

**Cathay Securities Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2023 and 2022 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Cathay Securities Corporation

Opinion

We have audited the accompanying consolidated financial statements of Cathay Securities Corporation and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including material accounting policy information (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Financial Statement Audit and Attestation Engagements of Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the Group's consolidated financial statements for the year ended December 31, 2023 is described as follows:

Revenue Recognition - Brokerage Fee Revenue

The Group's main source of revenue is brokerage fee revenue, which is not calculated based on a standard rate but individually determined based on product and customer type. Hence, there may be a risk that the brokerage fee revenue would not be calculated at the rate approved by the authorities. Therefore, we determined the recognition of brokerage fee revenue as a key audit matter.

We obtained an understanding of and carried out tests on the controls of the approved Group's brokerage fee rate and the design and implementation of the change process and related control standards. In addition, we obtained the detailed receipts of the brokerage fee revenue, checked its completeness, selected samples and checked the various transaction reports of marketable securities and certificates related to brokerage fee revenue, as well as recalculated the brokerage fee revenue, and we verified the accuracy of the recognized revenue.

Other Matter

We have also audited the parent company only financial statements of Cathay Securities Corporation as of and for the years ended December 31, 2023 and 2022 on which we have issued an unmodified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2023 and are therefore the key audit matters. We describe these matters in our auditors' 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.

The engagement partners on the audits resulting in this independent auditors' report are Chih-Ming Shao and Yu-Hong Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 4, 2024

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars)

ASSETS	2023		2022	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 29)	\$ 2,579,555	4	\$ 3,207,478	6
Financial assets at fair value through profit or loss (Notes 4 and 7)	5,248,702	8	4,151,289	8
Financial assets at fair value through other comprehensive income (Notes 4, 8 and 28)	7,888,104	11	4,021,487	8
Securities margin loans receivable (Notes 4, 9 and 28)	12,790,220	18	6,670,276	13
Margin deposits for securities refinancing (Note 4)	35,664	-	28,886	-
Collateral for securities refinancing (Note 4)	29,719	-	22,832	-
Margin loans receivable - any use (Notes 4 and 28)	1,504,319	2	797,674	2
Customer margin accounts (Notes 4, 10 and 29)	11,915,201	17	14,143,696	28
Collateral for securities borrowed (Note 4)	2,564	-	346,362	1
Deposits for securities borrowed (Note 4)	5,316	-	1,188,438	2
Accounts receivable (Notes 4, 11 and 28)	20,817,855	30	10,853,391	21
Accounts receivable from related parties (Notes 4 and 11)	3	-	700	-
Prepayments	66,446	-	58,686	-
Other receivables (Notes 4, 11 and 28)	355,328	1	243,276	1
Other receivables from related parties (Notes 4 and 11)	1,232	-	1,760	-
Current tax assets (Notes 4 and 24)	-	-	2,318	-
Payments from custody of underwriting securities (Note 29)	128,491	-	939,184	2
Other current assets - others (Notes 4, 17, 29 and 30)	<u>2,568,562</u>	<u>4</u>	<u>1,775,687</u>	<u>3</u>
Total current assets	<u>65,937,281</u>	<u>95</u>	<u>48,453,420</u>	<u>95</u>
NON-CURRENT ASSETS (Note 4)				
Financial assets at fair value through other comprehensive income (Note 8)	1,965,957	3	1,000,660	2
Property and equipment (Note 13)	318,156	1	324,535	1
Right-of-use assets (Notes 14 and 29)	153,789	-	148,441	-
Investment properties (Notes 15 and 30)	290,341	-	290,341	1
Intangible assets (Note 16)	77,766	-	91,113	-
Deferred tax assets (Note 24)	9,803	-	128,889	-
Other non-current assets (Notes 11, 17, 21, 28 and 29)	<u>796,372</u>	<u>1</u>	<u>797,457</u>	<u>1</u>
Total non-current assets	<u>3,612,184</u>	<u>5</u>	<u>2,781,436</u>	<u>5</u>
TOTAL	<u>\$ 69,549,465</u>	<u>100</u>	<u>\$ 51,234,856</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 18)	\$ 322,988	1	\$ 733,178	1
Commercial paper payable (Note 18)	7,128,247	10	-	-
Financial liabilities at fair value through profit or loss (Notes 4 and 7)	860,708	1	1,202,879	2
Liabilities for bonds sold under repurchase agreements (Notes 4, 8 and 19)	7,439,234	11	3,991,622	8
Short sale margins (Note 4)	1,316,578	2	2,273,516	5
Payables for short sale collateral received (Note 4)	1,427,617	2	1,980,574	4
Deposits for securities lending (Note 4)	12,473	-	10,196	-
Futures traders' equity (Notes 4, 10 and 29)	11,894,720	17	14,121,660	28
Equity for each customer in the account	45,512	-	-	-
Notes payable	3,165	-	1,362	-
Notes payable to related parties	4,089	-	4,880	-
Accounts payable	20,877,916	30	11,016,811	22
Receipt under custody	328,784	1	996,262	2
Other payables	1,391,442	2	981,530	2
Other payables to related parties (Note 29)	384,600	1	540,209	1
Other financial liabilities (Notes 4 and 20)	271,026	-	25,157	-
Current tax liabilities (Notes 4 and 24)	4,657	-	5,385	-
Lease liabilities (Notes 4, 14 and 29)	83,891	-	81,551	-
Other current liabilities	<u>204,376</u>	<u>-</u>	<u>110,943</u>	<u>-</u>
Total current liabilities	<u>54,002,023</u>	<u>78</u>	<u>38,077,715</u>	<u>75</u>
NON-CURRENT LIABILITIES (Note 4)				
Lease liabilities (Notes 14 and 29)	72,288	-	68,808	-
Deferred tax liabilities (Note 24)	42,758	-	11,634	-
Guarantee deposits received	1,792	-	1,792	-
Net defined benefit liabilities (Note 21)	<u>37,557</u>	<u>-</u>	<u>31,808</u>	<u>-</u>
Total non-current liabilities	<u>154,395</u>	<u>-</u>	<u>114,042</u>	<u>-</u>
Total liabilities	<u>54,156,418</u>	<u>78</u>	<u>38,191,757</u>	<u>75</u>
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT (Notes 4, 8 and 22)				
Share capital	<u>7,700,000</u>	<u>11</u>	<u>7,700,000</u>	<u>15</u>
Capital surplus	<u>914,810</u>	<u>1</u>	<u>914,787</u>	<u>2</u>
Retained earnings				
Legal reserve	852,885	1	711,943	1
Special reserve	1,803,620	3	1,521,737	3
Unappropriated retained earnings	<u>2,218,910</u>	<u>3</u>	<u>1,409,415</u>	<u>3</u>
Total retained earnings	<u>4,875,415</u>	<u>7</u>	<u>3,643,095</u>	<u>7</u>
Other equity				
Exchange differences on translating foreign operations	(37,356)	-	(24,151)	-
Unrealized gain on investments in financial assets at fair value through other comprehensive income	1,956,444	3	823,231	1
Remeasurement of defined benefit plans	<u>(16,551)</u>	<u>-</u>	<u>(14,049)</u>	<u>-</u>
Total other equity	<u>1,902,537</u>	<u>3</u>	<u>785,031</u>	<u>1</u>
Total equity attributable to shareholders of the parent	15,392,762	22	13,042,913	25
NON-CONTROLLING INTERESTS (Notes 4 and 22)	<u>285</u>	<u>-</u>	<u>186</u>	<u>-</u>
Total equity	<u>15,393,047</u>	<u>22</u>	<u>13,043,099</u>	<u>25</u>
TOTAL	<u>\$ 69,549,465</u>	<u>100</u>	<u>\$ 51,234,856</u>	<u>100</u>

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

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2023		2022	
	Amount	%	Amount	%
REVENUE (Note 4)				
Brokerage handling fee revenue (Notes 23 and 29)	\$ 5,749,148	77	\$ 4,446,865	77
Revenue from borrowed securities	291,648	4	75,864	1
Revenue from the underwriting business (Notes 23 and 29)	78,173	1	104,751	2
Net gains (losses) from sale of securities held for operations (Note 23)	305,360	4	(601,963)	(10)
Interest income (Notes 23 and 29)	829,153	11	621,801	11
Dividend income	478,827	6	94,141	2
Net gains (losses) from measurement at fair value through profit or loss for securities held for operations (Note 23)	279,613	4	(4,529)	-
Net gains (losses) on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements	(89,947)	(1)	1,079,716	19
Net gains (losses) on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements	(95,101)	(1)	197,003	3
Realized gains from debt instruments at fair value through other comprehensive income	55,210	1	678	-
Net gains (losses) from issuance of call (put) warrants (Note 7)	(171,987)	(3)	549,860	9
Net losses from derivative financial instruments - futures (Notes 7 and 23)	(314,938)	(4)	(860,070)	(15)
Net losses from derivative financial instruments - OTC (Note 23)	(6,080)	-	(5,368)	-
Advisory fee revenue	927	-	542	-
Losses on reversal of expected credit loss (Notes 8, 9, 11 and 28)	(5,064)	-	(4,132)	-
Other operating revenue (Note 23)	<u>58,198</u>	<u>1</u>	<u>71,218</u>	<u>1</u>
Total revenue	<u>7,443,140</u>	<u>100</u>	<u>5,766,377</u>	<u>100</u>
COSTS AND EXPENSES				
Broker's exchange fee expenses	(432,271)	(6)	(375,714)	(6)
Dealer's exchange fee expenses	(6,447)	-	(8,932)	-
Refinancing handling fee expenses	(1,235)	-	(2,586)	-
Underwriting handling fee expenses	(1,444)	-	(2,055)	-
Finance costs (Notes 4, 14 and 29)	(404,488)	(5)	(99,914)	(2)
Loss from securities borrowing transactions	(13,321)	-	(195,295)	(3)
Futures commission expense	(40,071)	(1)	(40,257)	(1)
Clearing and settlement service fee expenses	(44,548)	(1)	(45,934)	(1)

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CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2023		2022	
	Amount	%	Amount	%
Other operating expenditure	\$ (13,637)	-	\$ (9,744)	-
Employee benefits expense (Notes 23 and 29)	(2,237,432)	(30)	(1,854,090)	(32)
Depreciation and amortization expense (Notes 14 and 23)	(230,297)	(3)	(208,331)	(4)
Other operating expenses (Notes 23 and 29)	<u>(1,783,372)</u>	<u>(24)</u>	<u>(1,370,805)</u>	<u>(24)</u>
Total costs and expenses	<u>(5,208,563)</u>	<u>(70)</u>	<u>(4,213,657)</u>	<u>(73)</u>
NON-OPERATING INCOME AND EXPENSES				
Other gains and losses (Notes 4, 8 and 23)	<u>361,837</u>	<u>5</u>	<u>147,876</u>	<u>2</u>
INCOME BEFORE INCOME TAX	2,596,414	35	1,700,596	29
INCOME TAX EXPENSE (Notes 4 and 24)	<u>484,160</u>	<u>7</u>	<u>291,172</u>	<u>5</u>
NET INCOME	<u>2,112,254</u>	<u>28</u>	<u>1,409,424</u>	<u>24</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4 and 22)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 21)	(3,356)	-	1,189	-
Unrealized gains (losses) from equity instruments at fair value through other comprehensive income	1,076,796	15	(206,622)	(4)
Income tax related to items that will not be reclassified subsequently to profit or loss (Note 24)	<u>854</u>	<u>-</u>	<u>(421)</u>	<u>-</u>
	<u>1,074,294</u>	<u>15</u>	<u>(205,854)</u>	<u>(4)</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	(13,205)	-	66,553	1
Unrealized gains (losses) from debt instruments at fair value through other comprehensive income	<u>163,178</u>	<u>2</u>	<u>(148,811)</u>	<u>(2)</u>
	<u>149,973</u>	<u>2</u>	<u>(82,258)</u>	<u>(1)</u>
Other comprehensive income for the year, net of income tax	<u>1,224,267</u>	<u>17</u>	<u>(288,112)</u>	<u>(5)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 3,336,521</u>	<u>45</u>	<u>\$ 1,121,312</u>	<u>19</u>

(Continued)

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2023		2022	
	Amount	%	Amount	%
NET INCOME ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 2,112,239	28	\$ 1,409,415	24
Non-controlling interests	<u>15</u>	<u>-</u>	<u>9</u>	<u>-</u>
	<u>\$ 2,112,254</u>	<u>28</u>	<u>\$ 1,409,424</u>	<u>24</u>
TOTAL COMPREHENSIVE INCOME				
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 3,336,416	45	\$ 1,121,323	19
Non-controlling interests	<u>105</u>	<u>-</u>	<u>(11)</u>	<u>-</u>
	<u>\$ 3,336,521</u>	<u>45</u>	<u>\$ 1,121,312</u>	<u>19</u>
EARNINGS PER SHARE (Note 25)				
Basic earnings per share	<u>\$ 2.74</u>		<u>\$ 1.83</u>	

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

(Concluded)

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent											Non-controlling Interests	Total Equity
	Share Capital		Capital Surplus	Retained Earnings			Exchange Differences on Translation of the Financial Statements of Foreign Operations	Other Equity		Total			
	Number of Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Retained Earnings		Unrealized Gain from Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement of Defined Benefit Plans				
BALANCE AT JANUARY 1, 2022	730,000	\$ 7,300,000	\$ 898,167	\$ 491,889	\$ 1,081,313	\$ 2,200,542	\$ (90,704)	\$ 1,178,644	\$ (14,817)	\$ 13,045,034	\$ 200	\$ 13,045,234	
Appropriation and distribution for 2021 earnings													
Legal reserve	-	-	-	220,054	-	(220,054)	-	-	-	-	-	-	
Special reserve	-	-	-	-	440,424	(440,424)	-	-	-	-	-	-	
Share dividends of ordinary shares	-	-	-	-	-	(1,140,064)	-	-	-	(1,140,064)	-	(1,140,064)	
Stock dividends of ordinary shares	40,000	400,000	-	-	-	(400,000)	-	-	-	-	-	-	
Net income for the year ended December 31, 2022	-	-	-	-	-	1,409,415	-	-	-	1,409,415	9	1,409,424	
Other comprehensive income (loss) for the year ended December 31, 2022, net of income tax	-	-	-	-	-	-	66,553	(355,413)	768	(288,092)	(20)	(288,112)	
Total comprehensive income (loss) for the year ended December 31, 2022	-	-	-	-	-	1,409,415	66,553	(355,413)	768	1,121,323	(11)	1,121,312	
Share-based payment of Cathay Financial Holdings' common stock	-	-	16,620	-	-	-	-	-	-	16,620	-	16,620	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3)	(3)	
BALANCE AT DECEMBER 31, 2022	770,000	7,700,000	914,787	711,943	1,521,737	1,409,415	(24,151)	823,231	(14,049)	13,042,913	186	13,043,099	
Appropriation and distribution of 2022 earnings													
Legal reserve	-	-	-	140,942	-	(140,942)	-	-	-	-	-	-	
Special reserve	-	-	-	-	281,883	(281,883)	-	-	-	-	-	-	
Share dividends of ordinary shares	-	-	-	-	-	(986,590)	-	-	-	(986,590)	-	(986,590)	
Net income for the year ended December 31, 2023	-	-	-	-	-	2,112,239	-	-	-	2,112,239	15	2,112,254	
Other comprehensive income (loss) for the year ended December 31, 2023, net of income tax	-	-	-	-	-	-	(13,205)	1,239,884	(2,502)	1,224,177	90	1,224,267	
Total comprehensive income (loss) for the year ended December 31, 2023	-	-	-	-	-	2,112,239	(13,205)	1,239,884	(2,502)	3,336,416	105	3,336,521	
Share-based payment of Cathay Financial Holdings' common stock	-	-	23	-	-	-	-	-	-	23	-	23	
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	106,671	-	(106,671)	-	-	-	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(6)	(6)	
BALANCE AT DECEMBER 31, 2023	770,000	\$ 7,700,000	\$ 914,810	\$ 852,885	\$ 1,803,620	\$ 2,218,910	\$ (37,356)	\$ 1,956,444	\$ (16,551)	\$ 15,392,762	\$ 285	\$ 15,393,047	

