Cathay Securities Corporation and Subsidiaries

Consolidated Financial Statements

With

Independent Auditors' Report

For the Years Ended December 31, 2017 and 2016

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, 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. 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 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, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, and their consolidated financial performance and cash flows for the years ended December 31, 2017 and 2016, 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 and became effective 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 2017 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.

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 4.17 and Note 6.9.

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 determined brokerage fee revenue recognition as a key audit matter.

We conducted audit procedures for brokerage fee revenue recognition 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 4.24 and Note 6.19.

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 Firms, Regulations Governing the Preparation of Financial Reports by Futures CommissionMerchants, Regulations Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee, or the former Standing Interpretations Committee as endorsed and became effective 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.

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 2017 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.

Others

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, 2017 and 2016.

Ernst & Young

Ernst & Young
Taipei, Taiwan
The Republic of China
March 14, 2018

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, 2017 and December 31, 2016
(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Notes	2017.12.31	2016.12.31
CURRENT ASSETS			
Cash and cash equivalents	4, 6 and 7	$3,357,647	$2,315,219
Financial assets at fair value through profit or loss - current	4, 6 and 7	11,309,495	7,369,534
Available-for-sale financial assets - current	4 and 6	-	134,664
Securities margin loans receivable	4 and 6	4,231,392	3,168,577
Margin deposits for securities refinancing	4	17,667	16,994
Collateral for securities refinancing	4	15,826	15,861
Margin loans receivable	4	5,510	-
Customer margin accounts	4, 6 and 7	3,919,834	2,973,537
Collateral for securities borrowed	4	365,188	307,616
Deposits for securities borrowed	4	1,247,364	1,854,940
Account receivable	4 and 6	4,842,735	3,869,797
Accounts receivable - related parties	4	200	200
Prepayments		28,289	19,064
Other receivables	4	86,831	93,796
Other receivables - related parties	4	280	362
Current income tax assets	4 and 5	3,008	-
Other current assets	4, 7 and 8	1,598,153	1,168,760
Total Current Assets		31,029,419	23,308,921
NONCURRENT ASSETS			
Available-for-sale financial assets - noncurrent	4 and 6	328,254	305,534
Investments accounted for using the equity method	4 and 6	11,020	16,027
Property and equipment	4 and 6	242,389	253,864
Investment property	4, 5 and 6	290,341	290,341
Intangible assets	4 and 6	89,687	84,610
Deferred tax assets	4, 5 and 6	5,409	4,948
Other noncurrent assets	4, 5, 6, 7 and 8	784,582	722,144
Total Noncurrent Assets		1,751,682	1,677,468
TOTAL ASSETS		$32,781,101	$24,986,389

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 (Continued)
December 31, 2017 and December 31, 2016
(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	2017.12.31	2016.12.31
CURRENT LIABILITIES			
Short-term loan	4 and 6	$441,199	$87,229
Commercial paper payable	4 and 6	8,528,158	5,598,838
Financial liabilities at fair value through profit or loss - current	4 and 6	2,694,753	2,035,784
Liabilities for bonds with repurchase agreements	4 and 6	2,702,157	2,339,864
Short sale margins	4	434,878	299,000
Payables for short sale collateral received	4	485,134	329,429
Deposits for securities lended	4	283,040	33,529
Futures traders' equity	4, 6 and 7	3,915,880	2,971,487
Notes payable	4	431	443
Notes payable - related parties	4	3,951	3,879
Account payables	4	5,444,628	3,881,643
Account payables - related parties			
Advance receipts		709	780
Receipts under custody	4	98,575	33,069
Other payables	4	353,595	318,993
Other payables - related parties	4 and 7	95,201	18,414
Current income tax liabilities	4 and 5	-	589
Other current liabilities		10,229	2,181
Total Current Liabilities		25,492,518	17,955,151
NONCURRENT LIABILITIES			
Deferred tax liabilities	4, 5 and 6	17,017	31,816
Other noncurrent liabilities		26,160	20,630
Total Noncurrent Liabilities		43,177	52,446
Total Liabilities		25,535,695	18,007,597
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY			
Capital Stock	6		
Common stock		5,510,000	5,330,000
Additional paid-in capital	6		
Capital Surplus		491,766	491,766
Retained earnings	6		
Legal reserve		201,622	175,865
Special reserve		495,202	438,455
Unappropriated retained earnings		312,036	300,669
Other equity	4		
Exchange difference resulting from translating the financial statements of foreign operations		(56,775)	(20,563)
Unrealized gains from available-for-sale financial assets		297,708	265,343
Remeasurements of defined benefit plans	5	(6,263)	(2,849)
NON-CONTROLLING INTEREST	6	110	106
Total Equity		7,245,406	6,978,792
TOTAL LIABILITIES AND EQUITY		$32,781,101	$24,986,389

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 STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars, except earnings per share)

	Notes	2017	2016
REVENUES AND EXPENSES	4, 6 and 7		
Brokerage fee revenue		$1,760,645	$1,288,908
Revenue from borrowed securities		37,959	9,843
Revenue from underwriting business		77,429	102,740
Net gains from sale of securities held for operations		781,907	113,424
Interest revenue		235,561	197,130
Dividend revenue		482,543	263,034
Net gains (losses) from measurement at fair value through profit or loss for securities held for operations		20,356	(92,076)
Net losses on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements		(179,708)	(125,930)
Net gains (losses) on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements		2,212	(36,518)
Net gains from issuance of call (put) warrants		111,533	446,616
Net losses (gains) from derivative financial instruments - futures		(218,809)	159,691
Management fee revenue		-	-
Advisory fee revenue		2,775	3,367
Other operating income		5,352	(2,761)
Total Revenues		3,119,755	2,327,468
Broker's exchange fees		(96,292)	(74,301)
Dealer's exchange fees		(35,939)	(23,004)
Refinancing transaction fees		(897)	(862)
Underwriting handling fees		(1,299)	(2,980)
Finance costs		(78,139)	(44,239)
Loss from borrowed securities		(35,494)	(42,195)
Futures commission expenses		(22,128)	(22,183)
Clearing and settlement service fee expenses		(26,894)	(23,898)
Other operating costs		(3,814)	(5,699)
Employee benefits expenses		(1,115,840)	(971,968)
Depreciation and amortization expenses		(101,096)	(90,454)
Other operating expenses		(1,308,170)	(753,522)
Total Expenses		(2,826,002)	(2,055,305)
OPERATING PROFITS		293,753	272,163
Share of profit or loss of associates and joint ventures accounted for using the equity method	4	(4,713)	(8,045)
Non-operating income and expenses	6	63,955	66,630
INCOME BEFORE INCOME TAX		352,995	330,748
Income tax expense	4, 5 and 6	(79,121)	(73,181)
NET INCOME OF CONTINUED OPERATIONS		273,874	257,567
OTHER COMPREHENSIVE INCOME	4 and 6		
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans		(4,113)	4,861
Income tax relating to the components not to be reclassified		699	(826)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences resulting from translating the financial statements of foreign operations		(35,918)	(20,304)
Unrealized gains (losses) from available-for-sale financial assets		32,367	(99,430)
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		(294)	(1,919)
OTHER COMPREHENSIVE INCOME, NET OF TAX		(7,259)	(117,618)
TOTAL COMPREHENSIVE INCOME		$266,615	$139,949
Net income attributable to			
Owners of the parent company		$273,871	$257,565
Non-control interest		3	2
Subtotal		$273,874	$257,567
Total comprehensive income attributable to			
Owners of the parent company		$266,610	$139,944
Non-controlling interest		5	5
Subtotal		$266,615	$139,949
Earnings per share (expressed in dollars) :			
Basic earnings per share			
Net income	6	$0.50	$0.47

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 STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of the parent company									
	Capital stock	Additional paid-in capital	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	Non-Controlling Interest	Total equity
Balance as of January 1, 2016	$4,950,000	$491,766	$122,171	$330,348	$584,905	$1,660	$364,776	$(6,884)	$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 year ended December 31, 2016					257,565				2	257,567
Other comprehensive income for the year ended December 31, 2016						(22,223)	(99,433)	4,035	3	(117,618)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	257,565	(22,223)	(99,433)	4,035	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)	$106	$6,978,792
Appropriations and distributions for 2016:										
Legal reserve			25,757		(25,757)					-
Special reserve				56,747	(56,747)					-
Stock dividends	180,000				(180,000)					-
Net income for the year ended December 31, 2017					273,871				3	273,874
Other comprehensive income for the year ended December 31, 2017						(36,212)	32,365	(3,414)	2	(7,259)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	273,871	(36,212)	32,365	(3,414)	5	266,615
Non-controlling interest									(1)	(1)
Balance as of December 31, 2017	$5,510,000	$491,766	$201,622	$495,202	$312,036	$(56,775)	$297,708	$(6,263)	$110	$7,245,406

