Cathay Securities Corporation and Subsidiaries

Consolidated Financial Statements
With
Independent Auditors' Report

For the Years Ended December 31, 2016 and 2015

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", "International Financial Reporting Standards" (IFRS), "International Accounting Standards" (IAS), and interpretations issued as endorsed by Financial Supervisory Commission. If there is any conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese version of financial statements shall prevail.

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INDEX OF CONSOLIDATED FINANCIAL STATEMENTS

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English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To Board of Directors Cathay Securities Corporation

Opinion

We have audited the accompanying consolidated balance sheets of Cathay Securities Corporation (the "Company") and its subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and their consolidated financial performance and cash flows for the years ended December 31, 2016 and 2015, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2016 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Investment properties measured at fair value

The Company and its subsidiaries' investment properties are measured at fair value. Due to inaccessible market prices, the Company and its subsidiaries evaluate the fair value of investment properties based on external real estate appraisers firm's valuation reports, which highly relied on the valuation approach chosen and the assumptions. The approach chosen and the changes to the assumptions will impact the result of the investment properties valuation. Therefore, we determined investment properties measured at fair value as a key audit matter.

We conducted audit procedures for investment properties valuation, including but not limited to the following: evaluating the independence and qualification of external real estate appraisers, and enlisting the internal valuation specialist's assistance to evaluate the external real estate appraisers firm's valuation reports to understand the valuation approach adopted and ensure the reasonableness in the valuation approach adopted and key valuation assumptions so that we could verify whether the difference between the internal valuation specialist's work and external valuation reports is acceptable.

For the Company and its subsidiaries' investment properties measured at fair value, please refer to Note 4.16 and Note 6.10.

Brokerage fee revenue Recognition

Brokerage fee revenue is handling fees received by a securities firm for executing customer orders during short sale. Brokerage fee revenue has a significant impact on the consolidated financial statements of the Company and its subsidiaries. Therefore, we considered this a key audit matter.

Our audit procedures included, but not limited to, assessing the appropriateness of the accounting policy of brokerage fee revenue recognition; evaluating and testing the design and operating effectiveness of internal controls around brokerage fee revenue recognition; recalculating the selected samples of brokerage fee revenues; performing analytical review procedures; performing cut-off testing by selecting a sample of transaction from either side of year-end and vouching them to supporting evidences to ensure the reasonableness of brokerage fee revenue cut-off.

For the Company and its subsidiaries' brokerage fee revenue recognition, please refer to Note 4.23 and Note 6.20.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of the Company and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

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 ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 consolidated financial statements 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.

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Company as of and for the years ended December 31, 2016 and 2015.

Ernst & Young

March 7, 2017

Taipei, Taiwan
Republic of China

Notice to Readers
The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and December 31, 2015
(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Notes	2016.12.31	2015.12.31
CURRENT ASSETS			
Cash and cash equivalents	4, 6, 7 and 12	$2,315,219	$1,715,936
Financial assets at fair value through profit or loss - current	4, 6, 7 and 12	7,369,534	6,651,772
Available-for-sale financial assets - current	4, 6 and 12	134,664	491,852
Investments in bonds with reverse purchase agreements	4, 6 and 12	-	1,264,000
Securities margin loans receivable	4, 6 and 12	3,168,577	3,385,840
Margin deposits for securities refinancing	4 and 12	16,994	7,798
Collateral for securities refinancing	4 and 12	15,861	7,434
Customer margin accounts	4, 6, 7 and 12	2,973,537	2,998,372
Collateral for securities borrowed	4	307,616	331,954
Deposits for securities borrowed	4	1,854,940	1,333,148
Account receivables	4, 6 and 12	3,869,797	1,791,834
Accounts receivable - related parties		200	200
Prepayments		19,064	38,755
Other receivables		93,796	73,247
Other receivables - related parties		362	1,677
Other current assets	7 and 8	1,168,760	1,656,390
Total Current Assets		23,308,921	21,750,209
NONCURRENT ASSETS			
Available-for-sale financial assets - noncurrent	4, 6 and 12	305,534	278,106
Investments accounted for using the equity method	4 and 6	16,027	25,991
Property and equipment	4 and 6	253,864	260,491
Investment property	4 and 6	290,341	286,253
Intangible assets	4 and 6	84,610	74,166
Deferred income tax assets	4 and 6	4,948	29,024
Other noncurrent assets	6 and 7	722,144	583,510
Total Noncurrent Assets		1,677,468	1,537,541
TOTAL ASSETS		$24,986,389	$23,287,750

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

English Translation of Financial Statements Originally Issued in Chinese

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and December 31, 2015
(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	2016.12.31	2015.12.31
CURRENT LIABILITIES			
Short-term loan	6 and 12	$87,229	$-
Commercial paper payable	6 and 12	5,598,838	6,857,634
Financial liabilities at fair value through profit or loss - current	4, 6 and 12	2,035,784	1,457,280
Liabilities for bonds with repurchase agreements	4, 6 and 12	2,339,864	1,425,000
Short sale margins	4 and 12	299,000	337,694
Payables for short sale collateral received	4 and 12	329,429	373,848
Deposits for securities lended	4 and 12	33,529	-
Futures traders' equity	4, 6 and 7	2,971,487	2,997,418
Note payables		443	435
Note payables - related parties		3,879	3,983
Account payables		3,881,643	2,032,821
Advance receipts		780	777
Receipts under custody		33,069	516,707
Other payables		318,993	300,428
Other payables - related parties	7	18,414	109,525
Current tax liabilities		589	681
Other current liabilities		2,181	2,987
Total Current Liabilities		17,955,151	16,417,218
NONCURRENT LIABILITIES			
Deferred income tax liabilities	4 and 6	31,816	8,180
Other noncurrent liabilities		20,630	23,509
Total Noncurrent Liabilities		52,446	31,689
Total Liabilities		18,007,597	16,448,907
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY			
Capital	6		
Common stock		5,330,000	4,950,000
Additional paid-in capital	6		
Capital Surplus		491,766	491,766
RETAINED EARNINGS	6		
Legal reserve		175,865	122,171
Special reserve		438,455	330,348
Unappropriated retained earnings		300,669	584,905
OTHER EQUITY			
Exchange difference resulting from translating the financial statements of foreign operations		(20,563)	1,660
Unrealized Gains from available-for-sale financial assets		265,343	364,776
Remeasurements of defined benefit plans		(2,849)	(6,884)
NON-CONTROLLING INTEREST		106	101
Total Equity	6	6,978,792	6,838,843
TOTAL LIABILITIES AND EQUITY		$24,986,389	$23,287,750

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

English Translation of Financial Statements Originally Issued in Chinese

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars, except earnings per share)

	Notes	2016	2015
REVENUES AND EXPENSES	4, 6 and 7		
Brokerage fee revenue		$1,288,908	$952,388
Revenue from borrowed securities		9,843	647
Revenue from underwriting business		102,740	96,995
Net gains (losses) from sale of securities held for operations		113,424	(384,578)
Interest revenue		197,130	205,029
Dividend revenue		263,034	311,895
Net losses from measurement at fair value through profit or loss for securities held for operations		(92,076)	(156,567)
Net (losses) gains on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements		(125,930)	116,939
Net (losses)gains on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements		(36,518)	79,896
Net gains from issuance of call (put) warrants		446,616	866,655
Net gains from derivative financial instruments - futures		159,691	401,267
Management fee revenue		-	33
Advisory fee revenue		3,367	2,803
Other operating income		9,661	6,640
Total revenues		2,339,890	2,500,042
Broker's exchange fees		(74,301)	(70,154)
Dealer's exchange fees		(23,004)	(27,793)
Refinancing transaction fees		(862)	(485)
Underwriting handling fees		(2,980)	(2,028)
Finance costs		(44,239)	(65,466)
Loss from borrowed securities		(42,195)	(18,345)
Futures commission expenses		(22,183)	(8,440)
Clearing and settlement service fee expenses		(23,898)	(24,472)
Other operating costs		(5,699)	(11,665)
Employee benefits expenses		(971,968)	(914,609)
Depreciation and amortization expenses		(90,454)	(81,014)
Other operating expenses		(753,522)	(728,089)
Total Expenses		(2,055,305)	(1,952,560)
OPERATING PROFITS		284,585	547,482
Share of profit or loss of associates and joint ventures accounted for using the equity method		(8,045)	(8,804)
Non-operating income and expenses	6	54,208	61,359
INCOME BEFORE INCOME TAX		330,748	600,037
Income Tax Expense	4, 5 and 6	(73,181)	(63,096)
NET INCOME OF CONTINUED OPERATIONS		257,567	536,941
OTHER COMPREHENSIVE INCOME	6		
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans		4,861	(3,401)
Income tax relating to the components not to be reclassified		(826)	578
Items that may be reclassified subsequently to profit or loss:			
Exchange differences resulting from translating the financial statements of foreign operations		(20,304)	(9)
Unrealized (losses) gain from available-for-sale financial assets		(99,430)	149,461
Share of other comprehensive income of associates and joint ventures accounted for using the equity method －Items that may be reclassified subsequently to profit or loss		(1,919)	(85)
OTHER COMPREHENSIVE INCOME, NET OF TAX		(117,618)	146,544
TOTAL COMPREHENSIVE INCOME		$139,949	$683,485
Net income attributable to			
Owners of the parent company		$257,565	$536,939
Non-control interest		2	2
Subtotal		$257,567	$536,941
Total comprehensive income attributable to			
Owners of the parent company		$139,944	$683,480
Non-controlling interest		5	5
Subtotal		$139,949	$683,485
Earnings per share (expressed in dollars) :			
Net income	6	$0.48	$1.01

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

English Translation of Financial Statements Originally Issued in Chinese

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CHANGES IN EQUITY

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of the parent company										
	Capital Stock		Retained Earnings			Other Equity					
Items	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated retained earnings	Exchange difference resulting from translating the financial statements of foreign operations	Unrealized Gains from available-for-sale financial assets	Remeasurements of defined benefit plans	Subtotal	Non-Controlling Interest	Total Equity
Balance as of January 1, 2015	$4,700,000	$491,766	$86,349	$254,886	$409,250	$1,754	$215,318	$(4,061)	$6,155,262	$98	$6,155,360
Appropriations and distributions for 2014 :											
Legal reserve			35,822		(35,822)				-		-
Special reserve				75,462	(75,462)				-		-
Stock dividends	250,000				(250,000)				-		-
Net income for the period (Note1)					536,939				536,939	2	536,941
Other comprehensive income for the year ended December 31, 2015						(94)	149,458	(2,823)	146,541	3	146,544
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	536,939	(94)	149,458	(2,823)	683,480	5	683,485
Non-controlling Interest										(2)	(2)
Balance as of December 31, 2015	$4,950,000	$491,766	$122,171	$330,348	$584,905	$1,660	$364,776	$(6,884)	$6,838,742	$101	$6,838,843
Appropriations and distributions for 2015:											
Legal reserve			53,694		(53,694)				-		-
Special reserve				108,107	(108,107)				-		-
Stock dividends	380,000				(380,000)				-		-
Net income for the period (Note2)					257,565				257,565	2	257,567
Other comprehensive income for the year ended December 31, 2016						(22,223)	(99,433)	4,035	(117,621)	3	(117,618)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	257,565	(22,223)	(99,433)	4,035	139,944	5	139,949
Non-controlling Interest										-	-
Balance as of December 31, 2016	$5,330,000	$491,766	$175,865	$438,455	$300,669	$(20,563)	$265,343	$(2,849)	$6,978,686	$106	$6,978,792

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

Note1: For the year ended 2015, the employees' compensation in the amount of $60 thousand have been deducted from the Statement of Comprehensive Income.

Note2: For the year ended 2016, the employees' compensation in the amount of $33 thousand have been deducted from the Statement of Comprehensive Income.

