

**TAIWAN STOCK EXCHANGE
CORPORATION
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2016 AND 2015**

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Stockholders of Taiwan Stock Exchange Corporation

Opinion

We have audited the accompanying parent company only balance sheets of Taiwan Stock Exchange Corporation (the “Company”) as of December 31, 2016 and 2015, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, expressed in thousands of New Taiwan dollars and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent auditors (please refer to *Other matter* section of our report), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges” and related orders issued by the Financial Supervisory Commission (FSC).

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 Company 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. Based on our audits and the reports of other independent auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of

our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

In our assessment, the financial condition and financial performance of the Company's subsidiary, Taiwan Depository & Clearing Corporation (TDCC, recognized as investments accounted for using equity method) has significant impact to the Company's parent company only financial statements. Thus, the Company's key audit matters include TDCC's key audit matters as follows: Financial assets - measurement of fair value of unlisted stocks without active market, accuracy of operating revenue and existence and classification of cash in bank.

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

Description

Please refer to Note 4(6) for accounting policy on available-for-sale financial assets, Note 5 for accounting estimates and assumption uncertainty in relation to unlisted stocks without active market, and Note 6(2) for explanation of available-for-sale financial assets.

The Company invests stocks in Taiwan Futures Exchange (TAIFEX) and Taipei Financial Center Corp. which are the financial instruments without active market, thus, the Company obtain the fair value of financial instruments by valuation techniques, and valuation method by using cash dividend discount models and discounted cash flow method.

The fair value of above-mentioned Taiwan Futures Exchange's and Taipei Financial Center Corp.'s stocks, as a result of estimates involving many assumptions including compound growth rate of dividends, discounted rate and discount on liquidity and so on, easier arise subjective judgement and high uncertainly to affect measurement of fair value significantly. Therefore, we determine the measurement of fair value that the Company estimates on Taiwan Futures Exchange's and Taipei Financial Center Corp.'s stocks as one of the key areas of focus for this fiscal year's audit.

How our audit addressed the matter

We performed audit procedures on the above key audit matter, and using appraisers work to assist assessing appropriateness of significant assumptions as compound growth rate of dividends, discounted rate and discount on liquidity as so on, consisting of following procedures:

1. Comparing compound growth rate of dividends with historical data.
2. For discount rate, checking cost assumptions on cash-generating units, and comparing with similar

return on assets ratio in the market.

3. Assessing the reasonableness of discount on liquidity.
4. Checking the setting of valuation model parameters and calculation formula.

Accuracy of operating revenue

Description

Please refer to Note 4(21) for accounting policy on revenue recognition, Note 6(20) for “trading fee revenue”, and operating revenue for the year ended December 31, 2016 amount to NT\$ 4,041,828 thousand.

The Company has variable categories in operating revenue, consisting of trading fee revenue, securities listing fee revenue and information usage fee revenue and so on. Each revenue recognized based on the basis and pricing method rules on regulations or contract. As a result of amount of operating revenue is significant, therefore, we determine the accuracy of operating revenue calculating as one of the key areas of focus for this fiscal year’s audit.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Meeting with management to understand the Company’s operation and industry character, evaluate the internal control flow of operating revenue, consisting of understanding the information environment that management use to calculate related revenue, and test the effectiveness of material internal control.
2. Verifying pricing method that management used to calculate each revenue, whether meet with regulations or contracts.
3. Recalculating accuracy of amount on critical operating revenue classification.

Existence and classification of cash and cash equivalents, clearing funds and default damages fund

Description

Please refer to Note 4(5) for accounting policy on cash equivalents, Note 6(1)(5)(6) for “cash and cash equivalents”, “other current financial assets”, “settlement and clearing funds” and “default damages fund”. Cash and cash equivalents amount to NT\$12,058,003 thousand, other current financial assets amount to NT\$8,838,562 thousand, settlement and clearing funds amount to NT\$3,374,881 thousand

and default damages fund amount to NT\$8,740,315 thousand for the year ended December 31, 2016.

The Company's cash in bank deposit mostly in domestic bank, and recognize based on deposit period as cash and cash equivalent or other current financial assets. According to "Securities and Exchange Act" and "Regulations Governing Securities Firms", securities firms should appropriate certain amount for settlement and clearing funds in the Company, if securities firms defaults on Settlement Obligations, all price different and expenses arising from aforementioned defaults, credit the settlement and clearing funds which is appropriated by each securities firm, in addition, the Company distribute default damages fund in proportion of exchange fee revenue in accordance with Securities and Exchange Act and related regulations, and used all to purchase time deposit.

As a result of the amount of cash and cash equivalent, other current financial assets, settlement and clearing funds and default damages fund is significant, therefore, we determine the existence and classification of cash and cash equivalents as one of the key areas of focus for this fiscal year's audit.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Meeting with the Company's management to understand the internal control workflow, and testing the effectiveness of material internal control.
2. Performing confirmation to financial institutions, confirming the existence, accuracy of financial assets, and verifying right and obligation of the financial assets.
3. Checking the cash in bank which has specific purposes or limitation has transferred to proper accounting items.
4. Performing time deposit count, and verify the information of inventory compilation.
5. Performing transactions test in material cash collection, confirming it is for operation requirement and no significant unusual transaction.

Other matter

The Company's investments accounted for using equity method for the years ended December 31, 2016 and 2015 were partially audited by other independent accountants whose report thereon have been furnished to us, and we did not audit the financial statements. Total comprehensive income in accordance with the report that audited by other independent accountants (including subsidiaries recognized under

with the report that audited by other independent accountants (including subsidiaries recognized under the equity method, share of other comprehensive income of joint venture, share of other comprehensive income of subsidiaries recognition by using equity method and share of other comprehensive income of associates) of NT\$826,793 thousand and NT\$942,369 thousand) for the years ended December 31, 2016 and 2015. The balance of long-term investments are NT\$11,275,516 thousand and NT\$10,683,892 thousand as of December 31, 2016 and 2015, respectively.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges” and related orders issued by the Financial Supervisory Commission (FSC), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers, Taiwan

March 28, 2017

The accompanying parent company only 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 parent company only 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.

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Assets	Notes	December 31, 2016		December 31, 2015	
		AMOUNT	%	AMOUNT	%
Current Assets					
Cash and cash equivalents	6(1)	\$ 12,058,003	16	\$ 12,283,169	18
Available-for-sale financial assets - current	6(2)	4,072,504	6	5,342,789	8
Held-to-maturity financial assets - current	6(3)	3,451,799	5	1,550,880	2
Accounts receivable, net	6(4) and 7	233,962	-	283,190	-
Other receivables		343,561	-	95,696	-
Other current financial assets	6(1)	8,838,562	12	6,526,911	10
Securities settlement debit	6(6)	11,493,736	16	7,422,752	11
Other current assets		3,538	-	5,368	-
Current Assets		40,495,665	55	33,510,755	49
Non-current Assets					
Available-for-sale financial assets non-current	6(2)	3,389,146	5	3,229,832	5
Held-to-maturity financial assets non-current	6(3)	5,180,200	7	7,063,606	10
Default damages fund	6(5)	8,740,315	12	8,632,552	13
Investments accounted for using equity method	6(7)	11,426,094	15	10,971,654	16
Property and equipment	6(8)	3,438,445	5	3,327,098	5
Investment property - net	6(9)	150,025	-	83,388	-
Intangible assets	6(10)	301,103	-	339,124	1
Deferred income tax assets	6(23)	21,092	-	7,291	-
Other non-current assets	6(11)	403,426	1	580,143	1
Non-current Assets		33,049,846	45	34,234,688	51
Total Assets		\$ 73,545,511	100	\$ 67,745,443	100

(Continued)

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Liabilities and Equity	Notes	December 31, 2016		December 31, 2015	
		AMOUNT	%	AMOUNT	%
Current Liabilities					
Securities lending and borrowing collateral payable	6(12)	\$ 9,733,244	13	\$ 8,898,326	13
Accrued expenses	7	937,492	1	953,087	1
Current income tax liabilities		-	-	54,875	-
Securities settlement credit	6(6)	11,493,736	16	7,422,752	11
Other current liabilities	6(13)	954,968	1	722,078	1
Current Liabilities		23,119,440	31	18,051,118	26
Non-current Liabilities					
Deferred income tax liabilities	6(23)	44,599	-	52,548	-
Net defined benefit liabilities – non-current	6(14)	352,017	1	293,134	1
Guarantee deposits received		58,856	-	101,629	-
Non-current Liabilities		455,472	1	447,311	1
Total Liabilities		23,574,912	32	18,498,429	27
Equity					
Share Capital					
Share capital - common stock	6(15)	6,769,456	9	6,604,348	10
Capital Surplus					
Capital surplus	6(16)	3,525	-	578	-
Retained Earnings					
Legal reserve	6(17)	5,079,925	7	4,913,081	7
Special reserve	6(17)	33,244,314	45	32,902,283	49
Unappropriated retained earnings	6(18)	1,151,870	2	1,668,441	2
Other Equity Interest					
Other equity interest	6(19)	3,721,509	5	3,158,283	5
Total Equity		49,970,599	68	49,247,014	73
Total Liabilities and Equity		\$ 73,545,511	100	\$ 67,745,443	100

