

**YUANTA FUTURES CO., LTD. AND  
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**DECEMBER 31, 2018 AND 2017**

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR18000393

To the Board of Directors and Stockholders of Yuanta Futures Co., Ltd.

***Opinion***

We have audited the accompanying consolidated balance sheets of Yuanta Futures Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Yuanta Futures Co., Ltd. and its subsidiaries as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants”, “Regulation Governing the Preparation of Financial Reports by Securities Firms” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

***Basis for Opinion***

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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key Audit Matters***

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

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

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

Description

For the accounting policy of the unlisted stocks without active market (Financial assets at fair value through other comprehensive income), please refer to Note 4(8) of the consolidated financial statements; for the details of significant accounts, please refer to Note 6(5); for the accounting estimates of fair value measurement and assumption uncertainty, please refer to Note 5(2), for the fair value of financial assets, please refer to Note 20(3). As of December 31, 2018, the financial assets at fair value through other comprehensive income of the unlisted stock was NT\$1,404,019 thousand.

The Group held unlisted stocks without active market in which the fair value was measured using the market method, that involve certain assumptions and the significant inputs 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 judgements 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 one of the key audit matters in our audit.

How our audit addressed the key audit 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. Obtained an understanding 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 comparable companies which were selected by the management, including evaluating the similarity of its business characteristics and the relevant evidences.
4. Examined 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 evaluate the reasonableness of each input.

***Impairment assessment of futures trading margin receivable***

Description

For the accounting policy of impairment assessment of futures trading margin receivable, please refer to Note 4(15) of the consolidated financial statements; for details of significant accounts, please refer to Note 6(4); for accounting estimates of impairment loss and assumption uncertainty, please refer to Note 5(1); as of December 31, 2018, the futures trading margin receivable and its loss allowance were NT\$90,158 and NT\$89,136 thousand, respectively.



The impairment assessment of the futures trading margin receivable of the Group is performed using the expected credit loss model. The estimation of impairment loss is primarily based on parameters such as the amount of time past due and expected loss rate. The measurement of the aforementioned impairment loss of futures trading margin receivable involves subjective judgement and assumptions, including determining whether there has been significant increase in credit risk since initial recognition, and has a material impact on the financial statements. Thus, we have included the impairment assessment of futures trading margin receivable as a key audit matter in our audit.

#### How our audit addressed the key audit matter

In response to the above-mentioned key audit matter, we conducted the following procedures:

1. Obtained an understanding of the related policies and assessment process of the futures trading margin receivable of the Group.
2. Evaluated the appropriateness of management's judgement of whether there was significant increase in credit risk.
3. Evaluated whether the loss rates used by management to calculate expected credit loss rates were appropriate.
4. Reviewed and recalculated the amounts of expected credit loss to determine the accuracy of such amounts.

#### ***Other matter – Parent company only financial reports***

We have audited and expressed an unmodified opinion on the parent company only financial statements of Yuanta Futures Co., Ltd. as at and for the years ended December 31, 2018 and 2017.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants”, “Regulation Governing the Preparation of Financial Reports by Securities Firms” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations’ as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability of the Group 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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of the Group.

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements. As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

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

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

Lin, Se-Kai

Kuo, Puo-Ju

For and on behalf of PricewaterhouseCoopers, Taiwan

March 21, 2019

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The accompanying consolidated 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 consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

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

**YUANTA FUTURES CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

ASSETS			December 31, 2018		December 31, 2017			
			AMOUNT	%	AMOUNT	%		
Current assets								
111100	Cash and cash equivalents	6(1) and 7	\$	5,291,562	7	\$	4,776,563	8
112000	Financial assets at fair value through profit or loss - current	6(2), 11 and 20(9)		244,675	1		146,673	-
113200	Financial assets at fair value through other comprehensive income - current	6(5)		155,525	-		-	-
113400	Available-for-sale financial assets-current	20(9)		-	-		280,461	1
114070	Margin deposits	6(3) and 7		64,540,616	88		49,642,864	87
114080	Futures trading margin receivable	6(4)		1,022	-		241	-
114100	Security lending deposits			-	-		6,130	-
114130	Accounts receivable			2,960	-		11,441	-
114140	Accounts receivable - related parties	7		4,033	-		4,828	-
114150	Prepayments			6,343	-		7,879	-
114170	Other receivables			27,919	-		15,279	-
114180	Other receivables - related parties	7		15,135	-		8,645	-
114300	Leverage margin contract trading client margin deposits	7		126,850	-		45,372	-
114600	Current income tax assets			341	-		341	-
119000	Other current assets			23	-		13	-
110000	Subtotal current assets			70,417,004	96		54,946,730	96
Non-current assets								
123200	Financial assets at fair value through other comprehensive income - non-current	6(5)		1,404,019	2		-	-
123300	Financial assets at amortised cost - non-current	6(6)		92,333	-		-	-
123400	Available-for-sale financial assets - non-current	20(9)		-	-		1,273,519	2
125000	Property and equipment	6(9)		612,943	1		576,842	1
127000	Intangible assets	6(10)		42,832	-		36,626	-
128000	Deferred income tax assets	6(26)		23,995	-		14,103	-
129010	Operating guarantee deposits	6(7), 7 and 8		145,886	-		147,168	-
129020	Clearing and settlement funds	6(8)		492,788	1		442,569	1
129030	Refundable deposits	7		38,323	-		22,823	-
129130	Prepayment for equipments			21,300	-		9,290	-
129990	Other non-current assets - Other			431	-		-	-
120000	Subtotal non-current assets			2,874,850	4		2,522,940	4
906001	Total assets		\$	73,291,854	100	\$	57,469,670	100

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**YUANTA FUTURES CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

LIABILITIES AND EQUITY		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
212000	Financial liabilities at fair value	6(2), 11 and 20(9)				
	through profit or loss - current		\$	20,089	-	\$ 7,449
214080	Futures traders' equity	6(3) and 7		64,332,759	88	49,432,661
214100	Leverage margin contract					
	transaction traders' equity			103,735	-	44,813
214130	Accounts payable			123,995	-	128,211
214140	Accounts payable - related parties	7		18,993	-	24,654
214160	Collection for third parties			7,179	-	5,729
214170	Other payables			205,909	1	204,152
214180	Other payables - related parties	7		923	-	733
214200	Other financial liabilities - current			-	-	500
214600	Current income tax liabilities			150,338	-	59,796
219000	Other current liabilities			24,182	-	23,343
210000	Subtotal current liabilities			64,988,102	89	49,932,041
Non-current liabilities						
225100	Provision - non-current			80,998	-	67,824
229000	Other non-current liabilities			2,204	-	2,220
220000	Subtotal non-current					
	liabilities			83,202	-	70,044
906003	Total liabilities			65,071,304	89	50,002,085
Equity attributable to owners of the parent company						
Capital						
301010	Common stock	6(12)		2,322,763	3	2,322,763
Additional paid-in capital						
302000	Capital surplus	6(13)		940,976	1	940,976
Retained earnings						
304010	Legal reserve	6(15)		807,426	1	720,097
304020	Special reserve	6(14)(15)		1,875,370	3	1,696,347
304040	Undistributed earnings	6(15)		1,093,522	1	875,462
Other equity						
305000	Other equity interest	6(16)		1,180,493	2	911,940
906004	Total equity			8,220,550	11	7,467,585
906002	Total liabilities and equity		\$	73,291,854	100	\$ 57,469,670

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



YUANTA FUTURES CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars, except earnings per share)

			For the years ended December 31			
			2018		2017	
Items	Notes		AMOUNT	%	AMOUNT	%
<b>Revenues</b>						
401000	Brokerage	6(17) and 7	\$ 3,439,375	95	\$ 2,712,136	93
410000	(Loss) gain on trading of securities	6(2)(18)	( 16,277)	-	2,486	-
421300	Dividend income	6(2)	1,491	-	3,263	-
421500	Loss on valuation of trading securities	6(2)	( 571)	-	( 106)	-
421600	Gain (loss) on repurchase of lending securities and sell back to bond funds and bonds	6(2)	15,679	1	( 55,765)	( 2)
421610	Lending securities and sell back to bond funds and bonds through profit or loss at fair value measurements of net benefits	6(2)	( 381)	-	607	-
424200	Securities commission revenue	7	4,743	-	4,425	-
424300	Clearance fee from consignment	6(19) and 7	83,717	2	75,996	3
424400	Net gain on disposal of derivative financial instruments	6(2)(20)	84,151	2	135,539	5
424800	Futures management fee revenues		-	-	198	-
424900	Futures advisory revenues		14,259	-	16,487	-
428000	Other operating revenues	7	12,110	-	25,735	1
400000	<b>Total revenues</b>		<u>3,638,296</u>	<u>100</u>	<u>2,921,001</u>	<u>100</u>
<b>Costs and expenses</b>						
501000	Brokerage fee	6(21)	( 620,625)	( 17)	( 516,514)	( 18)
502000	Dealer handling fee	6(21)	( 6,692)	-	( 5,951)	-
521200	Interest expense	7	( 52,617)	( 2)	( 34,609)	( 1)
425300	Expected credit losses	20(6)	( 89,113)	( 3)	-	-
524100	Futures commission	6(22) and 7	( 775,740)	( 21)	( 554,276)	( 19)
524300	Clearance fee		( 488,057)	( 14)	( 411,591)	( 14)
528000	Other operating fee		( 3,382)	-	( 779)	-
531000	Employee benefit expense	6(23)(24)	( 625,300)	( 17)	( 539,067)	( 19)
532000	Depreciation and amortization	6(9)(10)(23)	( 49,985)	( 1)	( 39,503)	( 1)
533000	Other operating expenses	6(23)(28) and 7	( 511,000)	( 14)	( 442,343)	( 15)
500000	<b>Total costs and expenses</b>		<u>( 3,222,511)</u>	<u>( 89)</u>	<u>( 2,544,633)</u>	<u>( 87)</u>
<b>Operating income</b>						
602000	Other gains and losses	6(25) and 7	415,785	11	376,368	13
902001	<b>Income before income tax</b>		<u>829,797</u>	<u>23</u>	<u>648,732</u>	<u>22</u>
701000	Income tax expense	6(26)	1,245,582	34	1,025,100	35
902005	<b>Net income</b>		<u>( 245,537)</u>	<u>( 7)</u>	<u>( 151,814)</u>	<u>( 5)</u>
			\$ 1,000,045	27	\$ 873,286	30

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YUANTA FUTURES CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars, except earnings per share)

				For the years ended December 31			
				2018		2017	
	Items	Notes		AMOUNT	%	AMOUNT	%
<b>Other comprehensive income</b>							
<b>Items that will not be reclassified to profit or loss</b>							
805510	Remeasurement of defined benefit obligations	6(11)		(\$ 16,482)	( 1)	\$ 766	-
805540	Unrealized gain on equity instrument investment measured at fair value through other comprehensive income	6(5)(16)		205,687	6	-	-
805599	Income tax related to components of items not to be reclassified	6(26)		3,272	- (	131)	-
<b>Items that may be reclassified to profit or loss subsequently</b>							
805610	Translation gain and loss on the financial statements of foreign operating entities	6(16)		25,454	1 (	23,052)	( 1)
805620	Unrealized gain on available-for-sale financial assets	6(16)		-	-	6,542	-
805000	<b>Total other comprehensive income (loss) (net of tax)</b>			<u>\$ 217,931</u>	<u>6</u>	<u>(\$ 15,875)</u>	<u>( 1)</u>
902006	<b>Total comprehensive income</b>			<u>\$ 1,217,976</u>	<u>33</u>	<u>\$ 857,411</u>	<u>29</u>
<b>Consolidated net income attributable to:</b>							
	Owners of the parent			<u>\$ 1,000,045</u>	<u>27</u>	<u>\$ 873,286</u>	<u>30</u>
<b>Consolidated comprehensive income attributable to:</b>							
	Owners of the parent			<u>\$ 1,217,976</u>	<u>33</u>	<u>\$ 857,411</u>	<u>29</u>
<b>Earnings per share (in New Taiwan Dollars)</b>							
	<b>Basic and diluted earnings per share</b>	6(27)		\$	4.31	\$	3.76

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

YUANTA FUTURES CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

	Notes	Equity attributable to owners of the parent									Total equity
		Capital Surplus			Retained Earnings			Other equity interest			
		Common stock	Paid-in capital in excess of par value	Paid-in capital from business merger	Legal reserve	Special reserve	Undistributed earnings	Translation gain and loss on the financial statements of foreign operating entities	Unrealized gain on equity instrument investment measured at fair value through other comprehensive income	Unrealized gain on available-for-sale financial assets	
<u>For the year ended December 31, 2017</u>											
Balance, January 1, 2017	6(12)	\$ 2,322,763	\$ 894,643	\$ 46,333	\$ 637,326	\$ 1,526,665	\$ 827,716	(\$ 4,224 )	\$ -	\$ 932,674	\$ 7,183,896
Net income for the year		-	-	-	-	-	873,286	-	-	-	873,286
Other comprehensive (loss) income for the year		-	-	-	-	-	635	( 23,052 )	-	6,542	( 15,875 )
Total comprehensive income		-	-	-	-	-	873,921	( 23,052 )	-	6,542	857,411
Appropriations of 2016 earnings:	6(15)										
Legal reserve		-	-	-	82,771	-	( 82,771 )	-	-	-	-
Special reserve		-	-	-	-	169,682	( 169,682 )	-	-	-	-
Cash dividends		-	-	-	-	-	( 573,722 )	-	-	-	( 573,722 )
Balance, December 31, 2017		\$ 2,322,763	\$ 894,643	\$ 46,333	\$ 720,097	\$ 1,696,347	\$ 875,462	(\$ 27,276 )	\$ -	\$ 939,216	\$ 7,467,585
<u>For the year ended December 31, 2018</u>											
Balance, January 1, 2018	6(12)	\$ 2,322,763	\$ 894,643	\$ 46,333	\$ 720,097	\$ 1,696,347	\$ 875,462	(\$ 27,276 )	\$ -	\$ 939,216	\$ 7,467,585
Effect of adopting IFRS 9 retrospectively		-	-	-	-	-	( 317 )	104	938,971	( 939,216 )	( 458 )
Balance, January 1, 2018 after adjustments	6(16)	2,322,763	894,643	46,333	720,097	1,696,347	875,145	( 27,172 )	938,971	-	7,467,127
Net income for the year		-	-	-	-	-	1,000,045	-	-	-	1,000,045
Other comprehensive income for the year	6(5)(16)	-	-	-	-	-	( 13,210 )	25,454	205,687	-	217,931
Total comprehensive income		-	-	-	-	-	986,835	25,454	205,687	-	1,217,976
Appropriations of 2017 earnings:	6(15)										
Legal reserve		-	-	-	87,329	-	( 87,329 )	-	-	-	-
Special reserve		-	-	-	-	179,023	( 179,023 )	-	-	-	-
Cash dividends		-	-	-	-	-	( 464,553 )	-	-	-	( 464,553 )
Disposal of equity instrument investment measured at fair value through other comprehensive income	6(5)(16)	-	-	-	-	-	( 37,553 )	-	37,553	-	-
Balance, December 31, 2018		\$ 2,322,763	\$ 894,643	\$ 46,333	\$ 807,426	\$ 1,875,370	\$ 1,093,522	(\$ 1,718 )	\$ 1,182,211	\$ -	\$ 8,220,550

