Yuanta Securities Finance Co., Ltd.

2016 Annual Report

1. Contact information of company spokesperson and deputy spokesperson

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

2. Contact information of YSF

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

3. Contact information of stock transfer agent

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

4. Contact information of credit rating agency

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

5. Contact information of independent accountants

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

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

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I. Letter to Shareholders

1. Business report for the 2016 fiscal year

A. Business plan and accomplishments.

Margin trading remains the Company's core business. However, since securities firms were permitted to process margin trading and short sale operations, the market share of margin trading and short sale services provided by securities finance companies has been declining year by year. Therefore, in order to deal with the declining earnings from margin trading and short sale, the Company will work hard to develop secured loan operations and identify such operations as the Company's core business. Meanwhile, the Company will continue to enhance risk early-warning function, reduce loan risk, uphold a passionate for ethical and reciprocal management and be dedicated to serving its agency securities firms to seek maximum earnings for the Company.

In 2016, the structure of the securities financial agency market remained unchanged. Notwithstanding, the securities market fluctuated drastically and suffered turmoil. Investors lacked confidence and it was difficult to expand the turnover. The margin trading balance in the market stayed low and the margin trading balance of Yuanta Securities Finance remained about NT$7 billion Notwithstanding, the market share of Yuanta Securities Finance in the agency securities raised to 80% approximately.

The competent authority approved the company to engage in secured loans in February 2016. Listed stocks may also be furnished as collateral without pledge. The Company's operations for this business became more convenient and competitive than applications for secured loan with pledge by banks. Secured loans will still be the first priority business in 2017. It is expected that the proportion of this business's volume and gross operating profit will reach 50% or more in the future. Our business accomplishments are as follows:

Unit: Hundred million NT$

Average balance of margin purchases and re-financing	Average balance of short sales and stocks re-financing (guarantee fund + margin)	Average balance of secured loan
70.57	18.12	51.54

B. Financial income and expenses / profitability analysis

The decrease in operating revenue by 12.19% in 2016 was a result of the decrease in average margin purchases balance decreased by NT$2.938 billion, i.e. the decrease rate by 29.39%. Further, the secured loan average balance was NT$5.154 billion, i.e. the increase rate by 1,005.74%. Due to the decrease in the agent fees, the operating cost decreased by 19.27%. The operating expenses decreased by 7.25%, and operating gain decreased by 10.18%. In addition, the non-operating revenue and expense decreased by 25.98% as a result of the decrease in gains from disposition of available-for-sale financial assets from 2015. The net profit after tax decrease by 20.56% in 2016. Please see the following table:

Years	Total assets (thousand dollars)	Total income (thousand dollars)	Net income (thousand dollars)	EPS(NT$)
2015	17,646,596	817,069	390,848	0.78
2016	21,895,351	691,307	310,489	0.70

C. Research and development

The highlights of development are stated as following:

(1) Work hard to develop secured loan operations, develop both the intergroup and external channels, visit major listed/OTC shareholders who require funds, and further solicit for related business opportunities and new customers.

(2) Continue to implement stage II information platform cooperation program and strengthen securities trader information services to solidify relationships with agent broker and increase the market share of securities finance industry.

(3) Suggest the competent authorities to allow new business types and lift the restrictions imposed by laws and regulations.

2. Summary of business plan for the 2017 fiscal year

A. Business plan

(1) Continue to implementstage II information platform, cooperation program, and strengthen agency securities information services to ensure that the Company's agent services are indirectly benefited. Rely on various seminars and service packages supporting agents to strengthen the competitiveness of agents, and consolidate relationships.

(2) Track market information, strengthen analysis of the market share, income, and costs of each business location, and flexibly adjust its competition strategy.

(3) To be in line with two-way securities borrowing/lending, promote securities borrowing/lending operations in a flexible manner; develop proprietary securities traders, foreign institutional investors, and corporations who need new arbitrage and hedging, and also look for new sources of securities to be lent.

(4) Develop secured loan operations via both the intergroup and external channels, visit major listed/OTC shareholders who require funds and also the general investors who hold securities and need short-term working fund badly, and simultaneously plan pages on such mobile device as network or mobile phone to help customers with search and operation.

(5) Exert Yuanta Financial Holdings' synergy: Solicit for securities agents as channels, e.g., sub-brokerage, futures IB and co-marketing of funds and secured loan, etc.

(6) Save operating cost and expenses, and enhance operating profit margin.

(7) Strictly manage credit risk, reinforce the implementation of risk control and quota mechanism, ensuring that risk control, and sales growth develop in parallel.

B. Expected 2017 Business Status of Operations

Unit: Hundred million NT$

Average balance of margin purchases and re-financing	Average balance of short sales and stocks re-financing (guarantee fund + margin)	Average balance of secured loan
68.075	17.16	85

3. Future development strategies of the company

A. Seek new business opportunities for securities finance companies and strive for various business opportunities from the competent authority.

B. Solidify securities finance companies' position in the capital market, and work hard to apply with the competent authority for lifting of the relevant laws and regulations positively.

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

Margin loans still remains the Company's core business. However, since securities firms were permitted to process margin trading and short sale operations, the market share of margin trading and short sale services provided by securities finance companies has been declining year by year. In 2016, there were only two agent broker run securities finance operations by themselves and one merging and acquiring business locations. All these developments only slightly affected the Company's market share of margin trading and short sale. In order to deal with the declining earnings from margin trading and short sale, the Company will work hard to develop secured loan operations and identify such operations as the Company's core business. The major competitor of this business refers to the bank loan secured by stock. The Company targets major listed/OTC shareholders who require funds and the general investors who hold securities and need short-term working fund badly. The Company also plans pages on network or mobile phone to help customers to provide customers with a more convenient and effective business model and to satisfy different customers' need for fund. Meanwhile, the competent authority approved in February 2016 that listed stocks may be furnished as collateral without pledge. The Company's operations for this business became more convenient and competitive than applications for secured loan with pledge by banks and, therefore, upgraded the Company's opportunities for seeking profit.

II. Company Profile

1. Date of establishment

Date founded: March 10, 1980

Date of incorporation: April 21, 1980

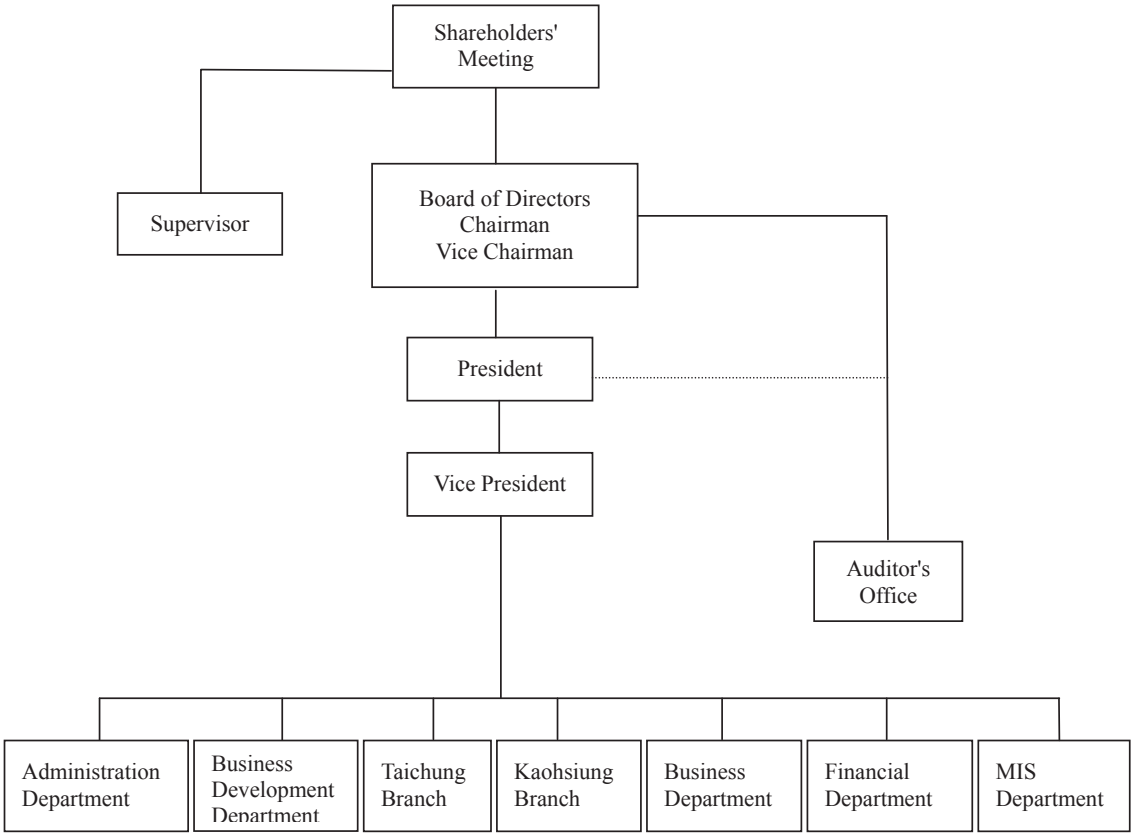
2. Company milestones

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

III. Corporate Governance Report

1. Organizational system

A. Organization chart



B. Operating business of the various major departments

(1) Administration Department: Handles board affairs, human resources, general affairs, cashiering, clerical duties, custodial, security protection, and share affairs, etc.

(2) Business Development Department: Handles planning, analysis, estimation and evaluation of the Company's overall business, business expansion, legal matters, litigation, debt settlement, recovery and legal advisory service, and information services of agency, etc.

(3) Business Department: Credit transaction account processing, margin purchases and short sales of securities and securities refinancing, cash replenishment and underwriting securities financing, securities underwriter financing, securities settlement financing, securities lending financing , securities secured loans, risk control management, etc.

(4) Financial Department: Handles financial management, financial scheduling, accounting, "undertaking" government debentures trading, and management of reinvestment business.

(5) MIS Department: Handles the planning, design and implementation of the company's various business data processing affairs.

(6) Auditor's Office: Audit all internal business divisions.

(7) Branches: Operates and expands business in the company's respective business locations.

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

A. Information on directors and supervisors

Feb. 28, 2017

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

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

Note: 1. Yuanta Financial Holdings holds all company shares, and assigns all directors and supervisors; the 13th term of directors and supervisors started from 2016.06.01 and will end on 2019.05.31.
2. The Company elected Mr. Huang Ting-hsien as the Chairman of Board on June 1, 2016.
3. The number of shares held while elected is based on the Yuanta Financial Holdings shares held on 2016.06.01.
4. The date elected is the date that the director or supervisor first takes office.

(1) Main institutional shareholders

Feb. 28, 2017

Institutional Shareholders	Main Shareholders of Institutional Shareholders	
Yuanta Financial Holdings	Tsun Chueh Investment Co., Ltd.	3.34%
	Yuan Hung Investment Co., Ltd.	2.91%
	Yuan Hsiang Investment Co., Ltd.	2.46%
	Yu Yang Investment Co., Ltd.	2.40%
	Dedicated investment account managed by Mega International Commercial Bank on behalf of FDT Securities Limited	2.38%
	Bank of Taiwan Co., Ltd.	2.01%
	Lian Da Investment Co., Ltd.	1.96%
	Singapore Government's investment account held in custody by Citibank (Taiwan)	1.77%
	Fiduciary trust property accounts of Yuanta bank	1.65%
	Richcorp International Limited	1.58%

Note: Data relating to the top ten shareholders was based on the ex-right date by Yuanta Financial Holdings (2016.7.19).

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

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Institutional Shareholders	Main Shareholders of Institutional Shareholders	
Tsun Chueh Investment Co., Ltd.	Teng Ta Investment Co. Ltd.	19.69%
	Lian Da Investment Co., Ltd.	19.84%
	Chiu Ta Investment Co., Ltd.	18.36%
	Lien Heng Investment Co., Ltd.	18.92%
	Hsing Tsai Investment Co., Ltd.	10.23%
	Ma Wei-Jian	8.27%
	Du Li-Chuang	4.69%
Yuan Hung Investment Co., Ltd.	Mei Chia Li Investment	45.88%
	Lien Heng Investment Co., Ltd.	33.74%
	Teng Ta Investment Co. Ltd.	15.38%
	Du Li-Chuang	5.00%
Yuan Hsiang Investment Co., Ltd.	Lian Da Investment Co., Ltd.	44.38%
	Lien Heng Investment Co., Ltd.	19.00%
	Teng Ta Investment Co. Ltd.	18.69%
	Chiu Ta Investment Co., Ltd.	9.96%
	Du Li-Chuang	5.01%
	Hsing Tsai Investment Co., Ltd.	2.96%
Yu Yang Investment Co., Ltd.	Tsun Chueh Investment Co., Ltd.	100%
Dedicated investment account	Not applicable	

Institutional Shareholders	Main Shareholders of Institutional Shareholders	
managed by Mega International Commercial Bank on behalf of FDT Securities Limited		
Bank of Taiwan Co., Ltd.	Taiwan Financial Holdings Co., Ltd.	100%
Lian Da Investment Co., Ltd.	Chiao Hua International Investment Co., Ltd.	45.79%
	Lien Heng Investment Co., Ltd.	37.14%
	Chiu Ta Investment Co., Ltd.	14.02%
	Hsing Tsai Investment Co., Ltd.	2.58%
	Du Li-Chuang	0.47%
Singapore Government's investment account held in custody by Citibank (Taiwan)	Not applicable	
Fiduciary trust property accounts of Yuanta bank	Not applicable	
Richcorp International Limited	Hsing Tsai Investment Co., Ltd.	26.11%
	Lien Heng Investment Co., Ltd.	19.22%
	Lian Da Investment Co., Ltd.	19.00%
	Yuan Hsiang Investment Co., Ltd.	18.97%
	Chiu Ta Investment Co., Ltd.	7.91%
	Modern Investment Co., Ltd.	2.88%
	Teng Ta Investment Co. Ltd.	1.37%

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

Data baseline date: Feb 28, 2017

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

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

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

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

Feb. 28, 2017

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

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date elected (taken office)	Shares held		Shareholdings of spouse and underage children		Shareholding using other's name		Education and selected past positions (Note 2)	Concurrent position at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Senior Manager of Administration Department	Republic of China	Lin, Shu-Hsiu	F	2016.03.22	—	—	—	—	—	—	Department of Business, National Open University The Company's manager, assistant vice president, assistant manager and section manager	Assistant Manager of Administration Department and also Assistant Manager of Secretariat of Yuanta Financial Holdings			
Supervisor of Auditor's Office	Republic of China	Cheng Shu-Chin	F	2010.05.01	—	—	—	—	—	—	Master's degree, Fo Guang University; Assistant Manager of Yuanta Securities; Manager of Fuhwa Securities; Manager of Shinong Securities.	—	—	—	—
Senior assistant vice president of Taichung branch	Republic of China	Liu Ying-Shi	M	2002.07.01	—	—	—	—	—	—	Industrial Management, Vanung University, Manager of the company's Taichung and Kaohsiung branch, Designer of the Taxation Center of Ministry of Finance	—	—	—	—
Manager of Kaohsiung branch	Republic of China	Chen Chi-Ping	M	2006.11.01	—	—	—	—	—	—	National Cheng chi University Department of Public Administration, Senior Assistant Manager, Assistant Manager and Section Chief of the Company.	—	—	—	—
Former Assistant Vice-president of Administration Department	Republic of China	Lin Tseng-Chun	M	2007.09.23	—	—	—	—	—	—	Department of Business Administration, National College of Business, Assistant Vice President of the Administration Department of Yuanta Securities; Senior Manager , Manager and Section Chief of the Company.	Assistant Vice-president of the Administration Department of Yuanta Financial Holdings	—	—	—

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

2. The former assistant vice president of Administration Department of the Company, Mr. Lin Tseng-Chun, resigned on March 22, 2016, and was succeeded by the senior manager of Administration Department, Ms. Lin Shu-Hsiu.

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

A. Remuneration to directors

Title	Name	Directors' remuneration								Sum of A, B, C and D as percentage of net income after tax		Remuneration to concurrent employees								Sum of A, B, C, D, E, F and G and that sum as percentage of net income after tax		Remuneration from investment in a non-subsidiary enterprise
		Wages (A)		Severance and retirement payments (B)		Directors' remuneration (C)		Service expenses (D)				Wages, bonuses, and special allowance, etc. (E)		Severance and retirement payments (F)		Employee bonuses from distribution of earnings (G)						
																The company		Consolidated subsidiaries				
		The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries (Note 8)	Cash bonuses	Stock bonuses	Cash bonuses	Stock bonuses	The company	Consolidated subsidiaries	
Chairman	Yuanta Financial Holdings statutory representative: Huang Ting-Hsien	7,020,160	7,020,160	-	-	-	-	1,155,333	1,155,333	2.63%	2.63%	4,919,101	4,919,101	-	-	139,354	-	139,354	-	4.26%	4.26%	None
Director	Yuanta Financial Holdings statutory representative: Chuang Yu-De																					
Director	Yuanta Financial Holdings statutory representative: Hong Rong-Ting																					
Director	Yuanta Financial Holdings statutory representative: Kuo Hsuan- Min																					
Director	Yuanta Financial Holdings statutory representative: Liu Ming-Lang																					
Former Director	Yuanta Financial Holdings statutory representative: Peng Yi-Cheng																					

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

Range of remuneration

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

B. Remuneration to supervisors

Title	Name	Supervisors' remuneration						Sum of A, B, C and that sum as percentage of net income after tax		Remuneration from investment in a non-subsidiary enterprise
		Wages (A)		Allocated from distribution of earnings (B)		business execution expenses (C)				
		The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	
Supervisor	Yuanta Financial Holdings statutory representative: Liao Yueh-Jung	—	—	—	—	416,800	416,800	0.13%	0.13%	None
Supervisor	Yuanta Financial Holdings statutory representative: Chu Wen-Ching									
Former Supervisor	Yuanta Financial Holdings statutory representative: Chang Tsai-Yu									

Range of remuneration

Breakdown of remuneration to supervisors Units: NT$	Supervisors	
	Sum of foregoing three items (A+B+C)	
	The company	All companies in the consolidated statement (D)
Below 2,000,000	Liao Yueh-Jung, Ciou Wun-Cing, Chang Tsai-Yu	Liao Yueh-Jung, Ciou Wun-Cing, Chang Tsai-Yu
2,000,000 (inclusive) - 5,000,000		
5,000,000 (inclusive) - 10,000,000		
10,000,000 (inclusive) - 15,000,000		
15,000,000 (inclusive) - 30,000,000		
30,000,000 (inclusive) - 50,000,000		
50,000,000 (inclusive) - 100,000,000		
Over 100,000,000		
Total	Liao Yueh-Jung, Ciou Wun-Cing, Chang Tsai-Yu	Liao Yueh-Jung, Ciou Wun-Cing, Chang Tsai-Yu

C. Remuneration to the president and vice presidents

Title	Name	Wages (A)		Severance and retirement payments (B)		Bonuses and special allowances (C)		Employee bonuses from distribution of earnings (D)				Sum of A, B, C, D and that sum as percentage of net income after tax %		Remuneration from investment in a non-subsidiary enterprise
								The company		Consolidated subsidiaries				
		The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	Cash dividend amount	Stock dividend amount	Cash dividend amount	Stock dividend amount	The company	Consolidated subsidiaries	
President	Hong Rong-Ting	4,919,101	4,919,101	–	–			135,394	–	135,394	–	1.63%	1.63%	None

Note：President have been assigned a corporate Vehicle.