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

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31			
		2016		2015	
		AMOUNT	%	AMOUNT	%
Operating Revenue	6(20) and 7				
Trading fees		\$ 1,937,003	48	\$ 2,302,140	51
Listing fees		1,047,745	26	1,153,101	26
Market data fees		349,444	9	344,654	8
Data processing fees		152,533	4	183,353	4
Connection handling fees		94,663	2	90,921	1
Others		460,440	11	438,349	10
Total Operating Revenue		<u>4,041,828</u>	<u>100</u>	<u>4,512,519</u>	<u>100</u>
Operating expenses	6(21)				
Personnel		(1,374,741)	(34)	(1,424,490)	(32)
General & administrative	7	(2,431,864)	(60)	(2,563,703)	(57)
Total operating expenses		<u>(3,806,605)</u>	<u>(94)</u>	<u>(3,988,193)</u>	<u>(89)</u>
Operating profit		<u>235,223</u>	<u>6</u>	<u>524,325</u>	<u>11</u>
Non-operating income and expenses					
Share of profit of subsidiaries and associates accounted for using equity method	6(7)	681,840	17	824,172	18
Interest income		367,530	9	483,301	11
Gain on disposal of investments	6(2)	68,874	1	6,446	-
Other income		171,779	4	131,349	3
Finance costs	6(22)	(5,385)	-	(7,080)	-
Other expenses		(249,643)	(6)	(88,303)	(2)
Total non-operating income and expenses		<u>1,034,995</u>	<u>25</u>	<u>1,349,885</u>	<u>30</u>
Profit before income tax		<u>1,270,218</u>	<u>31</u>	<u>1,874,210</u>	<u>41</u>
Income tax expense	6(23)	(76,845)	(2)	(175,189)	(4)
Profit for the year		<u>1,193,373</u>	<u>29</u>	<u>1,699,021</u>	<u>37</u>
Other comprehensive income					
Components of other comprehensive loss that will not be reclassified to profit or loss					
Loss on remeasurements of defined benefit plan		(28,521)	(1)	(91,101)	(2)
Share of other comprehensive income of associates accounted for under equity method		(16,788)	-	43,166	1
Components of other comprehensive loss that will not be reclassified to profit or loss		<u>(45,309)</u>	<u>(1)</u>	<u>47,935</u>	<u>(1)</u>
Components of other comprehensive income that will be reclassified to profit or loss					
Unrealized gain (loss) on valuation of available-for-sale financial assets	6(2)	464,428	12	(70,858)	(1)
Share of other comprehensive income of associates accounted for under equity method		98,798	2	62,793	1
Components of other comprehensive income that will be reclassified to profit or loss		<u>563,226</u>	<u>14</u>	<u>(8,065)</u>	<u>-</u>
Total comprehensive income for the year		<u>\$ 1,711,290</u>	<u>42</u>	<u>\$ 1,643,021</u>	<u>36</u>
Earnings per share	6(24)				
Basic earnings per share		\$	1.76	\$	2.51

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

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Notes	Retained Earnings					Total equity	
		Share capital - common stock	Total capital surplus, additional paid-in capital	Legal reserve	Special reserve	Total unappropriated retained earnings (accumulated deficit)		Unrealized gain or loss on available-for-sale financial assets
2015								
Balance at January 1, 2015		\$ 6,443,266	\$ 578	\$ 4,728,691	\$ 32,182,134	\$ 1,919,366	\$ 3,166,348	\$ 48,440,383
Net income for 2015		-	-	-	-	1,699,021	-	1,699,021
Other comprehensive loss for 2015	6(19)	-	-	-	-	(47,935)	(8,065)	(56,000)
Total comprehensive income(loss)		-	-	-	-	1,651,086	(8,065)	1,643,021
Appropriations of 2014 earnings		-	-	-	-	-	-	-
Legal reserve	6(17)	-	-	184,390	-	(184,390)	-	-
Special reserve	6(17)	-	-	-	590,049	(590,049)	-	-
Cash dividends	6(18)	-	-	-	-	(966,490)	-	(966,490)
Stock dividends	6(18)	161,082	-	-	-	(161,082)	-	-
Changes in net equity of subsidiaries accounted for using equity method		-	-	-	130,100	-	-	130,100
Balance at December 31, 2015		\$ 6,604,348	\$ 578	\$ 4,913,081	\$ 32,902,283	\$ 1,668,441	\$ 3,158,283	\$ 49,247,014
2016								
Balance at January 1, 2016		\$ 6,604,348	\$ 578	\$ 4,913,081	\$ 32,902,283	\$ 1,668,441	\$ 3,158,283	\$ 49,247,014
Net income for 2016		-	-	-	-	1,193,373	-	1,193,373
Other comprehensive income(loss) for 2016	6(19)	-	-	-	-	(45,309)	563,226	517,917
Total comprehensive income		-	-	-	-	1,148,064	563,226	1,711,290
Appropriations of 2015 earnings		-	-	-	-	-	-	-
Legal reserve	6(17)	-	-	166,844	-	(166,844)	-	-
Special reserve	6(17)	-	-	-	342,031	(342,031)	-	-
Cash dividends	6(18)	-	-	-	-	(990,652)	-	(990,652)
Stock dividends	6(18)	165,108	-	-	-	(165,108)	-	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed		-	437	-	-	-	-	437
Changes in net equity of subsidiaries accounted for using equity method		-	2,510	-	-	-	-	2,510
Balance at December 31, 2016		\$ 6,769,456	\$ 3,525	\$ 5,079,925	\$ 33,244,314	\$ 1,151,870	\$ 3,721,509	\$ 49,970,599

Note: Employees' bonuses of \$96,852 and \$103,501 were deducted from the statement of comprehensive income for 2015 and 2014, respectively.

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

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the year		\$ 1,270,218	\$ 1,874,210
Adjustments			
Adjustments to reconcile profit (loss)			
Interest income		(367,530)	(483,301)
Dividends income		(138,025)	(118,821)
Finance costs	6(22)	5,385	7,080
Provision for bad debts (reversal)	12	(32)	168
Depreciation (including investment property)	6(21)	444,598	392,769
Amortization	6(21)	195,032	180,209
Gain on disposal of investments		(68,874)	(6,446)
Equity in net income of investee companies-net of cash dividends received		(410,620)	(556,370)
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable		49,260	12,381
Other receivables		(18,603)	-
Other current assets		1,830	3,371
Default damages fund		(107,763)	(119,648)
Changes in operating liabilities			
Securities lending and borrowing collateral payable		834,918	3,721,372
Accrued expenses		(15,083)	28,747
Other current liabilities		232,890	435,712
Net defined benefit liabilities-non-current		30,362	22,370
Cash inflow generated from operations		1,937,963	5,393,803
Interest received		368,108	500,114
Interest paid		(5,897)	(6,210)
Income tax paid		(159,070)	(173,897)
Net cash flows from operating activities		2,141,104	5,713,810
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (Increase) in available-for-sale financial assets-net		1,644,273	(1,882,811)
(Increase) Decrease in held-to-maturity financial assets-net		(17,513)	2,254,511
(Increase) Decrease in other current financial assets		(2,311,651)	1,711,798
Addition of investments accounted for using equity method		(183,103)	(300,000)
Proceeds from capital reduction of investments accounted for using equity method		-	15,179
Acquisition of property and equipment		(477,950)	(921,131)
Proceeds from disposal of property and equipment		110	3
Increase in intangible assets		(57,592)	(53,873)
Increase in operating refundable deposits-net		(7,600)	(8,700)
Decrease (Increase) in refundable deposits-net		46,605	(45,702)
Increase in prepayments for equipment		(106,449)	(277,779)
Dividends received		138,025	118,821
Net cash flows (used in) from investing activities		(1,332,845)	610,316
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid		(990,652)	(966,490)
(Decrease) increase in guarantee deposits received		(42,773)	47,368
Net cash flows used in financing activities		(1,033,425)	(919,122)
Net (decrease) increase in cash and cash equivalents		(225,166)	5,405,004
Cash and cash equivalents at beginning of year	6(1)	12,283,169	6,878,165
Cash and cash equivalents at end of year	6(1)	\$ 12,058,003	\$ 12,283,169

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

TAIWAN STOCK EXCHANGE CORPORATION
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

1. HISTORY AND ORGANIZATION

Taiwan Stock Exchange Corporation (the Company) was established in December 1961. The main activities of the Company are providing location and facilities for trading and settlement of securities, and other services as approved by the Competent Authority.

On October 11, 2011, the Competent Authority authorized the Company to continue existing in its current corporate form for the next ten years until a change into a membership-type organization is approved.

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

These parent company only financial statements were authorized for issuance by the Board of Directors on March 28, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

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

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

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

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

quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

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

B. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize 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.

C. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

These parent company only financial statements of the Company has been prepared in accordance with the "Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchange". However, the Company complies with orders issued by Financial Supervisory Commission (FSC) if different from standards.

(2) Basis of preparation

Except for the following items, these parent company only financial statements have been prepared under the historical cost convention:

- A. Available-for-sale financial assets measured at fair value.
- B. Accrued pensions liabilities calculated by actuarial valuations.

(3) Foreign currency translation

The parent company only financial statements are presented in New Taiwan dollars, which is the Company's functional and presentation currency. 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 recognized in profit or loss. All other foreign exchange gains and losses based on the nature of these transactions are presented in the statement of comprehensive income within "other gains and losses".

(4) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

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

(5) Cash equivalents

Cash equivalents including cash on hand, deposits and other short-term investment with high liquidity that will expire within three months since acquisition and can be transferred into fixed amount of cash and the risk of change in value is minor. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(6) 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 recognized and derecognized using settlement date accounting.
- C. Available-for-sale financial assets are initially recognized 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 recognized in other comprehensive income.

(7) Held-to-maturity financial assets

- A. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables and those that are designated as at fair value through profit or loss or as available-for-sale on initial recognition.
- B. On a regular way purchase or sale basis, held-to-maturity financial assets are recognized and derecognized using settlement date accounting.
- C. Held-to-maturity financial assets are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognized in profit or loss.

(8) Accounts receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

(9) Impairment of financial assets

- A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a company of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor; a breach of contract, such as a default or delinquency in interest or principal payments;
 - (b) 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;

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

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

(a) Financial assets measured at amortized 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 recognized 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 recognized, the recognized impairment loss will reverse to be recognized in profit or loss by adjusting allowance account. However, the reversal shall not make the book value of the financial assets greater than the amortized cost if no recognition occurred at the reversal date.