English Translation of Financial Statements Originally Issued in Chinese

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before income tax	$330,748	$600,037
Adjustments:		
Non-cash items included in revenue and expenses:		
Depreciation	61,920	56,299
Amortization	28,534	24,715
Net losses from financial assets/liabilities at fair value through profit or loss	128,579	76,904
Interest expenses	44,239	65,466
Interest revenue	(234,423)	(241,448)
Dividend revenue	(273,005)	(322,642)
Share of loss of associates accounted for using the equity method	8,045	8,804
Gain on disposal of property and equipment	(20)	(24)
Loss on disposal of intangible assets	391	-
(Gain) loss on disposal of investment	(16,743)	85,848
Revaluation gains on investment properties	(4,088)	(1,168)
Net changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss - current		
Decrease in securities lended	-	691
(Increase) decrease in securities held for operations - dealing	(2,048,630)	612,460
Decrease (increase) in securities held for operations - underwriting	213,557	(83,295)
(Increase) decrease in securities held for operations - hedging	(510,563)	1,260,239
Decrease (increase) in long options - futures	8,082	(15,062)
Decrease (increase) in margin for futures trading - proprinetary funds	29,731	(155,786)
Decrease (increase) in investments in bonds with reverse purchase agreements	1,264,000	(1,264,000)
Decrease (increase) in securities margin loans receivable	217,263	(450,628)
(Increase) decrease in margin deposits for securities refinancing	(9,196)	3,700
(Increase) decrease in collateral for securities refinancing	(8,427)	3,398
Decrease (increase) in customer margin accounts	24,835	(1,249,004)
Decrease (increase) in collateral for securities borrowed	24,338	(144,494)
Increase in deposits for securities borrowed	(521,792)	(555,489)
(Increase) decrease in account receivables	(2,077,963)	2,282,308
Decrease (increase) in prepayments	18,024	(24,666)
Decrease (increase) in other receivables	2,626	(9,865)
Increase in other receivables-related party	-	(23,204)
Decrease in other current assets	487,630	479,964
Financial liabilities at fair value through profit or loss - current		
Decrease in liabilities for issuance of call (put) warrants	(2,561)	(252,556)
(Decrease) increase in short options - futures	(24,355)	8,035
(Decrease) increase in liabilities for securities and bonds borrowed－hedging	(96,034)	197,884
Increase in liabilities for securities and bonds borrowed－non-hedging	664,936	205,688
Increase (decrease) in liabilities for bonds with repurchase agreement	914,864	(675,000)
(Decrease) increase in short sale margins	(38,694)	29,021
(Decrease) increase in payables for short sale collateral received	(44,419)	32,639
Increase in deposits for securities lended	33,529	-
(Decrease) increase in futures traders' equity	(25,931)	1,248,393
Increase in note payables	8	67
Decrease in note payables - related parties	(104)	(304)
Increase (decrease) in account payables	1,848,822	(1,950,289)
Increase in advance receipts	3	475
(Decrease) increase in receipts under custody	(483,638)	503,299
Increase in other payables	18,846	114,828
Decrease in other payables - related parties	(111,189)	(4,895)
Decrease in other current liabilities	(806)	(56,017)
Increase in provisions for the liabilities of employee benefits	1,982	2,587
Decrease in deposits received	-	(325)
Cash generated from operating activities:		
Interests received	212,563	271,882
Dividend received	273,005	322,650
Interests paid	(43,035)	(68,700)
Income taxes paid	(6,590)	(7,623)
Net cash provided by operating activities	278,894	941,797
CASH FLOWS FROM INVESTING ACTIVITIES:		
Financial assets at fair value through profit or loss - current		
Increase in open-end funds and currency market instruments	(1,521,928)	(4,136,000)
Decrease in open-end funds and currency market instruments	3,018,589	3,938,546
Acquisition of available-for-sale financial assets	-	(911,818)
Disposal of available-for-sale financial assets	248,411	558,745
Acquisition of property and equipment	(55,850)	(82,911)
Disposal of property and equipment	32	24
Acquisition of intangible assets	(37,755)	(27,919)
(Increase) decrease in other noncurrent asset	(138,634)	77,671
Net cash provided by (used in) investing activities	1,512,865	(583,662)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term loan	4,789,636	-
Decrease in short-term loan	(4,702,407)	(900,000)
Increase in commercial paper payable	74,790,000	84,330,000
Decrease in commercial paper payable	(76,050,000)	(83,910,000)
Cash dividends paid	-	(2)
Net cash used in financing activities	(1,172,771)	(480,002)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(19,705)	(9)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	599,283	(121,876)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,715,936	1,837,812
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$2,315,219	$1,715,936

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

Cathay Securities Corporation and Subsidiaries
Notes to consolidated financial statements
For the Years Ended December 31, 2016 and 2015
(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

1. HISTORY AND ORGANIZATION

Cathay Securities Corporation (the "Company") was incorporated in Taipei on May 12, 2004, under the provisions of the Company Act (the "Company Act") of the Republic of China ("ROC"). The Company mainly engages in the business of securities dealing, brokerage and underwriting, margin lending and securities lending, dealing and introducing brokerage services related to futures, and trust services approved by the authorities. The Company's registered office and the main business location is at No. 333, Dunhua S. Road, Sec. 2, Taipei, Taiwan, ROC and No. 335, Dunhua S. Road, Sec. 2, Taipei. As of December 31, 2016, the Company had 9 branch offices.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings Co., Ltd.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company and subsidiaries ("the Group") for the years ended December 31, 2016 and December 31, 2015 were authorized for issue by the Board of Directors on March 7, 2017.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission ("FSC"), but not yet adopted by the Group at the date of issuance of the Group's financial statements are listed below.

(a) *IAS 36 "Impairment of Assets" (Amendment)*

This amendments relate to the amendments issued in May 2011 and require entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendments also require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendments are effective for annual periods beginning on or after January 1, 2014.

(b) *IFRIC 21 "Levies"*

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after January 1, 2014.

(c) *IAS 39 "Financial Instruments: Recognition and Measurement" (Amendment)*

Under the amendments, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after January 1, 2014.

(d) *IAS 19 "Employee Benefits" (Defined benefit plans: employee contributions)*

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after July 1, 2014.

(e) *Improvements to International Financial Reporting Standards (2010-2012 cycle):*

IFRS 2 "Share-based Payment"

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendments prospectively apply to share-based payment transactions for which the grant date is on or after July 1, 2014.

IFRS 3 "Business Combinations"

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 8 "Operating Segments"

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendments are effective for annual periods beginning on or after July 1, 2014.

IFRS 13 "Fair Value Measurement"

The amendments to the Basis for Conclusions of IFRS 13 clarify that when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 "Property, Plant and Equipment"

The amendments clarify that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 24 "Related Party Disclosures"

The amendments clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 38 "Intangible Assets"

The amendments clarify that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after July 1, 2014.

(f) *Improvements to International Financial Reporting Standards (2011-2013 cycle):*

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

The amendments clarify that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 "Business Combinations"

This amendments clarify that paragraph 2(a) of IFRS 3 *Business Combinations* excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendments are effective for annual periods beginning on or after July 1, 2014.

IFRS 13 "Fair Value Measurement"

The amendments clarify that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of the amendments is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 40 "Investment Property"

The amendments clarify the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property*, separate application of both standards independently of each other is required. The amendments are effective for annual periods beginning on or after July 1, 2014.

(g) *IFRS 14 "Regulatory Deferral Accounts"*

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after January 1, 2016.

(h) *IFRS 11 "Joint Arrangements" (Accounting for Acquisitions of Interests in Joint Operations)*

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 "Business Combinations", and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendments also require certain disclosure. The amendments are effective for annual periods beginning on or after January 1, 2016.

(i) *IAS 16"Property, Plant and Equipment and IAS 38 "Intangible Assets" — Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendments are effective for annual periods beginning on or after January 1, 2016.

(j) *IAS 16"Property, Plant and Equipment and IAS 41 "Agriculture"* — Agriculture: Bearer Plants

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual periods beginning on or after January 1, 2016.

(k) *IAS 27"Separate Financial Statements" — Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity's separate financial statements. In 2003, the equity method was removed from the options. This amendments remove the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions.

The amendments are effective for annual periods beginning on or after January 1, 2016.

(l) *Improvements to International Financial Reporting Standards (2012-2014 cycle):*

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

The amendments clarify that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendments also require identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendments are effective for annual periods beginning on or after January 1, 2016.

IFRS 7 "Financial Instruments: Disclosures"

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 *Financial Instruments: Disclosures* is required. The amendments also clarify that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 *Interim Financial Reporting.* The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 19 "Employee Benefits"

The amendments clarify the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 34 "Interim Financial Reporting"

The amendments clarify what is meant by "elsewhere in the interim financial report" under IAS 34; the amendments state that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendments are effective for annual periods beginning on or after January 1, 2016.

(m) *Disclosure Initiative — Amendment to IAS 1 "Presentation of Financial Statements":*

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2016.

(n) *IFRS 10"Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28"Investments in Associates and Joint Ventures" — Investment Entities: Applying the Consolidation Exception*

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016.

The abovementioned standards and interpretations issued by IASB and recognized by FSC, which are applicable for annual periods beginning on or after January 1, 2017, have no material impact on the Group.

(2) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Group's financial statements are listed below.

(a) *IFRS 15 "Revenue from Contracts with Customers"*

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after January 1, 2018.

(b) *IFRS 9"Financial Instruments"*

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9 *Financial Instruments* (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after January 1, 2018.

(c) *IFRS 10"Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(d) *IFRS 16"Leases"*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after January 1, 2019.

(e) *IAS 12"Income Taxes" — Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017.

(f) *Disclosure Initiative — Amendment to IAS 7 "Statement of Cash Flows":*

The amendments relate to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendments are effective for annual periods beginning on or after January 1, 2017.

(g) *IFRS 15 "Revenue from Contracts with Customers" — Clarifications to IFRS 15*

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments are effective for annual periods beginning on or after January 1, 2018.

(h) *IFRS 2 "Shared-Based Payment" — Amendments to IFRS 2*

The amendments contain (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognised in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2018.

(i) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4*

The amendments help to resolve issues arising from the different effective dates for IFRS 9 "Financial Instruments" (January 1, 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before January 1, 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 "Financial Instruments" before the IASB's new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

(j) *Transfers of Investment Property — Amendments to IAS 40*

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018.

(k) *Improvements to International Financial Reporting Standards (2014-2016 cycle)*:

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after January 1, 2018.

IFRS 12 "Disclosure of Interests in Other Entities"

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 28"Investments in Associates and Joint Ventures"

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after January 1, 2018.

(l) IFRIC 22 "*Foreign Currency Transactions and Advance Consideration*"

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 "The Effects of Changes in Foreign Exchange Rates", in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after January 1, 2018.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The Group is still currently determining the potential impact of the standards and interpretations above.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The consolidated financial statements of the Group for the years ended December 31, 2016 and 2015 have been prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

(2) Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and investment properties that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
B. exposure, or rights, to variable returns from its involvement with the investee, and
C. the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

A. the contractual arrangement with the other vote holders of the investee
B. rights arising from other contractual arrangements
C. the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Bank obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

A. Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
B. Derecognizes the carrying amount of any non-controlling interest;
C. Recognizes the fair value of the consideration received;
D. Recognizes the fair value of any investment retained;
E. Recognizes any surplus or deficit in profit or loss; and
F. Reclassifies the Company's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

			Ownership interest	
Investor	Subsidiary	Business nature	2016.12.31	2015.12.31
The Company	Cathay Futures Corp. ("Cathay Futures")	Futures related business	99.99	99.99
The Company	Cathay Securities (Hong Kong) Corporation Limited ("Cathay Securities (Hong Kong)")	Securities agent	100.00	100.00

Cathay Futures (the Subsidiary) , former Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Act and renamed to Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp and was approved by the authorities on January 19, 2004. The Subsidiary mainly engages in the business of securities dealing, brokerage and futures advisory services. The Subsidiary's registered office and the main business location are at 19 Fl., No.333, Sec. 2, Dunhua S. Road, Taipei, Taiwan, R.O.C. The Subsidiary discontinued the business of futures dealing and futures managing on March 21, 2006 and September 30, 2015, and recovered the business of futures dealing under the approval of the authorities on March 2016.

Cathay Securities (Hong Kong) , were authorized for invest the Subsidiary by the Board of Directors on February 6, 2017. The total invest amounts of HKD 36,483 thousand. There was cash capital increase in HKD 85,000 thousand on January 1, 2016, while total invest amounts approached to HKD 121,483 thousand. Cathay Securities (Hong Kong), formerly Horizon Securities (Hong Kong) Co., Ltd., was renamed as Cathay Securities (Hong Kong) Co., Ltd. after the acquisition, mainly engages in the business of securities agent.

In addition, the consolidated financial statements excluded the following subsidiaries:

			Ownership interest	
Investor	Subsidiary	Business nature	2016.12.31	2015.12.31
The Company	Cathay Security Investment Advisory (Shanghai)	Investment Advisory	100.00	100.00

Considering the total amount of assets and revenues is immaterial to the Group, such subsidiary was excluded in the consolidated financial statements.

(4) Foreign Currency Transactions

The Group's consolidated financial statements are presented in NT$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

B. Foreign currency items within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are accounted for based on the accounting policy for financial instruments.

C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

The following partial disposals are accounted for as disposals:

A. when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
B. when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and Noncurrent Distinction

An asset is classified as current when:
A. The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
B. The Group holds the asset primarily for the purpose of trading
C. The Group expects to realize the asset within twelve months after the reporting period
D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current when:
A. The Group expects to settle the liability in its normal operating cycle
B. The Group holds the liability primarily for the purpose of trading
C. The liability is due to be settled within twelve months after the reporting period
D. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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.

(7) Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group classify time deposits as cash equivalents when their maturities within 12 months.

(8) Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial assets

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading.

Financial asset is classified as held for trading if:

a. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
c. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

a. Open-end funds and currency market instruments

Investments in open-end funds are initially recognized at cost and valued at fair value as of the balance sheet date. The fair value of the beneficiary certificates of open-end funds are based on the net asset value of the funds as of the balance sheet date. The cost of sale is calculated using the weighted-average method.

b. Securities held for operations

Securities held for operations include securities and call(put) warrants held by the dealing department with trading purpose. These securities are initially recognized at cost with their unit cost calculated by weight average method and valued at fair value as of the balance sheet date. Emerged stocks are valued at cost; listed stocks, call (put) warrants and convertible bonds are valued at the closing price of Taiwan Stock Exchange or the GreTai (Over-the-counter) on the balance sheet date; government bonds and corporate bonds are valued are market price of GreTai (Over-the counter). Cost at sale is adopting the weighted average method. Stock dividend only remark as number of shares increase instead of investment income.

c. Long options and short options

Long options and short options are recorded based on option premium. Changes in market values are reflected in “long options – futures”, “short options – futures” and “gain (loss) from derivative financial instruments – futures”.

The difference between the market value and the exercise price of options at the exercise date is recognized as current period earnings. The difference between the settlement price and the average cost of open interest options at the balance sheet date is recognized as current period earnings.

d. Margin for futures trading – proprietary funds

The margin and premium resulting from trading futures and options are recorded as "margin for futures trading –proprietary funds". The profit or loss from the trading or valuation of futures and options is recorded as "gain (loss) on futures contracts" or "gain (loss) from options transactions", and the amount of "margin for futures trading – proprietary funds" is adjusted. Futures and options transactions are divided into hedging and non-hedging according to the trading purpose. The profit or loss from trading or valuation of futures and options is present separately base on realized or not.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

a. significant financial difficulty of the issuer or obligor; or
b. a breach of contract, such as a default or delinquency in interest or principal payments; or
c. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
d. The disappearance of an active market for that financial asset because of financial difficulties of merchants.

For loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

<u>Derecognition of financial assets</u>

Financial asset is derecognized when:

a. The rights to receive cash flows from the asset have expired
b. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred

c. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

As a financial asset derecognize entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

B. Financial liabilities and equity

<u>Classification between liabilities or equity</u>

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction.

Financial liabilities

Financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

A financial liability is classified as held for trading if:

a. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

c. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid is recognized in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Liabilities for issuance of call (put) warrants / Repurchase of issued call (put) warrants

Warrants issued are accrued in the account of "Liabilities for warrants issued" and recorded by the fair value method on the gross basis. The repurchase of warrants issued, according to the full disclosure principle, is recorded in the account of "Repurchased warrants", which is served as a contra item to the account of "Liabilities for warrants issued".

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

C. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Derivative financial instrument

A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading).

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

(10) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability, or
(b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(11) <u>The transaction of Repo bonds</u>

The transaction of bonds with repurchase or reverse repurchase is recognized as “liabilities of bonds with repurchase agreement” and “investment of bonds with reverse repurchase agreement” according to the law of financing and are treated as financing activities when the interest and risk not transferred from the seller. ；the difference between book value and strike price is recognized as interest revenue or interest expense.

(12) <u>Margin loan and short sale of securities, margin loan refinancing, and short sale refinancing.</u>

A. Margin loans extended to stock investors are recorded as “receivable amount for margin loans” and the stocks purchased by the investors are held by the Company as collateral. The collateral is recorded in a memorandum and is returned to the investors when the loans are repaid.

B. Guarantee deposits received from stock investors on short sales are recorded as “securities financing guarantee deposits-in”. The proceeds from short sales (less the securities transaction tax and processing fees) are held by the Company as guarantee deposits and recorded as “deposit payable for securities financing”. The stocks lent to the investors are recorded in a memorandum. When the stocks are returned to the Company, the guarantee deposits and proceeds from the short sales are returned to the investors accordingly.

C. Loans borrowed by the Company from other securities lenders when the Company has insufficient funds to conduct margin trading are recorded as “margin loans from other securities lenders”. When the Company has insufficient stocks to conduct securities lending, the Company borrows stocks from other securities lenders and the guarantee deposits paid are recorded as “deposits paid to other securities lenders”. The proceeds from short sales are then paid to the securities lenders as additional guarantee deposits and are recorded as “securities refinancing margin deposits”.

(13) <u>Client margin account</u>

The margin deposit received from futures trading clients is recorded under client margin account (asset). The difference with each day’s market price and related commission, which includes bank deposits, and balances from clearing house and other future commission merchants.

(14) Investments accounted for using the equity method

The Group’s investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group’s share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group’s related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group’s percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new stock, and the Group’s interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in additional paid in capital and investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 39 Financial Instruments: Recognition and Measurement. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Group estimates:

A. Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

B. The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(15) Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	40 years
Office equipment	3-6 years
Leasehold improvements	5-6 years

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(16) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the fair value model. Pursuant to accounting measurement of the IAS 40(Investment Property), the gain or loss due to the change of the fair value of investment property recognized in the profit or loss for the current period. However, those that meet the criteria should be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Assets are transferred to or from investment properties when there is a change in use.

(17) Leases

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(18) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

The main intangible asset is computer software, and the cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

(19) Futures Clients' Equity

The premium received from futures trading clients is recorded under futures clients' equity (liability). The difference with each day's market price and related commission is reflected directly at the futures clients' equity.

(20) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(21) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. The oversea subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the projected unit credit method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to other equity in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

A. the date of the plan amendment or curtailment, and
B. the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(22) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company file joint corporate income tax returns and 10% surcharge on unappropriated retained earnings returns under the consolidated income tax return system since 2005. If there are any tax effects due to the adoption of the consolidated income tax return system, the parent company can proportionately allocate the effects to the deferred income tax, taxes payable and other receivables of the Company and the parent company.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(23) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

A. Brokerage commissions, profit or loss from disposal of securities held for operations and related commissions are recognized at the transaction date.

B. Gains/ (losses) on disposal of trading securities are recognized on the transaction date.

C. Interest income/expense on margin loans and short sales of securities and bonds purchased under resale agreements, bonds sold under repurchase agreements are recognized respectively over the loan period on an accrual basis.

D. Gain (losses) on disposal of measurement at fair value investment equities are recognized on the transaction date.

E. Gain (losses) on futures contracts: The margin of futures transactions is recognized as cost. Costs and expenses are recognized as incurred.

F. Options transaction income (loss): The premium of options transaction is recognized as cost. The options are evaluated monthly based on the market value. Options transaction gains or loss arising from settlement is recognized in current period.

G. Dividends income is recognized when the Company right to receive the payment is established.

H. Interest revenue is calculated by effect interest method and recognized in profit in current period.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Fair value of investment property

Fair value depends on valuation methods, including income approach (e.g. discounted cash flow method) or market approach etc. The changes to the assumptions will impact the result of the investment properties valuation.

(2) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

(3) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Petty cash and cash on hand	$472	$472
Cash in banks		
Saving accounts	941,533	944,050
Checking accounts	27	1
Time deposits	698,397	316,900
Cash equivalents	674,790	454,513
Total	$2,315,219	$1,715,936

A. Time deposits are twelve-month term deposits and readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value. The interest rates of the above time deposits were 0.12%~1.065% and 0.26%~1.205% as of December 31, 2016 and December 31, 2015, respectively.

B. The above-mentioned time deposits included the time deposits due within 12 months and deposits that can be transferred to cash equivalents in certain amount with insignificant risk of value changing.

C. The cash equivalents are the excess margins from futures trading margins.

D. The cash and cash equivalent mentioned above are not pledged.

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

	December 31, 2016	December 31, 2015
Financial assets held for trading		
Open-end funds and currency market instruments	$59,810	$1,557,795
Securities held for operations – dealing	5,284,601	3,348,474
Securities held for operations – underwriting	165,826	374,312
Securities held for operations – hedging	1,516,115	990,196
Long options – futures	16,288	24,371
Futures trading margins – proprietary funds	326,894	356,624
Total	$7,369,534	$6,651,772

A. Open-end funds and currency market instruments

	December 31, 2016	December 31, 2015
Open-end funds	$60,000	$1,558,000
Valuation adjustment	(190)	(205)
Net	$59,810	$1,557,795

B. Securities held for operations - dealing

	December 31, 2016	December 31, 2015
Listed stocks	$1,844,484	$969,088
OTC stocks	47,951	25,355
Government bonds	501,014	-
Corporate bonds	1,661,215	1,225,924
Financial bonds	201,493	201,492
Convertible bonds	362,559	369,600
Emerging stocks	613,769	501,970
Exchange Traded Funds (ETF)	123,983	28,712
Opened-end fund	5,224	5,209
Foreign Securities	167	-
Others	14,154	33
Subtotal	5,376,013	3,327,383
Valuation adjustment	(91,412)	21,091
Net	$5,284,601	$3,348,474

As of December 31, 2016 and December 31, 2015, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of $2,350,000 thousand, and $1,425,000 thousand, respectively.

Information regarding the Securities borrowing transfers can be obtained from Note.8.

C. Securities held for operations – underwriting

	December 31, 2016	December 31, 2015
Listed stocks	$-	$84,340
Convertible bonds	158,000	287,217
Subtotal	158,000	371,557
Valuation adjustment	7,826	2,755
Net	$165,826	$374,312

D. Securities held for operations – hedging

	December 31, 2016	December 31, 2015
Listed stocks	$1,007,343	$522,442
OTC stocks	374,461	399,856
Exchange Traded Funds (ETF)	136,811	75,766
Call (Put) Warrants	5,820	15,809
Subtotal	1,524,435	1,013,873
Valuation adjustment	(8,320)	(23,677)
Net	$1,516,115	$990,196

E. Futures trading margin – proprietary funds

As of December 31, 2016 and December 31, 2015, the amounts of accounts for margin deposits funds in future department were summarized as follows:

	December 31, 2016	December 31, 2015
Account balance	$319,756	$349,335
Gains (losses) on open interest	7,138	7,289
Net account value	$326,894	$356,624

F. Futures and options transactions

a. As of December 31, 2016 and December 31, 2015, the open interest of the Company's futures and options transactions were as follows:

December 31, 2016

Item	Nature of Transaction	Open Interest		Contract amount/ payment (receipt) of premium	Fair value
		Buy/Sell	Units		
Futures	STW	Buy	8	$8,826	$8,878
Futures	STW	Sell	171	$188,304	$189,768
Futures	SSI	Sell	16	$41,491	$41,801
Futures	UYM	Sell	5	$15,984	$15,914
Futures	SCN	Buy	37	$11,869	$11,898
Futures	SCN	Sell	43	$13,879	$13,828
Futures	FIxxF	Buy	2,011	$362,533	$364,282
Futures	FIxxF	Sell	10,568	$1,308,846	$1,296,713
Futures	FITF	Buy	103	$111,843	$111,938
Futures	FITE	Buy	543	$803,490	$806,592
Futures	FITX	Sell	632	$1,171,039	$1,176,949
Futures	FIXI	Buy	237	$268,999	$271,808
Futures	FIMTX	Buy	1	$463	$463
Futures	FIMTX	Sell	260	$121,095	$121,746
Futures	FIMTX1	Sell	2	$920	$926
Futures	FIGT	Sell	2	$987	$1,003
Futures	FIFF1	Sell	1	$301	$301
Options	TXO-Put	Buy	1,219	$3,465	$2,064
Options	TXO-Call	Buy	1,039	$6,773	$8,618
Options	TXO-Put	Sell	1,381	$(4,779)	$3,025
Options	TXO-Call	Sell	1,595	$(3,113)	$3,236
Options	TXI-Put	Buy	2,669	$2,628	$1,162
Options	TXI-Call	Buy	1,713	$3,632	$4,409
Options	TXI-Put	Sell	2,851	$(4,450)	$1,982
Options	TXI-Call	Sell	1,947	$(5,597)	$7,489
Options	TEO-Put	Buy	27	$25	$9
Options	TEO-Call	Buy	2	$4	$2
Options	TEO-Put	Sell	56	$(134)	$85

Item	Nature of Transaction	Open Interest		Contract amount/ payment (receipt) of premium	Fair value
		Buy/Sell	Units		
Options	TEO-Call	Sell	16	$(38)	$54
Options	CBO-Put	Buy	5	$1	$1
Options	CBO-Call	Buy	5	$7	$7
Options	CCO-Put	Buy	5	$5	$2
Options	CCO-Call	Buy	10	$2	$2
Options	CHO-Put	Buy	5	$-	$-
Options	CHO-Call	Buy	5	$-	$-
Options	DOO-Put	Buy	15	$-	$-
Options	DOO-Call	Buy	10	$-	$-
Options	DQO-Put	Buy	15	$-	$-
Options	DQO-Call	Buy	10	$-	$-
Options	OAO-Call	Buy	1	$5	$4
Options	OAO-Put	Sell	5	$(30)	$24
Options	OKO-Call	Buy	5	$1	$1
Options	OCO-Call	Sell	5	$(9)	$5
Options	NZO-Put	Buy	1	$6	$7

December 31, 2015

	Nature of Transaction	Open Interest		Contract amount/ payment (receipt) of premium	Fair value
		Buy/Sell	Units		
Futures	STW	Buy	24	$24,124	$24,157
Futures	SCN	Sell	60	$21,224	$20,772
Futures	FIxxF	Buy	1,883	$303,917	$303,300
Futures	FIxxF	Sell	6,050	$619,104	$616,887
Futures	FITF	Buy	75	$73,655	$73,343
Futures	FITE	Buy	468	$608,180	$610,299
Futures	FITX	Buy	4	$6,580	$6,614
Futures	FITX	Sell	350	$579,444	$578,965
Futures	FIXI	Buy	168	$172,651	$173,086
Futures	FIXI	Sell	17	$17,373	$17,514
Futures	FIMTX	Sell	241	$99,818	$99,671
Futures	FITGF	Buy	6	$2,546	$2,546

	Nature of Transaction	Open Interest		Contract amount/ payment (receipt) of premium	Fair value
		Buy/Sell	Units		
Futures	FINYF	Sell	12	$7,306	$7,301
Futures	FINZF	Buy	6	$1,082	$1,094
Futures	FINZF	Sell	62	$11,370	$11,309
Futures	FIOAF	Buy	48	$15,469	$15,237
Futures	FIOBF	Buy	10	$2,894	$2,922
Futures	FIOCF	Buy	130	$31,354	$31,055
Options	TXO-Put	Buy	2,773	$16,666	$16,924
Options	TXO-Call	Buy	1,195	$4,022	$3,980
Options	TXO-Put	Sell	10,702	$(16,904)	$16,848
Options	TXO-Call	Sell	2,761	$(16,799)	$15,000
Options	TXI-Put	Buy	1,013	$1,239	$1,180
Options	TXI-Call	Buy	842	$1,271	$1,283
Options	TXI-Put	Sell	1,951	$(3,685)	$3,350
Options	TXI-Call	Sell	679	$(2,789)	$3,026
Options	TEO-Put	Buy	76	$640	$518
Options	TEO-Call	Buy	111	$598	$340
Options	TEO-Put	Sell	128	$(744)	$655
Options	TEO-Call	Sell	129	$(1,332)	$1,184
Options	TGO-Put	Buy	9	$80	$84
Options	TGO-Call	Buy	25	$81	$62
Options	TGO-Put	Sell	1	$(3)	$3
Options	TGO-Call	Sell	73	$(191)	$189

b. Nominal principal or contract amount and credit risk

Financial instruments	December 31, 2016 Nominal principal/ contract amount
For trading purposes	
STW	$197,130
SCN	$25,748
FIxxF	$1,671,379
FITF	$111,843
FITX	$1,171,039
FITE	$803,490
FIXI	$268,999
FIMTX	$121,558