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 STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before income tax	$352,995	$330,748
Adjustments:		
Non-cash items included in revenue and expenses:		
Depreciation	67,882	61,920
Amortization	33,214	28,534
Bad debt expense	93,930	36
Net (gains) losses from financial assets/liabilities at fair value through profit or loss	(22,365)	128,579
Interest expenses	78,139	44,239
Interest revenue	(271,255)	(234,423)
Dividend revenue	(492,813)	(273,005)
Share of loss of associates accounted for using the equity method	4,713	8,045
Losses (gains) on disposal of property and equipment	429	(20)
Losses on disposal of intangible assets	42	391
Gains on disposal of investment	(20,126)	(16,743)
Revaluation gains on investment properties	-	(4,088)
Net changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss - current		
Increase in securities held for operations - dealing	(1,256,926)	(2,048,630)
Decrease in securities held for operations - underwriting	130,903	213,557
Increase in securities held for operations - hedging	(2,630,900)	(510,563)
(Increase) decrease in long options - futures	(1,185)	8,082
(Increase) decrease in margin for futures trading - proprinetary funds	(211,699)	29,731
Decrease in investments in bonds with reverse purchase agreements	-	1,264,000
(Increase) decreases in securities margin loans receivable	(1,151,738)	217,263
(Increase) in margin deposits for securities refinancing	(673)	(9,196)
Decrease (increase) in collateral for securities refinancing	33	(8,427)
(Increase) in margin loans recivable	(5,510)	-
(Increase) decreases in customer margin accounts	(946,297)	24,835
(Increase) decreases in collateral for securities borrowed	(57,572)	24,338
Increase in deposits for securities borrowed	607,577	(521,792)
(Increase) decreases in account receivables	(972,938)	(2,077,963)
(Increase) decreases in prepayments	(19,294)	18,024
(Increase) decreases in other receivables	(4,354)	2,590
(Increase) decreases in other current assets	(429,393)	487,630
Financial liabilities at fair value through profit or loss - current		
Increase (decrease) in liabilities for issuance of call (put) warrants	569,707	(2,561)
Increase (decrease) increase in short options - futures	9,994	(24,355)
(Decrease) in liabilities for securities and bonds borrowed－hedging	(85,697)	(96,034)
Increase in liabilities for securities and bonds borrowed－non-hedging	167,176	664,936
Increase in liabilities for bonds with repurchase agreement	362,294	914,864
Increase (decrease) increase in short sale margins	135,878	(38,694)
Increase (decrease) in payables for short sale collateral received	155,705	(44,419)
Increase (decrease) in deposits for securities lended	249,510	33,529
Increase (decrease) increase in futures traders' equity	944,394	(25,931)
(Decrease) Increase in note payables	(12)	8
Increase (decrease) in note payables - related parties	72	(104)
Increase in account payables	1,562,985	1,848,822
(Decrease) increase in advance receipts	(70)	3
Increase (decrease) in receipts under custody	65,506	(483,638)
Increase in other payables	34,391	18,846
Decrease in other payables - related parties	(12,261)	(111,189)
Increase (decrease) in other current liabilities	8,047	(806)
Increase in provisions for the liabilities of employee benefits	1,417	1,982
Cash generated from operating activities:		
Interests received	277,665	212,563
Dividend received	492,812	273,005
Interests paid	(78,558)	(43,035)
Income taxes paid	(8,282)	(6,590)
Net cash provided by (used in) operating activities	(2,272,508)	278,894
CASH FLOWS FROM INVESTING ACTIVITIES:		
Financial assets at fair value through profit or loss - current		
Increase in open-end funds and currency market instruments	$(52,341)	(1,521,928)
Decrease in open-end funds and currency market instruments	101,416	3,018,589
Disposal of available-for-sale financial assets	165,362	248,411
Acquisition of property and equipment	(58,518)	(55,850)
Disposal of property and equipment	-	32
Acquisition of intangible assets	(28,438)	(37,755)
(Increase) decrease in other noncurrent asset	(62,438)	(138,634)
Net cash provided by investing activities	65,043	1,512,865
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term loan	32,460,945	4,789,636
Decrease in short-term loan	(32,087,186)	(4,702,407)
Increase in commercial paper payable	97,810,000	74,790,000
Decrease in commercial paper payable	(94,880,000)	(76,050,000)
Cash dividends paid	(1)	-
Net cash provided by (used in) financing activities	3,303,758	(1,172,771)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(53,865)	(19,705)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,042,428	599,283
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	2,315,219	1,715,936
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$3,357,647	$2,315,219

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
Notes to consolidated financial statements
For the Years Ended December 31, 2017 and 2016
(Expressed in thousands of New Taiwan Dollars 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, 2017, the Company had 10 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 were authorized for issue by the Board of Directors on March 14, 2018.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments.

The Company and subsidiaries (“the Group”) applied for the first time International Financial Reporting Standards, International Accounting Standards, and interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2017. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

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 amendment affected only the disclosures related to the Group.

(2) Standards or interpretations issued, revised or amended, which are endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period 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 recognizes 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: Recognize 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. Consequential amendments on the related disclosures also become 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) *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.

(e) *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.

(f) *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.

(g) *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 recognized 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 derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2018.

(h) *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).

(i) *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.

(j) *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 organization, 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.

(k) 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 recognizes 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 and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2018. Apart from the potential impact of the standards and interpretations listed under (a) and (b) which is described below, all other standards and interpretations have no material impact on the Group:

(a) The explanation related to the application of IFRS 15“Revenue from Contracts with Customers” (including Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”) is as follows:

In accordance with IFRS 15, more extensive disclosure would have to be made.

(b) The explanation related to the application of IFRS 9 "Financial Instruments" is as follows:

The Group elects not to restate prior periods in accordance with IFRS 9 at the date of initial application (January 1, 2018).

(i) Classification and measurement of financial assets

Financial assets at fair value through profit or loss

Financial instruments which are classified as held-for-trading financial assets at fair value through profit or loss including fund, derivative instruments, stocks and bonds in accordance with IAS 39 are classified as financial assets at fair value through profit or loss under IFRS 9. Based on the facts and circumstances that existed as of January 1, 2018, some of bonds which were not classified as held-to-trading investments. Therefore such investments were designated as financial assets measured fair value through other comprehensive income. No difference from carrying amount existed when said financial assets were reclassified.

Available-for-sale financial assets

Classified as available-for-sale financial assets according to IAS 39, including stocks and bonds. The related explanation of changes in classification is as follows:

(1) Stocks

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity. However, under IFRS 9, subsequent fair value changes of the aforementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity is reclassified to retained earnings (reclassification to profit or loss is not allowed).

Based on the facts and circumstances that existed as of January 1, 2018, investments that were not held-for-trading were designated as financial assets to be measured at fair value through other comprehensive income.

(2) Bonds

The characteristics of bonds' cash flow are to completely pay for capital and outstanding capital's interest. Under IFRS 9, based on the facts and circumstances that existed as of January 1, 2018, whose business model that is characterized as receiving and selling contract's cash flow under contracts is designated to be measured at fair value through other comprehensive income. No difference from carrying amount existed when bonds were reclassified, and assessment for impairment with respect to the said asset was made under IFRS 9.

(ii) Impairment assessment of financial assets

As for financial assets that are not measured at fair value through profit or loss, the impairment of debt instruments is evaluated by applying expected credit risk model in accordance with IFRS 9. If the credit risk of the financial assets doesn't increase significantly after the initial recognition, the allowance for losses will be measured at 12-month expected credit losses. If the credit risk of the financial assets increases significantly after the initial recognition and is not low credit risk, the allowance for losses will be measured at credit losses during remaining term to maturity. For receivables and contractual assets arose from the transactions in the scope of IFRS 15, credit losses are evaluated by simplified method. The aforementioned rule of impairment assessment is different from incurred losses model applied currently.

(iii) Effects on the date of initial application

In accordance with classification and measurement of financial assets and impairment assessment in IFRS 9, the Group expect to decrease assets by $264 thousand, decrease retained earnings by $21,417 thousand, and increase other equity by $21,153 thousand on the date of initial application (1 January 2018).

(1) Classification and measurement of financial assets

For those classified as financial assets at fair value through profit or loss under IFRS 39, their characteristics of cash flow conform to those completely pay for capital and outstanding capital's interest. Based on the facts and circumstances that existed as of January 1, 2018, as the business model was to receive and sell cash flow from contracts and financial assets, they meet the rules of being designated to measure at fair value through other comprehensive income. Therefore, financial assets at fair value through profit or loss was reclassified as financial assets at fair value through other comprehensive income (for a total of $2,741,950 thousand) and the retained earnings and other equity decreased/increased by $20,410 thousand.

(2) Assess impairment of financial assets

The Group recognized adjustments of expected credit losses of debt instruments, which decreased assets by $264 thousand, decreased retained earnings by $1,007 thousand and increased other equity by $743 thousand.

(iv) Others

Consequential amendments on the related disclosures in IFRS 7 were also made as a result of the application of IFRS 9, which include the disclosure requirements related to the initial application of IFRS 9. Therefore more extensive disclosure would have to be made.

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

(a) *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.

(b) IFRIC 23 "*Uncertainty Over Income Tax Treatments*"

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after January 1, 2019.

(c) IFRS 17 "*Insurance Contracts*"

IFRS 17 supersedes IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features issued. IFRS 17 requires an entity to divide a portfolio of insurance contracts issued into a minimum of a group of contracts that are onerous at initial recognition, a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, and a group of the remaining contracts in the portfolio. An entity shall recognize a group of insurance contracts it issues from the earliest of the following: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due, and for a group of onerous contracts, when the group becomes onerous.

On initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

i. estimates of future cash flows;
ii. Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
iii. a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts. IFRS 17 is effective for annual periods beginning on or after January 1, 2021.

(d) *IAS 28"Investment in Associates and Joint Ventures" — Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28. The amendment is effective for annual reporting periods beginning on or after January 1, 2019.