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



YUANTA FUTURES CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

		For the years ended December 31	
	Notes	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 1,245,582	\$ 1,025,100
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(9)(23)	42,827	35,937
Amortization	6(10)(23)	7,158	3,566
Interest income	6(25)	( 699,311 )	( 498,976 )
Interest expense		52,617	34,609
Gain on disposal of available-for-sale financial assets		-	( 108,280 )
Dividend income	6(25)	( 74,347 )	( 54,043 )
Expected credit losses	20(6)	89,113	-
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current	(	98,002 )	113,221
Margin deposits	(	14,897,752 )	4,662,526
Futures trading margin receivable	(	90,158 )	462
Security lending deposits		6,130	304,978
Accounts receivable		8,481	339,643
Accounts receivable - related parties		795	( 1,695 )
Prepayments		1,536	( 3,558 )
Other receivables		57	9,876
Other receivables - related parties	(	145 )	19,599
Leverage margin contract trading client margin deposits	(	81,478 )	( 45,372 )
Other current assets	(	10 )	469
Other non-current assets - Other	(	431 )	-
Changes in operating liabilities			
Financial liabilities at fair value through profit or loss - current		12,640	( 346,937 )
Futures traders' equity		14,900,098	( 4,755,168 )
Leverage margin contract transaction traders' equity		58,922	44,813
Accounts payable	(	4,216 )	49,407
Accounts payable - related parties	(	5,661 )	7,447
Collection for third parties		1,450	644
Other payables		1,595	20,868
Other payables-related parties		182	( 20,788 )
Other financial liabilities - current	(	500 )	500
Other current liabilities		839	18,019
Provision - non-current	(	3,308 )	( 2,380 )
Other non-current liabilities	(	16 )	2,220
Cash inflow generated from operations		474,687	856,707
Interest received		680,580	501,138
Income tax paid	(	161,615 )	( 153,286 )
Dividend received		74,347	54,043
Interest paid	(	52,447 )	( 34,400 )
Net cash flows from operating activities		1,015,552	1,224,202
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of financial assets at fair value through other comprehensive income	(	216,766 )	-
Proceeds from disposal of financial assets at fair value through other comprehensive income		326,715	-
Acquisition of available-for-sale financial assets		-	( 469,222 )
Proceeds from disposal of available-for-sale financial assets		-	529,228
Acquisition of property and equipment	6(9)	( 31,727 )	( 522,877 )
Increase in intangible assets	6(10)	( 2,639 )	( 882 )
Decrease in operating guarantee deposits		1,282	17,832
(Increase) decrease in clearing and settlement funds	(	50,219 )	344
Increase in refundable deposits	(	15,500 )	( 10,069 )
Increase in prepayment for equipment	(	69,355 )	( 51,500 )
Net cash flows used in investing activities		( 58,209 )	( 507,146 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of cash dividends	6(15)	( 464,553 )	( 573,722 )
Net cash flows used in financing activities		( 464,553 )	( 573,722 )
Effect of change in foreign exchange rates	(	22,209 )	( 13,326 )
Net increase in cash and cash equivalents		514,999	130,008
Cash and cash equivalents at beginning of year		4,776,563	4,646,555
Cash and cash equivalents at end of year		\$ 5,291,562	\$ 4,776,563

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

YUANTA FUTURES CO., LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

(Expressed in Thousands of New Taiwan dollars, Unless Otherwise Indicated)

1. HISTORY AND ORGANIZATION

Yuanta Futures Co., Ltd.'s (the "Company") and its subsidiaries' (collectively referred herein as the "Group") profile is described below:

- (1) The Company was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.) and started its operations on April 9, 1997. The Company merged with "Refco Taiwan Co., Ltd." on September 1, 2003 and was renamed as "Polaris Refco Futures Co., Ltd.". As of 2005, on account of changes in foreign shareholders, an extraordinary shareholders' meeting was held on February 15, 2006, and resolved to change its name to "Polaris MF Futures Co., Ltd." as approved by the Ministry of Economic Affairs.

On October 6, 2011, the Board of Directors of Polaris MF Futures Co., Ltd. decided to merge with Yuanta Futures Co., Ltd. In relation to the share conversion with Yuanta Futures Co., Ltd. in accordance with Gin-Gwen-Zheng-Qi Letter No. 1000052507, the Company can exchange its common shares using a ratio of 1.01 share to 1 share of Yuanta Futures common share. Both parties agreed to set April 1, 2012 as the merger date. The Company has also obtained the approval to change its name to "Yuanta Futures Co., Ltd."

- (2) The Group is primarily engaged in onshore and offshore futures brokerage business, futures dealing, futures consulting, futures business management, securities dealing, leverage transaction merchant, and a variety of futures related businesses approved by the competent authority. On August 14, 2017, with permission from the competent authority, the Group ceased engaging in futures business management. As of December 31, 2018, the Company had 4 branches.

- (3) As of December 31, 2018 and 2017, the Group had 398 and 391 employees, respectively.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 21, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

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

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

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 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 subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
- 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 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 Group 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.
- C. The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Notes 20(9)B and C.



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

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

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.

In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 has no material impact to the Group.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected to increase both right-of-use asset and lease liability by \$57,259.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### (1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", "Regulations Governing the Preparation of Financial Reports by Securities Firms", 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 consolidated financial statements have been prepared under the historical cost convention:
  - (A) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
  - (B) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.
  - (C) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 effective January 1, 2018, the Group has elected to apply the modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), and related financial reporting interpretations. Please refer to Note 20(9) for details of significant accounting policies.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(A) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(B) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			
			December 31, 2018	Note	December 31, 2017	Note
The Company	Yuanta Futures (Hong Kong) Limited	Financial services	100	Note 3	100	Note 2
The Company	SYF Information Limited	Information technology services	100		100	
SYF Information Limited	SYF Information (Samoa) Limited	Investment holding	100		100	Note 1
SYF Information (Samoa) Limited	SYF Information (Shanghai) Limited	Information technology services	100		100	

Note 1: The Company increased the capital of the subsidiary by \$89,583 in the first quarter of 2017. The subsidiary's increased capital is expected to be used for a capital investment in SYF Information (Shanghai) Limited, amounting to \$81,256.

Note 2: The Company increased the capital of the subsidiary by \$302,680 in the second quarter of 2017.

Note 3: The Company increased the capital of the subsidiary by \$537,972 in 2018.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

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

A. 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 consolidated 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 consolidated 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) Foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains and losses'.

#### B. Translation of foreign operations

The operating results and financial position of all the group entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (A) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that consolidated balance sheet;
- (B) Income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates of that period; and
- (C) All resulting exchange differences are recognised in other comprehensive income.

#### (5) 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 realised, 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 settle 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 consolidated 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.

(6) Cash and cash equivalents

Cash and cash equivalents include petty cash, checking accounts, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income. Financial assets at amortised cost or fair value through other comprehensive income are designated as at fair value through profit or loss at initial recognition when they eliminate or significantly reduce a measurement or recognition inconsistency.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:  
  
The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(9) Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
  - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the

effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.

(10) Margin deposits

In accordance with the Rules Governing Futures Commission Merchants, margin deposits accounts refer to the guarantee deposits and premiums collected from the futures customers, and the spread is calculated based on daily market price.

(11) Futures traders' equity / Futures trading margin receivable

Futures traders' equity is the trading margin/premiums deposited by customers and the difference of daily close-market balance. Futures traders' equity is shown under current liabilities. It cannot be offset except for the same customer with the same category of accounts. If payable to customer does not occur, it should be classified as futures trading margin receivable.

(12) Leverage margin contract trading client margin deposits

In accordance with the Regulations Governing Leverage Transaction Merchants, margin deposits accounts refer to the guarantee deposits and premiums collected from the leveraged trader, and according to the difference between daily evaluation.

(13) Leverage margin contract transaction traders' equity

Leverage contract transaction traders' equity is the trading margin/premiums deposited by customers and the difference between daily evaluation. Leverage contract transaction traders' equity is shown under current liabilities.

(14) Accounts receivable

- A. Accounts receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(15) Impairment of financial assets

For financial assets at amortised cost, futures trading margin receivables, Security borrowing deposits, accounts receivable, other receivables, operation guarantee deposits, settlement fund, and refundable deposits, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts.

(16) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(17) Property and equipment

- A. Property and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- 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 Group 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. Equipment applies cost model and is depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change. The estimated useful lives of various fixed assets are all 3~6 years.

(18) Leased assets/ leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(19) Intangible assets

A. Membership in a foreign Futures Exchange

Membership in a foreign Futures Exchange is stated at acquisition cost and regarded as having an indefinite useful life as it was assessed to generate continuous net cash inflow in the foreseeable future. Membership in a foreign Futures Exchange is not amortised, but is tested annually for impairment.

B. Computer software

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

(20) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for 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 amortised historical cost would have been if the impairment had not been recognised.
- B. The recoverable amounts of intangible assets with an indefinite useful life shall be evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(21) Derivative financial instruments and non-hedging activities

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognised in profit or loss.

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges. Or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

- (a) Hybrid (combined) contracts; or
- (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

B. At initial recognition, the Group measures the financial liabilities at fair value plus transaction costs. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(23) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(24) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(A) Defined contribution plans

For defined contribution plans, the Group pays fixed contributions to an independent, publicly or privately administered pension fund. The Group has no further legal or constructive obligations once the contributions have been paid. The contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(B) Defined benefit plans

- a. 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 Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds (at the consolidated balance sheet date).

- b. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

(C) Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

(D) Employees' and directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal 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.

(25) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each consolidated balance sheet date, unrecognised and recognised 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 recognised amounts and there is an intention to settle on a net basis or realise 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 realise the asset and settle the liability simultaneously.

(26) 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.

(27) Revenue recognition

- A. Brokerage fee income: Service fee income that is generated from futures merchants exercising futures transaction is recognized on the date of settlement.
- B. Security commission revenue: Commission revenues that are generated from the operation of securities introducing broker business by futures commission merchants. These income are recognised on an accrual basis under the agreed terms.
- C. Entrusted clearing settlement service fee: Service fee income that is generated by future merchants who has the qualification of clearing membership while exercising clearing settlement transaction is recognised on the date of futures transaction.
- D. Derivative instrument net income
  - (A) Futures contract gains or losses: The margin of futures trading is recognized at cost and measured through mark-to-market accounting. The gains or losses from mark-to-market, reversed futures trading or settled contracts are recognized as gains or losses in the current period.
  - (B) Options trading: The deposit of options trading is recognized at cost and assessed monthly through mark-to-market valuation before the obligation is fulfilled. Any gain and loss occurring due to the option exercise is recognized as gain and loss in the period.
- E. Futures management fees revenues, supervisory income and brokerage income: These incomes are recognized on an accrual basis under the agreed terms.
- F. Interest income: All of the interest income of financial instruments are calculated using the effective interest rate.

(28) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Operating Decision-Maker, 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 JUDGEMENT, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group'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. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

### (1) Evaluation of expected credit loss on futures trading margin receivable

The impairment assessment of the Group's futures trading margin receivable is based on subjective judgements, including whether there has been significant increase in credit risk since initial recognition and loss rates calculated from historical data. Therefore, the Group periodically examines the appropriateness of its estimates. Please refer to Note 20(6) for more information.

### (2) Financial assets—fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined considering those companies' recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 20(3) for the financial instruments fair value information.

### (3) Calculation of net defined benefit liabilities

When calculating the present value of defined pension obligations, the Group must apply judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and future salary growth rate. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations. Please refer to Note 6(11).

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Petty cash	\$ 109	\$ 106
Cash in bank		
Checking deposits	36	39
Demand deposits	200,336	273,657
Time deposits	4,455,415	3,960,320
Subtotal	4,655,896	4,234,122
Futures margin deposits	290,131	324,151
Excess margin in foreign exchange margin trading	16,514	8,404
Commercial paper (expiring within three months)	329,021	209,886
	<u>\$ 5,291,562</u>	<u>\$ 4,776,563</u>

A. The Group 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. The Group has no cash and cash equivalents pledged to others.

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

	<u>December 31, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss	
Listed stocks	\$ 13,575
Beneficiary certificates	20,000
Open-End fund and money market instruments	46,445
Non-hedging derivatives	157,371
Derivative Assets –	
Leverage margin contract transactions	8,145
	<u>245,536</u>
Valuation adjustment	( 861)
	<u>\$ 244,675</u>
	<u>December 31, 2018</u>
Financial liabilities held for trading	
Options	\$ 20,089

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

	<u>For the year ended December 31, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss	
Listed stocks	(\$ 15,357)
Beneficiary certificates	( 9,917)
Open-End fund and money market instruments	( 2,210)
Non-hedging derivatives	137,489
Derivative Assets –	
Leverage margin contract transactions	23,524
Total	<u>\$ 133,529</u>

	For the year ended December 31, 2018	
Financial liabilities held for trading		
Options	(\$	76,966)
Security borrowing payable		15,298
Derivative Liabilities –		
Leverage margin contract transactions		104
Total	(\$	61,564)

For the year ended December 31, 2018, the above mentioned amounts recognized in profit or loss in relation to financial assets and liabilities at fair value through profit or loss are recognized in gain on trading of securities, dividend income, gain (loss) on valuation of trading securities, loss on repurchase of lending securities and sell back to bond funds and bonds, lending securities and sell back to bond funds and bonds funds and bonds, securities commission revenue and other gains and losses.

B. The non-hedging derivative instrument transactions and contract information are as follows:

	December 31, 2018	
Futures contracts	\$	132,268
Options contracts		25,103
	\$	157,371

C. Futures

The Group entered into futures contracts to earn the spread. As of December 31, 2018, margin deposits for the contract was \$422,399, with excess margin of \$290,131 recognized in “cash and cash equivalents”.

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

E. Information on December 31, 2017 is provided in Note 20(9).

(3) Margin deposits /Futures traders’ equity

	December 31, 2018	December 31, 2017
Margin deposits by customers:		
Cash in banks	\$ 46,847,577	\$ 38,989,508
Clearing house	7,494,673	6,538,571
Other futures commission merchants	10,198,367	4,114,785
Total	64,540,617	49,642,864
Gain: Others	1	-
Less: Fees of revenue pending		
for transfer	( 176,480)	( 183,012)
Futures exchange tax		
pending for transfer	( 4,392)	( 3,896)
Temporary receipts	( 6,785)	( 5,508)
Others	( 20,201)	( 17,787)
Futures traders’ equity	\$ 64,332,760	\$ 49,432,661



- A. The Group has no expected credit loss on margin deposits.
- B. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the margin deposits held by the Group was \$64,540,617.

(4) Futures trading margin receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Futures exchange margins	\$ 90,158	\$ 241
Less: Allowance for uncollectible accounts	( 89,136)	-
	<u>\$ 1,022</u>	<u>\$ 241</u>

- A. Information relating to futures trading margin receivable credit risk is provided in Note 20(6).
- B. The ageing analysis of futures trading margin receivable is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Up to 30 days	\$ -	\$ -
31-90 days	3,348	-
91-180 days	-	-
Over 181 days	86,810	241
	<u>\$ 90,158</u>	<u>\$ 241</u>

The above ageing analysis was based on posting date.