Financial instruments	December 31, 2016 Nominal principal/ contract amount
FIMTX1	$920
FIGT	$987
FIFF1	$301
SSI	$41,491
UYM	$15,984
TXO	$18,130
TXI	$16,307
TEO	$201
CBO	$8
CCO	$7
OAO	$35
OKO	$1
OCO	$9
NZO	$6

Financial instruments	December 31, 2015 Nominal principal/ contract amount
For trading purposes	
STW	$24,124
SCN	$21,224
FIxxF	$923,021
FITF	$73,655
FITX	$586,024
FITE	$608,180
FIXI	$190,024
FIMTX	$99,818
FITGF	$2,546
FINYF	$7,306
FINZF	$12,452
FIOAF	$15,469
FIOBF	$2,894
FIOCF	$31,354
TXO	$54,391
TXI	$8,984
TEO	$3,314
TGO	$355

c. Derivative financial instruments on the financial statements were as follows

	2016	2015
Gains on derivative financial instruments – futures		
Non-hedging		
Gains on futures contracts - realized	$78,687	$381,357
Gains on futures contracts - unrealized	38,597	165,824
Gains from options transactions - realized	255,332	388,782
Gains from options transactions - unrealized	42,614	177,484
Subtotal	415,230	1,113,447
Hedging		
Gains on futures contracts - realized	409,128	96,409
Gains on futures contracts - unrealized	12,377	34,061
Gains from options transactions - realized	11,497	496
Subtotal	433,002	130,966
Total	$848,232	$1,244,413

	2016	2015
Losses on derivative financial instruments – futures		
Non - hedging		
Losses on futures contracts - realized	$137,913	$345,387
Losses on futures contracts - unrealized	43,531	150,468
Losses on options transactions - realized	12,428	80,423
Losses on options transactions - unrealized	42,125	171,541
Subtotal	235,997	747,819
Hedging		
Losses on futures contracts - realized	438,958	61,831
Losses on futures contracts - unrealized	-	33,421
Losses on options transactions - realized	13,116	40
Losses on options transactions - unrealized	470	35
Subtotal	452,544	95,327
Total	$688,541	$843,146

(3) Investments in bonds with reverse purchase agreements

As of December 31, 2016 and December 31, 2015, investments in bonds with reverse purchase agreements amounted to $0 thousand $1,264,000 thousand, respectively. As of December 31, 2016 and December 31, 2015, the bonds with reverse purchase agreement will be resold in agreed price in respective agreements plus accrued interest amounted to $0 thousand $1,264,074 thousand, respectively.

(4) Securities margin loans receivables

	December 31, 2016	December 31, 2015
Securities margin loans receivables	$3,168,577	$3,385,840
Less: allowance for bad debts	-	-
Total	$3,168,577	$3,385,840

As of December 31, 2016 and December 31, 2015, securities margin loans receivables had an annual interest rate between 3.25%~8.25%.

(5) Account receivables

	December 31, 2016	December 31, 2015
Cash and cash equivalents – settlement account	$118,568	$199,681
Accounts receivables – settlement	3,462,220	1,446,954
Accounts receivables from selling securities	142,304	121,482
Accounts receivables from buying securities	9,214	-
Others	137,491	23,717
Less: allowance for bad debts	-	-
Total	$3,869,797	$1,791,834

(6) Client margin account and futures clients' equity

	December 31, 2016	December 31, 2015
Deposits in banks	$2,287,822	$2,213,842
Balance at other futures commission merchants	540,729	729,926
Other futures commission merchants	144,986	54,604
Balance at client margin account	2,973,537	2,998,372
Less: brokerage commission	(2,050)	(954)
Balance at futures clients' equity	$2,971,487	$2,997,418

(7) Available-for-sale financial assets – current/non-current

	December 31, 2016	December 31, 2015
Current		
OTC stocks	$144,312	$374,641
Valuation adjustment	(9,648)	117,211
Net	$134,664	$491,852

	December 31, 2016	December 31, 2015
Non-Current		
Taiwan Futures Exchange	$30,518	$30,518
Valuation adjustment	275,016	247,588
Net	$305,534	$278,106

No pledged was made for available-for-sale financial assets mentioned above.

(8) Investments accounted for using the equity method

The following is the detail of unconsolidated subsidiary:

The Investee	December 31, 2016		December 31, 2015	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Cathay Investment Consulting (Shanghai) Co.,Ltd.	$16,027	100%	$25,991	100%

The recognized share of the profits (losses) of and other comprehensive income from investment accounted for the equity method mentioned above was derived from unaudited financial reports. There is no material influence on the unaudited financial reports with the evaluation made from the Group's management.

There were no public prices at the Group's investments accounted for using the equity method, and no pledged was made for the Group's investments accounted for using the equity method.

(9) Property and equipment

	Land	Property and building	Computer equipment	Leasehold improvement	Total
Cost:					
January 1, 2016	$48,087	$4,322	$326,834	$195,969	$575,212
Additions	-	-	39,747	16,103	55,850
Disposals	-	-	(15,496)	-	(15,496)
Exchange differences	-	-	(446)	(202)	(648)
December 31, 2016	$48,087	$4,322	$350,639	211,870	$614,918
January 1, 2015	$48,087	$4,322	$288,929	$161,403	$502,741
Additions	-	-	46,074	33,998	80,072
Additions from business combination			675	176	851
Disposals	-	-	(11,815)	-	(11,815)
Exchange differences	-	-	2,971	392	3,363
December 31, 2015	$48,087	$4,322	$326,834	$195,969	$575,212
Depreciation and impairment:					
January 1, 2016	$-	$(1,813)	$(216,242)	$(96,666)	$(314,721)
Depreciation	-	(107)	(34,873)	(26,940)	(61,920)
Disposals	-	-	15,484	-	15,484
Exchange differences	-	-	84	19	103
December 31, 2016	$-	$(1,920)	$(235,547)	$(123,587)	$(361,054)
January 1, 2015	$-	$(1,706)	$(194,859)	$(72,297)	$(268,862)
Depreciation	-	(107)	(31,823)	(24,369)	(56,299)
Disposals	-	-	11,815	-	11,815
Exchange differences	-	-	(1,375)	-	(1,375)
December 31, 2015	$-	$(1,813)	$(216,242)	$(96,666)	$(314,721)
Net carrying amount as:					
December 31, 2016	$48,087	$2,402	$115,092	$88,283	$253,864
December 31, 2015	$48,087	$2,509	$110,592	$99,303	$260,491

The property and equipment as of December 31, 2016 and December 31, 2015 were not pledged.

(10) Investment property

	Land	Building	Total
January 1, 2016	$249,455	$36,798	$286,253
Gains or (losses) generated from fair value adjustments	4,700	(612)	4,088
December 31, 2016	$254,155	$36,186	$290,341
January 1, 2015	$247,627	$37,458	$285,085
Gains or (losses) generated from fair value adjustments	1,579	(411)	1,168
December 31, 2015	$249,206	$37,047	$286,253

	2016	2015
Rental income from investment properties	$5,839	$5,841

No investment properties were pledged as collaterals as of December 31, 2016 and December 31, 2015.

The Group's valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real estate Appraisal, and valuation dates are December 31, 2016 and December 31, 2015:

Elite Appraisers Firm: Yu-Ling, Chen (December 31, 2016)
Kuo-Shih, Wu (December 31, 2015)

The fair value has been determined by discounted cash flow (DCF) method.

Office building has market liquidity and their rent level is more comparable with similar items from the same neighborhood. The fair value has been determined by discounted cash flow method. Future cash inflows and outflows were estimated as follows:

	2016.12.31	2015.12.31
Estimated future cash inflows	$440,377	$441,043
Estimated future cash outflows	(22,082)	(22,092)
Estimated future net cash flows	$418,295	$418,951

The abovementioned estimated future cash inflows mainly consist of reasonable income from investment property and the estimated future cash outflows consist of property tax, land tax and reset appropriation fee.

Net income is based on the current market practices, assuming an annual rent increase of 1% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs.

According to the ROC Real Estate Appraisers Association Gazette No.5, the house tax has been determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act.

Land value tax is based on the changes in the announced land values of the underlying property in the past few years, to further extrapolate the announced land value in the future.

The material repairmen engineering fee is based on 15% of construction or building cost, under the assumption of 20 useful years.

The parameters used are as followed:

	2016.12.31	2015.12.31
Direct Capitalization rate (net)	2.50%	2.50%
Discount Rate	2.045%	2.225%

The rate above, according to Regulations Governing the Preparation of Financial Reports by Securities Firms, using Chunghwa Post Co. two-year small time deposits floating rate plus the risk and risk premium for the basement of estimation.

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate.

A. The real estate investments are held mainly for leasing purpose.
B. All the lease agreement of the Group’s lease business are operating lease. The primary terms of leasing agreements are the same with general lease agreement.
C. Rents from real estate investment are received monthly.
D. Investment properties were not pledged as collateral as of December 31, 2016 and December 31, 2015.

(11) Intangible assets

	Goodwill	Trading right	Computer software	Total
Cost:				
January 1, 2016	$8,629	$2,108	$128,571	$139,308
Addition-individual acquisition	-	-	37,755	37,755
Disposal	-	-	(5,165)	(5,165)
Reclassification	-	-	1,667	1,667
Exchange difference	-	(53)	-	(53)
December 31, 2016	$8,629	$2,055	$162,828	$173,512
Cost:				
January 1, 2015	$-	$-	$113,734	$113,734
Addition-individual acquisition	-	-	17,181	17,181
Acquisition from business combination	8,629	2,109	-	10,738
Disposal	-	-	(4,042)	(4,042)
Reclassification	-	-	1,698	1,698
Exchange difference	-	(1)	-	(1)
December 31, 2015	$8,629	$2,108	$128,571	$139,308
Amortization and impairment:				
January 1, 2016	$-	$-	$(65,142)	$(65,142)
Amortization	-	-	(28,534)	(28,534)
Disposal	-	-	4,774	4,774
December 31, 2016	$-	$-	$(88,902)	$(88,902)
January 1, 2015	$-	$-	$(44,469)	$(44,469)
Amortization	-	-	(24,715)	(24,715)
Disposal	-	-	4,042	4,042
December 31, 2015	$-	$-	$(65,142)	$(65,142)
Net Book value:				
December 31, 2016	$8,629	$2,055	$73,926	$84,610
December 31, 2015	$8,629	$2,108	$63,429	$74,166

Amortization expense of intangible assets under the other operating costs:

	2016	2015
Other operating costs	$28,534	$24,715

On September 4, 2015, the Group acquired 100% of the equity of Cathay Securities (Hong Kong). The goodwill arose from the acquisition amounted to $8,629 thousand. An annual impairment test for goodwill is performed regularly. The Group estimated the recoverable amount for purpose of impairment test based on embedded value of cash-generating unit that the goodwill is allocated to. The embedded value is calculated by applying a proper discount rate. As of December 31, 2016 and 2015, the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment recognition is necessary for goodwill.

(12) Other non-current assets

	December 31, 2016	December 31, 2015
Operation funds	$428,829	$345,868
Settlement/Clearance funds	211,783	213,964
Prepayment for equipment	7,271	-
Reserve funds of trust	50,000	-
Prepaid pension cost – non-current	3,568	3,296
Refundable deposits	20,693	20,382
Total	$722,144	$583,510

As stipulated in Regulations Governing Securities Firms ("RGSF"), Regulations Governing the Operation of Futures Introducing Broker Business by Securities Firms, Regulations Governing Futures Advisory Enterprises, and Regulations Governing Futures Commission Merchants, the Group shall lodge operation funds with banks designated by the Financial Supervisory Commission ("FSC") after its registration. The Group provided time deposits $355,000 thousand and $345,000 thousand as operation bond as of December 31, 2016 and December 31, 2015.

Based on the requirements of RGSF, Taipei Exchange Rules for Administration of Joint Responsibility System Clearing and Settlement Fund, and Taiwan Futures Exchange Corporation Criteria for Clearing Membership, the Group deposited settlement funds were $211,783 thousand and $213,964 thousand as of December 31, 2016 and December 31, 2015, respectively.

Based on the requirements of Regulations Governing Concurrent Conduct of Trust Business by Securities Investment Trust Enterprises, Securities Investment Consulting Enterprises, and Securities Firms, the Group deposited reserve funds of trust in the Central Bank of ROC were $50,000 thousand as of December 31, 2016.

(13) Impairment testing of goodwill

A. Key assumptions used in value in use calculations:

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by the Weighted Average Cost of Capital (WACC).

B. The calculation of value in use for the unit is most sensitive to the following assumptions:

a. Discount rates

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by the Weighted Average Cost of Capital (WACC).

b. Projected growth rates, used to extrapolate cash flows beyond the budget period:

Assumptions are based on published industry research.

(14) Short-term loan

	December 31, 2016	December 31, 2015
Loan on credit	$87,229	$-
Average interest rates	1.75%-3.05%	-

The Group's unused short-term loan of credits amounted to $6,782,182 thousand and $3,341,178 thousand as of December 31, 2016 and December 31, 2015, respectively.

The above short-term loan has no collateral pledged.

(15) Commercial paper payables

	December 31, 2016	December 31, 2015
Commercial papers payable	$5,600,000	$6,860,000
Less: Discount on commercial papers payable	(1,162)	(2,366)
Net	$5,598,838	$6,857,634
Average interest rates	0.38%~0.67%	0.38%~0.56%

The Group's unused short-term lines of credits amounted to $18,850,000 thousand and $11,540,000 thousand as of December 31, 2016 and December 31, 2015, respectively.