Range of remuneration

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

D. Employee Bonus Allotment to Managers

February 28, 2017

	Title	Name	Stock dividend amount	Cash dividend amount	Total	Percentage of total amount to net profits after tax (%)
Managers	President	Hong Rong-Ting	-	341,675	341,675	0.11%
	Senior Assistant vice president of Finance Department	Hu Yi-Heng				
	Senior manager of Administration Department	Lin, Shu-Hsiu				
	Assistant Vice-president of MIS Department	Chen Ying-Ling				
	Assistant vice president of Business development Department	Wang Chia-Hsiang				
	Senior Manager of Business Department	Huang Shi- Chun				
	Supervisor of Auditor's Office	Cheng Shu-Chin				
	Senior assistant vice president of Taichung branch	Liu Ying-Shi				
	Manager of Kaohsiung branch	Chen Chi-Ping				
	Former Assistant Vice-president of Administration Department	Lin Tseng-Chun				

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

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

(1) Ratio of total amount to the net profits after tax of remuneration to Director(s), Supervisor(s), President and Vice-President(s):
Ratio of total amount to the net profits after tax of remuneration to director(s), supervisor(s), President and Vice-President(s) was around 3.58% in 2015; and around 4.40% in 2016.

(2) The relationships between the policy, standard, and combination of remuneration, remuneration establishment procedure and operating performance:
The remuneration to directors, supervisors, presidents and vice presidents, is in accordance with the regulations of Articles of Incorporation, and considers the company's operating performance and relevant reward bonus measures. The Company's net profits after tax in 2016 was NT$310,489 thousand, about 79.44% the net profits after tax in 2015 (NT$390,848 thousand). Due to the decrease in net profits after tax, the total remuneration to directors, supervisors, presidents and vice presidents decreased slightly, but the percentage of the total remuneration to net profits after tax of the Company increased slightly.

4. State of corporate governance

A. Operation of the Board of Directors

A total of 13 (A) board meetings were held in 2016; the attendance of Directors and Supervisors is listed below:

Title	Name	Actual Attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note 2)	Remarks
Chairman	Huang Ting-hsien	13	0	100	
Director	Chuang Yu-De	13	0	100	
Director	Hong Rong-Ting	12	1	92	
Director	Kuo Hsuan- Min	13	0	100	
Director	Liu Ming-Lang	8	0	100	Appointed on June. 1, 2016; a total of 8 board meetings were held during active duty
Supervisor	Chu Wen-Ching	7	0	88	Appointed on June. 1, 2016; a total of 8 board meetings were held during active duty
Supervisor	Liao Yueh-Jung	13	0	100	
Former Director	Peng Yi-cheng	4	1	80	Resigned on June. 1, 2016; a total of 5 board meetings were held during active duty.
Former Supervisor	Chang Tsai-Yu	3	0	60	Resigned on June. 1, 2016; a total of 5 board meetings were held during active duty.

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

2.Baseline date: December 31, 2016.

Other required Items:

1. Where the operation of the board of directors meets any of the following circumstances, the minutes concerned shall clearly state the meeting date, term, contents of motions, opinions of all independent directors and the Company's resolution of said opinions:
   A. The circumstances referred to Article 14-3 of the Securities and Exchange Act.
      The board of directors did not meet the circumstances referred to herein.
   B. Any other resolution(s) passed but with independent directors voicing opposing or qualified opinions on the record or in writing.
      None. The Company does not have independent directors.
2. In instances where a director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director's name, contents of the proposal and resolution thereof, reason for not voting and actual voting counts:
   A. The 30th Meeting of the 12th Board of Directors on January 26, 2016
      Motion for resolution of the multiples of the Chairman's year-end performance bonus to the president's.
      Resolution: a. Chairman Huang Ting-Hsien rescued himself from the resolution due to a potential conflict of interest. Hong Rong-Ting was the chair person during the voting.
      b. Apart from the interested party, who rescued himself, the remaining directors present agreed to pass the motions.
   B. The 32nd Meeting of the 12th Board of Directors on March 22, 2016
      Motion for allocation of remuneration to employees 2015 proposed to meet the need of management.
      Resolution: Director Hong Rong-Ting rescued himself from the resolution due to a potential conflict of interest. The resolution was approved by all of the other directors in attendance.
   C. The 32nd Meeting of the 12th Board of Directors on March 22, 2016
      Recommend the Chairman's first half year of performance bonus was multiples than president's.
      Resolution: Director Chuang Yu-De rescued himself from the resolution due to a potential conflict of interest. The resolution was approved by all of the other directors in attendance.
   D. The 2nd Meeting of the 13th Board of Directors on June 28, 2016
      Motion for raise granted to President Hong Rong-Ting to meet the need of management
      Resolution: Director Hong Rong-Ting rescued himself from the resolution due to a conflict of interest. The resolution was approved by all of the other directors in attendance.
   E. The 2nd Meeting of the 13th Board of Directors on June 28, 2016
      To deal with the raise of the Company's president, suggest that the Chairman's salary and bonus should be adjusted and multiple of the Chairman's salary and bonus to the president's should be set, in accordance with Article 17 of the Company's Articles of Incorporation.
      Resolution: a. Chairman Huang Ting-Hsien rescued himself from the resolution due to a potential conflict of interest. Chuang Yu-De was the chair person during the voting.
      b. Apart from the interested party, who rescued himself, the remaining directors present agreed to pass the motions.
   F. The 3rd Meeting of the 13th Board of Directors on June 28, 2016
      Motion for amendments to the Company's "Regulations Governing Severance Pay of Chairman and Vice Chairman" proposed to meet the need of management.
      Resolution: a. Chairman Huang Ting-Hsien rescued himself from the resolution due to a potential conflict of interest. Hong Rong-Ting was the chair person during the voting.
      b. Apart from the interested party, who rescued himself, the remaining directors present agreed to pass the motions.
   G. The 8th Meeting of the 13th Board of Directors on December 27, 2016
      Motion for sale of shares of TDCC invested by the Company to the interested parties, Yuanta Securities and Yuanta Asset Management.
      Resolution: a. Director Liu Ming-Lang rescued himself from the resolution due to a potential conflict of interest. The resolution was approved by all of the other directors in attendance.
      b. According to Article 15 of the Company's "Procedure for Acquisition and Disposal of Assets", the Company asked Supervisor Ciou Wun-Cing for his recognition of the motion related to Yuanta Securities, and asked Supervisor Liao Yueh-Jung for his recognition of the motion related to Yuanta Asset Management.
   H. The 8th Meeting of the 13th Board of Directors on December 27, 2016
      Approved the Company to renew the "Securities Investment Consulting Appointment contract" with Yuanta Securities Investment Consulting.
      Resolution: Director Kuo Hsuan-Min recused himself from the resolution due to a potential conflict of interest. The resolution was approved by all of the other directors in attendance.
3. Measures undertaken during the current year and past year in order to strengthen the functions of the board of directors (such as the establishment of an audit committee and improvement of information transparency, etc.) and assessment of their implementation: None.

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

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

(2) Supervisor attendance of board meetings:

A total of 13 (A) board meetings were held in the most recent year (2016) and the attendance records of the supervisor(s) are listed below:

Title	Name	Actual Attendance (B / A)	Attendance by proxy	Attendance rate (%) (B / A) (note)	Remark
Supervisor	Yuanta Financial Holdings statutory representative: Ciou Wun-Cing	7	0	88	Appointed on June. 1, 2016; a total of 8 board meetings were held during active duty
Supervisor	Representative of Yuanta Financial Holdings Co. Ltd: Liao Yueh-Jung	13	0	100	
Former Supervisor	Representative of Yuanta Financial Holdings Co. Ltd: Chang Tsai-Yu	3	0	60	Resigned on June. 1, 2016; a total of 5 board meetings were held during active duty

Other required Items:

1. Supervisor composition and duties:
   A. Communication between supervisors, company employees and shareholders:
      In order to establish solid supervisory functions for the board of directors and supervisors, a suggestion and complaint mailbox has been set up on the website for use in receiving and handling major deficiencies, fraud and corruption cases and accepting suggesting and complains that can assist with Company business management and development in order to promote smooth communication between the board of directors and employees, investors and interested parties.
   B. Communication between supervisors, internal audit supervisors and CPAs (for example communication items, methods and results regarding company finances and sales conditions):
      (1) Engaged in the communication with CPAs for one time at the end of 2016, and notified the communication with the unit dedicated to corporate governance in writing to supervisors upon the audit.
      (2) According to Article §16 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", After the submission of the audit report and follow-up reports, the completed audit items are passed to the supervisors for checking and the audit supervisor review the internal control system deficiencies before the end of the following month.
      (3) Audit supervisors should review the deficiencies of internal control system and have a regular annual meeting with the person-in-charge (director, supervisor) and minutes are kept of the meeting.
2. B. If the supervisor states an opinion at a board meeting, record the date, term, resolution contents, director resolution results and how the opinion stated by the supervisor is handled by the board: None.

Note：1. The attendance rate (%) is calculated by dividing the actual attendance by the total of number of meetings held during the period.
2. Baseline date: December 31, 2016.

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

Scope of assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
1. Whether the company has followed "Corporate Governance Best-Practice Principle for Financial Holding Companies" and discloses information?	V		The company has established corporate governance best practice principles in accordance with regulations. On the home page of the company's website, the "Corporate Governance" section discloses information related to the operations of corporate governance at the company.	There was no significant departure in this respect.
2. Equity structure and shareholders' rights of the company				
(1) Whether the company has defined some internal operating procedure to deal with suggestions, questions, disputes and legal actions from shareholders, and implemented the procedure?		V	(1) Yuanta Financial Holdings is the sole shareholder of the company; therefore, the company doesn't have this problem.	N/A.
(2) Whether the company controls the financial holding company's major shareholders and who are their ultimate owners?	V		(2) Yuanta Financial Holdings is the sole shareholder of the company. The only major shareholder with control over the company is Yuanta Financial Holdings.	There was no significant departure in this respect.
(3) Whether the company establishes or implements some risk control and firewall mechanisms between the Company and its affiliates?	V		(3) a. The company followed the Yuanta Financial Holdings has established a "Risk Management Department" being responsible for supervising and implementing risk management measures. Each subsidiary has an independent risk management unit in place, depending on their respective sizes and risk attributes, to monitor the various risks involved. b. The company has complied with Articles 44 and 45 of the Financial Holding Company Act, regarding credit and non-credit transactions with stakeholders. In order to ensure proper financial dealings with affiliates, while preventing inappropriate channeling of corporate interests and non-arms length transactions, asset disposals, or loans etc with related parties, the company has established a set of policies to govern financial dealings among affiliates and non-credit authorizations to stakeholders as means of control.	There was no significant departure in this respect.
(4) Whether the company stipulated internal regulations to prohibit company insiders from trading securities using	V		(4) The company has promulgated "Regulations Governing Insiders for Securities Trading" to prohibit company	There was no significant departure in this respect.

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

Scope of assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
6. Whether the company entrusted a professional stock agency to handle businesses of the shareholder's meeting?	V		(1) Yuanta Financial Holdings is the sole shareholder of the company, according to the Company Act and the Financial Holding Company Act, the functional duties and power of the shareholder's meeting of such company shall be exercised by its board of directors. (2) The company has authorized Yuanta Securities Co., Ltd. to handle businesses in connection with stock affairs.	There was no significant departure in this respect.
7. Information Disclosure (1) Whether the company establishes a corporate website to disclose information concerning financial affairs and corporate governance?	V		(1) On the home page of the company's website, the "About Yuanta Securities Finance " section provide financial information; the "Corporate Governance" section discloses information related to the operations of corporate governance at the company; the home page of the company's website, the "Our Business" and "Business-related regulations" section provide business information.	There was no significant departure in this respect.
(2) Whether the company has undertaken other information disclosure channels (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, the broadcasting of investor conferences via the Company website and etc.)?	V		(2) The company has appointed a spokesperson and an acting spokesperson. Information such as monthly revenue is posted on the Market Observation Post System and annual reports and financial reports are made available on the company's website.	There was no significant departure in this respect.
8. Whether the company has other important information enabling a better understanding of the Company's corporate governance (including but not limited to employee rights and interests, employee care, investor relations, suppliers, stakeholders' rights and interests, continuing education of directors and supervisors, implementation of risk management policies and risk measurement criteria, implementation of customer policy, purchase of liability insurance by the Company for directors and supervisors and etc.)?	V		(1) Employee rights and interests: a. The company's human resources management mechanisms all comply with labor laws and regulations, and strive to realize employees' potential, enhance employees' on-the-job competitiveness and market value, and create a win-win situation for labor and management by safeguarding employees' legitimate rights and interests and encouraging a positive attitude toward corporate sustainability. b. Annual employee bonuses are reviewed and apportioned by the board of directors on the basis of the relative proportions specified in the articles of incorporation, allowing employees to share in the company's performance.	There was no significant departure in this respect.

Scope of assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
			(2) Employee care: This company cares about the physical and mental health and balance of its employees; it encourages employees to cultivate varied interests, and invests in employees through education and training, group insurance, employee shareholding trusts, and health check-ups, realizing care of employees and providing an outstanding working environment. (3) Investor relations and stakeholders interests: In its “Corporate Governance Best-Practice Principles," the company has defined the contents of investor relations and stakeholders' interests. These principles are implemented in day to day business and focus on the following aspects: a. The company maintains open channels of communication with investors, and respects and protects their legal rights. b. Taking advantage of the convenience of the Internet, the company has established a website, which carries information on financial affairs and corporate governance for reference by shareholders and stakeholders. (4) Suppliers: The company has adopted rules providing inquiries for interested party’s transaction in the “Record of Price Negotiation”, and required suppliers to provide ethical undertaking records where necessary to comply with the regulation of procurement. (5) Continuing education of directors’ and supervisors’: See page 42 “Schedule” (6) Implementation of risk management policy and risk measurement criteria: The company followed the Yuanta Financial Holdings, promote an appropriate risk management-oriented business model, achieve operational targets and increase shareholder value. The company has also set up risk management mechanisms for its subsidiaries based on their operational scale and risk level; within the management	

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

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

E. Implementation of social responsibility:

Scope of assessment	Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	Summary	
1. Exercising Corporate Governance				
(1) Whether the Company has defined corporate social responsibility policies within the Company; the progress and effectiveness of such policies?		V	(1) The company followed The Yuanta Financial Holdings approved "Corporate Social Responsibility Best Practice Principles" and approved "Corporate Social Responsibility Policy and Management Rules" of the actual operational situation.	There was no significant departure in this respect.
(2) Whether the Company organizes any corporate social responsibility education and training program periodically?	V		(2) The company held regular corporate ethics courses as means of promoting regulatory awareness. Employees were tested to ensure their understand towards the relevant regulations, thereby ensuring compliance and in various business activities.	There was no significant departure in this respect.
(3) Whether the Company establishes a dedicated unit (concurrently engaged in) to promote corporate social responsibility under supervision by the high-rank management authorized by the Board of Directors who shall be responsible for reporting the status thereof to the Board of Directors?		V	(3) The Company didn't establishes a dedicated unit.	N/A.
(4) Whether the Company has defined some reasonable compensation policy, integrated corporate social responsibility with employees' performance evaluation, and established some clear and effective reward/disciplinary system?	V		(4) The company conducted a payroll scale on the basis of diverse positions, and formulated applicable regulations of reward and bonus. At the same time, the company has established regulations such as, the "Codes of Ethics Conduct", "Ethical Management Principles" and the "Guidelines for Employee Reward and Discipline" in accordance with the policy of social responsibility. Should an employee's conduct violate these norms, the violation will be reported and punished depending on the severity of the circumstances and be incorporated into the performance appraisal system.	There was no significant departure in this respect.
2. Fostering a Sustainable Environment				
(1) Whether the Company enhances to upgrade the efficient use of available resources, and the use of environmental-friendly materials?	V		(1) The company's measures to raise resource utilization efficiency and its use of renewable materials are explained below: a. We recycle and reuse energy-intensive articles. This includes advocating and promoting the recycling and reuse	There was no significant departure in this respect.

Scope of assessment	Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	Summary	
			of paper products, the use of recycled paper and resource recycling as well as execution status reporting. b. We properly dispose of waste. This includes advocating and promoting waste sorting and reduction, waste water treatment. c. We use low energy, green energy office supplies and machines. At the time of procurement whether the above mentioned type of products are available to raise usage of such products.	
(2) Whether the Company establishes environmental policies suitable for the Company's industry characteristics?	V		(2) The headquarters building's management committee functions as a dedicated environmental management unit to establishes and change environmental policies suitable. Research and implementation of building's lessee from time to time.	There was no significant departure in this respect.
(3) Whether the Company is aware of how climate changes impact business operations, or conducts investigation on greenhouse gases, or defines some energy saving and carbon/greenhouse gas reduction strategies?	V		(3) Regarding the establishment of environment management systems and dedicated units for environment management (Including water conservation, energy conservation, carbon and greenhouse gas reduction, we have taken the following measures): The Company has implemented the ISO 14064-1 Greenhouse Gas Investigation System since the end of 2016, and acquired the international certification in Q2 of 2017. a. We follow the regulations for (1) air conditioning temperatures in office buildings, (2) drinking water inspection, and (3) replacement of electricity-saving lights, and (4) procurement of green power. b. The corporate headquarter building already complies with a number of green building regulations c. In order to realize water conservation, energy conservation, carbon and greenhouse gas reduction, we regularly report the outcome of conservation measures for water, electricity and other items of energy consumption. d. Smoking is completely prohibited inside our offices. Smokers must use designated outdoor places. In order to meet regulations we regularly carry out disinfection, rodent and insect control.	There was no significant departure in this respect.