(e) *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after January 1, 2019.

(f) *Improvements to International Financial Reporting Standards (2015-2017 cycle):*

IFRS 3 "Business Combinations"

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business. The amendments are effective for annual periods beginning on or after January 1, 2019.

IFRS 11 "Joint Arrangements"

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. The amendments are effective for annual periods beginning on or after January 1, 2019.

IAS 12 "Income Taxes"

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendments are effective for annual periods beginning on or after January1, 2019.

IAS 23 "Borrowing Costs"

The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale. The amendments are effective for annual periods beginning on or after January 1, 2019.

(g) *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset. The amendments are effective for annual periods beginning on or after January 1, 2019.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The consolidated financial statements of the Group for the years ended December 31, 2017 and 2016 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 and became effective 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	December 31, 2017	December 31, 2016
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 related 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 10 and 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 and dealing.

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

Investor	Subsidiary	Business nature	Ownership interest	
			December 31, 2017	December 31, 2016
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. <u>Open-end funds and currency market instruments</u>

   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. <u>Securities held for operations</u>

   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 calculated by the weighted average method. Stock dividend only is remarked as number of shares increase instead of investment income.

c. <u>Long options and short options</u>

   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 presented separately based 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.

Derecognition of financial assets

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

Classification between liabilities or equity

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) The transaction of Repo bonds

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) Margin loan and short sale of securities, margin loan refinancing, and short sale refinancing.

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 Group 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 Group 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 Group, the guarantee deposits and proceeds from the short sales are returned to the investors accordingly.

C. Loans borrowed by the Group from other securities lenders when the Group has insufficient funds to conduct margin trading are recorded as "margin loans from other securities lenders". When the Group has insufficient stocks to conduct securities lending, the Group 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) Guaranteed price deposits and securities borrowing and lending

The receivables as a result of lending by securities investors in connection with securities business are recognized as loans receivables and estimate the amount of bad debt based on the possibility of recovery at end of the period. The collateral obtained from lending money in connection with securities business is recorded in a memo entry. The Group's securities lending business come from three sources: securities held for its own account, securities borrowed through the securities lending system of a securities exchange and collateral securities obtained in connection with customer margin purchases when conducting securities trading margin purchase and short sale business . When lending securities held for its own account, the account should be transferred to "lending securities" and measured based on the fair value on the measurement date. If the securities are borrowed from TWSE's security borrowing system, they are recorded in memo entries. If the securities are obtained in connection with customer margin purchases, they should be recorded in memorandum when it is lent. The latter two source of securities' lending are presented in business report instead of being recorded in the financial statement. If the collateral received from securities borrowing business is securities, a separate account ledger shall be set up for each customer and record the collateral related transaction matters on a transaction-by-transaction basis. In the event of cash collateral, it should be recorded in the "securities borrowing margin" account under current liabilities. The handing fee and service fee are recognized as revenue from securities borrowed.

(14)Client margin account

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.

(15) 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.

(16) 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	3-10 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.

(17) 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 *Noncurrent 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.

(18) 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.

(19) 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 (2 to 10 years).

(20) 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.

(21) 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.

(22) Post-employment benefits

All regular employees of the Group 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 Group 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 are provided in accordance with the respective local regulations.

For the defined contribution plan, the Group 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 Group recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. The oversea subsidiaries 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 retained earnins 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.

(23) 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.

(24) 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.

(4) Impairment of non-financial assets

Every year the Group test that is there occurred any impairment of goodwill. When there is indication that goodwill might have impairment, it needs to take test of impairment. When testing impairment, it needs to estimate the recyclable amount that goodwill allocated to corresponded cash-generating unit. This calculation needs to estimate future cash flow of cash-generating unit, and choose appropriate discount ration to calculate the present value of future cash flow at meanwhile.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Petty cash and cash on hand	$481	$472
Cash in banks		
Saving accounts	1,678,880	941,533
Checking accounts	1	27
Time deposits	795,554	698,397
Cash equivalents	882,731	674,790
Total	$3,357,647	$2,315,219

A. Time deposits were twelve-month term deposits and readily convertible to known amounts of cash, which were subject to an insignificant risk of changes in value. The interest rates of the above time deposits were 0.12%~1.23% and 0.12%~1.065% as of December 31, 2017 and December 31, 2016, 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 were the excess margin of the futures trading margins.

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

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

	December 31, 2017	December 31, 2016
Financial assets held for trading		
Open-end funds and currency market instruments	$9,657	$59,810
Securities held for operations - dealing	6,629,751	5,284,601
Securities held for operations - underwriting	31,136	165,826
Securities held for operations - hedging	4,082,884	1,516,115
Long options - futures	17,474	16,288
Futures trading margins - own funds	538,593	326,894
Total	$11,309,495	$7,369,534

A. Open-end funds and currency market instruments

	December 31, 2017	December 31, 2016
Open-end funds	$10,000	$60,000
Add (less) : Valuation	(343)	(190)
Net	$9,657	$59,810

B. Securities held for operations - dealing

	December 31, 2017	December 31, 2016
Listed stocks	$2,136,978	$1,844,484
OTC stocks	227,529	47,951
Government bonds	-	501,014
Corporate bonds	2,520,048	1,661,215
Financial bonds	201,492	201,493
Convertible bonds	775,285	362,559
Emerging stocks	413,519	613,769
Exchange traded funds (ETF)	232,645	123,983
Opened-end funds	5,263	5,224
Foreign securities	100,480	167
Call (put) warrants	19,655	-
Others	45	14,154
Subtotal	6,632,939	5,376,013
Add (less) : Valuation	(3,188)	(91,412)
Net	$6,629,751	$5,284,601

As of December 31, 2017 and December 31, 2016, certain financial assets measured at fair value through profit or loss were sold under repurchase agreements with notional amounts of $2,700,000 thousand, and $2,350,000 thousand, respectively.

Information regarding the securities borrowing transfers can be obtained from Note.8. Please refer to Note 8 for related information on the above securities as pledged as collaterals as of December 31 ,2017.

C. Securities held for operations - underwriting

	December 31, 2017	December 31, 2016
Convertible bonds	$27,097	$158,000
Add (less) : Valuation	4,039	7,826
Net	$31,136	$165,826

D. Securities held for operations - hedging

	December 31, 2017	December 31, 2016
Listed stocks	$2,410,859	$1,007,343
OTC stocks	1,001,370	374,461
Exchange traded funds (ETF)	655,003	136,811
Call (put) warrants	88,104	5,820
Subtotal	4,155,336	1,524,435
Add (less) : Valuation	(72,452)	(8,320)
Net	$4,082,884	$1,516,115

E. Futures trading margins - own funds

As of December 31, 2017 and December 31, 2016, the amounts of accounts for margin deposits funds in future department were summarized as follows:

	December 31, 2017	December 31, 2016
Account balance	$552,221	$319,756
(Losses) Gains on open interest	(13,628)	7,138
Account value	$538,593	$326,894

F. Futures and options transactions

a. As of December 31, 2017 and 2016, the Groups' open interest of futures and options transactions were as follows:

December 31, 2017

	Item	Open Interest		Contract amount or options premium to pay (charge)	Fair value
		Buy/Sell	Number of contract		
Futures	FIxxF	Buy	8,061	$554,800	$554,118
Futures	FIxxF	Sell	32,211	2,952,492	2,967,091
Futures	FITE	Buy	408	711,270	719,678
Futures	FITE	Sell	5	8,764	8,812
Futures	FITX	Buy	377	799,680	801,480
Futures	FITX	Sell	157	329,519	333,869
Futures	FIXI	Buy	4	4,845	4,967
Futures	FIXI	Sell	18	22,045	22,343
Futures	FIMTX	Buy	390	206,877	207,338
Futures	FIUD	Buy	164	81,282	81,459
Futures	FISP	Sell	40	21,497	21,508
Futures	Foreign Futures	Buy	5	20,045	19,968
Futures	Foreign Futures	Sell	245	463,335	471,022
Options	Stock Options-Call	Buy	40	16	10
Options	Stock Options-Call	Sell	20	(45)	37
Options	Stock Options-Put	Buy	19	8	6
Options	Index Options-Call	Buy	2,939	8,631	11,556
Options	Index Options-Call	Sell	6,222	(13,919)	19,326
Options	Index Options-Put	Buy	4,458	8,020	5,902
Options	Index Options-Put	Sell	3,062	(8,190)	6,533

December 31, 2016

	Item	Open Interest		Contract amount or options premium to pay (charge)	Fair value
		Buy/Sell	Number of contract		
Futures	FITF	Buy	103	$111,843	$111,938
Futures	FIxxF	Buy	2,011	362,533	364,282
Futures	FIxxF	Sell	10,569	1,309,147	1,297,014
Futures	FITE	Buy	543	803,490	806,592
Futures	FITX	Sell	632	1,171,039	1,176,949
Futures	FIGT	Sell	2	987	1,003
Futures	FIXI	Buy	237	268,999	271,808
Futures	FIMTX	Buy	1	463	463
Futures	FIMTX	Sell	262	122,015	122,672
Futures	Foreign Futures	Buy	45	20,695	20,776
Futures	Foreign Futures	Sell	235	259,658	261,311
Options	Stock Options-Call	Buy	40	9	9
Options	Stock Options-Put	Buy	45	6	3
Options	Index Options-Call	Buy	2,760	10,415	13,034
Options	Index Options-Call	Sell	3,563	(8,757)	10,784
Options	Index Options-Put	Buy	3,916	6,124	3,242
Options	Index Options-Put	Sell	4,293	(9,393)	5,116

b. Derivative financial instruments expressed in financial statements

	2017	2016
Gains from derivative financial instruments - futures		
Non-hedging		
Gains from futures contracts - realized	$193,372	$78,687
Gains from futures contracts - unrealized	207,697	38,597
Gains from options transactions - realized	890,832	255,332
Gains from options transactions - unrealized	214,370	42,614
Subtotal	1,506,271	415,230
Hedging		
Gains from futures contracts - realized	731,203	409,128
Gains from futures contracts - unrealized	-	12,377
Gains from options transactions - realized	505	11,497
Subtotal	731,708	433,002
Total	$2,237,979	$848,232