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

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 2,596,414	\$ 1,700,596
Adjustments for:		
Depreciation expense	190,522	175,788
Amortization expense	39,775	32,543
Expected credit loss recognized	5,064	4,132
Net gain on fair value changes of financial assets and liabilities at fair value through profit or loss	(10,988)	(742,334)
Interest expense	404,488	99,914
Interest income (including finance income)	(1,146,621)	(731,102)
Dividend income	(498,542)	(114,316)
Compensation costs of share-based payments	23	16,620
Gain on disposal of property, plant and equipment, net	(46)	-
Gain on disposal of investments, net	(55,211)	(678)
Loss on changes in fair value of investment properties	-	834
Gain on modification of leases	(10)	(10)
Net changes in operating assets and liabilities:		
Increase in financial assets at fair value through profit or loss	(817,702)	(67,804)
Decrease (increase) in securities margin loans receivable	(6,120,107)	4,132,847
Increase in margin deposits for securities refinancing	(6,778)	(9,927)
Increase in collateral for securities refinancing	(6,887)	(7,006)
Decrease (increase) in margin loans receivable - any use	(706,716)	19,474
Decrease (increase) in customer margin accounts	2,228,495	(3,229,339)
Decrease (increase) in collateral for securities borrowed	343,798	(331,755)
Decrease (increase) in deposits for securities borrowed	1,183,122	(2,369)
Decrease (increase) in accounts receivable	(9,962,683)	7,247,190
Decrease (increase) in accounts receivable from related parties	697	(500)
Decrease (increase) in prepayments	3,481	(51,925)
Increase in other receivables	(34,482)	(18,094)
Decrease (increase) in other receivables from related parties	1,635	(1,755)
Decrease (increase) in other current assets	(799,144)	674,450
Increase in liabilities for bonds with repurchase agreements	3,491,701	1,273,394
Increase (decrease) in financial liabilities at fair value through profit or loss	(609,259)	335,928
Increase (decrease) in short sale margins	(956,938)	865,681
Increase (decrease) in payables for short sale collateral received	(552,957)	465,310
Increase in deposits for securities lending	2,277	4,101
Increase (decrease) in futures traders' equity	(2,226,940)	3,212,143
Increase in notes payable	1,803	-
Decrease in notes payable to related parties	(791)	(22)
Increase (decrease) in accounts payable	9,859,319	(8,015,200)
Decrease in accounts payable to related parties	-	(262)
Increase (decrease) in receipt under custody	143,215	(38,144)
Increase (decrease) in other payables	343,558	(12,851)
Increase (decrease) in other payables to related parties	(4,164)	11,182
Increase (decrease) in net defined benefit liabilities	2,393	(5,031)

(Continued)

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars)

	2023	2022
Increase (decrease) in other financial liabilities	\$ 245,869	\$ (76,072)
Increase in equity for each customer in the account	46,168	-
Increase in other current liabilities	<u>98,767</u>	<u>93,771</u>
Cash generated from (used in) operations	(3,284,382)	6,909,402
Interest received	1,051,216	684,169
Dividends received	499,472	114,868
Interest paid	(339,878)	(99,404)
Income tax paid	<u>(495,291)</u>	<u>(354,235)</u>
Net cash generated from (used in) operating activities	<u>(2,568,863)</u>	<u>7,254,800</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through other comprehensive income	(25,533,873)	(17,202,630)
Disposal of financial assets at fair value through other comprehensive income	21,962,542	15,688,232
Acquisition of property and equipment	(33,942)	(63,805)
Proceeds from disposal of property and equipment	50	-
Acquisition of intangible assets	(18,594)	(32,613)
Increase in other non-current assets	<u>(62,902)</u>	<u>(7,579)</u>
Net cash used in investing activities	<u>(3,686,719)</u>	<u>(1,618,395)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	30,836,075	39,207,635
Decrease in short-term loans	(31,251,031)	(40,290,824)
Increase in commercial paper payable	138,740,000	40,820,000
Decrease in commercial paper payable	(131,610,000)	(45,780,000)
Increase in deposits received	-	117
Repayment of the principal of lease liabilities	(93,946)	(87,586)
Decrease in other current liabilities	-	(4,631)
Cash dividends paid	<u>(986,596)</u>	<u>(1,140,067)</u>
Net cash generated from (used in) financing activities	<u>5,634,502</u>	<u>(7,275,356)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(6,843)</u>	<u>134,439</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(627,923)</u>	<u>(1,504,512)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>3,207,478</u>	<u>4,711,990</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,579,555</u>	<u>\$ 3,207,478</u>

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

(Concluded)

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Cathay Securities Corporation (the “Company”) was incorporated in Taipei on May 12, 2004 under the provisions of the Company Act (the “Company Act”) of the Republic of China (ROC) and started operations on August 13 of the same year. The Company is mainly engaged in the dealing, brokerage and underwriting of marketable securities, margin trading and short sale of marketable securities, provision of introducing brokerage services for futures, securities-related futures dealing and trust businesses on the centralized exchange and over-the-counter market. As of December 31, 2023, the Company had an offshore securities unit branch and 10 local branch offices.

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

The consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors and authorized on March 4, 2024.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRS Accounting Standards”) endorsed and issued into effect by the Financial Supervisory Commission (FSC) did not have material impact on the Group’s accounting policies.
- b. The IFRS Accounting Standards endorsed by the FSC for application starting from 2024

New, Amended and Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 16 “Leases Liability in a Sale and Leaseback”	January 1, 2024 (Note 2)
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2024
Amendments to IAS 1 “Non-current Liabilities with Covenants”	January 1, 2024
Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”	January 1, 2024 (Note 3)

Note 1: Unless stated otherwise, the above IFRS Accounting Standards are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

Note 3: The amendments provide some transition relief regarding disclosure requirements.

As of the date the consolidated financial statements were authorized for issue, the Group has assessed that the application of the above standards and interpretations will not have a material impact on the Group's financial position and financial performance.

- c. The IFRS Accounting Standards in issue but not yet endorsed and issued into effect by the FSC

New, Amended and Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17 - Comparative Information"	January 1, 2023
Amendments to IAS 21 "Lack of Exchangeability"	January 1, 2025 (Note 2)

Note 1: Unless stated otherwise, the above IFRS Accounting Standards are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: An entity shall apply those amendments for annual reporting periods beginning on or after January 1, 2025. Upon initial application of the amendments, the entity recognizes any effect as an adjustment to the opening balance of retained earnings. When the entity uses a presentation currency other than its functional currency, it shall, at the date of initial application, recognize any effect as an adjustment to the cumulative amount of translation differences in equity.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact of the application of the above standards and interpretations on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

- a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, and IFRS Accounting Standards as endorsed and issued into effect by the FSC.

- b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value, investment properties and net defined benefit liabilities (assets) which are measured at the present value of the defined benefit obligation less the fair value of the plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
 - 3) Level 3 inputs are unobservable inputs for an asset or liability.
- c. Classification of current and non-current assets and liabilities

Current assets include:

- Assets held primarily for the purpose of trading;
- Assets expected to be realized within 12 months after the reporting period; and
- Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- Liabilities held primarily for the purpose of trading;
- Liabilities due to be settled within 12 months after the reporting period; and
- Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

- d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e., its subsidiaries). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See Note 12 and Table 1 for detailed information on subsidiaries (including the percentages of ownership and main businesses).

- e. Foreign currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (i.e., foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary item denominated in a foreign currency and measured at historical cost is stated at the reporting currency as originally translated from the foreign currency.

For the purpose of presenting the consolidated financial statements, the functional currencies of the Company and its foreign operations (including subsidiaries and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

f. Property and equipment

Property and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Except for freehold land which is not depreciated, the depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

g. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Freehold investment properties are measured initially at cost, including transaction costs. All investment properties are subsequently measured using the fair value model. Changes in the fair value of investment properties are included in profit or loss of the period in which they arise.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

h. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Impairment of property and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets and intangible assets, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

j. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in debt instruments and equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends and interest earned are recognized in dividend income and interest income, respectively; any remeasurement gains or losses on such financial assets are recognized in net gains (losses) from measurement at fair value through profit or loss for securities held for operations. Fair value is determined in the manner described in Note 28.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents and trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization.

Cash and cash equivalents include cash on hand, cash in banks and time deposits or investments which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Time deposits with maturities within 12 months, which are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value are classified as cash equivalents.

iii. Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- i) The debt instrument is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets.

- ii) The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

iv. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) and investments in debt instruments measured at FVTOCI.

The Group always recognizes lifetime expected credit losses (ECLs) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

- i. Internal or external information show that the debtor is unlikely to pay its creditors.
- ii. When a financial asset is due longer than the collection period as stated in the contract, unless the Company has reasonable and corroborative information to support a more lagged default criterion.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the consideration received and receivable is recognized in profit and loss. On derecognition of an investment in a debt instrument at FVTOCI in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit and loss. On derecognition of an investment in an equity instrument at FVTOCI in its entirety, the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss.

Fair value is determined in the manner described in Note 28.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4) Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

5) Offsetting of financial instruments

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

k. Purchase and sale of bonds under repurchase/reverse repurchase agreements

Repurchase and reverse repurchase bond transactions are deemed as financing activities, and their risk and rewards are shown as belonging to the seller after judgment. When a reverse repurchase transaction occurs, a “reverse repurchase bond investments” account is setup, and when a repurchase transaction occurs, a “repurchase bond liabilities” account is setup. The difference between the book value and the strike price is recognized as interest revenue or interest expense.

l. Margin loans and stock loans

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

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

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

m. Guaranteed price deposits for security borrowings and borrowing of marketable securities

The receivables generated by the borrowing of securities from securities investors are recognized as guaranteed price deposits; and the allowance for bad debt of the receivables are recognized based on lifetime expected credit losses (ECLs). The collateral obtained from the guaranteed price deposits of the securities business is recorded in a memorandum. Securities rented by the Group could be self-owned securities, securities borrowed from TWSE's security borrowing system and guaranteed securities received from stock investors on short sales. If the securities rented out are self-owned securities, such securities should be reclassified as securities lending and measured at fair value at the date of measurement. If the securities rented are from TWSE's security borrowing system, it only needs to be recorded in a memorandum. If the securities rented were received from stock investors on short sales as source of securities, it should be recorded in a memorandum when it is rented. The latter two sources of securities' rental are not presented in the consolidated financial statements but only in the business report. If the collateral received from the borrowing of securities are marketable securities, it would only be recorded in a memorandum on an individual customer basis and related trading events should be recorded. If the collateral received is in the form of cash, it is recognized as deposits for securities borrowed as current liabilities. The handling fees and service fees are recognized as revenue from the borrowing of securities.

n. Client margin accounts

The Group is in the futures brokerage business, and collects margin payments, premiums and differences settled based on market prices, which includes bank deposits and balances settled by the futures clearing house and other futures commission merchants.

o. Futures clients' equity

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

p. Customer margin account for leverage contracts

In accordance with the Regulations Governing Leverage Transaction Merchants, margin deposits accounts refer to the guarantee deposits and premiums collected from the leveraged trader; the differences of daily evaluation are recognized in customer margin account for leverage contracts.

q. Leverage contract transaction traders' equity

Leverage contract transaction traders' equity is the trading margin/premiums deposited by customers; the differences of daily evaluation are recognized in leverage contract transaction traders' equity.

r. Revenue recognition

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

The Group's contract revenue mainly comes from providing brokerage, underwriting and advisory services. The services are based on standalone or negotiated prices, and are based on the number of times services are provided. The services are considered as performance obligations that are satisfied at a point in time, hence, revenue is recognized when performance obligations are satisfied.

The majority of the contractual agreement price of the group is received on average during the contract period. The contracted asset is recognized when it has the right to transfer the service to the customer but has not yet received the unconditional consideration. In some contracts, since the contract is initially charged to the customer, the group is obligated to provide services after the contract and is recognized as a contract liability. The period in which the contract liability is transferred to income is usually not more than one year and does not result in a significant financial component.

s. Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as lessor

All leases are classified as operating leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost and are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

t. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur or when the plan amendment or curtailment occurs. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), are recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in other equity and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

u. Share-based payment arrangements

The ultimate parent company issued ordinary shares for cash which are reserved for the Group's employees. The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date of issued ordinary shares for cash which are reserved for employees is the date on which the number of shares that the employees have subscribed for is confirmed.

v. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

Income tax payable (recoverable) is based taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Act in the ROC, an additional tax on unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its subsidiaries jointly filed income tax returns and surtax on unappropriated retained earnings since 2005 under the consolidated income tax system with the Company as the taxpayer. Such effects on current tax and deferred tax are accounted for as receivables or payables.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. If a temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are generally recognized for deductible temporary differences, unused loss carryforwards and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3) Current tax and deferred tax

Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income in which case, the current tax and deferred tax are also recognized in other comprehensive income.

5. MATERIAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions on the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

When developing material accounting estimates, the Group considers the possible impact of the recent development of COVID-19 and its economic environment implications when making its material accounting estimates on cash flow projection, growth rates, discount rates, profitability, etc. The estimates and underlying assumptions are reviewed on an ongoing basis.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2023	2022
Cash on hand	\$ 472	\$ 472
Demand deposits	1,021,728	1,707,634
Checking accounts	24,824	12,331
Time deposits	1,108,529	626,534
Cash equivalents		
Futures trading excess margins	<u>424,002</u>	<u>860,507</u>
	<u>\$ 2,579,555</u>	<u>\$ 3,207,478</u>

The market rate intervals of time deposits at the end of the reporting period are as follows:

	December 31	
	2023	2022
Time deposits	0.31%-5.65%	0.09%-5.12%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2023	2022
<u>Financial assets at fair value through profit or loss - current</u>		
Financial assets mandatorily classified as at fair value through profit or loss		
Securities lending (a)	\$ -	\$ 14,250
Open-end funds and currency market instruments (b)	51,844	1,653,645
Securities held for operations - dealing (c)	3,669,209	1,582,559
Securities held for operations - underwriting (d)	61,390	38,242
Securities held for operations - hedging (e)	1,284,218	702,798
Futures trading margins - own funds (f)	177,930	159,636
Derivative instrument assets - OTC		
Structured instruments	450	159
Currency swaps (g)	<u>3,661</u>	<u>-</u>
	<u>\$ 5,248,702</u>	<u>\$ 4,151,289</u>

Financial liabilities at fair value through profit or loss - current

Held-for-trading financial liabilities		
Liabilities for issuance of call (put) warrants (h)	\$ 5,078,143	\$ 2,864,582
Repurchase of issuance of call (put) warrants (h)	(4,841,119)	(2,634,540)
Liabilities for securities and bonds borrowings - hedging (i)	2,641	332,388
Liabilities for securities and bonds borrowings - non-hedging (i)	620,605	639,802
Derivative instrument liabilities - OTC		
Structured instruments	438	-
Currency swaps (g)	<u>-</u>	<u>647</u>
	<u>\$ 860,708</u>	<u>\$ 1,202,879</u>

a. Securities lending

	December 31	
	2023	2022
Listed shares	\$ -	\$ 21,892
Adjustment of valuation	<u>-</u>	<u>(7,642)</u>
	<u>\$ -</u>	<u>\$ 14,250</u>

b. Open-end funds and currency market instruments

	December 31	
	2023	2022
Open-end funds	\$ 50,000	\$ 1,650,255
Other marketable securities	883	911
Adjustment of valuation	<u>961</u>	<u>2,479</u>
	<u>\$ 51,844</u>	<u>\$ 1,653,645</u>

Other marketable securities are marketable securities that the Group has been entrusted to conduct regular and fixed trading of marketable securities, and the Group uses an adjusting account to adjust the purchase and sale of marketable securities transactions through regular and fixed consolidated trading accounts.

c. Securities held for operations - dealing

	December 31	
	2023	2022
Listed shares	\$ 726,125	\$ 339,685
OTC shares	4,877	7,217
Emerging market shares	392,314	240,140
Government bonds	993,620	693,927
Convertible bonds	297,715	-
Foreign securities	116,777	278,232
Exchange traded funds (ETF)	898,833	-
Security token offerings (STO) (Note)	23,410	-
Unlisted shares	<u>541</u>	<u>544</u>
	3,454,212	1,559,745
Adjustment of valuation	<u>214,997</u>	<u>22,814</u>
	<u>\$ 3,669,209</u>	<u>\$ 1,582,559</u>

Note: In the fourth quarter of 2023, the Group purchased the six-year debt-type STO of 2,341 units with a maturity date of December 12, 2029, with a coupon rate of 3.5% issued by Greendot Inc. in accordance with the “Taipei Exchange Rules Governing the Operation by Securities Firms of the Business of Proprietary Trading of Security Tokens” for \$23,410 thousand. Since STO is still a novel fund-raising method and is still in the initial stage of development, there are not many investors and trading volume of the debt-based virtual money in the market, which may make it difficult for the Group to find a counterparty for the transaction. In addition, security token offering with securities involves cryptography, blockchain technology and decentralized ledger technology, which may pose information security risks. The Group purchased the STO through its own trading platform, and the private key is being kept by the Group. In the event of a security incident that could result in the loss or theft of the STO, which could adversely affect the Group, the Group has established a comprehensive risk management policy and system to minimize this risk.