(5) Financial assets at fair value through other comprehensive income

	<u>December 31, 2018</u>
Current items:	
Equity instrument	
Listed stocks	\$ 156,200
Valuation adjustment	( 675)
Total	<u>\$ 155,525</u>
Non-current items:	
Equity instrument	
Non-Listed stocks	\$ 221,132
Valuation adjustment	1,182,887
Total	<u>\$ 1,404,019</u>

- A. The Group has elected to classify stock investments that are considered to be strategic investments and steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$1,559,544 as at December 31, 2018.
- B. For the year ended December 31, 2018, to avoid systemic risks due to market interference and

uncertainties, the Group sold \$326,850 of listed stocks at fair value and resulted in cumulative losses on disposal of (\$37,553).

- C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	For the year ended December 31, 2018
<u>Equity instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	\$ 205,687
Cumulative losses reclassified to retained earnings due to derecognition	\$ 37,553
Dividend income recognised in profit or loss	
Held at end of period	\$ 71,280

- D. The Group has no financial assets at fair value through other comprehensive income pledged to others.

- E. Information on December 31, 2017 is provided in Note 20(9).

(6) Financial assets at amortised cost

	December 31, 2018
Non-current items:	
Financial bonds	\$ 92,386
Less: Accumulated impairment	( 53)
Total	\$ 92,333

- A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	For the year ended December 31, 2018
Interest income	\$ 2,865
Reversal of impairment loss	23
	\$ 2,888

- B. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was \$92,333.

- C. The Group has no financial assets at amortised cost pledged to others.

- D. Information relating to credit risk is provided in Note 20(6).

- E. Information on December 31, 2017 is provided in Note 20(9).

(7)Operating guarantee deposits

The Company's annual interest rates of operating guarantee deposits that were provided as time deposits maturing within one-year in Yuanta Bank as of December 31, 2018 and 2017 were both 1.035% . Details of the pledged assets are provided in Note 8.

As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the operating guarantee deposits held by the Group was \$145,886.

(8)Clearing and settlement funds

The Company exercises clearing and settlement transactions in accordance with the criteria of clearing membership's regulation of the Taiwan Futures Exchange. Before exercising clearing and settlement transaction, the Company should deposit \$40,000. After one year, the amount that should be deposited could be decreased to \$30,000 and the Company could deposit settlement and clearing fund through an appropriation method and an amount that is regulated by the Taiwan Futures Exchange. Every additional entrusting futures merchant performing settlement and clearing transaction, should deposit settlement and clearing fund of \$3,000 before entrusting. Every branch established that performs futures transactions or every additional entrusting futures introducing broker by clearing member or every branch established by such futures introducing broker, should deposit another \$1,000 settlement and clearing fund to the Taiwan Futures Exchange.

As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the clearing and settlement funds held by the Group was \$492,788.

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(9)Property and equipment

	Land	Building	Equipment	Leasehold improvements	Total
At January 1, 2018					
Cost	\$ 410,992	\$ 71,577	\$ 141,915	\$ 40,939	\$665,423
Accumulated depreciation	-	( 1,988)	( 67,651)	( 18,942)	( 88,581)
	<u>\$ 410,992</u>	<u>\$ 69,589</u>	<u>\$ 74,264</u>	<u>\$ 21,997</u>	<u>\$576,842</u>
For the year ended					
December 31, 2018					
Opening net book amount	\$ 410,992	\$ 69,589	\$ 74,264	\$ 21,997	\$576,842
Additions	-	-	22,665	9,062	31,727
Reclassifications	-	-	46,624	-	46,624
Disposals (cost)	-	-	( 22,264)	( 1,935)	( 24,199)
Disposals (accumulated depreciation)	-	-	22,264	1,935	24,199
Depreciation expense	-	( 3,409)	( 31,146)	( 8,272)	( 42,827)
Net exchange	-	-	172	405	577
Closing net book amount	<u>\$ 410,992</u>	<u>\$ 66,180</u>	<u>\$ 112,579</u>	<u>\$ 23,192</u>	<u>\$612,943</u>
At December 31, 2018					
Cost	\$ 410,992	\$ 71,577	\$ 189,186	\$ 48,592	\$720,347
Accumulated depreciation	-	( 5,397)	( 76,607)	( 25,400)	( 107,404)
	<u>\$ 410,992</u>	<u>\$ 66,180</u>	<u>\$ 112,579</u>	<u>\$ 23,192</u>	<u>\$612,943</u>
	Land	Building	Equipment	Leasehold improvements	Total
At January 1, 2017					
Cost	\$ -	\$ -	\$ 111,246	\$ 23,301	\$134,547
Accumulated depreciation	-	-	( 69,863)	( 11,645)	( 81,508)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,383</u>	<u>\$ 11,656</u>	<u>\$ 53,039</u>
For the year ended					
December 31, 2017					
Opening net book amount	\$ -	\$ -	\$ 41,383	\$ 11,656	\$ 53,039
Additions	410,992	71,577	20,598	19,710	522,877
Reclassifications	-	-	37,000	-	37,000
Disposals (cost)	-	-	( 26,616)	( 2,062)	( 28,678)
Disposals (accumulated depreciation)	-	-	26,616	2,062	28,678
Depreciation expense	-	( 1,988)	( 24,538)	( 9,411)	( 35,937)
Net exchange	-	-	( 179)	42	( 137)
Closing net book amount	<u>\$ 410,992</u>	<u>\$ 69,589</u>	<u>\$ 74,264</u>	<u>\$ 21,997</u>	<u>\$576,842</u>
At December 31, 2017					
Cost	\$ 410,992	\$ 71,577	\$ 141,915	\$ 40,939	\$665,423
Accumulated depreciation	-	( 1,988)	( 67,651)	( 18,942)	( 88,581)
	<u>\$ 410,992</u>	<u>\$ 69,589</u>	<u>\$ 74,264</u>	<u>\$ 21,997</u>	<u>\$576,842</u>

(10) Intangible assets

	Membership in a foreign Futures Exchange	Others	Total
At January 1, 2018			
Cost	\$ 24,125	\$ 27,734	\$ 51,859
Accumulated amortisation	-	( 15,233)	( 15,233)
	<u>\$ 24,125</u>	<u>\$ 12,501</u>	<u>\$ 36,626</u>
For the year ended December 31, 2018			
Opening net book amount	\$ 24,125	\$ 12,501	\$ 36,626
Additions	-	2,639	2,639
Reclassifications	-	10,721	10,721
Disposals (cost)	-	( 1,599)	( 1,599)
Disposals (accumulated depreciation)	-	1,599	1,599
Amortisation expense	-	( 7,158)	( 7,158)
Other	-	4	4
Closing net book amount	<u>\$ 24,125</u>	<u>\$ 18,707</u>	<u>\$ 42,832</u>
At December 31, 2018			
Cost	\$ 24,125	\$ 39,499	\$ 63,624
Accumulated amortisation	-	( 20,792)	( 20,792)
	<u>\$ 24,125</u>	<u>\$ 18,707</u>	<u>\$ 42,832</u>
	Membership in a foreign Futures Exchange	Others	Total
At January 1, 2017			
Cost	\$ 24,125	\$ 18,520	\$ 42,645
Accumulated amortisation	-	( 14,427)	( 14,427)
Other	2,178	-	2,178
	<u>\$ 26,303</u>	<u>\$ 4,093</u>	<u>\$ 30,396</u>
For the year ended December 31, 2017			
Opening net book amount	\$ 26,303	\$ 4,093	\$ 30,396
Additions	-	882	882
Reclassifications	-	11,092	11,092
Disposals (cost)	-	( 2,760)	( 2,760)
Disposals (accumulated depreciation)	-	2,760	2,760
Amortisation expense	-	( 3,566)	( 3,566)
Other	( 2,178)	-	( 2,178)
Closing net book amount	<u>\$ 24,125</u>	<u>\$ 12,501</u>	<u>\$ 36,626</u>
At December 31, 2017			
Cost	\$ 24,125	\$ 27,734	\$ 51,859
Accumulated amortisation	-	( 15,233)	( 15,233)
	<u>\$ 24,125</u>	<u>\$ 12,501</u>	<u>\$ 36,626</u>

(11) Pension

A.(A) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.

(B) The amounts recognised in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ 96,157	\$ 83,951
Fair value of plan assets	( 21,375)	( 21,542)
Net defined benefit liability	<u>\$ 74,782</u>	<u>\$ 62,409</u>

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2018</u>			
Balance at January 1	\$ 83,951	(\$ 21,542)	\$ 62,409
Interest expense (income)	1,091	( 280)	811
Settlement profit or loss	<u>\$ 85,042</u>	<u>(\$ 21,822)</u>	<u>\$ 63,220</u>
Remeasurements:			
Return on plan assets	-	( 582)	( 582)
Change in financial assumptions	2,393	-	2,393
Experience adjustments	14,671	-	14,671
	<u>17,064</u>	<u>( 582)</u>	<u>16,482</u>
Pension fund contribution	-	( 809)	( 809)
Paid pension	<u>( 5,949)</u>	<u>1,838</u>	<u>( 4,111)</u>
Balance at December 31	<u>\$ 96,157</u>	<u>(\$ 21,375)</u>	<u>\$ 74,782</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2017</u>			
Balance at January 1	\$ 87,068	(\$ 20,714)	\$ 66,354
Interest expense (income)	1,393	( 331)	1,062
Settlement profit or loss	<u>\$ 88,461</u>	<u>(\$ 21,045)</u>	<u>\$ 67,416</u>
Remeasurements:			
Return on plan assets	-	120	120
Change in financial assumptions	3,213	-	3,213
Experience adjustments	( 4,099)	-	( 4,099)
	<u>( 886)</u>	<u>120</u>	<u>( 766)</u>
Pension fund contribution	( 3,416)	( 825)	( 4,241)
Paid pension	( 208)	208	-
Balance at December 31	<u>\$ 83,951</u>	<u>(\$ 21,542)</u>	<u>\$ 62,409</u>

(D) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	For the years ended December 31	
	2018	2017
Discount rate	<u>1.10%</u>	<u>1.30%</u>
Future salary increases	<u>3.00%</u>	<u>3.00%</u>

For the years ended December 31, 2018 and 2017, assumptions regarding future mortality rate were estimated in accordance with Taiwan Standard Ordinary Experience Mortality Table (2008).



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%
<u>December 31, 2018</u>				
Effect on present value of defined benefit obligation	<u>(\$ 2,979)</u>	<u>\$ 3,103</u>	<u>\$ 2,441</u>	<u>(\$ 2,360)</u>
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	<u>(\$ 2,689)</u>	<u>\$ 2,805</u>	<u>\$ 2,003</u>	<u>(\$ 1,934)</u>

(F) The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. 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.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(G) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amount to \$796.

(H) As of December 31, 2018, the weighted average duration of the retirement plan is 13 years.

B.(A) Effective July 1, 2005, the Company and its domestic subsidiaries have 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 and its domestic subsidiaries contribute 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) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017, were \$17,915 and \$15,948, respectively.

(12) Share capital

As of December 31, 2018, the Company’s authorized capital was \$2,500,000, and the paid-in capital was \$2,322,763 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

(13) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus 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 surplus to be capitalised mentioned above should not exceed

10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(14) Special reserve

	December 31, 2018	December 31, 2017
Legal capital reserve	\$ 1,866,865	\$ 1,692,208
Special reserve-Fintech	8,505	4,139
	<u>\$ 1,875,370</u>	<u>\$ 1,696,347</u>

- A. According to the “Rules Governing the Administration of Securities Firms”, 20% of the current year's earnings, after paying all taxes and offsetting prior years' operating losses, if any, shall be set aside as special reserve until the cumulative balance equals the total amount of paid-in capital. The special reserve shall be used exclusively to cover accumulated deficit or to increase capital and shall not be used for any other purpose. Such capitalization shall not be permitted unless the Company has already accumulated a special reserve of at least 50% of its paid-in capital and only half of such special reserve may be capitalized.
- B. The Company transferred provision on bad debt loss that had been set aside but not reversed to special reserve on initial application of IFRSs in accordance with Gin-Gwen-Zheng-Qi Letter No. 1010032090, dated July 10, 2012. Except for offsetting operating losses or special reserve exceeding 50% of the Company's paid-in capital after transferring, the Company could transfer half of special reserve as share capital.
- C. According to Gin-Gwen-Zheng-Qi Letter No. 1010048029, an equivalent amount of special reserve should be set aside from earnings after tax of the current year and the undistributed earnings of the prior period based on the decreased amount of equity. For the cumulative decrease in equity of the prior period, the equal amount of special reserve set aside based on the undistributed earnings should not be distributed. If there is any reversal of the decrease in equity, the earnings may be distributed based on the reversal proportion.

In addition, according to Gin-Gwen-Zheng-Quan Letter No. 10500278285 dated August 5, 2016, for earnings from fiscal years 2016 to 2018, futures commission merchants shall set aside special reserve from earnings after tax in the range between 0.5% to 1%. Also, starting fiscal year 2017, the expenditure of staff education training, staff transfer or resettlement arising from the development of financial technology could be reversed at the same amount within the above mentioned range.

(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 10% and 20% of the remaining amount shall be set aside as legal reserve and special reserve. The remainder, if any, to be retained or to be appropriated shall be resolved by the stockholders at the stockholders' meeting.
- B. 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 appropriation of 2017 and 2016 earnings had been resolved by the Board of Directors (acting on behalf of stockholders). Details are summarized below:

	2017		2016	
	Amount	Dividends per Share (in dollars)	Amount	Dividends per Share (in dollars)
Legal reserve	\$ 87,329		\$ 82,771	
Special reserve	174,657		165,543	
Special reserve-Fintech	4,366		4,139	
Cash dividends	464,553	\$ 2.00	573,722	\$ 2.47

E. On March 21, 2019, the Board of Directors resolved the distribution of profits for 2018 as follows:

	2018	
	Amount	Dividends per Share (in dollars)
Legal reserve	\$ 100,005	
Special reserve	200,009	
Special reserve-Fintech	5,000	
Reversal of special reserve	( 5,478)	
Cash dividends	650,374	\$ 2.80

Note : According to Gin-Gwen-Zheng-Quan Letter No. 10500278285, the Company shall set aside 0.5% special reserve for staff education training, staff transfer or resettlement due to the development of financial technology and the protection of employee's right. The special reserve is reversed in accordance with the letter.

F. For information relating to employees' remuneration and directors' and supervisors' remuneration, please refer to Note 6(24).