Scope of assessment	Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	Summary	
3. Preserving Public Welfare				
(1) Whether the Company establishes the related management policies and procedures in accordance with the relevant laws and international human right conventions?	V		(1) Based on labor laws and regulations we have established work rules and related personnel management guidelines to prohibit discrimination toward job seekers or employees in terms of race, belief, religion, political party, native place, place of birth, gender, sex orientation, age and marriage, in order to establish an employment equality environment and protect employee rights. Meanwhile, we also called a labor and employer meeting periodically to facilitate communication between both parties and harmonize the relationship between laborers and employer.	Except the sub-paragraph (9), there was no departure in this respect. For the relevant departures, please see the Remarks.
(2) Whether the Company establishes any employee complaining mechanism and channel, and takes care of the complaint adequately?	V		(2) The company has established reporting systems and channels, employees can utilize these methods by communicating with their department manager or proposing through the employee-management meetings, and based on applicable regulations, the "Personnel Committee" would review the case if reward and punishment. In addition, the company has formulated regulations for workplace sexual harassment preventions, complaints and disciplinary actions to protect interested party's right and privacy.	
(3) Whether the Company provides the existence of a safe and healthy work environment; regular safety and health training to company employees?	V		(3) The company has regular disinfection, sanitation, illumination, fire inspections of the work environment. Based on the "Regulations for Labor Safety and Health" the company has regular training on safety and health for employees. E.g. Set precautionary and measures contingency plan quickly on influenza, arrange employee grouping and subdivision work. To decrease business operational risk and staff infection.	
(4) Whether the Company establishes the mechanism for periodic communication with employees, and notification to employees of the circumstances which might materially affect the operation in a reasonable manner?	V		(4) a. The company calls a labor and employer meeting periodically to establish a communication platform between laborers and employer to upgrade employees' participation and identification in the company's policies so as to form a positive interactive model and to create a win-win situation. b. The various regulations and systems and benefit information for employees are posted in the intranet to	

Scope of assessment	Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	Summary	
			help employees understand their own interests and rights. Meanwhile, a dedicated unit posts important daily news of the Financial Holding on the intranet for employees' easy access so as to understand updated industrial developments and the company's important messages. c. Material changes in the Company's operation will also be published via email from time to time, so that employees will have access to timely.	
(5) Whether the Company establishes some effective career development training plan for employees?	V		(5) The company has followed the corporate to set up a multi-track development system, which includes management posts, professional posts, and business posts. And through those diverse development paths and training systems, the company has provided opportunities like in-service training, employee training, job rotating, project assigning, and digital learning to encourage employees to develop multiple skills, meet their self-fulfillments and achieve their ideal goals of pursuing excellent. In addition, by making maximum using of the company's subsidiaries, the corporate encourages employees to apply position transferring or arranges rotation between subsidiaries for operational needs to promote talent flow and diverse development.	
(6) Whether the Company establishes the related consumer protection policies and complaining procedures toward the R&D, procurement, production, operation and service procedures?	V		(6) a. In order to fulfill our responsibility to keep customer information confidential the corporate has set up the "Yuanta Financial Holding Co. Ltd. and Subsidiaries Customer Information Confidentiality Measures" , "Statement of Customers' Privacy Protection" and posted their content on the corporate website. The Company has set up the Personal Data Protection Policy and Personal Data Management Rules to follow. b. The company uses the following avenues and procedures to handle customer complaints: (i) TEL: 02-2173-6896 (ii) E-mail: auditcomm.sf@yuanta.com (iii) If a customer complaint is received, the relevant unit will be immediately notified to handle the	

Scope of assessment	Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	Summary	
			complaint. The Company will take Moderately measure respond to the customer.	
(7) Whether the Company markets and labels products and services in accordance with the related laws and international practices?	V		(7) The company has established the "Regulation Governing Advertisements, Business Solicitation and Marketing Campaigns" to conduct business marketing and labeling.	
(8) Whether the Company has assessed the supplier's record about environmental protection and society before trading with the supplier?	V		(8) The Company followed The Yuanta Financial Holdings is dedicated to procuring products from green product suppliers. In order to protect the Earth, suppliers work hard to develop various green products. The Company will procure their products as the priority, subject to need. The Company followed The Yuanta Financial Holdings asks suppliers to comply with the integrity and ethical principles with the Company. For tangible product suppliers to enter into a procurement contract with the Company, as of June 2013, the Company will ensure they understand the Company's integrity and ethical principles and corporate social responsibility strategies and approaches in accordance with "Ethical Management and Guidelines for Conduct". The Company will also ask them to submit a written undertaking of integrity and ethical proof showing no record of corruption and bribery, in order to comply with the integrity and ethical principles and maintain corporate social responsibility.	
(9) Whether the contract between the Company and its main supplier includes the provision stating that where the supplier is suspected of violating its corporate social responsibility policies or renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract?		V	(9) The contract between the Company and its main supplier does not expressly state that where the supplier is suspected of violating its corporate social responsibility policies or renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract at any time. Notwithstanding, the Company will include such provision into the contract, if necessary.	
4. Enhancing Information Disclosure (1) Whether the Company discloses relevant and reliable information relating to corporate social responsibility on its website or Market Observation Post System?	V		Relevant information is posted on the corporate website.	There was no significant departure in this respect.
5. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies", please describe any discrepancy between the principles and their implementation: None.				

Scope of assessment	Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	Summary	
6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices: For further details please view our corporate website.				
7. If the Company's Corporate Social Responsibility Reports have met the assurance standards of relevant certification institutions, they shall be stated below: None.				

F. Fulfillment of ethical management

Scope of assessment	Status			Discrepancy between the Company's principles and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons thereof
	Yes	No	Summary	
1. Enactment of ethical management policy and program				
(1) Whether the Company expressly states the ethical policy and its fulfillment by the board of directors and the management in its Articles of Incorporation and public documents?	V		(1) The company followed The Yuanta Financial Holdings approved "Ethical Management Principles" and "Procedures for Ethical Management and Guidelines for Conduct". The Yuanta Financial Holdings has assembled a dedicated team to supervise this matter and report regularly to the board of directors. Based on clean, transparent and responsible management, the company will continue to promote a policy based on integrity. We will establish good corporate governance and risk management mechanisms to create a sustainable business environment.	There was no significant departure in this respect.
(2) Whether the Company defines the policy against unethical conduct, and expressly states the SOP, guidelines and reward and disciplinary & complaining systems for misconduct, and also implements the policy precisely?	V		(2) a. "YFH Ethical Management Principles" and "YFH Procedures for Ethical Management and Guidelines for Conduct", outlines a list of dishonest behaviors and conflicting interests, and prohibits any bribery, illegitimate political contributions, and improper donations, sponsorships, gifts, treatments, or benefits. Regular trainings are organized, and proper reporting systems and disciplinary policies have also been created. b. Any unethical conduct of the Company's staff, the Company will render discipline pursuant to relevant laws or the Company's regulations after verifying the same,	

Scope of assessment	Status			Discrepancy between the Company's principles and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons thereof
	Yes	No	Summary	
			and claim damages through legal action, if necessary, to maintain the Company's goodwill and interest. The disciplined employee who disagrees with the discipline may apply for reconsideration under the complaint system. Upon verification of the case, the relevant unit will be delegated to review the internal control system and SOP and propose the corrective action to prevent the same from occurring again and fulfill the management philosophy of ethical business.	
(3) Whether the Company takes any prevention measures against the operating activities involving high unethical conduct under Paragraph 2 of Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" or within other operating areas?	V		(3) The company has already undertaken measures against bribery and illegal political donation with respect to operating activities with higher risk of unethical conduct. The Company's procurement projects all comply with the "Guidelines for Conduct".	
2. Implementation of ethical business (1) Whether the Company assesses a trading counterpart's ethical management record, and expressly state the ethical management clause in the contract to be signed with the trading counterpart?	V		(1) The company followed The Yuanta Financial Holdings' has already drawn up the "Checklist for Singing of Procurement Contracts " to help the assessment when negotiating concluding contract with external procurement supplier involving the buyout of ownership of products. Further, when concluding the procurement contract, the company takes into consideration the supplier's compliance with the ethical business clause and Article 20 of the YFH Procedures for Ethical Management and Guidelines for Conduct.	There was no significant departure in this respect.
(2) Whether the Company establishes a dedicated unit (concurrently engaged in) to promote corporate ethical management, and reports the execution thereof to the Board of Directors?	V		(2) The Company followed the dedicated unit established by Yuanta Financial Holdings to handle and executed related matters with respect to the YFH Procedures for Ethical. Periodic reports about status of implementation of ethical	

Scope of assessment	Status			Discrepancy between the Company's principles and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons thereof
	Yes	No	Summary	
			management for the previous year will be submitted to the board of directors each year.	
(3) Whether the Company defines any policy against conflict of interest, provides adequate channel thereof, and fulfill the same precisely?	V		(3) a. The company followed "YFH Ethical Management Principles" , " YFH Procedures for Ethical Management and Guidelines for Conduct" and "Yuanta Securities Finance of Ethical Conduct" ("Code of Ethical Conduct") that where the company's director and manager , or their spouses, direct blood relatives, relatives within the third degree of kinship and the entities in which they are hired participate in the company's business transactions, due to their position and powers, the director and manager shall state the same voluntarily and deal with or avoid the situation in a timely manner. The company has established a well-founded management mechanism for execution in the internal and external business activities, in order to upgrade the effect of the Company's ethical business. b. The avoidance of conflict of interest, disclosure of business secrets, non-inside trading and non-disclosure agreement with respect to the Company's staff (including directors and supervisors) shall comply with relevant requirements.	
(4) Whether the Company has fulfilled the ethical management by establishing an effective accounting system and internal control system,and had an internal audit unit conduct periodic audits, or appointed an external auditor to conduct audits?	V		(4) a. Under the "YFH Ethical Management Principles", the Company has linked the other relevant internal control regulations intensively to help various departments comply with the internal control and SOPs, and to prevent any staff's mis conduct, e.g. Code of Ethical Conduct, Board of Directors Procedure Rules, and Guidelines Governing Donations to the Public. Where any of the Company's staff is involved in any unethical conduct, the dedicated unit will report the unethical conduct, and countermeasures and corrective actions against the conduct to the board of directors. Where any others engage in unethical conduct toward the Company and involve illegal activities, the Audit Dept. will also	

Scope of assessment	Status			Discrepancy between the Company's principles and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons thereof
	Yes	No	Summary	
			report the audit report to Legal Dept., and Legal Dept. will help the Company notify the judicial and prosecuting authorities. b. The Company's accounting system was established in accordance with IFRSs. Unless otherwise provided in laws, the Company's related accounting affairs are all processed in accordance with the Company's accounting system. The quarterly financial statement would be audited (certified) by PricewaterhouseCoopers Certified Public Accountants. The operating result would also be reported to the Board of Directors periodically. The Company will accept the internal audit, and audit by Financial Examination Bureau and the external auditor, in order to ensure that design and execution of the Company's accounting system still works.	
(5) Whether the Company organizes internal/external education training program for ethical management periodically?	V		(5) The Company organizes the "Anti-bribery and Anti-corruption and Enterprise Ethical Education" training program on a yearly basis. All employees have to take part in the program and pass the test, to ensure that employees have correct knowledge and basic judgment of relevant laws and ethical conduct, and that the corporate ethical management policy may be fulfilled.	
3. Status of the Company's complaint system.				
(1) Whether the Company has defined a specific complaints and rewards system, and established some convenient complaint channel, and assigned competent dedicated personnel to deal with the situation?	V		(1) YFH has set up an exclusive area on the Internet and intranet to encourage employees, investors and other interested parties to submit any suggestions helpful for business development or any doubts about extraordinary circumstances. The Company assigns dedicated personnel to deal with the same and provide feedback in a timely manner.	There was no significant departure in this respect.
(2) Whether the Company has defined the standard operating procedure and non-disclosure mechanism toward the investigation on the complaints as accepted?	V		(2) The complaints accepted by the Company will be treated as confidential and special cases. The certified documents provided by the informant or complainant shall be maintained with care. All of the team members shall also be obligated to keep the same confidential. If some misconduct is found upon investigation on the complaints, the Company will protect the complainant's interest and right, and will	

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

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

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

I. Implementation of internal controls:

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

Schedule：Continuing education of directors' and supervisors'

Data baseline date: 02/28/2017

Title	Name	Course duration		Organizing agency	Course name	Course hours
		From	To			
Chairman	Huang Ting-hsien	2016.06.17	2016.06.17	Taiwan Securities Association	Group governance and financial holding governance	3
		2016.09.09	2016.09.09	Taiwan Securities Association	Operation of Board of Directors and Effect of Resolution	3
Director	Hong Rong-Ting	2016.03.04	2016.03.04	Taiwan Securities Association	Legal issues to be noted by directors, supervisors and managers of public companies	3
		2016.06.17	2016.06.17	Taiwan Securities Association	Group governance and financial holding governance	3
Director	Chuang Yu-De	2016.03.04	2016.03.04	Taiwan Securities Association	Legal issues to be noted by directors, supervisors and managers of public companies	3
		2016.06.17	2016.06.17	Taiwan Securities Association	Group governance and financial holding governance	3
Director	Liu Ming-Lang	2016.06.17	2016.06.17	Taiwan Securities Association	Group governance and financial holding governance	3
		2016.09.09	2016.09.09	Taiwan Securities Association	Operation of Board of Directors and Effect of Resolution	3
Director	Kuo Hsuan- Min	2016.03.04	2016.03.04	Taiwan Securities Association	Legal issues to be noted by directors, supervisors and managers of public companies	3
		2016.06.17	2016.06.17	Taiwan Securities Association	Group governance and financial holding governance	3
Supervisor	Ciou Wun-Cing	2016.06.17	2016.06.17	Taiwan Securities Association	Group governance and financial holding governance	3
		2016.09.09	2016.09.09	Taiwan Securities Association	Operation of Board of Directors and Effect of Resolution	3
Supervisor	Liao Yueh-Jung	2016.04.18	2016.04.19	Securities and Futures Institute	Taiwan Stock Exchange Corporation Chief Accounting Officer's Ongoing Education for Securities Issuers	12

Yuanta Securities Finance Co., Ltd

Declaration on Internal Control System

Date: Feb. 22, 2017

The declarations of the self-inspection result of the company's internal control system on 2016 are listed below:

1. The internal control system establishment, implementation and maintenance are the duty of the board and managers. The system has been established to ensure the achievement of operating efficiency (including profit, performance and safeguarding asset security), reliability, timeliness and transparent of financial reports and the observance of relevant regulations, etc. Accomplish objectives reasonable assurance.
2. The internal control system has its inherent limitations. No matter how well designed it is, the effective internal control system is only able to provide reasonable guarantees for the three above mentioned objectives; moreover, due to the changes of environment and situations, the effectiveness of the internal control system may change as well. The company's internal control system has a self-monitoring mechanism, therefore, when the mistakes are identified, the company will immediately take corrective actions.
3. The company uses the Securities and Futures Market Internal Control System Guidelines (SFMICS Guidelines) to regulate the judgmental items for the effectiveness of the internal control system. The judgment items that SFMICS Guidelines use have divided the internal control system into five elements according to the management control process, which are: 1. Control environment, 2. Risk assessment, 3. Control operation, 4. Information and communication, and 5. Supervision. Each element also includes various items. Please refer to the regulation of SFMICS Guidelines.
4. The company has used the above mentioned internal control system judgmental items to assess the effectiveness of the internal control system design and implementation.
5. Based on the assessment results, the design and implementation of the company's internal control system (The internal control system includes the monitoring and management of the subsidiaries.) is effective on Dec. 31, 2016. Include, understanding the degree of operational effectiveness and efficiency goal reached, reliability, timeliness and transparent of financial reports and the observance of relevant regulations. Accomplish above objectives reasonable assurance.
6. This declaration will be included in the annual report and the prospectus for perusal by the public. Any false statement or concealment in the said documents will be a violation against Articles 20, 32, 171, and 174 of the Securities Exchange Act.
7. This declaration was approved by the board on February 22, 2017. None of the 5 attending directors had negative opinions.

Yuanta Securities Finance Co., Ltd

Chairman: (signature)

President: (signature)

J. Legal penalties imposed by regulatory authorities on the company or its employees for violations of internal control regulations, and major flaws and revisions of said regulations in the past year and as of publication of this annual report: No.

K. Major resolutions of the shareholders' meetings and board meetings in the most recent fiscal year or in the current fiscal year before the date of publication of the annual report: (After the company became a 100% shareholding subsidiary of Yuanta Financial Holding Co., Ltd on Feb. 04, 2002, the board of directors exercises the powers of the shareholders' meeting).

1. The 30th Meeting of the 12th Board of Directors on January 26, 2016
   (1) Approved the Company's enactment of "Capital Adequacy Ratio Management Regulations", "Market Risk Management Regulations", "Market Liquidity Risk Management Regulations", "Credit Risk Management Regulations" and "Funding Liquidity Risk Management Regulations".
   (2) Approved the Company's enactment of "Capital Adequacy Ratio Limit", "Market Risk Limit", "Market Liquidity Risk Limit", "Credit Risk Limit", "Funding Liquidity Risk Limit" and "Large Risk Exposure Limit".
   (3) Approved the motion for evaluation on the CPA's independence according to the Company's corporate governance rules, and appointment of PwC Taiwan to certify the Company's 2016 financial statements and tax filings.
   (4) Approved the amendments to the Company's "Work Rules" in part.
2. The 31st Meeting of the 12th Board of Directors on February 26, 2016
   (1) Approved the Company's 2016 business plan.
   (2) Approved the Company's 2016 financial plan.
   (3) Approved the Company's change of NT$1.7 billion to NT$1.2 billion from statutory surplus and capital reserves.
   (4) Approved the Company's 2015 internal control system declaration.
3. The 32nd Meeting of the 12th Board of Directors on March 22, 2016
   (1) Approved the Company's 2015 business report.
   (2) Approved the amendments to the Company's "Notes to Money Laundering Prevention and Combating of Financing to Terrorists" in part.
   (3) Approved the Company's 2015 financial report.
   (4) Approved the amendments to the Company's "Division of Authority" and Division of Responsibilities Between the Departments".
4. The 33th Meeting of the 12th Board of Directors on April 26, 2016
   (1) Approved the Company's 2015 business report and financial report.
   (2) Approved the Company's 2015 earnings distribution plan.
   (3) Approved the Company's 2015 cash dividend through capital via statutory surplus and capital reserves.
   (4) Approved the "Refinancing Agreement" and "Securities Lending Agreement" renewed with the stakeholder, Ta Chong Securities.
   (5) Approved the amendments to the Company's "Risk Management Policy".

(6) Approved the amendments to the Company's "Credit Risk Management Regulations".

(7) Approved the amendments to the Company's "Large Risk Exposure Management Regulations".

(8) Approved the addition of the Company's "Fair Dealing Principles".

(9) Approved the enactment of the Company's "Regulations Governing Retention and Transfer of Employees of Ta Chong Bank and its Affiliates".

5. The 1st Meeting of the 13th Board of Directors on June 1, 2016
Election of the Company's 13th term directors and supervisors was completed by Yuanta Financial Holdings, and one of the directors was elected to act as the Chairman of Board.

6. The 2nd Meeting of the 13th Board of Directors on June 28, 2016

(1) Ratify amendments to the "Internal control system" and "Internal audit implementation rules" of the Company's bond proprietary business.

(2) Approved the amendments to the Company's accounting system.

(3) Approved the reporting of the Company's customers who applied for the loan secured by securities amounting to NT$300 million or more.

(4) Approved partial amendments Article 5 of the "Yuanta Securities Finance and the Financial Holding Corporate Act, Article 45, Authorized Operation Measures".

(5) Approved amendments to the Company's "Internal control system" and "Internal audit implementation rules".

(6) Approved the amendments to "Regulations Governing Transfer, Reappointment, and Concurrent Duties of Employees of Yuanta Financial Holding and its Affiliated Companies".

7. The 3rd Meeting of the 13th Board of Directors on August 24, 2016

(1) Ratify amendments to the bond proprietary business of the Company's "Internal control system" and "Internal audit implementation rules".

(2) Approved the Company's 2016 financial update plan.

(3) Approved amendments to the Company's "Credit business Authorized amount table".

(4) Approved the reporting of the Company's customers who applied for the loan secured by securities amounting to NT$300 million or more.

(5) Approved amendments to the Company's "Division of Responsibilities Between the Departments".

8. The 4th Meeting of the 13th Board of Directors on September 28, 2016

(1) Approved the application with FSC for revocation of "concurrent operation as a dealer in government bonds"

(2) Approved to reduce capital in the sum of NT$400,000,000, at the par value of NT$10/each shares, for write-off the already issued 40,000,000 shares. After capital reduction, the total share capital remains still NT$22,500,000,000, and the paid-in capital amount is NT$4,000,000,000.

(3) Approved partial amendments to the Company's "Articles of Association ".

9. The 5th Meeting of the 13th Board of Directors on October 26, 2016
   Approved partial amendments to the Company's " Internal Control System" and "Internal Audit Implementation Rules".

10. The 6th Meeting of the 13th Board of Directors on November 8, 2016
    Approved the amended "Regulations Governing Transactions between Yuanta Financial Holding Co. Ltd. and Related Parties".