Refer to Note 30 for the amount of guarantees provided by the Group as a result of securities borrowing transactions.

d. Securities held for operations - underwriting

	December 31	
	2023	2022
Convertible bonds	\$ 59,890	\$ 37,653
Adjustment of valuation	<u>1,500</u>	<u>589</u>
	<u>\$ 61,390</u>	<u>\$ 38,242</u>

e. Securities held for operations - hedging

	December 31	
	2023	2022
Listed shares	\$ 993,722	\$ 370,476
OTC shares	215,915	193,881
Exchange traded funds (ETF)	21,458	79,131
Call (put) warrants	<u>19,749</u>	<u>104,795</u>
	1,250,844	748,283
Adjustment of valuation	<u>33,374</u>	<u>(45,485)</u>
	<u>\$ 1,284,218</u>	<u>\$ 702,798</u>

f. Futures

1) Futures trading margins - own funds

The status of the accounts of the futures trading margins - own funds in the Group is summarized as follows:

	December 31	
	2023	2022
Account balance	\$ 238,172	\$ 152,732
Gains (losses) on open positions	<u>(60,242)</u>	<u>6,904</u>
Net account value	<u>\$ 177,930</u>	<u>\$ 159,636</u>

2) The contract amount and fair value of futures

The futures transactions that were still open are as follows:

December 31, 2023

		Open Position		Contract Amount or Option Premium Payable (Receivable)	Fair Value
Item		Buy/Sell	Number of Contracts		
Futures	FIXXF	Buy	2,683	\$ 407,516	\$ 415,859
Futures	FIXXF	Sell	2,827	994,093	1,054,174
Futures	FITX	Sell	10	35,672	35,740
Futures	Foreign futures	Sell	147	744,698	753,066

December 31, 2022

		Open Position		Contract Amount or Option Premium Payable (Receivable)	Fair Value
Item		Buy/Sell	Number of Contracts		
Futures	FIXXF	Buy	7,018	\$ 795,751	\$ 775,067
Futures	FIXXF	Sell	2,222	464,226	435,976
Futures	FITX	Sell	20	56,680	56,540
Futures	FIMTX	Sell	10	7,111	7,078

The fair values were determined based on the year-end settled prices of the products multiplied by the number of open contracts, and individually calculated for the futures contracts.

3) Profit and loss on futures and options

		For the Year Ended December 31	
		2023	2022
Losses from futures contracts			
Realized gains (non-hedging)		\$ -	\$ 85,057
Unrealized gains (non-hedging)		-	5,561
Realized losses (hedging)		(247,024)	(906,296)
Unrealized losses (hedging)		<u>(67,914)</u>	<u>(44,392)</u>
		<u>\$ (314,938)</u>	<u>\$ (860,070)</u>

g. Currency swaps

- 1) The Group's objective and strategy of engaging in currency swap transactions are to achieve fund dispatching and hedge the risk of the exchange rate.
- 2) The outstanding currency swap contracts were as follows:

		December 31, 2023			
		Maturity Date	Call Price	Put Price	
For trading purposes		January 12, 2024	NT\$ 45,679	US\$	1,455
		January 19, 2024	NT\$ 68,784	US\$	2,203
		January 26, 2024	NT\$ 54,585	US\$	1,750
		February 2, 2024	NT\$ 135,669	US\$	4,388
		December 31, 2022			
		Maturity Date	Call Price	Put Price	
For trading purposes		February 8, 2023	NT\$ 183,314	US\$	5,991

The fair values were individually calculated at the exchange rate at the end of the reporting period for the contracts.

- 3) For gains (losses) resulting from currency swap transactions in the Group, refer to Note 23(f).

h. Liabilities for issuance of call (put) warrants/repurchase of issued call (put) warrants

	December 31	
	2023	2022
Liabilities of call (put) warrants issued	\$ 4,638,487	\$ 4,602,513
Add: Loss (gain) on change in fair value	<u>439,656</u>	<u>(1,737,931)</u>
Fair value liabilities	<u>5,078,143</u>	<u>2,864,582</u>
Repurchased call (put) warrants	(4,324,699)	(3,611,320)
Add: Loss (gain) on change in fair value	<u>(516,420)</u>	<u>976,780</u>
Fair value of repurchase	<u>(4,841,119)</u>	<u>(2,634,540)</u>
Net call (put) warrants issued	<u>\$ 237,024</u>	<u>\$ 230,042</u>

The call (put) warrants issued by the Group typically had contract periods of six to twelve months commencing from the date the warrants were listed. The call (put) warrants can be settled by delivery of securities or in cash, at the election of the Group.

The gains and losses arising from the issuance of the call (put) warrants in the Group are as follows:

	For the Year Ended December 31	
	2023	2022
Gains on changes in fair value of call (put) warrant liabilities	\$ 6,879,236	\$ 15,966,928
Losses on changes in fair value for repurchase of call (put) warrants - realized	(8,471,097)	(14,347,734)
Gains (losses) on changes in fair value for repurchase of call (put) warrants - unrealized	1,493,200	(1,011,145)
Expenses arising from the issuance of call (put) warrants	<u>(73,326)</u>	<u>(58,189)</u>
	<u>\$ (171,987)</u>	<u>\$ 549,860</u>

i. Liabilities for securities and bond borrowings

	December 31	
	2023	2022
Liabilities for securities and bond borrowings - hedged		
Listed shares	\$ 1,875	\$ 320,013
OTC shares	698	25,972
Exchange traded funds (ETF)	<u>-</u>	<u>1,350</u>
	2,573	347,335
Adjustment of valuation	<u>68</u>	<u>(14,947)</u>
	<u>\$ 2,641</u>	<u>\$ 332,388</u>
Liabilities for securities and bond borrowings - non-hedged		
Listed shares	\$ 443,259	\$ 662,415
OTC shares	148,506	57,671
Exchange traded funds (ETF)	<u>29,038</u>	<u>-</u>
	620,803	720,086
Adjustment of valuation	<u>(198)</u>	<u>(80,284)</u>
	<u>\$ 620,605</u>	<u>\$ 639,802</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2023	2022
<u>Current</u>		
Investments in debt instruments	\$ 7,834,900	\$ 4,021,487
Investments in equity instruments	<u>53,204</u>	<u>-</u>
	<u>\$ 7,888,104</u>	<u>\$ 4,021,487</u>
<u>Non-current</u>		
Investments in equity instruments	<u>\$ 1,965,957</u>	<u>\$ 1,000,660</u>

a. Investments in debt instruments

	December 31	
	2023	2022
<u>Current</u>		
Corporate bonds	\$ 2,250,014	\$ 1,975,083
Government bonds	151,226	151,438
Overseas bonds	<u>5,423,052</u>	<u>2,044,571</u>
	7,824,292	4,171,092
Adjustment of valuation	<u>10,608</u>	<u>(149,605)</u>
	<u>\$ 7,834,900</u>	<u>\$ 4,021,487</u>

The face value of the Group's investments in debt instruments measured at fair value through other comprehensive income - current provided for repurchase transactions was \$8,024,505 thousand and \$4,274,560 thousand on December 31, 2023 and 2022, respectively.

The expected credit impairment losses on debt instruments recognized during the years ended December 31, 2023 and 2022 were \$2,859 thousand and \$2,442 thousand, respectively.

For information related to the credit risk management and impairment assessment of investments in debt instruments measured at fair value through other comprehensive income, refer to Note 28.

b. Investments in equity instruments

	December 31	
	2023	2022
<u>Current</u>		
Listed shares	\$ 48,375	\$ -
Adjustment of valuation	<u>4,829</u>	<u>-</u>
	<u>\$ 53,204</u>	<u>\$ -</u>
<u>Non-current</u>		
Taiwan Futures Exchange	\$ 30,518	\$ 30,518
Adjustment of valuation	<u>1,935,439</u>	<u>970,142</u>
	<u>\$ 1,965,957</u>	<u>\$ 1,000,660</u>

The Group invests in high yielding, non-tradable equity instruments for the purpose of obtaining stable dividend income and income distribution. The Group's management believes that recognizing the fair value fluctuations of these investments in profit or loss would be inconsistent with the investment planning described above, and therefore the Group has elected to designate these investments as measured at fair value through other comprehensive income.

In consideration of the investment strategy, the Group sold equity instruments at FVTOCI at a fair value of \$710,291 thousand and transferred an unrealized gain of \$106,671 thousand from other equity to retained earnings in 2023.

These investments in equity instruments are held for medium- to long-term strategic purposes and are expected to be profitable through long-term investment. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

Dividend income recognized relating to investments in equity instruments at FVTOCI for the years ended December 31, 2023 and 2022 were \$35,568 thousand and \$20,175 thousand, respectively, and were related to investments during the years ended December 31, 2023 and 2022.

9. SECURITIES MARGIN LOANS RECEIVABLE

	December 31	
	2023	2022
Securities margin loans receivable	\$ 12,790,663	\$ 6,670,570
Less: Allowance for impairment loss	<u>(443)</u>	<u>(294)</u>
	<u>\$ 12,790,220</u>	<u>\$ 6,670,276</u>

The aforementioned securities margin loans receivable were handled in accordance with the Operating Rules for Securities Firms Handling Margin Purchases and Short Sales of Securities, had a credit period of six months, can apply for extension before the time limit expires (two times only), and were secured by the shares bought by customers through margin loans.

For information related to the credit risk management and impairment assessment of securities margin loans receivable, refer to Note 28.

10. CUSTOMER MARGIN ACCOUNTS AND FUTURES TRADERS' EQUITY

	December 31	
	2023	2022
Bank deposits	\$ 9,419,565	\$ 11,774,433
Marking to market from the clearing house	1,872,952	1,851,199
Marking to market from other futures brokers	<u>622,684</u>	<u>518,064</u>
	11,915,201	14,143,696
Adjustment		
Less: Brokerage commission	<u>(20,481)</u>	<u>(22,036)</u>
Futures traders' equity	<u>\$ 11,894,720</u>	<u>\$ 14,121,660</u>

11. ACCOUNTS RECEIVABLE

a. Accounts receivable

	December 31	
	2023	2022
Accounts receivable - settlement	\$ 16,042,476	\$ 9,281,752
Settlement price	3,270,625	921,869
Accounts receivable from the sale of securities	1,208,584	502,850
Accounts receivable from the purchase of securities	145,654	70,492
Others	151,088	76,618
Less: Allowance for impairment loss	<u>(572)</u>	<u>(190)</u>
Net accounts receivable	20,817,855	10,853,391
Accounts receivable - related parties	<u>3</u>	<u>700</u>
	<u>\$ 20,817,858</u>	<u>\$ 10,854,091</u>

The aging analysis of receivables (including related parties) was as follows:

	December 31	
	2023	2022
Not overdue	\$ 20,818,430	\$ 10,854,281
Overdue		
Up to 30 days	-	-
31 days - 60 days	-	-
61 days - 120 days	-	-
Over 120 days	<u>-</u>	<u>-</u>
	<u>\$ 20,818,430</u>	<u>\$ 10,854,281</u>

The above aging schedule was based on the number of past due days from the record date.

b. Other receivables

	December 31	
	2023	2022
Other receivables	\$ 355,362	\$ 243,299
Less: Allowance for impairment loss	<u>(34)</u>	<u>(23)</u>
Net other receivables	355,328	243,276
Other receivables - related parties	<u>1,232</u>	<u>1,760</u>
	<u>\$ 356,560</u>	<u>\$ 245,036</u>

c. Overdue receivables (included in other non-current assets)

	December 31	
	2023	2022
Overdue receivables	\$ 5,511	\$ 5,784
Less: Allowance for impairment loss	<u>(5,511)</u>	<u>(5,784)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

For the purpose of assessing expected credit losses, the Group assesses the receivables collectively and individually based on the nature of the payment, the credit rating of the customer and the collateral, etc. The expected credit losses on trade receivables are measured by reference to the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due.

Please refer to Note 28 for information on changes in allowance for impairment loss.

12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

		Proportion of Ownership (%)	
		December 31	
Subsidiary	Nature of Activities	2023	2022
Cathay Futures Co., Ltd.	Futures related business	99.99	99.99
Cathay Securities (Hong Kong) Limited	Securities related business	100.00	100.00
Cathay Capital (Asia)	Investment related business	100.00	100.00

13. PROPERTY AND EQUIPMENT

	Land	Buildings	Machinery Equipment	Leasehold Improvement	Total
<u>Cost</u>					
Balance at January 1, 2022	\$ 48,087	\$ 4,556	\$ 630,736	\$ 272,951	\$ 956,330
Additions	-	1,013	46,169	16,623	63,805
Disposals	-	-	(66,872)	-	(66,872)
Reclassification	-	-	8,945	11,768	20,713
Effects of exchange rate changes	-	-	2,929	737	3,666
Balance at December 31, 2022	<u>\$ 48,087</u>	<u>\$ 5,569</u>	<u>\$ 621,907</u>	<u>\$ 302,079</u>	<u>\$ 977,642</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2022		\$ 2,468	\$ 414,794	\$ 212,125	\$ 629,387
Depreciation		164	66,009	20,964	87,137
Disposals		-	(66,872)	-	(66,872)
Effects of exchange rate changes		-	2,718	737	3,455
Balance at December 31, 2022		<u>\$ 2,632</u>	<u>\$ 416,649</u>	<u>\$ 233,826</u>	<u>\$ 653,107</u>
Carrying amount at December 31, 2022	<u>\$ 48,087</u>	<u>\$ 2,937</u>	<u>\$ 205,258</u>	<u>\$ 68,253</u>	<u>\$ 324,535</u>
<u>Cost</u>					
Balance at January 1, 2023	\$ 48,087	\$ 5,569	\$ 621,907	\$ 302,079	\$ 977,642
Additions	-	-	26,460	7,482	33,942
Disposals	-	-	(6,078)	(3,081)	(9,159)
Reclassification	-	-	50,984	4,798	55,782
Effects of exchange rate changes	-	-	(44)	(8)	(52)
Balance at December 31, 2023	<u>\$ 48,087</u>	<u>\$ 5,569</u>	<u>\$ 693,229</u>	<u>\$ 311,270</u>	<u>\$ 1,058,155</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2023		\$ 2,632	\$ 416,649	\$ 233,826	\$ 653,107
Depreciation		179	76,510	19,407	96,096
Disposals		-	(6,074)	(3,081)	(9,155)
Effects of exchange rate changes		-	(41)	(8)	(49)
Balance at December 31, 2023		<u>\$ 2,811</u>	<u>\$ 487,044</u>	<u>\$ 250,144</u>	<u>\$ 739,999</u>
Carrying amount at December 31, 2023	<u>\$ 48,087</u>	<u>\$ 2,758</u>	<u>\$ 206,185</u>	<u>\$ 61,126</u>	<u>\$ 318,156</u>

The above items of property and equipment used by the Group are depreciated on a straight-line basis over their estimated useful lives as follows:

<u>Item</u>	<u>Useful life</u>
Buildings	16 to 40 years
Machinery equipment	3 to 10 years
Leasehold improvement	4 to 6 years

Property and equipment of the Group are for their own use.