(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 recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Operating leases

Lease income from an operating lease (net of any incentives given to the lessee) and payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(12) Investments accounted for using the equity method

A. Subsidiaries are all entities controlled by the Company. The Company controls an entity when the Company 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.

B. Accounting policies of subsidiaries have been adjusted were necessary to ensure consistency with the policies adopted by the Company.

C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized

in other comprehensive income.

- D. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- E. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income.
- F. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Company – Type Stock Exchanges," profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the consolidated financial statements. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the consolidated financial statements.

(13) Property and equipment

- A. Property and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Land is not depreciated and computer equipment is depreciated using the fixed percentage on declining balance method. Other property and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- C. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. 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.

(14) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis.

(15) Intangible assets

Computer software is stated at cost and amortized on a straight-line basis.

(16) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use, when the circumstances or reasons

for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized

(17) Derecognition of financial liabilities

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

(18) Pensions

A. Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

B. Defined benefit plans

(a) Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method.

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

(19) Income tax

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

B. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

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

D. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(20) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the

effective date of new shares issuance.

(21) Revenue recognition

Revenue is recognized when the earning process is substantially completed and the payment is realized or realizable. Costs and expenses are recognized as incurred.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

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

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

The fair value of unlisted stocks held by the Company that are not traded in an active market is determined considering related financial information and reference. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks.

As of December 31, 2016, the carrying amount of unlisted stocks was \$3,389,146.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Checking accounts and demand deposits	\$ 7,564,970	\$ 5,228,540
Cash equivalents		
Time deposits with maturity within three months from initial date	206,000	-
Commercial papers	3,947,033	6,594,577
Repo bonds	340,000	460,052
Total	<u>\$ 12,058,003</u>	<u>\$ 12,283,169</u>

A. As of December 31, 2016 and 2015, the time deposits expires with maturity of more than three months from initial date was \$8,838,562 and \$6,526,911, respectively, and was shown as 'other financial assets – current'.

B. The Company associates 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.

C. The Company has no cash and cash equivalents pledged to others.

(2) Available-for-sale financial assets

Items	December 31, 2016	December 31, 2015
Current items:		
Beneficiary Certificate	\$ 3,549,514	\$ 5,124,913
Valuation adjustment of available-for-sale financial assets	522,990	217,876
Total	\$ 4,072,504	\$ 5,342,789
Non-current items:		
Unlisted stocks	\$ 938,528	\$ 938,528
Valuation adjustment of available-for-sale financial assets	2,567,494	2,408,180
Accumulated impairment	(116,876)	(116,876)
Total	\$ 3,389,146	\$ 3,229,832

A. The Company recognized \$464,428 and \$70,858 in other comprehensive income for fair value change and reclassified \$68,874 and \$6,446 from equity to profit or loss for the years ended December 31, 2016 and 2015, respectively.

B. The Company has no available-for-sale financial assets pledged to others.

(3) Held-to-maturity financial assets

Items	December 31, 2016	December 31, 2015
Current items:		
Financial bonds	\$ 3,000,882	\$ 1,250,880
Corporate bonds	450,917	300,000
Total	\$ 3,451,799	\$ 1,550,880
Non-current items:		
Financial bonds	\$ 4,717,741	\$ 6,301,601
Corporate bonds	408,549	707,758
Government bonds	53,910	54,247
Total	\$ 5,180,200	\$ 7,063,606

The Company has no held-to-maturity financial assets pledged to others.

(4) Accounts receivable

	December 31, 2016	December 31, 2015
Accounts receivable	\$ 235,520	\$ 284,780
Less: Allowance for doubtful accounts	(1,558)	(1,590)
	\$ 233,962	\$ 283,190

The Company does not hold any collateral as security.

(5) Default damages fund

A. The Company, as required by Securities and Exchange Law and related regulations, makes cash contributions to a default damages fund (DDF) at certain percentages of trading fees within 15

- days at the end of each quarter (Dr. default damages fund; Cr. cash), except for the first draft of \$50,000. However, the Company stops making cash contributions to the DDF when the accumulated amount of the DDF is equal to or greater than the total amount of the Company's capital. In addition, following the regulations of the Competent Authority No. 00480 bulletin (1986), an equivalent amount of default damages reserve has been recontributed starting from 1986. Additionally, following Article 6 of "Taiwan Stock Exchange Corporation Securities Borrowing and Lending Rules", and the regulations of the Competent Authority No. 0920129756 bulletin (2003), the Company contributes 3% of each loan service fee it receives as default damages fund.
- B. As the accumulated amount of the DDF has exceeded the total amount of the Company's capital, the Company has stopped making contributions to the DDF and default damages reserve since November 2006. However, in accordance with the Competent Authority No.0980026755 bulletin (June 2009), the Company has contributed 5% of trading fees to the DDF within 15 days after the end of every quarter since January 1, 2010.
- C. For the preparation of financial statements in accordance with IFRSs from January 1, 2013, following the regulatory authority, the default damages reserve the Company has contributed should be reclassified to 'special reserve', which cannot be used for other purposes except for the use to cover accumulated deficit or for other uses approved by the Financial Supervisory Commission. In addition, contribution to the default damages fund was no more effective from October 30, 2012.
- D. Under regulations of the competent authority, if losses occur when the Company pay the settlement on behalf of others by Securities and Exchange Act Article 153, as reported to and approved by the competent authority, the losses will be directly offsetted against the above special reserve and no expense will be recognized.
- E. In September 1996, the Competent Authority approved a common fund, the Securities Settlement Fund ("SSF"), to be used in settling defaults by securities companies. The Company established the special settlement fund ("SF") with an initial funding of \$1,000,000. If the Company's DDF exceeds \$1,000,000, the excess should be contributed to the SF until the contribution reaches \$2,000,000. As of December 31, 2016 and 2015, the balance of the SF was \$3,000,000.
- F. The movements of the Default damages fund are as follows:

	Years ended December 31,	
	2016	2015
Balance, beginning of year (Note)	\$ 5,632,552	\$ 5,512,904
Contributions		
Based on the amounts of trading fees	102,388	115,209
3% of securities lending and borrowing service fees	5,375	4,439
	<u>5,740,315</u>	<u>5,632,552</u>
Settlement fund (SF)	3,000,000	3,000,000
Balance, end of year	<u>\$ 8,740,315</u>	<u>\$ 8,632,552</u>

Note: The beginning balance of SF was \$3,000,000 and the balance of DDF was \$8,632,552 and \$8,512,904 as of January 1, 2016 and 2015, respectively.

G. As of December 31, 2016, the DDF is invested in time deposits.

(6) Securities settlement credit (debit)

As required by the Criteria Governing Preparation of Financial Reports by Company – Type Stock Exchanges, securities settlement debit (credit) includes Securities Settlement Fund (“SSF”) and settlement consideration, and related descriptions are as follows:

A. Securities settlement fund

- (a) As required by the Competent Authority, securities companies make cash deposits to the SSF, which is administered by a committee and deposited in the name of the Company, and this account is distinguished from the others owned by the Company. Under the Securities and Exchange Law, the SSF can only be (a) invested in government bonds; (b) deposited in banks or in the postal savings system; or (c) invested in other instruments as approved by the Competent Authority. The income on the SSF, less related expenses and taxes, is distributed to the securities companies every six months.
- (b) The obligation of a defaulting securities company and expenses incurred in meeting obligations are settled using the balance of the defaulting company’s contributions to the SSF and any undistributed income thereon.
 - i. If the obligation of the defaulting company still cannot be fully settled, the SF portion in excess of \$1,000,000 will be used.
 - ii. If any obligation remains, then the initial SF of \$1,000,000 plus the contributions to the SSF by other securities companies will be used proportionately.
- (c) As of December 31, 2016 and 2015, the balances of the SSF were \$3,374,881 and \$3,444,874, respectively, and the balance of the SF was \$3,000,000. The funds are invested in time deposits pursuant to the regulation. In addition, as of December 31, 2016, the Company had entered into a loan agreement with financial institutions in the amount of \$10,800,000 and Ten million U.S. dollars and provided time deposit of \$2,000,000 to financial institutions as collateral for the need of Securities firms’ application of the advance settlements for finalizing the funds to the Company and emergency revolving fund due to Securities firms violation of settlement

obligation or natural disaster. As of December 31, 2015, the loan amount had not been drawn down. The foregoing time deposit was recognized as DDF of \$750,000, SF of \$550,000, and SSF of \$700,000.

(d) As the Company is only responsible for the custodianship of the SSF deposited by security dealers, yield and income from the funds belong to the security dealers, the Company does not bear any related expenses and losses, and charge or return the SSF to individual security dealers. Therefore, the assets and liabilities are expressed in net of \$0.

B. Settlement consideration

Because the Company net settles the listing securities, the Company shall receive or pay settlement payment from/ to each security dealers and shown as 'securities settlement debit' and 'securities settlement credit. Pursuant to 'Operating Rules of the Taiwan Stock Exchange Corporation', net settlement is employed on the second business day following the trade date. Balance of securities settlement debit (credit) as of December 31, 2016 and 2015 is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Securities settlement debit	\$ 11,493,736	\$ 7,422,752
Securities settlement credit	<u>\$ 11,493,736</u>	<u>\$ 7,422,752</u>

(7) Investments accounted for using the equity method

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Subsidiaries:		
Taiwan Depository & Clearing Corporation (TDCC)	\$ 11,156,456	\$ 10,571,132
Taiwan-Ca. Inc. (TWCA)	89,497	83,859
Global Link Securities Co., Ltd.	-	287,762
Taiwan Index Plus Corporation	<u>150,578</u>	<u>-</u>
	11,396,531	10,942,753
Associate:		
Taiwan Ratings Co. (TRC)	<u>29,563</u>	<u>28,901</u>
	<u>\$ 11,426,094</u>	<u>\$ 10,971,654</u>

A. Subsidiaries

The Company incorporated Global Link Securities Co., Ltd and Taiwan Index Plus Corporation at September 2015 and January 2016, respectively. In addition, increasing investment in Taiwan Depository & Clearing Corporation (TDCC) amounting to \$33,103 and holding proportion is 50.59% at January 2016. Furthermore, Global Link Securities Co., Ltd has resolved to dissolve by the Board of Directors on October 26, 2016, the effective date of dissolved is December 29, 2016.

