate pension system.

B. Employee welfare measures

The Employee Welfare Committee was formed when the Company was first founded. An employee welfare fund was also established in accordance with regulations and corporate capital. The Company will allocate 0.15% of the operating revenue of the Company to the employee welfare fund on a monthly basis. This fund is placed under the independent custody of the Employee Welfare Committee. Assistance is also provided to employees to set up beneficial clubs and encourage long-term saving. An employee stock holding association was established in Nov. 2000, which purchases the company's stocks in regular fixed amounts and protects employee welfares after employee retirement or departure from the company.

C. Harmonious labor relations

As a financial service enterprise, the company revised personnel and work rules to conform to the Labor Standard Law and meet business operation and management requirements on March 1, 1998. Regular "Labor-management" meetings are held not only to safeguard employee rights or overall company interests, but also to include employee-friendly management concepts in each employee welfare program as well as foster communication of opinions, promoting safe and secure lifestyles and ensure harmonious interpersonal relations. Relations between management and labor have been good since the company was founded. There have been no major losses incurred from labor disputes. In 2005, there was one lawsuit concerning severance pay that resulted from a dispute between the company and one employee, Mao Hao-Hsing. The company paid the difference based on the court ruling which settled the case.

6. Major Contracts

Contract type	Counterparty	Contract beginning and ending date	Chief contents	Restrictive terms
House lease agreement (lease)	Between the company (lessor) and the other party (Lessee)	No more than 10 years as of the date of lease referred to in the various contract.	In the duration of the lease, Lessee shall not sublet, lend, assign, or make available to others, the premises. The premises can only be used as office. The relevant rights and obligations for the lease.	General legal principles.
House lease agreement (lessee)	Between the company (lessee) and the other party (lessor)	3-5 years as of the date of lease referred to in the agreement.	In the duration of the lease, Lessee shall not sublet, lend, assign, or make available to others, the premises. The premises can only be used as office. The relevant rights and obligations for the lease.	General legal principles.
Parking lot lease agreement (lease)	Between the company (lessor) and the other party (Lessee)	No more than 10 years as of the date of lease referred to in the various contract.	In the duration of the lease, Lessee shall not sublet, sublease or assign, and make available to others, the premises. Temporary storage of any other goods at the premises, if any, shall be subject to approval by laws and notified to Lessor. The premises cannot be used for any purposes other than legal ones.	General legal principles.
Parking lot lease agreement (lessee)	Between the company (lessee) and the other party (lessor)	No more than ten years as of the date of lease referred to in the agreement.	In the duration of the lease, Lessee shall not sublet, sublease or assign, and make available to others, the premises. Temporary storage of any other goods at the premises, if any, shall be subject to approval by laws and notified to Lessor. The premises cannot be used for any purposes other than legal ones.	General legal principles.

VI. Financial Statement

1. Condensed balance sheet, condensed comprehensive income statement and CPA's audit opinion for the past five (5) years.

(1) Condensed balance sheet

Unit: thousand NT\$

Items		Five years Financial Information Summary (Note1)				
		2013	2014	2015	2016	2017
Current assets		14,305,173	13,536,555	12,081,815	16,436,222	23,135,867
Property, plant and equipment		56,780	47,197	32,229	28,812	265,890
Intangible assets		6,707	5,685	7,115	5,479	4,080
Other assets		4,883,008	4,906,496	5,525,437	5,424,838	4,017,281
Total assets		19,251,668	18,495,933	17,646,596	21,895,351	27,423,118
Current liabilities	Before distribution	5,227,797	6,343,243	4,930,333	11,452,216	16,384,321
	After distribution	5,524,100	6,637,599	5,209,071	11,667,588	Note 2
Non-Current liabilities		87,741	74,730	71,621	24,622	21,205
Total liabilities	Before distribution	5,315,538	6,417,973	5,001,954	11,476,838	16,405,526
	After distribution	5,611,841	6,712,329	5,280,692	11,692,210	Note 2
Total equity attributable to the owner of parent company		13,936,130	12,077,960	12,644,642	10,418,513	11,017,592
Common stock		5,000,000	5,000,000	5,000,000	4,000,000	4,000,000
Capital reserve		3,328,301	928,301	928,301	28,301	28,301
Retained earnings	Before distribution	2,310,806	2,430,750	2,532,386	2,261,322	4,137,258
	After distribution	2,014,503	2,136,394	2,253,648	2,045,950	Note 2
Other equities		3,297,023	3,718,909	4,183,955	4,128,890	2,852,033
Treasury stock		—	—	—	—	—
Uncontrolled equity		—	—	—	—	—
Total shareholder equity	Before distribution	13,936,130	12,077,960	12,644,642	10,418,513	11,017,592
	After distribution	13,639,827	11,783,604	12,365,904	10,203,141	Note 2

Note 1: Financial information for the years of above-mentioned was audited and certified by CPAs.

Note 2: The 2017 earnings distribution plan has not yet been resolved by the Board of Directors meeting (on behalf of a shareholders' meeting).

(2) Condensed income statements

Unit: thousand NT\$

Items	Years	Five years Financial Information Summary (Note)				
		2013	2014	2015	2016	2017
Operating income		697,825	749,840	627,307	550,841	730,947
Operating gross profit		519,352	517,530	434,111	394,881	491,298
Operating profits (loss)		309,248	341,539	264,613	237,677	330,858
Non-operating income and expenses		136,294	126,951	189,762	140,466	1,892,886
Net income before tax		445,542	468,490	454,375	378,143	2,223,744
Continuing departments net income before tax		391,740	406,303	390,848	310,489	2,089,011
Non operating departments losses		—	—	—	—	—
Net profit (net loss) – current period		391,740	406,303	390,848	310,489	2,089,011
Other consolidated income (net after tax) – current period		24,697	431,830	470,190	(57,880)	(1,274,560)
Total consolidated income – current period		416,437	838,133	861,038	252,609	814,451
Net profit attributable to the owner of parent		391,740	406,303	390,848	310,489	2,089,011
Net profit attributable to uncontrolled equity		—	—	—	—	—
Net profit from total consolidated income attributable to the owner of parent		416,437	838,133	861,038	252,609	814,451
Total consolidated income attributable to uncontrolled equity		—	—	—	—	—
EPS(NT\$)		0.70	0.81	0.78	0.70	5.22

Note: Financial information for the years of above-mentioned was audited and certified by CPAs.

(3) Names of the CPAs and audited opinions for the past five years

Years	CPA Firm	CPAs	Opinion
2013	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion
2014	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion
2015	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion
2016	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion
2017	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion

2. Five years Financial Analysis

Financial analysis

Items (Note2)		Years (Note1)		Five years Financial Analysis				
		2013	2014	2015	2016	2017		
Financial Structure %	Debt-asset ratio	27.61	34.70	28.35	52.42	59.82		
	Ratio of long-term capital to property, plant and equipment	24,698.61	25,748.86	39,455.97	36,245.78	4,151.64		
Solvency %	Current ratio	274	213	245	144	141		
	Quick ratio	274	210	245	144	141		
	Interest coverage ratio	—	—	—	—	—		
Operating Ability	Receivables turnover rate (times)	—	—	—	—	—		
	Average collection days for receivables	—	—	—	—	—		
	Inventory turnover rate (times)	—	—	—	—	—		
	Payables turnover rate (times)	—	—	—	—	—		
	Average days for sale	—	—	—	—	—		
	Property, plant and equipment turnover rate (times)	11.37	14.42	15.80	18.05	4.96		
	Total asset turnover ratio (times)	0.04	0.04	0.03	0.03	0.03		
Profitability	Return on assets (%)	2.02	2.15	2.16	1.57	8.47		
	Return on equity (%)	2.72	3.12	3.16	2.69	19.49		
	Ratio of income before tax to paid-in capital (%)	8.91	9.37	9.09	9.45	55.59		
	Profit margin before tax (%)	56.14	54.19	62.31	56.37	285.80		
	EPS (NT\$)	0.70	0.81	0.78	0.70	5.22		
Cash Flow	Cash flow ratio (%)	36.07	Note 3	50.96	Note 3	Note 3		
	Cash flow adequacy ratio (%)	433.63	451.33	753.15	451.66	254.27		
	Cash flow reinvestment ratio (%)	10.93	Note 3	17.68	Note 3	Note 3		
Leveraging	Operating leverage	2.21	2.15	2.32	2.27	2.16		
	Financial leverage (Note 4)	—	—	—	—	—		

The reason for changes in financial ratio within two years:

1. The decrease in the long-term fund to property, plant and equipment in 2017 from 2016 was primarily the result of the acquisition of property in 2017.
2. The decrease in the turnover of property, plant and equipment in 2017 from 2016 was primarily the result of the acquisition of property in 2017.
3. The increase in various financial ratios for the profitability in 2017 from 2016 was primarily the result of the drastic increase in gains from sale of the equity of TDCC in 2017.
4. The decrease in cash flow adequacy ratio in 2017 from 2016 was primarily the result of the net cash outflow from business activities in 2017, 2016 and 2014.

Note 1: Financial information for the years of above-mentioned was audited and certified by CPAs.

Note 2: Calculation methods for the financial analysis are listed below:

Note 3: This ratio was not calculated due to the net operating cash flow minus cash dividend being negative in the statement of cash flows.

Note 4: Not applicable to the company.

Calculation methods:

1. Financial Structure

- (1) Debt-asset ratio = Total liabilities / Total assets.
- (2) Ratio of long-term capital to property, plant and equipment = (total equity + non-current liabilities) / net worth of property, plant and equipment.

2. Solvency

- (1) Current ratio = Current assets / Current liabilities.
- (2) Quick ratio = (Current assets - inventory - prepaid expenses) / Current liabilities
- (3) Interest coverage ratio = EBIT / Current interest expenses.

3. Operating ability

- (1) Receivables (including accounts receivable and notes receivable arising from business operations) turnover rate = net sales / average receivables (including accounts receivable and notes receivable arising from business operations) for each period.
- (2) Average collection days for receivables = 365 / receivables turn over rate.
- (3) Inventory turnover ratio = cost of sales / Average inventory.
- (4) Payables (including accounts payable and notes payable arising from business operations) turnover rate = cost of sale / average payables (including accounts payable and notes payable arising from business operations) for each period.
- (5) Average days of sale = 365 / inventory turnover rate.
- (6) Property, plant and equipment turnover rate = net sales / average net worth of property, plant and equipment.
- (7) Total asset turnover rate = net sales / average total assets.

4. Profitability

- (1) Return on assets = [after-tax income (loss) + interest expense × (1- tax rate)]/average total assets.
- (2) Return on equity = net income / average total equity.
- (3) Profit margin before tax = net income / net sales.
- (4) Earnings per share = (profit and loss attributable to owners of the parent – dividends on preferred shares) / weighted average number of issued shares.

5. Cash flow

- (1) Cash flow ratio = Net cash flow from operating activities / current liabilities.
- (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.
- (3) Cash flow reinvestment ratio = (Net cash flow from operating activities – cash dividend) / (gross property, plant and equipment value + long-term investment + other non-current assets + working capital).

6. Leverage

- (1) Operating leverage = (net operating revenue – variable operating costs and expenses) / operating income.
- (2) Financial leverage = operating income / (operating income – interest expenses).

- 3. Supervisors' Audit Report over recent years (see Page 68)**
- 4. The latest consolidated financial statements audited and certified by the CPAs (See enclosed financial report).**
- 5. Consolidated financial statements of the company and its subsidiaries audited and certified by the CPAs: None.**
- 6. Any financial problems encountered by the company and its affiliates which might affect the financial conditions of the company: None.**

Yuanta Securities Finance Co., Ltd
Supervisor's Examination Report

The Board of Directors has submitted the 2017 Business Report, Financial Statements, and Earnings Distribution Statements. The Financial Statements had been audited and certified by the CPAs, Lin Sk and Kuo Ellen of PricewaterhouseCoopers and an audit report has been issued.

The supervisors have reviewed and audited the above-mentioned documents issued, composed and presented by the Board of Directors. It is concluded that the said documents are presented fairly; therefore, a supervisor's report is hereby issued in accordance with Article 219 of the Company Act.

Yuanta Securities Finance Co., Ltd 2018 Shareholder's Meeting

Yuanta Securities Finance Co., Ltd

Supervisor: Ciou Wun-Cing

Supervisor: Huang, Shih-Chen

Dated: March 21, 2018

VII. Financial Status, Operating Results and Risk Management

1. Financial status

Unit: thousand NT\$

Items	Years		Difference	
	2017	2016	Amount	%
Current assets	23,135,867	16,436,222	6,699,645	41
Real property and equipment	265,890	28,812	237,078	823
Intangible assets	4,080	5,479	(1,399)	(26)
Other assets	4,017,281	5,424,838	(1,407,557)	(26)
Total assets	27,423,118	21,895,351	5,527,767	25
Current liabilities	16,384,321	11,452,216	4,932,105	43
Non-Current liabilities	21,205	24,622	(3,417)	(14)
Total liabilities	16,405,526	11,476,838	4,928,688	43
Common stock	4,000,000	4,000,000	0	0
Capital reserve	28,301	28,301	0	0
Retained earnings	4,137,258	2,261,322	1,875,936	83
Other equities	2,852,033	4,128,890	(1,276,857)	(31)
Total shareholder equity	11,017,592	10,418,513	599,079	6

Description of items with significant changes in the past two years:

- A. Notes to changes in current assets and total assets:
The increase in current assets and total assets in 2017 from 2016 was primarily the result of the increase in securities secured loan by NT\$4.4 billion and securities margin trading accounts by NT\$2.3 billion in 2017 from 2016.
- B. Notes to changes in property and equipment:
The increase in property and equipment in 2017 from 2016 was primarily the result of the acquisition of property in 2017.
- C. Notes to changes in intangible assets:
The decrease in intangible assets in 2017 from 2016 was primarily the result of the decrease in computer software in 2017 from 2016.
- D. Notes to changes in other assets:
The decrease in other assets in 2017 from 2016 was primarily the result of the sale of the equity of TDCC in 2017.
- E. Notes to changes in current liabilities and total liabilities:
The increase in current liabilities and total liabilities in 2017 from 2016 was primarily the result of the increase in loans in 2017 from 2016.