14. LEASE AGREEMENTS

a. Right-of-use assets

	December 31	
	2023	2022
Carrying amount		
Buildings	\$ 147,191	\$ 142,917
Office equipment	1,085	87
Transportation equipment	<u>5,513</u>	<u>5,437</u>
	<u>\$ 153,789</u>	<u>\$ 148,441</u>
	For the Year Ended December 31	
	2023	2022
Additions to right-of-use assets	<u>\$ 99,353</u>	<u>\$ 36,503</u>
Depreciation of right-of-use assets		
Buildings	\$ 92,463	\$ 86,040
Office equipment	372	1,042
Transportation equipment	<u>1,591</u>	<u>1,569</u>
	<u>\$ 94,426</u>	<u>\$ 88,651</u>

Except for the addition and recognition of depreciation listed above, there was no subleasing and impairment of the right-of-use assets of the Group in 2023 and 2022.

b. Lease liabilities

	December 31	
	2023	2022
Carrying amount		
Current	<u>\$ 83,891</u>	<u>\$ 81,551</u>
Non-current	<u>\$ 72,288</u>	<u>\$ 68,808</u>

Range of discount rates for lease liabilities was as follows:

	December 31	
	2023	2022
Buildings	0.96%-4.713%	0.96%-4.713%
Office equipment	1.35%	0.42%-0.71%
Transportation equipment	2.51%-3.37%	2.51%-3.61%

c. Material lease activities and terms

The Group leases certain buildings for the use of offices with lease periods from year 2017 to year 2033. The Group does not have bargain purchase options to purchase the buildings at the end of the lease terms.

d. Other lease information

	For the Year Ended December 31	
	2023	2022
Interest expense relating to leases	\$ 1,959	\$ 2,348
Expenses relating to short-term leases	\$ 10,921	\$ 12,091
Total cash outflow for leases	\$ 106,826	\$ 102,025

15. INVESTMENT PROPERTIES

	Land	Buildings	Total
Balance at January 1, 2022	\$ 261,826	\$ 29,349	\$ 291,175
Gains (losses) generated from fair value adjustments	<u>703</u>	<u>(1,537)</u>	<u>(834)</u>
Balance at December 31, 2022	<u>\$ 262,529</u>	<u>\$ 27,812</u>	<u>\$ 290,341</u>
Balance at January 1, 2023	\$ 262,529	\$ 27,812	\$ 290,341
Gains (losses) generated from fair value adjustments	<u>1,469</u>	<u>(1,469)</u>	<u>-</u>
Balance at December 31, 2023	<u>\$ 263,998</u>	<u>\$ 26,343</u>	<u>\$ 290,341</u>

The Group as a lessor

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

The future lease payments receivable of operating lease commitments at December 31, 2023 and 2022 are as follows:

	December 31	
	2023	2022
Not later than 1 year	\$ 7,788	\$ 10,428
Later than 1 year and not later than 5 years	<u>3,296</u>	<u>8,444</u>
	<u>\$ 11,084</u>	<u>\$ 18,872</u>

The valuation on the investment property of the Group has been performed by the appraiser from Elite Real Estate Appraiser Firm (Yi-huei Luo), meeting ROC's qualification requirements for real estate appraisers, respectively, with valuation dates of December 31, 2023 and 2022.

The fair value of investment property is determined by income approach with significant assumptions as follows. If estimated future cash inflows increase or discount rate decreases, the fair value will increase.

	December 31	
	2023	2022
Expected future cash inflows	\$ 464,900	\$ 460,417
Expected future cash outflows	<u>(15,298)</u>	<u>(15,041)</u>
Estimated net cash inflows	<u>\$ 449,602</u>	<u>\$ 445,376</u>
Discount rate	2.845%	2.720%
Direct capitalization rate	2.46%	2.48%

The market rentals ranged from \$4 thousand to \$6 thousand per pyeong in the areas where the investment property is located, for the years ended December 31, 2023 and 2022.

All of the investment properties are leased by operating leases, generating rental income of \$7,907 thousand and \$7,802 thousand, respectively, for the years ended December 31, 2023 and 2022.

The estimated future cash inflows consist of rental income, interest of deposit and value of disposal at the end of the period. Rental income is estimated for the current rent and the annual growth rate of the rent. The period of benefit analysis is estimated for 10 years. Interest of deposit is estimated based on the interest rate on a 1-year time deposit of the 5 largest banks for the past one years. The value of disposal at the end of the period is estimated using the direct capitalization method. The estimated future cash outflows consist of land tax, property tax, and replacement allowance, which are estimated on the basis of current expenditures, adjustments to the future announced land value, and tax rates in accordance with the House Tax Act.

The discount rate is determined based on the interest rate on a 2-year time deposit of petty cash plus 5 quarters percentage points as posted by Chunghwa Post Co., Ltd., plus the risk premium.

For the amount of investment properties provided as guarantee for short-term bank loans, please refer to Note 30.

16. INTANGIBLE ASSETS

	Patents	Computer Software	Carbon Credits	Total
<u>Cost</u>				
Balance at January 1, 2022	\$ 1,768	\$ 298,893	\$ -	\$ 300,661
Additions	-	32,613	-	32,613
Disposals	-	(2,271)	-	(2,271)
Reclassification	-	17,080	-	17,080
Exchange differences	<u>193</u>	<u>-</u>	<u>-</u>	<u>193</u>
Balance at December 31, 2022	<u>\$ 1,961</u>	<u>\$ 346,315</u>	<u>\$ -</u>	<u>\$ 348,276</u>

(Continued)

	Patents	Computer Software	Carbon Credits	Total
<u>Accumulated amortization and impairment</u>				
Balance at January 1, 2022	\$ -	\$ 226,891	\$ -	\$ 226,891
Amortization expense	-	32,543	-	32,543
Disposals	<u>-</u>	<u>(2,271)</u>	<u>-</u>	<u>(2,271)</u>
Balance at December 31, 2022	<u>\$ -</u>	<u>\$ 257,163</u>	<u>\$ -</u>	<u>\$ 257,163</u>
Carrying amount at December 31, 2022	<u>\$ 1,961</u>	<u>\$ 89,152</u>	<u>\$ -</u>	<u>\$ 91,113</u>
<u>Cost</u>				
Balance at January 1, 2023	\$ 1,961	\$ 346,315	\$ -	\$ 348,276
Additions	-	18,594	-	18,594
Disposals	-	(7,171)	-	(7,171)
Reclassification	-	7,713	124	7,837
Exchange differences	<u>(2)</u>	<u>-</u>	<u>(1)</u>	<u>(3)</u>
Balance at December 31, 2023	<u>\$ 1,959</u>	<u>\$ 365,451</u>	<u>\$ 123</u>	<u>\$ 367,533</u>
<u>Accumulated amortization and impairment</u>				
Balance at January 1, 2023	\$ -	\$ 257,163	\$ -	\$ 257,163
Amortization expense	-	39,775	-	39,775
Disposals	<u>-</u>	<u>(7,171)</u>	<u>-</u>	<u>(7,171)</u>
Balance at December 31, 2023	<u>\$ -</u>	<u>\$ 289,767</u>	<u>\$ -</u>	<u>\$ 289,767</u>
Carrying amount at December 31, 2023	<u>\$ 1,959</u>	<u>\$ 75,684</u>	<u>\$ 123</u>	<u>\$ 77,766</u>
				(Concluded)

Intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer software	2-10 years
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17. OTHER CURRENT AND NON-CURRENT ASSETS

	December 31	
	2023	2022
<u>Current</u>		
Restricted assets	\$ 1,200,000	\$ 1,200,000
Settlement amounts	929,491	493,548
Guarantee deposits paid	377,787	55,490
Separated account for customer	45,512	-
Credit trading account	7,044	13,733
Receivable of securities business money lending	6,655	4,389
Service on credit	2,073	8,327
Customer margin account for leverage contracts	-	200
	<u>\$ 2,568,562</u>	<u>\$ 1,775,687</u>
<u>Non-current</u>		
Operating funds	\$ 414,335	\$ 427,301
Settlement/clearance funds	237,718	236,738
Reserve funds of trust	50,000	50,000
Prepayments for equipment	47,433	43,263
Refundable deposits	46,473	39,878
Net defined benefit assets	413	277
Overdue receivables	5,511	5,784
Less: Allowance for impairment loss - overdue receivables	<u>(5,511)</u>	<u>(5,784)</u>
	<u>\$ 796,372</u>	<u>\$ 797,457</u>

As stipulated in the Regulations Governing Securities Firms (“RGSF”), Regulations Governing the Operation of Futures Introducing Broker Business by Securities Firms, Regulations Governing Futures Advisory Enterprises, Regulations Governing Futures Commission Merchants and Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises, the Group shall lodge operating funds with banks designated by the Financial Supervisory Commission (“FSC”) after its registration. The Group provided time deposits of \$400,000 thousand as operating guarantees both as December 31, 2023 and 2022. The overseas operating guarantees were \$14,335 thousand and \$27,301 thousand as of December 31, 2023 and 2022, respectively.

Based on the requirements of RGSF, Taipei Exchange Rules for Administration of Joint Responsibility System Clearing and Settlement Fund, and Taiwan Futures Exchange Corporation Criteria for Clearing Membership, the Group deposited settlement funds of \$237,718 thousand and \$236,738 thousand as of December 31, 2023 and 2022, respectively.

Based on the requirements of Regulations Governing Concurrent Conduct of Trust Business by Securities Investment Trust Enterprises, Securities Investment Consulting Enterprises, and Securities Firms, the Group deposited reserve funds of trust in the Central Bank of ROC of the \$50,000 thousand both as of December 31, 2023 and 2022.

For the differences generated from the disposal of shares provided as guarantee for financing due to the client's breach of settlement and insufficient financing guarantee maintenance ratio, or compensation due to breach of credit transactions generated due to the inability to dispose of the marketable securities in the client's credit transaction account, the Company has carried out compensation claims in accordance with the relevant regulations, and transferred the default receivables to overdue receivables and recognized the full amount as impairment loss, please refer to Note 28 for the details.

18. SHORT-TERM BORROWINGS

a. Short-term loans

	December 31	
	2023	2022
Unsecured bank loans	\$ 322,988	\$ 733,178
Annual interest rates	2.10%-9.95%	1.19%-8.1%

b. Commercial paper payable

	December 31	
	2023	2022
Commercial paper	\$ 7,130,000	\$ -
Less: Unamortized discounts on bills payable	(1,753)	-
	<u>\$ 7,128,247</u>	<u>\$ -</u>
Annual interest rates	1.57%-1.58%	-

19. LIABILITIES FOR BONDS SOLD UNDER REPURCHASE AGREEMENTS

	December 31	
	2023	2022
Government bonds	\$ 150,000	\$ 150,344
Corporate bonds	2,251,347	1,976,262
Overseas bonds	<u>5,037,887</u>	<u>1,865,016</u>
	<u>\$ 7,439,234</u>	<u>\$ 3,991,622</u>

Domestic bonds sold under repurchase agreements are repurchased on a specified date at an agreed price and interest as provided in the agreements. As of December 31, 2023 and 2022, the total repurchase prices were \$2,403,018 thousand and \$2,127,891 thousand, respectively.

A portion of the overseas bonds sold under repurchase agreements was repurchased in accordance with the above agreements. As of December 31, 2023 and 2022, the total repurchase prices were \$1,220,091 thousand and \$714,589 thousand.

A portion of the overseas bonds sold under repurchase agreements was repurchased on a non-specified date at a non-agreed price and interest as provided in the agreements. As of December 31, 2023 and 2022, the face value of overseas bonds associated with bonds sold under repurchase agreements were \$4,241,430 thousand and \$1,443,276 thousand.

20. OTHER FINANCIAL LIABILITIES

	December 31	
	2023	2022
Principal value of structured products		
Equity-linked products	<u>\$ 271,026</u>	<u>\$ 25,157</u>

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company and its domestic subsidiary Cathay Futures Co., Ltd. adopted a defined contribution plan in accordance with the Labor Pension Act of the ROC. Under the Labor Pension Act, the Company and its domestic subsidiary make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The overseas subsidiaries make contributions to the plan based on the requirements of local regulations.

b. Defined benefit plans

The Company and its domestic subsidiary Cathay Futures Co., Ltd. adopted a defined benefit plan in accordance with the Labor Standards Act of the ROC. Under the Labor Standards Act, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement; the Company and its domestic subsidiary contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the pension fund committee. Before the end of each year, the Company and its domestic subsidiary assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiary will make up for the difference in one appropriation before the end of March the following year. The pension fund is managed by the Bureau of Labor Funds (the "Bureau") under the Ministry of Labor; the Bank has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans are as follows:

	December 31	
	2023	2022
Present value of funded defined benefit obligation	\$ 64,939	\$ 60,330
Fair value of plan assets	<u>(27,795)</u>	<u>(28,799)</u>
Net defined benefit liabilities (note)	<u>\$ 37,144</u>	<u>\$ 31,531</u>

Note: The balance on December 31, 2023 and 2022 includes net defined benefit assets (include in other non-current assets) of the subsidiary Cathay Futures Co., Ltd., which are \$413 thousand and \$277 thousand.