11. The 7th Meeting of the 13th Board of Directors on December 5, 2016
    Approved the disposition of equity of TDCC invested by the Company.

12. The 8th Meeting of the 13th Board of Directors on December 27, 2016
    (1) Apporved the motion for sale of shares of TDCC invested by the Company to the interested parties, Yuanta Securities and Yuanta Asset Management.
    (2) Approved the Company signed the "Securities Investment Consulting Appointment contract" with the Yuanta Securities Investment Consulting.
    (3) Approved the amendments to the "Yuanta Securities Finance Money Laundering Prevention and Combating of Financing to Terrorists" in part.
    (4) Approved the establishment of the Company's "Regulations Governing Establishment of Team Dedicated to Review on Loan Secured by Securities".
    (5) Approved the Company's 2017 Audit plan.

L. Recorded or written statements made by any director or supervisor which specified dissent to important resolutions passed by the board of directors in recent years and up to the date of this annual report's publication: None.

M. Resignation of any individual associated with the financial statements in recent years as of publication of this annual report: None.

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

Range of Service fees by CPAs

Name of accounting firm	Name of CPAs		Audit period	Remarks
PricewaterhouseCoopers Taiwan	Sk Lin	Ellen Kuo	2016.1.1-2016.12.31	

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

Units：thousand NT$

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

A. Instances where the ratio of non-audit related expenses made up more than one quarter of audit fees: None.

B. Replacement of independent auditing firm and reduction in audit fees paid during the year of replacement compared with the previous year: None.

C. Reduction in audit fees by more than 15% compared with the previous year: None.

6. Information on the replacement of CPAs: None.

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

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

A. Change in equity

Title	Name	2016		Ending Feb. 28, 2017	
		Increase (decrease) in number of shares held	Increase (decrease) in number of shares pledged	Increase (decrease) in number of shares held	Increase (decrease) in number of shares pledged
Chairman	Representative of Yuanta Financial Holdings Co. Ltd: Huang Ting-Hsien	(60,000,000)	-	(40,000,000)	-
Director	Representative of Yuanta Financial Holdings Co. Ltd: Chuang Yu-De				
Director	Representative of Yuanta Financial Holdings Co. Ltd: Hong Rong-Ting				
Director	Representative of Yuanta Financial Holdings Co. Ltd: Kuo Hsuan-Min				
Director	Representative of Yuanta Financial Holdings Co. Ltd: Peng Yi-cheng (resigned on 2016/06/1) Liu Ming-Lang (appointed 2016/06/1)				
Supervisor	Representative of Yuanta Financial Holdings Co. Ltd: Chang Tsai-Yu (resigned on 2016/06/1) Ciou Wun-Cing (onboard since 2016/06/1)				
Supervisor	Representative of Yuanta Financial Holdings Co. Ltd: Liao Yueh-Jung				
Major Shareholder	Yuanta Financial Holdings	(60,000,000)	-	(40,000,000)	-
President	Hong Rong-Ting	-	-	-	-
Senior assistant vice President	Hu Yi-Heng	-	-	-	-
Senior assistant vice President	Liu Ying-Shi	-	-	-	-
Assistant vice President	Chen Ying-Ling	-	-	-	-
Assistant vice President	Wang Chia-Hsiang				
Senior Manager	Huang Shi- Chun	-	-	-	-
Senior Manager	Chen Chi-Ping	-	-	-	-
Senior Manager	Lin Shu-Hsiu	-	-	-	-
Manager	Cheng Shu-Chin	-	-	-	-
Former Assistant Vice President and Secretary of the Board	Lin Tseng-Chun	-	-	-	-

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

B. Information on transfer of shares: None.

C. Information on equity pledged: None.

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

Feb. 28, 2017

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

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

10. Ratio of Comprehensive Shareholdings to the Same Business Entity That is Directly or Indirectly Controlled by Directors, Supervisors, or Management:

February 28, 2017
Unit: Shares; %

Business entity invested (Note)	Company's investment		Investment directly or indirectly controlled by director(s), supervisor(s) or manager(s)		Total investment	
	Shares	%	Shares	%	Shares	%
TDCC	63,294,365	17.96	—	—	63,294,365	17.96
TAIFEX	15,300,023	5.00	—	—	15,300,023	5.00

Note：Long-term investment of the company

IV. Financing Status

1. Corporate Capital and shareholdings

A. Sources of capital

Feb. 28, 2017

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

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

Feb. 28, 2017/ Unit: shares

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

Note：Unlisted company shares.

B. Shareholder structure

Feb. 28, 2017/ Unit: shares

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

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

C. Distribution profile and shareholder ownership

(1) Common shares

Face value per share: 10 dollars

Feb. 28, 2017/ Unit: shares

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

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

(2) Preferred shares: None

D. Major shareholders

Feb. 28, 2017/ Unit: shares

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

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

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

Items \ Years			2015	2016	Year- Feb. 28, 2017 (Note 2)
Market price per share (Note1)	Highest		—	—	—
	Lowest		—	—	—
	Average		—	—	—
Net value per share	Before distribution (NT$)		25.29	26.05	26.25
	After distribution (NT$)		24.73	Note 3	Note 4
Earnings per share	Weighted average Number of shares		500,000,000	445,519,126	400,000,000
	Earnings per share (NT$)		0.78	0.70	0.09
Dividends per share	Cash dividend (NT$)(Note5)		0.63	0.54	Note 4
	Stock dividend	From retained earnings	—	—	—
		From Capital Reserve	—	—	—
	Outstanding dividend accumulated		—	—	—
Return analysis	Price / earnings (P/E) ratio (Note6)		—	—	—
	Price / dividend (P/D) ratio (Note7)		—	—	—
	Cash dividend yield (note 8)		—	—	—

Note 1：Due to the merger of Yuanta Securities Co., Ltd. into Yuanta Financial Holdings Co., Ltd. trading of the Company's shares ceased on January 23, 2002 and the Company was delisted on February 04. 2002.
Note 2：Year-Feb. 28. 2017 data was self-compiled and are unaudited by CPAs.
Note 3：The motion for allocation of earnings 2016 is pending resolution by the board of directors (acting as proxy for the AGM).
Note 4：The earnings for the fiscal Year 2017 have not yet been allocated.
Note 5：The cash dividend per share in the fiscal year of 2015 and 2016 was calculated based on the paid-in capital of total 440,000,000 shares and 400,000,000 shares.
Note 6：P/E ratio = Average closing price per share for the year/Earnings per share.
Note 7：P/D ratio = Average closing price per share during the current fiscal year/Cash dividend per share.
Note 8：Cash dividend yield = Cash dividend per share/Average closing price per share for the current year.

F. Dividend policy and implementation status

(1) Company dividend policy

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

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

(2) Implementation status: Shareholders were allocated cash dividends NT$0.54 per share.

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

No issuance of bonus shares was proposed in the allocation of stock dividends submitted at the shareholders' meeting.

H. Employee, directors' and supervisors' remuneration

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

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

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

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

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

Employees were allocated cash rewards totaling NT$631,410 on 2016. The employee remuneration are recognized as current period's operating expenses on 2016. There was no discrepancy between the employee remuneration and recognized of the financial report.

(4) Distribution of earnings from the previous year as employee remuneration and remuneration to directors, supervisors:

There was no discrepancy between employee bonuses and the amount allocated from the Company's 2015 earnings as passed by the board of directors and the actual amount paid out. Cash bonuses paid to employees amounted to NT$619.069.

I. Information on Company's share repurchase: None

2. **Information on Company's share repurchase: None**

3. **Corporate bonds Issuance: None.**

4. **Preferred Shares Issuance: None.**

5. **Global depository receipts (GDRs) issuance: None.**

6. **Employee stock options issuance: None.**

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

8. **Implementation of Capital Utilization Plans: None.**

V. Operational Highlights

1. Business Activities

A. Business scope

(1) Main business services

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

(2) Revenue summary

Unit: thousand NT$

Items \ Years	2014		2015		2016	
	Revenue	(%)	Revenue	(%)	Revenue	(%)
Margin trading and short sale	728,725	97.18	592,784	94.50	424,049	76.98
Refinancing	8,547	1.14	14,886	2.37	12,892	2.34
Securities lending	12,568	1.68	8,853	1.41	13,034	2.37
Secured loan	-	-	10,784	1.72	100,866	18.31
Total	749,840	100.00	627,307	100.00	550,841	100.00

(3) New financial products and services in development

Persuade the competent authority to allow securities financial companies to provide the “wealth management” services and to lift the restrictions imposed by laws and regulations.

B. Industry overview

(1) Margin trading and short sale

In 2016, the structure of the securities financial remained unchanged. The securities market fluctuated drastically and stock market suffered turmoil. Investors lacked confidence and it was difficult to expand the turnover. The margin trading balance in the market stayed low and the margin trading balance of Yuanta Securities Finance remained about NT$7 billion still. Notwithstanding, the market share of Yuanta Securities Finance in the agency securities market raised to 80% approximately. In order to boost the price and volume of Taiwan stock market, the FSC promoted multiple plans to boost the securities market in 2015, and broadened range of underlying securities of day trading in 2016, allowed securities firms to undertake non-purpose-limited loaning system and boosted two-way securities to improve market investors’ confidence. For the time being, margin loans and short sale operations still remains Yuanta Securities Finance’s core business areas. It will continue to serve agents with an ethical, vigorous, reliable, and efficient attitude and achieve a win-win outcome.

(2) Refinancing business

Refinancing services are chiefly aimed at securities traders, and not ordinary investors. Due to the relaxed funds market in recent years, securities traders have increased their capital, which has sharply reduced the need for refinancing from securities finance companies. As for stock loans to brokers, this accommodation provides stocks to securities traders so that they can make financed sales or repay shares, and is not a source of financing shares for short sale by securities trader investors. As a consequence, its balance of stock loans to brokers has always remained low. Refinancing business accounts for less than 2.34% of the Company's overall business.

(3) Securities lending service

The Company is still dedicated to managing securities lending operations. Notwithstanding, given that securities firms are allowed to offer wealth management services, a part of the Company's securities lending customers turn to lend securities from the wealth management account which charges less commission. Notwithstanding, upon the competent authority's allowance of two-way securities lending, the Company was allowed to lend the securities serving as collateral in margin trading to TWSE securities lending center and, therefore, secured wider channels for securities lending and more sources of securities. Therefore, its securities lending operations will be more active, and the customer structure will be transformed from proprietary securities traders to more diversified proprietary trading and brokerage services. Securities lending business accounts for less than 2.37% of the Company's overall business.

(4) Securities-secured financing business

The major competitor of Yuanta Securities Finance in this business refers to the secured loan by banks. The Company is primarily developing major listed/OTC shareholders who require funds and the general investors who hold securities and need short-term working fund badly. The Company also plans pages on network or mobile phone to help customers with application for, sale and repayment of, and search for the stock, to provide customers with a more convenient and effective way to satisfy customers' need for fund. Meanwhile, the competent authority approved in February 2016 that listed stocks may be furnished as collateral without pledge. The Company's operations for this business became more convenient and competitive than applications for secured loan with pledge by banks. Until December 2016, the balance of secured loans was NT$8.520 billion. Secured loans will still be the first priority for business in 2017. It is expected that the proportion of the business volume and gross operating profit will reach 50% or more in the future.

C. Technology and R&D

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

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

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

(1) Short-term plans:

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

Take advantage of its nearly 80% share of agents to embark on diversified

operations including information and channel franchises, while blocking price-cutting competition by rivals. This will boost the Company's share of the margin trading and short sale balance, and maximize performance of value-added services.

b. **Stimulation of securities lending:**
Upon the competent authority's allowance of two-way securities lending, the Company was allowed to lend the securities serving as collateral in margin trading to TWSE securities lending center and, therefore, secured wider channels for securities lending and more sources of securities. Therefore, its securities lending operations will be more active, and the customer structure will be transformed from proprietary securities traders to more diversified proprietary trading and brokerage services.

(2) Long-term plans:

a. Secured loan operations:
Focus business on major listed/OTC shareholders, and investors who need access to funds. The sales objective is set as NT$8.5 billion in 2017. It is expected that the objective will grow year by year.

b. Continue to implement stage II information platform and cooperation program :
Strengthen securities trader information services to ensure that the Company's agent services are indirectly benefited to solidify relationships and increase the market share of securities finance services.

c. Reduce operating expense ratio:
Save operating expenses to make such expenses stay less than 32% of the operating revenue, in order to stabilize the profit.

d. Suggest the competent authority to allow new business and lift the restrictions imposed by laws and regulations:
In order to seek sustainability and long-term stable profit, the Company expects that the competent authority may allow more diversified business and flexibility.

2. Market and business Overviews

A. Market analysis

(1) Supply, demand conditions, and growth potentials
As of 2016, there were 36 consolidated securities firms and 2 security finance firms engaged in the security financing business. Looking at domestic securities market, the total stock market turnover in 2016 was NT$ 18.9156 trillion with over 438.3 billion shares traded. At the end of 2016, the market securities margin trading balance was NT$ 132.3 billion, the security short sale balance was 455.38 million shares, and the Company's year-end market share of margin trading was 3.85% and the market share of short sale was 2.87%. In 2016, the OTC annual stock turnover was NT$5.503 trillion, and the total volume was 86 billion shares. At the end of 2016, the OTC securities margin trading balance was NT$53.6 billion and the short sale balance was 166.99 million shares. The Company's year-end security margin trading market share was 3.93% and market share of short sale was 3.28%. Thru December 2016, the balance of secured loans was NT$8.520 billion. Secured loans will still be the first priority for business in 2017. It is expected that the proportion of the business volume and gross operating profit will reach 50% or more in the future.

(2) Competitive niches

a. Utilize financial holding synergy: Synergies may be created between the company's businesses and the various subsidiaries in the financial holding group. As the blueprint for the financial holding company takes shape, strategies of

overall resources may be put to use, service functions can put to full effect. By expanding overall marketing channels across businesses, the company can stay on top of the pulse of the time and seize financial opportunities.

b. Reduce operating cost: Operation costs may be reduced by streamlining of personnel and distribution of costs throughout the group.

c. Strictly control credit risks: Implementation of effective and strict risk controls can raise credit quality and prevent bad debts.

d. Develop outstanding reputation and professional level of service: The Company was the first domestic securities margin trading and short sale company in Taiwan's securities market. Through the experience accumulated in financial practices and marketing networks, the company can provide safe and reliable services for the investors credit transactions. Our sincerity can win the trust of customer and forever safeguard the long-term interests of customers.

(3) Advantages and disadvantages for future development and response measures

a. Advantages

(i) More sufficient stocks source than other securities finance companies: the company has 80% market share, and owns more sufficient stocks source compared with other security finance companies and is in a position to offer more stocks for agency dealers, and investors to short sale.

(ii) Diversified business service: People are paying more attention to financial planning. The company can greatly enhance its competitiveness through offering a diverse range of services and leveraging the combined resources of the group.

b. Disadvantages

(i) Trend for agency securities companies to be consolidated or to set up independent security financing businesses by themselves: As the market skewed towards the needs of economy of scale, many agency securities companies have been consolidated, or established their own independent security financing business which has led to decline in the agency business. As of the end of 2016, independent securities firms' share of the security finance business reached 96.65%.

(ii) The funding cost will increase gradually in the future: Escalation of interest rates in the U.S.A. results in the sluggish increase of interest rate in the monetary market and the fund-raising cost is expected to increase relatively.

(c) Response strategies

(i) Consolidated security firms: Consolidated security firms with smaller scale are restricted by their small equity value and lack of security sources resulting in difficulties to expand their credit transaction volumes. The company can leverage its current advantage to assist them to turn into agency securities firms. This can reduce their risk and also increase their business volume and earnings.

(ii) Agency securities firms: The Company will provide professional service, information, adequate source of securities, outstanding risk control, and stable operations to make Yuanta Securities Finance the only choice for agency securities firms.

B. Business Overviews

(1) Security Margin trading business

Unit: Million NT$

Items \ Years		2015		2016	
		Amount	%	Amount	%
Investors' securities margin trading	TWSE market	7,546	75.22%	4,971	70.36%
	OTC market	2,423	24.15%	2,081	29.46%
Refinancing to securities firms	TWSE market	36	0.36%	7	0.1%
	OTC market	27	0.27%	6	0.08%
Total		10,032	100.00%	7,065	100.00%

The amounts listed above are annualized averages.

(2) Security Short sale business

Items \ Years		2015		2016	
		thousand shares	%	thousand shares	%
Investors' Security Short sale	TWSE market	12,815	57.83%	13,186	59.89%
	OTC market	3,817	17.22%	4,246	19.28%
Securities firms securities Short sale	TWSE market	4,843	21.85%	3,540	16.08%
	OTC market	686	3.10%	1,046	4.75%
Total		22,161	100.00%	22,018	100.00%

The amounts listed above are annualized averages

3. Secured loan operations

Unit: Million NT$

Items \ Years	2015		2016	
	Amount	%	Amount	%
Average balance of secured loan	466	100.00%	5,154	100.00%

The amounts listed above are annualized averages.

C. Usage and manufacturing processes for the company's main products：N/A

D. Supply situation for the company's major raw materials：N/A

E. A list of any suppliers and clients accounting for 10 percent or more of the company's total procurement (sales) amount in either of the 2 most recent fiscal years：None.

F. An indication of the production volume for the 2 most recent fiscal years：N/A

G. An indication of the volume of units sold for the 2 most recent fiscal years：N/A

3. Employee demographics

Feb. 28, 2017

Years		2015	2016	2017 (Note)
Number of employees	Sales personnel	36	36	36
	Administrative personnel	8	7	7
	Total	44	44	44
Average age		48.93	49.24	49.40
Average years of service		16.85	17.22	17.38
Educational level	Ph. D.	0.00%	0.00%	0.00%
	Masters	22.73%	27.27%	27.27%
	College/University	70.45%	65.90%	65.90%
	Senior high school	6.82%	6.83%	6.83%
	Below senior high school	0.00%	0.00%	0.00%

Note：This information is annualized data up to the date of this annual report's publication (end of Feb. 2017). The number of employees listed in this Table to be understood excluding the short term part-time student workers.

4. Environmental Protection Expenditure Information: None

5. Labor Relations:

A. Retirement plans and pension funds

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

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

B. Employee welfare measures

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

C. Harmonious labor relations

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

6. Major Contracts

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

VI. Financial Statement

1. Summary of Five Years Condensed Balance Sheets and Income Statements

Condensed balance sheet

Unit: thousand NT$

Items \ Years		Five years Financial Information Summary（Note1）				
		2012	2013	2014	2015	2016
Current assets		14,905,937	14,305,173	13,536,555	12,081,815	16,436,222
Property, plant and equipment		65,976	56,780	47,197	32,229	28,812
Intangible assets		6,172	6,707	5,685	7,115	5,479
Other assets		4,554,546	4,883,008	4,906,496	5,525,437	5,424,838
Total assets		19,532,631	19,251,668	18,495,933	17,646,596	21,895,351
Current liabilities	Before distribution	4,530,210	5,227,797	6,343,243	4,930,333	11,452,216
	After distribution	4,908,202	5,524,100	6,637,599	5,209,071	Note 2
Non-Current liabilities		104,736	87,741	74,730	71,621	24,622
Total liabilities	Before distribution	4,634,946	5,315,538	6,417,973	5,001,954	11,476,838
	After distribution	5,012,938	5,611,841	6,712,329	5,280,692	Note 2
Total equity attributable to the owner of parent company		14,897,685	13,936,130	12,077,960	12,644,642	10,418,513
Common stock		6,000,000	5,000,000	5,000,000	5,000,000	4,000,000
Capital reserve		3,328,301	3,328,301	928,301	928,301	28,301
Retained earnings	Before distribution	2,299,928	2,310,806	2,430,750	2,532,386	2,261,322
	After distribution	1,921,936	2,014,503	2,136,394	2,253,648	Note 2
Other equities		3,269,456	3,297,023	3,718,909	4,183,955	4,128,890
Treasury stock		—	—	—	—	—
Uncontrolled equity		—	—	—	—	—
Total shareholder equity	Before distribution	14,897,685	13,936,130	12,077,960	12,644,642	10,418,513
	After distribution	14,519,693	13,639,827	11,783,604	12,365,904	Note 2

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

Note 2：The motion for 2016 earnings distribution has not yet been approved by the board of directors (acting as proxy for the AGM) up to the publication date of the annual report.