(16) Financial liabilities measured at fair value through profit or loss – current

	December 31, 2016	December 31, 2015
Liabilities for issuance of call (put) warrants	$3,759,557	$3,142,007
Repurchase warrants	(3,484,842)	(2,864,731)
Short options – futures	15,900	40,255
Liabilities for securities and bonds borrowing－hedging	284,643	377,376
Liabilities for securities and bonds borrowing－non-hedging	1,460,526	762,373
Total	$2,035,784	$1,457,280

A. Liabilities for issuance of call (put) warrants / Repurchase warrants

	December 31, 2016	December 31, 2015
Warrants issued	$5,788,147	$4,451,380
Gain through the change of value	(2,028,590)	(1,309,373)
	3,759,557	3,142,007
Repurchased warrants	4,529,089	3,369,745
Loss through the change of value	(1,044,247)	(505,014)
	3,484,842	2,864,731
Total	$274,715	$277,276

a. The call (put) warrants issued by the Group typically have contract periods of six to nine months commencing from the date the warrants are listed.

b. The call (put) warrants can be settled by delivery of securities or, at the election of the Group in cash.

c. Nominal principal or contract amount and credit risk:

	December 31, 2016	December 31, 2015
	Notional amount / Contractual principal	Notional amount / Contractual principal
For trading purpose		
Warrants issued	$5,788,147	$4,451,380

d. Presentation in financial report:

	Financial liabilities at fair value through profit or loss - current	
	December 31, 2016	December 31, 2015
Balance Sheet		
Liabilities for issuance of call (put) warrants	$3,759,557	$3,142,007
Repurchase warrants	(3,484,842)	(2,864,731)
Total	$274,715	$277,276

Comprehensive income statement	2016	2015	Account	Comments
Liabilities for issuance of call (put) warrants	$8,922,005	$9,949,916	Gains from issuing call (put) warrants	Fair value method
Repurchase warrants				
- Losses on disposal	(7,893,885)	(8,606,022)	Losses from issuing call (put) warrants	
- Losses from valuation	(539,232)	(431,184)	Losses from issuing call (put) warrants	Fair value method
Warrants issuing expenses	(42,272)	(46,055)	Losses from issuing call (put) warrants	
Securities held for operations – Hedging				
-(Losses) gains on disposal	(90,311)	(416,334)	(Losses) gains from securities held for operations	
-(Losses) gains from valuation	15,088	(138,106)	(Losses) gains on valuation of securities held for operations	Fair value method
Liabilities for securities and bonds borrowing－hedging				
-Losses on disposal	1,143	(22,831)	Losses on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements	
- Gains from valuation	6,795	26,990	Gains on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements	Fair value method
Trading futures – hedging				
-Losses on disposal	(70,109)	(58,261)	(Losses) gains on derivative financial instruments- futures	
-Losses from valuation	1,929	(33,421)	(Losses) gains on derivative financial instruments- futures	Fair value method
Total	$311,151	$224,692		

B. Futures and options transactions

Please refer to note 6.2.

C. Liabilities for securities and bonds borrowing－hedging

	December 31, 2016	December 31, 2015
Listed stocks	$187,093	$318,416
OTC stocks	119,199	54,426
Exchange Traded Funds (ETF)	3,000	32,484
Subtotal	309,292	405,326
Valuation adjustment	(24,649)	(27,950)
Net	$284,643	$377,376

D. Liabilities for securities and bonds borrowing－non-hedging

	December 31, 2016	December 31, 2015
Listed stocks	$1,398,816	$747,968
OTC stocks	39,730	22,456
Exchange Traded Funds (ETF)	1,114	4,300
Subtotal	1,439,660	774,724
Valuation adjustment	20,866	(12,351)
Net	$1,460,526	$762,373

(17) Liabilities for bonds with repurchase agreements

As of December 31, 2016 and December 31, 2015, liabilities for bonds with repurchase agreements amounted to $2,339,864 thousand $1,425,000 thousand, respectively. As of December 31, 2016 and December 31, 2015, the bonds with repurchase agreement will be repurchased in agreed price in respective agreements plus accrued interest amounted to $2,340,503 thousand $1,425,842 thousand, respectively.

(18) Post-employment benefits

Defined contribution plan

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

The oversea subsidiaries make contribution to the plan based on the requirements of local regulations.

Expenses under the defined contribution plan for the twelve-month periods ended December 31, 2016 and December 31, 2015 were $31,375 thousand and $28,048 thousand, respectively.

Defined benefits plan

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company and its domestic subsidiaries assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company and its domestic subsidiaries do not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute $1,150 thousand to its defined benefit plan during the 12 months beginning after December 31, 2016.

The weighted-average durations of the defined benefit obligation are 13 years and 14 years as of December 31, 2016 and 2015, respectively.

Pension costs recognized in profit or loss for the years ended December 31, 2016 and 2015:

	2016		2015	
	Cathay Securities Corporation	Cathay Futures Co., Ltd.	Cathay Securities Corporation	Cathay Futures Co., Ltd.
Current period service costs	$3,711	$-	$3,476	$-
Interest expense from net defined benefit liability	286	(46)	306	(69)
Total	$3,997	$(46)	$3,782	$(69)

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2016.12.31		2015.12.31		2015.1.1	
	Cathay Securities Corporation	Cathay Futures Co., Ltd.	Cathay Securities Corporation	Cathay Futures Co., Ltd.	Cathay Securities Corporation	Cathay Futures Co., Ltd.
Defined benefit obligation at January 1,	$34,555	$1,879	$36,186	$2,112	$28,900	$1,810
Plan assets at fair value	(15,380)	(5,447)	(14,123)	(5,408)	(12,595)	(5,267)
Other non-current liabilities - Accrued pension liabilities recognized on the consolidated balance sheets	$19,175	$(3,568)	$22,063	$(3,296)	$16,305	$(3,457)

Reconciliation of liability (asset) of the defined benefit plan is as follows:

Cathay Securities Corporation	Defined benefit obligation	Fair value of plan assets	Net Defined Benefit liability
2015.1.1	$28,900	$(12,595)	$16,305
Current period service costs	3,476	-	3,476
Net interest expense (income)	563	(257)	306
Subtotal	4,039	(257)	3,782
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	3,051	-	3,051
Experience adjustments	196	-	196
Remeasurements of the net defined benefit asset	-	(76)	(76)
Subtotal	3,247	(76)	3,171
Contributions by employer	-	(1,195)	(1,195)
2015.12.31	36,186	(14,123)	22,063
Current period service costs	3,711	-	3,711
Net interest expense (income)	480	(194)	286
Subtotal	4,191	(194)	3,997
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	(564)	-	(564)
Experience adjustments	(4,750)	-	(4,750)
Remeasurements of the net defined benefit asset	-	90	90
Subtotal	(5,314)	90	(5,224)
Payment of benefit obligation	(508)	-	(508)
Contributions by employer	-	(1,153)	(1,153)
2016.12.31	$34,555	$(15,380)	$19,175

Cathay Futures Co., Ltd.	Defined benefit obligation	Fair value of plan assets	Net Defined Benefit liability
2015.1.1	$1,810	$(5,267)	$(3,457)
Current period service costs	-	-	-
Net interest expense (income)	36	(105)	(69)
Subtotal	36	(105)	(69)
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	226	-	226
Experience adjustments	40	-	40
Remeasurements of the net defined benefit asset	-	(36)	(36)
Subtotal	266	(36)	230
Contributions by employer	-	-	-
2015.12.31	2,112	(5,408)	(3,296)
Current period service costs	-	-	-
Net interest expense (income)	30	(76)	(46)
Subtotal	30	(76)	(46)
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	(55)	-	(55)
Experience adjustments	380	-	380
Remeasurements of the net defined benefit asset	-	37	37
Subtotal	325	37	362
Payment of benefit obligation	(588)	-	(588)
Contributions by employer	-	-	-
2016.12.31	$1,879	$(5,447)	$(3,568)

The principal assumptions used in determining the Branch’s defined benefit plan are shown below:

	2016.12.31		2015.12.31	
	Cathay Securities Corporation	Cathay Futures Co., Ltd.	Cathay Securities Corporation	Cathay Futures Co., Ltd.
Discount rate	1.45%	1.58%	1.33%	1.41%
Expected rate of salary increases	2.50%	3.00%	2.50%	3.00%

A sensitivity analysis for significant assumption as at December 31, 2016 and 2015 is, as shown below:

Cathay Securities Corporation	2016.1.1~ 2016.12.31 Increase defined benefit obligation	2016.1.1~ 2016.12.31 Decrease defined benefit obligation	2015.1.1~ 2015.12.31 Increase defined benefit obligation	2015.1.1~ 2015.12.31 Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$(2,246)	$-	$(2,352)
Discount rate decrease by 0.5%	2,453	-	2,569	-
Future salary increase by 0.5%	2,350	-	2,460	-
Future salary decrease by 0.5%	-	(2,211)	-	(2,316)

Cathay Futures Co., Ltd.	2016.1.1~ 2016.12.31 Increase defined benefit obligation	2016.1.1~ 2016.12.31 Decrease defined benefit obligation	2015.1.1~ 2015.12.31 Increase defined benefit obligation	2015.1.1~ 2015.12.31 Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$(154)	$-	$(182)
Discount rate decrease by 0.5%	169	-	201	-
Future salary increase by 0.5%	163	-	194	-
Future salary decrease by 0.5%	-	(150)	-	(177)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(19) Equity

A. Common stock

As of December 31, 2016 and December 31, 2015, the authorized share capital amounted to $7,000,000 and $5,000,000 thousand, respectively, and the issued share capital amounted to $5,330,000 thousand and $4,950,000 thousand, with 533,000 thousand shares and 495,000 thousand shares, respectively. These shares are common stock with par value of $10, each share has voting rights and right to receive dividends

The recapitalization of undistributed earnings by issuing 25,000 thousand shares was approved by the Company's board of directors on behalf of shareholders' meeting on April 29, 2015 and the recapitalization record date was August 3, 2015. The issued share capital was increased to $4,950,000 thousand, with par value of $10, and 495,000 thousand shares. All new shares were distributed to the single shareholder Cathay Financial Holding Co., Ltd.

The recapitalization of undistributed earnings by issuing 38,000 thousand shares was approved by the Company's board of directors on behalf of shareholders' meeting on April 27, 2016 and the recapitalization record date was August 16, 2016. The issued share capital was increased to $5,330,000 thousand, with par value of $10, and 533,000 thousand shares. All new shares were distributed to the single shareholder Cathay Financial Holding Co., Ltd. After the recapitalization of undistributed earnings, the capital amount received has been arrived $5,330,000 thousand, exceeding the amount in the Company's Articles of Incorporation. The Company's board of directors on behalf of shareholders' meeting approved to ascend the authorized share capital amounted to $7,000,000 thousand.

B. Capital surplus

	December 31, 2016	December 31, 2015
Additional paid-in capital	$491,766	$491,766

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Retained earnings and dividend policies

According to the Company's original Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

a. Payment of all taxes and dues;
b. Offset prior years' operation losses;
c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
d. Set aside or reverse special reserve in accordance with law and regulations; and
e. The remaining amounts after contribution of above, if any, plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting, and 1% of the aforementioned amount should be distributed as the employee bonus.
f. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as “employees’ compensation”. The Company’s Board of Directors’ meeting held on March 16, 2016 passed the resolution of amending the Articles of Incorporation, according to the revised Articles of Incorporation, current year’s earnings, if any, shall be distributed in the following order:

a. Payment of all taxes and dues;
b. Offset prior years’ operation losses;
c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
d. Set aside or reverse special reserve in accordance with law and regulations; and
e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders’ meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders’ meeting. The Company’s Articles of Incorporation further provide that no more than 50% of the dividends to shareholders, if any, could be paid in the form of share dividends.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

The Group changed the subsequent measurement of investment property from cost model to fair value model. According to legal interpretations No.1010012865 issued by Financial Supervisory Commission on April 6, 2012, as the first-time adoption of IFRS, entities shall appropriate special reserves from unrealized increments from revaluation and gains from accumulated translation adjustments recorded under stockholders’ equity with same amount to retain earnings due to the adoption of exemptions in IFRS1 First-time Adoption of International Financial Reporting Standards. After the adoption of IFRS, entities are allowed to appropriate special reserve in accordance with the difference between the amount of appropriated special reserve on the first-time adoption of IFRS and net reduction items of other equity during distributing profits. Entities are entitled to distribute the remaining balance of the reduction items of other equity if it is reversed afterward.

Details of the 2016 and 2015 earnings distribution and dividends per share as approved by the Board of Directors' meeting on March 7, 2017 and April 27, 2016, respectively, are as follows:

	Earnings distribution		Dividends per share	
	2016	2015	2016	2015
Legal reserve	$25,756	$53,694	$-	$-
Special reserve	56,747	108,107	-	-
Common stock dividends	180,000	380,000	0.34	0.77

According to legal interpretations No.10300009577 issued by Financial Supervisory Commission, Cathay Futures should appropriate special reserve equal to the portion of the net increase concerning the valuation while the subsequent measurement of investment property adopts fair value model. The Company will appropriate and has appropriaced special reserve $3,946 thousand and $719 thousand proporationately to its ownership interest on the aforementioned Cathay Futures' net increase which were for the years December 31, 2016 and 2015, respectively.

According to legal interpretations No. 10500278285 issued by Financial Supervisory Commission, the Company appropriate special reserve equal to 0.5% of the net income of continued operations in order to protect the rights of the employees as the FinTech development. Beginning on and after January 1, 2017, the aforementioned special reserve will be practice as the use for training, transferring and arranging.

Information regarding the employees' compensation can be obtained from Note.6(22).