(16) Other equity items

	Unrealised gain (losses) on valuation	Currency translation differences	Total
At January 1, 2018	\$ 938,971	(\$ 27,172)	\$ 911,799
Financial assets at fair value through other comprehensive income			
-revaluation	205,687	-	205,687
-revaluation transferred to retained earnings	37,553	-	37,553
Currency translation differences			
-Exchange differences	-	25,454	25,454
At December 31, 2018	\$ 1,182,211	(\$ 1,718)	\$ 1,180,493

	Available-for-sale investments	Currency translation differences	Total
At January 1, 2017	\$ 932,674	(\$ 4,224)	\$ 928,450
Available-for-sale investment revaluation	102,540	-	102,540
Available-for-sale investment revaluation - write off	( 95,998)	-	( 95,998)
Currency translation differences			
-Exchange differences	-	( 23,052)	( 23,052)
At December 31, 2017	<u>\$ 939,216</u>	<u>(\$ 27,276)</u>	<u>\$ 911,940</u>

(17) Brokerage

	For the years ended December 31	
	2018	2017
Dealers' commissions	<u>\$ 3,439,375</u>	<u>\$ 2,712,136</u>

(18) Net (loss) gain on trading of securities

	For the years ended December 31	
	2018	2017
Revenue from sale of securities - dealing	\$ 703,967	\$ 114,592
Cost from sale of securities - dealing	( 720,244)	( 112,106)
Total	<u>(\$ 16,277)</u>	<u>\$ 2,486</u>

(19) Clearance fee from consignment

	For the years ended December 31	
	2018	2017
Clearance fee from consignment - non-related parties	\$ 43,099	\$ 37,826
Clearance fee from consignment - related parties	40,618	38,170
Total	<u>\$ 83,717</u>	<u>\$ 75,996</u>

(Blank)

(20) Gain on derivatives

	For the years ended December 31	
	2018	2017
Non-hedging		
Futures contract interests		
Futures contract gains	\$ 425,313	\$ 559,688
Futures contract losses	( 366,305)	( 397,564)
	<u>\$ 59,008</u>	<u>\$ 162,124</u>
Gain (loss) from trading options		
Gain from trading options	\$ 78,481	\$ 60,330
Loss from trading options	( 76,966)	( 89,567)
	<u>\$ 1,515</u>	<u>(\$ 29,237)</u>
Gain (loss) from exchange rate derivatives trading		
Gain from exchange rate derivatives trading	\$ 96,324	\$ 2,397
Loss from exchange rate derivatives trading	( 72,802)	( 33)
	<u>\$ 23,522</u>	<u>\$ 2,364</u>
Gain (loss) from structured products		
Gain from structured products trading	\$ 56	\$ 375
Loss from structured products trading	( 54)	( 23)
	<u>\$ 2</u>	<u>\$ 352</u>
Gain (loss) from equity derivatives trading		
Gain from equity derivatives trading	\$ 51	\$ 11
Loss from equity derivatives trading	53	( 75)
	<u>\$ 104</u>	<u>(\$ 64)</u>
Non-hedging		
Gains from derivative financial instruments	\$ 600,225	\$ 622,801
Losses from derivative financial instruments	( 516,074)	( 487,262)
	<u>\$ 84,151</u>	<u>\$ 135,539</u>

(21) Service charge

	For the years ended December 31	
	2018	2017
Service charge - brokerage	\$ 620,625	\$ 516,514
Service charge - dealing	6,692	5,951
Total	<u>\$ 627,317</u>	<u>\$ 522,465</u>

(22) Futures commissions

	For the years ended December 31	
	2018	2017
Entrusted futures transaction	\$ 467,175	\$ 273,520
Futures auxiliary business	308,565	280,756
Total	<u>\$ 775,740</u>	<u>\$ 554,276</u>

(23) Operating expenses

	For the years ended December 31	
	2018	2017
Employee benefit expense	\$ 625,300	\$ 539,067
Depreciation expense	42,827	35,937
Amortisation expense	7,158	3,566
Postage and telephone costs	90,638	73,686
Tax expenses	91,394	78,889
Computer information expenses	108,771	88,402
Donation	11,441	9,230
Institutional membership fees	31,136	25,044
Operating lease payments	40,872	38,024
Repair charge	34,667	25,435
Advertising costs	7,617	18,647
Service expenses	13,263	16,679
Other expenses	81,201	68,307
Total	<u>\$ 1,186,285</u>	<u>\$ 1,020,913</u>

(24) Employee benefit expense

	For the years ended December 31	
	2018	2017
Wages and salaries	\$ 554,391	\$ 472,535
Labor and health insurance fees	31,579	29,060
Pension costs	18,726	17,010
Post-employment benefits	1,701	3,527
Other personnel expenses	18,903	16,935
Total	<u>\$ 625,300</u>	<u>\$ 539,067</u>

- A. In accordance with the Articles of Incorporation of the Company, when distributing earnings, the Company shall distribute bonus to the employees that account for 0.01%~5%, of the total distributed amount.
- B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$3,425 and \$3,260, respectively, and the aforementioned amounts were recognised in salary expenses.
- C. Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2017 financial statements.
- D. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(25) Other gains and losses

	For the years ended December 31	
	2018	2017
Interest income	\$ 699,311	\$ 498,976
Gains on disposal of investments	( 12,764)	99,409
Dividend income	72,856	50,780
Net currency exchange gain (loss)	17,115 (	30,681)
Gains (loss) on financial assets at fair value through profit or loss	( 939)	1,248
Others	54,218	29,000
Total	<u>\$ 829,797</u>	<u>\$ 648,732</u>



(26) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the years ended December 31	
	2018	2017
Current tax:		
Current tax on profits for the year	\$ 247,318	\$ 154,680
Tax on undistributed surplus earnings	14,302	154
Adjustments in respect of prior years	( 9,463)	( 5,386)
Total current tax	<u>\$ 252,157</u>	<u>\$ 149,448</u>
Deferred tax:		
Origination and reversal of temporary differences	( 4,131)	2,366
Impact of change in tax rate	( 2,489)	-
Total deferred tax	<u>( 6,620)</u>	<u>2,366</u>
Income tax expense	<u>\$ 245,537</u>	<u>\$ 151,814</u>

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

	For the years ended December 31	
	2018	2017
Remeasurement of defined benefit obligations	(\$ 3,297)	\$ 131
Impact of change in tax rate	25	-
	<u>(\$ 3,272)</u>	<u>\$ 131</u>

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate	\$ 249,116	\$ 174,267
Tax exempted income by tax regulation	( 5,929)	( 17,221)
Tax on undistributed surplus earnings	14,302	154
Adjustments in respect of prior years	( 9,463)	( 5,386)
Impact of change in tax rate	( 2,489)	-
Income tax expense	<u>\$ 245,537</u>	<u>\$ 151,814</u>

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

For the year ended December 31, 2018				
	January 1	Recognised		December 31
		in profit or loss	in other comprehensive income	
Temporary differences:				
— Deferred income tax assets:				
Accrued pension liabilities	\$ 10,610	(\$ 8,255)	\$ 3,272	\$ 5,627
Unrealised exchange loss	1,136	116	-	1,252
Expected credit losses	-	17,633	-	17,633
Others	2,624	( 382)	-	2,242
Subtotal	14,370	9,112	3,272	26,754
— Deferred income tax liabilities:				
Unrealised exchange gain	( 267)	( 2,492)	-	( 2,759)
Total	\$14,103	\$ 6,620	\$ 3,272	\$ 23,995
For the year ended December 31, 2017				
	January 1	Recognised		December 31
		in profit or loss	in other comprehensive income	
Temporary differences:				
— Deferred income tax assets:				
Accrued pension liabilities	\$ 11,281	(\$ 540)	(\$ 131)	\$ 10,610
Unrealised exchange loss	8,471	( 7,335)	-	1,136
Others	3,034	( 410)	-	2,624
Subtotal	22,786	( 8,285)	( 131)	14,370
— Deferred income tax liabilities:				
Unrealised exchange gain	( 6,186)	5,919	-	( 267)
Total	\$16,600	(\$ 2,366)	(\$ 131)	\$ 14,103

D. As of December 31, 2018, the Company's income tax returns through 2016 have been assessed and approved by the Tax Authority. The Company's subsidiary, SYF Information Limited's income tax returns through 2016 have been assessed and approved by the Tax Authority.

E. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(27) Earnings per share

For the year ended December 31, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per Share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 1,000,045	232,276	\$ 4.31
For the year ended December 31, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per Share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 873,286	232,276	\$ 3.76

(28) Operating leases

The Group leases its office and certain equipment under non-cancellable operating lease agreements. The lease terms are between years 2012 to 2019. The Group recognized rental expenses of \$40,872 and \$38,024 for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Less than one year	\$ 36,099	\$ 40,097
Later than one year but no later than five years	32,596	14,509
	<u>\$ 68,695</u>	<u>\$ 54,606</u>

## 7. RELATED PARTY TRANSACTIONS

### (1) Parent and ultimate controlling party

The Company is controlled by Yuanta Financial Holding Co., Ltd., which owns 68.65% of the Company's shares.

### (2) The names and relationship of related parties

<u>Names</u>	<u>Relationship with the Group</u>
Yuanta Financial Holdings	The parent company of the Company
Yuanta Bank	The same group of enterprises
Ta Chong Commercial Bank, Ltd. (Note 1)	The same group of enterprises
Ta Chong Securities Co., Ltd. (Note 1)(Note 2)	The same group of enterprises
Yuanta Securities Co., Ltd.	The same group of enterprises
Yuanta Securities Investment Trust	The same group of enterprises
Yuanta Securities Investment Consulting	The same group of enterprises
Yuanta Securities Korea Co., Ltd.	The same group of enterprises
Yuanta Securities (Hong Kong) Co., Ltd.	The same group of enterprises
Polaris Securities (Hong Kong) Co., Ltd.	The same group of enterprises
Funds managed by Yuanta Securities	The funds managed by the same group of companies
Yuanta Cultural & Educational Foundation	The directors are the key management
Taiwan Securities Association	The directors are the key management
Polaries Research	Related parties in substance
Other	Refer to the same enterprise group, parent company, substantial related parties and its major shareholders, key management and its related investment enterprises and other companies or institutions who is also held by the Company's chairman of the director or general manager, or have spouse or relatives in the same position.

Note 1: Ta Chong Commercial Bank, Ltd. was merged with Yuanta Bank on January 1, 2018. Yuanta Bank was the surviving entity de jure while Ta Chong Bank was dissolved thereafter.

Note 2: On March 10, 2017, the Board of Directors of Ta Chong Commercial Bank, Ltd resolved to dispose Ta Chong Securities Co., Ltd, and the settlement was completed on August 28, 2017.

### (3) Significant related party transactions and balances

#### A. Cash and cash equivalents/ operating guarantee deposits/ customer margin deposits/futures trading guarantees

	<u>December 31, 2018</u>		
	<u>Bank deposits</u>	<u>Operating guarantee deposits</u>	<u>Customer margin deposits</u>
Fellow subsidiary			
Yuanta Bank	\$ <u>1,995,376</u>	\$ <u>140,000</u>	\$ <u>14,675,660</u>

	December 31, 2017		
	Bank deposits	Operating guarantee deposits	Customer margin deposits
Fellow subsidiary			
Yuanta Bank	\$ 940,834	\$ 140,000	\$ 13,026,164
Ta Chong Commercial Bank, Ltd.	180,496	-	-
	<u>\$ 1,121,330</u>	<u>\$ 140,000</u>	<u>\$ 13,026,164</u>

B. Leverage margin contract trading client margin deposits

	December 31, 2018	December 31, 2017
Fellow subsidiary		
Yuanta Bank	<u>\$ 126,850</u>	<u>\$ 45,372</u>

C. Accounts receivable - related parties

	December 31, 2018	December 31, 2017
Fellow subsidiary		
Yuanta Securities Co., Ltd.	\$ 3,566	\$ 3,247
Yuanta Bank	467	1,581
	<u>\$ 4,033</u>	<u>\$ 4,828</u>

D. Other receivables - related parties

	December 31, 2018	December 31, 2017
Fellow subsidiary		
Yuanta Bank	\$ 14,946	\$ 8,152
Ta Chong Commercial Bank, Ltd.	-	448
Yuanta Securities (Hong Kong) Co., Ltd.	189	45
	<u>\$ 15,135</u>	<u>\$ 8,645</u>

E. Refundable deposits

	December 31, 2018	December 31, 2017
Fellow subsidiary		
Yuanta Bank	\$ 10,188	\$ 10,321
Yuanta Securities Co., Ltd.	5,155	5,232
The directors are the key management		
Taiwan Securities Association	300	-
	<u>\$ 15,643</u>	<u>\$ 15,553</u>

F. Futures traders' equity

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fellow subsidiary		
Yuanta Bank	\$ 5,991	\$ 16,856
Yuanta Securities Co. , Ltd.	2,994,353	2,315,602
Yuanta Securities (Hong Kong) Co., Ltd.	419,049	446,634
Yuanta Securities Korea Co., Ltd.	149,755	96,090
Funds managed by fellow subsidiary		
Funds managed by Yuanta		
Securities Investment Trust	22,878,227	13,888,715
President and significant shareholder of financial holding company and subsidiary	874,886	857,927
Other related parties	33,518	14,889
	<u>\$ 27,355,779</u>	<u>\$ 17,636,713</u>

G. Accounts payable - related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fellow subsidiary		
Yuanta Securities Co., Ltd.	\$ 18,768	\$ 24,412
Other related parties		
Antay Securities Co.,Ltd.	225	242
	<u>\$ 18,993</u>	<u>\$ 24,654</u>

H. Other payables - related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Parent Company		
Yuanta Financial Holdings	\$ 636	\$ 410
Fellow subsidiary		
Yuanta Securities Co., Ltd.	277	275
President and significant shareholder of financial holding company and subsidiary	10	48
	<u>\$ 923</u>	<u>\$ 733</u>

I. Brokerage

	For the years ended December 31	
	2018	2017
Fellow subsidiary		
Yuanta Bank	\$ 305	\$ 50
Ta Chong Commercial Bank, Ltd.	-	1,766
Yuanta Securities Co., Ltd.	101,286	74,138
Yuanta Securities (Hong Kong) Co., Ltd.	4,304	2,928
Yuanta Securities Korea Co., Ltd.	1,412	970
Ta Chong Securities Co., Ltd.	-	437
Funds managed by fellow subsidiary		
Funds managed by Yuanta Securities Investment Trust	206,995	117,429
President and significant shareholder of financial holding company and subsidiary	3,385	2,931
Other related parties	2,584	7,400
	<u>\$ 320,271</u>	<u>\$ 208,049</u>

J. Clearance fee from consignment

	For the years ended December 31	
	2018	2017
Fellow subsidiary		
Yuanta Securities Co., Ltd.	<u>\$ 40,618</u>	<u>\$ 38,170</u>

K. Securities trading commissions income

	For the years ended December 31	
	2018	2017
Fellow subsidiary		
Yuanta Securities Co., Ltd.	<u>\$ 4,743</u>	<u>\$ 4,425</u>

L. Interest income

	For the years ended December 31	
	2018	2017
Fellow subsidiary		
Yuanta Bank	\$ 156,500	\$ 163,040
Yuanta Securities Co., Ltd	58	342
Ta Chong Commercial Bank, Ltd.	-	5,790
	<u>\$ 156,558</u>	<u>\$ 169,172</u>

Interest income includes the interest of demand deposits, time deposits, margin deposits, and operations guarantee deposits. See Note 6(7) for details of operations guarantee deposits.