- F. Notes to changes in retained earnings:
The increase in retained earnings in 2017 from 2016 was primarily the result of the increase in net profit after tax in 2016.
- G. Notes to changes in other equities:
The decrease in other equities in 2017 from 2016 was primarily the result of the sale of the equity of TDCC in part in 2017, thereby causing the evaluation income on available-for-sale financial assets to decrease from 2016.

2. Financial Performance

Unit: thousand NTS

Items	Years		Increase (decrease)	Change (%)
	2017	2016		
Operating income	730,947	550,841	180,106	33
Operating gross profit	491,298	394,881	96,417	24
Operating profits (loss)	330,858	237,677	93,181	39
Non-operating income and expenses	1,892,886	140,466	1,752,420	1,248
Net income before tax	2,223,744	378,143	1,845,601	488
Continuing departments net income before tax	2,089,011	310,489	1,778,522	573
Net profit (net loss) – current period	2,089,011	310,489	1,778,522	573
Other comprehensive income - current period (Net after tax)	(1,274,560)	(57,880)	(1,216,680)	(2,102)
Total consolidated income – current period	814,451	252,609	561,842	222
Net profit attributable to the owner of parent	2,089,011	310,489	1,778,522	573
Net profit from total consolidated income attributable to the owner of parent	814,451	252,609	561,842	222

Descriptions of items with significant changes for the most recent two years:

- A. Analysis on changes in operating revenue:
The increase in operating revenue in 2017 from 2016 was primarily the result of the increase in the interest revenue from margin trading and secured loan in 2017 from 2016.
- B. Analysis on changes in non-operating revenue and expenditure:
The increase in non-operating revenue and expenditure in 2017 from 2016 was primarily the result of the sale of the equity of TDCC invested by the Company, the common stock totaling 33,149,448 shares, and recognition of the gains from disposition totaling NT\$1,723,553 thousand in 2017.
- C. Analysis on changes in the total of other comprehensive income:
The decrease in the total of other comprehensive income in 2017 from 2016 was primarily the result of the sale of the equity of TDCC in part in 2017, thereby causing the evaluation income on available-for-sale financial assets to decrease from 2016.

3. Cash flow

A. Liquidity analysis for the past two years

Items	Years		
	2017	2016	Change (%)
Cash flow ratio (%)	-	-	-
Cash flow adequacy ratio (%)	254.27	451.66	(43.70)
Cash flow reinvestment ratio (%)	-	-	-

Description of items with significant changes:

The net cash outflow from business activities in 2017 and 2016 was excluded from the calculation of cash flow ratio and cash reinvestment ratio. Furthermore, the decrease in cash flow adequacy ratio in 2017 from 2016 was primarily the result of the net cash outflow from business activities in 2017, 2016 and 2014.

B. Analysis of cash flows in the future year

Unit: thousand NT\$

Initial cash balance	Net cash flow from operating activities for the year	Cash outflow for the year	Cash balance	Corrective measures against insufficient cash position	
				Investment plans	Financing plans
36,708	(16,742)	16,742	36,708	—	—

(1) Analysis of current year's cash flows:

- (a) Operating activities: (NT\$16,742,000).
- (b) Investment activities: (NT\$13,274,000).
- (c) Financing activities: NT\$30,016,000.

(2) Liquidity analysis and countermeasures against cash insufficiency: N/A.

4. Effects of Major Capital Expenditures in the Most Recent Fiscal Year on Financial Operations:

Unit: thousand NT\$

Item	Sources of funding	Date of acquisition of the title deed	Total funding	Status of actual fund utilization 2017
Purchase 7F of Tatung Building (7F, No. 225, Sec. 3, Nanjing E. Rd., Taipei City, and 4 parking lots at basement of the Building).	Own fund	2017.6.8	235,174	235,174

Purchase certain floors of Tatung Building and parking lots at basement (Address: 7F, No. 225, Sec. 3, Nanking E. Rd., Taipei City, including 4 parking lots at B1~B2) as the business place of the Head Office.

5. Major Cause(s) for Gain/Loss due to Investment Policies in the Past Years and Improvement Plan(s) thereof and Investment Plan(s) for the Coming Year:

- A. Continue to make relevant reinvestments in line with the investment strategy of the parent Financial Holding Company and within the investment limits under the legal framework.
- B. Stock dividends from the Company's reinvestment enterprises in 2017: Taiwan Depository & Clearing Corporation 1,582,359 shares, Taiwan Futures Exchange 459,000 shares.
- C. Cash dividends from the Company's reinvestment enterprises in 2017: Taiwan Depository & Clearing Corporation NT\$94,942,000, Taiwan Futures Exchange NT\$33,660,000 are major sources of company earnings.
- D. The equity of TDCC invested by the Company sold by the Company in 2017 was the common stock totaling 33,149,448 shares, and the gains from disposition totaling NT\$1,723,553 thousand was recognized therefor

6. Risk assessment

- A. The impact of changes in recent year interest rate, exchange rate and inflation conditions on company income and the future countermeasures:
 - (1) Interest rate: The Company's main business is margin trading and short sale businesses, and the main profit is from security margin trading interest rate spreads. The spread this year (2017) is fairly equivalent to that in 2016. Further, with respect to the secured loan business serving as the Company's main business, the Company will set the interest spread range independently based on the conditions in the financial market. Therefore, no significant impact has been rendered on the Company's income.
 - (2) Exchange rate: The Company's main income is in the local currency; therefore, exchange rates do not have a significant impact on the Company's income.
 - (3) Inflation: No significant impact on the company's income.
- B. Transactions of high risk, high leverage investments, loans to others, endorsements and derivatives trading: None.
- C. Future R&D plans and planned investment of R&D funds: None.
- D. The impact of change in major policies and laws in Taiwan and abroad upon the financial standing of the company and the measures: None.
- E. The impact of technological change and industry changes upon the financial standing of the company and the countermeasures: None.
- F. The impact of change in corporate image upon the corporate risk management and the countermeasures: None.
- G. Expected benefit(s) and possible risk(s) for M&A activities: None.
- H. Expected profit and possible risks of plant expansion: None.
- I. Purchase and sales risks: None.
- J. The impact upon and potential risks for the company due to a significant transfer and the impact upon and potential risks for the company due to a significant transfer and change in shareholding of the directors and supervisors or major shareholders holding over 10%: None.
- K. The impact of change in management and its potential risks: None.

L. Litigation and non-litigation matters: None.

M. Other major risks: None.

7. Other significant events: None.

VIII. Special Notes

1. Information on affiliates for 2017

A. Relationship between the controlling company and its affiliate companies

Units: Shares; %

Name of controlling company	Reasons for control	Shareholding and pledge by the controlling company			Directors and supervisors representing the controlling company	
		Shares held	Shareholding ratio (%)	Quantity of pledged shares	Title	Name
Yuanta Financial Holdings Co., Ltd.	That company Has acquired 100% of the company shares.	400,000,000	100.00%	-	Director (Chairman) Director (President) Director Director Director Supervisor Supervisor	Huang Ting-Hsien Hong Rong-Ting Chuang Yu-De Kuo Hsuan- Min Liu Ming-Lang Ciou Wun-Cing Huang Shi-Zhen

Note: The baseline date for above information is Jan. 31, 2018.

B. Information on business transaction(s)

- (1) Purchase and Sales transaction: None.
- (2) Property transaction: None.
- (3) Capital financing: None.
- (4) Assets leasing: None.
- (5) Other important transactions: The Company submitted a consolidated income tax return report with Yuanta Financial Holdings and its subsidiaries in 2017 and, therefore, the total balance of income tax to Yuanta Financial Holdings was NT\$128,812,232.

C. Endorsement and guarantees: None

D. Other matters having significant impact on financial and business operations: None

Yuanta Securities Finance
Independent Auditor's Review on Affiliation Report

Tzu Hui Tzong Zi No. 15007547

To: Yuanta Securities Finance

You declare that the Affiliation Report for 2017 was prepared by you pursuant to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises", and that there are no significant inconsistencies between the information given above and the supplementary information disclosed in the financial statements for the above period. Please see the Declaration as shown in the attachment hereto.

We have compared the Affiliation Report prepared by you pursuant to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" with the note to your financial statements 2017, and found that there should be no significant inconsistencies in said declaration.

PricewaterhouseCoopers

Sk Lin

CPA:

Ellen Kuo

Approval Letters from the Financial Supervisory
Commission, R.O.C. (formerly named) of the Ministry of
Finance Securities and Futures Bureau:
Jin-Guan-Zheng-6-Zi No. 0960072936

Approval Letters from the Financial Supervisory
Commission, R.O.C. (formerly named) of the Ministry of
Finance:
Jin-Guan-Zheng-Shen-Zi No.1000035997

Dated: March 21, 2018

Yuanta Securities Finance' Declaration on Affiliation Report

It is hereby declared that the Affiliation Report for 2017 (from January 1, 2017 to December 31, 2017) is prepared and submitted pursuant to the “Principles and Guidelines for Preparation of the Affiliates Consolidated Business Report, Affiliates Consolidated Financial Statements, and the Report.” At the same time, there is no significant inconsistency between the information above and the supplementary information disclosed in the financial statements for the above period.

Company Name: Yuanta Securities Finance Co., Ltd

Chairman: Huang Ting-hsien

Date: March 21, 2018

2. **Private Placement of Securities in recent years as of the publication date of the annual report: None.**
3. **Shares of the Company held or disposed of by subsidiaries in recent years as of the publication date of the annual report: None.**
4. **Other supplemental items: None.**

IX. Significant Issues which might Affect Shareholders' Equity or Prices of the Shares Pursuant to Item 2, Paragraph 2, Article 36 of the Securities Exchange Act

The equity of TDCC invested by the Company sold by the Company in 2017 was the common stock totaling 33,149,448 shares, and the gains from disposition totaling NT\$1,723,553 thousand was recognized therefor.

YUANTA SECURITIES FINANCE CO., LTD.
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2017 AND 2016

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR17000492

To the Board of Directors and Shareholders of Yuanta Securities Finance Co., Ltd.

Opinion

We have audited the accompanying statements of financial position of Yuanta Securities Finance Co., Ltd. (the “Company”) as at December 31, 2017 and 2016, 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 Yuanta Securities Finance Co., Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Yuanta Securities 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 judgement, 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.

Fair value measurement of valuation of the unlisted stocks without active market

Description

For the accounting policy of the unlisted stocks without active market (Available-for-sale financial assets – non-current), please refer to Note 4(6) of the financial statements; for the details of significant accounts, please refer to Note 6(3); for the accounting estimates of fair value measurement and assumption uncertainty, please refer to Note 5, for the fair value of financial assets, please refer to Note 12(2), as of December 31, 2017, the available-for-sale financial assets of the unlisted stock was NT\$3,222,140 thousand.

The Company held unlisted stocks without active market in which the fair value was measurement using the market method, that involves certain assumptions and the significant inputs that are not based on observable market data, including the selected valuation methods, the decision of similar and comparable objects, price to earnings ratio and discount of marketability, etc. Given the subjective judgments and significant measurement uncertainty, and the impact to the financial statements is material, therefore, we have included the fair value valuation of unlisted stocks without active market as a key audit matter in our audit.

How our audit addressed the matter

In response to specific aspects of the above-mentioned key audit matter, we made use of experts to assist the evaluation of the reasonableness method, assumptions and inputs used by the management, and conducted the following procedures:

1. Understood and evaluated the policy and valuation process relevant to the fair value measurement of the unlisted stocks without active market.
2. Evaluated whether the valuation methods used by the management is appropriate and reasonable in accordance with the common industry practice.
3. Evaluated the reasonableness of data from similar companies which were selected by the management, including evaluating the similarity of its business characteristics and the relevant evidences.
4. Inspected the price to earnings ratio and the inputs of discount of marketability used in the valuation methods, and reviewed the relevant information and evidences, to confirm the reasonableness of each input.

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 Preparations of Financial Reports by Securities

Issuers” 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 the Company’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 the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including supervisors, are responsible for overseeing the Company’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 judgement 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 the Company’s internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and,

based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 the Company 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.

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.

Lin, Se-Kai

Kuo, Puo-Ju

For and on behalf of PricewaterhouseCoopers, Taiwan

March 21, 2018

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.