	2017	2016
Losses from derivative financial instruments - futures		
Non - hedging		
Losses from futures contracts - realized	$954,205	$137,913
Losses from futures contracts - unrealized	201,123	43,531
Losses from options transactions - realized	27,383	12,428
Losses from options transactions - unrealized	219,799	42,125
Subtotal	1,402,510	235,997
Hedging		
Losses from futures contracts - realized	1,017,593	438,958
Losses from futures contracts - unrealized	35,790	-
Losses from options transactions - realized	895	13,116
Losses from options transactions - unrealized	-	470
Subtotal	1,054,278	452,544
Total	$2,456,788	$688,541

(3) Securities margin loans receivable

	December 31, 2017	December 31, 2016
Securities margin loans receivable	$4,231,392	$3,168,577
Less: allowance for bad debts	-	-
Total	$4,231,392	$3,168,577

As of December 31, 2017 and December 31, 2016, securities margin loans receivable had an annual interest rate between 3.25%~8.25%, respectively.

(4) Client margin account and futures traders' equity

	December 31, 2017	December 31, 2016
Cash in bank	$2,589,539	$2,287,822
Marking to market from the clearing house	1,138,010	540,729
Marking to market from other futures brokers	192,285	144,986
Client margin account	3,919,834	2,973,537
Less: brokerage commission	(3,954)	(2,050)
Futures traders' equity	$3,915,880	$2,971,487

(5) Accounts receivable

	December 31, 2017	December 31, 2016
Cash and cash equivalents - settlement account	$369,204	$118,568
Accounts receivable - settlement	4,285,357	3,462,220
Accounts receivable from selling securities	164,185	142,304
Accounts receivable from buying securities	10,355	9,214
Others	13,634	137,491
Less: allowance for bad debts	-	-
Total	$4,842,735	$3,869,797

(6) Available-for-sale financial assets - current/noncurrent

	December 31, 2017	December 31, 2016
Current		
OTC stocks	$-	$144,312
Add (less) : Valuation	-	(9,648)
Net	$-	$134,664

	December 31, 2017	December 31, 2016
Noncurrent		
Taiwan Futures Exchange	$30,518	$30,518
Add (less) : Valuation	297,736	275,016
Net	$328,254	$305,534

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

(7) Investments accounted for using the equity method

The summarized financial information of the Group's Investments accounted for using the equity method was as follows:

	December 31, 2017		December 31, 2016	
The investee	Carrying amount	% of ownership	Carrying amount	% of ownership
Cathay Investment Consulting (Shanghai) Co., Ltd.	$11,020	100%	$16,027	100%

The recognized share of the profits (losses) of and other comprehensive income from investment accounted for using 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.

(8) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost:					
January 1, 2017	$48,087	$4,322	$350,639	$211,870	$614,918
Additions	-	-	35,636	22,882	58,518
Disposals	-	-	-	(12,327)	(12,327)
Exchange differences	-	-	(1,791)	(667)	(2,458)
December 31, 2017	$48,087	$4,322	$384,484	$221,758	$658,651
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
Depreciation and impairment:					
January 1, 2017	$-	$(1,920)	$(235,547)	$(123,587)	$(361,054)
Depreciation	-	(107)	(38,243)	(29,532)	(67,882)
Disposals	-	-	-	11,898	11,898
Exchange differences	-	-	575	201	776
December 31, 2017	$-	$(2,027)	$(273,215)	$(141,020)	$(416,262)
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)
Net carrying amount as:					
December 31, 2017	$48,087	$2,295	$111,269	$80,738	$242,389
December 31, 2016	$48,087	$2,402	$115,092	$88,283	$253,864

The property and equipment as of December 31, 2017 and December 31, 2016 were not pledged.

(9) Investment property

	Land	Buildings	Total
January 1, 2017	$254,155	$36,186	$290,341
Gains or (losses) generated from fair value adjustments	1,226	(1,226)	-
December 31, 2017	$255,381	$34,960	$290,341
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

	2017	2016
Rental income from investment properties	$7,159	$5,839

No investment properties were pledged as collaterals as of December 31, 2017 and December 31, 2016.

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, 2017 and December 31, 2016:

Elite Appraisers Firm: Yu-Ling, Chen (December 31, 2017 and December 31, 2016)

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:

	December 31, 2017	December 31, 2016
Estimated future cash inflows	$440,515	$440,377
Estimated future cash outflows	(32,000)	(22,082)
Estimated future net cash flows	$408,515	$418,295

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 1.19% and 1% as of December 31, 2017 and 2016, respectively, 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:

	December 31, 2017	December 31, 2016
Direct capitalization rate (net)	2.60%	2.50%
Discount rate	2.045%	2.045%

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, 2017 and December 31, 2016.

(10) Intangible assets

	Goodwill	Trading right	Computer software	Total
Cost:				
January 1, 2017	$8,629	$2,055	$162,828	$173,512
Addition - individual acquisition	-	-	28,438	28,438
Disposals	-	-	(250)	(250)
Reclassification	-	-	10,069	10,069
Exchange differences	-	(174)	-	(174)
December 31, 2017	$8,629	$1,881	$201,085	$211,595
Cost:				
January 1, 2016	$8,629	$2,108	$128,571	$139,308
Addition - individual acquisition	-	-	37,755	37,755
Disposals	-	-	(5,165)	(5,165)
Reclassification	-	-	1,667	1,667
Exchange differences	-	(53)	-	(53)
December 31, 2016	$8,629	$2,055	$162,828	$173,512
Amortization and impairment:				
January 1, 2017	$-	$-	$(88,902)	$(88,902)
Amortization	-	-	(33,214)	(33,214)
Disposals	-	-	208	208
December 31, 2017	$-	$-	$(121,908)	$(121,908)
January 1, 2016	$-	$-	$(65,142)	$(65,142)
Amortization	-	-	(28,534)	(28,534)
Disposals	-	-	4,774	4,774
December 31, 2016	$-	$-	$(88,902)	$(88,902)
Net carrying value as of :				
December 31, 2017	$8,629	$1,881	$79,177	$89,687
December 31, 2016	$8,629	$2,055	$73,926	$84,610

Amortization expense of intangible assets under the other operating costs:

	2017	2016
Other operating costs	$33,214	$28,534

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, 2017 and 2016, 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.

(11) Other noncurrent assets

	December 31, 2017	December 31, 2016
Operation funds	$461,632	$428,829
Settlement/Clearance funds	224,475	211,783
Reserve funds of trust	50,000	50,000
Refundable deposits	20,641	20,693
Restricted assets - noncurrent	18,000	-
Prepayment for equipment	6,570	7,271
Prepaid pension cost - noncurrent	3,264	3,568
Overdue receivables	93,966	-
Loss Allowance for bad debts - overdue receivables	(93,966)	-
Total	$784,582	$722,144

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 $385,000 thousand and $355,000 thousand as operation bond as of December 31, 2017 and December 31, 2016. The overseas operation fund were $76,632 thousand and $73,829 thousand as of December 31, 2017 and December 31, 2016, respectively.

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 $224,475 thousand and $211,783 thousand as of December 31, 2017 and December 31, 2016, 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, 2017 and Decemder 31, 2016.

The difference between ? from disposing of collateral securities because customers’ securities default settlement and insufficient maintenance of customer financing guarantees, or the credit default settlement money that incurred as a result of the securities under the clients’ credit account may not be disposed of, the Company began legal proceedings to recover the differences from debtor and recognized default receivables to overdue receivables and set saide total amount for bad debts.

(12) 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, and the Company's future business devlopment estimation.

(13) Short-term loan

	December 31, 2017	December 31, 2016
Credit loan	$441,199	$87,229
Average interest rates	1.479%~19%	1.60%-8.17%

The Group's unused short-term loan of credits amounted to $9,513,403 thousand and $6,782,182 thousand as of December 31, 2017 and December 31, 2016, respectively.

The above short-term loan had no collateral pledged.

(14) Commercial paper payables

	December 31, 2017	December 31, 2016
Commercial papers payable	$8,530,000	$5,600,000
Less: Discount on commercial papers payable	(1,842)	(1,162)
Net	$8,528,158	$5,598,838
Average interest rates	0.39%~0.52%	0.38%~0.67%

The Group's unused short-term lines of credits amounted to $19,270,000 thousand and $18,850,000 thousand as of December 31, 2017 and December 31, 2016, respectively.