Condensed income statements

Unit: thousand NT$

Items \ Years	Five years Financial Information Summary (Note)				
	2012	2013	2014	2015	2016
Operating income	966,393	697,825	749,840	627,307	550,841
Operating gross profit	655,798	519,352	517,530	434,111	394,881
Operating profits (loss)	405,454	309,248	341,539	264,613	237,677
Non-operating income and expenses	96,603	136,294	126,951	189,762	140,466
Net income before tax	502,057	445,542	468,490	454,375	378,143
Continuing departments net income before tax	425,625	391,740	406,303	390,848	310,489
Non operating departments losses	—	—	—	—	—
Net profit (net loss) – current period	425,625	391,740	406,303	390,848	310,489
Other consolidated income (net after tax) – current period	395,474	24,697	431,830	470,190	(57,880)
Total consolidated income – current period	821,099	416,437	838,133	861,038	252,609
Net profit attributable to the owner of parent	425,625	391,740	406,303	390,848	310,489
Net profit attributable to uncontrolled equity	—	—	—	—	—
Net profit from total consolidated income attributable to the owner of parent	821,099	416,437	838,133	861,038	252,609
Total consolidated income attributable to uncontrolled equity	—	—	—	—	—
EPS(NT$)	0.71	0.70	0.81	0.78	0.70

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

Condensed balance sheet -- Financial Accounting Standards in the R.O.C.

Unit: thousand NT$

Items \ Years		Five years Financial Information Summary (Note)
		2012
Current assets		14,905,937
Funds and investment		918,534
Fixed assets		65,976
Intangible assets		6,172
Other assets		349,048
Total assets		16,245,667
Current liabilities	Before distribution	4,530,160
	After distribution	4,908,152
Long-term liabilities		433
Other liabilities		111,800
Total liabilities	Before distribution	4,642,393
	After distribution	5,020,385
Common stock		6,000,000
Capital reserve		3,328,301
Retained earnings	Before distribution	2,289,316
	After distribution	1,911,324
Unrealized gain (loss) on Securities		(14,343)
Cumulative translation adjustments		—
Net loss not recognized as pension cost		—
Total shareholder equity	Before distribution	11,603,274
	After distribution	11,225,282

Note：Financial information for the years of above-mentioned followed Financial Accounting Standards in the R.O.C. was audited and certified by CPAs.

Condensed income statements-- Financial Accounting Standards in the R.O.C.

Unit: thousand NT$

Items \ Years	Five years Financial Information Summary (Note)
	2012
Operating income	966,393
Operating gross profit	655,798
Operating profits (loss)	405,157
Non-operating income	173,246
Non-operating expenses	81,032
Pre-tax gain (loss) from continuously operating business departments	497,371
Gain (loss) from continuously operating business departments	420,989
Gain (loss) from discontinued operations	—
Extraordinary gain (loss)	—
Cumulative effect of changes in accounting principles	—
Net Income/(Loss)	420,989
EPS(NT$)	0.70

Note：Financial information for the years of above-mentioned followed Financial Accounting Standards in the R.O.C. was audited and certified by CPAs.

Names of the CPAs and audited opinions for the past five years

Years	CPA Firm	CPAs	Opinion
2012	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion
2013	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion
2014	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion
2015	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion
2016	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen	Unqualified opinion

2. Five years Financial Analysis

Financial analysis

Items (Note2)	Years (Note1)	Five years Financial Analysis				
		2012	2013	2014	2015	2016
Financial Structure %	Debt-asset ratio	23.73	27.61	34.70	28.35	52.42
	Ratio of long-term capital to property, plant and equipment	22,739.21	24,698.61	25,748.86	39,455.97	36,245.78
Solvency %	Current ratio	329	274	213	245	144
	Quick ratio	327	274	210	245	144
	Interest coverage ratio	—	—	—	—	—
Operating Ability	Receivables turnover rate (times)	—	—	—	—	—
	Average collection days for receivables	—	—	—	—	—
	Inventory turnover rate (times)	—	—	—	—	—
	Payables turnover rate (times)	—	—	—	—	—
	Average days for sale	—	—	—	—	—
	Property, plant and equipment turnover rate (times)	12.97	11.37	14.42	15.80	18.05
	Total asset turnover ratio (times)	0.05	0.04	0.04	0.03	0.03
Profitability	Return on assets (%)	2.01	2.02	2.15	2.16	1.57
	Return on equity (%)	2.89	2.72	3.12	3.16	2.69
	Ratio of income before tax to paid-in capital (%)	8.37	8.91	9.37	9.09	9.45
	Profit margin before tax (%)	44.04	56.14	54.19	62.31	56.37
	EPS (NT$)	0.71	0.70	0.81	0.78	0.70
Cash Flow	Cash flow ratio (%)	73.84	36.07	Note 3	50.96	Note 3
	Cash flow adequacy ratio (%)	1,387.82	433.63	451.33	753.15	451.66
	Cash flow reinvestment ratio (%)	19.68	10.93	Note 3	17.68	Note 3
Leveraging	Operating leverage	2.33	2.21	2.15	2.32	2.27
	Financial leverage (Note 4)	—	—	—	—	—

The reason for changes in financial ratio within two years:

1. The increase in the debt-asset ratio in 2016 was a result of the increase in the loans to others in 2016.
2. The decrease in solvency in 2016 was a result of the increase in the current liabilities in 2016.
3. The decrease in the return on assets in 2016 was a result of the decrease in the after-tax income in 2016.
4. The decrease in the cash flow adequacy ratio in 2016 was a result of the net operating cash outflow from operating activities in 2016.

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

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

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

Note 4：Not applicable to the company.

Calculation methods

1. Financial Structure
   (1) Debt-asset ratio = Total liabilities / Total assets
   (2) Ratio of long-term capital to property, plant and equipment = (total equity + non-current liabilities) / net worth of property, plant and equipment
2. Solvency
   (1) Current ratio = Current assets / Current liabilities
   (2) Quick ratio = (Current assets - inventory - prepaid expenses) / Current liabilities
   (3) Interest coverage ratio = EBIT / Current interest expenses
3. Operating ability
   (1) Receivables (including accounts receivable and notes receivable arising from business operations) turnover rate = net sales / average receivables (including accounts receivable and notes receivable arising from business operations) for each period
   (2) Average collection days for receivables = 365 / receivables turn over rate
   (3) Inventory turnover ratio = cost of sales / Average inventory
   (4) Payables (including accounts payable and notes payable arising from business operations) turnover rate = cost of sale / average payables (including accounts payable and notes payable arising from business operations) for each period
   (5) Average days of sale = 365 / inventory turnover rate
   (6) Property, plant and equipment turnover rate = net sales / average net worth of property, plant and equipment
   (7) Total asset turnover rate = net sales / average total assets
4. Profitability
   (1) Return on assets = [after-tax income (loss) + interest expense × (1- tax rate)]/average total assets.
   (2) Return on equity = net income / average total equity
   (3) Profit margin before tax = net income / net sales
   (4)Earnings per share = (profit and loss attributable to owners of the parent – dividends on preferred shares) / weighted average number of issued shares
5. Cash flow
   (1) Cash flow ratio = Net cash flow from operating activities / current liabilities
   (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years
   (3) Cash flow reinvestment ratio = (Net cash flow from operating activities – cash dividend) / (gross property, plant and equipment value + long-term investment + other non-current assets + working capital)
6. Leverage
   (1) Operating leverage = (net operating revenue – variable operating costs and expenses) / operating income
   (2) Financial leverage = operating income / (operating income – interest expenses)

Financial Analysis -- Financial Accounting Standards in the R.O.C.

Items (Note2)	Years (Note1)		Five years Financial Analysis 2012
Financial Structure %	Debt-asset ratio		28.58
	Ratio of long-term capital to fixed assets		17,587.77
Solvency %	Current ratio		329
	Quick ratio		327
	Interest coverage ratio		—
Operating Ability	Receivables turnover rate (times)		—
	Average collection days for receivables		—
	Inventory turnover rate (times)		—
	Payables turnover rate (times)		—
	Average days for sale		—
	Fixed assets turnover Ratio (times)		14.65
	Total asset turnover ratio (times)		0.06
Profitability	Return on assets (%)		2.34
	Return on equity (%)		3.64
	Ratio to paid-in capital (%)	Operating income	6.75
		Income before tax	8.29
	Profit margin before tax (%)		43.56
	EPS (NT$)		0.70
Cash Flow	Cash flow ratio (%)		73.74
	Cash flow adequacy ratio (%)		1,387.73
	Cash flow reinvestment ratio (%)		24.56
Leveraging	Operating leverage		2.33
	Financial leverage (Note 3)		—

Note 1：Financial information for the years of above-mentioned followed Financial Accounting Standards in the R.O.C. was audited and certified by CPAs.

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

Note 3：Not applicable to the company.

Calculation methods

1. Financial Structure
   (1) Debt-asset ratio = Total liabilities / Total assets
   (2) Ratio of long-term capital to fixed assets = (net shareholders' equity + long-term liabilities) / net worth of fixed assets
2. Solvency
   (1) Current ratio = Current assets / Current liabilities
   (2) Quick ratio = (Current assets - inventory - prepaid expenses) / Current liabilities
   (3) Interest coverage ratio = EBIT / Current interest expenses
3. Operating ability
   (1) Receivables (including accounts receivable and notes receivable arising from business operations) turnover rate = net sales / average receivables (including accounts receivable and notes receivable arising from business operations) for each period
   (2) Average collection days for receivables = 365 / receivables turn over rate
   (3) Inventory turnover ratio = cost of sales / Average inventory
   (4) Payables (including accounts payable and notes payable arising from business operations) turnover rate = cost of sale / average payables (including accounts payable and notes payable arising from business operations) for each period
   (5) Average days of sale = 365 / inventory turnover rate
   (6) Fixed assets turnover rate = net sales / average net worth of fixed assets
   (7) Total asset turnover rate = net sales / average total assets
4. Profitability
   (1) Return on assets = [net income + interest expenses × (1- tax rate)] / average total assets
   (2) Return on shareholders' equity = net income / average shareholder's equity
   (3) Profit margin before tax = net income / net sales
   (4) Earnings per share = (net profit after tax – dividends on preferred shares) / weighted average number of issued shares.
5. Cash flow
   (1) Cash flow ratio = Net cash flow from operating activities / current liabilities
   (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years
   (3) Cash flow reinvestment ratio = (Net cash flow from operating activities – cash dividend) / (gross fixed assets value + long-term investment + other assets + working capital)
6. Leverage
   (1) Operating leverage = (net operating revenue – variable operating costs and expenses) / operating income
   (2) Financial leverage = operating income / (operating income – interest expenses)

3. Supervisors' Audit Report over recent years (see Page 66)

4. The latest consolidated financial statements audited and certified by the CPAs (See enclosed financial report).

5. Consolidated financial statements of the company and its subsidiaries audited and certified by the CPAs: None.

6. Any financial problems encountered by the company and its affiliates which might affect the financial conditions of the company: None.

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

The Board of Directors has submitted the 2016 Business Report, Financial Statements, and Earnings Distribution Statements. The Financial Statements had been audited and certified by the CPAs, Lin Sk and Kuo Ellen of PricewaterhouseCoopers and an audit report has been issued.

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

Yuanta Securities Finance Co., Ltd 2017 Shareholder's Meeting

Yuanta Securities Finance Co., Ltd

Supervisor: Chu Wen-Ching

Supervisor: Huang, Shih-Chen

Dated: March 24, 2017

VII. Financial Status, Operating Results and Risk Management

1. Financial status

Unit: thousand NT$

Items \ Years	2016	2015	Difference	
			Amount	%
Current assets	16,436,222	12,081,815	4,354,407	36
Property, plant and equipment	28,812	32,229	(3,417)	(11)
Intangible assets	5,479	7,115	(1,636)	(23)
Other assets	5,424,838	5,525,437	(100,599)	(2)
Total assets	21,895,351	17,646,596	4,248,755	24
Current liabilities	11,452,216	4,930,333	6,521,883	132
Non-Current liabilities	24,622	71,621	(46,999)	(66)
Total liabilities	11,476,838	5,001,954	6,474,884	129
Common stock	4,000,000	5,000,000	(1,000,000)	(20)
Capital reserve	28,301	928,301	(900,000)	(97)
Retained earnings	2,261,322	2,532,386	(271,064)	(11)
Other equities	4,128,890	4,183,955	(55,065)	(1)
Total shareholder equity	10,418,513	12,644,642	(2,226,129)	(18)

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

A. Description of changes in Property, plant and equipment:
The increase in the current assets and total assets in 2016 was a result of the increase in the loans secured by securities by NT$6.9 billion .

B. Description of changes in Intangible assets:
The decrease in intangible assets in 2016 was a result of the decrease in the computer software in the 2016.

C. Description of changes in current liabilities and Total liabilities:
The increase in the current liabilities and total liabilities in 2016 was a result of the increase in loans to others in 2016.

D. Notes to changes of non-current liabilities:
The decrease in the non-current liabilities in 2016 was a result of the decrease in the liability reserves for employees benefit in 2016.

E. Notes to changes of capital stock:
The decrease in the capital stock in 2016 was a result of the capital reduction by NT$1 billion in 2016.

F. Notes to changes of capital surplus:
The decrease in the capital surplus in 2016 was a result of the disbursement of NT$900 million from the capital surplus in 2016.

2. Financial Performance

Unit: thousand NT$

Items \ Years	2016	2015	Increase (decrease)	Change (%)
Operating income	550,841	627,307	(76,466)	(12)
Operating gross profit	394,881	434,111	(39,230)	(9)
Operating profits (loss)	237,677	264,613	(26,936)	(10)
Non-operating income and expenses	140,466	189,762	(49,296)	(26)
Net income before tax	378,143	454,375	(76,232)	(17)
Continuing departments net income before tax	310,489	390,848	(80,359)	(21)
Net profit (net loss) – current period	310,489	390,848	(80,359)	(21)
Other comprehensive income - current period (Net after tax)	(57,880)	470,190	(528,070)	(112)
Total consolidated income – current period	252,609	861,038	(608,429)	(71)
Net profit attributable to the owner of parent	310,489	390,848	(80,359)	(21)
Net profit from total consolidated income attributable to the owner of parent	252,609	861,038	(608,429)	(71)

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

A. Analysis of changes in non-operating income and expenses:
The decrease in the non-operating revenue and expense in 2016 was a result of the decrease in gains from disposition of available-for-sale financial assets in 2016 .

B. Analysis of changes in total comprehensive income – current period:
The decrease in the total comprehensive income in 2016 was a result of the decrease in the unrealized evaluation gains from available-for-sale financial assets in 2016.

3. Cash flow

A. Liquidity analysis for the past two years

Items \ Years	2016	2015	Change (%)
Cash flow ratio (%)	-	50.96	-
Cash flow adequacy ratio (%)	451.66	753.15	(40.03)
Cash flow reinvestment ratio (%)	-	17.68	-

Description of items with significant changes:
The net cash outflow from operating activities in the statement of cash flows 2016 excluded the cash flow ratio and cash reinvestment ratio 2016. Meanwhile, the decrease in the cash flow adequacy ratio in 2016 was a result of the net cash outflow from operating activities in 2016.

B. Analysis of cash flows in the future year

Unit: thousand NT$

Initial cash balance	Net cash flow from operating activities for the year	Cash outflow for the year	Cash balance	Corrective measures against insufficient cash position	
				Investment plans	Financing plans
35,938	808,834	(806,948)	37,824	—	—

(1) Analysis of current year's cash flows:
   (a) Operating activities: NT$808,834,000.
   (b) Investment activities: (NT$341,637,000).
   (c) Financing activities: (NT$465,311,000).

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

4. Effects of Major Capital Expenditures in the Most Recent Fiscal Year on Financial Operations: None.

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

A. Continue to make relevant reinvestments in line with the investment strategy of the parent Financial Holding Company and within the investment limits under the legal framework.

B. Stock dividends from the Company's reinvestment enterprises in 2016: Taiwan Depository & Clearing Corporation 1,543,765 shares, Taiwan Futures Exchange 445,631 shares.

C. Cash dividends from the Company's reinvestment enterprises in 2016: Taiwan Depository & Clearing Corporation NT$92,626,000, Taiwan Futures Exchange NT$32,680,000 are major sources of company earnings.

6. Risk assessment

A. The impact of changes in recent year interest rate, exchange rate and inflation conditions on company income and the future countermeasures:

(1) Interest rate: The Company's main business is margin trading and short sale businesses, and the main profit is from security margin trading interest rate spreads. The spread this year (2016) is fairly equivalent to that in 2014. Further, with respect to the secured loan business serving as the Company's main business, the Company will set the interest spread range independently based on the conditions in the financial market. Therefore, no significant impact has been rendered on the Company's income.

(2) Exchange rate: The Company's main income is in the local currency; therefore, exchange rates do not have a significant impact on the Company's income.

(3) Inflation: No significant impact on the company's income.

B. Transactions of high risk, high leverage investments, loans to others, endorsements and derivatives trading: None.

C. Future R&D plans and planned investment of R&D funds: None.

D. The impact of change in major policies and laws in Taiwan and abroad upon the financial standing of the company and the measures: None.

E. The impact of technological change and industry changes upon the financial standing of the company and the countermeasures: None.

F. The impact of change in corporate image upon the corporate risk management and the countermeasures: None.

G. Expected benefit(s) and possible risk(s) for M&A activities: None.

H. Expected profit and possible risks of plant expansion: None.

I. Purchase and sales risks: None.

J. The impact upon and potential risks for the company due to a significant transfer and the impact upon and potential risks for the company due to a significant transfer and change in shareholding of the directors and supervisors or major shareholders holding over 10%: None.

K. The impact of change in management and its potential risks: None.

L. Litigation and non-litigation matters: None.

M. Other major risks: None.

7. Other significant events: None.

VIII. Special Notes

1. Information on affiliates for 2016

A. Relationship between the controlling company and its affiliate companies

Units: Shares; %

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

Note：The baseline date for above information is Feb. 28, 2017.

B. Information on business transaction(s)

(1) Purchase and Sales transaction: None.

(2) Property transaction: None.

(3) Capital financing: None.

(4) Assets leasing: None.

(5) Other important transactions: The Company submitted a consolidated income tax return report with Yuanta Financial Holdings and its subsidiaries in 2016 and, therefore, the total balance of income tax to Yuanta Financial Holdings was NT$34,016,591.