Please refer to Note 4(3) of consolidated financial statements for the information on subsidiaries. Share of profit (loss) of subsidiaries, Taiwan Depository & Clearing Corporation (TDCC) and Taiwan-Ca Inc. (TWCA) accounted for using equity method was recognized based on the financial statements audited by other independent accountants.

B. Associates

The Company's share of the operating results in all individually immaterial associates are summarized below:

	Taiwan Ratings Co.	
	Years ended December 31,	
	2016	2015
Share of profit of associates accounted for using equity method	\$ 7,391	\$ 6,956
Share of other comprehensive income of associates accounted for using equity method.	(\$ 336)	(\$ 132)

The Company's percentage of ownership in the above associate is 19.99% as of December 31, 2016 and 2015.

Recognition of the share in profit is based on the financial statements audited by other independent accountants.

(8) Property and equipment

	Land	Buildings	Computer equipment	Other equipment	Construction in progress	Rental assets	Total
<u>Cost</u>							
At January 1, 2016 (including revaluation of \$37,084)	\$816,966	\$ 180,233	\$1,180,977	\$ 374,393	\$1,861,764	\$ -	\$4,414,333
Additions	-	26,221	95,632	214,379	141,718	-	477,950
Disposals	-	-	(307,574)	(36,507)	-	-	(344,081)
Transference	(51,017)	919,298	194,039	922,553	(2,003,482)	80,751	62,142
Closing book amount	<u>\$765,949</u>	<u>\$1,125,752</u>	<u>\$1,163,074</u>	<u>\$1,474,818</u>	<u>\$ -</u>	<u>\$80,751</u>	<u>\$4,610,344</u>
<u>Accumulated depreciation</u>							
At January 1, 2016	\$ -	\$ 94,069	\$ 829,402	\$ 163,764	\$ -	\$ -	\$1,087,235
Depreciation	-	13,209	313,526	111,332	-	5,888	443,955
Disposals	-	-	(307,468)	(36,503)	-	-	(343,971)
Transference	-	(15,320)	-	-	-	-	(15,320)
Closing book amount	<u>\$ -</u>	<u>\$ 91,958</u>	<u>\$ 835,460</u>	<u>\$ 238,593</u>	<u>\$ -</u>	<u>\$ 5,888</u>	<u>\$1,171,899</u>
At January 1, 2016 net book amount	<u>\$816,966</u>	<u>\$ 86,164</u>	<u>\$ 351,575</u>	<u>\$ 210,629</u>	<u>\$1,861,764</u>	<u>\$ -</u>	<u>\$3,327,098</u>
At December 31, 2016 net book amount	<u>\$765,949</u>	<u>\$1,033,794</u>	<u>\$ 327,614</u>	<u>\$1,236,225</u>	<u>\$ -</u>	<u>\$74,863</u>	<u>\$3,438,445</u>

	<u>Land</u>	<u>Buildings</u>	<u>Computer equipment</u>	<u>Other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
<u>Cost</u>						
At January 1, 2015 (including revaluation \$37,084)	\$816,966	\$180,233	\$1,073,889	\$389,555	\$ 830,014	\$ 3,290,657
Additions	-	-	62,372	4,009	854,750	921,131
Disposals	-	-	(62,240)	(19,171)	-	(81,411)
Transference	-	-	106,956	-	177,000	283,956
Closing book amount	<u>\$816,966</u>	<u>\$180,233</u>	<u>\$1,180,977</u>	<u>\$374,393</u>	<u>\$1,861,764</u>	<u>\$ 4,414,333</u>
<u>Accumulated depreciation</u>						
At January 1, 2015	\$ -	\$ 90,850	\$ 551,322	\$134,155	\$ -	\$ 776,327
Depreciation	-	3,219	340,317	48,780	-	392,316
Disposals	-	-	(62,237)	(19,171)	-	(81,408)
Closing book amount	<u>\$ -</u>	<u>\$ 94,069</u>	<u>\$ 829,402</u>	<u>\$163,764</u>	<u>\$ -</u>	<u>\$ 1,087,235</u>
At January 1, 2015 net book amount	<u>\$816,966</u>	<u>\$ 89,383</u>	<u>\$ 522,567</u>	<u>\$255,400</u>	<u>\$ 830,014</u>	<u>\$ 2,514,330</u>
At December 31, 2015 net book amount	<u>\$816,966</u>	<u>\$ 86,164</u>	<u>\$ 351,575</u>	<u>\$210,629</u>	<u>\$1,861,764</u>	<u>\$ 3,327,098</u>

The estimated useful lives of property, plant and equipment are as follows:

Buildings	55 years
Computer equipment	3 years ~ 5 years
Other equipment	3 years ~ 10 years

(9) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Cost</u>			
At January 1, 2016	\$ 72,577	\$ 25,412	\$ 97,989
Transfer in	51,017	31,583	82,600
At December 31, 2016	<u>\$ 123,594</u>	<u>\$ 56,995</u>	<u>\$ 180,589</u>
<u>Accumulated depreciation</u>			
At January 1, 2016	\$ -	\$ 14,601	\$ 14,601
Depreciation	-	643	643
Transfer in	-	15,320	15,320
Closing book amount	<u>\$ -</u>	<u>\$ 30,564</u>	<u>\$ 30,564</u>
At January 1, 2016 net book amount	<u>\$ 72,577</u>	<u>\$ 10,811</u>	<u>\$ 83,388</u>
At December 31, 2016 net book amount	<u>\$ 123,594</u>	<u>\$ 26,431</u>	<u>\$ 150,025</u>

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Cost</u>			
At January 1, 2015 (same as December 31, 2015)	<u>\$ 72,577</u>	<u>\$ 25,412</u>	<u>\$ 97,989</u>
<u>Accumulated depreciation</u>			
At January 1, 2015	\$ -	\$ 14,148	\$ 14,148
Depreciation	-	453	453
Closing book amount	<u>\$ -</u>	<u>\$ 14,601</u>	<u>\$ 14,601</u>
At January 1, 2015 net book amount	<u>\$ 72,577</u>	<u>\$ 11,264</u>	<u>\$ 83,841</u>
At December 31, 2015 net book amount	<u>\$ 72,577</u>	<u>\$ 10,811</u>	<u>\$ 83,388</u>

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

	<u>Years ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Rental income from investment property	<u>\$ 11,098</u>	<u>\$ 10,390</u>
Direct operating expenses arising from the investment property that generated rental income during the period (Depreciation expenses)	<u>\$ 643</u>	<u>\$ 453</u>

B. The fair value of the investment property held by the Company as of December 31, 2016 and 2015 was \$407,480 and \$331,041, respectively. The above assets are compared with similar transaction information traded in markets and have been applied appropriate correction after estimation, and

comparative law is used for estimation which is categorized within Level 3 in the fair value hierarchy.

C. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 55 years.

(10) Intangible assets

	<u>Years ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
<u>Cost</u>		
At January 1	\$ 1,006,566	\$ 942,765
Additions	57,592	53,873
Disposals	(87,987)	(59,073)
Transfer from prepayments for business facilities	99,419	69,001
Closing book amount	<u>\$ 1,075,590</u>	<u>\$ 1,006,566</u>
<u>Accumulated depreciation</u>		
At January 1	\$ 667,442	\$ 546,306
Amortisation	195,032	180,209
Disposals	(87,987)	(59,073)
Closing net book amount	<u>\$ 774,487</u>	<u>\$ 667,442</u>
At January 1 net book amount	<u>\$ 339,124</u>	<u>\$ 396,459</u>
At December 31 net book amount	<u>\$ 301,103</u>	<u>\$ 339,124</u>

Intangible assets pertain to computer software which are stated at historical cost and amortized on a straight-line basis over their estimated useful lives of 3 years.

(11) Other non-current assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Operations guarantee deposits	\$ 338,500	\$ 330,900
Refundable deposits	30,150	76,755
Prepayments for equipment	34,776	172,488
	<u>\$ 403,426</u>	<u>\$ 580,143</u>

As at December 31, 2016 and 2015, the Company deposited time deposits and financial bonds amounting to \$338,500 and \$330,900 in the Central Bank of China as guaranty bond, respectively.

(12) Securities lending and borrowing collateral payable

The Company has provided securities lending and borrowing services since June 2003. The borrower is required to deposit collaterals based on certain percentages (the stipulated collateral ratio) of borrowed securities daily market prices to the Company. In addition, individual collateral maintenance ratio of each transaction will be calculated on a daily basis, and further collateral will be required if the maintenance ratio is below the collateral ratio. As at December 31, 2016 and 2015, the Company has received collaterals as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash (Note A)	\$ 9,733,244	\$ 8,898,326
Bank draft (Note B)	\$ 7,944,397	\$ 6,828,983
Securities (Note C)	\$ 35,614,198	\$ 52,017,926

Note A: Interest will be added based on the bank's current interest rate on refund of cash collateral.

Note B: Pursuant to 'Taiwan Stock Exchange Corporation Securities Borrowing and Lending Rules,' bank draft, securities and collaterals are to be returned to borrowers upon the completion of the transaction. Accordingly, these are not reflected as assets of the Company. The Company is only responsible for the custodianship of these collateral.

Note C: Securities are revalued according to their closing prices at December 31, 2016 and 2015.