D. Non-controlling interests

	2016	2015
At the beginning of Year	$101	$98
Profit of loss attributed to non-controlling interest	2	2
Unrealised profits of available-for-sale financial assets	3	3
Cash dividends	-	(2)
At the end of year	$106	$101

(20) The components of other comprehensive income

A. Brokerage commission

	2016	2015
Consignment handling fee revenue – TSE	$651,662	$560,548
Consignment handling fee revenue – OTC	111,982	110,598
Handling revenue of short sale	7,523	9,088
Handling revenue of securities borrowed	1,706	7,757
Handling revenue of sub-brokerage	504,092	261,070
Others	11,943	3,327
Total	$1,288,908	$952,388

B. Revenue from underwriting business

	2016	2015
Return from underwriting of securities	$43,295	$51,852
Revenue from underwriting proceeding fee	34,727	26,244
Revenue from underwriting and counseling	18,775	14,760
Others	5,943	4,139
Total	$102,740	$96,995

C. Gains on issuance of call (put) warrants

	2016	2015
Unrealized gains on liabilities for issuance of call (put) warrants	$8,922,005	$9,949,916
Unrealized losses on repurchase warrants	(8,433,117)	(9,037,206)
Warrants issuing expenses	(42,272)	(46,055)
Total	$446,616	$866,655

D. Net gains from sale of securities held for operations

	2016	2015
Dealing		
Revenue	$91,889,298	$73,253,903
Cost	(91,705,813)	(73,249,106)
Subtotal	183,485	4,797
Underwriting		
Revenue	378,224	304,123
Cost	(369,877)	(277,164)
Subtotal	8,347	26,959
Hedging		
Revenue	24,665,757	41,335,548
Cost	(24,744,165)	(41,751,882)
Subtotal	(78,408)	(416,334)
Total	$113,424	$(384,578)

E. Net (losses) gains from measurement at fair value through profit or loss for securities held for operations

	2016	2015
Securities held for operations – dealing	$(112,503)	$(14,236)
Securities held for operations – underwriting	5,071	(4,225)
Securities held for operations – hedging	15,356	(138,106)
Total	$(92,076)	$(156,567)

F. Interest Revenue

	2016	2015
Margin loans	$172,780	$176,533
Bonds	20,905	26,288
Others	3,445	2,208
Total	$197,130	$205,029

G. Gains from derivative financial instruments

	2016	2015
Gains from derivative financial instruments – futures		
Gains (Losses) on futures contracts	$(81,613)	$86,544
Gains on option transactions	241,304	314,723
Total	$159,691	$401,267

H. Other operating income

	2016	2015
Net losses from errors of account	$(1,845)	$(1,667)
Others	11,506	8,307
Total	$9,661	$6,640

I. Handling fee expenses

	2016	2015
Brokerage handling fee expenses	$74,301	$70,154
Dealer's handling fee expenses	23,004	27,793
Refinancing transaction fee expenses	862	485
Underwriting handling fee expenses	2,980	2,028
Total	$101,147	$100,460

J. Other operating expenses

	2016	2015
Stationery and printing	$5,757	$5,798
Postage	47,403	42,046
Entertainment	7,561	5,797
Utilities	8,183	8,117
Insurance	936	778
Taxes	272,208	329,438
Rent	68,875	57,531
Repairs and maintenance	18,050	17,226
Advertisement	21,508	28,993
Computer information	101,636	76,017
Contribution	-	1,000
Group membership	1,720	1,006
Bad debt	36	-
Traveling	11,302	12,813
Transportation	6,128	5,608
Miscellaneous	2,622	1,899
Training	6,202	6,871
Professional service	16,535	19,405
Book and subscription	559	598
TDCC	21,669	23,565
Securities borrowing	17,769	12,975
Financial Supervision	1,075	1,025
Others	115,788	69,583
Total	$753,522	$728,089

K. Other income and cost

	2016	2015
Interest revenue	$37,293	$36,419
Gain (loss) on disposal of property and equipment	20	(380)
Loss on disposal of intangible asset	(391)	-
Gain on disposal of investments	(1,339)	(6,346)
Gain (loss) on valuation of open-end funds currency market instruments	15	(233)
Gain on foreign exchange	(12,422)	8,204
Dividend revenue	9,971	10,747
Others	21,061	12,948
Total	$54,208	$61,359

(21) Operating lease commitments

Operating lease commitments – The Group as lessee

Future minimum rentals payment under non-cancellable operating leases as at December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Not later than one year	$64,707	$38,163
Later than one year and not later than five years	53,667	68,709
Later than five years	-	-
Total	$118,374	$106,872

Operating lease expense：

	2016	2015
Minimum lease payments	$68,875	$57,531
Contingent rental	-	-
Total	$68,875	$57,531

Operating lease commitments – The Group as lessor

The Group has entered into commercial property leases with remaining terms less than three years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Not later than one year	$5,822	$1,941
Later than one year and not later than five years	7,762	-
	$13,584	$1,941

(22) Employee benefits, depreciation and amortization

Summary statement of employee benefits, depreciation and amortization expenses by unction for the years ended December 31, 2016 and December 31, 2015:

Function / Nature	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	$-	$838,116	$838,116	$-	$805,045	$805,045
Labor and health insurance	-	61,447	61,447	-	58,157	58,157
Pension	-	35,326	35,326	-	31,761	31,761
Other employee benefits expense	-	37,079	37,079	-	19,646	19,646
Depreciation	-	61,920	61,920	-	56,299	56,299
Amortization	-	28,534	28,534	-	24,715	24,715

The numbers of employees as of December 31, 2016 and 2015 were 727 and 677, respectively.

A resolution was passed at a Board of Directors' meeting of the Company held on March 16, 2016 to amend the Articles of Incorporation of the Company. According to the resolution, 0.01% to 0.05% of profit of the current year is distributable as employees' compensation. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

The Company estimated the amounts of the employees' compensation to be 0.01% of profit of current year, the amount are $33 thousand and $60 thousand as of 2016 and 2015, respectively. The aforementioned employees' compensation were recognized as salaries expense. If the Board of Directors resolves to distribute employee compensation through stock, the number of stock distributed is calculated based on total employee compensation divided by the closing price of the day before the Board of Directors' meeting. If the Board of Directors subsequently modifies the estimates significantly, the Company will recognize the change as an adjustment in the profit or loss in the subsequent period. The difference between the estimation and the resolution of the Board of Directors' meeting will be recognized in profit or loss in the subsequent year.

A resolution was passed at a Board of Directors' meeting held on April 27, 2016 to distribute $60 thousand in cash as employees' compensation for the year ended December 31, 2015. There is no significant difference between the estimated amount and the actual distribution of the employee compensation for the years ended December 31, 2015.

There is no significant difference between the estimated amount and the actual distribution of the employee bonus for the year ended December 31, 2014.

(23) Components of other comprehensive income

The components of comprehensive income for the year ended on December 31, 2016 are as follows:

	Incurred at current period	Reclassification at current period	Other comprehensive income	Income tax benefit (expense)	Net of income tax
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	$4,861	$-	$4,861	$(826)	$4,035
Exchange difference resulting from translating the financial statements of foreign operation	(20,304)	-	(20,304)	-	(20,304)
Unrealized gains (losses) from available-for-sale financial asset	(117,512)	18,082	(99,430)	-	(99,430)
Share of the profit or loss of associates and joint ventures accounted for under the equity method	(1,919)	-	(1,919)	-	(1,919)
Total	$(134,874)	$18,082	$(116,792)	$(826)	$(117,618)

The components of comprehensive income for the year ended on December 31, 2015 are as follows:

	Incurred at current period	Reclassification at current period	Other comprehensive income	Income tax benefit (expense)	Net of income tax
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	$(3,401)	$-	$(3,401)	$578	$(2,823)
Exchange difference resulting from translating the financial statements of foreign operation	(9)	-	(9)	-	(9)
Unrealized gains (losses) from available-for-sale financial asset	78,859	70,602	149,461	-	149,461
Share of the profit or loss of associates and joint ventures accounted for under the equity method	(85)	-	(85)	-	(85)
Total	$75,364	$70,602	$145,966	$578	$146,544

(24) Income tax

The major components of income tax expense are as follow:

	2016	2015
Current income tax expense :		
Current income tax charge	$25,212	$117,987
Adjustments in respect of current income tax of prior periods	1,083	(749)
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	46,886	(54,142)
Total income tax expense	$73,181	$63,096

Income tax relating to components of other comprehensive income

	2016	2015
Deferred tax expense (income):		
Revaluation of defined benefits plan	$826	$(578)

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2016	2015
Accounting profit (loss) before tax from continuing operations	$330,748	$600,037
Tax at the domestic rates applicable to profits in the country concerned	$(60,519)	$(105,696)
Tax effect of revenue exempt from taxation	(11,579)	41,851
Adjustments in respect of current income tax of prior periods	(1,083)	749
Total income tax expense recognized in profit or loss	$(73,181)	$(63,096)

Deferred tax assets (liabilities) relate to the following:

2016

	Beginning balance as at 1 Jan 2016	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	Ending balance as at 31 Dec 2016
Temporary differences							
Gains on measurement at fair value through profit or loss for securities held for operations	$25,273	$(50,220)	$-	$-	$-	$-	$(24,947)
Gain on foreign exchange	(1,392)	3,080	-	-	-	-	1,688
Net defined benefit Assets	(499)	-	62	-	-	-	(437)
Net defined benefit liabilities	3,751	397	(888)	-	-	-	3,260
Investment property	(6,289)	(143)	-	-	-	-	(6,432)
Deferred tax income/ (expense)		$(46,886)	$(826)	$-	$-	$-	
Net deferred tax assets/(liabilities)	$20,844						$(26,868)
Reflected in balance sheet as follows:							
Deferred tax assets	$29,024						$4,948
Deferred tax liabilities	$(8,180)						$(31,816)

2015

	Beginning balance as at 1 Jan 2015	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	Ending balance as at 31 Dec 2015
Temporary differences							
Gains on measurement at fair value through profit or loss for securities held for operations	$(33,019)	$58,292	$-	$-	$-	$-	$25,273
Gain on foreign exchange	(878)	(514)	-	-	-	-	(1,392)
Net defined benefit Assets	(538)	-	39	-	-	-	(499)
Net defined benefit liabilities	2,772	440	539	-	-	-	3,751
Effect of joint corporate income tax	3,628	(3,628)	-	-	-	-	-
Investment property	(5,841)	(448)	-	-	-	-	(6,289)
Deferred tax income/ (expense)		$54,142	$578	$-	$-	$-	
Net deferred tax assets/(liabilities)	$(33,876)						$20,844
Reflected in balance sheet as follows:							
Deferred tax assets	$6,400						$29,024
Deferred tax liabilities	$(40,276)						$(8,180)

Imputation credit information

	December 31, 2016	December 31, 2015
Balances of imputation credit amounts	$42,418	$47,679

The expected creditable ratio for 2016 and the actual creditable ratio for 2015 were 14.11% and 8.15%, respectively.

The Company’s retained earnings are all generated after 1998.

Corporation Income Tax Return Filing Status

The Company’s corporation income tax filings for all the fiscal years up to 2010 and the Subsidiary Cathay Futures’ corporation income tax filings for all the fiscal years up to 2014 have been accessed and approved by Tax Authority as of December 31, 2016. However, the Company did not agree with the employee benefits expenses and allocation of operation expenses for 2009 and 2010 tax return assessed by Tax Authority. The Company is in the process of filing the administrative remedy in accordance with the law and regulations.

(25) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

	2016	2015
Profit attributable to ordinary equity holders of the Company (in thousands)	$257,565	$536,939
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	533,000	533,000
Basic earnings per share ($)	$0.48	$1.01

(26) Business combinations

Acquisition of subsidiary

On September 4, 2015, Cathay Securities Corporation acquired 100% of the equity of Cathay Securities (Hong Kong) with $154,548 thousand cash and have obtained control of Cathay Securities (Hong Kong). Cathay Securities Corporation have acquired Cathay Securities (Hong Kong) because the acquisition accomplished Cathay Securities Corporation' vision for developing global asset management business to improve the efficiency of insurance fund allocation.

The fair value of the identifiable assets and liabilities of the subsidiaries mentioned above as at the date of acquisition were disclosed as follows:

	Fair value recognized on the acquisition date	
Purchase consideration		$154,548
Cash and cash equivalents	$306,860	
Receivables and other receivables	5,147	
Prepayments	18,400	
Property and equipment	851	
Intangible assets (Except for goodwill)	2,109	
Other assets	868	
Payables and other payables	(187,396)	
Accrued expenses	(920)	
Identifiable net assets acquired at fair value	$145,919	
Acquisition ratio	100%	
Intangible assets (Goodwill)		$8,629

7. Related party transactions

Significant transactions over 3,000 thousand are summarized as follows:

(1) Cash in bank

Name	Item	December 31, 2016 Amount	Rate
Other related parties- Cathay United Bank Co., Ltd	Cash in bank/Settlement amounts	$2,332,163	
〃	Other current assets – time deposits	900,000	0.001% ~1.1%
	(Note1)	$3,232,163	

Name	Item	December 31, 2015 Amount	Rate
Other related parties- Cathay United Bank Co., Ltd	Cash in bank/Custodies of underwriting securities/ Settlement amounts	$2,529,863	
〃	Other current assets – time deposits	900,000	0.01% ~1.205%
	(Note1)	$3,429,863	

Note 1: Other current assets-time deposits motioned above are pledged as collateral. Please refer note 8.

(2) Client margin account

Name	December 31, 2016	December 31, 2015
Other related parties		
Cathay United Bank Co., Ltd.	$452,286	$1,688,879
Rate of return	0.04%~1.345%	0.02%~1.345%

(3) Financial assets measured at fair value through profit or loss – current

Name	December 31, 2016	December 31, 2015
Other related parties		
—Cathay FTSE China A50 ETF	$13,471	$21,780
—Cathay FTSE China A50 Daily Leveraged 2X ETF	5,242	-
—Cathay FTSE China A50 Daily Inversed ETF	22,317	-
—Cathay Nikkei 225 ETF	15,569	-
—Cathay FTSE Japan Daily Leveraged 2X ETF	15,720	-
—Cathay TAIEX Daily Leveraged 2X ETF	8,616	-
—Cathay TAIEX Daily Inversed ETF	17,471	-
—Cathay Dow Jones Industrial Average ETF	15,024	-
Total	$113,430	$21,780

(4) Other payables

Name	December 31, 2016	December 31, 2015
The parent company (Note 2)		
Cathay Financial Holding Co., Ltd	$4,562	$101,275

Note 2: Payable from the adoption of the consolidated Income Tax System.