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

	December 31, 2017	December 31, 2016
Liabilities for issuance of call (put) warrants	$4,470,784	$3,759,557
Repurchase warrants	(3,626,363)	(3,484,842)
Short options - futures	25,896	15,900
Liabilities for securities and bonds borrowing - hedging	202,671	284,643
Liabilities for securities and bonds borrowing - non-hedging	1,621,765	1,460,526
Total	$2,694,753	$2,035,784

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

	December 31, 2017	December 31, 2016
Warrants issued	$6,142,636	$5,788,147
Gain on value change	(1,671,852)	(2,028,590)
Net	4,470,784	3,759,557
Repurchase warrants	3,990,537	4,529,089
Loss on value change	(364,174)	(1,044,247)
Net	3,626,363	3,484,842
Total	$844,421	$274,715

a. The call (put) warrants issued by the Group typically had contract periods of six to nine months commencing from the date the warrants were 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 :

Financial Instruments	December 31, 2017 Notional amount / Contractual principal	December 31, 2016 Notional amount / Contractual principal
For trading purpose		
Warrants issued	$6,142,636	$5,788,147

d. Presentation in financial statements:

	Financial liabilities at fair value through profit or loss - current	
	December 31, 2017	December 31, 2016
Balance sheet		
Liabilities for issuance of call (put) warrants	$4,470,784	$3,759,557
Repurchase warrants	(3,626,363)	(3,484,842)
Total	$844,421	$274,715

Statement of comprehensive income	2017	2016	Accounts	Notes
Liabilities for issuance of call (put) warrants	$12,791,722	$8,922,005	Gains (Losses) from issuing call (put) warrants	Fair value method
Repurchase warrants				
- Losses on disposal	(13,236,046)	(7,893,885)	Losses from issuing repurchasing call (put) warrants	
- Gains losses from valuation	629,258	(539,232)	Gains losses (valuation) from issuing repurchasing call (put) warrants	Fair value method
Warrants issuing expenses	(73,401)	(42,272)	Expense from issuing call (put) warrants	
Securities held for operations - Hedging				
- Gains (losses) on disposal	431,888	(90,311)	Gains (losses) from securities held for operations	
-(Losses) gains from valuation	(64,160)	15,088	(Losses) gains on valuation of securities held for operations	Fair value method
Liabilities for securities and bonds borrowing - hedging				
-Losses (gains) on disposal	(11,929)	1,143	Losses (gains) on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements	
- Losses (gains) from valuation	(3,725)	6,795	Losses (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	(115,189)	(70,109)	(Losses) on derivative financial instruments- futures	
-Losses (gains) from valuation	(2,608)	1,929	(Losses) gains on derivative financial instruments- futures	Fair value method
Total	$345,810	$311,151		

B. Short options - futures

Please refer to Note 6.2.

C. Liabilities for securities and bonds borrowing - hedging

	December 31, 2017	December 31, 2016
Listed stocks	$195,214	$187,093
OTC stocks	28,381	119,199
Exchange Traded Funds (ETF)	-	3,000
Subtotal	223,595	309,292
Add (less) : Valuation	(20,924)	(24,649)
Net	$202,671	$284,643

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

	December 31, 2017	December 31, 2016
Listed stocks	$1,418,844	$1,398,816
OTC stocks	187,993	39,730
Exchange Traded Funds (ETF)	-	1,114
Subtotal	1,606,837	1,439,660
Add (less) : Valuation	14,928	20,866
Net	$1,621,765	$1,460,526

(16) Liabilities for bonds with repurchase agreements

As of December 31, 2017 and December 31, 2016, liabilities for bonds with repurchase agreements amounted to $2,702,157 thousand $2,339,864 thousand, respectively. As of December 31, 2017 and December 31, 2016, the bonds with repurchase agreement will be repurchased in agreed price in respective agreements plus accrued interest amounted to $2,703,053 thousand $2,340,503 thousand, respectively.

(17) Post-employment benefits

Defined contribution plan

The Group 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 Group 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 Group 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 years ended December 31, 2017 and December 31, 2016 were $33,723 thousand and $31,375 thousand, respectively.

Defined benefits plan

The Group 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 $1,131 thousand to its defined benefit plan during the 12 months beginning after December 31, 2017.

The Group's defined benefits plan was expected to expire at 2029 for the years ended December 31, 2017 and 2016.

Pension costs recognized in profit or loss for the years ended December 31, 2017 and 2016:

	2017		2016	
	Cathay Securities	Cathay Future	Cathay Securities	Cathay Futures
Current period service costs	$3,539	$-	$3,711	$-
Interest expense from net defined benefit liability	270	(56)	286	(46)
Total	$3,809	$(56)	$3,997	$(46)

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

	December 31, 2017		December 31, 2016		January 1, 2016	
	Cathay Securities	Cathay Futures	Cathay Securities	Cathay Futures	Cathay Securities	Cathay Futures
Defined benefit obligation at present value	$41,159	$2,236	$34,555	$1,879	$36,186	$2,112
Plan assets at fair value	(16,674)	(5,500)	(15,380)	(5,447)	(14,123)	(5,408)
Other noncurrent liabilities - Accrued pension liabilities recognized on the consolidated balance sheets	$24,485	$(3,264)	$19,175	$(3,568)	$22,063	$(3,296)

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
January 1, 2016	$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)
December 31, 2016	34,555	(15,380)	19,175
Current period service costs	3,539	-	3,539
Net interest expense (income)	500	(230)	270
Subtotal	4,039	(230)	3,809
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	1,830	-	1,830
Experience adjustments	1,846	-	1,846
Remeasurements of the net defined benefit asset	-	77	77
Subtotal	3,676	77	3,753
Payment of benefit obligation	(1,111)	-	(1,111)
Contributions by employer	-	(1,141)	(1,141)
December 31, 2017	$41,159	$(16,674)	$24,485

Cathay Futures Co., Ltd.	Defined benefit obligation	Fair value of plan assets	Net Defined Benefit liability
January 1, 2016	$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	-	-	-
December 31, 2016	1,879	(5,447)	(3,568)
Current period service costs	-	-	-
Net interest expense (income)	30	(86)	(56)
Subtotal	30	(86)	(56)
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	120	-	120
Experience adjustments	207	-	207
Remeasurements of the net defined benefit asset	-	33	33
Subtotal	327	33	360
Payment of benefit obligation	-	-	-
Contributions by employer	-	-	-
December 31, 2017	$2,236	$(5,500)	$(3,264)

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

	December 31, 2017		December 31, 2016	
	Cathay Securities	Cathay Futures	Cathay Securities	Cathay Futures
Discount rate	1.10%	1.25%	1.45%	1.58%
Expected rate of salary increases	2.50%	3.00%	2.50%	3.00%

A sensitivity analysis for significant assumption as for the years ended December 31, 2017 and 2016 were, as shown below:

Cathay Securities Corporation	2017		2016	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$(2,511)	$-	$(2,246)
Discount rate decrease by 0.5%	2,716	-	2,453	-
Future salary increase by 0.5%	2,593	-	2,350	-
Future salary decrease by 0.5%	-	(2,428)	-	(2,211)

Cathay Futures Co., Ltd.	2017		2016	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$(174)	$-	$(154)
Discount rate decrease by 0.5%	190	-	169	-
Future salary increase by 0.5%	183	-	163	-
Future salary decrease by 0.5%	-	(170)	-	(150)

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.

(18) Equity

A. Common stock

As of December 31, 2017 and December 31, 2016, the authorized share capital both amounted to $7,000,000, and the issued share capital amounted to $5,510,000 thousand and $5,330,000 thousand, with 551,000 thousand shares and 533,000 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 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.

The recapitalization of undistributed earnings by issuing 18,000 thousand shares was approved by the Company’s board of directors on behalf of shareholders’ meeting on April 26, 2017 and the recapitalization record date was September 29, 2017. The issued share capital was increased to $5,510,000 thousand, with par value of $10 for a total of 551,000 thousand shares. All new shares were distributed to the single shareholder Cathay Financial Holding Co., Ltd.

B. Capital surplus

	December 31, 2017	December 31, 2016
Additional paid-in capital	$491,776	$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 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 2017 and 2016 earnings distribution and dividends per share as approved by the Board of Directors' meeting on March 14, 2018 and April 26, 2017, respectively, are as follows:

	Appropriation of earnings		Dividends per share (in dollars)	
	2017	2016	2017	2016
Legal reserve	$27,387	$25,757	$-	$-
Special reserve	56,397	56,747	-	-
Common stock cash dividends	190,087	180,000	0.34	0.34

According to legal interpretations No.10300009577 issued by Financial Supervisory Commission, Company's subsidary 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 appropriated special reserve $253 thousand and $3,946 thousand proportionately to its ownership interest on the aforementioned Company's subsidary's net increase which were for the years December 31, 2017 and 2016, respectively.

According to legal interpretations No. 10500278285 issued by Financial Supervisory Commission, the Company appropriate and has appropriated 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 and 2016, the aforementioned special reserve will be practice as the use for training, transferring and arranging.

According to Article 14 of Rules Governing Securities Firms securities firms that it haves already issued securities pursuant to relevant regulations shall set aside 20% special reserve from the annual after-tax profit. The Company plans to appropriate and has appropriated special reserve in the amount of $54,774 thousand and $51,513 thousand of the net income for the years December 31, 2017 and 2016, respectively.