(13) Other current liabilities

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
SBL performance guarantee payable (Note A)	\$ 562,775	\$ -
Advance receipts (Note B)	218,692	211,434
Deposits received for borrowing securities collateral	100,000	80,000
Temporary receipts at offering price	-	412,232
Others	73,501	18,412
Total	<u>\$ 954,968</u>	<u>\$ 722,078</u>

Note A: In order to meet the requirement of market participants and improve the liquidity of whole market, securities firm can lend out marketable securities to customers or other security firms, and securities finance enterprises can also borrow marketable securities from customers or other security firms, and securities finance enterprises. If marketable security is borrowed from customer, the security firm should appropriate; Securities firm performance guarantee in proportion to total amount of borrowed marketable securities, and aforementioned performance guarantee should reserve in the Company.

Note B: Advanced receipts refer to security annual listing fees and (put) warrant listing fees received in advance.

(14) Pensions

A. Defined benefit plan

The amounts recognized in the balance sheet are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligations	\$ 2,762,112	\$ 2,628,708
Fair value of plan assets	(2,410,095)	(2,335,574)
Net defined benefit liability	<u>\$ 352,017</u>	<u>\$ 293,134</u>

(a) 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, 2016</u>			
Balance at January 1	\$ 2,628,708	\$ 2,335,574	\$ 293,134
Current service cost	162,545	-	162,545
Interest (expense) income	37,788	34,532	3,256
	<u>2,829,041</u>	<u>2,370,106</u>	<u>458,935</u>
Remeasurements:			
Return on plan assets (Note)	-	(12,116)	12,116
Change in financial assumptions	66,048	-	66,048
Experience adjustments	(47,527)	-	(47,527)
	<u>18,521</u>	<u>(12,116)</u>	<u>30,637</u>
Pension fund contribution	-	136,834	(136,834)
Paid pension	(85,450)	(84,729)	(721)
Balance at December 31	<u>\$ 2,762,112</u>	<u>\$ 2,410,095</u>	<u>\$ 352,017</u>
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2015</u>			
Balance at January 1	\$ 2,530,780	\$ 2,351,117	\$ 179,663
Current service cost	164,746	-	164,746
Interest (expense) income	46,126	44,343	1,783
	<u>2,741,652</u>	<u>2,395,460</u>	<u>346,192</u>
Remeasurements:			
Return on plan assets (Note)	-	4,613	(4,613)
Change in financial assumptions	96,214	-	96,214
Experience adjustments	1,946	-	1,946
	<u>98,160</u>	<u>4,613</u>	<u>93,547</u>
Pension fund contribution	-	146,089	(146,089)
Paid pension	(211,104)	(210,588)	(516)
Balance at December 31	<u>\$ 2,628,708</u>	<u>\$ 2,335,574</u>	<u>\$ 293,134</u>

Note: Excluding amounts included in interest income or expense.

(b) Based on the Company's internal regulations for employee hiring and management, both the Company and its employees contribute monthly to the workers' pension fund and employees' retirement fund, respectively. The Company contributes based on certain percentages of salary expenses to a common retirement fund. These funds are administered by the independent pension fund committee and employees' retirement fund committee, respectively. The contributed amounts are deposited to the Bank of Taiwan under the name of the respective

committees. Employees who have retired and resigned will receive benefits from the relevant pension fund, retirement fund and common fund.

- (c) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan that was administered by the independent retirement fund committee 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 has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

As of December 31, 2016 and 2015, the Company's Fund that was administered by employees' retirement fund committee was bank deposits.

- (d) The principal actuarial assumptions used were as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	1.25%	1.50%
Future salary increases	3.75%	3.75%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

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

	<u>Discount rate</u>		<u>Future salary increases</u>	
	Increase	Decrease	Increase	Decrease
	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 66,049)	\$ 68,494	\$ 65,011	(\$ 63,031)
<u>December 31, 2015</u>				
Effect on present value of defined benefit obligation	(\$ 64,730)	\$ 67,151	\$ 63,935	(\$ 61,957)

The sensitivity analysis above was arrived at based on one assumption which changed while

the other conditions remain unchanged. In practice, more than one assumption may change all at once.

(e) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2017 are \$141,965.

B. Defined contribution plan

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

(b) The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2016 and 2015 were \$74,020 and \$69,366, respectively.

(15) Share capital

A. In accordance with the resolution adopted at the stockholders' meeting on June 24, 2015, the Company issued common stock by capitalizing the unappropriated retained earnings totaling 16,108 thousand shares. The registration of this capital increase was approved by the Competent Authority.

B. In accordance with the resolution adopted at the stockholders' meeting on June 22, 2016, the Company issued common stock by capitalizing the unappropriated retained earnings totaling 16,511 thousand shares. The registration of this capital increase was approved by the Competent Authority.

C. As of December 31, 2016, the Company's authorized capital and paid-in capital were both \$6,769,456 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

D. Under an amendment to Article 128 of the Securities and Exchange Law promulgated on July 19, 2000, the Company's common stocks can only be sold to authorized securities companies starting January 15, 2001.

(16) Capital reserve

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. However, capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(17) Legal reserve / Special reserve

- A. According to the R.O.C. Company Law, the annual net income should be used initially to cover any accumulated deficit; thereafter 10% of the annual net income should be set aside as legal reserve until it has reached 100% of contributed capital. Legal reserve shall be exclusively used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership and 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 balance of the reserve exceeds 25% of the Company's paid-in capital.
- B. Special reserve, as required by regulations of the Securities and Futures Bureau (SFB), of at most 80% of the annual net income was determined by the Competent Authority; pursuant to regulations of the Competent Authority, the Company has transferred default damages fund to special reserve in preparation of financial statements since 2013 in accordance with IFRSs. The special reserve as resolved by the stockholders can only be used, upon the Competent Authority's approval, to offset deficit or transferred to capital.

(18) Unappropriated retained earnings

- A. The annual net income should be used initially to cover any accumulated deficit; 10% of the annual net income should be set aside as legal reserve and special reserve upon the Competent Authority's approval. The remaining amount can be distributed by a resolution passed during a meeting of the Board of Directors and approved at the stockholders' meeting.
- B. As approved by the stockholders during their meeting, cash dividends declared for 2015 and 2014 were \$1.5 (in dollars) per share, and the stock dividends for 2015 and 2014 were \$0.25 (in dollars) per share for both years.

(19) Other equity items

	<u>Unrealised gains(losses) on available-for-sale financial assets</u>
January 1, 2016	\$ 3,158,283
Unrealised gains on valuation of available-for-sale financial assets	563,226
December 31, 2016	<u>\$ 3,721,509</u>
January 1, 2015	\$ 3,166,348
Unrealised losses on valuation of available-for-sale financial assets	(8,065)
December 31, 2015	<u>\$ 3,158,283</u>

(20) Trading fees

Trading fees mainly represent fees collected for the use of the Company's facilities for trading and settlement of securities. The fees are computed as a percentage of the value of the transactions of securities traded and the rate is 0.000065 per dollar for dealers and brokers. After reaching an agreement with Taiwan Securities Association, which was approved by the Board of Directors of

the Company and the Competent Authority in No. 0950156625 bulletin (December 14, 2006), the rate has been reduced by 12% during the time that the Company stopped to make cash contributions to the DDF. Effective December 1, 2011, as approved by the Board of Directors of the Company and the Competent Authority per No. 1000058644 bulletin (November 29, 2011), the rate (0.000065 per dollar) has been reduced by 20%.

(21) Expenses by nature

	Operating expenses	
	Years ended December 31,	
	2016	2015
Employee benefit expense		
Salaries	\$ 1,123,267	\$ 1,179,387
Insurance	68,731	70,727
Pension	239,821	232,809
Others	11,653	12,294
Total	<u>\$ 1,443,472</u>	<u>\$ 1,495,217</u>
Depreciation	<u>\$ 444,598</u>	<u>\$ 392,769</u>
Amortization	<u>\$ 195,032</u>	<u>\$ 180,209</u>

A. Under the Company's Articles of Incorporation, the Company shall distribute 1%~12% of annual profit as employees' compensation for each accounting year. However, the distribution shall be firstly reserved to offset accumulated deficit if there is any.

B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at \$117,850 and \$118,632, respectively. The aforementioned amounts were recognized in salary expenses. Employees' compensation for 2016 was accrued based on distributable profit of current year for the year ended December 31, 2016, and actual distribution amount of employees' compensation is resolved by the Board of Directors.

C. As of December 31, 2016 and 2015, the Company had 628 and 633, employees.

(22) Finance costs

	Years ended December 31,	
	2016	2015
Interest expense		
-Securities lending and borrowing collateral	<u>\$ 5,385</u>	<u>\$ 7,080</u>

(23) Income tax

A. Income tax expense

(a) Components of income tax expense

	Years ended December 31,	
	2016	2015
Current tax:		
Current tax on profits for the year	\$ 99,161	\$ 170,990
Prior year income tax (over) under estimate	(566)	7,177
Total current tax	<u>98,595</u>	<u>178,167</u>
Deferred tax:		
Origination and reversal of temporary differences	(21,750)	(2,978)
Income tax expense	<u>\$ 76,845</u>	<u>\$ 175,189</u>

(b) Detail of income tax expense and accounting profit

	Years ended December 31,	
	2016	2015
Tax calculated based on profit before tax and statutory tax rate	\$ 215,937	\$ 318,616
Permanent differences	(138,526)	(150,604)
Prior year income tax (over) under estimate	(566)	7,177
Tax expense	<u>\$ 76,845</u>	<u>\$ 175,189</u>

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

	Year ended December 31, 2016		
	January 1	Recognised in profit or loss	December 31
-Deferred tax assets:			
Employees' welfare	\$ 1,068	\$ 28	\$ 1,096
Unused expenses of employee compensated absences	6,149	(6,149)	-
Unrealised exchange loss	-	19,922	19,922
Others	74	-	74
	<u>\$ 7,291</u>	<u>\$ 13,801</u>	<u>\$ 21,092</u>
-Deferred tax liabilities:			
Reserve for land value increment tax	\$ 44,599	\$ -	\$ 44,599
Unrealised exchange gain	7,949	(7,949)	-
	<u>\$ 52,548</u>	<u>(\$ 7,949)</u>	<u>\$ 44,599</u>

Year ended December 31, 2015			
	January 1	Recognised in profit or loss	December 31
-Deferred tax assets:			
Employees' welfare	\$ 1,042	\$ 26	\$ 1,068
Unused expenses of employee compensated absences	6,124	25	6,149
Others	73	1	74
	<u>\$ 7,239</u>	<u>\$ 52</u>	<u>\$ 7,291</u>
-Deferred tax liabilities:			
Reserve for land value increment tax	\$ 44,599	\$ -	\$ 44,599
Unrealised exchange gain	10,875	(2,926)	7,949
	<u>\$ 55,474</u>	<u>(\$ 2,926)</u>	<u>\$ 52,548</u>

C. The amounts of deductible temporary differences that are not recognized as deferred tax assets are as follows:

	December 31, 2016	December 31, 2015
Deductible temporary differences	<u>\$ 141,845</u>	<u>\$ 129,633</u>

D. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

E. As of December 31, 2016 and 2015, the unappropriated earnings were generated in and after 1998.

F. Imputation System

	December 31, 2016	December 31, 2015
Imputation tax credit account	<u>\$ 172,500</u>	<u>\$ 183,845</u>

The creditable tax rate was 14.39% for 2015 and is estimated to be 14.98% for 2016, according to the current income tax law.