M. Interest expense

	For the years ended December 31	
	2018	2017
Fellow subsidiary		
Yuanta Bank	\$ 20	\$ 9
Yuanta Securities (Hong Kong) Co. ,Ltd.	589	379
Yuanta Securities Co., Ltd.	2,822	2,368
Yuanta Securities Korea Co., Ltd.	271	-
Ta Chong Commercial Bank, Ltd.	-	31
	<u>\$ 3,702</u>	<u>\$ 2,787</u>

N. Rental expense

	For the years ended December 31	
	2018	2017
Fellow subsidiary		
Yuanta Bank	\$ 1,733	\$ 1,734
Yuanta Securities Co. ,Ltd.	20,647	20,846
	<u>\$ 22,380</u>	<u>\$ 22,580</u>

The rentals were determined by reference to the rental rates of nearby office buildings and by contracts between the related parties.

O. Donation expenditure

	For the years ended December 31	
	2018	2017
Yuanta Cultural & Education Foundation	\$ 6,000	\$ 6,000
Polaris Research	2,300	2,360
	<u>\$ 8,300</u>	<u>\$ 8,360</u>

P. Co-marketing revenue

	For the years ended December 31	
	2018	2017
Fellow subsidiary		
Yuanta Securities Co. ,Ltd.	\$ 30	\$ 124
Yuanta Securities Investment Trust	25	-
Yuanta Bank	1	-
	<u>\$ 56</u>	<u>\$ 124</u>

Q. Futures commissions expense and consigned/entrusted foreign futures trading commissions

	For the years ended December 31	
	2018	2017
Fellow subsidiary		
Yuanta Securities Co., Ltd.	\$ 254,622	\$ 246,221
Yuanta Securities (Hong Kong) Co., Ltd.	44	4,792
Yuanta Securities Korea Co., Ltd.	381	642
Other related parties		
Antay Securities Co., Ltd.	2,921	1,945
	<u>\$ 257,968</u>	<u>\$ 253,600</u>

The Group engaged with Yuanta Securities Co., Ltd., Yuanta Securities (Hong Kong) Co., Ltd., Yuanta Securities Korea Co., Ltd. Yuanta Futures (Hong Kong) Co., Ltd. and Antay Securities Co., Ltd. for the purpose of futures trading and consigned/entrusted foreign futures trading, that is, the Company acts as an agent for trading of futures contracts and futures option contracts for its customers. The futures commission expense and payment terms do not have any significant difference between related parties and non-related parties.

R. Service fees

	For the years ended December 31	
	2018	2017
Fellow subsidiary		
Yuanta Securities Investment Consulting	\$ 3,672	\$ 3,672
Yuanta Securities Co., Ltd	1,577	1,591
	<u>\$ 5,249</u>	<u>\$ 5,263</u>

S. Property transactions

	December 31, 2018	December 31, 2017
Fellow subsidiary		
Yuanta Securities (Hong Kong) Co., Ltd.	\$ -	\$ 30,445
Funds managed by fellow subsidiary		
Funds managed by Yuanta Securities Investment Trust	19,710	-
	<u>\$ 19,710</u>	<u>\$ 30,445</u>

The losses on disposal of funds managed by fellow subsidiary and other related parties' stocks were (\$2,941) and (\$5,492) for the years ended December 31, 2018 and 2017, respectively.

(4) Key management compensation

	For the years ended December 31	
	2018	2017
Salaries and other short-term employee benefits	\$ 185,173	\$ 154,557
Termination benefits	-	3,917
Post-employment benefits	4,765	4,218
Other long-term benefits	1,685	1,545
	<u>\$ 191,623</u>	<u>\$ 164,237</u>

8. PLEDGED ASSETS

	December 31, 2018	December 31, 2017
Operating guarantee deposits	<u>\$ 145,886</u>	<u>\$ 147,168</u>

9. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

For information on operating lease agreements, please refer to Note 6(28) for details.

10. SIGNIFICANT LOSS FROM NATURAL DISASTER

None.

(Blank)

# 11. DERIVATIVE INSTRUMENT TRANSACTIONS

The Group had financial instrument trading - derivatives as follows:

December 31, 2018						
Item	Object of transaction	Open Interest				Remarks
		Buyer /Seller	Number of contract(s) (lot)	Margin paid (received)	Fair value	
Futures contracts (Domestic)	TX	Buyer	273	\$ 516,096	\$ 517,139	
	TX	Seller	13	( 25,040)	( 25,139)	
	MTX	Buyer	449	216,660	217,069	
	MTX	Seller	945	( 445,247)	( 446,125)	
	Stock Futures	Buyer	48	2,077	2,079	
	Stock Futures	Seller	59	( 3,520)	( 3,472)	
	TF	Buyer	1	1,164	1,179	
	TE	Buyer	6	8,973	9,234	
	GFT	Seller	1	( 491)	( 494)	
Futures contracts (Overseas)	Index Futures	Buyer	18	19,676	19,870	
	Index Futures	Seller	2	( 1,394)	( 1,485)	
	Grain Futures	Buyer	334	39,265	39,305	
Option contracts (Domestic)	TFO	Buy put	4	11	5	
	TFO	Sell call	4	( 36)	( 42)	
	TGO	Buy call	1	5	6	
	TGO	Sell call	1	( 3)	( 6)	
	TEO	Buy put	24	142	52	
	TEO	Sell call	24	( 319)	( 472)	
	TXO	Buy call	1,268	7,795	7,875	
	TXO	Buy put	1,941	23,956	12,930	
	TXO	Sell call	1,782	( 11,806)	( 11,855)	
	TXO	Sell put	1,482	( 8,410)	( 6,958)	
Option contracts (Overseas)	Futuers options	Buy put	439	2,503	4,235	
	Futuers options	Sell call	336	( 926)	( 756)	

December 31, 2017

Item	Object of transaction	Open Interest				Remarks
		Buyer /Seller	Number of contract(s) (lot)	Margin paid (received)	Fair value	
Futures contracts (Domestic)	TX	Buyer	31	\$ 65,476	\$ 65,925	
	MTX	Buyer	1	534	532	
	Stock futures	Buyer	168	7,360	7,046	
Futures contracts (Overseas)	Metal Futures	Buyer	3	7,386	7,654	
	Index Futures	Buyer	3	19,679	19,755	
	Index Futures	Seller	2 (	7,916) (	7,833)	
	Energy Futures	Seller	6 (	10,206) (	10,789)	
	Grain Futures	Buyer	14	10,626	10,579	
	Grain Futures	Seller	5 (	1,314) (	1,317)	
	Gold Futures	Buyer	16	32,812	33,120	
	Gold Futures	Seller	25 (	31,152) (	31,286)	
Option contracts (Domestic)	TXO	Buy call	31	55	51	
	TXO	Buy put	2	18	10	
	TXO	Sell call	2 (	20) (	14)	
	TXO	Sell put	1 (	5) (	2)	
Option contracts (Overseas)	Stock options	Sell put	120 (	278) (	287)	
	Futuers options	Buy call	40	75	67	
	Futuers options	Buy put	40	43	63	
	Futuers options	Sell call	20 (	22) (	15)	
	Futuers options	Sell put	20 (	7) (	11)	

12. RESTRICTIONS AND ENFORCEMENT OF THE COMPANY'S VARIOUS FINANCIAL RATIOS UNDER R.O.C. FUTURES COMMISSION  
MERCHANTS LAWS

According to Regulations Governing Futures Commission Merchants

Article	Calculation formula	1/1/2018 ~ 12/31/2018		1/1/2017 ~ 12/31/2017		Standard	Enforcement (Note 3)
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Equity}}{\text{(Total liabilities – Future traders' equity)}}$	$\frac{8,220,550}{724,465}$	11.35	$\frac{7,467,585}{566,565}$	13.18	$\geq 1$	Satisfied
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{68,078,674}{63,805,024}$	1.07	$\frac{53,600,861}{49,181,440}$	1.09	$\geq 1$	Satisfied
22	$\frac{\text{Equity}}{\text{Minimum paid – in capital (Note 1)}}$	$\frac{8,220,550}{1,060,000}$	775.52%	$\frac{7,467,585}{1,060,000}$	704.49%	$\geq 60\%$ $\geq 40\%$ (Note 2)	Satisfied
22	$\frac{\text{Post – adjustment net capital}}{\text{Total margin deposit required for futures traders, not yet off-set}}$	$\frac{5,842,395}{12,500,230}$	46.74%	$\frac{5,669,953}{7,448,097}$	76.13%	$\geq 20\%$ $\geq 15\%$	Satisfied

Note 1: “Minimum paid-in capital” shall be in compliance with futures commission merchants standard set of capital amount or designated appropriation of operating capital amount.

Note 2: For the entrusted foreign futures trading of foreign futures merchants, the standard ratios (equity / minimum paid-in capital) are adjusted to 50% and 30%, respectively.

Note 3: “Enforcement” column shall state whether or not the financial ratio requirements are satisfied; if not, an explanation is needed to be filed with a specific appointed institution or establish an improvement plan.

### 13. SPECIFIC INHERENT RISKS IN OPERATING AS FUTURES DEALER

- (1) Credit risk is the main risk for engaging in futures brokerage business since the Group must demand collecting trading margin deposits from customers. The credit risk occurs when the customers fail to pay margin deposits. The Group acts as agents for trading futures and options contracts and should pay attention to daily margin credit as to control credit risk. Market risk is also noted in the industry due to dealer business. Dealer business is price index sensitive, therefore, the Group pre-sets stop loss point for risk management purposes.
- (2) The specific risks of the Group's futures brokerage business are outlined below: Futures trading has a characteristic of low margin. Therefore, the risks of futures trading include: when the futures market trend is unfavorable for customers, futures firms may demand to collect additional trading margin deposits from customers to keep certain margin level. If the customers fail to pay margin deposits in a period prescribed, futures firms have the right to offset the contract amount of the customers by the additional margin deposits demanded. Further, futures firms may incur losses when futures market prices fluctuate drastically and the customers are unable to settle futures contracts.
- (3) See Note 20 for significant risk information on futures dealer business.

### 14. SEGMENT INFORMATION

- (1) General information – type of product and service of reporting segments' income source

Management has determined the operating segments based on the reports reviewed by the Chief Operating Decision-Maker, i.e. Board of Directors, that are used to make strategic decisions. The Chief Operating Decision-Maker considers the source of income, and the Group's operating segments are divided into broker and dealer. The primary source of income by each segment is as follows:

Broker: Consigned and entrusted to futures trading and financial instruments trading approved by relevant regulations in the R.O.C.

Dealer: Used capital funds to engage in trading stocks, futures, options, and other derivatives financial instruments approved by relevant regulations in the R.O.C.

- (2) Measurement of segment information

#### A. Information on segment profit (loss); measurement of assets and liabilities

Measurement of profit (loss), assets and liabilities of the Group are consistent with Note 4 – Summary of significant accounting policies. Measurement of profit (loss) performance is based on income before tax.

In order to establish a fair and reasonable performance evaluation, the Group would offset the income and expense incurred internally from each segment for external financial reporting purposes.

Income and expense are classified directly to the segment where they belong to. For expense incurred indirectly, it will consider its classification based on the usage purpose by proportionally dividing into each segment when a reasonable rate can be assigned. Otherwise, it will be classified as "Other segment" when a reasonable rate cannot be assigned.

#### B. Identifying factors for reportable segments

The measurement of segment performance will be evaluated periodically to ensure

that it achieves the goals of the Group. The results of its evaluation will be used as the framework for resource allocation.

(3) Information on segment profit (loss)

For the year ended December 31, 2018						
Items	Broker		Dealer		Total	
	Amount	%	Amount	%	Amount	%
Direct segment profit						
Segment revenue						
Brokerage	\$ 3,439,375	97	\$ -	-	\$ 3,439,375	95
Loss on trading of securities	-	-	( 16,277)	( 18)	( 16,277)	-
Dividend	-	-	1,491	2	1,491	-
Loss on valuation of trading securities	-	-	( 571)	( 1)	( 571)	-
Gain on repurchase of lending Securities and sell back to bond						
Funds and bonds	-	-	15,679	17	15,679	-
Lending securities and sell back to bond funds and bonds through profit or loss at fair value measurements of net benefits	-	-	( 381)	-	( 381)	-
Securities commission revenue	4,743	-	-	-	4,743	-
Clearance fee from consignment	83,717	3	-	-	83,717	2
Net gain on disposal of derivative financial instruments	-	-	84,151	94	84,151	3
Futures advisory revenues	14,259	-	-	-	14,259	-
Other operating revenues	6,589	-	5,521	6	12,110	-
Total revenues	<u>3,548,683</u>	<u>100</u>	<u>89,613</u>	<u>100</u>	<u>3,638,296</u>	<u>100</u>
Segment expense						
Brokerage fee	( 620,625)	( 17)	-	-	( 620,625)	( 17)
Dealer handling fee	-	-	( 6,692)	( 7)	( 6,692)	-
Interest expense	( 49,032)	( 1)	( 3,585)	( 4)	( 52,617)	( 1)
Expected credit losses	( 89,113)	( 3)	-	-	( 89,113)	( 2)
Futures commission	( 771,040)	( 22)	( 4,700)	( 5)	( 775,740)	( 21)
Clearance fee	( 484,258)	( 14)	( 3,799)	( 4)	( 488,057)	( 13)
Other operating fee	-	-	( 3,382)	( 4)	( 3,382)	-
Employee benefit expense	( 476,108)	( 13)	( 47,634)	( 53)	( 523,742)	( 14)
Depreciation and amortization	( 40,491)	( 1)	( 8,792)	( 10)	( 49,283)	( 1)
Other operating expenses	( 442,359)	( 12)	( 50,639)	( 57)	( 492,998)	( 14)
Total expense	<u>( 2,973,026)</u>	<u>( 83)</u>	<u>( 129,223)</u>	<u>( 144)</u>	<u>( 3,102,249)</u>	<u>( 83)</u>
Segment operating income	575,657	17	( 39,610)	( 44)	536,047	17
Other gains and losses	811,993	23	17,804	20	829,797	23
Segment profit	<u>\$ 1,387,650</u>	<u>40</u>	<u>(\$ 21,806)</u>	<u>( 24)</u>	<u>1,365,844</u>	<u>40</u>
Indirect segment profit (loss)						
Management expense					( 120,262)	( 3)
Net income before income tax					1,245,582	37
Income tax expense					( 245,537)	( 7)
Net income					<u>\$ 1,000,045</u>	<u>30</u>



For the year ended December 31, 2017						
Items	Broker		Dealer		Total	
	Amount	%	Amount	%	Amount	%
Direct segment profit						
Segment revenue						
Brokerage	\$ 2,712,136	96	\$ -	-	\$ 2,712,136	93
Gain on trading of securities	-	-	2,486	3	2,486	-
Dividend	-	-	3,263	4	3,263	-
Loss on valuation of trading securities	-	-	( 106)	-	( 106)	-
Loss on repurchase of lending						
Securities and sell back to bond						
Funds and bonds	-	-	( 55,765)	( 64)	( 55,765)	( 2)
Lending securities and sell back to						
bond funds and bonds through profit						
or loss at fair value measurements						
of net benefits	-	-	607	-	607	-
Securities commission revenue	4,425	-	-	-	4,425	-
Clearance fee from consignment	75,996	3	-	-	75,996	3
Net gain on disposal of derivative						
financial instruments	-	-	135,539	157	135,539	5
Futures management fee revenues	198	-	-	-	198	-
Futures advisory revenues	16,487	-	-	-	16,487	-
Other operating revenues	25,247	1	488	-	25,735	1
Total revenues	<u>2,834,489</u>	<u>100</u>	<u>86,512</u>	<u>100</u>	<u>2,921,001</u>	<u>100</u>
Segment expense						
Brokerage fee	( 516,514)	( 18)	-	-	( 516,514)	( 18)
Dealer handling fee	-	-	( 5,951)	( 7)	( 5,951)	-
Interest expense	( 33,979)	( 1)	( 630)	( 1)	( 34,609)	( 1)
Futures commission	( 545,660)	( 19)	( 8,616)	( 10)	( 554,276)	( 19)
Clearance fee	( 407,459)	( 14)	( 4,132)	( 5)	( 411,591)	( 14)
Other operating fee	-	-	( 779)	( 1)	( 779)	-
Employee benefit expense	( 413,053)	( 15)	( 40,662)	( 47)	( 453,715)	( 16)
Depreciation and amortization	( 32,517)	( 1)	( 5,844)	( 7)	( 38,361)	( 1)
Other operating expenses	( 379,927)	( 13)	( 41,435)	( 48)	( 421,362)	( 14)
Total expense	<u>( 2,329,109)</u>	<u>( 81)</u>	<u>( 108,049)</u>	<u>( 126)</u>	<u>( 2,437,158)</u>	<u>( 83)</u>
Segment operating income	505,380	19	( 21,537)	( 26)	483,843	17
Other gains and losses	635,707	22	13,025	15	648,732	22
Segment profit	<u>\$ 1,141,087</u>	<u>41</u>	<u>(\$ 8,512)</u>	<u>( 11)</u>	1,132,575	39
Indirect segment profit (loss)						
Management expense					( 107,475)	( 4)
Net income before income tax					1,025,100	35
Income tax expense					( 151,814)	( 5)
Net income					<u>\$ 873,286</u>	<u>30</u>

Note : The Group's Chief Operating Decision-Maker does not use segment assets and liabilities as a basis for decision making, therefore, the Group does not have to disclose the assets and liabilities of the operating segments.