C. Endorsement and guarantees: None.

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

Yuanta Securities Finance

Independent Auditor's Review on Affiliation Report

Tzu Hui Tzong Zi No. 15007547

To: Yuanta Securities Finance

You declare that the Affiliation Report for 2016 was prepared by you pursuant to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises", and that there are no significant inconsistencies between the information given above and the supplementary information disclosed in the financial statements for the above period. Please see the Declaration as shown in the attachment hereto.

We have compared the Affiliation Report prepared by you pursuant to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" with the note to your financial statements 2016, and found that there should be no significant inconsistencies in said declaration.

PricewaterhouseCoopers

Sk Lin

CPA:

Ellen Kuo

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

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

Dated: March 22, 2017

Yuanta Securities Finance' Declaration on Affiliation Report

It is hereby declared that the Affiliation Report for 2016 (from January 1, 2016 to December 31, 2016) is prepared and submitted pursuant to the "Principles and Guidelines for Preparation of the Affiliates Consolidated Business Report, Affiliates Consolidated Financial Statements, and the Report." At the same time, there is no significant inconsistency between the information above and the supplementary information disclosed in the financial statements for the above period.

Company Name: Yuanta Securities Finance Co., Ltd

Chairman: Huang Ting-hsien

Date: March 22, 2017

2. **Private Placement of Securities in recent years as of the publication date of the annual report: None.**

3. **Shares of the Company held or disposed of by subsidiaries in recent years as of the publication date of the annual report: None.**

4. **Other supplemental items: None.**

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

None

YUANTA SECURITIES FINANCE CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2016 AND 2015

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

pwc 資誠

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR16003242

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

Opinion

We have audited the accompanying balance sheets of Yuanta Securities Finance Co., Ltd. (the "Company") as at December 31, 2016 and 2015, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Yuanta Securities Finance Co., Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

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

Description

For the accounting policy of the unlisted stocks without active market (Available-for-sale financial assets – non-current), please refer to Note 4(6) of the financial statements; for the details of significant accounts, please refer to Note 6(3); for the accounting estimates of fair value measurement and assumption uncertainty, please refer to Note 5, for the fair value of financial assets, please refer to Note 12(2), as of December 31, 2016, the available-for-sale financial assets of the unlisted stock was NT$4,794,220 thousand.

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

How our audit addressed the matter

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in

accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including supervisors, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Lin, Se-Kai

Kuo, Puo-Ju

For and on behalf of PricewaterhouseCoopers, Taiwan

March 24, 2017

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

YUANTA SECURITIES FINANCE CO., LTD.
BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

ASSETS	Notes	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
Current assets					
Cash and cash equivalents	6(1) and 7(2)	$ 35,938	-	$ 2,046,339	12
Financial assets at fair value through profit or loss - current	6(2) and 7(2)	254,395	1	635,464	4
Margin loans receivable - net	6(5)	7,210,710	33	7,483,168	42
Security-based loans	6(6)	8,568,619	39	1,662,638	9
Other receivables	7(2)	327,417	2	190,209	1
Current income tax assets	7(2)	38,990	-	63,748	-
Prepayments		153	-	249	-
Total current assets		16,436,222	75	12,081,815	68
Non-current assets					
Available-for-sale financial assets - non-current	6(3)	4,794,220	22	4,849,285	28
Held-to-maturity financial assets - non-current	6(4) and 8	105,771	1	106,947	1
Property and equipment - net	6(7)	28,812	-	32,229	-
Investment property - net	6(8) and 7(2)	216,387	1	219,074	1
Intangible assets		5,479	-	7,115	-
Deferred income tax assets	6(19)	25,079	-	33,059	-
Other non-current assets	6(5), 7(2) and 8	283,381	1	317,072	2
Total non-current assets		5,459,129	25	5,564,781	32
Total Assets		$ 21,895,351	100	$ 17,646,596	100

(Continued)

YUANTA SECURITIES FINANCE CO., LTD.
BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
Current liabilities					
Short-term borrowings	6(9)	$ 1,080,000	5	$ -	-
Short-term notes and bills payable	6(10)	7,199,105	33	1,389,763	8
Short sale proceeds payable	6(5) and 7(2)	1,133,004	5	1,117,444	6
Other payables		94,530	-	75,425	1
Other payables - related parties	7(2)	518	-	574	-
Current income tax liabilities	7(2)	65,506	-	31,490	-
Deposits-in of securities finance guarantee	6(5) and 7(2)	1,050,438	5	1,073,543	6
Deposits-in of securities borrowing and lending	6(5) and 7(2)	827,368	4	1,240,238	7
Other current liabilities		1,747	-	1,856	-
Total current liabilities		11,452,216	52	4,930,333	28
Non-current liabilities					
Non-current provisions	6(12)	16,071	-	61,441	-
Other non-current liabilities	7(2)	8,551	-	10,180	-
Total non-current liabilities		24,622	-	71,621	-
Total liabilities		11,476,838	52	5,001,954	28
Equity					
Capital stock	6(13)				
Common stock		4,000,000	18	5,000,000	29
Capital reserve	6(14)				
Capital reserve - additional paid-in capital		26,271	-	926,271	5
Capital reserve - others		2,030	-	2,030	-
Retained earnings	6(15)				
Legal reserve		1,953,648	9	2,136,394	12
Unappropriated retained earnings		307,674	2	395,992	2
Other equity interest	6(3)(16)	4,128,890	19	4,183,955	24
Total equity		10,418,513	48	12,644,642	72
Significant commitments and contingencies	9				
TOTAL LIABILITIES AND EQUITY		$ 21,895,351	100	$ 17,646,596	100

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

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

		For the years ended December 31			
		2016		2015	
Items	Notes	AMOUNT	%	AMOUNT	%
Operating revenue					
Interest revenue		$ 511,605	93	$ 581,388	93
Other operating revenue	7(2)	39,236	7	45,919	7
Total operating revenue		550,841	100	627,307	100
Operating costs					
Interest expense		(27,991)	(5)	(22,619)	(4)
Other operating costs		(127,969)	(23)	(170,577)	(27)
Total operating costs		(155,960)	(28)	(193,196)	(31)
Gross profit		394,881	72	434,111	69
Operating expenses	6(17)(18)(21) and 7(2)	(157,204)	(29)	(169,498)	(27)
Operating income		237,677	43	264,613	42
Non-operating income and expenses					
Interest income	6(4) and 7(2)	4,682	1	7,334	1
Rent income	6(8)(21) and 7(2)	11,711	2	11,778	2
Dividend income		125,306	23	122,867	20
Gains on sale of investments	6(2)(3) and 7(2)	917	-	56,971	9
Other gains and losses	6(2)(8)	(2,150)	(1)	(9,188)	(2)
Total non-operating income and expenses		140,466	25	189,762	30
Income before income tax		378,143	68	454,375	72
Income tax expense	6(19)	(67,654)	(12)	(63,527)	(10)
Net income		310,489	56	390,848	62
Other comprehensive income					
Items not to be reclassified into profit or loss					
Gains on remeasurements of defined benefit plans	6(12)	(3,391)	-	6,198	1
Income tax related to components of items not to be reclassified into profit or loss		576	-	(1,054)	-
Item that may be subsequently reclassified into profit or loss					
Unrealised gains on valuation of available-for-sale financial assets	6(16)	(55,065)	(10)	465,046	74
Total other comprehensive (loss) income (net of tax)		(57,880)	(10)	470,190	75
Total comprehensive income		$ 252,609	46	$ 861,038	137
Earnings per share					
Basic and diluted earnings per share	6(20)	$ 0.70		$ 0.78	

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

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

		Equity attributable to owners of the parent					
				Retained Earnings		Other equity interest	
	Notes	Common stock	Capital reserve	Legal reserve	Unappropriated retained earnings	Unrealized gain on available-for-sale financial assets	Total equity
Year 2015							
Balance at January 1, 2015		$ 5,000,000	$ 928,301	$ 2,014,503	$ 416,247	$ 3,718,909	$ 12,077,960
Appropriation and distribution of 2014 earnings (Note 1)							
Legal reserve		-	-	121,891	(121,891)	-	-
Cash dividends		-	-	-	(294,356)	-	(294,356)
Net income for 2015		-	-	-	390,848	-	390,848
Other comprehensive income for 2015	6(12)(16)	-	-	-	5,144	465,046	470,190
Total comprehensive income for 2015		-	-	-	395,992	465,046	861,038
Balance as of December 31, 2015		$ 5,000,000	$ 928,301	$ 2,136,394	$ 395,992	$ 4,183,955	$ 12,644,642
Year 2016							
Balance at January 1, 2016		$ 5,000,000	$ 928,301	$ 2,136,394	$ 395,992	$ 4,183,955	$ 12,644,642
Appropriation and distribution of 2015 earnings (Note 2)							
Legal reserve		-	-	117,254	(117,254)	-	-
Cash dividends		-	-	-	(278,738)	-	(278,738)
Cash dividends from capital surplus	6(15)	-	(900,000)	-	-	-	(900,000)
Net income for 2016		-	-	-	310,489	-	310,489
Other comprehensive loss for 2016	6(12)(16)	-	-	-	(2,815)	(55,065)	(57,880)
Total comprehensive (loss) income for 2016		-	-	-	307,674	(55,065)	252,609
Capital reduction	6(13)	(1,000,000)	-	-	-	-	(1,000,000)
Cash dividends from legal reserve	6(15)	-	-	(300,000)	-	-	(300,000)
Balance at December 31, 2016		$ 4,000,000	$ 28,301	$ 1,953,648	$ 307,674	$ 4,128,890	$ 10,418,513

Note 1: Employees' bonus of $636 for the year ended December 31, 2014 have been eliminated in the statement of comprehensive income.
Note 2: Employees' bonus of $619 for the year ended December 31, 2015 have been eliminated in the statement of comprehensive income.

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

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

	Notes	For the years ended December 31 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 378,143	$ 454,375
Adjustments to reconcile profit (loss)			
Interest revenue		(516,287)	(588,722)
Depreciation (including investment property)	6(7)(8)(17)	6,902	8,287
Amortization of intangible assets	6(17)	2,948	2,635
(Reversal of) provision for bad debt expense	6(5)(6)	(277)	5,503
Interest expense		27,991	22,619
Dividend income		(125,306)	(122,867)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current	6(2)	381,069	(27,262)
Available-for-sale financial assets - current	6(3)	-	197,149
Margin loans receivable	6(5)	271,934	4,493,983
Security-based loans	6(6)	(6,906,643)	(1,662,638)
Other receivables		(73,283)	(12,041)
Prepayments		96	(249)
Other non-current assets		2,926	(6,094)
Changes in operating liabilities			
Short sale proceeds payable	6(5)	15,560	(98,072)
Deposits-in of securities finance guarantee		(23,105)	(21,191)
Other payables		19,004	(149,418)
Deposits-in of securities borrowing and lending		(412,870)	16,063
Employee benefit liabilities reserve		(48,761)	128
Other non-current liabilities		600	500
Cash (outflow) inflow generated from operations		(6,999,359)	2,512,688
Interest received		453,538	697,881
Cash paid for interest		(28,457)	(23,000)
Dividend received		125,306	122,867
Income tax paid		(471)	(63,561)
Net cash flows (used in) from operating activities		(6,449,443)	3,246,875
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from repayments of held-to-maturity financial assets		-	200,000
Acquisition of property and equipment	6(7)(22)	(3,232)	(2,058)
Increase in computer software cost		(735)	(3,750)
Decrease (increase) in refundable deposits		32,228	(180,000)
Net cash flows from investing activities		28,261	14,192
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term borrowings	6(9)	1,080,000	-
Increase (decrease) in short-term notes and bills payable	6(10)	5,810,000	(1,106,000)
(Decrease) increase in deposits-in		(481)	279
Payment of cash dividends	6(15)	(278,738)	(294,356)
Cash dividends from capital surplus	6(15)	(900,000)	-
Capital reduction payments to shareholders	6(13)	(1,000,000)	-
Cash dividends from legal reserve	6(15)	(300,000)	-
Net cash flows from (used in) financing activities		4,410,781	(1,400,077)
Net (decrease) increase in cash and cash equivalents		(2,010,401)	1,860,990
Cash and cash equivalents at beginning of year		2,046,339	185,349
Cash and cash equivalents at end of year	6(1)	$ 35,938	$ 2,046,339

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

YUANTA SECURITIES FINANCE CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. History and organization

(1) Subsequent to approval from the government of the Republic of China (ROC), Yuanta Securities Finance Co., Ltd. (the "Company"), formerly Fuhwa Securities Finance Co., Ltd., was established on January 17, 1980, and commenced operations on April 21, 1980. The Company listed its stock on the Taiwan Stock Exchange (TSE) on November 25, 1994. According to the Financial Holding Company Act, the Company and Yuanta Securities Co., Ltd, made an application to establish Yuanta Financial Holding Co., Ltd. (Yuanta Financial Holding) as the listed company on the TSE through share exchanges on February 4, 2002. The Company's stock was unlisted on the same day. As of December 31, 2016 and 2015, the Company had 47 employees, respectively.

(2) The Company is primarily engaged in providing pecuniary and securities financing facilities for the trading of listed securities, refinancing to securities firms, financing of cash capital increase and underwriting and subscription, offering loans to securities firms for dealing with underwriting, financing of securities settlement, borrowing or lending securities, and other businesses as approved by the authorities.

(3) Yuanta Financial Holding Co., Ltd. holds 100% equity interest in the Company. Yuanta Financial Holding Co., Ltd. is the Company's ultimate parent company.

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

These financial statements were authorized for issuance by the Board of Directors on March 24, 2017.

3. Application of new standards, amendments and interpretations

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

None.

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRS 14,'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments'with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to	January 1, 2018

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRS 1, 'First-time adoption of International Financial Reporting Standards'	
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

A. IFRS 9, 'Financial instruments'

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

(B) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

B. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises

revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

C. Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from Contracts with Customers‘

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

D. IFRS 16, ‘Leases’

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

4. Summary of significant accounting policies

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

(1) Compliance statement

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

(2) Basis of preparation

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

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

(B) Available-for-sale financial assets measured at fair value.

(C) Defined benefit liabilities recognised based on the net amount of pension fund assets plus unrecognised past service cost and unrecognised actuarial losses, and less unrecognised actuarial gains and present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

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

B. Foreign currency transactions and balances

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

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

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

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

(4) Classification of current and non-current items

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

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

(B) Assets held mainly for trading purposes;

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

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

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

(A) Liabilities that are expected to be settled within the normal operating cycle;

(B) Liabilities arising mainly from trading activities;

(C) Liabilities that are to be settled within twelve months from the balance sheet date;

(D) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash and cash equivalents

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

A. Readily convertible to known amount of cash.

B. Subject to an insignificant risk of changes in value.

(6) Financial assets and liabilities

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

A. Financial assets

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

(A) Regular way purchase or sale

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

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

a. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.

b. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(C) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable

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

(D) Available-for-sale financial assets

a. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

b. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. The cumulative valuation gain or loss is recognized as gain and loss in the period when it is derecognized from the financial assets. The fair value of unlisted stocks without active market held by the Company is evaluated by the evaluation method.

(E) Held-to-maturity financial assets

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

B. Determination of fair value

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

(7) <u>Impairment of financial assets</u>

A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:

(A) Significant financial difficulty of the issuer or debtor;

(B) A breach of contract, such as a default or delinquency in interest or principal payments;

(C) The Company, for economic or legal reasons relating to the borrower's financial difficulty,

granted the borrower a concession that a lender would not otherwise consider;

(D) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(E) The disappearance of an active market for that financial asset because of financial difficulties;

(F) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

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

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

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

(A) Financial assets measured at amortised cost

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

(B) Available-for-sale financial assets

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

Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(8) Offsetting financial instruments

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

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

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

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

A. According to the "Regulations Governing Securities Finance Enterprises" (RGSFE), margin loans primarily represent pecuniary financing to investors or refinancing to securities firms. The margin loans are accounted for "Margin loans receivable" as incurred and such loans are secured by the securities purchased by the investors, and the Company records these securities at par value under the memorandum accounts "securities held for collateral" and "liability for holding collateral securities", and is not included in the balance sheets.

B. According to Article 10 of the RGSFE, when providing margin loans to principals, the Company shall obtain the margin pursuant to the ratio prescribed by the competent authority.

C. Short sale stock loans represent securities financing affected by lending securities in custody that are received from margin loans, guarantee effects or borrowed securities, to investors. When the securities are lent to investors, the Company records the par value of the securities lent under the memorandum account "short sale stock loans". Additionally, according to Article 10 of the RGSFE, the investors need to deposit a regulated amount equal to a certain percentage of the proceeds from short sale stock financing or equivalent collateral as guarantee with the Yuanta Company. The proceeds are accounted for as "deposits - in". The Company deals with these securities at par value under the memorandum account "Guarantee deposits". The proceeds from sale of securities lent, less any dealer's commission, financing commission and securities exchange tax, are held by the Company as collateral and recorded under "Short sale proceeds payable".

D. In accordance with the order, when the securities financed by borrowers terminate trading, are delisted from the stock market, or are the securities of the borrowers' credit accounts which are unable to be disposed of, these margin loans will be recorded as "Other receivables" or "Overdue receivables" according to the results of negotiation or collection. When the maintenance of secured accounts is less than the regulatory standard and the borrower does not pay a portion of the remaining loans after offsetting the proceeds from disposal of securities, the related margin loans shall be recorded as overdue receivables.

E. Securities borrowed represent securities borrowed from one broker/dealer to another, who must eventually return the same security as repayment. When the securities are borrowed from investors, the Company records the par value of the securities borrowed under the memorandum

account “securities borrowed”. The borrower needs to deposit an amount equal to a certain percentage of the proceeds from securities borrowed or equivalent collateral as guarantee with the Company. The proceeds are accounted for as “Refundable deposits for securities lending”. The Company deals with securities at par value under the memorandum account “Refundable collaterals”. When the securities are lent to investors, the Company records the par value of the securities lent under the memorandum account “Short sale stock loans”. Additionally, a lender needs to deposit an amount equal to a certain percentage of the proceeds from securities lent or equivalent collateral as guarantee with the Company. The proceeds are accounted for as “Deposits-in”. The Company deals with these securities at par value under the memorandum account “Collaterals received”.

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

(10) Property and equipment

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

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

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

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

C. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the statement of comprehensive

income within ‘other gains and losses’.

(11) Investment property

Investment property of the Company is the property held either to earn long-term rental income or for capital appreciation or for both. An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 55 years.

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

(12) Lease

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

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

A. Operating lease

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

B. Finance lease

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

(13) Intangible assets

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

(14) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the

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

(15) Revenue recognition

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

A. Financing interest income: financing interest income refers to interest income received from providing financing service, which is recognized on an accrual basis during the financing periods.

B. Service fee income on margin trading: service fee income on margin trading refers to service fee charged for processing margin trading, which is recognized on an accrual basis during the margin trading periods.

C. Income on securities lending: income on securities lending refers to income and service fee income the lender receives from the borrower for securities lending, which is recognized on an accrual basis during the securities lending periods.

D. Revenues from security-based loans: interest revenue received from secured loans provided, which are accounted for within the loan period under an accrual basis.

(16) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(A) Defined contribution plans

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

(B) Defined benefit plans

a. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the

defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using market yields at the balance sheet date on high-quality corporate bonds with a currency and term consistent with the currency and term of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rate of government bonds (at the balance sheet date) instead.

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

C. Employees' compensation

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

(17) Income tax

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

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet.