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

YUANTA SECURITIES FINANCE CO., LTD.
STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of New Taiwan dollars)

ASSETS	Notes	December 31, 2017		December 31, 2016	
		AMOUNT	%	AMOUNT	%
Current assets					
Cash and cash equivalents	6(1) and 7(2)	\$ 36,708	-	\$ 35,938	-
Financial assets at fair value	6(2) and 7(2)				
through profit or loss - current		34,744	-	254,395	1
Available-for-sale financial assets	6(3)				
- current		114,435	-	-	-
Margin loans receivable - net	6(5)	9,562,735	35	7,210,710	33
Security-based loans	6(6)	12,951,396	47	8,568,619	39
Other receivables	7(2)	419,108	2	327,417	2
Current income tax assets	7(2)	16,741	-	38,990	-
Prepayments		-	-	153	-
Total current Assets		<u>23,135,867</u>	<u>84</u>	<u>16,436,222</u>	<u>75</u>
Non-current assets					
Available-for-sale financial assets	6(3)				
- non-current		3,222,140	12	4,794,220	22
Held-to-maturity financial assets -	6(4) and 8				
non-current		104,577	-	105,771	1
Proper and equipment - net	6(7)	265,890	1	28,812	-
Investment property-net	6(8) and 7(2)	213,700	1	216,387	1
Intangible assets		4,080	-	5,479	-
Deferred Income tax assets	6(18)	24,380	-	25,079	-
Other non-current assets	6(5), 7(2) and 8	452,484	2	283,381	1
Total non-current assets		<u>4,287,251</u>	<u>16</u>	<u>5,459,129</u>	<u>25</u>
Total assets		<u>\$ 27,423,118</u>	<u>100</u>	<u>\$ 21,895,351</u>	<u>100</u>

(Continued)

YUANTA SECURITIES FINANCE CO., LTD.
STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of New Taiwan dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2017		December 31, 2016	
		AMOUNT	%	AMOUNT	%
Current liabilities					
Short-term borrowings	6(9)	\$ 6,375,000	23	\$ 1,080,000	5
Short-term notes and bills payable	6(10)	6,200,299	23	7,199,105	33
Short sale proceeds payable	6(5) and 7(2)	1,405,478	5	1,133,004	5
Other payables		78,110	-	94,530	-
Other payables - related parties	7(2)	691	-	518	-
Current income tax liabilities	7(2)	136,408	1	65,506	-
Deposits-in of securities finance guarantee	6(5) and 7(2)	1,314,226	5	1,050,438	5
Deposits-in of securities borrowing and lending	7(2)	872,930	3	827,368	4
Other current liabilities		1,179	-	1,747	-
Total current liabilities		<u>16,384,321</u>	<u>60</u>	<u>11,452,216</u>	<u>52</u>
Non-current liabilities					
Non-current provisions	6(11)	11,688	-	16,071	-
Other non-current liabilities	7(2)	9,517	-	8,551	-
Total non-current liabilities		<u>21,205</u>	<u>-</u>	<u>24,622</u>	<u>-</u>
Total liabilities		<u>16,405,526</u>	<u>60</u>	<u>11,476,838</u>	<u>52</u>
Equity					
Capital stock					
Common stock	6(12)	4,000,000	15	4,000,000	18
Capital reserve					
Capital reserve - Additional paid-in capital	6(13)	26,271	-	26,271	-
Capital reserve - others		2,030	-	2,030	-
Retained earnings					
Legal reserve	6(14)	2,045,950	7	1,953,648	9
Unappropriated retained earnings		2,091,308	8	307,674	2
Other equity interest	6(3)(15)	<u>2,852,033</u>	<u>10</u>	<u>4,128,890</u>	<u>19</u>
Total equity		<u>11,017,592</u>	<u>40</u>	<u>10,418,513</u>	<u>48</u>
Significant commitments and contingencies	9				
TOTAL LIABILITIES AND EQUITY		<u>\$ 27,423,118</u>	<u>100</u>	<u>\$ 21,895,351</u>	<u>100</u>

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

YUANTA SECURITIES FINANCE CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	Years ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
Operating revenue					
Interest revenue		\$ 685,057	94	\$ 511,605	93
Other operating revenue	7(2)	45,890	6	39,236	7
Total operating revenue		<u>730,947</u>	<u>100</u>	<u>550,841</u>	<u>100</u>
Operating costs					
Interest expense		(82,813)	(11)	(27,991)	(5)
Other operating costs		(156,836)	(22)	(127,969)	(23)
Total operating costs		<u>(239,649)</u>	<u>(33)</u>	<u>(155,960)</u>	<u>(28)</u>
Gross profit		491,298	67	394,881	72
Operating expenses	6(16)(17)(20) and 7(2)	(160,440)	(22)	(157,204)	(29)
Operating income		<u>330,858</u>	<u>45</u>	<u>237,677</u>	<u>43</u>
Non-operating income and expenses					
Interest income	6(4) and 7(2)	2,953	-	4,682	1 ()
Rent income	6(8)(20) and 7(2)	14,188	2	11,711	2
Dividend income		138,150	19	125,306	23
Gains on sale of investments	6(2)(3) and 7(2)	1,737,961	238	917	-
Other gains and losses	6(2)(8)	(366)	-	(2,150)	(1) ()
Total non-operating income and expenses		<u>1,892,886</u>	<u>259</u>	<u>140,466</u>	<u>25</u>
Income before income tax		2,223,744	304	378,143	68
Income tax expense	6(18)	(134,733)	(18)	(67,654)	(12)
Net income		<u>\$ 2,089,011</u>	<u>286</u>	<u>\$ 310,489</u>	<u>56</u>
Other comprehensive income					
Items not to be reclassified into profit or loss					
Gain (losses) on remeasurements of defined benefit plan	6(11)	\$ 2,767	-	(\$ 3,391)	- ()
Income tax related to components of items not to be reclassified into profit or loss		(470)	-	576	- ()
Item that may be subsequently reclassified into profit or loss					
Unrealised gains on valuation of available-for-sale financial assets	6(15)	(1,276,857)	(175)	(55,065)	(10)
Total other comprehensive loss (net of tax)		<u>(\$ 1,274,560)</u>	<u>(175)</u>	<u>(\$ 57,880)</u>	<u>(10)</u>
Total comprehensive income		<u>\$ 814,451</u>	<u>111</u>	<u>\$ 252,609</u>	<u>46</u>
Earnings per share					
Basic and diluted earnings per share	6(19)	\$	5.22	\$	0.70

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

YUANTA SECURITIES FINANCE CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of the parent							Total equity
	Notes	Common stock	Capital reserve	Retained Earnings		Unrealized gain on available-for-sale financial assets	Other equity interest	
				Legal reserve	Unappropriated retained earnings			
<u>Year 2016</u>								
		\$ 5,000,000	\$ 928,301	\$ 2,136,394	\$ 395,992	\$ 4,183,955	\$12,644,642	
		-	-	117,254	(117,254)	-	-	
		-	-	-	(278,738)	-	(278,738)	
	6(14)	-	(900,000)	-	-	-	(900,000)	
		-	-	-	310,489	-	310,489	
	6(11) (15)	-	-	-	(2,815)	(55,065)	(57,880)	
		-	-	-	307,674	(55,065)	252,609	
	6(12)	(1,000,000)	-	-	-	-	(1,000,000)	
	6(14)	-	-	(300,000)	-	-	(300,000)	
		\$ 4,000,000	\$ 28,301	\$ 1,953,648	\$ 307,674	\$ 4,128,890	\$10,418,513	
<u>Year 2017</u>								
		\$ 4,000,000	\$ 28,301	\$ 1,953,648	\$ 307,674	\$ 4,128,890	\$10,418,513	
		-	-	92,302	(92,302)	-	-	
		-	-	-	(215,372)	-	(215,372)	
		-	-	-	2,089,011	-	2,089,011	
	6(11) (15)	-	-	-	2,297	(1,276,857)	(1,274,560)	
		-	-	-	2,091,308	(1,276,857)	814,451	
		\$ 4,000,000	\$ 28,301	\$ 2,045,950	\$ 2,091,308	\$ 2,852,033	\$11,017,592	

Note 1: Employees' bonus of \$619 for the year ended December 31, 2015 have been eliminated in the statement of comprehensive income.

Note 2: Employees' bonus of \$631 for the year ended December 31, 2016 have been eliminated in the statement of comprehensive income.

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

YUANTA SECURITIES FINANCE CO., LTD.
STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 2,223,744	\$ 378,143
Adjustments			
Adjustments to reconcile profit (loss)			
Interest revenue		(688,010)	(516,287)
Depreciation (including investment property)	6(7)(8)(16)	7,543	6,902
Amortization of intangible assets	6(16)	2,064	2,948
(Reversal of) provision for bad debt expense	6(5)(6)	222	(277)
Interest expense		82,813	27,991
Dividend income		(138,150)	(125,306)
Gain on disposal of property and equipment		(935)	-
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current	6(2)	219,651	381,069
Available-for-sale financial assets - current	6(3)	(108,073)	-
Margin loans receivable	6(5)	(2,352,461)	271,934
Security-based loans	6(6)	(4,383,460)	(6,906,643)
Other receivables		(21,500)	(73,283)
Prepayments		153	96
Available-for-sale financial assets - non current		288,861	-
Other non-current assets		1,794	2,926
Changes in operating liabilities			
Short sale proceeds payable	6(5)	272,474	15,560
Deposits-in of securities finance guarantee		263,788	(23,105)
Other payables		(17,514)	19,004
Deposits-in of securities borrowing and lending		45,562	(412,870)
Other current liabilities		447	-
Employee benefit liabilities reserve		(1,616)	(48,761)
Other non-current liabilities		600	600
Cash outflow generated from operations		(4,302,003)	(6,999,359)
Interest received		619,013	453,538
Cash paid for interest		(80,879)	(28,457)
Dividend received		138,150	125,306
Income tax paid		(41,826)	(471)
Net cash flows used in operating activities		<u>(3,667,545)</u>	<u>(6,449,443)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property and equipment	6(7)(21)	(244,208)	(3,232)
Proceeds from disposal of property and equipment		1,462	-
Increase in computer software cost		(665)	(735)
Decrease (increase) in refundable deposits		(170,000)	32,228
Net cash flows (used in) from investing activities		<u>(413,411)</u>	<u>28,261</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings	6(9)	5,295,000	1,080,000
Decrease (increase) in short-term notes and bills payable	6(10)	(999,000)	5,810,000
Increase (decrease) in deposits-in		1,098	(481)
Payment of cash dividends	6(14)	(215,372)	(278,738)
Cash dividends from capital surplus	6(14)	-	(900,000)
Capital reduction payments to shareholders	6(12)	-	(1,000,000)
Cash dividends from legal reserve	6(14)	-	(300,000)
Net cash flows from financing activities		<u>4,081,726</u>	<u>4,410,781</u>
Net increase (decrease) in cash and cash equivalents		770	(2,010,401)
Cash and cash equivalents at beginning of year		35,938	2,046,339
Cash and cash equivalents at end of year	6(1)	<u>\$ 36,708</u>	<u>\$ 35,938</u>

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

YUANTA SECURITIES FINANCE CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. History and organization

- (1) Subsequent to approval from the government of the Republic of China (ROC), Yuanta Securities Finance Co., Ltd. (the “Company”), formerly Fuhwa Securities Finance Co., Ltd., was established on January 17, 1980, and commenced operations on April 21, 1980. The Company listed its stock on the Taiwan Stock Exchange (TSE) on November 25, 1994. According to the Financial Holding Company Act, the Company and Yuanta Securities Co., Ltd, made an application to establish Yuanta Financial Holding Co., Ltd. (Yuanta Financial Holding) as the listed company on the TSE through share exchanges on February 4, 2002. The Company's stock was unlisted on the same day. As of December 31, 2017 and 2016, the Company had 46 and 47 employees, respectively.
- (2) The Company is primarily engaged in providing pecuniary and securities financing facilities for the trading of listed securities, refinancing to securities firms, financing of cash capital increase and underwriting and subscription, offering loans to securities firms for dealing with underwriting, financing of securities settlement, borrowing or lending securities, and other businesses as approved by the authorities.
- (3) Yuanta Financial Holding Co., Ltd. holds 100% equity interest in the Company. Yuanta Financial Holding Co., Ltd. is the Company’s ultimate parent company.

2. The date of authorization for issuance of the financial statements and procedures for authorization

These financial statements were authorized for issuance by the Board of Directors on March 21, 2018.

3. Application of new standards, amendments and interpretations

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

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortization’	January 1, 2016

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IAS 16 and IAS 41, 'Agriculture: bearer plants'	January 1, 2016
Amendments to IAS 19, 'Defined benefit plans: employee contributions'	July 1, 2014
Amendments to IAS 27, 'Equity method in separate financial statements'	January 1, 2016
Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'	January 1, 2014
Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting'	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

The above standards and interpretations have no significant impact to the Company's financial condition and operating result based on the Branch's assessment.

(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 FSC effective from 2018 are as follows:

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

Except for the following, the above standards and interpretations have no significant impact to the

Company’s financial condition and operating result based on the Company’s assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, ‘Financial instruments’

- (a) Classification of debt instruments is driven by the entity’s business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Branch shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

The Company will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The effects of applying the new standards as of January 1, 2018 are summarised below:

In accordance with the regulations of IFRS 9 on provision for impairment loss, accounts receivable (include security-based loans) will have to be reduced by \$79,676, and retained earnings will be decreased by \$79,676.

(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 9, ‘Prepayment features with negative compensation’	January 1, 2019
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 16, ‘Leases’	January 1, 2019
IFRS 17, ‘Insurance contracts’	January 1, 2021

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
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. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 16, 'Leases'

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

4. Summary of significant accounting policies

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

(1) Compliance statement

These financial statements are prepared by the Company in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of 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) Available-for-sale financial assets measured at fair value.
- (C) Defined benefit liabilities recognised based on the net amount of pension fund assets plus unrecognised past service cost and unrecognised actuarial losses, and less unrecognised actuarial gains and present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment

or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

A. Items included in the financial statements of the Company is measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in New Taiwan dollars, which is the Company’s functional and presentation currency.

B. Foreign currency 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 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.

(C) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(D) All foreign exchange gains and losses are presented in the statement of comprehensive income within ‘other gains and losses’.

(4) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(A) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(B) Assets held mainly for trading purposes;

(C) Assets that are expected to be realised within twelve months from the balance sheet date.

(D) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (A) Liabilities that are expected to be settled within the normal operating cycle;
- (B) Liabilities arising mainly from trading activities;
- (C) Liabilities that are to be settled within twelve months from the balance sheet date;
- (D) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash and cash equivalents

Cash equivalents refer to short-term highly liquid investments that meet both the following criteria:

- A. Readily convertible to known amount of cash.
- B. Subject to an insignificant risk of changes in value.