15. SUBSEQUENT EVENTS

- (1) For information of the distribution of profits, please refer to Note 6(15) for details.

16. RELATED INFORMATION OF SIGNIFICANT TRANSACTIONS

- (1) Financing activities to any company or person: None.
- (2) Endorsements and guarantees provided: None.
- (3) Acquisition of real estate properties exceeding \$300 million or 20% of the Company's paid-in capital: None.
- (4) Disposal of real estate properties exceeding \$300 million or 20% of the Companies' paid-in capital: None
- (5) Purchases or sales transactions discount on Broker's charges with related parties in excess of NT\$5,000,000 : None.
- (6) Purchases or sales transactions with related parties in excess of \$100 million or over 20% of paid-in capital balance: None.
- (7) Other: Significant transactions between parent company and subsidiaries: None.

17. INFORMATION ON INVESTEEES (NOT INCLUDING INVESTEEES IN MAINLAND CHINA)

(1) Names of investee companies, locations, and related information are as follows:

Investor	Investee	Location	Set up date	FSC Approved Number	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Operating revenue by the company	Net income (loss) of the investee	Investment income (loss) recognized by the company	Cash dividend for the current period	Note
						Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (in thousands)	Ownership (%)	Book value					
Yuanta Futures Co., Ltd.	Yuanta Futures (Hong Kong) Co., Ltd.	Hong Kong	2010.12.2	Gin-Gwen-Zheng-Qi Letter No. 0990055943	Financial Services	\$1,033,971	\$495,999	34,000	100.00%	988,185	\$208,675	\$ 723	\$ 723	-	
Yuanta Futures Co., Ltd.	SYF Information Co., Ltd.	Taiwan	2012.10.16	Gin-Gwen-Zheng-Qi Letter No. 1010035210	Information Technology Services	350,000	350,000	35,000	100.00%	292,315	-	( 4,506)	( 4,506)	-	
SYF Information Co., Ltd	SYF Information (Samoa) Limited	Samoa	2012.11.15	Gin-Gwen-Zheng-Qi Letter No. 1010035210	Investment Holdings	184,857	184,857	5,800	100.00%	151,019	-	( 4,763)	( 4,763)	-	

(2) Information on investee companies with direct or indirect controlling interest is as follows:

- A. Financing activities to any company or person: None.
- B. Endorsements and guarantees provided: None.
- C. Acquisition of real estate properties exceeding \$300 million or 20% of the Company's paid-in capital: None
- D. Disposal of real estate properties exceeding \$300 million or 20% of the Companies' paid-in capital: None
- E. Purchases or sales transactions discount on Broker's charges with related parties in excess of NT\$5,000,000 : None.
- F. Purchases or sales transactions with related parties in excess of \$100 million or over 20% of paid-in capital balance: None.
- G. Other: Significant transactions between parent company and subsidiaries: None.

18. DISCLOSURE OF INFORMATION ON SETTING UP BRANCH OFFICES AND REPRESENTATIVE

None.

19. DISCLOSURE OF INFORMATION ON INDIRECT INVESTMENT IN MAINLAND CHINA

(1) Basic information:

Name of investee in Mainland China	Main business activities	Issued capital	Investment method (Note 1)	Beginning balance of foreign investment from Taiwan	Investment movement within this period		Ending balance of foreign investment from Taiwan	Net income of investee	Percentage of direct or indirect investment holding	Gain (loss) recognized during the period (Notes 2) (2.C)	Book value as of December 31, 2018	Accumulated gain returned to Taiwan at end of period	Note
					Invested amount	Returned amount							
SYF Information (Shanghai) Limited	Research & development and production of computer software, etc.	\$157,209	(2) SYF Information (Samoa) Limited	\$157,209	\$ -	\$ -	\$157,209	(\$5,329)	100	(\$ 5,329)	\$125,447	-	

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Yuanta Futures Co., Ltd.	\$ 157,209	\$ 174,000	\$ 4,932,330

Note 1: Investment types are categorized into three sub-sections, as follows:

- (1) Direct investment in entities of Mainland China.
- (2) Reinvest in entities of Mainland China through indirect investment in the third place.
- (3) Others.

Note 2: In the 'Gain (loss) recognized during the period' column:

- (1) It should be indicated if the investee was still in the incorporation stage and had not yet any profit during this period.
- (2) Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:
  - A. The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
  - B. The financial statements that are audited and attested by R.O.C. parent company's CPA.
  - C. Others.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

- (2) Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas: None.

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## 20. FINANCIAL RISK MANAGEMENT

### (1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group adopted to strengthen risk-adjusted return on capital, which allocated the Group's capital effectively.

### (2) Financial instruments

The methods of reporting derivative financial instruments on financial statements: please refer to the Notes 6(1), 6(2), 6(20) and 20(9).

### (3) Fair value estimation

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market has to satisfy all the following conditions: 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 Group's investment in listed stocks, beneficiary certificates and derivative instruments with quoted market prices is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair value of the Group's investment in off-the-run financial bonds is included in Level 2.

Level 3: Inputs for the asset or liability that are not based on observable market data. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

(A) Except for those listed in the table below, the carrying amounts of cash and cash equivalents, margin deposits, futures trading margin receivable, security leading deposits, accounts receivable, accounts receivable –related parties, leverage margin contract trading client margin deposits, other current assets, operating guarantee deposits, clearing and settlement funds, refundable deposits, futures traders' equity, accounts payable, accounts payable–related parties, other payables, other payables–related parties and other current liabilities are approximate to their fair values.

	December 31, 2018			
	<u>Book value</u>	<u>Fair Value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Financial assets at amortised cost				
Financial bonds	\$ 92,333	\$ -	\$ 92,853	\$ -
Total	<u>92,333</u>	<u>-</u>	<u>92,853</u>	<u>-</u>

(B) The methods and assumptions of fair value estimate are as follows:

Financial bonds: They are measured at quoted price in active markets.

C. The related information of financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2018 and 2017 is as follows:

December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Listed stocks	\$ 13,004	\$ -	\$ -	13,004
Beneficiary certificates	19,710	-	-	19,710
Open-End Fund and Money Market Instruments	46,445	-	-	46,445
Futures	132,268	-	-	132,268
Options	25,103	-	-	25,103
Derivatives Assets - Leverage margin contract transaction				
	-	8,145	-	8,145
Financial assets at fair value through other comprehensive income				
Equity securities	<u>155,525</u>	<u>-</u>	<u>1,404,019</u>	<u>1,559,544</u>
Total	<u>\$ 392,055</u>	<u>\$ 8,145</u>	<u>\$ 1,404,019</u>	<u>\$ 1,804,219</u>
<u>Liabilities</u>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Options	<u>\$ 20,089</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,089</u>

December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 7,408	\$ -	\$ -	\$ 7,408
Open-End Fund and Money Market Instruments	107,569	-	-	107,569
Futures	27,315	-	-	27,315
Options	191	-	-	191
Derivatives Assets - Leverage margin contract transaction	-	4,190	-	4,190
Available-for-sale financial assets				
Equity securities	280,461	-	1,183,345	1,463,806
Financial bonds	-	90,174	-	90,174
Total	<u>\$ 422,944</u>	<u>\$ 94,364</u>	<u>\$ 1,183,345</u>	<u>\$ 1,700,653</u>
<u>Liabilities</u>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Options	\$ 329	\$ -	\$ -	\$ 329
Security borrowing payable	7,049	-	-	7,049
Derivatives Liabilities - Leverage margin contract transaction	-	71	-	71
Total	<u>\$ 7,378</u>	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ 7,449</u>

D. The methods and assumptions the Group used to measure fair value are as follows:

- (A) The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity instruments and debt instruments classified as financial assets/financial liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, and available-for-sale financial assets.
- (B) The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- (C) If one or more of the significant inputs is not based on observable market data, the instrument



is included in level 3.

(D) Specific valuation techniques used to value financial instruments include:

- a. Quoted market prices or dealer quotes for similar instruments.
- b. Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

E. For the years ended December 31, 2018 and 2017, there were no transfer between Level 1 and Level 2.

F. The following table presents the changes in level 3 instruments the years ended December 31, 2018 and 2017.

	Equity securities
January 1, 2018	\$ 1,183,345
Gains and losses recognised in other comprehensive income (Note 1)	220,674
December 31, 2018	<u>\$ 1,404,019</u>
	Equity securities
January 1, 2017	\$ 1,119,350
Gains and losses recognised in other comprehensive income (Note 2)	63,995
December 31, 2017	<u>\$ 1,183,345</u>

Note 1: Recorded as unrealised valuation gain or loss of financial assets at fair value through other comprehensive income.

Note 2: Recorded as unrealised valuation gain or loss of available-for-sale financial assets.

G. The following is the qualitative information of significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant Unobservable input	Range (weighted average)
Non-derivative equity				
Non-listed stocks	\$ 1,404,019	Market approach	Price to earnings ratio multiple	26.53
			Discount of marketability	40%
	Fair value at December 31, 2017	Valuation technique	Significant Unobservable input	Range (weighted average)
Non-derivative equity				
Non-listed stocks	\$ 1,183,345	Market approach	Price to earnings ratio multiple	25.03
			Discount of marketability	40%

H. The valuation process for fair values classified at Level 3 is the responsibility of the risk management department, which verifies the financial instrument's fair value. The result of the evaluation is then reviewed and approved by the risk management department of the Group's parent company. The risk management department evaluates the independence, reliability, consistency, and representativeness of the information source, and periodically verifies the valuation model and calibrates the valuation parameters, ensuring the valuation process and

valuation results are in accordance with IFRS's requirements.

- I. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in difference measurement. The following is the effect of profit or loss or of other comprehensive income from financial instruments categorized within Level 3 if the valuation input of financial instrument classified in Level 3 moves upward or downward by 1%:

		December 31, 2018	
		Recognised in other comprehensive income	
		Favourable change	Unfavourable change
Financial assets			
Equity instrument	\$	4,680	(\$ 4,680)
		December 31, 2017	
		Recognised in other comprehensive income	
		Favourable change	Unfavourable change
Financial assets			
Equity instrument	\$	3,944	(\$ 3,944)

#### (4) System of risk management

##### A. Objectives of risk management

The Group controls any potential losses that might incur in operations within its tolerable limits by increasing completeness of risk management mechanism, establishing efficient risk management measures, models and systems, and monitoring the changes of whole risks strictly. The Group also puts efforts in allocating its capital more efficiently to raise the risk adjusted return on capital.

##### B. Risk management system

The Group's risk management system is in compliance with the "Risk Management Policy" of Yuanta Financial Holding Co., Ltd. and "Risk Management Practice Principles for Futures Commission Merchants" of Taiwan Futures Exchange. The Group has established the Risk Management Policy, which is the internally highest risk management standard authorized by the Board of Directors, comprising objectives, scopes, powers and responsibilities, and procedures of risk management.

##### C. Organizational structure of risk management

(A) The Group's organizational structure of risk management comprises the Board of Directors, Audit Committee, high management level, Risk Management Department, Legal Compliance Department, Auditing Office, each business unit and each functional committee; they all together form three lines of defense for risk management.

- First line of defense: this includes each business unit and each functional committee, whose personnel are serving in the operational or administration division and have responsibilities for risk identification, risk assessment and risk control.
- Second line of defense: this includes high management level, Risk Management Department and Legal Compliance Department, which are responsible for risk monitoring, risk management and taking measures in response to risk issues in

accordance with the Group's Risk Management Policy. The Group also takes part in the Risk Management Committee of Yuanta Financial Holding Co., Ltd. for integration of risk control and management in the Group.

- c. Third line of defense: this includes the Board of Directors, Audit Committee and Auditing Office. Auditing Office conducts audits especially in the risk consideration to ensure every risk is under control.

(B) The function of each unit in the structure of risk management of the Group is as follows:

- a. The Board of Directors: The Board of Directors has ultimate responsibility for risk management on all businesses and operations in the Group; it shall be fully aware of every risk exposure to the Group, and then determines tolerable limit for every risk, allocates resources effectively, and authorizes relevant departments to execute risk measures for the achievement of effective risk management. The Board of Directors hears risk management and other related reporting by Risk Management Department, Auditing Office and Finance Department regularly to evaluate the impact of every risk and the impact on capital allocation, and determines responding strategies.
- b. Audit Committee: Audit Committee directs the execution of the risk management system under the commission of the Board of Directors; its main duties include review of the Group's risk scopes and risk toleration capability, of the Risk Management Policy and relevant principles, and of annual authorized acceptable limit of risk of each kind, as well as directing the execution of the risk management system.
- c. Risk Management Department: this department, an independent department under the Board of Directors, is responsible for market risk, liquidity risk and credit risk management, and controls operational risk with Auditing Office together; its main duties include daily risk monitoring and assessments of risk management affairs. Risk Management Department exercises its authority independently from business units and trading activities, and holds accountability to the Board of Directors directly. By employing the risk management information system, Risk Management Department monitors trading conditions in the futures market during the trading time every day and performs analyses after the closing of trading time; it also checks the use status of risk limits authorized to each business unit, and assesses risk exposures and extent of risk concentration, and submits risk management reports regularly.
- d. Auditing Office: Auditing Office, an independent department under the Board of Directors, is responsible for legislation and internal control system compliance management, operational risk management and supervision of operational risk management procedures. In accordance with the internal control rules of regulatory authorities, and adjusted operational risk management procedures appropriately in line with the amendments to the regulations of regulatory authorities, Taiwan Futures Exchange and Chinese National Futures Association or for the changes in the Group's business.
- e. Legal Compliance Department: this department is responsible for review of legal compliance for the Group's businesses, operations, trading and transaction contracts/documents and offering legal options on those aspects and pushing the execution of legal compliance within the Group together with Auditing Office.
- f. Each business unit: Each business unit is liable for the first-line risk management. The directors of each business unit are in charge of the whole risk management on businesses and trading activities of the unit, including analyzing and controlling risk exposures, drawing up responding plans and taking measures against risk when

necessary, and also conveying related information to Risk Management Department to ensure the risk control mechanism and procedures are all effectively executed, and comply with the legislation and the Group's Risk Management Policy and regulations.