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

D. Non-controlling interests

	2017	2016
At the beginning of year	$106	$101
Profit of loss attributed to non-controlling interests	3	2
Unrealised profits of available-for-sale financial assets	2	3
Cash dividends by subsidiary	(1)	-
At the end of year	$110	$106

(19) The components of comprehensive income

A. Brokerage fee Revenue

	2017	2016
Consignment handling fee revenue - TSE	$805,222	$651,662
Consignment handling fee revenue - OTC	172,145	111,982
Handling revenue of short sale	8,557	7,523
Handling revenue of securities borrowed	10,190	1,706
Handling revenue of sub-brokerage	746,934	504,092
Others	17,597	11,943
Total	$1,760,645	$1,288,908

B. Revenue from underwriting business

	2017	2016
Return from underwriting of securities	$40,446	$43,295
Revenue from underwriting proceeding fee	13,174	34,727
Revenue from underwriting and counseling	14,030	18,775
Others	9,779	5,943
Total	$77,429	$102,740

C. Net gains from sale of securities held for operations

	2017	2016
Dealing		
Revenue	$91,213,210	$91,889,298
Cost	(90,899,567)	(91,705,813)
Subtotal	313,643	183,485
Underwriting		
Revenue	383,829	378,224
Cost	(347,424)	(369,877)
Subtotal	36,405	8,347
Hedging		
Revenue	114,010,763	24,665,757
Cost	(113,578,904)	(24,744,165)
Subtotal	431,859	(78,408)
Total	$781,907	$113,424

D. Interest revenue

	2017	2016
Margin loans	$189,937	$172,780
Bonds	43,224	20,905
Others	2,400	3,445
Total	$235,561	$197,130

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

	2017	2016
Securities held for operations - dealing	$88,274	$(112,503)
Securities held for operations - underwriting	(3,787)	5,071
Securities held for operations - hedging	(64,131)	15,356
Total	$20,356	$(92,076)

F. Gains on issuance of call (put) warrants

	2017	2016
Unrealized gains from liabilities for issuance of call (put) warrants	$12,791,722	$8,922,005
Unrealized losses from repurchase warrants	(12,606,788)	(8,433,117)
Warrants issuing expenses	(73,401)	(42,272)
Total	$111,533	$446,616

G. Gains from derivative financial instruments

	2017	2016
Gains from derivative financial instruments - futures		
Losses from futures contracts	$(1,076,438)	$(81,613)
Gains from option transactions	857,629	241,304
Total	$(218,809)	$159,691

H. Other operating income

	2017	2016
Net losses from errors of account	$(762)	$(1,845)
Loss on foreign exchange	(25,212)	(12,422)
Others	31,326	11,506
Total	$5,352	$(2,761)

I. Handling fee expenses

	2017	2016
Brokerage handling fee expenses	$96,292	$74,301
Dealer’s handling fee expenses	35,939	23,004
Refinancing transaction fee expenses	897	862
Underwriting handling fee expenses	1,299	2,980
Total	$134,427	$101,147

J. Other operating expenses

	2017	2016
Stationery and printing	$6,620	$5,757
Postage	51,068	47,403
Entertainment	8,144	7,561
Utilities	8,460	8,183
Insurance	980	936
Taxes	634,361	272,208
Rent	74,200	68,875
Repairs and maintenance	17,854	18,050
Advertisement	26,620	21,508
Computer information	111,292	101,636
Contribution	750	-
Group membership	2,768	1,720
Bad debts	93,930	36
Delinquency fine	10	-
Traveling	15,413	11,302
Transportation	6,198	6,128
Miscellaneous	2,011	2,622
Training	5,184	6,202
Professional service	19,996	16,535
Book and subscription	541	559
TDCC	33,110	21,669
Securities borrowing	46,171	17,769
Financial Supervision	1,024	1,075
Others	141,465	115,788
Total	$1,308,170	$753,522

K. Other income and cost

	2017	2016
Interest revenue	$35,694	$37,293
Gain (loss) on disposal of property and equipment	(429)	20
Loss on disposal of intangible assets	(42)	(391)
Loss on disposal of investments	(925)	(1,339)
(Loss) gain on valuation of open-end funds currency market instruments	(153)	15
Dividend revenue	10,270	9,971
Others	19,540	21,061
Total	$63,955	$66,630

(20) Operating leases

Operating lease commitments - Group as lessee

Future minimum rentals payment under non-cancellable operating leases as at December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Not later than one year	$47,591	$64,707
Later than one year and not later than five years	28,328	53,667
Total	$75,919	$118,374

The expenses recognized in operating leases are as follows

	2017	2016
Minimum lease payments	$74,200	$68,875

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases with remaining terms less than five years. Part of 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, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Not later than one year	$7,142	$5,822
Later than one year and not later than five years	3,261	7,762
Total	$10,403	$13,584

(21) Employee benefits, depreciation and amortization

	2017	2016
Employee benefits expense		
Salaries	$984,061	$838,116
Labor and health insurance	69,490	61,447
Pension	37,476	35,326
Other employee benefits expense	24,813	37,079
Depreciation	67,882	61,920
Amortization	33,214	28,534

According to the Company's original Articles of Incorporation, 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 $35 thousand and $33 thousand which were recognized as salaries expense for the years ended December 31, 2017 and 2016, respectively. 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 26, 2017 to distribute $33 thousand in cash as employees' compensation for the year ended December 31, 2016. There was no significant difference between the estimated amount and the actual distribution of the employee compensation for the year ended December 31, 2016.

There was no significant difference between the estimated amount and the actual distribution of the employees' compensation for the year ended December 31, 2015.

The number of employees as of December 31, 2017 and 2016 were 747 and 727, respectively.

(22) Components of other comprehensive income

The components of other comprehensive income for the year ended on December 31, 2017 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	$(4,113)	$-	$(4,113)	$699	$(3,414)
Exchange difference resulting from translating the financial statements of foreign operation	(35,918)	-	(35,918)	-	(35,918)
Unrealized gains (losses) from available-for-sale financial asset	32,367	-	32,367	-	32,367
Share of the profit or loss of associates and joint ventures accounted for under the equity method	(294)	-	(294)	-	(294)
Total	$(7,958)	$-	$(7,958)	$699	$(7,259)

The components of other 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)

(23) Income tax

The major components of income tax expense are as follow:

Income tax expense recognized in profit or loss

	2017	2016
Current income tax expense :		
Current income tax charge	$93,900	$25,212
Adjustments in respect of current income tax of prior periods	(218)	1,083
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	(14,561)	46,886
Total income tax expense	$79,121	$73,181

Income tax relating to components of other comprehensive income

	2017	2016
Deferred tax (income) expense :		
Revaluation of defined benefits plan	$(699)	$826

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

	2017	2016
Accounting profit before tax from continuing operations	$352,995	$330,748
Tax at the domestic rates applicable to profits in the country concerned	$54,208	$60,519
Tax effect of revenue exempt from taxation	25,130	11,579
Adjustments in respect of current income tax of prior periods	(217)	1,083
Total income tax expense recognized in profit or loss	$79,121	$73,181

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2017

	Beginning balance	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
Temporary differences							
Gains on measurement at fair value through profit or loss for securities held for operations	$(24,947)	$14,485	$-	$-	$-	$-	$(10,462)
Gain on foreign exchange	1,688	(442)	-	-	-	-	1,246
Net defined benefit Assets	(437)	-	61	-	-	-	(376)
Net defined benefit liabilities	3,260	265	638	-	-	-	4,163
Investment property	(6,432)	253	-	-	-	-	(6,179)
Deferred tax income/ (expense)		$14,561	$699	$-	$-	$-	
Net deferred tax assets/(liabilities)	$(26,868)						$(11,608)
Reflected in balance sheet as follows:							
Deferred tax assets	$4,948						$5,409
Deferred tax liabilities	$(31,816)						$(17,017)

For the year ended December 31, 2016

	Beginning balance	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
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)

Imputation credit information

	December 31, 2017	December 31, 2016
Balances of imputation credit amounts	(Note)	$42,418

According to Income Tax Act No. 66-6, individual shareholder who resides in the Republic of China can reduce 50% of the imputation credit ratio.

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

Note: On January 18, 2018, the Legislative Yuan passed amendments to the Income Tax Act and the President announced the amendments on February 7, 2018 that the imputation credit ratio will no longer be used.

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 2015 have been accessed and approved by Tax Authority as of December 31, 2017. 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.

(24) 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.

	2017	2016
Basic earnings per share		
Net income (in thousands)	$273,871	$257,565
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	551,000	533,000
Basic earnings per share (in dollars)	$0.50	$0.47

7. Related party transactions

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name and nature of relationship of the related parties:

Name	Nature of the relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank Co., Ltd.	Other related party
Cathy Life Insurance Co., Ltd.	Other related party
Cathay Century Insurance Co., Ltd.	Other related party
Cathay Securities Investment Trust Co., Ltd.	Other related party
Symphox Information Co., Ltd.	Other related party
Cathay FTSE China A50 ETF(Note 1)	Other related party
Cathay FTSE China A50 Daily Inversed ETF(Note 1)	Other related party
Cathay FTSE China A50 Daily Inversed ETF(Note 1)	Other related party
Cathay Nikkei 225 ETF(Note 1)	Other related party
Cathay FTSE Japan Daily Leveraged 2X ETF(Note 1)	Other related party
Cathay FTSE Japan Daily Inversed ETF(Note 1)	Other related party
Cathay TAIEX Daily Inversed ETF(Note 1)	Other related party
Cathay TAIEX Daily Inversed ETF(Note 1)	Other related party
Cathay Dow Jones Industrial Average ETF (Note 1)	Other related party

Note 1：Investment trust fund are managed by Cathay Securities Investment Trust Co., Ltd.