(6) Financial assets and liabilities

In accordance with IFRSs as endorsed by the FSC, all the financial assets and liabilities are recognized in the balance sheet and are properly classified.

A. Financial assets

All financial assets held by the Company are classified into the following four categories: “loans and receivables”, “financial assets at fair value through profit and loss”, “held-to-maturity financial assets” and “available-for-sale financial assets”.

(A) Regular way purchase or sale

Financial assets held by the Company are all accounted for using trade date accounting.

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

- a. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.
- b. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(C) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include margin loans receivable, security-based loans, accounts receivable, other receivables, etc. Those loans and receivables are measured at the basis of fair value plus transaction cost and measured using effective interest rate method, subsequently. Interest accruing on such financial assets are recognized as ‘interest revenue’. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

(D) Available-for-sale financial assets

- a. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- b. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. The cumulative valuation gain or loss is recognized as gain and loss in the period when it is derecognized from the financial assets. The fair value of unlisted stocks without active market held by the Company is evaluated by the evaluation method.

(E) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables and those that are designated as at fair value through profit or loss or as available-for-sale on initial recognition. Held-to-maturity financial assets are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognised in profit or loss.

B. Determination of fair value

Fair value and hierarchy information on financial instruments are provided in Note 12(2).

(7) Impairment of financial assets

- A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (A) Significant financial difficulty of the issuer or debtor;
 - (B) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (C) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (D) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
 - (E) The disappearance of an active market for that financial asset because of financial difficulties;
 - (F) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although

the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(G) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or

(H) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(A) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(B) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(8) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when the following conditions are met:

A. There is a legally enforceable right to offset the recognized amounts; and

B. There is an intention to settle on a net basis or realize the asset and settle the liability

simultaneously.

(9) Margin loans, short sale stock loans, securities borrowed and security-based loans

- A. According to the “Regulations Governing Securities Finance Enterprises” (RGSFE), margin loans primarily represent pecuniary financing to investors or refinancing to securities firms. The margin loans are accounted for “Margin loans receivable” as incurred and such loans are secured by the securities purchased by the investors, and the Company records these securities at par value under the memorandum accounts “securities held for collateral” and “liability for holding collateral securities”, and is not included in the balance sheets.
- B. According to Article 10 of the RGSFE, when providing margin loans to principals, the Company shall obtain the margin pursuant to the ratio prescribed by the competent authority.
- C. Short sale stock loans represent securities financing affected by lending securities in custody that are received from margin loans, guarantee effects or borrowed securities, to investors. When the securities are lent to investors, the Company records the par value of the securities lent under the memorandum account “short sale stock loans”. Additionally, according to Article 10 of the RGSFE, the investors need to deposit a regulated amount equal to a certain percentage of the proceeds from short sale stock financing or equivalent collateral as guarantee with the Yuanta Company. The proceeds are accounted for as “deposits - in”. The Company deals with these securities at par value under the memorandum account “Guarantee deposits”. The proceeds from sale of securities lent, less any dealer's commission, financing commission and securities exchange tax, are held by the Company as collateral and recorded under “Short sale proceeds payable”.
- D. In accordance with the order, when the securities financed by borrowers terminate trading, are delisted from the stock market, or are the securities of the borrowers’ credit accounts which are unable to be disposed of, these margin loans will be recorded as “Other receivables” or “Overdue receivables” according to the results of negotiation or collection. When the maintenance of secured accounts is less than the regulatory standard and the borrower does not pay a portion of the remaining loans after offsetting the proceeds from disposal of securities, the related margin loans shall be recorded as overdue receivables.
- E. Securities borrowed represent securities borrowed from one broker/dealer to another, who must eventually return the same security as repayment. When the securities are borrowed from investors, the Company records the par value of the securities borrowed under the memorandum account “securities borrowed”. The borrower needs to deposit an amount equal to a certain percentage of the proceeds from securities borrowed or equivalent collateral as guarantee with the Company. The proceeds are accounted for as “Refundable deposits for securities lending”. The Company deals with securities at par value under the memorandum account “Refundable collaterals”. When the securities are lent to investors, the Company records the par value of the securities lent under the memorandum account “Short sale stock loans”. Additionally, a lender needs to deposit an amount equal to a certain percentage of the proceeds from securities lent or

equivalent collateral as guarantee with the Company. The proceeds are accounted for as “Deposits-in”. The Company deals with these securities at par value under the memorandum account “Collaterals received”.

- F. “Security-based loans” are loans provided to borrowers in accordance with the RGSFE. Upon the occurrence of a loan, “Security-based loans” is recorded and the borrower pledges securities from margin trading, central government bonds and treasury bills and others that are approved by the competent authority as collateral. For the collateral, the Company records it in its memorandum under “Securities held for collateral” and its converse account “Collaterals received”, which is not recorded in the general ledger.

(10) Property and equipment

- A. Property and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised. Property and equipment apply cost model and are depreciated using the straight-line method based on the estimated economic useful lives of the assets, except for leasehold improvements which are amortized based on useful lives or the terms of the contract. The assets’ residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

Land is not depreciated. Depreciation for other assets is provided on a straight-line basis over the estimated useful lives of the assets. Useful life is as follows:

Buildings	20~55 years
Computer equipment	4 years
Transportation equipment	5 years
Other equipment	4~6 years

- B. 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.
- C. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the statement of comprehensive income within ‘other gains and losses’.

(11) Investment property

Investment property of the Company is the property held either to earn long-term rental income or for capital appreciation or for both. 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 55 years.

The fair value of investment property is disclosed in the financial statements at each balance sheet

date. Each year, the appraisal of fair value is conducted by external appraisal contractor, and managing segments of the Company review the characteristics, location and status of the investment property to determine its fair value accordingly. However, the fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

(12) Lease

Pursuant to IAS 17 and IFRIC 4 as endorsed by the FSC, lease contracts can be divided into operating lease and finance lease.

The lease contracts of the Company includes operating leases and finance leases.

A. Operating lease

Payments that the Company receives or charges under the operating lease are recognized as gain and loss on a straight-line basis during the contract term, which are recognized under “operating expenses” and “rental income”, respectively. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

B. Finance lease

When the Company is the lessee, the lower of fair value of lease assets or the lowest present value of the lease payment is capitalized. Rental payment is amortized to finance leasing liabilities and the interest expense is recognized. Interest expense is calculated based on the beginning balance of finance leasing liabilities of each period using the leasing embedded interest rate or incremental borrowing interest rate and recognized as gains and losses. Finance leasing liabilities are recognized under “other current liabilities” and “other non-current liabilities”. Property and equipment acquired through finance leasing contract are measured by cost model.

(13) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 5 years.

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

(15) Revenue recognition

The Company’s revenues are recognized as incurred, which mainly include:

- A. Financing interest income: financing interest income refers to interest income received from providing financing service, which is recognized on an accrual basis during the financing periods.
- B. Service fee income on margin trading: service fee income on margin trading refers to service fee charged for processing margin trading, which is recognized on an accrual basis during the margin trading periods.
- C. Income on securities lending: income on securities lending refers to income and service fee income the lender receives from the borrower for securities lending, which is recognized on an accrual basis during the securities lending periods.
- D. Revenues from security-based loans: interest revenue received from secured loans provided, which are accounted for within the loan period under an accrual basis.

(16) 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 recognized as expenses in that period when the employees render service.

B. Pensions

(A) Defined contribution plans

For the defined contribution plans, the Company has no legal or constructive obligation to make additional contributions after a fixed amount was contributed to the independent and public pension fund accounts. The contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(B) Defined benefit plans

- a. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. 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 recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using market yields at the balance sheet date on high-quality corporate bonds with a currency and term consistent with the currency and term of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rate of government bonds (at the balance sheet date) instead.

b. Remeasurement of defined benefit plans are recognised in other comprehensive income in the current period and presented under retained earnings.

C. Employees' compensation

Employees' compensation 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.

(17) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- 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 operates and generates 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 10% 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.
- C. Deferred income tax is recognized, 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.
- D. Deferred income tax assets are recognized 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, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when 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.
- F. In accordance with Article 49 of the Financial Holding Company Act and Income Tax Act, the Company selected the parent company, Yuanta Financial Holding Co., Ltd., as the taxpayer to file the tax returns for the profit-seeking enterprise income tax and the additional 10% tax payment levied on undistributed earnings. When filing the tax return, the Company shall first compute its income tax on an individual filing basis pursuant to the IAS No. 12, "Income Taxes". However, for the appropriation received for the tax returns, current deferred income tax

assets (liabilities) or current income tax liabilities (current income tax assets) shall be adjusted on a reasonable, systematic, and consistent basis.

(18) Dividends

Dividends are recorded in the Company’s financial statements in the period in which they are approved by the Company’s shareholders. Cash dividends are recorded as liabilities.

(19) 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. Critical accounting, 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. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. The information is addressed below:

Financial assets—fair value measurement of unlisted stocks without active market

The Company held unlisted stocks without active market in which the fair value was measured using the market method. The main assumption of this method is the decision of similar and comparable object, and obtaining the most recent price to earnings ratio as the basis for calculation and also the consideration of marketability discount. Any changes in these judgments and estimates could impact the fair value measurement of these unlisted stocks. For the financial instruments fair value information, please refer to the explanation in Note 12(2).

6. Details of significant accounts

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and petty cash	\$ 350	\$ 550
Checking accounts	3,742	3,844
Demand deposits		
- NTD	32,616	31,543
- USD	-	1
Total	<u>\$ 36,708</u>	<u>\$ 35,938</u>

A. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. For the Company’s demand deposits pledged as collateral, which have been classified as refundable deposits under other non-current asset, please refer to the explanations in Note 8.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<u>Equity instruments</u>		
Beneficiary certificates	\$ 35,100	\$ 255,000
Adjustment of beneficiary certificates	(356)	(605)
Total	<u>\$ 34,744</u>	<u>\$ 254,395</u>

A. For the years ended December 31, 2017 and 2016, net gain (loss) on related financial assets were as follows:

	<u>2017</u>	<u>2016</u>
Realized gain on disposal:		
Beneficiary certificates	<u>\$ 2,452</u>	<u>\$ 917</u>
Unrealized gain (loss) on disposal:		
Beneficiary certificates	<u>\$ 249</u>	<u>(\$ 1,069)</u>

B. The Company has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

<u>Item</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current items:		
Listed stocks	\$ 108,073	\$ -
Valuation adjustments	<u>6,362</u>	<u>-</u>
	<u>\$ 114,435</u>	<u>\$ -</u>
Non-current items:		
Unlisted stocks	\$ 376,469	\$ 665,330
Valuation adjustments	<u>2,845,671</u>	<u>4,128,890</u>
	<u>\$ 3,222,140</u>	<u>\$ 4,794,220</u>

A. Pursuant to IAS 39, 'Financial Instruments: Recognition and Measurement', financial instruments classified as 'available-for-sale financial assets' should be measured at fair value. As above mentioned unlisted stocks do not have a quoted market price in an active market, their fair values shall be measured in accordance with the Company's regulations governing valuation of unlisted equity securities. The information of fair value measurement and evaluation, please refer to Note 12(2)B.(F).

B. For the years ended December 31, 2017 and 2016, net gain (loss) on disposal of related financial assets were \$1,735,509 and \$0, respectively.

C. On August 17, 2017, the Board of Directors of Yuanta Securities Finance Co., Ltd. resolved to sell a total of 33,149 thousand shares held by TDCC to Yuanta Securities Co., Ltd. and Ta Chong Commercial Bank Co., Ltd.. The transaction was approved by the Financial Supervisory Commission (FSC) on October 20, 2017, and the transaction was settled on October 31, 2017.

(4) Held-to-maturity financial assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Non-current items:		
Government bonds	\$ 104,577	\$ 105,771

A. As of December 31, 2017 and 2016, the effective interest rates of the bonds held by the Company was both 1.13%~1.56%.

B. The Company recognized interest income of \$1,433 and \$1,447 in profit or loss for amortized cost for the years ended December 31, 2017 and 2016, respectively.

C. For the Company's government bonds pledged as collateral, please refer to the explanations in Note 8.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Margin loans receivable	\$ 9,563,728	\$ 7,211,267
Less: Allowance for doubtful accounts	(993)	(557)
	<u>\$ 9,562,735</u>	<u>\$ 7,210,710</u>
Short sale proceeds payable	<u>\$ 1,405,478</u>	<u>\$ 1,133,004</u>

A. The percentages of margin loans for listed stocks were 60% (TSE) and 60% (OTC) in 2017 and 2016, respectively. Interest rates for pecuniary financing to securities firms and investors were both 6.25% per annum in 2017 and 2016.

B. As of December 31, 2017 and 2016, the stipulated percentage of deposits from the proceeds of short sale stock financing (recognized as 'deposits-in of securities finance guarantee') was 90%. The annual interest rates on the short sale proceeds payable and deposits-in in 2017 and 2016 were both 0.2%.

C. As of December 31, 2017 and 2016, the stipulated percentage of deposits from securities lending business (shown in "deposits-in of securities borrowing and lending") was both 140%. The annual interest rate on the interest payable for such deposits in 2017 and 2016 was both 0.2%.