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2023	<u>\$ 60,330</u>	<u>\$ (28,799)</u>	<u>\$ 31,531</u>
Service cost			
Current service cost	3,107	-	3,107
Net interest expense (income)	<u>762</u>	<u>(362)</u>	<u>400</u>
Recognized in profit or loss	<u>3,869</u>	<u>(362)</u>	<u>3,507</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(229)	(229)
Actuarial loss (gain)			
Experience adjustments	3,050	-	3,050
Changes in financial assumptions	<u>535</u>	<u>-</u>	<u>535</u>
Recognized in other comprehensive income	<u>3,585</u>	<u>(229)</u>	<u>3,356</u>
Contributions from the employer	-	(494)	(494)
Benefits paid	<u>(2,845)</u>	<u>2,089</u>	<u>(756)</u>
Balance at December 31, 2023	<u>\$ 64,939</u>	<u>\$ (27,795)</u>	<u>\$ 37,144</u>
Balance at January 1, 2022	<u>\$ 64,123</u>	<u>\$ (26,095)</u>	<u>\$ 38,028</u>
Service cost			
Current service cost	4,045	-	4,045
Net interest expense (income)	<u>441</u>	<u>(181)</u>	<u>260</u>
Recognized in profit or loss	<u>4,486</u>	<u>(181)</u>	<u>4,305</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(2,005)	(2,005)
Actuarial loss (gain)			
Experience adjustments	4,208	-	4,208
Changes in financial assumptions	<u>(3,392)</u>	<u>-</u>	<u>(3,392)</u>
Recognized in other comprehensive income	<u>816</u>	<u>(2,005)</u>	<u>(1,189)</u>
Contributions from the employer	-	(518)	(518)
Benefits paid	<u>(9,095)</u>	<u>-</u>	<u>(9,095)</u>
Balance at December 31, 2022	<u>\$ 60,330</u>	<u>\$ (28,799)</u>	<u>\$ 31,531</u>

Through the defined benefit plans under the Labor Standards Act, the Group is exposed to the following risks:

- 1) Investment risk: The discount rate of the present value of the defined benefit obligation of pension plans is determined by considering the yield of government bonds. If the return on investment of pension fund assets is lower than this rate, the insufficient amount of defined benefit liabilities will increase. The pension fund is fully deposited in the labor pension fund account under the old system which is operated and whose investments are managed by the government. The Company has no right to control the content of the investment of the pension fund.
- 2) Interest risk: A decrease in the government bond interest will increase the present value of defined benefit obligation. The interest risk is the main source of risk from the pension plan.

- 3) Longevity risk: When calculating the present value of the defined benefit obligation of pension plans, the sixth life table (2021TSO) or 100% in the life insurance business is adopted in the estimation of the mortality rate during the service period of the employees. If the actual mortality rate is lower than the assumed rate, the present value of the defined benefit obligation will increase.
- 4) Salary risk: The present value of the defined benefit obligation is calculated by estimating the salary of employees after retirement based on the assumed annual growth rate of salary. Therefore, if the actual future salary adjustment rate is higher than the assumed rate, the present value of the defined benefit obligation will increase.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions on the measurement date are as follows:

	December 31	
	2023	2022
Discount rate	1.18%-1.25%	1.28%-1.32%
Expected rate of salary increase	2.50%-3.00%	2.50%-3.00%

If possible reasonable changes in each of the significant actuarial assumptions occur and all other assumptions remain constant, the present value of the defined benefit obligation will increase (decrease) as follows:

	December 31	
	2023	2022
Discount rate		
0.25% increase	<u>\$ (1,318)</u>	<u>\$ (1,411)</u>
0.25% decrease	<u>\$ 1,386</u>	<u>\$ 1,473</u>
Expected rate of salary increase		
0.5% increase	<u>\$ 2,641</u>	<u>\$ 2,824</u>
0.5% decrease	<u>\$ (2,508)</u>	<u>\$ (2,641)</u>

The above sensitivity analysis may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions will occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2023	2022
Expected contributions to the plans for the next year	<u>\$ 499</u>	<u>\$ 513</u>
Average duration of the defined benefit obligation	7.7 years - 12.6 years	8.8 years - 12 years

22. EQUITY

a. Ordinary shares

	December 31	
	2023	2022
Shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>
Shares authorized	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Shares issued and fully paid (in thousands of shares)	<u>770,000</u>	<u>770,000</u>
Shares issued	<u>\$ 7,700,000</u>	<u>\$ 7,700,000</u>

The shares issued are ordinary shares with a par value of \$10, and each share has voting rights and the right to receive dividends.

The resolution to recapitalize the undistributed earnings by the issuance of 40,000 thousand shares was approved in the board of directors' meeting on May 4, 2022 on behalf of the shareholders' meeting, and the record date for the issuance of new shares was June 27, 2022. The issued share capital increased to \$7,700,000 thousand, and the number of shares was 770,000 thousand with par value of \$10.

b. Capital surplus

	December 31	
	2023	2022
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Premiums on issuance of ordinary shares	\$ 891,766	\$ 891,766
May only be used to offset a deficit (2)		
Share-based payments	<u>23,044</u>	<u>23,021</u>
	<u>\$ 914,810</u>	<u>\$ 914,787</u>

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.
- 2) On November 18, 2022 Cathay Financial Holding Co., Ltd. passed the resolution for the capital increase in cash in the board of directors' meeting, and retained 10% of the new shares for subscription by the employees of Cathay Financial Holding Co., Ltd. and its subsidiaries in accordance with the law. In February 2023 and December 2022, the Company had recognized capital surplus of \$23 thousand and \$16,620 thousand from the parent company's granting of share-based payments to employees based on the fair value of the shares on the grant date.

c. Retained earnings and dividend policy

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

- 1) Payment of all taxes and dues;
- 2) Offset prior years' operating losses;
- 3) After deducting items (a) and (b), 10% of the remaining amount should be set aside as legal reserve;

- 4) Set aside or reverse a special reserve in accordance with the law and regulations; and
- 5) The distribution of the remaining portion, if any, will be proposed by the board of directors based on the dividend policy and resolved in the shareholders' meeting.

For the policies on the distribution of compensation of employees, please refer to Note 23 (h) employee benefits expense.

Based on the Company's Articles of Incorporation, the dividend policy should take into consideration the external environment and the growth stage of the Company's products, business and services. Other than as stipulated by law, in the maintenance of stable dividends, the distribution of cash dividends should take precedence over share dividends, and the percentage of share dividends distributed should not exceed 50% of the total dividends distributed. However, adjustments can be made for factors such as business needs and the earnings status.

The legal reserve can be used to offset the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing dividends in the form of shares or cash in proportion to the number of shares being held by each of the shareholders.

According to the Rules Governing Securities Firms and Regulations Governing Futures Commission Merchants, if the Company has already issued securities pursuant to the Act, the Company shall set aside 20% of the annual after-tax profit as special reserve. However, if the amount has reached the amount of paid-in capital, no further appropriation is required. The special reserve may not be used for any other purpose other than for offsetting deficit, or by using the remaining half of the amount to replenish capital when the accumulated amount has reached 50% of the paid-in capital. The Company appropriated to special reserve earnings of \$281,883 thousand and \$440,108 thousand for the years ended December 31, 2022 and 2021, respectively.

The Company appropriates or reverses a special reserve in accordance with Article No. 1100365484 issued by the FSC and the directive entitled "Questions and Answers on Special Reserves Appropriated Following the Adoption of IFRS Accounting Standards".

According to Article No. 10500278285 issued by the FSC, when distributing the retained earnings from 2016 to 2018, the Company shall appropriate to the special reserve equal to 0.5% to 1% of the net income of continued operations in order to protect the rights of the employees in response to the development of financial technology.

Started in 2017, expenses from employee training, transfers, and placements generated for the purposes of financial technology development can be reversed from the aforementioned special reserve.

According to Article No. 11103802121 issued by the FSC, the Company's subsidiary should appropriate as special reserve the same amount as the portion of the net increase in fair value transferred to retained earnings with respect to the adoption of the fair value model for the subsequent measurement of investment properties. The Company has appropriated as special reserve \$316 thousand based on its shareholding proportion as a result of the net increase in fair value of the subsidiary's investment properties for the years ended December 31, 2022 and 2021, respectively.

Details of the appropriation of earnings and dividends per share in 2022 and 2021 as approved in the board of directors' meetings on behalf of the shareholders' meetings on April 27, 2023 and May 4, 2022, respectively, are as follows:

	Appropriation of Earnings		Dividends Per Share (In Dollars)	
	2022	2021	2022	2021
Legal reserve	\$ 140,942	\$ 220,054		
Special reserve	281,883	440,424		
Cash dividends	986,590	1,140,064	\$1.28	\$1.56
Stock dividends	-	400,000	-	0.55

The appropriation of earnings for 2023, which was proposed by the Company's board of directors on March 4, 2024, was as follows:

	For the Year Ended December 31, 2023
Legal reserve	<u>\$ 221,891</u>
Special reserve	<u>\$ 443,953</u>
Cash dividends	<u>\$ 1,553,066</u>
Cash dividends per share (NT\$)	<u>\$ 2.02</u>

The appropriation of earnings for 2023 is subject to the resolution of the shareholders in the board of directors' meeting on behalf of the shareholders' meeting to be held on April 30, 2024.

d. Other equity items

1) Exchange differences on translation of the financial statements of foreign operations

	For the Year Ended December 31	
	2023	2022
Balance at January 1	\$ (24,151)	\$ (90,704)
Recognized for the year		
Exchange differences on translation of the financial statements of foreign operations	<u>(13,205)</u>	<u>66,553</u>
Balance at December 31	<u>\$ (37,356)</u>	<u>\$ (24,151)</u>

2) Unrealized gain from financial assets at fair value through other comprehensive income

	For the Year Ended December 31	
	2023	2022
Balance at January 1	\$ 823,231	\$ 1,178,644
Recognized for the year		
Unrealized gains and losses		
Debt instrument	218,390	(148,133)
Equity instrument	1,076,705	(206,602)
Reclassification		
Disposal of investments in debt instruments	<u>(55,211)</u>	<u>(678)</u>
Other comprehensive income (loss) recognized for the year	<u>1,239,884</u>	<u>(355,413)</u>
Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal	<u>(106,671)</u>	<u>-</u>
Balance at December 31	<u>\$ 1,956,444</u>	<u>\$ 823,231</u>

3) Remeasurement of defined benefit plans

	For the Year Ended December 31	
	2023	2022
Balance at January 1	\$ (14,049)	\$ (14,817)
Remeasurement of defined benefit plans	<u>(2,502)</u>	<u>768</u>
Balance at December 31	<u>\$ (16,551)</u>	<u>\$ (14,049)</u>

e. Non-controlling interests

	For the Year Ended December 31	
	2023	2022
Balance at January 1	\$ 186	\$ 200
Share in profit for the year	15	9
Other comprehensive income during the year		
Unrealized gain (loss) on financial assets at FVTOCI	90	(20)
Cash dividends distributed by subsidiary	<u>(6)</u>	<u>(3)</u>
Balance at December 31	<u>\$ 285</u>	<u>\$ 186</u>

23. COMPONENTS OF STATEMENT OF COMPREHENSIVE INCOME

a. Brokerage commission

	2023	2022
Consignment handling fee revenue - TWSE	\$ 2,604,299	\$ 2,281,949
Sub-brokerage handling revenue	2,339,443	1,366,777
Consignment handling fee revenue - OTC	638,565	557,182
Handling revenue from the borrowing of securities	133,861	160,589
Handling revenue from short sale of securities	32,816	38,517
Others	<u>164</u>	<u>41,851</u>
	<u>\$ 5,749,148</u>	<u>\$ 4,446,865</u>

b. Revenue from the underwriting business

	2023	2022
Revenue from underwriting proceeding fees	\$ 41,592	\$ 69,418
Compensation from the underwriting of securities	22,205	15,428
Revenue from underwriting and counseling fees	13,270	13,240
Others	<u>1,106</u>	<u>6,665</u>
	<u>\$ 78,173</u>	<u>\$ 104,751</u>

c. Net gains (losses) from the sale of securities held for operations

	2023	2022
Sale of securities held for operations - dealing	\$ 170,581	\$ (203,863)
Sale of securities held for operations - underwriting	6,359	1,182
Sale of securities held for operations - hedging	<u>128,420</u>	<u>(399,282)</u>
	<u>\$ 305,360</u>	<u>\$ (601,963)</u>

d. Interest revenue

	2023	2022
Margin loans	\$ 512,049	\$ 464,404
Bonds	250,273	104,897
Others	<u>66,831</u>	<u>52,500</u>
	<u>\$ 829,153</u>	<u>\$ 621,801</u>

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

	2023	2022
Securities held for operations - dealing	\$ 199,843	\$ 82,326
Securities held for operations - underwriting	911	(492)
Securities held for operations - hedging	<u>78,859</u>	<u>(86,363)</u>
	<u>\$ 279,613</u>	<u>\$ (4,529)</u>

f. Losses from derivative instruments

	2023	2022
Losses from derivative instruments - futures		
Losses from futures contracts	\$ (314,938)	\$ (860,070)
Losses from derivative instruments - OTC		
Currency swap contracts	(11,119)	(18,842)
Structured instruments	3,617	12,129
Foreign exchange margin	<u>1,422</u>	<u>1,345</u>
	<u>(6,080)</u>	<u>(5,368)</u>
	<u>\$ (321,018)</u>	<u>\$ (865,438)</u>

g. Other operating income

	2023	2022
Gains (losses) on foreign exchange	\$ 8,514	\$ 24,382
Others	<u>49,684</u>	<u>46,836</u>
	<u>\$ 58,198</u>	<u>\$ 71,218</u>

h. Employee benefits expense

	2023	2022
Short-term employee benefits		
Salaries	\$ 1,995,660	\$ 1,635,152
Insurance expense	132,384	121,590
Post-employee benefits		
Defined contribution plan	56,553	55,000
Defined benefit plan (Note 21)	3,507	4,305
Remuneration of directors	29,435	25,802
Other employee benefits expense	<u>19,893</u>	<u>12,241</u>
	<u>\$ 2,237,432</u>	<u>\$ 1,854,090</u>

As of December 31, 2023 and 2022, the number of the Group's employees was 1,126 and 1,048, respectively. The Group's average number of employees for the years ended December 31, 2023 and 2022 was 1,091 and 1,021, respectively, including 5 and 6 directors not concurrently serving as employees.

According to the Company's Articles of Incorporation, should there be profit in the year, 0.01% to 0.05% of the profit should be distributed as compensation of employees. However, if there are accumulated losses, an amount should be first set aside for offset of the loss. The aforementioned compensation of employees should be distributed in the form of shares or cash, and approved by at least half of the board of directors in the board meeting with at least two-thirds of the board of directors present at the meeting.

The compensation of employees estimated for 2023 and 2022 which were resolved in the board of directors' meetings on March 4, 2024 and March 8, 2023, respectively, are as follows:

Accrual rate

	2023	2022
Compensation of employees	0.01%	0.01%

Amount

	2023	2022
Compensation of employees	\$ 256	\$ 168

If there are changes in the amount after the annual consolidated financial statements have been released, it will be treated as a change in the accounting estimate and adjusted in the following year.

There was no significant difference between the estimated amount and the actual compensation of employees distributed for the years ended December 31, 2022 and 2021.