(24) Earnings per share

Year ended December 31, 2016			
	Amount after tax	Outstanding shares at the end of the year (in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Net income	<u>\$ 1,193,373</u>	<u>676,946</u>	<u>\$ 1.76</u>
Year ended December 31, 2015			
	Amount after tax	Outstanding shares at the end of the year (in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Net income	<u>\$ 1,699,021</u>	<u>676,946</u>	<u>\$ 2.51</u>

7. RELATED PARTY TRANSACTIONS

(25) Significant related party transactions

	Years ended December 31,	
	2016	2015
A.Trading fees:		
Corporate Directors	\$ 523,934	\$ 440,607
B.Revenue from securities listing fees:		
Other related parties	\$ 450	\$ 450
Corporate Directors	235,870	181,055
	\$ 236,320	\$ 181,505
C.License fees (recorded as operating revenue-others):		
Other related parties	\$ 187,546	\$ 195,001
Corporate Directors	-	630
	\$ 187,546	\$ 195,631
D.Securities settlement service fees (part of operating expenses):		
Subsidiary	\$ 417,301	\$ 515,037
E.Rental and administrative expense (part of operating expenses):		
Other related parties	\$ 182,508	\$ 185,331
Corporate Directors	29,619	24,003
	\$ 212,127	\$ 209,334
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
F.Accounts receivable:		
Corporate Directors	\$ 32,763	\$ 40,943
Other related parties	13,044	17,842
	\$ 45,807	\$ 58,785
G.Payable for securities settlement services:		
Subsidiary	\$ 28,526	\$ 39,665

(26) Key management compensation

	Years ended December 31,	
	2016	2015
Salaries and other short-term employee	\$ 31,489	\$ 32,382
Pensions	3,710	3,813
Total	\$ 35,199	\$ 36,195

8. PLEDGED ASSETS

As of December 31, 2016 and 2015, the Company's pledged the following as collateral. Please refer to Note 6(6) and 6(11) for the information on time certificates and operation guarantee funds pledged as

collateral for the settlement prices the Company had applied for payment on behalf of others and applied for credit limit with banks.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(27) Contingencies

None.

(28) Commitments

A. As of at December 31, 2016 and 2015, the Company leased certain offices. The total future minimum lease payments and administrative expense under these operating lease agreements are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Not later than one year	\$ 213,217	\$ 214,721
Later than one year but not later than five years	<u>601,952</u>	<u>811,038</u>
	<u>\$ 815,169</u>	<u>\$ 1,025,759</u>

B. Future payments required for the contracts in relation to the acquisitions of computer equipment, information system and construction of information centre is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Computer equipment and other equipment	\$ 45,752	\$ 137,140
Information centre construction	<u>-</u>	<u>298,210</u>
	<u>\$ 45,752</u>	<u>\$ 435,350</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Company's objectives of capital management:

- A. Ensure to continue operating and to continue to contribute returns for shareholders.
- B. Support stability and growth of the Company.
- C. Offer capital to improve risk management ability

(2) Financial instruments

A. Fair value information of financial instruments

Except those listed in the table below, the carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, accounts receivable - net, other receivables, other financial assets, default damages fund, securities settlement debit, securities lending and borrowing collateral payable, accrued expenses, dividends payable and securities settlement credit) approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

	December 31, 2016			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial assets:				
Held-to-maturity financial assets	\$ 8,631,999	\$ -	\$ 8,647,032	\$ -
	December 31, 2015			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial assets:				
Held-to-maturity financial assets	\$ 8,614,486	\$ -	\$ 8,633,797	\$ -

The methods and assumptions of fair value measurement are as follows:

Held-to-maturity financial assets: if there is a quoted price in an active market, the fair value is based on the market price; if there is no quoted market price available, the fair value is determined by using valuation techniques or counterparty quotes.

B. Financial risk management policies

- (a) The targets of financial risk management are to manage the following financial risks: market risk (including foreign exchange risk and securities price risk), credit price risk and liquidity risk.
- (b) The Company has mechanism to control all financial risks the Company is exposed to. Except for market risk that is controlled by external factors, other risks can be controlled internally or eliminated and the target is to minimize the risks to zero. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.
- (c) Risk management is carried out by a central financial department (Financial Department) in accordance with the policies approved by the Board of Directors. The Company's Financial Department identifies and evaluates a variety of financial instruments, the procedure of the transaction, and transaction parties. Moreover, the Company regularly proposes recommendation reports and reviews the business performance. The internal auditor is in charge of conducting the audit of the business function.

C. Significant financial risks and degrees of financial risks

(a) Market risk

The market risk is caused by losses resulting from changes in exchange rate and securities prices.

Foreign exchange risk

Foreign exchange risk refers to impact from value changes to assets and liabilities denominated in foreign currencies. The Company provides services for securities borrowing and lending transactions, and according to regulations, specific security borrowers can deposit cash denominated in United States Dollars, Japan Yen and Euro as collateral. The

Company had its own funds partly constituted in foreign currency.

December 31, 2016					
(Foreign currency: functional currency)	Foreign Currency	Exchange Rate	Book Value (NTD)	<u>Sensitivity analysis</u>	
	Amount (In Thousands)			Degree of variation	Effect on profit or loss
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	27,400	32.25	\$ 883,650	1%	8,837
RMB:NTD	415,230	4.641	1,927,082	1%	19,271
JPY:NTD	7,859,884	0.276	2,166,184	1%	21,662
EUR:NTD	131,921	33.90	4,472,122	1%	44,721
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	12,652	32.25	408,027	1%	4,080
JPY:NTD	7,859,884	0.276	2,166,184	1%	21,662
EUR:NTD	131,921	33.90	4,472,122	1%	44,721
December 31, 2015					
(Foreign currency: functional currency)	Foreign Currency	Exchange Rate	Book Value (NTD)	<u>Sensitivity analysis</u>	
	Amount (In Thousands)			Degree of variation	Effect on profit or loss
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	48,208	32.83	\$ 1,582,669	1%	15,827
RMB:NTD	362,508	4.995	1,810,727	1%	18,107
JPY:NTD	15,259,113	0.273	4,165,738	1%	41,657
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	34,571	32.83	1,134,966	1%	11,350
JPY:NTD	15,259,113	0.273	4,165,738	1%	41,657

The total exchange loss arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2016 and 2015, amounted \$163,786 and \$16,426, respectively.

Price risk of fixed income

Price risk of fixed income refers to changes in fair value of financial instruments resulting from changes in market interest rates, and the risk mainly comes from security investment. As of December 31, 2016 and 2015, the financial assets held-to-maturity that belongs to

fixed-rate product were \$8,631,999 and \$8,614,486, respectively. The change in market interest rates will also fluctuate the fair value of the financial instruments, however, the financial instruments are held until maturity in order to receive effective rate compensation in duration, and there is no disposal or valuation loss arising from the fluctuation.

The Company expose to net value of funds arising from money market. If the net value of funds had increased/ decreased by 1% for the years ended December 31, 2016 and 2015, other comprehensive income for the period would have increased/decreased by \$10,600 and \$25,617, respectively.

Price risk of non-fixed income

The price risk of non-fixed income of equity instruments is from investment in available-for-sale financial assets.

The market risk of holding equity security includes individual risk fluctuated by changes in quoted prices in active markets of individual equity security and general market risk fluctuated by quoted prices in overall active markets. For risk of security management, beneficiary certificates are in accordance with the Company's related regulations on capital usage, and the Company chooses appropriate investment objects, sets maximum amount for prudent investment and related limitation, and prepares summary of investment gain/ loss and capital usage reports regularly. Equity investment has to be approved by the Company's Board of Directors before initialization.

Sensitivity analysis of price risk of equity instruments refers to calculation based on changes in fair value at the end of the reporting period. If the price of equity instruments had increased/ decreased by 1% for the years ended December 31, 2016 and 2015, other comprehensive income due from fair value movement of available-for-sale financial assets for the year would increase/decrease by \$64,017 and \$85,726, respectively.

(b) Credit risk

Credit risk refers to financial loss resulting from counterparties' breach of contract, and is mainly receivables generated from operating activities and bank deposits, time deposits and fixed income of security investment generated from investing activities. Operating related credit risk and financial credit risk are managed separately. The maximum amounts of credit risk of accounts receivable and other receivables equal to their book value.