Significant transactions above $3,000 thousand are summarized as follows:

(1) Cash in bank

Name	Item	December 31, 2017 Amount	Rate
Other related parties			
Cathay United Bank Co., Ltd	Cash in bank/Custodies of underwriting securities/Settlement amounts	$3,518,537	0.001% ~1.1%
〃	Restricted assets - noncurrent (Note2)	900,000	
		$4,418,537	

Name	Item	December 31, 2016 Amount	Rate
Other related parties			
Cathay United Bank Co., Ltd	Cash in bank/Custodies of underwriting securities/Settlement amounts	$2,277,467	0.001% ~1.205%
〃	Restricted assets - noncurrent (Note2)	900,000	
		$3,177,467	

Note 2: Restricted assets - noncurrent above are pledged time deposits. Please refer to Note 8.

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

Name	December 31, 2017	December 31, 2016
Other related parties		
-Cathay FTSE China A50 ETF	$32,239	$13,471
-Cathay FTSE China A50 Daily Leveraged 2X ETF	35,867	5,242
-Cathay FTSE China A50 Daily Inversed ETF	26,325	22,317
-Cathay Nikkei 225 ETF	545	15,569
-Cathay FTSE Japan Daily Leveraged 2X ETF	128,548	15,720
-Cathay FTSE Japan Daily Inversed ETF	14,729	2,791
-Cathay TAIEX Daily Leveraged 2X ETF	-	8,616
-Cathay TAIEX Daily Inversed ETF	-	17,471
-Cathay Dow Jones Industrial Average ETF	257	15,024
Total	$238,510	$116,221

(3) Client margin account

Name	December 31, 2017	December 31, 2016
Other related parties		
Cathay United Bank Co., Ltd.	$38,046	$507,056
Rate of return	0.001%~1.065%	0.001%~1.065%

(4) Refundable deposits

Name	December 31, 2017	December 31, 2016
Other related parties		
Cathay Life Insurance Ltd.	$10,238	$9,854

(5) Futures dealer equity

Name	December 31, 2017	December 31, 2016
Other related parties		
Cathay Life Insurance Ltd.	$1,628,717	$1,200,485
Cathay United Bank Co., Ltd.	79,854	120,374
Cathay Century Insurance Co., Ltd.	6,821	6,817
Cathay Securities Investment Trust Co., Ltd. (Note3)	526,611	180,621
Total	$2,242,003	$1,508,297

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

(6) Other payables

Name	December 31, 2017	December 31, 2016
The parent company (Note 2)		
Cathay Financial Holding Co., Ltd	$76,883	$4,562

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

(7) Handling revenue of sub-brokerage

Name	2017	2016
Other related parties		
Cathay Life Insurance Ltd.	$3,571	$3,580
Cathay United Bank	3,138	3,024
	$6,709	$6,604

(8) Revenue of underwriting business

Name	2017	2016
Other related parties		
Cathay Life Insurance Ltd.	$8,450	$-

(9) Interest revenue

Name	2017	2016
Other related parties		
Cathay United Bank Co., Ltd.	$13,850	$19,618

(10) Rental expenses

Name	2017	2016
Other related parties		
Cathay Life Insurance Ltd.	$44,154	$39,498
Cathay United Bank Co., Ltd.	9,933	9,433
Total	$54,087	$48,931

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

(11) Other operating expenses

Name	Service item	2017	2016
Other related parties			
Symphox Information Co., Ltd.	Cable service etc.	$17,997	$13,894
Cathay United Bank Co., Ltd.	Other fees	48,216	32,880
Cathay Life Insurance Co., Ltd.	Insurance	22,622	14,889
Total		$88,835	$61,663

(12) Key management personnel compensation

	2017	2016
Short-term employee benefits	$98,484	$108,624
Post-employee benefits	1,798	1,902
Total	$100,282	$110,526

The key management personnel of the Company include the chairman, director, supervisor, general manager, senior vice general manager and vice general manager.

8. Assets pledged as security

Item	Pledged Organization	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss-current	Deposits for securities borrowing	$1,241,468	$46,748
Other current assets - time deposits	Cathay United Bank Co., Ltd.	900,000	900,000
Restricted Assets - noncurrent	Application for security of provisional attachment	18,000	-

The assets above were presented at their carrying amounts.

9. Commitments and contingencies

None.

10. Significant disaster losses

None.

11. Subsequent events

On January 18, 2018, the Legislative Yuan passed the amendments to the Income Tax Act. The amendments raised the corporate income tax rate for companies from 17% to 20%. After the change of the tax rate, the deferred tax assests will be increased by $955 thousand and the deferred tax liabilities will be increased by $2,557 thousand.

12. Other

(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 and providing the form of capital adequacy to risk management department monthly.

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

Capital liquidity is defined as the capability of the Company to acquire the sufficient capital and to support assets growth and payout the liabilities.；Marketing liquidity is the risk that avoid and manage the losses caused when deal with or offset holding position faced significant changes in market value because of insufficient market depth or disorder.

(B) Controls

Measurement index for liquidity risk is established and the Company compiles the liquidity risk management report periodically to review capital conditions, cash flow gap as of balance dates and liquidity of overall foreign currency. 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. And investment business unit should control market liquidity risk while buying under indicator and norm of marketing liquidity management.

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) <u>Credit risk analysis</u>

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.

As of December 31, 2017

Cash Flow analysis of financial liabilities

	Payment term				
Financial Liabilities	Less than 1 month	1 to 3 Months	3 to 6 Months	More than 6 months	Total
Short-term loan	$441,199	$-	$-	$-	$441,199
Commercial paper payables	8,528,158	-	-	-	8,528,158
Financial liabilities at fair value through profit or loss -current	2,694,753	-	-	-	2,694,753
Liabilities for bonds with repurchase agreements	2,702,157	-	-	-	2,702,157
Short sale margins and payables for short sale collateral received	51,112	102,224	153,336	613,340	920,012
Deposits for securities borrowed	15,724	31,448	47,172	188,696	283,040
Futures clients' equity	3,915,880	-	-	-	3,915,880
Account payables	5,592,914	-	-	304,892	5,897,806
Others	108,804	-	-	-	108,804
Total	$24,050,701	$133,672	$200,508	$1,106,928	$25,491,809
% to the total	94.35%	0.52%	0.79%	4.34%	100.00%

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

Financial Assets	Less than 1 month	1 to 3 Months	3 to 6 Months	More than 6 months	Total
	As of December 31, 2017 Cash Flow Gap Receivable term				
Cash and cash equivalents	$3,357,647	$-	$-	$-	$3,357,647
Financial assets at fair value through profit or loss -current					
Borrowed-securities Operations Security	10,743,771	-	-	-	10,743,771
Open-end Funds and money	9,657	-	-	-	9,657
Call option-futures	17,474	-	-	-	17,474
Future trading margins	538,593	-	-	-	538,593
Available for sale financial assets	-	-	-	328,254	328,254
Securities financing receivables	235,077	470,154	705,231	2,820,930	4,231,392
Guaranteed deposits for refinancing and guaranteed proceeds receivable from refinancing	1,861	3,722	5,583	22,327	33,493
Guaranteed price deposits for security borrowing	5,510	-	-	-	5,510
Guaranteed price deposits received from securities borrowers and deposits for securities borrowed	3,919,834	-	-	-	3,919,834
Guaranteed price deposits security borrowing and security borrowing deposits - refund	89,586	179,172	268,758	1,075,036	1,612,552
Account Receivables	4,907,335	-	-	22,711	4,930,046
Others	698,153	-	-	903,008	1,601,161
Subtotal	24,524,498	653,048	979,572	5,172,266	31,329,384
Residual cash	$473,797	$519,376	$779,064	$4,065,338	$5,837,575

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

2017	NTD (in thousands)
Period Ended	$23,312
Average	17,261
Lowest	10,712
Highest	25,516

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, 2017
Table of Stress Test

Risk Simples	Price Risk	Changes(+/-)	Changes in profit and loss NTD (in thousands)
Equity Risk	Stock index	-10%	$(232,886)
Interest Risk	Yield Curve	+100bps	(117,490)
Exchange Risk	Exchange Rate	+3%	(13,076)
Produce Risk	Price	-10%	-

(5) Financial instruments related information

A. Information of fair value

Financial assets

	Carrying value		Fair value	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Financial assets measured at fair value through profit or loss				
Held for trading				
Non-derivative financial instruments				
Open-end funds and currency market instruments	$9,657	$59,810	$9,657	$59,810
Securities held for operations, net	10,743,771	6,966,542	10,743,771	6,966,542
Derivative financial instruments				
Long options - futures	17,474	16,288	17,474	16,288
Margin for futures trading - proprietary funds	538,593	326,894	538,593	326,894
Subtotal	11,309,495	7,369,534	11,309,495	7,369,534
Available-for-sale financial assets - current	-	134,664	-	134,664
Available-for-sale financial assets - noncurrent	328,254	305,534	328,254	305,534
Subtotal	328,254	440,198	328,254	440,198
Loan and receivables:				
Cash and cash equivalents(excludes cash on hand)	3,357,166	2,314,747	3,357,166	2,314,747
Securities margin loans receivable	4,231,392	3,168,577	4,231,392	3,168,577
Guaranteed deposits for refinancing	17,667	16,994	17,667	16,994
Guaranteed proceeds receivable from refinancing	15,826	15,861	15,826	15,861
Guaranteed price deposits for security borrowing	5,510	-	5,510	-
Client margin account	3,919,834	2,973,537	3,919,834	2,973,537
Guaranteed price deposits for security borrowing	365,188	307,616	365,188	307,616
Security borrowing deposits	1,247,364	1,854,940	1,247,364	1,854,940
Receivables	4,930,046	3,964,155	4,930,046	3,964,155
Other current assets - time deposits	900,000	900,000	900,000	900,000
Operation funds	461,632	428,829	461,632	428,829
Settlement funds	224,475	211,783	224,475	211,783
Reserve fund of trust	50,000	50,000	50,000	50,000
Refundable deposits	20,641	20,693	20,641	20,693
Restricted Assets - noncurrent	18,000	-	18,000	-
Subtotal	19,764,741	16,227,732	19,764,741	16,227,732
Total	$31,402,490	$24,037,464	$31,402,490	$24,037,464