For information on compensation of employees and remuneration of directors and supervisors resolved in the board of directors' meeting, please refer to the "Market Observation Post System" website of the TWSE.

i. Depreciation and amortization expenses

	2023	2022
Property and equipment	\$ 96,096	\$ 87,137
Right-of-use assets	94,426	88,651
Intangible assets	<u>39,775</u>	<u>32,543</u>
	<u>\$ 230,297</u>	<u>\$ 208,331</u>

j. Other operating expenses

	2023	2022
Taxes	\$ 261,564	\$ 265,742
Computer information	236,056	237,059
Securities borrowed	192,619	105,594
Advertisement	108,031	78,668
TDCC	107,215	91,740
Postage	101,325	89,037
Maintenance fees	90,065	25,069
Others	<u>686,497</u>	<u>477,896</u>
	<u>\$ 1,783,372</u>	<u>\$ 1,370,805</u>

k. Other gains and losses

	2023	2022
Interest revenue	\$ 317,468	\$ 109,301
Dividend revenue	19,715	20,175
Gains (losses) on valuation of open-end funds and currency market instruments at FVTPL	(1,518)	2,352
Others	<u>26,172</u>	<u>16,048</u>
	<u><u>\$ 361,837</u></u>	<u><u>\$ 147,876</u></u>

24. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

	For the Year Ended December 31	
	2023	2022
<u>Current tax</u>		
In respect of the current year	\$ 332,610	\$ 505,988
Adjustments for prior year	<u>486</u>	<u>(73,003)</u>
	<u>333,096</u>	<u>432,985</u>
<u>Deferred tax</u>		
In respect of the current year	<u>151,064</u>	<u>(141,813)</u>
Income tax expense	<u><u>\$ 484,160</u></u>	<u><u>\$ 291,172</u></u>

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2023	2022
Profit before tax	<u>\$ 2,596,414</u>	<u>\$ 1,700,596</u>
Income tax expense calculated at the statutory rate	\$ 519,283	\$ 340,119
Tax-exempt income	(35,438)	24,319
Adjustments for prior years' current tax expense	486	(73,003)
Other	<u>(171)</u>	<u>(263)</u>
Income tax expense recognized in profit or loss	<u><u>\$ 484,160</u></u>	<u><u>\$ 291,172</u></u>

- b. Income tax recognized in other comprehensive income (expense)

	For the Year Ended December 31	
	2023	2022
<u>Deferred tax</u>		
In respect of the current year		
Remeasurement of defined benefit plans	\$ <u>854</u>	\$ <u>(421)</u>

- c. Current tax assets and liabilities

	December 31	
	2023	2022
Current tax assets		
Tax refund receivable	\$ <u>-</u>	\$ <u>2,318</u>
Current tax liabilities		
Income tax payable	\$ <u>4,657</u>	\$ <u>5,385</u>

- d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities are as follows:

For the year ended December 31, 2023

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Valuation of financial instruments at FVTPL	\$ 120,550	\$ (120,550)	\$ -	\$ -
Net defined benefit pension plan	6,613	610	854	8,077
Other	<u>1,726</u>	<u>-</u>	<u>-</u>	<u>1,726</u>
	<u>\$ 128,889</u>	<u>\$ (119,940)</u>	<u>\$ 854</u>	<u>\$ 9,803</u>

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Valuation of financial instruments at FVTPL	\$ -	\$ 35,285	\$ -	\$ 35,285
Investment properties	6,399	(64)	-	6,335
Unrealized loss (gain) on foreign exchange	<u>5,235</u>	<u>(4,097)</u>	<u>-</u>	<u>1,138</u>
	<u>\$ 11,634</u>	<u>\$ 31,124</u>	<u>\$ -</u>	<u>\$ 42,758</u>

For the year ended December 31, 2022

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Other	Closing Balance
Temporary differences					
Valuation of financial instruments at FVTPL	\$ -	\$ 120,550	\$ -	\$ -	\$ 120,550
Net defined benefit pension plan	7,616	(582)	(421)	-	6,613
Unrealized loss (gain) on foreign exchange	3,089	(3,089)	-	-	-
Other	<u>3,126</u>	<u>(1,400)</u>	<u>-</u>	<u>-</u>	<u>1,726</u>
	<u>\$ 13,831</u>	<u>\$ 115,479</u>	<u>\$ (421)</u>	<u>\$ -</u>	<u>\$ 128,889</u>

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Other	Closing Balance
Temporary differences					
Valuation of financial instruments at FVTPL	\$ 38,424	\$ (31,414)	\$ -	\$ (7,010)	\$ -
Investment properties	6,554	(155)	-	-	6,399
Unrealized loss (gain) on foreign exchange	<u>-</u>	<u>5,235</u>	<u>-</u>	<u>-</u>	<u>5,235</u>
	<u>\$ 44,978</u>	<u>\$ (26,334)</u>	<u>\$ -</u>	<u>\$ (7,010)</u>	<u>\$ 11,634</u>

e. Income tax assessments

The income tax returns of the Company and its subsidiary Cathay Futures Co., Ltd. through 2017 and 2021, respectively, have been assessed by the tax authorities.

The Company disagreed with the tax authorities' assessment of the 2015 tax returns with respect to the portion allocated to operating expenses and applied for administrative remedy in accordance with the law and regulations.

25. EARNINGS PER SHARE

Unit: NT\$

	<u>For the Year Ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Basic earnings per share	<u>\$ 2.74</u>	<u>\$ 1.83</u>

The earnings and weighted average number of ordinary shares used in the computation of earnings per share were as follows:

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Profit for the year attributable to owners of the Company	<u>\$ 2,112,239</u>	<u>\$ 1,409,415</u>

Number of Shares (In Thousands of Shares)

	For the Year Ended December 31	
	2023	2022
Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>770,000</u>	<u>770,000</u>

26. CASH FLOW INFORMATION

Changes in Liabilities Arising from Financing Activities

For the year ended December 31, 2023

Financial Liabilities	Opening Balance	Cash Flows	Non-cash Changes		Closing Balance
			Discount Amortization/ Interest Method Amortization	Exchange Rate/Others	
Short-term borrowings	\$ 733,178	\$ (414,956)	\$ -	\$ 4,766	\$ 322,988
Commercial papers payable	-	7,130,000	(1,753)	-	7,128,247
Lease liabilities	<u>150,359</u>	<u>(95,905)</u>	<u>1,959</u>	<u>99,766</u>	<u>156,179</u>
	<u>\$ 883,537</u>	<u>\$ 6,619,139</u>	<u>\$ 206</u>	<u>\$ 104,532</u>	<u>\$ 7,607,414</u>

For the year ended December 31, 2022

Financial Liabilities	Opening Balance	Cash Flows	Non-cash Changes		Closing Balance
			Discount Amortization/ Interest Method Amortization	Exchange Rate/Others	
Short-term borrowings	\$ 1,670,185	\$ (1,083,189)	\$ -	\$ 146,182	\$ 733,178
Commercial papers payable	4,959,166	(4,960,000)	834	-	-
Lease liabilities	<u>199,876</u>	<u>(89,934)</u>	<u>2,348</u>	<u>38,069</u>	<u>150,359</u>
	<u>\$ 6,829,227</u>	<u>\$ (6,133,123)</u>	<u>\$ 3,182</u>	<u>\$ 184,251</u>	<u>\$ 883,537</u>

27. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged.

The capital structure of the Group consists of the Group's net debt and equity. The Group's risk management committee regularly reviews the capital structure. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Company establishes the capital adequacy index and compiles the report on a monthly basis to evaluate the appropriateness of the capital adequacy ratio and to ensure a robust capital structure.

The capital adequacy ratio at end of the reporting period was as follows:

	December 31	
	2023	2022
Capital adequacy ratio	551%	636%

28. FINANCIAL INSTRUMENTS

- a. Fair value information - fair value of financial instruments not measured at fair value

The management of the Group considered the carrying amounts of the financial assets and financial liabilities which were not measured at fair value as close to their fair value.

- b. Fair value information - fair value of financial instruments measured at fair value on a recurring basis

- 1) Fair value hierarchy

December 31, 2023

Financial Instruments at Fair Value	Level 1	Level 2	Level 3	Total
<u>Non-derivative financial assets and liabilities</u>				
<u>Assets</u>				
Financial assets at FVTPL				
Shares	\$ 2,555,796	\$ -	\$ -	\$ 2,555,796
Bonds	1,480,721	-	-	1,480,721
Others	986,188	23,811	-	1,009,999
Financial assets at FVTOCI				
Investments in equity instruments	53,204	-	1,965,957	2,019,161
Investments in debt instruments	7,834,900	-	-	7,834,900
<u>Liabilities</u>				
Financial liabilities at FVTPL	623,246	-	-	623,246
<u>Derivative financial assets and liabilities</u>				
<u>Assets</u>				
Financial assets at FVTPL	198,075	4,111	-	202,186
<u>Liabilities</u>				
Financial liabilities at FVTPL	237,022	440	-	237,462

December 31, 2022

Financial Instruments at Fair Value	Level 1	Level 2	Level 3	Total
<u>Non-derivative financial assets and liabilities</u>				
<u>Assets</u>				
Financial assets at FVTPL				
Shares	\$ 1,172,477	\$ -	\$ -	\$ 1,172,477
Bonds	1,012,766	-	-	1,012,766
Others	1,732,883	-	-	1,732,883
Financial assets at FVTOCI				
Investments in equity instruments	-	-	1,000,660	1,000,660
Investments in debt instruments	4,021,487	-	-	4,021,487
<u>Liabilities</u>				
Financial liabilities at FVTPL	972,190	-	-	972,190
<u>Derivative financial assets and liabilities</u>				
<u>Assets</u>				
Financial assets at FVTPL	232,796	367	-	233,163
<u>Liabilities</u>				
Financial liabilities at FVTPL	226,904	3,785	-	230,689

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2023

Financial Assets	Financial Assets at FVTOCI Equity Instruments
Balance at January 1	\$ 1,000,660
Recognized in other comprehensive income	<u>965,297</u>
Balance at December 31	<u>\$ 1,965,957</u>

For the year ended December 31, 2022

Financial Assets	Financial Assets at FVTOCI Equity Instruments
Balance at January 1	\$ 1,207,282
Recognized in other comprehensive income	<u>(206,622)</u>
Balance at December 31	<u>\$ 1,000,660</u>

3) The definitions of credit risk valuation adjustments are as follows:

Credit risk valuation adjustments can be classified into Credit value adjustments and Debit value adjustments.

Credit value adjustments are the valuation adjustments of financial derivative instruments which are not traded in the listed market but are traded over the counter. The adjustments reflect in the fair value the possibility that the counterparty may delay payment for the price and the Company may not collect all of the market value of the transactions.

Debit value adjustments are the valuation adjustments of financial derivative instruments which are not traded in the listed market but are traded over the counter. The adjustments reflect in the fair value the possibility that the Company may delay payment for the price and the Company may not pay all of the market value of the transactions.

The credit value adjustments are calculated based on the consideration of the counterparty's probability of default (PD) (under the condition that the Group does not default), loss given default (LGD) and exposure at default (EAD).

The counterparty's EAD on OTC derivative instruments is evaluated by mark-to-market values.

Counterparty's LGD is set at 60% standard assumption. However, other assumptions for the LGD may be taken upon consideration of the nature of the risks involved and the data available.

The Group makes credit risk adjustments to reflect competitors' credit risk.

4) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instrument	Valuation Technique and Inputs
Derivatives - warrants	Closed form solution valuation model: Formula valuation is derived using academic theory based on the observable prices and contract terms of the underlying assets, to reasonably reflect the value of cash flows generated from the dynamic hedging carried out from such contracts.
Derivatives - structured instruments	Closed form solution valuation/Monte Carlo method model: Formula valuation is derived using academic theory based on the observable prices and contract terms of the underlying assets and the cost of internal capital adjustments and hedging.
Derivatives - exchange rate swap contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the year and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Security token offering (STO)	Debt-based STO model: To calculate the credit risk of the issuer, the significant variables of the risk are considered in the model to calculate the default rate. The default rate and market variables are then used to derive the theoretical STO price.

5) Valuation techniques and inputs applied for Level 3 fair value measurement

Quantitative data of significant unobservable inputs is as follows:

Item Measured at Fair Value on A Recurring Basis	Fair Value on December 31, 2023	Valuation Techniques	Significant Unobservable Inputs	Intervals (Weighted Average)	Relationship Between Inputs and Fair Value	Sensitivity Analysis of Relationship Between Inputs and Fair Value
Non-derivative financial instruments						
Equity instruments at FVTOCI	\$ 1,965,957	Market comparison approach	Discount for lack of marketability	15%-20%	The higher the market approach, the lower the fair value.	Discount for lack of marketability (3%)-3%, Floating rate of fair value 3.67%-(3.67%)
Item Measured at Fair Value on A Recurring Basis	Fair Value on December 31, 2022	Valuation Techniques	Significant Unobservable Inputs	Intervals (Weighted Average)	Relationship Between Inputs and Fair Value	Sensitivity Analysis of Relationship Between Inputs and Fair Value
Non-derivative financial instruments						
Equity instruments at FVTOCI	\$ 1,000,660	Market comparison approach	Discount for lack of marketability	15%-20%	The higher the market approach, the lower the fair value.	Discount for lack of marketability (3%)-3%, Floating rate of fair value 3.67%-(3.67%)

c. Categories of financial instruments

	December 31	
	2023	2022
<u>Financial assets</u>		
FVTPL		
Mandatorily classified as at FVTPL	\$ 5,248,702	\$ 4,151,289
Financial assets at amortized cost (1)	52,497,963	40,457,277
Financial assets at FVTOCI		
Debt instruments	7,834,900	4,021,487
Equity instruments	2,019,161	1,000,660
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (2)	52,850,183	36,678,749
Financial assets at FVTOCI		
Held for trading	860,708	1,202,879

- 1) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents (excludes cash on hand), securities margin loans receivable, guaranteed deposits for refinancing, guaranteed proceeds receivable from refinancing, margin loans receivable - any use, client margin account, security borrowing deposits, guaranteed price deposits for security borrowings, accounts receivable, payments from the custody of underwriting securities, restricted assets - current, security lending receivable, operating funds, settlement funds, reserve fund of trust, refundable deposits.
- 2) The balances include financial liabilities measured at amortized cost, which comprise short-term loans, commercial papers payable, liabilities for bonds under repurchase agreements, short sale margins, payables for short sale collateral received, deposits for securities lending, futures traders' equity, equity for each customer in the account, accounts payable, receipt under custody, other financial liabilities and guarantee deposits received.

d. Financial risk management objectives and policies

1) Risk management system

a) Risk management objectives

Adhering to the risk management policies of the parent company, the Group manage the risks during its operating activities in compliance with domestic and foreign regulations as well as in an efficient and flexible manner to maximize the profit.

b) Risk management policies

The Group complies with the risk management policies as a guiding principle to establish significant risk management matters such as objectives, coverage, organization duties and operating, management principles and reports.

The management policies of the Group cover different types of risk including market risk, credit risk, operating risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Before initiating a business, the Group should identify the relevant risks and have an integrated plan of risk management mechanism and methods to ensure that such business is compliant with the management policies.

c) Risk management organization

i. Board of directors

The board of directors takes the ultimate responsibilities for risk management. The board of directors approves the risk management policy, ensures that approved risk management policies are in accordance with the nature of operating activities and types of business and cover different types of risk, and monitors the effective implementation of risk management policies.

ii. Risk management committee

The risk management committee is responsible for reviewing risk management policies, principles, rules of trading transactions, determining the appropriate degree of risk exposure and monitoring the implementation of the risk management policies. The risk management committee is under the board of directors. The chairman of the board of directors leads the committee, and members include the general manager, department supervisor, director for compliance matters, information security, officer, finance supervisor, accounting manager, risk management supervisor and strategic planning supervisor. The committee meetings are typically held quarterly, and provisional meetings are convened by the chairman of the board.

iii. Risk management department

The risk management department is under the board of directors. The supervisor and staff of the department are prohibited from holding positions at the trading or settlement department. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies regularly to ensure that those policies are suitable for business development. The risk management department also establishes online monitoring and prevention systems and reaction mechanisms, according to the development of the Group.

iv. Business unit

Each business unit participates in the setting of the risk management mechanism and executes daily risk management and reporting to ensure that the risk model used by the business unit is implemented with the consistent credibility and is in accordance with the internal control procedures to comply with the regulations and risk management policies.

v. Auditing office

The auditing office executes risk management and internal control procedures regularly, and traces and documents findings and deviations of internal control procedures regularly to ensure that the appropriate actions of improvement have been taken in time.

vi. Finance department

The finance department participates in the setting of the risk management mechanism. The department is responsible for executing liquidity risk management and providing the liquidity risk report to the risk management department on a regular basis.

vii. Accounting department

The accounting department participates in the setting of the risk management mechanism and provides the form of capital adequacy to the risk management department on a monthly basis.

viii. Legal affairs office

The legal affairs office executes legal risk management to ensure that business operations and risk management procedures are all in compliance with the regulations.

d) Risk management workflows

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

i. Market risk

i) Definition

Market risk is the risk of losses in the Group's investment positions, including shares, bonds, and derivatives etc. arising from changes in the market prices of financial instruments.

ii) Controls

The Group sets up rules of trading transactions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and implements those control procedures efficiently through the front desk risk control staff and on-line monitoring system. Furthermore, the Group provides the market risk management report regularly that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, and back-testing model and perform stress testing for different extreme scenarios to control the risks that the Group faces and manages the overall risk efficiently.

ii. Credit risk

i) Definition

Credit risk is the risk of loss incurred by the Group as a result of a counterparty or debtor not being able to perform its contract obligations due to deterioration of financial conditions or other factors.

ii) Controls

The Group checks and reviews the credit position of each counterparty before trading and manages risk exposure after trading. Risks arising from securities trading are monitored and controlled based on the credit rating model. Investment concentration and risks are analyzed and documented regularly. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody's, and Fitch). In addition, the customers covered by the high-risk range of self-managed credit integrity and the credit balance of the underlying account for a certain percentage of the market credit balance are regularly reviewed and the credit risk emergency notification mechanism for the parent company is established.

iii. Operational risk

i) Definition

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

ii) Controls

The Group establishes authority levels and the segregation of duties for the processes, including trading, confirmation, settlement, financial accounting, and trading documents archiving for future reference, etc., of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading documents are archived for future reference. The strict processes are also established to prevent fraud and negligence. The Group request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand the causes of the loss.