(5) Futures dealer equity

Name	December 31, 2016	December 31, 2015
Other related parties		
Cathay Life Insurance Ltd.	$1,200,485	$1,180,845
Cathay United Bank Co., Ltd.	120,374	41,177
Cathay Century Insurance Co., Ltd.	6,817	6,810
Cathay Securities Investment Trust Co., Ltd. (Note3)	180,621	153,252
Total	$1,508,297	$1,382,084

Note 3: The counter party is the investment trust fund managed by Cathay Securities Investment Trust.

(6) Refundable deposits

Name	December 31, 2016	December 31, 2015
Other related parties		
Cathay Life Insurance Ltd.	$9,854	$8,485

(7) Handling revenue of sub-brokerage

Name	December 31, 2016	December 31, 2015
Other related parties		
Cathay Life Insurance Ltd.	$3,580	$3,766
Cathay United Bank	3,024	4,439
	$6,604	$8,205

(8) Non-operating income and expenses

Name	December 31, 2016	December 31, 2015
Other related parties		
Cathay United Bank	$2,400	$2,400

(9) Management compensation

	2016	2015
Short-term employee benefits	$108,624	$88,578
Post-employee benefits	1,902	1,780
Total	$110,526	$90,358

(10) Interest revenue

Name	2016	2015
Other related parties		
Cathay United Bank Co., Ltd.	$19,618	$28,667

(11) Other operating income

Name	2016	2015
Other related parties		
Cathay United Bank Co., Ltd.	$-	$939

(12) Rental expenses

Name	2016	2015
Other related parties		
Cathay Life Insurance Ltd.	$39,498	$33,673
Cathay United Bank Co., Ltd.	9,433	9,141
Total	$48,931	$42,814

The rents on the above rental properties were comparable with those in the surrounding area and were payable monthly.

(13) Other operating expenses

Name	Service item	2016	2015
Other related parties			
Symphox Information Co., Ltd.	Cable service etc.	$13,894	$11,657
Cathay United Bank Co., Ltd.	Other fees	32,880	17,684
Cathay Life Insurance Co., Ltd.	Insurance	14,889	10,316
Total		$61,663	$39,657

8. Assets pledged as security

Item	Pledged Organization	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss-current	Deposits for securities borrowing	$46,748	$-
Other current assets – time deposits	Cathay United Bank Co., Ltd.	900,000	900,000

The assets above were presented at their carrying amounts.

9. Commitments and contingencies

As of December 31, 2016, a total amount of $900,000 thousand financial institutions' letter of guarantee was issued to the Group for hedging securities borrowing businesses. The Company's corporation income tax filings for all the fiscal years up to 2010 have been accessed and approved by Tax Authority. However, the Company did not agree with the employee benefits expenses and allocation of operation expenses for 2009 and 2010 tax return assessed by Tax Authority. The Company is in the process of filing the administrative remedy in accordance with the law and regulations.

10. Significant disaster losses

None.

11. Subsequent events

None

12. Financial risk management

(1) Risk management policies

A. Rick management objectives

Adhere to the risk management policies of the parent company, financial holding company, the Company manage the risks efficiently and elastically on operating activities to maximize the profit in conformity with domestic and foreign regulations.

B. Risk management policies

The Company use “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of the Company cover different types of risk including market risk, credit risk, operation risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. The Company identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

C. Risk management organizational structure

a. Board of directors

The Board of Directors has the ultimate responsibilities for risk management. The Board has the primary responsibility for the determination of the risk management strategies and for ensuring that approved risk management policies are in accordance with the nature of operating activities, types of operating business and they cover different types of risk. Also, the Board is required to monitor the implementation of risk management policies is effective.

b. Risk Management Committee

The Risk Management Committee is responsible for reviewing risk management policies, principles, and directions of trading management, and for determining the appropriate degree of risk exposures and monitoring the implementation of the risk management policies. Risk Management Committee is established by the Board of Directors and the members include General Manager, Auditor General, finance executive, accounting executive, risk management executive, as relevant trading executive. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the Board.

c. Risk Management Department

Risk management department is belonging to the Board of Directors. The supervisor and staff of the department are prohibited to hold the positions at trading or settlement department simultaneously. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies periodically to ensure that those policies are suitable for the business development. Risk management department also establishes online monitor and prevention system and reaction mechanism.

d. Business unit

Each business unit participates in the planning of risk management mechanism and executing daily risk management and report to ensure that the risk model services division implements is with the same base of the consistency of credibility and is in accordance with the internal control procedures to conform to the regulations and risk management policies.

e. Auditing office

Auditing office participates in the planning of risk management mechanism and executes risk management and internal control procedures periodically. All staff members should be also responsible for monitoring and documenting problems of internal control procedures periodically to ensure that the appropriate actions to improve have been taken in time.

f. Finance Department

Finance department participates in the planning of risk management mechanism. The department is responsible of executing liquidity risk management and providing the liquidity risk report to risk management department periodically.

g. Accounting Department

Accounting department participates in the planning of risk management mechanism

h. Legal Affairs Office

Legal Affairs Office executes regulation risk management to ensure that business operations and risk management procedures are all in accordance with regulations.

D. Risk Management Workflows

Risk management workflows for the Company include risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

a. Market Risk

(A) Definition

Market risk is the risk of losses in positions that include stocks, bonds, and derivatives etc. arising from the movement in market prices.

(B) Controls:

The Company sets up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the risk control staff in front desk and on-line monitor system. Furthermore, the Company provide market risk management report periodically that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, back-testing model and perform pressure test by each extreme scenario to control the risks that the Company face and manage all risks as a whole efficiently.

b. Credit Risk

(A) Definition

Credit risk is the risk that counterparty will not meet its obligations under a contract due to the aggravation of financial conditions or other factors, leading to a financial loss.

(B) Controls

The Company check and review credit position to each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on credit rating model. Investment concentration and risk are analyzed and documented periodically. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody’s, Fitch).

c. Operational Risk

(A) Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

(B) Controls

The Company establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. The Company request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss. Besides, Auditing office is established and belonged to the Board of Directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

d. Liquidity Risk

(A) Definition

Liquidity is defined as the capability of the Company to acquire the sufficient capital and to support assets growth and payout the liabilities.

(B) Controls

Measurement index for liquidity risk is established and the Company compiles the liquidity risk management report periodically to review capital conditions and cash flow gap as of balance dates. Capital allocation planning is based on the compiled structure analysis as of balance sheet dates. Meanwhile, acquiring the credit line of short-term financing from other financial institutions and managing receipts and payments properly to sustain appropriate liquidity and ensure the ability to make the payment.

e. Legal Risk

(A) Definition

Legal risk is a risk of loss that results from a counterparty being unable to legally enter into a contract due to the defective contract or the its qualification.

(B) Controls

The procedures of making and reviewing legal documentation are established. All the document related to the contracts is required to be reviewed and approved by the legal office and may be advised by the external lawyer’ opinions.

f. Capital adequacy management

(A) Definition

The Company implement capital management to sustain appropriate capital adequacy ratio, accelerate the business growth and ensure the perfection of capital structure.

(B) Controls

The Company establishes capital adequacy index and compiles the report periodically to evaluate the appropriateness of capital adequacy ratio and the perfection of the capital structure.

g. Reputation risk and strategy risk

(A) Definition

Reputation Risk is a risk of loss resulting from damages to the Company reputation in lost customers or revenues and the Company might need to undertake a prodigious amount of legal fares or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

(B) Controls

The Company and its subsidiaries establish internal responses and reactions to the reputation risk and strategy risk for mitigation of damages.

Risk management policies and principles are established based on above mentioned risks and management mechanisms from each risk source are set out specifically. The Company also establish the constraint for each risk and review the appropriateness of each constraint periodically. Besides, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay financial holdings to elaborate on the Company and its subsidiaries' risk tolerance and the appropriateness of current risk management scheme.

E. Hedge and Mitigation of Risk Strategy

The hedge and mitigation of risk strategy for the Company are implemented the dynamic hedge through investment products to duplicate the same cash flows when derivatives are matured. The hedge for outstanding stock warrants and structured products are used Delta Neutral as a principle. If the prices of those investment positions fluctuate wildly in the financial market, the violation of hedge operating due to the impact from the significant events, or the violation of the hedge operating rules from the operators, the business department is required to explain by written and report to the risk management department.

The Company establish the approval limit and stop-loss mechanism by each attributes of the product. When the position meets the prevention point, the risk management department will inform the supervisor or position administrator in time and monitor the change of the position. Besides, the business department should operate in accordance with approval limits. If the stop-loss point is met, the investment position should be sold or the business department is required to provides the exception report. The reason and specific responses are also need to be informed.

(2) Credit risk analysis

Anticipated credit risks due to conducted financial transactions are included the credit risks from issuers, counterparties, and underlying assets:

A. Issuer credit risk is a risk that the Company may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which the Company invest.

B. Counterparty credit risk is a risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and the Company are exposed to the risk of financial losses

C. Underlying asset credit risk is a risk that the Company may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating reduces, or the terms of contract are violated from underlying asset which is related to the certain financial instruments.

Financial assets which face the credit risk include bank accounts, debt securities, the trading from Over-the Counter derivatives, repurchase and resell debts, trading from the securities lending, refundable deposits, futures deposit in bank, other refundable deposits and account receivables etc.

(3) Capital Liquidity Risk Analysis:

A. Cash flow analysis

Capital liquidity risk is the risk that the Company and its subsidiaries are unable to acquire the sufficient capital at the reasonable cost within the reasonable time and results in cash flow gap, or the risk that the Company and its subsidiaries sell assets at a loss to meet the cash flow requirement.

Financial Liabilities	As of December 31, 2016 Cash Flow analysis of financial liabilities Payment term Less than 1 month	1 to 3 Months	3 to 6 Months	More than 6 months	Total
Short-term loan	$87,229	$-	$-	$-	$87,229
Commercial paper payables	5,598,838	-	-	-	5,598,838
Financial liabilities at fair value through profit or loss -current	2,035,784	-	-	-	2,035,784
Liabilities for bonds with repurchase agreements	2,339,864	-	-	-	2,339,864
Short sale margins and payables for short sale collateral received	34,913	69,826	104,739	48,951	628,429
Futures clients' equity	2,971,487	-	-	-	2,971,487
Deposits for securities borrowed	1,863	3,726	5,589	22,351	33,529
Account payables	4,135,340	-	-	88,032	4,223,372
Others	36,030	-	589	-	36,619
Total	$17,241,348	$73,552	$110,917	$529,334	$17,955,151
% to the total	96.02%	0.41%	0.62%	2.95%	100.00%

Short-term loans, note payables and repurchase bonds are fund procurement instruments and matured within three months.

Financial Assets	As of December 31, 2016 Cash Flow Gap Receivable term Less than 1 month	1 to 3 Months	3 to 6 Months	More than 6 months	Total
Cash and cash equivalents	$2,315,219	$-	$-	$-	$2,315,219
Financial assets at fair value through profit or loss –current					
Borrowed-securities Operations Security	6,966,542	-	-	-	6,966,542
Open-end Funds	59,810	-	-	-	59,810
Call option-futures	16,288	-	-	-	16,288
Future trading margins	326,894	-	-	-	326,894
Available for sale financial assets	134,664	-	-	305,534	440,198
Securities financing receivables	176,032	352,064	528,096	2,112,385	3,168,577
Guaranteed deposits for refinancing and guaranteed proceeds receivable from refinancing	1,825	3,650	5,475	21,905	32,855
Other current assets-time deposit	2,973,537	-	-	-	2,973,537
Guaranteed price deposits received from securities borrowers and deposits for securities borrowed	120,142	240,284	360,426	1,441,704	2,162,556
Account Receivables	3,946,278	-	-	17,877	3,964,155
Others	268,760	-	-	919,064	1,187,824
Subtotal	17,305,991	595,998	893,997	4,818,469	23,614,455
Residual cash	$64,643	$522,446	$783,080	$4,289,135	$5,659,304

B. Capital liquidity risk stress testing

The Company perform stress testing periodically to measure and evaluate the changes of capital liquidity the occurrence of extreme and abnormal events for ensuring that the Company and its subsidiaries sustain the proper capital liquidity. Stress scenario including the significant fluctuation in the financial market, the occurrence of all kinds of credit event, and the assumption of unexpected tighten capital liquidity in financial market are used to measure the capability of acquiring the sufficient capital to meet the demand on cash and the changes of cash flow gap.

If the cash flow gap arises under the specific stress scenario, the following procedures are used to prevent the occurrence of the stress events:

a. Raising money and balance sheet adjustment are made in accordance with the Company "Crisis Management Principles" and "Regulations of Emergency Management"

b. Money Raising: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper

c. Balance sheet adjustment: (i) sales of securities (ii) retrieve short-term capital invested in currency market.

(4) Market risk analysis

The Company assesses, monitors, and manages market risks completely and effectively by applying Value at Risk ("VaR") and stress testing continuously

A. Sensitivity Analysis

Sensitivity analysis is to measure the degree of impacts on each products and portfolio from the movement of specific market simple. The monitoring and relevant controls to the businesses the Company operate are established. The degree of risk exposure are monitored and measured by the following sensitivity:

a. Price value of basis point: it denotes the change in the price of a position given a basis point change in the yield.
b. Delta: it measures the change in the price of a position given 1% specific based asset price change.
c. Gamma: it means the dollar amount of change in Delta of a position given 1% specific based asset price change.
d. Vega: it denotes the change in the price of a position given 1% fluctuation on specific based asset price.