D. Due to the insufficient margin percentage for collateral from a decrease in stock price, the uncovered balance of the margin loans by disposing of the respective stocks was recorded as overdue receivables. As of December 31, 2017 and 2016, the details for the Company's non-current assets—overdue receivables were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Overdue receivables	\$ 7,468	\$ 9,262
Less: Allowance for doubtful accounts	(3,734)	(4,631)
	<u>\$ 3,734</u>	<u>\$ 4,631</u>

(6) Security-based loans

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Security-based loans	\$ 12,952,741	\$ 8,569,281
Less: Allowance for doubtful accounts	(1,345)	(662)
	<u>\$ 12,951,396</u>	<u>\$ 8,568,619</u>

The Company conducts security-based loans in accordance with “Regulations Governing Securities Finance Enterprises”, where loans are provided using the collateral’s closing price or par value of the previous business day, provided they are within the regulated limit. However, the value of collateral may change due to subsequent factors such as market supply and demand.

(7) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Computer equipment</u>	<u>Transportation equipment</u>	<u>Other equipment</u>	<u>Others</u>	<u>Total</u>
At January 1, 2017							
Cost	\$ 29,404	\$ 21,970	\$ 28,069	\$ 11,555	\$ 15,792	\$ -	\$ 106,790
Accumulated depreciation and Impairment	(18,321)	(13,605)	(26,816)	(8,091)	(11,145)	-	(77,978)
	<u>\$ 11,083</u>	<u>\$ 8,365</u>	<u>\$ 1,253</u>	<u>\$ 3,464</u>	<u>\$ 4,647</u>	<u>\$ -</u>	<u>\$ 28,812</u>
<u>2017</u>							
Opening net book amount	\$ 11,083	\$ 8,365	\$ 1,253	\$ 3,464	\$ 4,647	\$ -	\$ 28,812
Additions	200,641	34,533	993	1,374	-	4,920	242,461
Disposals - cost	-	-	-	(3,458)	(7,040)	-	(10,498)
- Accumulated depreciation	-	-	-	2,931	7,040	-	9,971
Depreciation	-	(1,224)	(876)	(1,040)	(1,716)	-	(4,856)
Transfers - cost	-	-	580	-	(580)	-	-
- Accumulated depreciation	-	-	(435)	-	435	-	-
Closing net book amount	<u>\$ 211,724</u>	<u>\$ 41,674</u>	<u>\$ 1,515</u>	<u>\$ 3,271</u>	<u>\$ 2,786</u>	<u>\$ 4,920</u>	<u>\$ 265,890</u>
At December 31, 2017							
Cost	\$ 230,045	\$ 56,503	\$ 29,642	\$ 9,471	\$ 8,172	\$ 4,920	\$ 338,753
Accumulated depreciation and Impairment	(18,321)	(14,829)	(28,127)	(6,200)	(5,386)	-	(72,863)
	<u>\$ 211,724</u>	<u>\$ 41,674</u>	<u>\$ 1,515</u>	<u>\$ 3,271</u>	<u>\$ 2,786</u>	<u>\$ 4,920</u>	<u>\$ 265,890</u>
	<u>Land</u>	<u>Buildings</u>	<u>Computer equipment</u>	<u>Transportation equipment</u>	<u>Other equipment</u>	<u>Others</u>	<u>Total</u>
At January 1, 2016							
Cost	\$ 29,404	\$ 21,970	\$ 27,990	\$ 10,868	\$ 30,506	\$ 19	\$ 120,757
Accumulated depreciation and Impairment	(18,321)	(13,340)	(25,794)	(7,183)	(23,890)	-	(88,528)
	<u>\$ 11,083</u>	<u>\$ 8,630</u>	<u>\$ 2,196</u>	<u>\$ 3,685</u>	<u>\$ 6,616</u>	<u>\$ 19</u>	<u>\$ 32,229</u>
<u>2016</u>							
Opening net book amount	\$ 11,083	\$ 8,630	\$ 2,196	\$ 3,685	\$ 6,616	\$ 19	\$ 32,229
Additions	-	-	130	687	-	558	1,375
Disposals - cost	-	-	(221)	-	(14,544)	-	(14,765)
- Accumulated depreciation	-	-	221	-	14,544	-	14,765
Depreciation	-	(265)	(1,116)	(908)	(1,926)	-	(4,215)
Transfers - cost	-	-	170	-	(170)	(577)	(577)
- Accumulated depreciation	-	-	(127)	-	127	-	-
Closing net book amount	<u>\$ 11,083</u>	<u>\$ 8,365</u>	<u>\$ 1,253</u>	<u>\$ 3,464</u>	<u>\$ 4,647</u>	<u>\$ -</u>	<u>\$ 28,812</u>
At December 31, 2016							
Cost	\$ 29,404	\$ 21,970	\$ 28,069	\$ 11,555	\$ 15,792	\$ -	\$ 106,790
Accumulated depreciation and Impairment	(18,321)	(13,605)	(26,816)	(8,091)	(11,145)	-	(77,978)
	<u>\$ 11,083</u>	<u>\$ 8,365</u>	<u>\$ 1,253</u>	<u>\$ 3,464</u>	<u>\$ 4,647</u>	<u>\$ -</u>	<u>\$ 28,812</u>

(8) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
At January 1, 2017			
Cost	\$ 273,195	\$ 235,682	\$ 508,877
Accumulated depreciation and impairment	(141,450)	(151,040)	(292,490)
Total	<u>\$ 131,745</u>	<u>\$ 84,642</u>	<u>\$ 216,387</u>
<u>2017</u>			
At January 1	\$ 131,745	\$ 84,642	\$ 216,387
Depreciation expense	-	(2,687)	(2,687)
At December 31	<u>\$ 131,745</u>	<u>\$ 81,955</u>	<u>\$ 213,700</u>
At December 31, 2017			
Cost	\$ 273,195	\$ 235,682	\$ 508,877
Accumulated depreciation and impairment	(141,450)	(153,727)	(295,177)
Total	<u>\$ 131,745</u>	<u>\$ 81,955</u>	<u>\$ 213,700</u>
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
At January 1, 2016			
Cost	\$ 273,195	\$ 235,682	\$ 508,877
Accumulated depreciation and impairment	(141,450)	(148,353)	(289,803)
Total	<u>\$ 131,745</u>	<u>\$ 87,329</u>	<u>\$ 219,074</u>
<u>2016</u>			
At January 1	\$ 131,745	\$ 87,329	\$ 219,074
Depreciation expense	-	(2,687)	(2,687)
At December 31	<u>\$ 131,745</u>	<u>\$ 84,642</u>	<u>\$ 216,387</u>
At December 31, 2016			
Cost	\$ 273,195	\$ 235,682	\$ 508,877
Accumulated depreciation and impairment	(141,450)	(151,040)	(292,490)
Total	<u>\$ 131,745</u>	<u>\$ 84,642</u>	<u>\$ 216,387</u>

A. Rental income from the lease of the investment property and direct operating expenses arising from the investment property are shown below:

	<u>2017</u>	<u>2016</u>
Rental income from the lease of the investment property	<u>\$ 11,310</u>	<u>\$ 11,711</u>
Direct operating expenses arising from the investment property that generated rental income in the period	<u>\$ 3,081</u>	<u>\$ 3,034</u>

B. For the fair value of investment property held by the Company, the fair value of the subject property is estimated by an accredited external independent valuation appraiser

under“Regulations on Real Estate Appraisal” and two specific valuation approaches, which are outlined below:

- (a) Comparison approach is a method based on the value of the comparable property, which is compared, analyzed, and adjusted in order to estimate the value of the subject property. The comparable property is decided by reference to observable price level with active market in neighboring regions.
- (b) The direct capitalization method of the income approach is a method to estimate the value of the subject property which apply an appropriate capitalization rate on the date of value opinion to capitalize the average objective annual net operating income in the future into an indication of value, and should take into account the income of neighboring similar properties based on their highest and best uses.

Without significant transactions or material changes in the environment (such as changes in regulations and policies, market prices, or interest rates), the Company appointsan accredited external independentvaluation appraiser every half year to issue an appraisal report. For investment property without an appraisal report, the Company estimates the fair value by referencing the most recent valuations based on the income approach provided by external independent valuation companies. After assessing Level 2 fair values, the primary assumptions are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Direct capitalization method of the income approach		
Capitalization rate	<u>2.51%</u>	<u>2.19%~3.16%</u>

The fair value of the Company’s investment property at December 31, 2017 and 2016 was \$375,419 and \$383,030, respectively.

(9) Short-term borrowings

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unsecured loans	<u>\$ 6,375,000</u>	<u>\$ 1,080,000</u>
Annual interest rates	<u>0.60~1.16%</u>	<u>0.60%</u>

In accordance with Article 4 of the “Regulations Governing the Central Bank of the Republic of China (Taiwan) Administration of Accommodations Extended by Banks to Securities Finance Companies or Securities Firms”, the total capital borrowed by a securities finance company from all banks should not exceed 6 times a securities finance company’s net assets value, and a securities finance company’s total liabilities should not exceed 11.5 times its net assets value.

(10) Short-term notes and bills payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Commercial paper payable	\$ 6,201,000	\$ 7,200,000
Less: Discount on commercial paper payable	(701)	(895)
Total	<u>\$ 6,200,299</u>	<u>\$ 7,199,105</u>

A. The annual interest rate of commercial paper payable for the years ended December 31, 2017 and 2016 was 0.52%~0.57% and 0.64%~0.74%, respectively.

B. Pursuant to Article 56 of Regulations Governing Securities Finance Enterprises, the Company's total amount of issued commercial paper shall not exceed six times the net worth of the Company.

(11) Pension

A.(a) The Company has a defined benefit pension plan in accordance with the Labor Standard Law (the "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. The Company provides benefits based on an employees' length of service and average salary or wage of the last 6 months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit for each additional year of service thereafter, with a maximum of 61 units. The Company contributes monthly an amount equal to 8% of employees' monthly base salaries and wages to an independent fund with the Bank of Taiwan, the trustee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

(b) The amounts recognized in the balance sheet are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	\$ 74,929	\$ 88,097
Fair value of plan assets	(63,241)	(72,026)
Net defined benefit liability	<u>\$ 11,688</u>	<u>\$ 16,071</u>

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	\$ 88,097	(\$ 72,026)	\$ 16,071
Current service cost	1,723	-	1,723
Interest expense (income)	<u>1,057</u>	<u>(865)</u>	<u>192</u>
	<u>90,877</u>	<u>(72,891)</u>	<u>17,986</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	309	309
Change in financial assumptions	1,182	-	1,182
Experience adjustments	<u>(4,258)</u>	<u>-</u>	<u>(4,258)</u>
	<u>(3,076)</u>	<u>309</u>	<u>(2,767)</u>
Pension fund contribution	-	<u>(3,445)</u>	<u>(3,445)</u>
Paid pension	<u>(12,872)</u>	<u>12,786</u>	<u>(86)</u>
Balance at December 31	<u>\$ 74,929</u>	<u>(\$ 63,241)</u>	<u>\$ 11,688</u>
Year ended December 31, 2016			
Balance at January 1	\$ 85,592	(\$ 24,151)	\$ 61,441
Current service cost	2,091	-	2,091
Interest expense (income)	<u>1,455</u>	<u>(410)</u>	<u>1,045</u>
	<u>89,138</u>	<u>(24,561)</u>	<u>64,577</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	101	101
Change in financial assumptions	3,536	-	3,536
Experience adjustments	<u>(246)</u>	<u>-</u>	<u>(246)</u>
	<u>3,290</u>	<u>101</u>	<u>3,391</u>
Pension fund contribution	-	<u>(51,897)</u>	<u>(51,897)</u>
Paid pension	<u>(4,331)</u>	<u>4,331</u>	<u>-</u>
Balance at December 31	<u>\$ 88,097</u>	<u>(\$ 72,026)</u>	<u>\$ 16,071</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor

Retirement Fund” (Article 6: The scope of utilization 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 utilization 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 IAS19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

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

	<u>2017</u>	<u>2016</u>
Discount rate	<u>1.00%</u>	<u>1.20%</u>
Future salary increases	<u>2.50%</u>	<u>2.50%</u>

Assumptions regarding future mortality experience for 2017 and 2016 are set based on the Taiwan Standard Ordinary Experience Mortality Table (2011).

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

	<u>Discount rate</u>		<u>Future salary increases</u>	
	Increase <u>0.25%</u>	Decrease <u>0.25%</u>	Increase <u>0.25%</u>	Decrease <u>0.25%</u>
December 31, 2017				
Effect on present value of defined benefit obligation	<u>(\$ 1,474)</u>	<u>\$ 1,514</u>	<u>\$ 1,302</u>	<u>(\$ 1,276)</u>
December 31, 2016				
Effect on present value of defined benefit obligation	<u>(\$ 1,793)</u>	<u>\$ 1,844</u>	<u>\$ 1,597</u>	<u>(\$ 1,564)</u>

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2018 amounts to \$2,108.

(g) As of December 31, 2017, the weighted average duration of that retirement plan is 9 years.

B.(a) 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.

(b) Under the defined contribution pension plan, the Company recognized pension expense of \$1,738 and \$1,663 for the years ended December 31, 2017 and 2016, respectively.

(12) Common stock (Par value per share is expressed in New Taiwan Dollars)

A. As of December 31, 2017 and 2016, the Company’s authorized capital was \$22,500,000 with a par value of \$10 (in dollars) per share; the common stocks and outstanding common stocks issued were 400,000 thousand shares (including 186,667 thousand shares through private placement), respectively.

B. On October 28, 2015, the Company’s Board of Directors on behalf of the stockholders’ meeting resolved for a capital reduction of 60,000 thousand shares with a par value of \$10, totaling \$600 million and accounting for a 12% capital reduction. On January 29, 2016, the competent authority approved the capital reduction and the capital reduction record date was on February 15, 2016.

C. On September 28, 2016, the Company’s Board of Directors on behalf of the stockholders’ meeting resolved for a capital reduction of 40,000 thousand shares with a par value of \$10, totaling \$400 million and accounting for a 9.09% capital reduction. On December 5, 2016, the competent authority approved the capital reduction and the capital reduction record date was on December 15, 2016.