Operating related credit risk

The counterparties of the Company's accounts receivable are mostly security dealers, listed companies and other security related organisations with good credit quality, therefore, credit risk of accounts receivable is rather insignificant. Credit risk information is as follows:

i. Accounts receivable that were neither past due nor impaired

All the accounts receivable that were neither past due nor impaired have outstanding payment history, and the counterparties have steady capability to pay for the receivables. Therefore, even if the paying parties face significant uncertain factors or are exposed to

adverse conditions, the Company still estimates them to maintain capability to pay. As of December 31, 2016 and 2015, accounts receivable that were neither past due nor impaired were \$224,957 and \$277,977, respectively.

ii. Accounts receivable that were past due but not impaired

The ageing analysis of accounts receivable that were past due but not impaired is listed according to overdue time as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Less than 6 months	<u>\$ 9,005</u>	<u>\$ 5,213</u>

iii. Accounts receivable that were impaired

As of December 31, 2016 and 2015, the Company's accounts receivable that were impaired amounted to \$1,558 and \$1,590, respectively.

Movements on the Company's provision for impairment of accounts receivable are as follows:

	<u>Years ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
At January 1	\$ 1,590	\$ 1,422
(Reversal of) provision for bad debts	(32)	168
At December 31	<u>\$ 1,558</u>	<u>\$ 1,590</u>

Financial credit risk

The Company's policy requires that all transactions be conducted with the counterparties that meet the specified credit rating requirement. As the counterparties are all well-known domestic financial institutions with good credit standing, defaults by the counterparties are not expected to occur. As for transaction objects, the default on financial assets investment objects held by the Company might cause the Company's losses. However, the Company controls such risk by setting transaction ceiling and assessing their credit condition strictly. Thus, the Company expects no significant credit risk would arise.

The Company's internal and external credit risk ratings are as follows:

<u>Internal credit risk ratings</u>	<u>Company credit ratings by Taiwan Ratings</u>
Group 1	twAAA~twA-
Group 2	twBBB+~twBBB-
Group 3	twBB+~twC

Credit quality of financial assets are classified as Group 1.

(c) Liquidity risk

Liquidity risk refers to responsibilities that the Company is unable to repay financial debts with cash or another financial assets. The Company applies expected cash flow approach to manage liquidity risk, and ensures the amount to be paid for all maturing debt and all known requirement for capital through expectations of cash needed.

Analysis of non-derivative financial liabilities that are categorised by the maturity date and

amount undiscounted at maturity date is as follows:

	December 31, 2016			
	Less than	Between	Over	Total
	6 months	6 months and 1 year	1 year	
Securities lending and borrowing collateral payable	\$ 9,733,244	\$ -	\$ -	\$ 9,733,244
Accrued expenses	867,807	69,685	-	937,492
Deposits received	-	-	58,856	58,856
	<u>\$10,601,051</u>	<u>\$ 69,685</u>	<u>\$ 58,856</u>	<u>\$10,729,592</u>
	December 31, 2015			
	Less than	Between	Over	Total
	6 months	6 months and 1 year	1 year	
Securities lending and borrowing collateral payable	\$ 8,898,326	\$ -	\$ -	\$ 8,898,326
Accrued expenses	903,541	49,546	-	953,087
Deposits received	-	-	101,629	101,629
	<u>\$ 9,801,867</u>	<u>\$ 49,546</u>	<u>\$ 101,629</u>	<u>\$ 9,953,042</u>

(3) Fair value estimation

A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Company's investment property measured at cost are provided in Note 6(9).

B. 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: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in beneficiary certificates 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 or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in unlisted stocks is included in Level 3.

C. The related information of financial and non-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, 2016 and 2015 is as follows:

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Recurring fair value measurements				
Available-for-sale financial assets:				
Beneficiary certificates	\$ 4,072,504	\$ -	\$ -	\$ 4,072,504
Unlisted (OTC) stocks	-	-	3,389,146	3,389,146
	<u>\$ 4,072,504</u>	<u>\$ -</u>	<u>\$ 3,389,146</u>	<u>\$ 7,461,650</u>
<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Recurring fair value measurements				
Available-for-sale financial assets:				
Beneficiary certificates	\$ 5,342,789	\$ -	\$ -	\$ 5,342,789
Unlisted (OTC) stocks	-	-	3,229,832	3,229,832
	<u>\$ 5,342,789</u>	<u>\$ -</u>	<u>\$ 3,229,832</u>	<u>\$ 8,572,621</u>

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

(a) The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Closed-end fund</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Net asset value

- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the balance sheet date.
- (c) When assessing non-standard and low-complexity financial instruments. The Company adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- (d) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial

instruments at the balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

- E. For the years ended December 31, 2016 and 2015, there was no transfer between Level 1 and Level 2.
- F. For the years ended December 31, 2016 and 2015, there was no transfer into or out from Level 3.
- G. Financial segment and commissioned appraisers are in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

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

	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Relationship of inputs to fair value
Non-derivative equity instrument:				
Unlisted shares	\$ 1,069,779	Dividend discount models	Dividend compounding growth rate	1% The higher the dividend compounding growth rate, the higher the fair value
	\$ 2,319,367	Discounted cash flow method	Discount rate	5.68% The higher the discount rate, the lower the fair value
	Fair value at December 31, 2015	Valuation technique	Significant unobservable input	Relationship of inputs to fair value
Non-derivative equity instrument:				
Unlisted shares	\$ 920,527	Market comparable companies	Dividend yield	4.88% The lower the dividend yield, the higher the fair value
	\$ 2,309,305	Discounted cash flow method and cost method	Discount rate	6% The higher the discount rate, the lower the fair value

I. The Company 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 different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

			December 31, 2016			
			Recognised in profit or loss		Recognised in other comprehensive income	
			Favourable	Unfavourable	Favourable	Unfavourable
	Input	Change	Change	Change	Change	Change
Financial assets						
Equity instrument	Dividend growth rate	±1%	\$ -	\$ -	\$ 71,145	\$ 54,162
Equity instrument	Discount rate	±1%	\$ -	\$ -	\$ 820,921	\$ 531,628
			December 31, 2015			
			Recognised in profit or loss		Recognised in other comprehensive income	
			Favourable	Unfavourable	Favourable	Unfavourable
	Input	Change	Change	Change	Change	Change
Financial assets						
Equity instrument	Dividend yield	±1%	\$ -	\$ -	\$ 120,915	\$ 79,768
Equity instrument	Discount rate	±1%	\$ -	\$ -	\$ 316,125	\$ 241,496

J. Changes belonging to level 3 financial instruments as of December 31, 2016 and 2015 are as follows:

	Available-for-sale financial assets
January 1, 2016	\$ 3,229,832
Gains recognised in other comprehensive income	159,314
December 31, 2016	\$ 3,389,146
January 1, 2015	\$ 3,153,866
Gains recognised in other comprehensive income	75,966
December 31, 2015	\$ 3,229,832

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

In accordance with the “Criteria Governing Preparation of Financial Reports by Company–Type Stock Exchanges”, the Company’s related information of significant transactions is as follows:

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries and associates): Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company’s paid-in capital: Please refer to table 2.

- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: None.

(2) Information on investees

Names, locations and other information of investee companies: Please refer to table 3.

14. SEGMENT INFORMATION

Not applicable.

Taiwan Stock Exchange Corporation

Holding of marketable securities at the end of the period (not including subsidiaries and associates)

Year ended December 31, 2016

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 1

Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2016			Footnote
			Number of shares (in thousands)	Book value	Fair value	
Beneficiary Certificates						
Sinopac TWD Money Market Fund	None	Available-for-sale financial assets - current	62,273	859,186	\$ 859,186	None
Fubon Taiwan Strategy 1 ETF Private Equity Fund	"	Available-for-sale financial assets - current	48,454	711,783	711,783	"
SinoPac Strategies Fund No.1	"	Available-for-sale financial assets - current	46,989	562,923	562,923	"
Fubon Taiwan Strategy 2 ETF Private Equity Fund	"	Available-for-sale financial assets - current	35,617	498,989	498,989	"
Cathay Non-Finance Non-Electronics Sub-index Fund	"	Available-for-sale financial assets - current	25,000	260,000	260,000	"
Fubon S Strategy III Taiwan EMP Fund	"	Available-for-sale financial assets - current	25,000	345,000	345,000	"
Fuh Hwa Global Thematic Fund	"	Available-for-sale financial assets - current	25,000	348,750	348,750	"
Yuanta De-Li Money Market Fund	"	Available-for-sale financial assets - current	12,436	200,846	200,846	"
Yuanta Taiwan Weighted Stock Index Fund	"	Available-for-sale financial assets - current	7,262	148,679	148,679	"
Yuanta/P-shares Taiwan Top 50 ETF	"	Available-for-sale financial assets - current	1,899	136,348	136,348	"
		Total available-for-sale financial assets - current		<u>\$ 4,072,504</u>	<u>\$ 4,072,504</u>	
Stock						
Taiwan International Futures Exchange Corporation	None	Available-for-sale financial assets - non-current	15,300	\$ 1,069,779	\$ 1,069,779	None
Taipei Financial Center Corporation	"	Available-for-sale financial assets - non-current	83,853	2,319,367	2,319,367	"
		Total available-for-sale financial assets - non-current		<u>\$ 3,389,146</u>	<u>\$ 3,389,146</u>	