B. Value at Risk

Value at Risk ("VaR") is the risk of the most probable loss on the portfolio in position arising from the movements in market risk simples by measuring portfolio over a specific time frame and at a certain confidence level. The Company measures VaR for the next day within an investment portfolio over a week and at 99% confidence level. Also, Back Test at VaR is performed each year to ensure the accuracy of this model.

VaR at one single trading day within 99% confidence level

2016	NTD (in thousands)
Period Ended	$15,016
Average	34,504
Lowest	15,016
Highest	53,719

C. Stress Test

The Company perform monthly Stress Test to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk simples which have more significant influence on the asset portfolio. Follow-up and review report will be documented. Customized or extreme scenario which take rapid changes in foreign and domestic financial environment into consideration are also performed irregularly and measured the maximized losses arising from these scenario for ensuring that the Company manage each potential scenario effectively.

a. Historical Scenario

The Company assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking the fluctuation of risk simples into the consideration such as the in-time, significant, and comprehensive impact on financial market from Bankruptcy of Lehman Brothers in 2008 and Great East Japan Earthquake in 2011.

b. Hypothesis Scenario

The Company make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking the movement of relevant risk simples into consideration including 10% drops on the total values of stock market arising from the global system breakdown.

As of December 31, 2016
Table of Stress Test

Risk Simples	Price Risk	Changes(+/-)	Changes in profit and loss NTD (in thousands)
Equity Risk	Stock index	-10%	$(119,577)
Interest Risk	Yield Curve	+100bps	(96,896)
Exchange Risk	Exchange Rate	+3%	(7,249)
Produce Risk	Price	-10%	-

(5) Financial instruments related information

A. Information of fair value

Financial Assets

	Carrying amount		Fair value	
	2016.12.31	2015.12.31	2016.12.31	2015.12.31
Financial assets at fair value through profit or loss				
Held for operation				
Non-derivative financial instruments				
Open-end funds and currency market instruments	$59,810	$1,557,795	$59,810	$1,557,795
Securities held for operations, net	6,966,542	4,712,982	6,966,542	4,712,982
Derivative financial instruments				
Long options – futures	16,288	24,371	16,288	24,371
Margin for futures trading –proprietary funds	326,894	356,624	326,894	356,624
Subtotal	7,369,534	6,651,772	7,369,534	6,651,772
Available-for-sale financial assets-current	134,664	491,852	134,664	491,852
Available-for-sale financial assets-non-current	305,534	278,106	305,534	278,106
Subtotal	440,198	769,958	440,198	769,958
Loan and receivables:				
Cash and cash equivalents	2,314,747	1,715,464	2,314,747	1,715,464
Securities purchased under resell agreements	-	1,264,000	-	1,264,000
Securities margin loans receivable	3,168,577	3,385,840	3,168,577	3,385,840
Guaranteed deposits for refinancing	16,994	7,798	16,994	7,798
Guaranteed proceeds receivable from refinancing	15,861	7,434	15,861	7,434
Client margin account	2,973,537	2,998,372	2,973,537	2,998,372
Guaranteed price deposits for security borrowing	307,616	331,954	307,616	331,954
Security borrowing deposits	1,854,940	1,333,148	1,854,940	1,333,148
Receivables	3,964,155	1,866,958	3,964,155	1,866,958
Other current assets – time deposits	900,000	900,000	900,000	900,000
Operation funds	428,829	345,868	428,829	345,868
Settlement funds	211,783	213,964	211,783	213,964
Reserve fund of trust	50,000	-	50,000	-
Refundable deposits	20,693	20,382	20,693	20,382
Subtotal	16,227,732	14,391,182	16,227,732	14,391,182
Total	$24,037,464	$21,812,912	$24,037,464	$21,812,912

Financial liability

Items	Carrying amount 2016.12.31	Carrying amount 2015.12.31	Fair value 2016.12.31	Fair value 2015.12.31
Financial liabilities at amortized cost				
Short-term loan	$87,229	$-	$87,229	$-
Commercial papers payables	5,598,838	6,857,634	5,598,838	6,857,634
Liabilities for bonds with repurchase agreements	2,339,864	1,425,000	2,339,864	1,425,000
Deposits received from securities borrowers	299,000	337,694	299,000	337,694
Guaranteed price deposits received from securities borrowers	329,429	373,848	329,429	373,848
Deposits for securities borrowed	33,529	-	33,529	-
Futures clients' equity	2,971,487	2,997,418	2,971,487	2,997,418
Payables	4,223,372	2,447,192	4,223,372	2,447,192
Guarantee deposits received	1,455	1,446	1,455	1,446
Subtotal	15,884,203	14,440,232	15,884,203	14,440,232
Financial liabilities at fair value through profit or loss				
Held for operations				
Non-derivative financial instruments				
Securities borrowing – hedging	284,643	377,376	284,643	377,376
Securities borrowing – non-hedging	1,460,526	762,373	1,460,526	762,373
Derivative financial instruments				
Liabilities for issuance of call (put) warrants	3,759,557	3,142,007	3,759,557	3,142,007
Repurchase of issued call (put) warrants	(3,484,842)	(2,864,731)	(3,484,842)	(2,864,731)
Short options - futures	15,900	40,255	15,900	40,255
Subtotal	2,035,784	1,457,280	2,035,784	1,457,280
Total	$17,919,987	$15,897,512	$17,919,987	$15,897,512

B. The methods and hypothesis for estimation of fair value measurement:

a. For short-term financial instruments, its book value shown on consolidated balance statement was used to estimate fair value. Due to the upcoming expiration, the fair values of short-term financial instruments are reasonable to be estimated based on book values. Such method mentioned above is applicable to Cash and cash equivalents, Securities margin loans receivable, Guaranteed deposits for refinancing, Guaranteed proceeds receivable from refinancing, Guaranteed price deposits for security borrowing, Security borrowing deposits, Receivables, Other current assets, Commercial papers payables, Liabilities for bonds with repurchase agreements, Deposits received from securities borrowers, Guaranteed price deposits received from securities borrowers, Deposits for securities borrowed, Futures clients' equity and Payables.

b. If there are for financial assets or liabilities at fair value through profit and loss with active market, such offer prices are regarded as fair value.

If offer prices in active market are not available, valuation method is adopted alternatively by our company. The basis of parameter used in valuation method derived from available data in market, such as Yield Curve, exchange rate and reference to the condition and character of financial instruments, including credit rating, duration of bonds, currency and other condition and character similar to current fair value of financial instruments which results in the correspondence between valuation method and hypothesis of financial instruments valuation with market involvement.

c. If there are for available-for-sale financial assets – current / non-current with active market, such offer prices are regarded as fair value. If offer prices in active market are not available, valuation method is adopted alternatively.

d. The book values of operating guarantee deposits, settlement fund, reserve fund of trust, refundable deposits and deposits received are regarded as their fair value due to insignificant difference between amount received and paid in the future.

C. Fair value level

To provide information of disclosure, the Group adopted the fair value level reflecting the importance of impute during measurement and classified measurements of fair value into following levels:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

2016.12.31

	1st Level	2nd Level	3rd Level	Total
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss:				
Stocks	$3,794,037	$4,896	$-	$3,798,933
Bonds	2,899,919	-	-	2,899,919
Others	327,500	-	-	327,500
Available-for-sale financial assets:				
Stocks	134,664	305,534	-	440,198
Investment property				
Land	-	-	254,155	254,155
Buildings	-	-	36,186	36,186

	1st Level	2nd Level	3rd Level	Total
Liabilities				
Financial liabilities at fair value through profit or loss	1,745,169	-	-	1,745,169
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	343,182	-	-	343,182
Liabilities				
Financial liabilities at fair value through profit or loss	290,615	-	-	290,615

2015.12.31

	1st Level	2nd Level	3rd Level	Total
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss:				
Stocks	$2,503,696	$-	$-	$2,503,696
Bonds	2,085,719	-	-	2,085,719
Others	1,681,362	-	-	1,681,362
Available-for-sale financial assets:				
Stocks	491,852	278,106	-	769,958
Investment property				
Land	-	-	249,455	249,455
Buildings	-	-	36,798	36,798
Liabilities				
Financial liabilities at fair value through profit or loss	1,139,749	-	-	1,139,749
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	380,995	-	-	380,995
Liabilities				
Financial liabilities at fair value through profit or loss	317,531	-	-	317,531

Transfers between Level 1 and Level 2 fair value measurements.

For the years ended December 31, 2016 and December 31, 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in 3rd level for movements

The Group's reconciliation for fair value measurements in 3rd level during the period is from revaluation of the fair value.

Information on 3rd level significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within 3rd level of the fair value hierarchy is as follows:

2016.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by Financial Supervisory Commission, the discount rate 2.045% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.095% plus 0.75%, taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.545%~2.545% Floating rate of fair value 5.37%~-3.85%

2015.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by Financial Supervisory Commission, the discount rate 2.225% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.375% plus 0.75%, taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.725%~2.725% Floating rate of fair value 5.33%~-3.88%

Information regarding the significant unobservable inputs can be obtained from Note.6 (10).

Valuation process used for fair value measurements categorized within 3rd level of the fair value hierarchy.

The fair value has been determined by discounted cash flow (DCF) method and the method of land development analysis.

Office building has market liquidity and their rent level is more comparable with similar items from the same neighborhood. The fair value has been determined by discounted cash flow method.

(6) Transfers of Financial Assets

A. Financial Assets transferred that have not been fully removed

The Group's daily operations that do not meet the criteria for full removal are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreement. The nature of these transactions are secured loans, and reflects the liability where the Group are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, the Group will not be able to use, sell or pledge said transferred financial assets during the effective period however the Group are still exposed to interest rate risk and credit risk, hence the assets are not removed.

The following table analyses the Group's financial assets and financial liabilities that have not been fully removed:

	2016.12.31				
Categories of financial assets	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Financial assets at fair value through profit or loss					
Repurchase bonds	$2,375,207	$2,339,864	$2,375,207	$2,339,864	$35,343

Categories of financial assets	2015.12.31 Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Financial assets measured at fair value through profit or loss					
Repurchase bonds	$1,437,139	$1,425,000	$1,437,139	$1,425,000	$12,139

(7) Offsetting of financial assets and financial liabilities

The Company enters with opponent into collateralized bonds sold under repurchase agreements, in which the Company provides securities as collaterals. Only in the event of default and insolvency or bankruptcy are these transactions allowed to set off. They do not meet the offsetting criterion in international accounting standards. Hence, the related bonds sold under repurchase agreements and bonds purchased under resell agreements are reported separately in the statement of financial position.

Information relating to offsetting financial assets and financial liabilities is disclosed as follows:

2016.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral pledged	Net amount
Repurchase bonds	$2,339,864	$-	$2,339,864	$2,339,864	$-	$-

2015.12.31						
Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral pledged	Net amount
Repurchase bonds	$1,425,000	$-	$1,425,000	$1,425,000	$-	$-

Note: Master netting arrangement and non-cash collateral are included.

(8) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	2016.12.31			2015.12.31		
	Foreign Currency	Exchange Rate	NT$	Foreign Currency	Exchange Rate	NT$
Financial Assets						
Monetary Items						
USD	$45,767	32.279	$1,477,300	$32,817	33.066	$1,085,122
HKD	216,635	4.128	894,269	68,293	4.235	289,223
Financial Liabilities						
Monetary Items						
USD	$32,696	32.279	1,055,378	$30,182	33.066	$998,004
HKD	99,265	4.128	409,765	52,142	4.235	220,820
Foreign currency exchange gains or losses			(12,153)			8,318

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

(9) The disclosure of the futures dealing of the Group

A. The futures dealing of the Company

Accordance with: “Regulations Governing Futures Commission Merchants”

No.	calculation formula	2016.12.31 calculation formula	2016.12.31 Rate	2015.12.31 calculation formula	2015.12.31 Rate	standard	Execution
17	Total Equity / Total Liabilities－Futures traders' equity	$1,246,555 / $214,048	5.82 Times	$1,148,933 / $312,334	3.68 Times	≧1	Compliance
17	Total Current Assets / Total Current Liabilities	$1,444,486 / $32,393	44.59 Times	$1,447,450 / $130,273	11.11 Times	≧1	Compliance
22	Total Equity / Common stock	$1,246,555 / $400,000	311.64%	$1,148,933 / $400,000	287.23%	(1) ≧60% (2) ≧40%	Compliance
22	ANC / Total Customer margin accounts after offset Futures traders' equity	$1,111,050 / $225,678	492.32%	$930,185 / $187,126	497.09%	(1) ≧20% (2) ≧15%	Compliance

B. Cathay Futures (the Subsidiary)

Accordance with: “Regulations Governing Futures Commission Merchants”

No.	calculation formula	2016.12.31 calculation formula	2016.12.31 Rate	2015.12.31 calculation formula	2015.12.31 Rate	standard	Execution
17	Total Equity / Total Liabilities－Futures traders' equity	$1,129,792 / $38,027	29.71 Times	$1,077,414 / $35,192	30.62 Times	≧1	Compliance
17	Total Current Assets / Total Current Liabilities	$4,122,393 / $3,832,278	1.08 Times	$4,060,732 / $3,763,808	1.08 Times	≧1	Compliance
22	Total Equity / Common stock	$1,129,792 / $600,000	188.30%	$1,077,414 / $200,000	538.71%	(1) ≧60% (2) ≧40%	Compliance
22	ANC / Total Customer margin accounts after offset Futures traders' equity	$717,933 / $392,420	182.95%	$418,653 / $354,765	118.01%	(1) ≧20% (2) ≧15%	Compliance

(10) Trust business under the trust law

The Company obtained the qualification of the trust business as of May 23, 2016. It has no trust business until December 31, 2016.

13. Capital mangement

(1) Purpose

The Company implement capital management to sustain appropriate capital adequacy ratio, accelerate the business growth and ensure the perfection of capital structure.

(2) Procedures

The Company establishes capital adequacy index and compiles the report periodically to evaluate the appropriateness of capital adequacy ratio and the perfection of the capital structure.