(13) Capital reserve

Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(14) Retained earnings

A. Under the Company’s Articles of Incorporation, the current year’s earnings, if any, shall first be used to pay all taxes and offset prior years’ operating losses and then appropriate special reserve in accordance with regulations after appropriating 30% of the remaining amount as legal reserve. The remainder, if any, shall be appropriated after a resolution for distribution prepared by the Board of Directors has been approved by the stockholders’ meeting.

- B. Effective from January 1, 1994, the Company sets aside 30% of net income after tax as legal reserve following the instructions of Ministry of Finance. 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 distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- D. The Board of Directors (acting on behalf of the stockholders) of the Company on April 26, 2017 and April 26, 2016 resolved to appropriate 2016 and 2015 earnings. The details are as follows:

	2016		2015	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 92,302		\$ 117,254	
Cash dividends	215,372	\$ 0.54	278,738	\$ 0.63

- E. The appropriation of the Company's 2017 earnings as proposed by the Board of Directors on March 21, 2017 is as follows:

	2017	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 626,703	
Cash dividends	1,464,605	\$ 3.66

- F. On February 26, 2016, the Company's Board of Directors resolved to distribute cash dividends of approximately \$2.72 per share, totaling \$1,200 million, of which \$300 million were from legal reserve and \$900 million were from capital reserve. On March 11, 2016, the FSC approved the distribution. On April 26, 2016, the Company's Board of Directors (acting on behalf of the stockholders) approved the distribution.
- G. For information relating to employees' compensation, please refer to Note 6(17).

(15) Other equity items

	<u>2017</u>	<u>2016</u>
Unrealised gain on valuation of available-for-sale financial assets		
At January 1	\$ 4,128,890	\$ 4,183,955
Revaluation in the period	458,652	(55,065)
Reclassification to profit or loss	(1,735,509)	-
At December 31	<u>\$ 2,852,033</u>	<u>\$ 4,128,890</u>

(16) Expenses by nature

	<u>2017</u>	<u>2016</u>
Employee benefits expense	\$ 85,669	\$ 88,365
Property and equipment depreciation	4,856	4,215
Intangible assets amortisation	2,064	2,948
Rental expenses	12,427	12,764
Taxes	17,512	13,341
Professional fees	11,787	10,848
Others expenses	26,125	24,723
Operating expenses	<u>\$ 160,440</u>	<u>\$ 157,204</u>

(17) Employee benefits expense

	<u>2017</u>	<u>2016</u>
Salaries	\$ 74,091	\$ 75,629
Labor and health insurance fees	4,112	4,096
Pension expense	3,653	4,799
Other expenses	3,813	3,841
	<u>\$ 85,669</u>	<u>\$ 88,365</u>

A. In accordance with the Company's Articles of Incorporation, if there are earnings for the year-end, accumulated losses should be covered with the year-end earnings (that is income before taxes less income before distribution of employees' compensation). The remainder, if any, shall provision 0.01% to 5% as employees' compensation.

B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$604 and \$631, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation was estimated and accrued based on 0.03% of distributable profit of current year for the year ended December 31, 2017.

Employees' compensation of 2016 as resolved by the meeting of Board of Directors were in agreement with those amounts recognised in the 2016 financial statements.

Information about employees' compensation of the Company as resolved by the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the

Taiwan Stock Exchange.

(18) Income tax

A. Income tax expense

(A) Components of income tax expense:

	<u>2017</u>	<u>2016</u>
Current tax:		
Current tax on profit for the period	\$ 135,247	\$ 34,488
Adjustments in respect of prior years	(743)	24,610
Total current tax	<u>134,504</u>	<u>59,098</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>229</u>	<u>8,556</u>
Total deferred tax	<u>229</u>	<u>8,556</u>
Income tax expense	<u>\$ 134,733</u>	<u>\$ 67,654</u>

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

	<u>2017</u>	<u>2016</u>
Remeasurement of defined benefit obligations	<u>\$ 470</u>	<u>(\$ 576)</u>

B. Reconciliation between income tax expense and accounting profit

	<u>2017</u>	<u>2016</u>
Tax calculated based on profit before tax and statutory tax rate	\$ 378,037	\$ 64,284
Effects from items disallowed by tax regulation	210	54
Adjusted effects on income tax exemption and others	(319,099)	(21,294)
Effect from alternative minimum tax	76,328	-
Prior year income tax (over) underestimation	(743)	24,610
Income tax expense	<u>\$ 134,733</u>	<u>\$ 67,654</u>

A. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

2017				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred income tax assets:				
Book-tax difference of pension	\$ 13,104	(\$ 383)	(\$ 470)	\$ 12,251
Impairment	10,609	-	-	10,609
Others	1,366	154	-	1,520
Total	<u>\$ 25,079</u>	<u>(\$ 229)</u>	<u>(\$ 470)</u>	<u>\$ 24,380</u>
2016				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred income tax assets:				
Book-tax difference of pension	\$ 20,687	(\$ 8,159)	\$ 576	\$ 13,104
Impairment	10,609	-	-	10,609
Others	1,763	(397)	-	1,366
Total	<u>\$ 33,059</u>	<u>(\$ 8,556)</u>	<u>\$ 576</u>	<u>\$ 25,079</u>

- D. As of December 31, 2017, the Company's income tax returns through 2013 have been assessed by the Tax Authority.
- E. Unappropriated earnings recorded in the financial statements were accrued after 1998.
- F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. As of December 31, 2016, the balances of the Company's imputation tax credit account was \$30,716. The creditable tax rate was 9.98% for 2016.

(19) Earnings per share

	2017		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
Profit attributable to ordinary shareholders of the parent	<u>\$ 2,089,011</u>	<u>400,000</u>	<u>\$ 5.22</u>
	2016		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
Profit attributable to ordinary shareholders of the parent	<u>\$ 310,489</u>	<u>445,519</u>	<u>\$ 0.70</u>

(20) Operating lease

A. The Company leases office building to others under non-cancellable operating lease agreements. Rental income from these leases amounting to \$14,188 and \$11,711 were recognized for the years ended December 31, 2017 and 2016, respectively. The leases of office building to others are based on a series of lease agreements which have terms expiring between 2018 and 2021. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Less than 1 year	\$ 12,969	\$ 9,356
1 ~5 years	<u>15,568</u>	<u>10,350</u>
Total	<u>\$ 28,537</u>	<u>\$ 19,706</u>

B. The Company has leases in offices and parking spaces under non-cancellable operating lease agreements. The lease terms are expiring between 3 and 10 years, and all these lease agreements are renewable at the end of the lease period. The Company recognized rental expenses of \$11,763 and \$11,912 for these leases for the years ended December 31, 2017 and 2016, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Less than 1 year	\$ 11,603	\$ 11,603
1 ~5 years	<u>9,135</u>	<u>19,649</u>
Total	<u>\$ 20,738</u>	<u>\$ 31,252</u>

(21) Additional information on cash flow

Investing activities with partial cash payments:

	<u>2017</u>	<u>2016</u>
Acquisition of property and equipment	\$ 242,461	\$ 1,375
Add: Lease payables at beginning of year	2,479	4,336
Less: Lease payables at end of year	(732)	(2,479)
Cash paid during the period	<u>\$ 244,208</u>	<u>\$ 3,232</u>

7. Related party transactions

(1) Parent and ultimate controlling party

The Company is controlled by Yuanta Financial Holding Co., Ltd., which owns 100% of the Company's shares. The ultimate parent of the Company is Yuanta Financial Holding Co., Ltd.

(2) Significant transactions and balances with related parties

A. Securities lending

	<u>2017</u>	<u>2016</u>
Associates	<u>\$ 1,366</u>	<u>\$ 398</u>

Revenues from securities borrowing received from the related parties are valued and paid as agreed by both parties. Terms and conditions of relevant transactions are similar to those of transactions with other counterparties.

B. Securities financing

	<u>2017</u>	<u>2016</u>
Associates	<u>\$ 1,227</u>	<u>\$ 1,413</u>

Revenues from securities lending received from the related parties are valued and paid as agreed by both parties. Terms and conditions of relevant transactions are similar to those of transactions with other counterparties.

C. Operating cost/expense

(A) Details of fees on services rendered by related parties are set forth below:

	<u>2017</u>	<u>2016</u>
Associates	<u>\$ 6,120</u>	<u>\$ 6,120</u>

(B) Donations

	<u>2017</u>	<u>2016</u>
Related party in substance		
Yuanta Cultural & Education Foundation	\$ 2,000	\$ 2,000
Yuanta Polaris Research Institute	900	840
	<u>\$ 2,900</u>	<u>\$ 2,840</u>

(C) The Company leases offices from Yuanta Securities commencing from June 2008. The leases will expire in November 2019. The rentals were determined by reference to the rental rates of the near-by offices and contracted by the related parties. Future lease payments required under the rents are payable according to the terms of the lease contracts. Rents of \$10,519 and \$10,712 had been paid for years 2017 and 2016, respectively. Future lease payments

required under these leases are shown below:

<u>Period</u>	<u>Amounts</u>
2018	\$ 10,501
2019 (January ~ November)	9,042
Total	<u>\$ 19,543</u>

D. Rent revenue

The Company rented office and parking premises to its related parties as follows:

	<u>2017</u>	<u>2016</u>
Associates	<u>\$ 10,157</u>	<u>\$ 11,314</u>

Rent is based on the rental rates of near-by offices and agreed to by the related parties. Rents are payable according to the terms of lease contracts.

E. Margin loans receivable and financing interest income

	<u>Margin loans receivable</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other related parties	<u>\$ 1,786</u>	<u>\$ 1,311</u>

	<u>Financing interest income</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other related parties	<u>\$ 73</u>	<u>\$ 63</u>

F. Security-based loans and Security-based loans interest income

	<u>Security-based loans</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other related parties	<u>\$ 29,121</u>	<u>\$ 28,888</u>

	<u>Security-based loans interest income</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other related parties	<u>\$ 443</u>	<u>\$ 62</u>

G. Other receivables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ 3,899	\$ 73
Other related parties	120	271
	<u>\$ 4,019</u>	<u>\$ 344</u>

H. Current income tax assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
The parent company	\$ 16,741	\$ 38,990

I. Other non-current assets - refundable deposits

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ 1,750	\$ 1,750

J. Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ 512	\$ 511
The parent company	179	7
Total	\$ 691	\$ 518

K. Short sale proceeds payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ 21,652	\$ 10,505

L. Current income tax liabilities

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
The parent company	\$ 128,812	\$ 34,016

M. Deposits-in of securities finance guarantee

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ 22,396	\$ 12,340

N. Deposits-in of securities borrowing and lending

The following sets out guarantee deposits received because of the securities financing transactions between the Company and associates:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ -	\$ 10,514

O. Other non-current liabilities deposits-in

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ 2,387	\$ 2,619

P. Property transactions

(A) Open-end mutual funds and money market instruments:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Funds managed by associates	\$ 19,809	\$ 9,499

Gains (losses) on disposal of funds managed by associates for the years ended December 31, 2017 and 2016 were \$101 and(\$415), respectively.

(B) Stock

	Underlying of transaction	Year ended December 31, 2017	
		The total price of the acquisition	Gain on disposal
Associates	Stock in centralized custody	\$ 2,018,470	\$ 1,723,553

Q. Others

Bank deposits and interest income

Details of deposits of the Company from associates are as follows:

	December 31, 2017	December 31, 2016
Bank deposits		
-Recognized in cash and cash equivalents	\$ 3,192	\$ 2,596
-Recognized in refundable deposits	100,000	100,000
Total	\$ 103,192	\$ 102,596
Interest income	\$ 1,038	\$ 1,212

(3) Key management compensation

	2017	2016
Salaries and other short-term employee benefits	\$ 39,580	\$ 39,522
Post-employment benefits	2,026	2,535
Total	\$ 41,606	\$ 42,057

A. Key management includes: officers at all levels (including the directors and supervisors) under the stakeholder database according to Articles 44 and 45 of the Financial Holding Company Act.

B. Salaries and short-term employee benefits include salaries (including various allowances), unused compensated absences, festival bonuses, other bonuses, employees' compensation, transportation allowance, and attendance fee.

C. Post-employment benefits include pension under old plan, pension under new plan, and termination and pension benefits for the president and vice-president.

8. Pledged assets

<u>Assets</u>	<u>Book value</u>		<u>Purpose of pledge</u>
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	
Held-to-maturity financial assets			
- Government bonds	\$ 40,215	\$ 40,311	Stock borrowings
- Government bonds	64,362	55,382	Securities financing deposit in Central Bank of the Republic of China (Taiwan)
Other non-current assets			
- Refundable deposits	300,000	100,000	Stock borrowings
- Refundable deposits	140,000	170,000	Securities financing deposit in Central Bank of the Republic of China (Taiwan)

9. Significant contingent liabilities and unrecognized contract commitments

(1) As of December 31, 2017 and 2016, the stocks entrusted to the custody of the Company by clients both amounted to 7,483,000 shares. The market value of these entrusted stocks was approximately \$77,550 and \$76,775, respectively.

(2) As of December 31, 2017, the Company has leases in offices and parking spaces under non-cancellable operating lease agreements. The future rents payable under non-cancellable operating leases are provided in Note 6(20).

10. Significant losses from disasters

None.

11. Significant subsequent events

The amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018 are provided in Note 6(18).

12. Others

(1) Capital management

A. Objective of capital management

The Company's objectives when managing capital are to meet the capital requirement for the business plan and acceptance of various risks, to maintain an optimal capital structure to reduce the cost of capital, and to provide returns for shareholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders and return capital to shareholders.