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

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to

settle on a net basis or realize the asset and settle the liability simultaneously.

F. In accordance with Article 49 of the Financial Holding Company Act and Income Tax Act, the Company selected the parent company, Yuanta Financial Holding Co., Ltd., as the taxpayer to file the tax returns for the profit-seeking enterprise income tax and the additional 10% tax payment levied on undistributed earnings. When filing the tax return, the Company shall first compute its income tax on an individual filing basis pursuant to the IAS No. 12, "Income Taxes". However, for the appropriation received for the tax returns, current deferred income tax assets (liabilities) or current income tax liabilities (current income tax assets) shall be adjusted on a reasonable, systematic, and consistent basis.

(18) Dividends

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

(19) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. Critical accounting, estimates and key sources of assumption uncertainty

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

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

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

6. Details of significant accounts

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand and petty cash	$ 550	$ 550
Checking accounts	3,844	9,783
Demand deposits		
- NTD	31,543	40,523
- USD	1	44,972
Subtotal	35,938	95,828
Cash equivalents		
-Repurchase agreement	-	1,950,511
Total	$ 35,938	$ 2,046,339

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

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

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

	December 31, 2016	December 31, 2015
Equity instruments		
Beneficiary certificates	$ 255,000	$ 635,000
Adjustment of beneficiary certificates	(605)	464
Total	$ 254,395	$ 635,464

A. For the years ended December 31, 2016 and 2015, net gain (loss) on related financial assets were as follows:

	2016	2015
Realized gain on disposal:		
Beneficiary certificates	$ 917	$ 11,646
Unrealized loss on disposal:		
Beneficiary certificates	($ 1,069)	($ 7,738)

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

(3) Available-for-sale financial assets

Item	December 31, 2016	December 31, 2015
Non-current items:		
Unlisted stocks	$ 665,330	$ 665,330
Valuation adjustments	4,128,890	4,183,955
	$ 4,794,220	$ 4,849,285

A. Pursuant to IAS 39, 'Financial Instruments: Recognition and Measurement', financial instruments classified as 'available-for-sale financial assets' should be measured at fair value. As above mentioned unlisted stocks do not have a quoted market price in an active market, their fair

values shall be measured in accordance with the Company's regulations governing valuation of unlisted equity securities. The information of fair value measurement and evaluation, please refer to Note 12(2)B.(F).

B. For the years ended December 31, 2016 and 2015, net gain (loss) on disposal of related financial assets were as follows:

	2016	2015
Realized gain (loss) on disposal:		
Listed stocks	$ -	($ 50,983)
Beneficiary securities	-	96,308
	$ -	$ 45,325

C. On December 27, 2016, the Board of Directors of Yuanta Securities resolved to sell a total of 26,563 thousand shares held by TDCC to Yuanta Securities Co., Ltd and Yuanta Asset Management Co., Ltd. The transaction was received by Financial Supervisory Commission (FSC) on February 7, 2017, and subsequent procedures for this transaction will be processed after the confirmation from the Company.

(4) Held-to-maturity financial assets

	December 31, 2016	December 31, 2015
Non-current items:		
Government bonds	$ 105,771	$ 106,947

A. As of December 31, 2016 and 2015, the effective interest rates of the bonds held by the Company was both 1.13%~1.56%.

B. The Company recognized interest income of $1,447and $3,114 in profit or loss for amortized cost for the years ended December 31, 2016 and 2015, respectively.

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

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

	December 31, 2016	December 31, 2015
Margin loans receivable	$ 7,211,267	$ 7,483,201
Less: allowance for doubtful accounts	(557)	(33)
	$ 7,210,710	$ 7,483,168
Shorts sale proceeds payable	$ 1,133,004	$ 1,117,444

A. The percentages of margin loans for listed stocks were 60% (TSE) and 60% (OTC) in 2016 and 2015, respectively. Interest rates for pecuniary financing to securities firms and investors were 6.25% per annum in 2016 and 2015, respectively.

B. As of December 31, 2016 and 2015, the stipulated percentage of deposits from the proceeds of short sale stock financing (recognized as 'deposits-in of securities finance guarantee') was 90%. The annual interest rates on the short sale proceeds payable and deposits-in in 2016 and 2015 were both 0.2%.

C. As of December 31, 2016 and 2015, the stipulated percentage of deposits from securities lending business (shown in "deposits-in of securities borrowing and lending") was both 140%. The annual interest rate on the interest payable for such deposits in 2016 and 2015 was both 0.2%.

D. Due to the insufficient margin percentage for collateral from a decrease in stock price, the uncovered balance of the margin loans by disposing of the respective stocks was recorded as overdue receivables. As of December 31, 2016 and 2015, the details for the Company's non-current assets–overdue receivables were as follows:

	December 31, 2016	December 31, 2015
Overdue receivables	$ 9,262	$ 12,188
Less: allowance for doubtful accounts	(4,631)	(6,094)
	$ 4,631	$ 6,094

(6) Security-based loans

	December 31, 2016	December 31, 2015
Security-based loans	$ 8,569,281	$ 1,662,638
Less: allowance for doubtful accounts	(662)	-
	$ 8,568,619	$ 1,662,638

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

(7) Property and equipment

	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Others	Total
At January 1, 2016							
Cost	$ 29,404	$ 21,970	$ 27,990	$ 10,868	$ 30,506	$ 19	$120,757
Accumulated depreciation and Impairment	(18,321)	(13,340)	(25,794)	(7,183)	(23,890)	-	(88,528)
	$ 11,083	$ 8,630	$ 2,196	$ 3,685	$ 6,616	$ 19	$ 32,229
2016							
Opening net book amount	$ 11,083	$ 8,630	$ 2,196	$ 3,685	$ 6,616	$ 19	$ 32,229
Additions	-	-	130	687	-	558	1,375
Disposals - cost	-	-	(221)	-	(14,544)	-	(14,765)
- Accumulated depreciation	-	-	221	-	14,544	-	14,765
Depreciation	-	(265)	(1,116)	(908)	(1,926)	-	(4,215)
Transfers - cost	-	-	170	-	(170)	(577)	(577)
- Accumulated depreciation	-	-	(127)	-	127	-	-
Closing net book amount	$ 11,083	$ 8,365	$ 1,253	$ 3,464	$ 4,647	$ -	$ 28,812
At December 31, 2016							
Cost	$ 29,404	$ 21,970	$ 28,069	$ 11,555	$ 15,792	$ -	$106,790
Accumulated depreciation and Impairment	(18,321)	(13,605)	(26,816)	(8,091)	(11,145)	-	(77,978)
	$ 11,083	$ 8,365	$ 1,253	$ 3,464	$ 4,647	$ -	$ 28,812

	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Others	Total
At January 1, 2015							
Cost	$ 50,700	$ 40,339	$ 26,499	$ 10,868	$ 30,554	$ 315	$159,275
Accumulated depreciation and Impairment	(31,886)	(24,431)	(23,464)	(6,285)	(26,012)	-	(112,078)
	$ 18,814	$ 15,908	$ 3,035	$ 4,583	$ 4,542	$ 315	$ 47,197
2015							
Opening net book amount	$ 18,814	$ 15,908	$ 3,035	$ 4,583	$ 4,542	$ 315	$ 47,197
Additions	-	-	734	-	4,939	19	5,692
Disposals - cost	-	-	-	-	(4,230)	-	(4,230)
- Accumulated depreciation	-	-	-	-	4,230	-	4,230
Depreciation	-	(404)	(1,762)	(898)	(2,676)	-	(5,740)
Transfers - cost	(21,296)	(18,369)	757	-	(757)	(315)	(39,980)
- Accumulated depreciation	-	7,006	(568)	-	568	-	7,006
- Accumulated impairment	13,565	4,489	-	-	-	-	18,054
Closing net book amount	$ 11,083	$ 8,630	$ 2,196	$ 3,685	$ 6,616	$ 19	$ 32,229
At December 31, 2015							
Cost	$ 29,404	$ 21,970	$ 27,990	$ 10,868	$ 30,506	$ 19	$120,757
Accumulated depreciation and Impairment	(18,321)	(13,340)	(25,794)	(7,183)	(23,890)	-	(88,528)
	$ 11,083	$ 8,630	$ 2,196	$ 3,685	$ 6,616	$ 19	$ 32,229

(8) Investment property

	Land	Buildings	Total
At January 1, 2016			
Cost	$ 273,195	$ 235,682	$ 508,877
Accumulated depreciation and impairment	(141,450)	(148,353)	(289,803)
Total	$ 131,745	$ 87,329	$ 219,074
2016			
At January 1	$ 131,745	$ 87,329	$ 219,074
Depreciation expense	-	(2,687)	(2,687)
At December 31	$ 131,745	$ 84,642	$ 216,387
At December 31, 2016			
Cost	$ 273,195	$ 235,682	$ 508,877
Accumulated depreciation and impairment	(141,450)	(151,040)	(292,490)
Total	$ 131,745	$ 84,642	$ 216,387

	Land	Buildings	Total
At January 1, 2015			
Cost	$ 251,899	$ 217,313	$ 469,212
Accumulated depreciation and impairment	(127,885)	(134,311)	(262,196)
Total	$ 124,014	$ 83,002	$ 207,016
2015			
At January 1	$ 124,014	$ 83,002	$ 207,016
Depreciation expense	-	(2,547)	(2,547)
Transfers - cost	21,296	18,369	39,665
- Accumulated depreciation	-	(7,006)	(7,006)
- Accumulated impairment	(13,565)	(4,489)	(18,054)
At December 31	$ 131,745	$ 87,329	$ 219,074
At December 31, 2015			
Cost	$ 273,195	$ 235,682	$ 508,877
Accumulated depreciation and impairment	(141,450)	(148,353)	(289,803)
Total	$ 131,745	$ 87,329	$ 219,074

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

	2016	2015
Rental income from the lease of the investment property	$ 11,711	$ 11,778
Direct operating expenses arising from the investment property that generated rental income in the period	$ 3,034	$ 2,872

B. For the fair value of investment property held by the Company, the fair value of the subject property is estimated by an accredited external independent valuation appraiser under "Regulations on Real Estate Appraisal" and two specific valuation approaches, which are outlined below:

(a) Comparison approach is a method based on the value of the comparable property, which is compared, analyzed, and adjusted in order to estimate the value of the subject property. The comparable property is decided by reference to observable price level with active market in neighboring regions.

(b) The direct capitalization method of the income approach is a method to estimate the value of the subject property which apply an appropriate capitalization rate on the date of value opinion to capitalize the average objective annual net operating income in the future into an indication of value, and should take into account the income of neighboring similar properties based on their highest and best uses.

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

	December 31, 2016	December 31, 2015
Direct capitalization method of the income approach		
Capitalization rate	2.19%~3.16%	2.18%~2.51%

The fair value of the Company's investment property at December 31, 2016 and 2015 was $383,030 and $255,561, respectively.

(9) Short-term borrowings

	December 31, 2016	December 31, 2015
Unsecured loans	$ 1,080,000	$ -
Annual interest rates	0.60%	-

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

(10) Short-term notes and bills payable

	December 31, 2016	December 31, 2015
Commercial paper payable	$ 7,200,000	$ 1,390,000
Less: Discount on commercial paper payable	(895)	(237)
Total	$ 7,199,105	$ 1,389,763

A. The annual interest rate of commercial paper payable for the years ended December 31, 2016 and 2015 was 0.64%~0.74% and 0.45%~0.58%, respectively.

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

(11) Offsetting of financial assets and financial liabilities

A. The Company has engaged transactions involving financial instruments that are not in conformity with IAS 32 paragraph 42's offsetting requirements. However, the Company has entered into enforceable master netting arrangements or similar agreements with counterparties (e.g. reverse repurchase agreements). Upon the event of a breach in agreement (default, insolvency, or bankruptcy) by a party, the counterparty may set-off the netting arrangement or pursue legal action against the collateral in accordance with their agreements. The amount received for the collateral is the fair value of the collateral. However, the offsetting amount is limited to the total amount of recognized financial assets.

B. The following table provides related information on enforceable master netting arrangements or similar agreements that are financial assets:

December 31, 2016

				Not set off in the balance sheet		
Description	Gross amounts of recognised financial assets (a)	Gross amounts of recognised financial liabilities set off (b)	Amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Financial instruments (d)	Collateral received (e)	Net amount (f)=(c)-(d)-(e)
Reverse repurchase agreement	$ -	$ -	$ -	$ -	$ -	$ -

December 31, 2015

				Not set off in the balance sheet		
Description	Gross amounts of recognised financial assets (a)	Gross amounts of recognised financial liabilities set off (b)	Amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Financial instruments (d)	Collateral received (e)	Net amount (f)=(c)-(d)-(e)
Reverse repurchase agreement	$ 1,950,511	$ -	$ 1,950,511	$ -	$ 1,950,511	$ -

(12) Pension

A.(a) The Company has a defined benefit pension plan in accordance with the Labor Standard Law (the "Law"), covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. The Company provides benefits based on an employees' length of service and average salary or wage of the last 6 months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit for each additional year of service thereafter, with a maximum of 61 units. The Company contributes monthly an amount equal to 8% of employees' monthly base salaries and wages to an independent fund with the Bank of Taiwan, the trustee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

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

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	$ 88,097	$ 85,592
Fair value of plan assets	(72,026)	(24,151)
Net defined benefit liability	$ 16,071	$ 61,441

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	$ 85,592	($ 24,151)	$ 61,441
Current service cost	2,091	-	2,091
Interest expense (income)	1,455	(410)	1,045
	89,138	(24,561)	64,577
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	101	101
Change in financial assumptions	3,536	-	3,536
Experience adjustments	(246)	-	(246)
	3,290	101	3,391
Pension fund contribution	-	(51,897)	(51,897)
Paid pension	(4,331)	4,331	-
Balance at December 31	$ 88,097	($ 72,026)	$ 16,071

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2015			
Balance at January 1	$ 91,217	($ 23,706)	$ 67,511
Current service cost	2,674	-	2,674
Interest expense (income)	1,642	(427)	1,215
	95,533	(24,133)	71,400
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(88)	(88)
Change in financial assumptions	757	-	757
Experience adjustments	(6,867)	-	(6,867)
	(6,110)	(88)	(6,198)
Pension fund contribution	-	(3,761)	(3,761)
Paid pension	(3,831)	3,831	-
Balance at December 31	$ 85,592	($ 24,151)	$ 61,441

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

Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

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

	2016	2015
Discount rate	1.20%	1.70%
Future salary increases	2.50%	2.50%

Assumptions regarding future mortality experience for 2016 and 2015 are set based on the Taiwan Standard Ordinary Experience Mortality Table (2011).

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2016				
Effect on present value of defined benefit obligation	($ 1,793)	$ 1,844	$ 1,597	($ 1,564)
	Discount rate		Future salary increases	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
December 31, 2015				
Effect on present value of defined benefit obligation	($ 7,183)	$ 8,083	$ 7,030	($ 6,424)

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

(f) Expected contributions to the defined benefit pension plans of the Company for the year

ending December 31, 2017 amounts to $3,825.

(g) As of December 31, 2016, the weighted average duration of that retirement plan is 10 years.

B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) Under the defined contribution pension plan, the Company recognized pension expense of $1,663 and $1,652 for the years ended December 31, 2016 and 2015, respectively.

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

A. As of December 31, 2016 and 2015, the Company's authorized capital was $22,500,000 with a par value of $10 (in dollars) per share; the common stocks and outstanding common stocks issued were 400,000 thousand shares (including 186,667 thousand shares through private placement) and 500,000 thousand shares (including 233,333 thousand shares through private placement), respectively.

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

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

(14) Capital reserve

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

(15) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then appropriate special reserve in accordance with regulations after appropriating 30% of the remaining amount as

legal reserve. The remainder, if any, shall be appropriated after a resolution for distribution prepared by the Board of Directors has been approved by the stockholders' meeting.

B. Effective from January 1, 1994, the Company sets aside 30% of net income after tax as legal reserve following the instructions of Ministry of Finance. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. The Board of Directors (acting on behalf of the stockholders) of the Company on April 26, 2016 and April 22, 2015 resolved to appropriate 2015 and 2014 earnings. The details are as follows:

	2015		2014	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 117,254		$ 121,891	
Cash dividends	278,738	$ 0.63	294,356	$ 0.59

E. The appropriation of the Company's 2016 earnings as proposed by the Board of Directors on March 24, 2017 is as follows:

	2016	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 92,302	
Cash dividends	215,372	$ 0.54

F. On February 26, 2016, the Company's Board of Directors resolved to distribute cash dividends of approximately $2.72 per share, totaling $1,200 million, of which $300 million were from legal reserve and $900 million were from capital reserve. On March 11, 2016, the FSC approved the distribution. On April 26, 2016, the Company's Board of Directors (acting on behalf of the stockholders) approved the distribution.

G. For information relating to employees' compensation, please refer to Note 6(18).

(16) Other equity items

	2016	2015
Unrealised gain on valuation of available-for-sale financial assets		
At January 1	$ 4,183,955	$ 3,718,909
Revaluation in the period	(55,065)	465,046
At December 31	$ 4,128,890	$ 4,183,955

(17) Expenses by nature

	2016	2015
Employee benefits expense	$ 88,365	$ 89,371
Property and equipment depreciation	4,215	5,740
Intangible assets amortisation	2,948	2,635
Rental expenses	12,764	12,806
Taxes	13,341	14,907
Professional fees	10,848	10,010
Others expenses	24,723	34,029
Operating expenses	$ 157,204	$ 169,498

(18) Employee benefits expense

	2016	2015
Salaries	$ 75,629	$ 75,726
Labor and health insurance fees	4,096	4,366
Pension expense	4,799	5,541
Other expenses	3,841	3,738
	$ 88,365	$ 89,371

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

B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at $631 and $619, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation was estimated and accrued based on 0.17% of distributable profit of current year for the year ended December 31, 2016. The employees' compensation resolved by the Board of Directors was $631, and the employees' compensation will be distributed in the form of cash.

Employees' compensation of 2015 as resolved by the meeting of Board of Directors were in agreement with those amounts recognised in the 2015 financial statements.

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

the Taiwan Stock Exchange.

(19) Income tax

A. Income tax expense

(A) Components of income tax expense:

	2016	2015
Current tax:		
Current tax on profit for the period	$ 34,488	$ -
Adjustments in respect of prior years	24,610	(444)
Total current tax	59,098	(444)
Deferred tax:		
Origination and reversal of temporary differences	8,556	63,971
Total deferred tax	8,556	63,971
Income tax expense	$ 67,654	$ 63,527

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

	2016	2015
Remeasurement of defined benefit obligations	($ 576)	$ 1,054

B. Reconciliation between income tax expense and accounting profit

	2016	2015
Tax calculated based on profit before tax and statutory tax rate	$ 64,284	$ 77,244
Effects from items disallowed by tax regulation	54	456
Adjusted effects on income tax exemption and others	(21,294)	(13,729)
Prior year income tax (over) underestimation	24,610	(444)
Income tax expense	$ 67,654	$ 63,527

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

	2016			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred income tax assets:				
Book-tax difference of pension	$ 20,687	($ 8,159)	$ 576	$ 13,104
Impairment	10,609	-	-	10,609
Others	1,763	(397)	-	1,366
Total	$ 33,059	($ 8,556)	$ 576	$ 25,079

	2015			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred income tax assets:				
Book-tax difference of pension	$ 22,182	($ 441)	($ 1,054)	$ 20,687
Book-tax difference of financial assets	25,940	(25,940)	-	-
Impairment	77,615	(67,006)	-	10,609
Others	744	1,019	-	1,763
Total	$ 126,481	($ 92,368)	($ 1,054)	$ 33,059

D. As of December 31, 2016, the Company's income tax returns through 2011 have been assessed by the Tax Authority.

E. Unappropriated earnings recorded in the financial statements were accrued after 1998.

F. As of December 31, 2016 and 2015, the balances of the Company's imputation tax credit account was $30,716 and $23,027, respectively. The creditable tax rate was 10.80% for 2015 and is estimated to be 9.98% for 2016.