In addition, the auditing office is established under the board of directors. The functions of the office are to implement daily process checks to establish completed internal audit control and provide internal review reports on a regular basis to reduce the loss arising from operational failures.

iv. Liquidity risk

i) Definition

Fund liquidity refers to the Group's acquisition of funds to maintain its needed flexibility to support asset growth or to repay liabilities; market liquidity refers to the managing and avoidance of risk of loss resulting from significant changes in the market price of held positions due to the lack of market depth or market disruption.

ii) Controls

The measurement index for liquidity risk is established and the Group compiles the liquidity risk management report regularly to review the capital conditions and cash flow gap as of the balance sheet dates and liquidity of overall foreign currency. Capital allocation planning is based on the compiled structure analysis as of the balance sheet dates. In addition, conducting capital liquidity simulation operations regularly ensures that there are corresponding contingency measures in the extreme situations which can cover the funding gap. Meanwhile, credit lines of short-term financing are acquired from other financial institutions and receipts and payments are managed properly to sustain appropriate liquidity and ensure payment ability.

v. Legal risk

i) Definition

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

ii) Controls

The procedures for drafting and reviewing legal documentation are established. All documents related to the contracts are required to be reviewed and approved by the legal office and may be reviewed with reference to external lawyers' opinions if needed.

vi. Capital adequacy management

i) Definition

The Group manages capital to maintain an appropriate capital adequacy ratio, promote business growth and ensure a robust capital structure.

ii) Controls

The Group established the capital adequacy index and compiles the capital adequacy management report regularly to evaluate the appropriateness of the capital adequacy ratio and the robustness of the capital structure.

vii. Reputation risk and strategy risk

i) Definition

Reputation risk is the risk of loss resulting from negative aspects of the Group's operations, leading to the loss of customers or revenue, and the need for the Group to bear large amounts of legal fees or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

ii) Controls

In response to significant events related to reputation and strategy risk, the Group established internal regulations to mitigate the risk of losses when significant events occur.

Risk management policies and principles are established based on the above-mentioned risks and management mechanisms from each risk source are set out specifically. The Group also established the constraints for each risk and reviews the appropriateness of each constraint regularly. Moreover, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay Financial Holdings to elaborate on the Group' risk tolerance and the appropriateness of the current risk management scheme.

e) Hedging and mitigation of risk strategies

The hedging and mitigation risk strategies for the Company refer to the implementation of dynamic hedging through the purchase and sale of target investment products to duplicate the same cash flows when derivatives mature. The hedging for outstanding stock warrants and structured products is based on the principle of Delta Neutral. If the prices of those investment positions fluctuate significantly in the financial markets, when the regulations for hedging operations are breached due to the impact from significant events, or when the risk personnel's implementation of hedging strategies are in violation of the regulations of hedging operations, the business department is required to explain in writing and report to the risk management department and the general manager, who has authority to approve the report.

The Group establishes the approval limit and stop-loss mechanism based on the attributes of each product. When the position meets the stop-loss point, the risk management department will inform the supervisor or position administrator in time and monitor the change in the position. In addition, the business department should operate in accordance with the approval limits. If the stop-loss point is met, the investment should be sold or the business department is required to provide an exception report detailing the reason and specific response measures to the responsible supervisor, who has authority to approve the report, according to the authority list.

2) Market risk analysis

The Group assesses, monitors, and manages market risks completely and effectively by applying market risk management tools such as sensitivity analysis, Value at Risk ("VaR") and stress testing continuously.

a) Sensitivity analysis

Sensitivity analysis is used to measure the degree of impact on each product and investment portfolio due to fluctuations in specific market factors. The relevant monitoring and control regulations are set based on the differences in the types of risk and business attributes of the Group. The degree of risk exposure is monitored and measured by interest and commodity factors' sensitivities:

i. Measurement based on interest factors

Price value of basis point (PVBp): Denoting the change in the value of a position given a 1 basis point change in the yield curve.

ii. Measurement based on commodity factors

i) Delta: Measuring the change in the value of a position given a 1% price change of a certain underlying asset.

ii) Gamma: Measuring the dollar amount of change in Delta of a position given a 1% price change of a certain underlying asset.

iii) Vega: Denoting the change in the value of a position given a 1% price change volatility of a certain underlying asset.

b) VaR

VaR is used to measure the risk of the largest potential loss of the investment portfolio arising from movements in market risk factors over a specific time frame and at a certain confidence level. The Group currently measure the VaR of an investment portfolio for the next day at a 99% confidence level. Also, back testing of the VaR model is performed each year to ensure the accuracy of this model.

VaR on one single trading day within the 99% confidence level:

For the Year Ended December 31, 2023				
	Average	Highest	Lowest	End of Period
VaR	\$ 57,816	\$ 84,867	\$ 37,782	\$ 61,939
For the Year Ended December 31, 2022				
	Average	Highest	Lowest	End of Period
VaR	\$ 26,328	\$ 39,680	\$ 14,383	\$ 37,440

c) Stress testing

The Group performs stress testing on a monthly basis to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and finds the risk factors which exert greater significant influence on the asset portfolio, follow up review and report such factors according to the market conditions and customized or extreme scenarios which take rapid changes in foreign and domestic financial environments into consideration are also performed periodically and the maximum losses arising from these scenarios are measured to ensure that the Group manage the risk from each potential scenario effectively.

Stress testing scenarios, which include the historical scenario and hypothesis scenario, are described as follows:

i. Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical events and taking the fluctuations of risk factors of immediate, significant and comprehensive impact on financial markets into consideration.

ii. Hypothetical Scenario

The Group makes reasonable expected hypotheses on possible future extreme market fluctuations, includes the related risk factors in the current investment portfolio, and measures the loss amount generated from such events on the investment position, including the 10% drop in the total stock market value arising from the breakdown of the global system.

For the Year Ended December 31, 2023
Stress Test Table

(In Thousands of New Taiwan Dollars)

Risk Factor	Change (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (247,887)
Interest rate risk (yield curve)	+50bps	(217,076)
Exchange rate risk (exchange rate)	+3%	(10,826)
Product risk (price)	-10%	(72)

For the Year Ended December 31, 2022
Stress Test Table

(In Thousands of New Taiwan Dollars)

Risk Factor	Change (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (188,484)
Interest rate risk (yield curve)	+50bps	(105,313)
Exchange rate risk (exchange rate)	+3%	108
Product risk (price)	-10%	-

3) Credit risk analysis

a) Source of credit risk

Credit risk refers to the credit risk that the Group may encounter due to engagement in financial transactions which include the credit risks from issuers, counterparties, and underlying assets:

- i. Issuer credit risk refers to the risk of financial loss that the Group may incur as a result of issuers, guarantors or banks not fulfilling their payment obligations due to default, bankruptcy or liquidation.
- ii. Counterparty credit risk is the risk of financial loss that the Group may incur when a counterparty does not fulfill its settlement or payment obligations on the designated date.
- iii. Underlying asset credit risk refers to the risk of loss that the Group may encounter when the credit quality of the target financial instrument deteriorates, credit charges increase, credit rating reduces or when the terms of the contracts are violated.

Financial assets that expose the Group to credit risk include bank accounts, debt securities, trading of over-the-counter derivatives, repurchase and reverse repurchase of debts, trading from the securities lending, refundable deposits, futures deposits in banks, other refundable deposits and accounts receivable etc.

b) Determinants for whether the credit risk has increased significantly since initial recognition

- i. The Group assesses, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, the Group considers reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit rating, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
- ii. Low credit risk: If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

c) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of the Group is the same as that of a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- i. Qualitative factors: Evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - i) The issuers and borrowers have entered bankruptcy or are probable to file bankruptcy or undergo financial reorganization.
 - ii) The borrowers fail to make interest or principal payments based on the original terms and conditions.
- ii. The abovementioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by the Group, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to the related impairment assessment model.

d) Measurement of expected credit losses

- i. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, the Group measures the loss allowance for such financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, the Group measures the loss allowance for such financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, the Group multiply exposure at default by the 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. The Group also consider the effect of the time value of money when calculating the 12-month expected credit losses and the lifetime expected credit losses.

Probability of default is the rate that an issuer, guarantee agency and a borrower defaults. The loss given default is the loss rate that results from the default of issuers, guarantee agencies and borrowers. The loss given default used by the Group in impairment assessment is based on information regularly issued by Moody's. The probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) after adjustments of historical data. The exposure at default is measured at the amortized cost and interest receivables of the financial assets.

ii. Consideration of forward-looking information

The Group takes into consideration forward-looking information while measuring expected credit losses of the financial assets.

e) Loss allowance of accounts receivable

The movements of the loss allowance of accounts receivable were as follows:

	Debt Instrument Investments	Accounts Receivable	Other Receivables	Overdue Receivables	Margin Deposits for Securities Refinancing	Securities Margin Loans Receivable	Futures Trading Margin Receivables	Total
Balance at January 1, 2023	\$ 2,784	\$ 190	\$ 23	\$ 5,784	\$ 294	\$ 80	\$ 74	\$ 9,229
Recognized (reversed)	2,859	382	11	1,592	149	71	-	5,064
Amounts recovered	-	-	-	84	-	-	-	84
Write-off	-	-	-	(1,949)	-	-	-	(1,949)
Balance at December 31, 2023	<u>\$ 5,643</u>	<u>\$ 572</u>	<u>\$ 34</u>	<u>\$ 5,511</u>	<u>\$ 443</u>	<u>\$ 151</u>	<u>\$ 74</u>	<u>\$ 12,428</u>
Balance at January 1, 2022	\$ 342	\$ 378	\$ 18	\$ 3,747	\$ 646	\$ 81	\$ 74	\$ 5,286
Recognized (reversed)	2,442	(188)	5	2,226	(352)	(1)	-	4,132
Amounts recovered	-	-	-	185	-	-	-	185
Write-off	-	-	-	(374)	-	-	-	(374)
Balance at December 31, 2022	<u>\$ 2,784</u>	<u>\$ 190</u>	<u>\$ 23</u>	<u>\$ 5,784</u>	<u>\$ 294</u>	<u>\$ 80</u>	<u>\$ 74</u>	<u>\$ 9,229</u>

4) Capital liquidity risk analysis:

Bank loans are an important source of liquidity for the Group. As of December 31, 2023 and 2022, the unused credits of short-term bank loans of the Group amounted to \$7,445,886 thousand and \$9,173,021 thousand, respectively.

a) Cash flow analysis

Capital liquidity risk is the risk that the Group is unable to acquire sufficient capital at a reasonable cost within a reasonable time frame and which results in a cash flow gap, or the risk that the Group sells assets at a loss to meet the cash flow requirements.

As of December 31, 2023
Cash Flow Analysis of Financial Liabilities

	Payment Terms				
	Less than 1 Month	1-3 Months	3-6 Months	More than 6 Months	Total
<u>Financial liabilities</u>					
Short-term loans	\$ 322,988	\$ -	\$ -	\$ -	\$ 322,988
Commercial paper payable	7,128,247	-	-	-	7,128,247
Financial liabilities at FVTPL	860,708	-	-	-	860,708
Liabilities for bonds under repurchase agreements	7,439,234	-	-	-	7,439,234
Short sale margins and payables for short sale collateral received	152,455	304,910	457,365	1,829,465	2,744,195
Deposits for securities lending	693	1,386	2,079	8,315	12,473
Futures traders' equity	11,894,720	-	-	-	11,894,720
Equity for each customer in the account	45,512	-	-	-	45,512
Accounts payable	21,385,562	636,340	237,520	401,790	22,661,212
Other financial liabilities	271,026	-	-	-	271,026
Lease liabilities	8,726	16,626	22,970	35,569	83,891
Others	<u>375,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,805</u>
	<u>\$ 49,885,676</u>	<u>\$ 959,262</u>	<u>\$ 719,934</u>	<u>\$ 2,275,139</u>	<u>\$ 53,840,011</u>
Percentage to the total	<u>92.65%</u>	<u>1.78%</u>	<u>1.34%</u>	<u>4.23%</u>	<u>100%</u>

Short-term loans, commercial paper payable and liabilities for bonds under repurchase agreements are fund procurement instruments and with maturities within 3 months.

As of December 31, 2023
Cash Flow Gap

	Receivable Terms				
	Less than 1 Month	1-3 Months	3-6 Months	More than 6 Months	Total
Financial assets					
Cash and cash equivalents	\$ 2,579,555	\$ -	\$ -	\$ -	\$ 2,579,555
Financial assets at FVTPL - current					
Securities held for operation	5,014,817	-	-	-	5,014,817
Open-end funds and currency market instruments	51,844	-	-	-	51,844
Future trading margins	177,930	-	-	-	177,930
Derivative instruments assets - OTC	3,299	812	-	-	4,111
Financial assets at FVTOCI - current	7,888,104	-	-	-	7,888,104
Securities financing receivables	717,305	1,420,342	2,130,513	8,522,060	12,790,220
Guaranteed deposits for refinancing and guaranteed proceeds receivable from refinancing	3,632	7,264	10,896	43,591	65,383
Loan receivables - unrestricted	250,720	501,440	752,159	-	1,504,319
Client margin accounts	11,915,201	-	-	-	11,915,201
Guaranteed price deposits security borrowing and security borrowing deposits - refund	438	876	1,314	5,252	7,880
Accounts receivable	21,084,623	-	-	89,795	21,174,418
Others	1,119,266	-	-	1,577,787	2,697,053
	<u>50,806,734</u>	<u>1,930,734</u>	<u>2,894,882</u>	<u>10,238,485</u>	<u>65,870,835</u>
Residual cash	\$ 921,058	\$ 971,472	\$ 2,174,948	\$ 7,963,346	\$ 12,030,824

As of December 31, 2022
Cash Flow Analysis of Financial Liabilities

	Payment Terms				
	Less than 1 Month	1-3 Months	3-6 Months	More than 6 Months	Total
<u>Financial liabilities</u>					
Short-term loans	\$ 733,178	\$ -	\$ -	\$ -	\$ 733,178
Financial liabilities at FVTPL	1,202,232	647	-	-	1,202,879
Liabilities for bonds under repurchase agreements	3,991,622	-	-	-	3,991,622
Short sale margins and payables for short sale collateral received	236,338	472,676	709,014	2,836,062	4,254,090
Deposits for securities lending	566	1,132	1,698	6,800	10,196
Futures traders' equity	14,121,660	-	-	-	14,121,660
Accounts payable	11,777,015	-	196,410	571,367	12,544,792
Other financial liabilities	25,157	-	-	-	25,157
Lease liabilities	7,509	15,241	20,926	37,875	81,551
Others	<u>1,036,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,036,595</u>
	<u>\$ 33,131,872</u>	<u>\$ 489,696</u>	<u>\$ 928,048</u>	<u>\$ 3,452,104</u>	<u>\$ 38,001,720</u>
Percentage to the total	<u>87.19%</u>	<u>1.29%</u>	<u>2.44%</u>	<u>9.08%</u>	<u>100%</u>

Short-term loans and liabilities for bonds under repurchase agreements are fund procurement instruments and with maturities within 3 months.