B. Procedures of capital management

The Board of Directors has the ultimate approval right in the Company's capital management. The responsive unit should effectively identify, measure, monitor and control relevant risks to assess the minimum capital requirements in accordance with regulations of the competent

authority and the Company's regulations or procedures governing various risks and legal and compliance risk. The Company's self-owned capital adequacy ratio is regularly calculated as net of qualifying self-owned capital divided by the equivalent amount of operating risk.

(2) Hierarchy of fair value estimation of financial instruments

A. Fair value information of financial instruments

(A) Except for those listed in the table below and investment property, the carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, margin loans receivable, security-based loans, other receivables, refundable deposits, overdue receivables, short-term borrowings, short-term notes and bills payable, short sale proceeds payable, other payables, deposits-in of securities finance guarantee, deposits-in of securities borrowing and lending, lease payables, and deposits-in) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(2)B.

		December 31, 2017			
		Book value	Fair value		
		Level 1	Level 2	Level 3	
Financial assets:					
Held-to-maturity financial assets					
Government bonds	\$ 104,577	\$ -	\$ 107,160	\$ -	
		December 31, 2016			
		Book value	Fair value		
		Level 1	Level 2	Level 3	
Financial assets:					
Held-to-maturity financial assets					
Government bonds	\$ 105,771	\$ -	\$ 107,560	\$ -	

For fair value hierarchy definitions used in valuation techniques for the fair value of the above-mentioned financial instruments, please refer to Note 12(2)B(A). In addition, for explanations on the fair value and valuation techniques of investment property, please refer to Note 6(8).

(B) The assumptions and methods used to estimate the financial instruments not measured by fair value are as follows:

a. For short-term instruments, the fair values were determined based on their carrying values since the impact of discount rates is insignificant. This valuation method can be applied to such asset accounts as cash and cash equivalents, margin loans receivable, security-based loans, other receivables, overdue receivables, short term borrowings, short sale proceeds payable, other payables, deposits-in of securities finance guarantee, deposits-in of securities borrowing and lending, lease payable, and deposits-in.

b. The fair values of refundable deposits at the balance sheet date were valued at book value

since the impact of discount rates is insignificant.

c. Held-to-maturity financial assets

If there is a quoted price in an active market, the fair value is based on the market price; if there is no quoted market price available, the fair value is determined by using valuation techniques or counterparty quotes.

(C) Financial instruments measured at fair value

Fair value is the amount for which an asset could be exchanged or a liability can be settled between knowledgeable, willing parties in an arm's length transaction.

Financial instruments are initially recognized by fair value, which is transaction price in most cases. Subsequent recognitions are measured by fair value except that certain financial instruments are recognized by amortized cost. In the subsequent measurements, the best evidence of fair value is the quoted market price in an active market. If the market in which financial instruments traded is not active, valuation techniques will be adopted to measure the fair value of financial instruments. If the quoted market price of a financial instrument is available in an active market, the quoted price is the fair value.

The fair values by classification and nature are as follows:

- a. NTD Central Government Bond: the yield rates across different contract length bulletined by Over-The-Counter (hereinafter OTC) are used.
- b. Listed stocks and ETF : the closing price on the date that the stock or ETF being listed in TSE or OTC for the first-time or the prior transaction price is adopted.
- c. Domestic funds: the net fund values announced by the investment trust company are adopted.
- d. Unlisted stocks: Under the situation of sufficient information, the Company first uses the market method to determine the fair value of unlisted stocks, then the income method. Only when the market method and income method cannot appropriately assess the fair value of the unlisted stocks, the replacement cost method is used.

B. Fair value information of financial instruments

(A) Definition for the hierarchy classification of financial instruments measured at fair value

a. Level 1

That is the quoted prices in active markets for identical assets or liabilities. 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. The fair value of the investments of the Company, such as listed stocks investment, beneficiary certificates, popular Taiwan government bonds is deemed as Level 1.

b. Level 2

Inputs, other than quoted prices in active markets, are those observable price, either directly (that is, as prices) or indirectly (that is, derived from prices) in active market.

c. Level 3

The inputs used to measure fair value at this level are not based on available data from the markets. The Company's investments in equity instruments without active market and securitization beneficiary securities belong to this category.

(B) The Company's financial instruments measured at fair value are all based on recurring fair value measurements. Information on the fair value hierarchy is shown in the following table:

	December 31, 2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 34,744	\$ 34,744	\$ -	\$ -
Available-for-sale financial assets				
Stock investments	<u>3,336,575</u>	<u>114,435</u>	<u>-</u>	<u>3,222,140</u>
Total	<u>\$ 3,371,319</u>	<u>\$ 149,179</u>	<u>\$ -</u>	<u>\$ 3,222,140</u>

	December 31, 2016			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 254,395	\$ 254,395	\$ -	\$ -
Available-for-sale financial assets				
Stock investments	<u>4,794,220</u>	<u>-</u>	<u>-</u>	<u>4,794,220</u>
Total	<u>\$ 5,048,615</u>	<u>\$ 254,395</u>	<u>\$ -</u>	<u>\$ 4,794,220</u>

(C) For the years ended December 31, 2017 and 2016, the Company had no transfers between Level 1 and Level 2.

(D) Movements of financial instruments classified into Level 3 of fair value are as follows:

		2017			
Items	Beginning balance	Gain and loss on valuation	Addition	Reduction	Ending balance
Available-for-sale financial assets					
Unlisted stocks	\$ 4,794,220	\$ 1,723,553	(\$ 1,283,219)	\$ -	\$ 2,012,414
				Transferred from Level 3	\$ -
		Other comprehensive income	Purchased or issued	Disposed or settled	
					\$ 3,222,140
		2016			
Available-for-sale financial assets					
Unlisted stocks	\$ 4,849,285	\$ -	(\$ 55,065)	\$ -	\$ 4,794,220
				Transferred from Level 3	\$ -
		Other comprehensive income	Purchased or issued	Disposed or settled	
					\$ 4,794,220

Above valuation gains and losses are recognized in other comprehensive income in the period. As of December 31, 2017 and 2016, the valuation gains (losses) on assets held by the Company were \$440,334 and (\$55,065), respectively. The valuation gains on assets sold during 2017 was \$1,723,553.

(E) The Risk Management Department of the Company's parent company is responsible for verifying the fair value of financial instruments with fair values classified as Level 3, in which by assessing the independence, reliability, consistency and representativeness of data sources, as well as periodically verifying valuation models and calibrating valuation parameters, ensuring the valuation process and results of valuations are in conformity with IAS requirements.

(F) The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fairvalue measurement:

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range
Non-derivative equity instrument:				
Unlisted stocks	\$ 3,222,140	Market price method	Price to earnings ratio multiple, Discount of marketability	25.03~30.33 32.5%~40%
	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range
Non-derivative equity instrument:				
Unlisted stocks	\$ 4,794,220	Market price method	Price to earnings ratio multiple, Discount of marketability	24.39~29.59 32.5%~40%

(G) Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value

The fair value measurement that the Company made onto the financial instruments is deemed reasonable; however, different valuation model or input could result in different result. Specifically, if the valuation input of financial instrument classified in Level 3 moves upward or downward by 1%, the effects on gain and loss in the period or the effects on other comprehensive income are as follows:

	Change in fair value recognized in current profit and loss	
	Favorable movements	Unfavorable movements
<u>December 31, 2017</u>		
Available-for-sale financial assets		
Unlisted stocks	\$ 10,757	(\$ 10,757)

<u>December 31, 2016</u>	Change in fair value recognized in current profit and loss	
	Favorable movements	Unfavorable movements
Available-for-sale financial assets		
Unlisted stocks	\$ 16,541	(\$ 16,541)

Favorable and unfavorable movements of the Company refer to the fluctuation of fair value, and the fair value is calculated through the valuation technique according to the non-observable inputs to different extent.

If the fair value of a financial instrument is affected by one or more inputs, above table only illustrates the effect as a result of one single unobservable input, and the correlation and variance of input are not put into consideration.

(3) Management for financial risk

A. Risk management policy and structural organization

The organization structure of the Company's risk management includes: The Board of Directors, senior management, risk management personnel, legal and compliance dedicated segment and other business segments. For the purpose of controlling risk from credit business, the Company established 'business safety group' which is responsible for control over listed securities financing and refinancing to securities firms and related business. Dedicated personnel is also arranged to handle implementation of risk control for the trading positions on investments.

The Company is mainly engaged in credit trading and security-based loans, mostly exposed to credit risk. To control the customer risk, other than the compliance with regulations governing the margin sale and short sale business from SEC and the decreased ratio or allocated securities for warning of abnormal individual stock as defined by OTC, the Company also sets up risk management structure such as quota allocation, pre-warning indicators and process standards, and credit diversification standards armed with specific associate being responsible for related risk control. In addition, the comprehensively computerized risk information system can help assist with enhancing the pre-warning function of margin sale and short sale credit so that being aware of market movement in an early stage may be achieved. With respect to investment transactions, the Company sets up control mechanism for each instrument and regularly monitors the status of risk exposure.

B. Methods for risks measurement and controlling and exposure quantitative information

(A) Market risk

a. Source and definition of market risk and the management principle

The financial assets held by the Company includes domestic listed stocks, unlisted stocks, open ended funds, beneficiary securities, government bonds, financial debentures, and

other instruments that have been approved by the competent authority. Except for investment in unlisted stocks, the values of the financial assets held are subject to changes in market rates and stock prices. To manage market risk, the Company has defined the various portfolio investment risk management rules against its own funded investment, including stock and fund positions. The Company has also defined the control mechanism according to the nature of the product risk such as position limits, stop loss limits, market liquidity limits and exceptional management to certainly measure and monitor market risks of various positions.

b. Market risk assessment

(a) Foreign exchange risk management

The Company holds insignificant foreign currency and non-monetary financial assets and liabilities in foreign currency. Therefore, no significant impact affected by fluctuations in the foreign exchange rate is expected.

(b) Price risk management

The Company is exposed to equity securities price risk because of investments in equity products held by the Company are classified on the balance sheet as available-for-sale financial assets or financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

The Company's investments in equity securities comprise domestic listed and unlisted stocks. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have increased/decreased by \$251 and \$534, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$33,366 and \$47,942, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

(c) Interest rate risk management

The Company's interest rate risk mainly arises from held-to-maturity financial assets-bond investments, short-term loans, short-term notes and bills payable, and corporate bonds. Variable-rate financial assets/liabilities expose the Company to cash flow interest rate risk. Risk from financial liabilities is partially offset by cash and cash equivalents held at variable rates. Fixed-rate financial assets/liabilities expose the Company to fair value interest rate risk.

Income before taxes for the years ended December 31, 2017 and 2016 would have been \$143 and \$460 lower/higher, respectively, if the global market yield curves on December 31, 2017 and 2016 all changed by 10 basis points.

(B) Credit risk

a. Source and definition of credit risk and the management principle

Since the main business of the Company is margin trading, securities lending and security-based loans, its major business risk is credit risk. To control customers' risk, the Company complies with the rules and regulations of the Taiwan Stock Exchange Corporation and the GreTai Securities Market that require lower trading percentages or a lower number of allocated stocks in the event of abnormal price fluctuation for individual shares. The Company has also established internal operational standard that uses allocation methods for the limits of margin purchases and short sales, early warning and handling principles as well as credit risk dispersion criteria in order to mitigate credit risks.

Additionally, potential credit risk of financial instruments held by the Company mainly arises from default by the clients or counterparties of financial instruments on the contract obligations, which then results in financial loss to the Company. Counterparties, issuers, or guarantee institutions of invested financial instruments are all financial institutions with excellent credit quality, so the possibility of default by counterparties on the contracts is extremely low. Moreover, different investment limits are set in advance based on credit ratings of counterparties, issuers, or guarantee institutions in order to control the Company's exposure to the risk of each financial institution. The Company assesses credit status of counterparties, issuers, or guarantee institutions before conducting any transaction, so the probability of credit risk is remote. In addition, the Company's margin loans receivable use the securities of margin purchasers purchased from margin loans as collateral, and stipulate a collateral maintenance ratio of 130% for accounts per capita. For security-based loans, collaterals are items approved by the competent authority, and upon approval of providing security-based loans, information such as borrower's credit history have been already considered in order to assess the loan risk and obtain sufficient collateral; also, the collateral maintenance ratio for security-based loans is 140% for accounts per capita, thus the credit risk of security-based loans is remote.

b. Credit risk concentration

The credit risks are deemed significantly concentrated when the financial instrument transactions significantly concentrate on a single person, or when there are multiple trading counterparties engaging in similar business activities with similar economic characteristics making the effects on their abilities of fulfilling the contractual obligation due to economy or other forces similar.

The Company does not significantly carry out transactions with single client or single counterparty, and the credit risk concentration by industry and location are shown as follows:

(a) Industry:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Government-owned businesses	\$ 436	\$ 375
Privately owned businesses	209,305	460,287
Individuals	13,988,528	10,331,407
Financial institutions	9,099,042	5,670,017
Government institutions	<u>245,397</u>	<u>276,588</u>
Total	<u>\$ 23,542,708</u>	<u>\$ 16,738,674</u>

(b) Geographical location:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taiwan	\$ 23,533,080	\$ 16,738,674
America	<u>9,628</u>	<u>-</u>
Total	<u>\$ 23,542,708</u>	<u>\$ 16,738,674</u>

As to the sources of the Company's credit risk, geographic concentration, primarily in Taiwan, accounts for up to 99.96% in its entirety. Industrial concentration accounts for about 59% in its entirety as the nature of industry is determined individually.

c. Analysis on credit quality and overdue impairment of financial assets held by the Company

For certain financial assets held by the Company such as cash and cash equivalents, financial assets at fair value through profit or loss, held-to-maturity financial assets, and refundable deposits, as the counterparties of these assets all have excellent credit ratings, credit risk is deemed to be minimal based on the Company's judgement.