(20) Earnings per share

	2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Profit attributable to ordinary shareholders of the parent	$ 310,489	445,519	$ 0.70

	2015		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Profit attributable to ordinary shareholders of the parent	$ 390,848	500,000	$ 0.78

(21) Operating lease

A. The Company leases office building to others under non-cancellable operating lease agreements. Rental income from these leases amounting to $11,711 and $11,778 were recognized for the years ended December 31, 2016 and 2015, respectively. The leases of office building to others are based on a series of lease agreements which have terms expiring between 2017 and 2020. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2016	December 31, 2015
Less than 1 year	$ 9,356	$ 12,161
1 ~5 years	10,350	8,545
Total	$ 19,706	$ 20,706

B. The Company has leases in offices and parking spaces under non-cancellable operating lease agreements. The lease terms are expiring between 3 and 10 years, and all these lease agreements are renewable at the end of the lease period. The Company recognized rental expenses of $11,912 and $11,947 for these leases for the years ended December 31, 2016 and 2015, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2016	December 31, 2015
Less than 1 year	$ 11,603	$ 10,325
1 ~5 years	19,649	132
Later than 5 years	-	13
Total	$ 31,252	$ 10,470

(22) Additional information on cash flow

Investing activities with partial cash payments:

	2016	2015
Acquisition of property and equipment	$ 1,375	$ 5,692
Add: Lease payables at beginning of year	4,336	702
Less: Lease payables at end of year	(2,479)	(4,336)
Cash paid during the period	$ 3,232	$ 2,058

7. Related party transactions

(1) Parent and ultimate controlling party

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

(2) Significant transactions and balances with related parties

A. Securities lending

	2016	2015
Associates	$ 398	$ 882

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

B. Securities financing

	2016	2015
Associates	$ 1,413	$ 895

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

C. Operating cost/expense

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

	2016	2015
Associates	$ 6,120	$ 6,120

(B) Donations

	2016	2015
Related party in substance		
Yuanta Cultural & Education Foundation	$ 2,000	$ 2,300
Yuanta Polaris Research Institute	840	1,100
	$ 2,840	$ 3,400

(C) The Company leases offices from Yuanta Securities commencing from June 2008. The leases will expire in November 2019. The rentals were determined by reference to the rental rates of the near-by offices and contracted by the related parties. Future lease payments required

under the rents are payable according to the terms of the lease contracts. Rents of $10,712 and $10,748 had been paid for years 2016 and 2015, respectively. Future lease payments required under these leases are shown below:

Period	Amounts
2017	$ 10,501
2018	10,501
2019 (January ~ November)	9,043
Total	$ 30,045

D. Rent revenue

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

	2016	2015
Associates	$ 11,314	$ 10,838

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

E. Other receivables

	December 31, 2016	December 31, 2015
Associates	$ 73	$ 265

F. Current income tax assets

	December 31, 2016	December 31, 2015
The parent company	$ 38,990	$ 63,748

G. Other non-current assets - refundable deposits

	December 31, 2016	December 31, 2015
Associates	$ 1,750	$ 2,678

H. Other payables

	December 31, 2016	December 31, 2015
Associates	$ 511	$ 528
The parent company	7	46
Total	$ 518	$ 574

I. Short sale proceeds payable

	December 31, 2016	December 31, 2015
Associates	$ 10,505	$ 7,254

J. Current income tax liabilities

	December 31, 2016	December 31, 2015
The parent company	$ 34,016	$ -

K. Deposits-in of securities finance guarantee

	December 31, 2016	December 31, 2015
Associates	$ 12,340	$ 8,070

L. Deposits-in of securities borrowing and lending

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

	December 31, 2016	December 31, 2015
Associates	$ 10,514	$ 39,508

M. Other non-current liabilities deposits-in

	December 31, 2016	December 31, 2015
Associates	$ 2,619	$ 3,100

N. Property transactions

Open-end mutual funds and money market instruments:

	December 31, 2016	December 31, 2015
Funds managed by associates	$ 9,499	$ 19,865

Gains (losses) on disposal of funds managed by associates for the years ended December 31, 2016 and 2015 were ($415) and $1,306, respectively.

O. Others

Bank deposits and interest income

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

	December 31, 2016	December 31, 2015
Bank deposits		
-Recognized in cash and cash equivalents	$ 2,596	$ 3,257
-Recognized in refundable deposits	100,000	100,000
Total	$ 102,596	$ 103,257
Interest income	$ 1,212	$ 1,362

(3) Key management compensation

	2016	2015
Salaries and other short-term employee benefits	$ 39,522	$ 37,465
Post-employment benefits	2,535	3,070
Total	$ 42,057	$ 40,535

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

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

transportation allowance, and attendance fee.

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

8. Pledged assets

Assets	Book value December 31, 2016	Book value December 31, 2015	Purpose of pledge
Held-to-maturity financial assets			
- Government bonds	$ -	$ 10,102	Operating guarantee deposits for trading bonds (Note)
- Government bonds	40,311	40,406	Stock borrowings
- Government bonds	55,382	56,439	Securities financing deposit in Central Bank of the Republic of China (Taiwan)
Other non-current assets			
- Refundable deposits	100,000	100,000	Stock borrowings
- Refundable deposits	170,000	200,000	Securities financing deposit in Central Bank of the Republic of China (Taiwan)

Note: The Company has engaged in dealing of government bonds until December 1, 2016.

9. Significant contingent liabilities and unrecognized contract commitments

(1) As of December 31, 2016 and 2015, the stocks entrusted to the custody of the Company by clients both amounted to 7,483,000 shares. The market value of these entrusted stocks was approximately $76,775, and $76,385, respectively.

(2) As of December 31, 2016, the Company has leases in offices and parking spaces under non-cancellable operating lease agreements. The future rents payable under non-cancellable operating leases are provided in Note 6(21).

10. Significant losses from disasters

None.

11. Significant subsequent events

None.

12. Others

(1) Capital management

A. Objective of capital management

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

B. Procedures of capital management

The Board of Directors has the ultimate approval right in the Company's capital management. The responsive unit should effectively identify, measure, monitor and control relevant risks to assess the minimum capital requirements in accordance with regulations of the competent authority and the Company's regulations or procedures governing various risks and legal and compliance risk. The Company's self-owned capital adequacy ratio is regularly calculated as net of qualifying self-owned capital divided by the equivalent amount of operating risk.

(2) Hierarchy of fair value estimation of financial instruments

A. Fair value information of financial instruments

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

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

	December 31, 2015			
		Fair value		
	Book value	Level 1	Level 2	Level 3
Financial assets:				
Held-to-maturity financial assets				
Government bonds	$ 106,947	$ -	$ 110,012	$ -

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

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

a. For short-term instruments, the fair values were determined based on their carrying values since the impact of discount rates is insignificant. This valuation method can be applied to such asset accounts as cash and cash equivalents, margin loans receivable,

security-based loans, other receivables, overdue receivables, short term borrowings, short sale proceeds payable, other payables, deposits-in of securities finance guarantee, deposits-in of securities borrowing and lending, lease payable, and deposits-in.

b. The fair values of refundable deposits at the balance sheet date were valued at book value since the impact of discount rates is insignificant.

c. Held-to-maturity financial assets

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

(C) Financial instruments measured at fair value

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

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

The fair values by classification and nature are as follows:

a. NTD Central Government Bond: the yield rates across different contract length bulletined by Over-The-Counter (hereinafter OTC) are used.

b. Listed stocks and ETF： the closing price on the date that the stock or ETF being listed in TSE or OTC for the first-time or the prior transaction price is adopted.

c. Domestic funds: the net fund values announced by the investment trust company are adopted.

d. Unlisted stocks: Under the situation of sufficient information, the Company first uses the market method to determine the fair value of unlisted stocks, then the income method. Only when the market method and income method cannot appropriately assess the fair value of the unlisted stocks, the replacement cost method is used.

B. Fair value information of financial instruments

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

a. Level 1

That is the quoted prices in active markets for identical assets or liabilities. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the investments of the Company, such as listed stocks investment, beneficiary certificates, popular Taiwan government bonds is deemed as Level 1.

b. Level 2

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

c. Level 3

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

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

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

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or				
Beneficiary certificates	$ 635,464	$ 635,464	$ -	$ -
Available-for-sale financial assets				
Stock investments	4,849,285	-	-	4,849,285
Total	$ 5,484,749	$ 635,464	$ -	$ 4,849,285

(C) For the years ended December 31, 2016 and 2015, the Company experienced no transfers between Level 1 and Level 2.

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

2016								
		Gain and loss on valuation		Addition		Reduction		
Items	Beginning balance	Gain and loss	Other comprehensive income	Purchased or issued	Transferred to Level 3	Repayment of the principal at maturity, sold, disposed or settled	Transferred from Level 3	Ending balance
Available-for-sale financial assets								
Unlisted stocks	$ 4,849,285	$ -	($ 55,065)	$ -	$ -	$ -	$ -	$ 4,794,220

2015								
		Gain and loss on valuation		Addition		Reduction		
Items	Beginning balance	Gain and loss	Other comprehensive income	Purchased or issued	Transferred to Level 3	Repayment of the principal at maturity, sold, disposed or settled	Transferred from Level 3	Ending balance
Available-for-sale financial assets								
Unlisted stocks	$ 4,333,916	$ -	$ 515,369	$ -	$ -	$ -	$ -	$ 4,849,285
Others	90,221	-	-	-	-	(90,221)	-	-
Total	$ 4,424,137	$ -	$ 515,369	$ -	$ -	($ 90,221)	$ -	$ 4,849,285

Above valuation gains and losses are recognized in gain and loss in the period. As of December 31, 2016 and 2015, the gains (losses) on liabilities were ($55,065) and $515,369, respectively.

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

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

	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range
Non-derivative equity instrument:				
Unlisted stocks	$ 4,794,220	Market price method	Price to earnings ratio multiple,	21.24~44.96
			Discount of marketability	0%~40%

	Fair value at December 31, 2015	Valuation technique	Significant unobservable input	Range
Non-derivative equity instrument:				
Unlisted stocks	$ 4,849,285	Market price method	Price to earnings ratio multiple,	24.92~30.34
			Discount of marketability	0%~40%

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

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

	Change in fair value recognized in current profit and loss	
	Favorable movements	Unfavorable movements
December 31, 2016		
Available-for-sale financial assets		
Unlisted stocks	$ 15,980	($ 15,980)

	Change in fair value recognized in current profit and loss	
	Favorable movements	Unfavorable movements
December 31, 2015		
Available-for-sale financial assets		
Unlisted stocks	$ 16,165	($ 16,165)

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

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

(3) Management for financial risk

A. Risk management policy and structural organization

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

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

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

(A) Market risk

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

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

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

b. Market risk assessment

(a) Foreign exchange risk management

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

(b) Price risk management

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

The Company's investments in equity securities comprise domestic listed and unlisted stocks. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2016 and 2015 would have increased/decreased by $534 and $347, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by $47,942 and $48,493, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

(c) Interest rate risk management

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

Income before taxes for the years ended December 31, 2016 and 2015 would have been $4,608 and $1,997 lower/higher, respectively, if the global market yield curves on December 31, 2016 and 2015 all changed by 10 basis points.

(B) Credit risk

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

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

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

b. Credit risk concentration

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

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

(a)Industry:

	December 31, 2016	December 31, 2015
Government-owned businesses	$ 375	$ 314
Privately owned businesses	460,287	865,784
Individuals	10,331,407	8,239,525
Financial institutions	5,670,017	2,999,828
Government institutions	276,588	307,767
Total	$ 16,738,674	$ 12,413,218

(b)Geographical location:

	December 31, 2016	December 31, 2015
Taiwan	$ 16,738,674	$ 12,413,218

As to the sources of the Company's credit risk, geographic concentration, primarily in Taiwan, accounts for up to 100% in its entirety. Industrial concentration accounts for about 61% in its entirety as the nature of industry is determined individually.

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

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

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

(a) Excellent: The underlying position or an entity is capable of fulfilling its financial commitment even if facing significant uncertain factors or exposed to an adverse condition.

(b) Standard: the underlying position or an entity's capacity to fulfill the contractual obligation is weak, and any adverse movement toward operation, finance or economy could further weaken its capacity to fulfill financial commitment.

(c) Below standard: the underlying position or an entity's capacity to fulfill the contractual obligation is weak, and the fulfillment of the contractual commitment depends on the advantageous movement in operating environment and financial status.

(d) Non-rated etc.: are those that are not rated etc.

(e) Impaired: the underlying position or an entity has incurred an objective evidence of impairment at the reporting date.

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

December 31, 2015	Positions that are neither past due nor impaired					Positions that are past due but not impaired(B)	Impaired amount (C)	Total (A)+(B)+(C)	Recognized losses(D)	Net Amount (A)+(B)+(C)-(D)
	Excellent	Standard	Below standard	Non-rated etc.	Subtotal (A)					
Cash and cash equivalents	$ 2,046,339	$ -	$ -	$ -	$ 2,046,339	$ -	$ -	$ 2,046,339	$ -	$ 2,046,339
Financial assets at fair value through profit or loss	600,718	-	-	-	600,718	-	-	600,718	-	600,718
Available-for-sale financial assets - current	7,210,479	272,722	-	-	7,483,201	-	-	7,483,201	33	7,483,168
Margin loans receivables	1,662,638	-	-	-	1,662,638	-	-	1,662,638	-	1,662,638
Other receivables	183,453	6,756	-	-	190,209	-	-	190,209	-	190,209
Held-to-maturity financial assets	106,947	-	-	-	106,947	-	-	106,947	-	106,947
Other non-current assets	310,978	-	-	-	310,978	12,188	-	323,166	6,094	317,072

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

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

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

As of December 31, 2016 and 2015, the financial assets were not held by the Company were impaired by evaluation.

(C) Liquidity risk

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

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

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

b. Risk assessment

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

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

(c) Maturity analysis on non-derivative financial liabilities

December 31, 2016	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Short-term borrowings	$ 1,080,000	$ -	$ -	$ -	$ -	$ 1,080,000
Short-term notes and bills payable	7,199,105	-	-	-	-	7,199,105
Short sale proceeds payable	-	-	1,133,004	-	-	1,133,004
Other payables	67,353	3,288	22,728	1,161	-	94,530
Other payables- related parties	516	-	2	-	-	518
Deposits-in of securities finance guarantee	-	-	1,050,438	-	-	1,050,438
Deposits-in of securities borrowing and lending	-	-	827,368	-	-	827,368
Lease payable (recognized in other current liabilities and other non current liabilities)	155	312	421	859	732	2,479
Deposits-in (recognized in other non current liabilities)	-	-	-	-	2,620	2,620
Total	$ 8,347,129	$ 3,600	$ 3,033,961	$ 2,020	$ 3,352	$ 11,390,062

December 31, 2015	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Short-term notes and bills payable	1,389,763	-	-	-	$ -	$ 1,389,763
Short sale proceeds payable	-	-	1,117,444	-	-	1,117,444
Other payables	52,491	2,559	19,295	619	461	75,425
Other payables- related parties	556	-	18	-	-	574
Deposits-in of securities finance guarantee	-	-	1,073,543	-	-	1,073,543
Deposits-in of securities borrowing and lending	-	-	1,240,238	-	-	1,240,238
Lease payable (recognized in other current liabilities and other non current liabilities)	153	307	465	932	2,479	4,336
Deposits-in (recognized in other non current liabilities)	-	-	-	-	3,101	3,101
Total	$ 1,442,963	$ 2,866	$ 3,451,003	$ 1,551	$ 6,041	$ 4,904,424

13. Other disclosure items

(1) Information about significant transactions

A. Lending to others: Since the Company engages in providing pecuniary and securities financing facilities for the trading of listed securities, and refinancing to securities firms and other businesses, no disclosure is required.

B. Endorsements and guarantees: None.

C. Information regarding securities held as of December 31, 2016:

				As of December 31, 2016				
Name of company which holds securities	Category and name of securities (or name of issuer of securities)	Relationship between issuer of securities and the company	Account	Number of shares (In thousands)	Book value	Percentage of ownership	Fair value	Note
The Company	Beneficiary certificates:							
	Prudential Financial China Flexible Balanced Fund	-	Financial assets at fair value through profit or loss - current	1,500	$ 13,828	N/A	$ 13,828	
	Hua Nan Phoenix Money Market Fund	-	〃	12,473	200,988	〃	200,988	
	Allianz Global Investors Target Multi Income Fund	-	〃	2,000	20,480	〃	20,480	
	Yuanta China Balanced Fund	A related party where the management company has the same controlling company as the Company	〃	716	9,499	〃	9,499	
	Jih Sun China Strategy A Share Fund	-	〃	1,000	9,600	〃	9,600	
	Financial assets at fair value through profit or loss - current				$ 254,395		$ 254,395	
	Unlisted stocks:							
	Taiwan Depository & Clearing Co., Ltd.	-	Available-for-sale financial assets - non-current	63,294	$ 3,674,871	17.96	$ 3,674,871	
	Taiwan Futures Exchange Co., Ltd.	-	〃	15,300	1,119,349	5.00	1,119,349	
	Total available-for-sale financial assets - non-current				$ 4,794,220		$ 4,794,220	
	Government Bonds - non-current							
	A99105	-	Held-to-maturity financial assets - non-current	-	$ 50,389	N/A	$ 50,804	
	A90108	-	〃	-	55,382	〃	56,756	
	Total held-to-maturity financial assets - non-current				$ 105,771		$ 107,560	

D. Disposals of real estate exceeding NT$300 million or 20 percent of contributed capital：None.

E. Information on the acquisition of the real estate for which the purchase amount exceeded NT$300 million or 20% of paid-in capital: None.

F. Information on the disposal of the real estate for which the sale amount exceeded NT$300 million or 20% of paid in capital: None

G. Information regarding related party purchases and / or sales for which the amount exceeded of NT$100 million or 20% paid-in capital: Not applicable.

H. Information regarding receivables from related parties for which the amount exceeded NT$100 million or 20% of paid-in capital: None.

I. Information regarding trading in derivative financial instruments: None.

J. Other information on the significant transactions and relationships between parent company and subsidiaries: Not applicable.

(2) Information on investees

Not applicable.

(3) Disclosure of investments in Mainland China

Not applicable.

14. Segment information

(1) General information

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

(2) Measurement of segment information

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

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

The Company operates business only in a single industry. The segment information provided to the CODM for the reportable segments for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Segment revenue from external customers	$ 550,841	$ 627,307
Segment profit before tax	378,143	454,375
Segment assets	21,895,351	17,646,596

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

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

(5) Information on products

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

	2016	2015
Financing interest income	$ 410,739	$ 570,604
Security-based loans interest income	100,866	10,784
Service fee income on margin trading	26,193	37,066
Income on securities lending	13,034	8,853
Other	9	-
Total	$ 550,841	$ 627,307

(6) Geographical information

None.

(7) Major customer information

None.

Yuanta Securities Finance Co., Ltd.