D. Procedures of risk management

The Group's procedures of risk management include risk identification, risk measurement, risk management and risk reporting. The design of these procedures is to ensure all risks faced by the Group can be effectively controlled.

- (A) Risk identification: The Group identifies risks, through business and product analyses, that may arise during the courses of operations, including market risk, credit risk, liquidity risk, operational risk, legal risk and model risk, and finds out risk factors of risk exposure of each kind, selects appropriate method of risk measurement, and establishes risk indexes and judgment principles and risk control procedures that can be connected to the internal information system.
- (B) Risk measurement: The Group measures market risk by using scenario analysis, sensitivity analysis and VaR model and credit risk by using the credit rating system, option pricing model (ex. KMV) and following the Group's credit risk assessment rules. Operational risk is controlled by establishing standard operating procedures, establishing internal and external event notification mechanism, reviewing current operating procedures and employing operational risk management methods.
- (C) Risk management: Risk monitoring and control are performed through the use of risk management tools, establishment of acceptable limits of risks and division of authority and responsibilities. Different risk management tools and information systems and statements are developed and employed for different risks to raise the efficiency and quality of risk management.
- (D) Risk reporting: Risk information and risk management performing results are compiled as risk management statements or reports. These results are disclosed periodically and provided as a reference to the management in making risk management policy and rules.

E. Hedging and risk diminishing strategies

The Group has established hedging tools and hedging mechanisms for risks of each business based on its capital scale and risk toleration capability. Through hedging mechanisms, the Group may restrict risks within authorized limits, and employ authorized financial instruments, based on market conditions, business strategies, characteristics of commodities and risk management rules, to adjust risk positions within acceptable levels.

(5) Market risk

The Group's financial assets include bank deposits, government bonds, treasury bonds, bank debentures, negotiable certificates of deposit, commercial papers or other short-term notes and bills authorized by Ministry of Finance, domestic listed stocks, securities investment trust funds, offshore funds authorized by competent authorities to be raised and sold in ROC, futures trust funds, futures trading listed in Article 5 of Futures Trading Act, hedging trading of bond options and other financial instruments authorized by competent authorities. The fair value of these financial assets would be changed by the fluctuations of market prices or interest rates.

To manage market risk, the Group has established the Rules of Financial Instruments Investment Risk Management, including Rules of Dealer Trading Risk Management and Rules of Medium and Long-term Securities Investment Risk Management, and established various control mechanisms based on the characteristics of financial instrument risks, such as position limits, stop-

loss amounts and exception management. The Group also conducts market risk quantitative management by employing VaR model in the measurement and control of market risk of each position.

Through the VaR model, the Group measures market risk by estimating maximum possible losses of the trading positions for the next day at the 99% confidence level. According to the types of trading, the VaR of equity trading, commodity trading, foreign-exchange-rate trading and interest-rate trading are as follows:

<Table>VaR of Trading of Different Types

Period: January 1 ~December 31, 2018

Amount in thousands of NTD

Type of Trading	Equity	Commodity	Foreign Exchange Rate	Interest Rate	Total
December 31, 2018	\$ 475	\$ -	\$ 624	\$ -	\$ 820
Average	2,791	397	703	53	2,929
Lowest	430	-	-	-	735
Highest	15,549	1,393	1,718	1,472	15,751

Period: January 1 ~ December 31, 2017

Amount in thousands of NTD

Type of Trading	Equity	Commodity	Foreign Exchange Rate	Interest Rate	Total
December 31, 2017	\$ 1,224	\$ 681	\$ -	\$ -	\$ 1,275
Average	3,611	1,290	778	189	4,232
Lowest	183	69	-	-	695
Highest	11,641	7,105	5,197	4,225	12,486

Note 1 : Trading included futures dealer trading and securities dealer trading but excluded medium and long-term securities investments.

Note 2 : Total category of value-at-risk may be less than the amount of value-at-risk of equity, commodity, foreign exchange rate and interest rate, that's due to diversification effects between different categories.

The Group continues to run model validation and back testing to ensure that the Group's VaR model can reasonably, completely and correctly measure maximum potential losses of financial instruments.

#### (6) Credit risk

A. The Group is exposed to credit risk from financial trading, including issuer credit risk, counterparty credit risk and underlying asset credit risk.

(A) Issuer credit risk occurs when issuer (or guarantor) of the financial debt instruments held by the Group or bank with which the Group deposits money fails to fulfill contractual obligations (or guarantor's obligations) because of its default, bankruptcy or liquidation, which would cause a financial loss to the Group.

(B) Counterparty credit risk occurs when counterparty of the financial instrument transaction undertaken by the Group fails to fulfill settlement or payment obligation on the appointed day, which would cause a financial loss to the Group.

- (C) Underlying asset credit risk refers to the risk of loss that may arise from deterioration of credit quality of the underlying asset linked to the financial instruments or increasing of credit risk premium or downgrade of credit rating or contract default.
- B. The financial assets of the Group with credit risk include bank deposits, debt securities, OTC derivative trade, repurchase agreement/reverse repurchase agreement of bonds (bills), deposits for securities borrowing and lending trade, margins for futures trade, other margins and receivables.

(A) Analysis of concentration of credit risk

a. Geographic location:

Percentages of credit risk exposure amounts of the Group's financial assets by geographic area were as follows (see the table below): As of December 31, 2018, the highest was Taiwan with 90.53%, the second was Asia (excluding Taiwan) with 6.03%, and the third was Europe with 3.30%. Compared to the same period last year, the proportion of investments in Asia has increased slightly in this period.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan	\$ 58,992,570	\$ 50,054,762
Asia(not including Taiwan)	9,666,739	3,333,022
Europe	2,247,302	1,825,413
America	83,632	78,363
Total	<u>\$ 70,990,243</u>	<u>\$ 55,291,560</u>

b. Industry:

Percentages of credit risk exposure amounts of the Group's financial assets by industry were as follows (see the table below): Financial institutions are 99.86%. Credit risk is concentrated in financial institutions because the Group's own capital and margins received from customers were both deposited with financial institutions, debt securities held by the Group were issued or guaranteed by banks, and counterparties of derivative trade and reverse repurchase agreement of bonds undertaken by the Group were banks, futures clearing and settlement institution and re-consigned futures firms. The percentages distribution did not change significantly in this period compared to the corresponding period of last year.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Privately owned businesses	\$ 19,710	\$ -
Financial institutions	70,873,237	55,211,803
Public enterprises	4	4
Other	97,292	79,753
Total	<u>\$ 70,990,243</u>	<u>\$ 55,291,560</u>

(B) Analysis of credit risk levels

- a. Credit risk rating is categorized into Excellent, Standard, Below standard, Other 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 fulfil 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)Other: This level shows that the counterparty or the underlying asset does not fulfill contractual obligations, or for other reasons fails to (or not) do the internal credit risk ratings.

b. As of December 31, 2018, the credit quality levels of the Group's financial assets were classified as follows: Excellent is 99.80%, below the standard is 0.15%. The result of credit quality level classification did not change significantly in this period compared to the corresponding period of last year.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Excellent	\$ 69,384,754	\$ 55,183,637
Standard	1,505,049	24,280
Below standard	<u>100,440</u>	<u>83,643</u>
Total	<u>\$ 70,990,243</u>	<u>\$ 55,291,560</u>

C. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

(A) The Group determines that there has been a significant increase in credit risk on a receivable (futures trading margin receivable and other receivables) if it is either past due over 30 days or in violation of the terms of the agreement.

(B) Refundable deposits that have not been returned and the number of days past the refund date is more than 30, excluding deposits not returned due to specific conditions set in the contract.

(C) At the balance sheet date, a debt instrument is considered to have significant increase in credit risk if the credit rating of the credit reference subject is non-investment grade and any of the following conditions apply:

a. The credit rating of the credit reference subject has dropped by more than one scale since initial recognition.

b. The implicit credit spread of the debt instrument has increased by a certain number of basis points since initial recognition

(D) The definition of a financial asset in default

a. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

b. A debt instrument investment is considered in default if any of the following conditions apply:

(a) Bond was credit-impaired at the time of purchase.

(b) At the financial reporting date, the bond is rated as "in default."

(c) Interest or principal payments have not been made in accordance with the issuance terms.

- (d) Due to credit condition of the issuer, the issuance terms were changed so that interest payments were delayed or not made at all.
- (e) The issuer or guarantor has ceased operations, applied for reorganization, filed for bankruptcy, dissolved, or sold assets that have a significant impact on the company's ability to continue as a going concern.

(E) Write off policy

If the Group cannot reasonably expect to recover the entire or part of the financial asset, it will write off the entire or part of the financial asset.

(F) Measurement of expected credit loss and consideration of forward-looking information

a. Futures trading margin receivable, other receivables – interest on bond

Obtain historical loss rates (based on the historical losses from the past three years, compare the current and past economic environments to the predicted future environment (forward-looking factor) and determine if there is a significant change; adjust the estimate for future loss rates accordingly).

(a)The total carrying amount, allowance for losses, and maximum exposure of “futures trading margin receivable and other receivables-interest on bond” of the Group are as follows:

i. Futures trading margin receivable

	December 31, 2018			
	Life time			
	12 months	Significant increase in credit risk	Credit impaired	
	Without past due or within 30 days	More than 30 days	More than 90 days	Total
Expected loss rate	0%	69.47%	100%	
Total book value	\$ -	\$ 3,348	\$ 86,810	\$ 90,158
Loss allowance	\$ -	(\$ 2,326)	(\$ 86,810)	(\$ 89,136)
Maximum exposure amount	\$ -	\$ 1,022	\$ -	\$ 1,022

ii. Other receivables-interest on bond

The total carrying amount and maximum exposure of “other receivables-interest on bond” of the Group within 12 months are both \$485.

(b)Movements in loss allowance for futures trading margin receivable and other receivables-bonds interests are as follows:

i. Futures trading margin receivable



For the year ended December 31, 2018				
	12 months	Life time		Total
		Significant increase in credit risk	Credit impaired	
	Without past due or within 30 days	More than 30 days	More than 90 days	
January 1, 2018	\$ -	\$ -	(\$ 241)	(\$ 241)
Provision for impairment	-	( 2,326)	( 86,810)	( 89,136)
Write off	-	-	241	241
December 31, 2018	<u>\$ -</u>	<u>(\$ 2,326)</u>	<u>(\$ 86,810)</u>	<u>(\$ 89,136)</u>

ii. Other receivables-interest on bond

The Group's other receivables – interest on bond is included in the adjustment of financial assets measured at amortised cost.

b. Bond investments

The expected credit loss (ECL) model is primarily based on the following three parameters: probability of default (PD), loss given default (LGD), and exposure at default (EAD).

- (a) Probability of default: Calculated using the default rate tables published by external credit rating agencies and incorporating forward-looking information.
- (b) Loss given default: Calculated based on the guarantees and the priority of claims of the debt instrument, and the average recovery rates published by external credit rating agencies.
- (c) Exposure at default: total carrying amount (including interest receivable). The carrying amount is measured at amortized cost before any adjustments to the allowance for losses.
- (d) The expected credit loss of the investments in debt instrument at amortized cost of the Group, within 12 months, as of December 31, 2018, are as follows:

	December 31, 2018
	12 months
Expected loss rate	0%
Total book value	\$ 92,386
Loss allowance	( 53)
Maximum exposure amount	<u>\$ 92,333</u>

- (e) The Group has no life time expected credit loss of the investments in debt instrument at amortized cost as of December 31, 2018.

(f) Forward-looking information considerations

One of the quantitative indicators used in the assessment of significant increase in credit risk on debt instruments measured at amortized cost is the change in external

credit ratings published by international credit rating agencies. The measure of expected credit loss is based on external credit ratings, the probability of default and loss given default information published by external credit rating agencies. These credit ratings incorporate forward-looking information, which is considered to be appropriate by the Group in estimating the expected credit losses.

- D. Movements in loss allowance for financial assets at amortised cost (including interest receivables) within 12 months are as follows:

	<u>2018</u>
	<u>12 months</u>
At January 1_IAS 39	\$ -
Adjustments under new standards	( 76)
At January 1_IFRS 9	( 76)
Reversal of impairment	<u>23</u>
December 31	<u>(\$ 53)</u>

- E. For investments in debt instruments at amortised cost, the credit rating levels within 12 months are presented as below:

	<u>December 31, 2018</u>
	<u>12 months</u>
Financial assets at amortised cost	
Group 1	<u>\$ 92,333</u>
Group 1: Credit rating level over BBB+.	<u>\$ 92,333</u>

- F. Credit risk information for the year ended December 31, 2017 is provided in Note 20(9).

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(7) Liquidity risk analysis

- A. Liquidity risk of capital refers to the risk arising from the Group's inability to raise funds adequately in a period, which makes it unable to fulfill repayment or disbursement obligations on the expiry days. For liquidity risk management, the Group has established a warning system based on the nature of its businesses, including capital liquidity index, current ratio, loan lines granted by financial institutions and capital shortfall indication, which can estimate in advance the possible capital shortfall in certain periods and help the Group be aware of the overall liquidity risk of capital; the Group has also established a fund procurement plan in response to the occurrence of systematic risk events or exceptional capital flows. For the realization, marketability and safety of current assets, the Group has established the rules of capital risk management, which state the Group's bank deposits, bond trade, repo trade, etc. must meet certain level above of the internal rating and their positions and liquidity shall be monitored regularly.
- B. The information about the maturity of the Group's financial liabilities is shown below. The Group's working capital is sufficient enough to meet its funding requirements in the future. Therefore it has no liquidity risk that would arise from inability to raise funds to fulfill repayment or disbursement obligations.