Credit risk rating is categorized into Excellent, Below standard, Impaired and the definitions are illustrated below:

- (a) Excellent: The underlying position or an entity is capable of fulfilling its financial commitment even if facing significant uncertain factors or exposed to an adverse condition.
- (b) Standard: the underlying position or an entity's capacity to fulfill the contractual obligation is weak, and any adverse movement toward operation, finance or economy could further weaken its capacity to fulfill financial commitment.
- (c) Below standard: the underlying position or an entity's capacity to fulfill the contractual obligation is weak, and the fulfillment of the contractual commitment depends on the advantageous movement in operating environment and financial status.
- (d) Non-rated etc.: are those that are not rated etc.
- (e) Impaired: the underlying position or an entity has incurred an objective evidence of impairment at the reporting date.

	Positions that are neither past due nor impaired					Positions that are past due but not impaired					Total (A)+(B)+(C)	Recognized losses(D)	Net Amount (A)+(B)+(C)-(D)	
	Excellent	Standard	Below standard	Non-rated etc.	Subtotal (A)	impaired(B)	Impaired amount (C)							
December 31, 2017														
Cash and cash equivalents	\$ 36,708	\$ -	\$ -	\$ -	\$ 36,708	\$ -	\$ -	\$ -	\$ -	\$ 36,708	\$ -	\$ -	\$ 36,708	
Financial assets at fair value through profit or loss	9,628	-	-	-	9,628	-	-	-	-	9,628	-	-	9,628	
Margin loans receivables	9,127,442	436,286	-	-	9,563,728	-	-	-	-	9,563,728	993	-	9,562,735	
Security-based loans	12,952,741	-	-	-	12,952,741	-	-	-	-	12,952,741	1,345	-	12,951,396	
Other receivables	407,119	11,989	-	-	419,108	-	-	-	-	419,108	-	-	419,108	
Held-to-maturity financial assets	104,577	-	-	-	104,577	-	-	-	-	104,577	-	-	104,577	
Other non-current assets	448,750	-	-	-	448,750	7,468	-	-	-	456,218	3,734	-	452,484	

	Positions that are neither past due nor impaired					Positions that are past due but not impaired					Total (A)+(B)+(C)	Recognized losses(D)	Net Amount (A)+(B)+(C)-(D)	
	Excellent	Standard	Below standard	Non-rated etc.	Subtotal (A)	impaired(B)	Impaired amount (C)							
December 31, 2016														
Cash and cash equivalents	\$ 35,938	\$ -	\$ -	\$ -	\$ 35,938	\$ -	\$ -	\$ -	\$ -	\$ 35,938	\$ -	\$ -	\$ 35,938	
Financial assets at fair value through profit or loss	200,988	-	-	-	200,988	-	-	-	-	200,988	-	-	200,988	
Available-for-sale financial assets - current	7,034,393	176,556	318	-	7,211,267	-	-	-	-	7,211,267	557	-	7,210,710	
Margin loans receivables	8,569,281	-	-	-	8,569,281	-	-	-	-	8,569,281	662	-	8,568,619	
Other receivables	321,169	6,237	11	-	327,417	-	-	-	-	327,417	-	-	327,417	
Held-to-maturity financial assets	105,771	-	-	-	105,771	-	-	-	-	105,771	-	-	105,771	
Other non-current assets	278,750	-	-	-	278,750	9,262	-	-	-	288,012	4,631	-	283,381	

d. The credit quality information of financial instruments that are neither past due nor impaired is as follows:

The credit quality of margin loans receivable and other receivables that were neither past due nor impaired was provided in Note 12(3)B(B)c based on the Company's Credit Quality Control Policy.

e. Analysis of financial assets that were impaired is as follows:

As of December 31, 2017 and 2016, the financial assets were not held by the Company were impaired by evaluation.

(C) Liquidity risk

a. Source and definition of liquidity risk and the management principle

Fund liquidity risk happens when the fund supply cannot be sufficiently obtained in an expected period of time leading to a failure of fulfilling the capital need as maturity comes due.

According to different business natures, the Company has defined the capital liquidity indicator for its capital liquidity management, and set the precautionary indicators for the Company's liquidity ratio, credit limit and funding gap. In addition to prior assessment on possible fund gaps of each time period and effective control over liquidity risks of overall capital, pre-established capital transferring plan is also ready in case of systematic risk event and abnormal capital liquidity to sufficiently respond to the liquidity risk of the whole company. In order to ensure that current assets are of realizability, marketability and safety, the Company defined the funding utilization risk control regulations to ensure that the bank deposit, bond and RP/RS attain the specific rates under the internal rating system, and risk control staff shall control the overview of position and liquidity periodically.

b. Risk assessment

(a) The following is the maturity analysis on financial liabilities. The Company's working capital is sufficient for future capital demand, therefore there is no liquidity risk regarding inability to raise fund for meeting contractual obligations.

(b) Except for unlisted stocks, the Company's investments in financial assets all have an active market. These financial assets are expected to be sold easily and immediately at a price approximate to their fair values. Therefore, no significant liquidity risk is expected.

(c) Maturity analysis on non-derivative financial liabilities

	December 31, 2017						December 31, 2016					
	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Short-term borrowings	\$ 6,375,000	\$ -	\$ -	\$ -	\$ -	\$ 6,375,000	\$ 1,080,000	\$ -	\$ -	\$ -	\$ -	\$ 1,080,000
Short-term notes and bills payable	6,200,299	-	-	-	-	6,200,299	7,199,105	-	-	-	-	7,199,105
Short sale proceeds payable	-	-	1,405,478	-	-	1,405,478	-	-	1,133,004	-	-	1,133,004
Other payables	45,162	3,547	28,185	605	611	78,110	67,353	3,288	22,728	1,161	-	94,530
Other payables- related parties	689	-	2	-	-	691	516	-	2	-	-	518
Deposits-in of securities finance guarantee	-	-	1,314,226	-	-	1,314,226	-	-	1,050,438	-	-	1,050,438
Deposits-in of securities borrowing and lending	-	-	872,930	-	-	872,930	-	-	827,368	-	-	827,368
Lease payable (recognized in other current liabilities and other non current liabilities)	145	146	146	295	-	732	-	-	-	-	-	-
Deposits-in (recognized in other non current liabilities)	-	-	-	-	3,717	3,717	-	-	-	-	3,717	3,717
Total	<u>\$ 12,621,295</u>	<u>\$ 3,693</u>	<u>\$ 3,620,967</u>	<u>\$ 900</u>	<u>\$ 4,328</u>	<u>\$ 16,251,183</u>	<u>\$ 8,347,129</u>	<u>\$ 3,600</u>	<u>\$ 3,033,961</u>	<u>\$ 2,020</u>	<u>\$ 3,352</u>	<u>\$ 11,390,062</u>
Short-term borrowings	\$ 1,080,000	\$ -	\$ -	\$ -	\$ -	\$ 1,080,000	\$ 1,080,000	\$ -	\$ -	\$ -	\$ -	\$ 1,080,000
Short-term notes and bills payable	7,199,105	-	-	-	-	7,199,105	7,199,105	-	-	-	-	7,199,105
Short sale proceeds payable	-	-	1,133,004	-	-	1,133,004	-	-	1,133,004	-	-	1,133,004
Other payables	67,353	3,288	22,728	1,161	-	94,530	67,353	3,288	22,728	1,161	-	94,530
Other payables- related parties	516	-	2	-	-	518	516	-	2	-	-	518
Deposits-in of securities finance guarantee	-	-	1,050,438	-	-	1,050,438	-	-	1,050,438	-	-	1,050,438
Deposits-in of securities borrowing and lending	-	-	827,368	-	-	827,368	-	-	827,368	-	-	827,368
Lease payable (recognized in other current liabilities and other non current liabilities)	155	312	421	859	732	2,479	155	312	421	859	732	2,479
Deposits-in (recognized in other non current liabilities)	-	-	-	-	2,620	2,620	-	-	-	-	2,620	2,620
Total	<u>\$ 8,347,129</u>	<u>\$ 3,600</u>	<u>\$ 3,033,961</u>	<u>\$ 2,020</u>	<u>\$ 3,352</u>	<u>\$ 11,390,062</u>	<u>\$ 8,347,129</u>	<u>\$ 3,600</u>	<u>\$ 3,033,961</u>	<u>\$ 2,020</u>	<u>\$ 3,352</u>	<u>\$ 11,390,062</u>

13. Other disclosure items

(1) Information about significant transactions

- A. Lending to others: Since the Company engages in providing pecuniary and securities financing facilities for the trading of listed securities, and refinancing to securities firms and other businesses, no disclosure is required.
- B. Endorsements and guarantees: None.
- C. Information regarding securities held as of December 31, 2017:

As of December 31, 2017

Name of company which holds securities	Category and name of securities (or name of issuer of securities)	Relationship between issuer of securities and the company	Account	Number of shares (In thousands)	Book value	Percentage of ownership	Fair value	Note
The Company	Beneficiary certificates:							
	Shin Kong Global Total Return Balanced Fund	-	Financial assets at fair value through profit or loss - current	500	\$ 4,975	N/A	\$ 4,975	
	Jih Sun Target Income Fund of Funds	-	"	1,000	9,960	"	9,960	
	Yuanta iSTOXX MUTB Asia/Pacific Quality Dividend 100 Index Fund	A related party where the management company has the same controlling company as the Company	"	500	5,055	"	5,055	
	Yuanta Taiwan High Dividend Low Volatility ETF	A related party where the management company has the same controlling company as the Company	"	170	5,127	"	5,127	
	Yuanta U.S. Treasury 7-10 Year Bond ETF	A related party where the management company has the same controlling company as the Company	"	250	9,627	"	9,627	
	Financial assets at fair value through profit or loss - current				\$ 34,744		\$ 34,744	
	Listed stocks:							
	Taiwan Cement Co., Ltd.		Available-for-sale financial assets - current	1,500	\$ 54,675	0.04	\$ 54,675	
	Getac Technology Corporation		"	689	30,454	0.12	30,454	
	Wt Microelectronics Co., Ltd.		"	648	29,306	0.14	29,306	
	Total available-for-sale financial assets - current				\$ 114,435		\$ 114,435	
	Unlisted stocks:							
	Taiwan Depository & Clearing Co., Ltd.	-	Available-for-sale financial assets - non-current	31,727	\$ 2,038,795	8.78	\$ 2,038,795	
	Taiwan Futures Exchange Co., Ltd.	-	"	15,759	1,183,345	5.00	1,183,345	
	Total available-for-sale financial assets - non-current				\$ 3,222,140		\$ 3,222,140	
	Government Bonds - non-current							
	A99105	-	Held-to-maturity financial assets - non-current	-	\$ 50,268	N/A	\$ 50,974	
	A90108	-	"	-	54,309	"	56,186	
	Total held-to-maturity financial assets - non-current				\$ 104,577		\$ 107,160	

D. Disposals of real estate exceeding NTS300 million or 20 percent of contributed capital :

The acquiring/disposal company	Category and name of securities (or name of issuer of securities)	Account	Counterparty	Relationship	January 1, 2017		Sold		December 31, 2017			
					Number of shares (In thousands)	Amount	Number of shares (In thousands)	Price(Note)	Cost	Gain on disposal	Number of shares (In thousands)	Amount
The Company	Taiwan Depository & Clearing Co., Ltd.	Available-for-sale financial assets - non-current	NA	NA	63,294	\$ 3,674,871	33,149	\$ 2,012,414	\$ 288,861	\$ 1,723,553	31,727	\$ 2,038,795

Note: Net of securities transaction tax \$6,056

- E. Information on the acquisition of the real estate for which the purchase amount exceeded NTS300 million or 20% of paid-in capital: None.
- F. Information on the disposal of the real estate for which the sale amount exceeded NTS300 million or 20% of paidin capital: None
- G. Information regarding relatedparty purchases and / or sales for which the amount exceeded of NT\$100 million or 20% paid-in capital: Not applicable.
- H. Information regarding receivables from related parties for which the amount exceeded NT\$100 million or 20% of paid-in capital: None.
- I. Information regarding trading in derivative financial instruments: None.
- J. Other information on the significant transactions and relationships between parent company and subsidiaries: Not applicable.

(2) Information on investees

Not applicable.

(3) Disclosure of investments in Mainland China

Not applicable.

14. Segment information

(1) General information

The Company operates business only in a single industry. The Chief Operating Decision-Maker(CODM), which allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment.

(2) Measurement of segment information

The CODM assesses the performance of the operating segments based on the profit before tax.

(3) Information on segment profit (loss), assets and liabilities

The Company operates business only in a single industry. The segment information provided to the CODM for the reportable segments for the years

ended December 31, 2017 and 2016 is as follows:

	2017	2016
Segment revenue from external customers	\$ 730,947	\$ 550,841
Segment profit before tax	2,223,744	378,143
Segment assets	27,423,118	21,895,351

(4) Reconciliation for segment profit (loss), assets and liabilities

The Company operates business only in a single industry. The business operation activities are mainly domestic. Therefore, reconciliation is not required.

(5) Information on products

Main revenue of the Company are from margin loans, short sale stock loans, securities borrowed and security-based loans services. Details of revenue balance is as follows:

	2017	2016
Financing interest income	\$ 472,483	\$ 410,739
Security-based loans interest income	212,574	100,866
Service fee income on margin trading	26,517	26,193
Income on securities lending	19,364	13,034
Other	9	9
Total	\$ 730,947	\$ 550,841

(6) Geographical information

For the years ended December 31, 2017 and 2016, the income of the Company was all from Taiwan area.

(7) Major customer information

For the years ended December 31, 2017 and 2016, the Company had no revenues from customers that reached 10% of the income stated within the statements of comprehensive income.