As of December 31, 2016

Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares		Footnote
			(in thousands)		
			Book value	Fair value	
Financial bonds					
First Bank 99-2 Subordinate Classes Financial Bond (G15987)	None	Held-to-maturity financial assets - current	\$ 200,000	200,000	None
Land Bank 99-2 Subordinate Classes Financial Bond (G12712)	"	Held-to-maturity financial assets - current	500,000	500,000	"
Land Bank 99-2 Subordinate Classes Financial Bond (G12712)-1	"	Held-to-maturity financial assets - current	500,710	500,710	"
Yuanta Unsecured Subordinated Bank Debentures 99-1	"	Held-to-maturity financial assets - current	300,000	300,000	"
Bank SinoPac 99-1 Subordinate Classes Financial Bond (G11085)	"	Held-to-maturity financial assets - current	500,000	504,195	"
E. Sun Bank 99-1 Subordinate Classes Financial Bond (99 E. Sun Bank 1)	"	Held-to-maturity financial assets - current	400,000	400,000	"
Mega International 99-1 Subordinate Classes Financial Bond (G11832)	"	Held-to-maturity financial assets - current	500,000	500,000	"
Mega International 99-1 Subordinate Classes Financial Bond (G11832)-1	"	Held-to-maturity financial assets - current	100,172	100,172	"
			<u>3,000,882</u>	<u>3,005,077</u>	
Corporate bonds					
CPC Corporation, Taiwan 99-1 Secured B (B71862)	None	Held-to-maturity financial assets - current	\$ 50,000	\$ 50,350	None
Taiwan Power 99-4 secured B (B903U5)	"	Held-to-maturity financial assets - current	300,433	300,433	"
CPC Corporation, Taiwan 101-2 Secured A (B71870)	"	Held-to-maturity financial assets - current	100,484	100,393	"
			<u>450,917</u>	<u>451,176</u>	
		Total held-to-maturity financial assets - current	<u>\$ 3,451,799</u>	<u>\$ 3,456,253</u>	
Financial bonds					
Land Bank 101-3 Subordinated Classes Financial Bond (G12712)	None	Held-to-maturity financial assets - non-current	\$ 200,000	\$ 203,239	None
Yuanta Subordinated Bank Debentures 100-1	"	Held-to-maturity financial assets - non-current	200,000	200,000	"
Yuanta Subordinated Bank Debentures 100-2	"	Held-to-maturity financial assets - non-current	150,000	150,000	"
Taipei Fubon Subordinated Bank Bond 100-2	"	Held-to-maturity financial assets - non-current	200,000	200,000	"
Taipei Fubon Subordinated Bank Bond 102-1	"	Held-to-maturity financial assets - non-current	200,000	200,000	"
SinoPac Bank 100-1 Subordinate Financial Debentures-A G11087	"	Held-to-maturity financial assets - non-current	200,000	200,000	"
SinoPac Bank 100-2 Subordinate Financial Debentures-A	"	Held-to-maturity financial assets - non-current	150,000	150,000	"
SinoPac Bank 100-3 Subordinate Financial Debentures-A	"	Held-to-maturity financial assets - non-current	199,999	199,999	"
SinoPac Bank 101-1 Subordinate Financial Debentures-A	"	Held-to-maturity financial assets - non-current	200,000	200,000	"
E. Sun Bank 100-1 Subordinate Classes Financial Bond	"	Held-to-maturity financial assets - non-current	100,000	100,000	"
Tcb-Bank 100-2 Subordinate Financial Debentures-B (G12420)	"	Held-to-maturity financial assets - non-current	100,000	100,961	"
Tcb-Bank 102-1 Subordinate Financial Debentures-B (G12425)	"	Held-to-maturity financial assets - non-current	200,000	200,000	"
Hua Nan Bank 99-1 Subordinate Classes Financial Bond (G189AB)	"	Held-to-maturity financial assets - non-current	500,000	500,000	"

As of December 31, 2016

Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares (in thousands)	Book value	Fair value	Footnote
Taipei Agribank 101-1 Subordinated Classes Financial Bond (G13103)	None	Held-to-maturity financial assets - non-current	-	100,000	100,000	None
Taipei Agribank 101-1 Subordinated Classes Financial Bond-B (G13104)	"	Held-to-maturity financial assets - non-current	-	100,000	101,583	"
Taipei Agribank 101-1 Financial Bond-B (G13104-1)	"	Held-to-maturity financial assets - non-current	-	203,147	203,166	"
CTBC Bank 3rd Unsecured Subordinated Financial Bond-Tranche A Issue in 2015	"	Held-to-maturity financial assets - non-current	-	200,000	200,000	"
Deutsche Bank Aktiengesellschaft Acting Through Its Singapore Branch as Issuer	"	Held-to-maturity financial assets - non-current	-	184,680	180,714	"
Mega International 103-1 Financial bonds(G11836)	"	Held-to-maturity financial assets - non-current	-	306,262	307,414	"
Shin Kong 101-1 Financial bonds-B (G11649)	"	Held-to-maturity financial assets - non-current	-	203,182	202,035	"
Cathay Bank 102-1 Financial bonds (G179C1)	"	Held-to-maturity financial assets - non-current	-	308,390	308,378	"
E. Sun Bank 100-2 Subordinated Classes Financial Bond (G102AF)	"	Held-to-maturity financial assets - non-current	-	100,000	100,000	"
SinoPac Bank 103-2 Subordinated Classes Financial Bond (G11096)	"	Held-to-maturity financial assets - non-current	-	101,629	101,631	"
Land Bank 4th Financial Bond-Tranche B Issue in 2012 (G12719)	"	Held-to-maturity financial assets - non-current	-	204,353	205,757	"
Taishin International Bank 3rd Financial Bond-Tranche A Issue in 2015 (G19983)	"	Held-to-maturity financial assets - non-current	-	106,099	106,119	"
				<u>4,717,741</u>	<u>4,720,996</u>	
Corporate bonds						
CPC Corporation, Taiwan 97-1 Unsecured C (97 CPC Corporation 1C)	None	Held-to-maturity financial assets - non-current	-	102,163	102,913	None
Taiwan Power Company 5th Unsecured Corporate Bond-B Issue in 2012 (B903V3)	"	Held-to-maturity financial assets - non-current	-	101,354	103,570	"
CPC Corporation, Taiwan 101-1 Unsecured C (B71872)	"	Held-to-maturity financial assets - non-current	-	101,526	101,869	"
Taiwan Power Company 4th Unsecured Corporate Bond-B Issue in 2011 (B903UK)	"	Held-to-maturity financial assets - non-current	-	103,506	103,511	"
				<u>408,549</u>	<u>411,863</u>	
Government bonds						
Taiwan Government Bond A097105	None	Held-to-maturity financial assets - non-current	-	53,910	57,920	None
		Total held-to-maturity financial assets - non-current	-	<u>\$ 5,180,200</u>	<u>\$ 5,190,779</u>	

Note: Details are provided in Note 6(11).

Taiwan Stock Exchange Corporation

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital

Year ended December 31, 2016

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 2

Marketable securities	General ledger account	Counterparty	Relationship with the investor	Balance as at January 1, 2016		Addition		Disposal		Balance as at December 31, 2016				
				Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Gain (loss) on disposal	Number of shares (in thousands)	Amount		
Yuanta De-Li Money Market Fund	Available-for-sale financial assets - current	-	-	43,522	\$ 700,000	-	\$ -	(31,086)	\$ 501,927	\$ 1,927	12,436	\$ 200,846	Note 1	
Yuanta De-Bao Money Market Fund	Available-for-sale financial assets - current	-	-	29,580	350,000	-	-	(29,580)	352,163	(350,000)	2,163	-	-	
Mega International 103-1 Financial bonds (G11836)	Held-to-maturity financial assets - non-current	-	-	-	-	300,000	307,189	-	-	-	-	300,000	306,262	Note 2
Cathay 102-1 Financial bonds (G179C1)	Held-to-maturity financial assets - non-current	-	-	-	-	300,000	309,122	-	-	-	-	300,000	308,390	Note 2

Note 1: Due to valuation adjustment, ending balance is not equal to beginning balance.

Note 2: The difference between the ending balance and the beginning balance add/less purchase/selling amount for this period is due to unwinding of premium.

Taiwan Stock Exchange Corporation
Information on investees
Year ended December 31, 2016

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount			Shares held as at December 31, 2016		Net profit (loss) of the investee for the year ended December 31, 2016	Investment income(loss) recognised by the Company for the year ended December 31, 2016	Footnote
				Balance as at December 31, 2016	Balance as at December 31, 2015	Number of shares (in thousands)	Ownership (%)	Book value			
Taiwan Stock Exchange Corporation	Taiwan Depository & Clearing Corporation (TDCC)	11F, No. 363, Fusing N. Rd., Taipei City	Custodian of securities and other services	\$ 583,103	\$ 550,000	178,337	50.59%	\$ 1,438,226	\$ 727,604	The Company's subsidiary	
"	Taiwan-Ca Inc. (TWCA)	10F, No. 85, Yanping S. Rd., Taipei City	Online verification services	87,719	87,719	6,804	30.23%	32,377	9,788	"	
"	Global Link Securities Co., Ltd.	19F-1, No. 7, Sec. 5, Sinyi Rd., Taipei City	Accepting orders to trade securities	-	300,000	-	-	(63,521)	63,521	Note	
"	Taiwan Index Plus Corporate	11F-1, No. 36, Songren Rd., Taipei City	Index preparation, transmission maintenance	150,000	-	15,000	100.00%	578	578	The Company's subsidiary	
"	Taiwan Ratings Co.	49F, No. 7, Sec. 5, Sinyi Rd., Taipei City	Credit rating services	15,045	15,045	1,399	19.99%	36,974	7,391	The investee company accounted for using equity method	
Taiwan Depository & Clearing Corporation	Fundrich Securities Co., Ltd.	8F, No. 365, Dunhua N. Rd., Songshan Dist., Taipei City	Sales of funds	180,000	180,000	18,000	51.43%	64,720)	-		
"	Taiwan-Ca Inc. (TWCA)	10F, No. 85, Yanping S. Rd., Taipei City	Online verification services	9,700	9,700	4,071	18.08%	32,377	-		
"	Taiwan Ratings Co.	49F, No. 7, Sec. 5, Sinyi Rd., Taipei City	Credit rating services	13,300	13,300	1,330	19.00%	36,974	-		
Taiwan-Ca Inc.	Taiwan Ratings Co.	49F, No. 7, Sec. 5, Sinyi Rd., Taipei City	Credit rating services	4	4	1	0.01%	36,974	-		

Note: Details are provided in Note 6(7).