Cash flow analysis of financial liabilities on December 31, 2018

Accounts	Financial liabilities	Payment period					Total
		Prevailing Period	Less than 3 months	3 ~12 months	1~5 years	Over 5 years	
212000	Financial liabilities at fair value through profit and loss -current	\$ 20,089	\$ -	\$ -	\$ -	\$ -	\$ 20,089
214080	Futures traders' equity	64,332,759	-	-	-	-	64,332,759
214100	Leverage margin contract transaction traders' equity	103,735	-	-	-	-	103,735
214130	Accounts payable	198	123,797	-	-	-	123,995
214140	Accounts payable-related parties	-	18,993	-	-	-	18,993
214170	Other payables	-	49,747	154,066	1,899	197	205,909
214180	Other payables-related parties	-	923	-	-	-	923
219000	Other current liabilities	-	17,396	6,786	-	-	24,182
	Total	<u>\$ 64,456,781</u>	<u>\$ 210,856</u>	<u>\$ 160,852</u>	<u>\$ 1,899</u>	<u>\$ 197</u>	<u>\$ 64,830,585</u>
	Percentage (%) of overall	99.42%	0.33%	0.25%	0.00%	0.00%	100.00%

Cash flow analysis of financial liabilities on December 31, 2017

Accounts	Financial liabilities	Payment period					Total
		Prevailing Period	Less than 3 months	3 ~12 months	1~5 years	Over 5 years	
212000	Financial liabilities at fair value through profit and loss -current	\$ 7,449	\$ -	\$ -	\$ -	\$ -	\$ 7,449
214080	Futures traders' equity	49,432,661	-	-	-	-	49,432,661
214100	Leverage margin contract transaction traders' equity	44,813	-	-	-	-	44,813
214130	Accounts payable	-	128,211	-	-	-	128,211
214140	Accounts payable-related parties	-	24,654	-	-	-	24,654
214170	Other payables	-	69,775	132,281	1,899	197	204,152
214180	Other payables-related parties	-	733	-	-	-	733
214200	Other financial liabilities - current	500	-	-	-	-	500
219000	Other current liabilities	-	17,834	5,509	-	-	23,343
	Total	<u>\$ 49,485,423</u>	<u>\$ 241,207</u>	<u>\$ 137,790</u>	<u>\$ 1,899</u>	<u>\$ 197</u>	<u>\$ 49,866,516</u>
	Percentage (%) of overall	99.24%	0.48%	0.28%	0.00%	0.00%	100.00%

Note: All amounts of cash flow analysis of financial liabilities were total cash flow of liabilities without discount.

The analysis of cash flow gap on December 31, 2018

Accounts	Financial assets	Payment period					Total
		Prevailing Period	Less than 3 months	3 ~12 months	1~5 years	Over 5 years	
111100	Cash and cash equivalents	\$ 836,147	\$ 504,220	\$ 3,951,195	\$ -	\$ -	\$ 5,291,562
112000	Financial assets at fair value through profit or loss-current	244,675	-	-	-	-	244,675
113200	Financial assets at fair value through other comprehensive income-current	155,525	-	-	-	-	155,525
114070	Margin deposits	64,540,616	-	-	-	-	64,540,616
114100	Security lending deposits	-	-	-	-	-	-
114130	Accounts receivable	-	2,960	-	-	-	2,960
114140	Accounts receivable-related parties	-	4,033	-	-	-	4,033
114170	Other receivables	-	27,919	-	-	-	27,919
114180	Other receivables-related parties	-	15,135	-	-	-	15,135
114300	Leverage margin contract trading						
	Client margin deposits	126,850	-	-	-	-	126,850
119990	Other current assets	-	23	-	-	-	23
123200	Financial assets at fair value through other comprehensive income-non-current	-	-	-	-	1,404,019	1,404,019
123300	Financial assets at amortised cost-non-current	-	-	92,333	-	-	92,333
129010	Operating guarantee deposits	-	-	-	-	145,886	145,886
129020	Clearing and settlement funds	-	-	-	-	492,788	492,788
129030	Refundable deposits	-	-	-	38,323	-	38,323
	Subtotal	<u>\$ 65,903,813</u>	<u>\$ 554,290</u>	<u>\$ 4,043,528</u>	<u>\$ 38,323</u>	<u>\$ 2,042,693</u>	<u>\$ 72,582,647</u>
	Cash inflow	<u>\$ 65,903,813</u>	<u>\$ 554,290</u>	<u>\$ 4,043,528</u>	<u>\$ 38,323</u>	<u>\$ 2,042,693</u>	<u>\$ 72,582,647</u>
	Cash outflow	<u>49,485,423</u>	<u>241,207</u>	<u>137,790</u>	<u>1,899</u>	<u>197</u>	<u>49,866,516</u>
	The amount of capital gap	<u>\$ 16,418,390</u>	<u>\$ 313,083</u>	<u>\$ 3,905,738</u>	<u>\$ 36,424</u>	<u>\$ 2,042,496</u>	<u>\$ 22,716,131</u>

The analysis of cash flow gap on December 31, 2017

Accounts	Financial assets	Payment period					Total
		Prevailing Period	Less than 3 months	3 ~12 months	1~5 years	Over 5 years	
111100	Cash and cash equivalents	\$ 816,243	\$ 2,750,369	\$ 1,209,951	\$ -	\$ -	\$ 4,776,563
112000	Financial assets at fair value through profit or loss-current	146,673	-	-	-	-	146,673
113400	Available-for-sale financial assets-current	280,461	-	-	-	-	280,461
114070	Margin deposits	49,642,864	-	-	-	-	49,642,864
114080	Futures trading margin receivable	241	-	-	-	-	241
114100	Security lending deposits	6,130	-	-	-	-	6,130
114130	Accounts receivable	-	11,441	-	-	-	11,441
114140	Accounts receivable-related parties	-	4,828	-	-	-	4,828
114170	Other receivables	-	15,279	-	-	-	15,279
114180	Other receivables-related parties	-	8,645	-	-	-	8,645
114300	Leverage margin contract trading Client margin deposits	45,372	-	-	-	-	45,372
119990	Other current assets	-	13	-	-	-	13
123400	Available-for-sale financial assets-non-current	-	-	-	1,273,519	-	1,273,519
129010	Operating guarantee deposits	-	-	-	-	147,168	147,168
129020	Clearing and settlement funds	-	-	-	-	442,569	442,569
129030	Refundable deposits	-	-	-	22,823	-	22,823
	Subtotal	<u>\$ 50,937,984</u>	<u>\$ 2,790,575</u>	<u>\$ 1,209,951</u>	<u>\$ 1,296,342</u>	<u>\$ 589,737</u>	<u>\$ 56,824,589</u>
	Cash inflow	<u>\$ 50,937,984</u>	<u>\$ 2,790,575</u>	<u>\$ 1,209,951</u>	<u>\$ 1,296,342</u>	<u>\$ 589,737</u>	<u>\$ 56,824,589</u>
	Cash outflow	<u>49,485,423</u>	<u>241,207</u>	<u>137,790</u>	<u>1,899</u>	<u>197</u>	<u>49,866,516</u>
	The amount of capital gap	<u>\$ 1,452,561</u>	<u>\$ 2,549,368</u>	<u>\$ 1,072,161</u>	<u>\$ 1,294,443</u>	<u>\$ 589,540</u>	<u>\$ 6,958,073</u>

(8) Currency risk

A. The Group's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

Financial instrument	(Foreign currency: functional currency)		December 31, 2018		December 31, 2017	
	Foreign currency (in thousands)	Exchange rate	Foreign currency (in thousands)	Exchange rate	Foreign currency (in thousands)	Exchange rate
<u>Financial assets</u>						
<u>Monetary items</u>						
USD/NTD	\$ 989,522	30.7150	\$ 681,419	29.7600		
JPY/NTD	781,010	0.2782	895,187	0.2642		
HKD/NTD	74,009	3.9210	67,017	3.8070		
EUR/NTD	10,930	35.2000	10,763	35.5700		
GBP/NTD	6,280	38.8800	3,297	40.1100		
AUD/NTD	10,764	21.6650	10,314	23.1850		
SGD/NTD	61	22.4800	23	22.2600		
CNY/NTD	121,054	4.4720	146,339	4.5650		
CHF/NTD	-	31.1850	8	30.4550		
USD/HKD	73,775	7.8321	44,390	7.8153		
CNY/HKD	22,568	1.1405	1,113	1.1990		
EUR/HKD	480	8.9740	21	9.3439		
JPY/HKD	17,249	0.0709	1,285	0.0694		
USD/ CNY	2,353	6.6812	7,086	6.5421		
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD/NTD	981,589	30.7150	661,173	29.7600		
JPY/NTD	744,834	0.2782	869,339	0.2642		
HKD/NTD	65,586	3.9210	62,863	3.8070		
EUR/NTD	10,821	35.2000	10,710	35.5700		
GBP/NTD	6,255	38.8800	2,897	40.1100		
AUD/NTD	10,719	21.6650	10,049	23.1850		
SGD/NTD	61	22.4800	21	22.2600		
CNY/NTD	120,399	4.4720	97,338	4.5650		
USD/HKD	47,361	7.8321	32,099	7.8153		
CNY/HKD	17,662	1.1405	883	1.1990		
EUR/HKD	373	8.9740	9	9.3439		
JPY/HKD	17,041	0.0709	1,285	0.0694		
NTD/HKD	60,587	0.2548	-	-		

B. The total exchange gain (loss), including realized and unrealized, arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017 amounted to \$17,115 and (\$30,681), respectively.

(9) Effects on initial application of IFRS 9

A. Summaries of adopting significant accounting policies in the year of 2017:

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

- a. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income. Financial assets at amortised cost or fair value through other comprehensive income are designated as at fair value through profit or loss at initial recognition when they eliminate or significantly reduce a measurement or recognition inconsistency.
- b. On a regular way purchase or sale basis, financial assets held for trading are recognised and derecognised using trade date accounting.
- c. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

(B) 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. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- c. 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 fair value of unlisted stocks without active market held by the Group is evaluated by the evaluation method.

(C) Impairment of financial assets

- a. The Group 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 Group 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 Group, 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 reorganisation;
  - (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;
  - (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- c. When the Group 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.

(D) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognised in profit or loss.

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

- a. Financial liabilities at fair value through profit or loss are financial liabilities held for trading. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial

liabilities held for trading unless they are designated as hedges.

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

(Blank)

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

		Available-for-sale-equity					Effects	
	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income-equity	Available-for-sale-bonds	Measured at amortised cost	Futures trading margin receivable	Total	Retained earnings	Other equity
December 31, 2017 (IAS 39)	\$ 146,673	\$ 1,463,806	\$ 90,174	\$ -	\$ 241	\$ 1,700,894	\$ -	\$ -
Transferred to measured at amortised cost	-	-	( 90,033)	90,033	-	-	-	-
Fair value adjustment	-	-	( 141)	-	-	( 141)	-	( 141)
Impairment loss adjustment	-	-	-	( 76)	( 241)	( 317)	( 317)	-
January 1, 2018 (IFRS 9)	<u>\$ 146,673</u>	<u>\$ 1,463,806</u>	<u>\$ -</u>	<u>\$ 89,957</u>	<u>\$ -</u>	<u>\$ 1,700,436</u>	<u>(\$ 317)</u>	<u>(\$ 141)</u>

(A) As initial application of IFRS 9, the Group reclassified debt instruments, which were classified as available-for-sale financial assets under IAS 39, in the amount of \$90,174, as "financial assets of amortised cost", in the amount of \$90,033, and decreased other equity interest in the amount of \$141, since their cash flows met the condition that it is intended to settle the principal and interest on the outstanding principal balance.

(B) As initial application of IFRS 9, the Group reclassified equity instruments which were classified as available-for-sale financial assets under IAS 39, in the amount of \$1,463,806, as "financial FVOCI (equity instruments) ", in the amount of \$1,463,806, since they were not held for the purpose of trading,

C. The reconciliation of allowance for impairment and provision from December 31, 2017, as these are impaired under IAS 39, to January 1, 2018, as these are expected to be impaired under IFRS 9, are as follows:

	Measured at amortised cost	Futures trading margin receivable	Other receivables	Total
December 31, 2017 (IAS 39)	\$ -	\$ -	\$ -	\$ -
Impairment loss adjustment	( 76)	( 241)	-	( 317)
January 1, 2018 (IFRS 9)	<u>(\$ 76)</u>	<u>(\$ 241)</u>	<u>\$ -</u>	<u>(\$ 317)</u>

D. If the financial asset were reclassified as "financial assets at amortised cost", the Group will recognise the loss on changes in fair value on other comprehensive income as follows:

<u>Reclassified as "financial assets at amortised cost"</u>	<u>December 31, 2018</u>
From "Available-for-sale financial assets" (IAS 39)	
Fair value on December 31, 2018	\$ -
Loss on changes in fair value on other comprehensive income if the financial asset were not reclassified	-

E. Details of significant accounts on December 31, 2017 are as follows:

(A) Financial assets and liabilities at fair value through profit or loss – current

	<u>December 31, 2017</u>
Financial assets held for trading	
Listed stocks	\$ -
Beneficiary certificates	9,556
Open-End fund and money market instruments	105,382
Non-hedging derivatives	27,506
Derivative assets –	
Leverage margin contract transactions	4,190
	<u>146,634</u>
Valuation adjustment	39
	<u>\$ 146,673</u>

	<u>December 31, 2017</u>
Financial liabilities held for trading	
Options	\$ 329
Security borrowing payable	7,049
Derivative Liabilities –	
Leverage margin contract transactions	71
	<u>\$ 7,449</u>

a. The Group recognized net gain of \$133,558 on financial assets and liabilities held for trading for the year ended December 31, 2017.

b. The non-hedging derivative instrument transactions and contract information are as follows:

	<u>December 31, 2017</u>
Futures contracts	\$ 27,315
Options contracts	191
	<u>\$ 27,506</u>

c. Futures

The Group entered into futures contracts to earn the spread. As of December 31, 2017, margin deposits for these contract were \$351,466, with excess margin of \$324,151 recognised in “cash and cash equivalents”.

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

(B) Available-for-sale financial assets

	<u>December 31, 2017</u>
Current items:	
Listed stocks	\$ 303,703
Valuation adjustment of available-for-sale financial assets	( 23,242)
Total	<u>\$ 280,461</u>
Non-current items:	
Listed stocks	\$ -
Non-Listed stocks	221,132
Financial bonds	<u>90,033</u>
Subtotal	311,165
Valuation adjustment of available-for-sale financial assets	<u>962,354</u>
Total	<u>\$ 1,273,519</u>

The Group recognised \$102,540 in other comprehensive income for fair value change and reclassified \$95,998 from equity to profit or loss for the three months and the nine months ended December 31, 2017, respectively.

F. Credit risk information for the year ended December 31, 2017 is as follows :

(A) The Group is exposed to credit risk from financial trading, including issuer credit risk, counterparty credit risk and underlying asset credit risk.

- a. Issuer credit risk occurs when issuer (or guarantor) of the financial debt instruments held by the Group or bank with which the Group deposits money fails to fulfill contractual obligations (or guarantor’s obligations) because of its default, bankruptcy or liquidation, which would cause a financial loss to the Group.
- b. Counterparty credit risk occurs when counterparty of the financial instrument transaction undertaken by the Group fails to fulfill settlement or payment obligation on the appointed day, which would cause a financial loss to the Group.
- c. Underlying asset credit risk refers to the risk of loss that may arise from deterioration of credit quality of the underlying asset linked to the financial instruments or increasing of credit risk premium or downgrade of credit rating or contract default.

(B) The financial assets of the Group with credit risk include bank deposits, debt securities, OTC derivative trade, repurchase agreement/reverse repurchase agreement of bonds (bills), deposits for securities borrowing and lending trade, margins for futures trade, other margins and receivables. Please refer to Note 20(6) for analysis of concentration and levels of credit risk.

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