Financial liabilities

	Carrying amount		Fair value	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Financial liabilities at amortized cost				
Short-term loan	$441,199	$87,229	$441,199	$87,229
Commercial papers payables	8,528,158	5,598,838	8,528,158	5,598,838
Liabilities for bonds with repurchase agreements	2,702,157	2,339,864	2,702,157	2,339,864
Deposits received from securities borrowers	434,878	299,000	434,878	299,000
Guaranteed price deposits received from securities borrowers	485,134	329,429	485,134	329,429
Deposits for securities borrowed	283,040	33,529	283,040	33,529
Futures clients' equity	3,915,880	2,971,487	3,915,880	2,971,487
Payables	5,897,806	4,223,372	5,897,806	4,223,372
Guarantee deposits received	1,675	1,455	1,675	1,455
Subtotal	22,689,927	15,884,203	22,689,927	15,884,203
Financial liabilities measured at fair value through profit or loss				
Held for trading				
Non-derivative financial instruments				
Securities borrowing - hedging	202,671	284,643	202,671	284,643
Securities borrowing - non-hedging	1,621,765	1,460,526	1,621,765	1,460,526
Derivative financial instruments				
Liabilities for issuance of call (put) warrants	4,470,784	3,759,557	4,470,784	3,759,557
Repurchase of issued call (put) warrants	(3,626,363)	(3,484,842)	(3,626,363)	(3,484,842)
Short options - futures	25,896	15,900	25,896	15,900
Subtotal	2,694,753	2,035,784	2,694,753	2,035,784
Total	$25,384,680	$17,919,987	$25,384,680	$17,919,987

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

a. For short-term financial instruments, its carrying value shown on consolidated balance sheets 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, client margin account, securities margin loans receivable, guaranteed deposits for refinancing, guaranteed proceeds receivable from refinancing, guaranteed price deposits for security borrowing, security borrowing deposits, receivables, restricted assets - current, sommercial papers payables, liabilities for bonds with repurchase agreements, deposits received from securities borrowers, guaranteed price deposits received from securities borrowers, geposits for securities borrowed, futures clients' equity and payables.

b. For financial assets or liabilities measured at fair value through profit and loss which are not derivative instruments, their market prices should be their fair values when there are standard conditions and open quotes available in active market.

If offer prices in active market are not available, valuation method is adopted alternatively by the Company. The basis of parameter used in valuation method is derived from available data in market, such as Yield Curve, exchange rate and reference to the condition and characteristics of financial instruments, including credit rating, duration of bonds, currency and other condition and features similar to the 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 / noncurrent 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, Restricted Assets - noncurrent and deposits received are regarded as their fair value due to insignificant difference between amount received and paid in the future.

C. Fair value hierarchy

a. Definitions of fair value hierarchy

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

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

1st Level: Quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

2nd Level: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

3rd Level: Unobservable inputs for the asset or liability.

b. Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

December 31, 2017

	1st Level	2nd Level	3rd Level	Total
Non-derivative financial instruments				
Assets				
Financial assets measured at fair value through profit or loss:				
Stocks	$6,139,054	$-	$-	$6,139,054
Bonds	3,647,237	-	-	3,647,237
Others	967,137	-	-	967,137
Available-for-sale financial assets:				
Stocks	-	328,254	-	328,254
Investment property				
Land	-	-	255,381	255,381
Buildings	-	-	34,960	34,960
Liabilities				
Financial liabilities measured at fair value through profit or loss	1,824,436	-	-	1,824,436
Derivative financial instruments				
Assets				
Financial assets measured at fair value through profit or loss	556,067	-	-	556,067
Liabilities				
Financial liabilities measured at fair value through profit or loss	870,317	-	-	870,317

December 31, 2016

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

Transfers between 1st Level and 2nd Level during the period

During the years ended December 31, 2017 and 2016, there were no transfers between 1st Level and 2nd Level fair value measurements.

Reconciliation for fair value measurements in 3rd Level of the fair value hierarchy for movements during the period is as follows:

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:

December 31, 2017

	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%

December 31, 2016

	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%

Information regarding the significant unobservable inputs can be obtained from Note.6(9).

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

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:

	December 31, 2017				
Categories of financial assets	Carrying value of transferred financial assets	Carrying value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Net fair value
Financial assets measured at fair value through profit or loss					
Repurchase corporate bonds	$2,737,491	$2,702,157	$2,737,491	$2,702,157	$35,334

	December 31, 2016				
Categories of financial assets	Carrying value of transferred financial assets	Carrying value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Net fair value
Financial assets measured at fair value through profit or loss					
Repurchase corporate bonds	$2,375,207	$2,339,864	$2,375,207	$2,339,864	$35,343

(7) Offsetting of financial assets and financial liabilities

The Group 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:

December 31, 2017

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet (d)		
Item	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash collateral pledged	Net amount (e)=(c)-(d)
Repurchase corporate bonds	$2,702,157	$-	$2,702,157	$2,702,157	$-	$-

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

December 31, 2016

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

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:

	December 31, 2017		
	Foreign Currency	Exchange Rate	NT$
Financial Assets			
Monetary Items			
USD	$57,122	29.848	$1,704,931
HKD	356,339	3.777	1,345,891
Financial Liabilities			
Monetary Items			
USD	$39,701	29.848	$1,184,988
HKD	266,566	3.777	1,006,818
Foreign currency exchange gains or (losses)			(20,026)

	December 31, 2016		
	Foreign Currency	Exchange Rate	NT$
Financial Assets			
Monetary Items			
USD	$45,767	32.279	$1,477,300
HKD	216,635	4.128	894,269
Financial Liabilities			
Monetary Items			
USD	$32,696	32.279	1,055,378
HKD	99,265	4.128	409,765
Foreign currency exchange gains or (losses)			(12,153)

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 segment of the Group

A. The futures dealing segment of the Company

Accordance with: "Regulations Governing Futures Commission Merchants"

No.	Calculation formula	December 31, 2017		December 31, 2016		Standard	Execution
		Calculation formula	Ratio	Calculation formula	Ratio		
17	Total Equity / Total Liabilities－Futures traders' equity	$1,278,926 / $861,418	1.48 Times	$1,246,555 / $214,048	5.82 Times	≧1	Compliance
17	Total Current Assets / Total Current Liabilities	$2,123,057 / $43,749	48.53 Times	$1,444,486 / $32,393	44.59 Times	≧1	〃
22	Total Equity / Common stock	$1,278,926 / $400,000	319.73%	$1,246,555 / $400,000	311.64%	(1) ≧60% (2) ≧40%	〃
22	ANC / Total Customer margin accounts after offset Futures traders' equity	$1,018,320 / $485,143	209.90%	$1,111,050 / $225,678	492.32%	(1) ≧20% (2) ≧15%	〃

B. Cathay Futures (the Subsidiary)

Accordance with: "Regulations Governing Futures Commission Merchants"

No.	Calculation formula	December 31, 2017		December 31, 2016		Standard	Execution
		Calculation formula	Ratio	Calculation formula	Ratio		
17	Total Equity / Total Liabilities－Futures traders' equity	1,172,542 / 44,809	26.17 Times	1,129,792 / 38,027	29.71 Times	≧1	Compliance
17	Total Current Assets / Total Current Liabilities	5,454,433 / 5,148,201	1.06 Times	4,122,393 / 3,832,278	1.08 Times	≧1	〃
22	Total Equity / Common stock	1,172,542 / 600,000	195.42%	1,129,792 / 600,000	188.30%	(1) ≧60% (2) ≧40%	〃
22	ANC / Total Customer margin accounts after offset Futures traders' equity	757,061 / 754,498	100.34%	717,933 / 392,420	182.95%	(1) ≧20% (2) ≧15%	〃

(10) Trust business under the Trust Enterprise Act

A. According to Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet and the statement of income of trust business and trust property catalog of the Company are as follows:

a. Balance sheet of trust business

The Company's trust assets (liabilities) were both $0 in thousand for years ended December 31,2017 and 2016.

b. Income statement of trust business

	2017	2016
Revenues	$3	$-
Expenses	-	-
Income before tax	3	-
Income tax	-	-
Net income	$3	$-

c. Trust Property catalog

The Company did not has any trust assets for the years ended December 31, 2017 and 2016.

B. The trust capital consigned to the Company was set up as an independent account and the financial statements were prepared separately. The consigned assets and gains or losses of consigned assets are not included in the Company's financial statements

13. Capital management

(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.