As of December 31, 2022
Cash Flow Gap

	Receivable Terms				
	Less than 1 Month	1-3 Months	3-6 Months	More than 6 Months	Total
<u>Financial assets</u>					
Cash and cash equivalents	\$ 3,207,478	\$ -	\$ -	\$ -	\$ 3,207,478
Financial assets at FVTPL - current					
Securities lending	14,250	-	-	-	14,250
Securities held for operation	2,323,599	-	-	-	2,323,599
Open-end funds and currency market instruments	1,653,645	-	-	-	1,653,645
Future trading margins	159,636	-	-	-	159,636
Derivative instruments assets - OTC	159	-	-	-	159
Financial assets at FVTOCI - current	4,021,487	-	-	-	4,021,487
Securities financing receivables	376,847	740,404	1,110,606	4,442,419	6,670,276
Guaranteed deposits for refinancing and guaranteed proceeds receivable from refinancing	2,873	5,746	8,619	34,480	51,718
Guaranteed price deposits for security borrowings	132,946	265,892	398,836	-	797,674
Client margin accounts	14,143,696	-	-	-	14,143,696
Guaranteed price deposits security borrowing and security borrowing deposits - refund	85,267	170,534	255,801	1,023,198	1,534,800
Accounts receivable	11,054,636	-	-	44,491	11,099,127
Others	1,455,722	1,463	2,195	1,255,491	2,714,871
	<u>38,632,241</u>	<u>1,184,039</u>	<u>1,776,057</u>	<u>6,800,079</u>	<u>48,392,416</u>
Residual cash	\$ 5,500,369	\$ 694,343	\$ 848,009	\$ 3,347,975	\$ 10,390,696

b) Capital liquidity risk stress testing

The Group performs stress testing regularly to measure and evaluate the changes of capital liquidity under extreme and abnormal events to ensure that the Group maintains capital liquidity. Stress scenarios include significant fluctuations in the financial markets, the occurrence of various credit events, the unexpected tightening of capital liquidity in the financial markets and other assumptions that may cause financial liquidity stress, and are used to measure the Group's ability to meet the demand for cash and the changes in cash flow gap.

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

- i. The Group raises funds and makes balance sheet adjustments in accordance with the Crisis Management Principles and Regulations of Emergency Management.
- ii. Financing: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper.
- iii. Balance sheet adjustments: (i) sale of securities (ii) recovery of short-term capital invested in the currency market.

e. Escrow assets

The Group may, upon approval by the competent authority, engage in the custody of security token offering that is traded on the Group's trading platform.

The Group is authorized by the competent authority to engage in the custodianship of security token offering of securities traded on the Group's trading platform. The Group only makes memorandum entries for the security token offering entrusted to the Group for internal management purposes. As of December 31, 2023, the Group had 659 units of security token offerings in custody.

Security token offering, which is in the nature of securities, involves cryptography, blockchain technology and decentralized ledger technology, and therefore carries information security risks. If an information security incident occurs due to negligence in the design of the Group's security token offering trading platform, the Group will have to compensate the loss incurred, which may adversely affect the Group. The Group reduces this risk by hiring an information specialist to regularly review the information environment of the security token offering trading platform.

The Group operates its escrow business in accordance with the "Taipei Exchange Rules Governing the Operation by Securities Firms of the Business of Proprietary Trading of Security Tokens" and the "Criteria Governing Internal Control Systems of Securities Firms-Internal Control Systems" and independently of the Group's own assets, and operates its escrow business in accordance with the principles of honesty and creditworthiness. The operating procedures of the Group's related businesses are specified in the relevant regulations and operation manuals. Participants of the trading platform of security token offering with securities nature can access to information of the related rights, obligations and risks through the contract and the operating procedures announced by the Group.

The Group signed a contract with the centralized securities depository enterprise in accordance with Article 8-2 of the “Taipei Exchange Rules Governing the Operation by Securities Firms of the Business of Proprietary Trading of Security Tokens”, whereby the Group transmits daily information on the movements and balance details of the security token offerings to the information reporting system designated by the centralized securities depository enterprise, and the centralized securities depository enterprise stores the information as backup data; in the case of discrepancies, the Group and the centralized securities depository enterprise should work together to find out the reasons for the discrepancies and rectify the discrepancies.

The accuracy of the information on the movements and balance details of the security token offering has been verified by the accountants.

f. Transfers of financial assets

Transferred financial assets that are part of the Group’ daily operations that do not meet the criteria for full derecognition are mostly made up of notes and bonds issued under repurchase agreements. The cash flows of these transactions have been transferred, and reflects the liability where the Group is obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, the Group will not be able to use, sell or pledge the said transferred financial assets during the effective period. However, the Group is still exposed to interest rate risk and credit risk, hence the assets are not fully derecognized.

The following table analyses the Group’ financial assets and financial liabilities that have not been fully derecognized:

December 31, 2023

Categories of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through other comprehensive income					
Bonds issued under repurchase agreements	\$ 7,834,900	\$ 7,439,234	\$ 7,834,900	\$ 7,439,234	\$ 395,666

December 31, 2022

Categories of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through other comprehensive income					
Bonds issued under repurchase agreements	\$ 4,021,487	\$ 3,991,622	\$ 4,021,487	\$ 3,991,622	\$ 29,865

g. Offsetting financial assets and financial liabilities

The Group enters into secured repurchase agreements with counterparties, for which the Group provides securities as collateral. Only in the event of default, insolvency or bankruptcy, are these transactions allowed to be offset, which does not meet the offsetting criteria of financial instrument transactions, Article 42 of IAS 32, and they are not subject to enforceable master netting arrangements or other similar agreements and should be settled at gross amounts. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

Information related to the offsetting of financial assets and financial liabilities of the Group is disclosed as follows:

December 31, 2023

Financial Liabilities	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Assets Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Related Amount Not Offset in the Balance Sheets		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Bonds issued under repurchase agreements	\$ 7,439,234	\$ -	\$ 7,439,234	\$ 7,834,900	\$ -	\$ (395,666)

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

December 31, 2022

Financial Liabilities	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Assets Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Related Amount Not Offset in the Balance Sheets		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Bonds issued under repurchase agreements	\$ 3,991,622	\$ -	\$ 3,991,622	\$ 4,021,487	\$ -	\$ (29,865)

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

29. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The details of transactions between the Group and other related parties are disclosed below.

a. Related parties

Name	Nature of the relationship
Cathay Financial Holding Co., Ltd.	The Company's parent company
Cathay United Bank Co., Ltd.	Subsidiary of the parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of the parent company
Cathay Century Insurance Co., Ltd.	Subsidiary of the parent company
Cathay Securities Investment Trust Co., Ltd.	Subsidiary of the parent company
Symphox Information Co., Ltd.	Associate
ThinkPower Information Co., Ltd.	Subsidiary of the associate
Funds managed by Cathay Securities Investment Trust	Other related party

b. Significant transactions are summarized as follows:

1) Cash in banks

	December 31	
	2023	2022
Subsidiary of the parent company		
Cathay United Bank Co., Ltd.	<u>\$ 3,018,690</u>	<u>\$ 3,515,520</u>

Cash in bank includes cash and cash equivalents, payments from the custody of underwriting securities, the assets recorded under other current assets, which are amounts awaiting settlement and restricted assets and operating funds which recorded as other non-current assets. Restricted assets are pledged time deposits. For information on the assets pledged as collateral, please refer to Note 30.

The terms of the above transactions are similar to that of non-related parties.

2) Guarantee deposits received in futures contracts

	December 31	
	2023	2022
Subsidiary of the parent company		
Cathay United Bank Co., Ltd.	<u>\$ 723,823</u>	<u>\$ 1,573,034</u>

3) Guarantee deposits (recorded as other non-current assets)

	December 31	
	2023	2022
Subsidiary of the parent company		
Cathay Life Insurance Co., Ltd.	<u>\$ 19,475</u>	<u>\$ 16,522</u>

4) Customers' equity accounts - futures

	December 31	
	2023	2022
Subsidiary of the parent company		
Cathay Life Insurance Co., Ltd.	\$ 2,307,880	\$ 3,390,281
Cathay United Bank Co., Ltd.	1,179,579	1,496,350
Cathay Century Insurance Co., Ltd.	58,378	58,121
Other related party		
Funds managed by Cathay Securities Investment Trust		
(Note)	<u>2,283,518</u>	<u>2,345,956</u>
	<u>\$ 5,829,355</u>	<u>\$ 7,290,708</u>

Note: The counterparty includes the Funds managed by Cathay Securities Investment Trust.

5) Other payables

	December 31	
	2023	2022
The parent company		
Cathay Financial Holding Co., Ltd. (Note)	\$ 289,636	\$ 484,896
Subsidiary of the parent company		
Cathay Life Insurance Co., Ltd.	44,498	22,997
Cathay United Bank Co., Ltd.	38,162	29,830
Associate		
Symphox Information Co., Ltd.	<u>10,230</u>	<u>2,486</u>
	<u>\$ 382,526</u>	<u>\$ 540,209</u>

Note: Income tax payable calculated due to adoption of the consolidated income tax system.

6) Lease agreements

	For the Year Ended December 31	
	2023	2022
<u>Acquisition of right-of-use assets</u>		
Subsidiary of the parent company		
Cathay Life Insurance Co., Ltd.	\$ 5,888	\$ 564
Cathay United Bank Co., Ltd.	<u>4,868</u>	<u>27,793</u>
	<u>\$ 10,756</u>	<u>\$ 28,357</u>
	December 31	
	2023	2022
<u>Lease liabilities</u>		
Subsidiary of the parent company		
Cathay Life Insurance Co., Ltd.	\$ 76,015	\$ 111,110
Cathay United Bank Co., Ltd.	<u>10,331</u>	<u>11,794</u>
	<u>\$ 86,346</u>	<u>\$ 122,904</u>
	For the Year Ended December 31	
	2023	2022
<u>Lease expense (recorded as other operating expenses)</u>		
Subsidiary of the associate		
Cathay Life Insurance Co., Ltd.	<u>\$ 5,584</u>	<u>\$ 7,204</u>

Cathay Life Insurance Co., Ltd. and Cathay United Bank Co., Ltd. leased out some buildings as office and parking space to the Group under finance leases with lease term from 2017 to 2026 and from 2016 to 2026, respectively. The rental is based on similar properties in the vicinity of the office and fixed lease payment are paid monthly.

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

Lease expenses included expenses relating to short-term and variable lease payments that do not depend on an index or a rate. Future lease payables related to short-term leases are as follows:

7) Brokerage handling fee revenue

	For the Year Ended December 31	
	2023	2022
Subsidiary of the parent company		
Cathay Life Insurance Co., Ltd.	\$ 62,956	\$ 129,843
Cathay United Bank Co., Ltd.	<u>13,353</u>	<u>13,166</u>
	<u>\$ 76,309</u>	<u>\$ 143,009</u>

8) Income from underwriting business

	For the Year Ended December 31	
	2023	2022
Subsidiary of the parent company		
Cathay Life Insurance Co., Ltd.	\$ 7,402	\$ -
The Company's parent company		
Cathay Financial Holding Co., Ltd.	<u>5,550</u>	<u>-</u>
	<u>\$ 12,952</u>	<u>\$ -</u>

9) Interest revenue

	For the Year Ended December 31	
	2023	2022
Subsidiary of the parent company		
Cathay United Bank Co., Ltd.	<u>\$ 83,989</u>	<u>\$ 23,909</u>

10) Finance Costs

	For the Year Ended December 31	
	2023	2022
Subsidiary of the parent company		
Cathay Life Insurance Co., Ltd.	\$ 12,215	\$ 2,266
Cathay United Bank Co., Ltd.	<u>5,096</u>	<u>1,926</u>
	<u>\$ 17,311</u>	<u>\$ 4,192</u>

11) Employee benefit expenses

	For the Year Ended December 31	
	2023	2022
Associate		
Symphox Information Co., Ltd.	<u>\$ 5,710</u>	<u>\$ 2,048</u>

12) Other operating expenses

	For the Year Ended December 31	
	2023	2022
Associate		
Symphox Information Co., Ltd.	\$ 26,322	\$ 31,186
Subsidiary of the parent company		
Cathay United Bank Co., Ltd.	171,778	211,477
Cathay Life Insurance Co., Ltd.	252,469	103,595
Subsidiary of the associate		
ThinkPower Information Co., Ltd.	<u>2,009</u>	<u>9,957</u>
	<u>\$ 452,578</u>	<u>\$ 356,215</u>

The above-mentioned operating expenses are mainly cable services, joint marketing fees, insurance fees, and professional services, etc., and the terms of these transactions are the same as those of non-related parties.

c. Compensation of key management personnel

	For the Year Ended December 31	
	2023	2022
Short-term employee benefits	\$ 180,946	\$ 165,003
Post-employment benefits	2,111	2,058
Share-based payments	<u>-</u>	<u>1,100</u>
	<u>\$ 183,057</u>	<u>\$ 168,161</u>

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

30. PLEDGED OR MORTGAGED ASSETS

The following assets are pledged to deposits for securities borrowing, futures trading margin settling, deposits for securities settling and short-term loan of provisional attachments:

	December 31	
	2023	2022
Restricted assets - current (recorded as other current assets)	\$ 1,200,000	\$ 1,200,000
Investment properties		
Land	263,998	262,529
Building	26,343	27,812

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies of the entities in the Group and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

(Foreign Currencies and Carrying Amounts in Thousands)

December 31, 2023

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 345,521	30.735	\$ 10,619,576
<u>Financial liabilities</u>			
Monetary items			
USD	275,676	30.735	8,472,897

December 31, 2022

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 206,866	30.708	\$ 6,352,443
<u>Financial liabilities</u>			
Monetary items			
USD	187,920	30.708	5,770,659

For the years ended December 31, 2023 and 2022, net foreign exchange gains were \$8,514 thousand and \$24,382 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the entities in the Group.

32. ADDITIONAL DISCLOSURES

a. The significant transactions related information:

- 1) Financing provided to others: None.
- 2) Endorsements/guarantees provided: None.
- 3) Acquisition of individual real estates at costs of at least NT\$300 million or 20% of the paid-in capital: None.

- 4) Disposal of individual real estates at prices of at least NT\$300 million or 20% of the paid-in capital: None.
 - 5) Total discount of commissions and fees to related parties amounting to at least NT\$5 million: None.
 - 6) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
 - 7) Intercompany relationships and significant intercompany transactions: Table 5.
- b. The related information of investees: Table 1.
 - c. Information on established branch units or representative offices overseas: None.
 - d. Information on investments in mainland China: None.
 - e. Information of major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder: Not applicable.
 - f. According to Rule No. 10703209011 issued by the FSC, the business operations of foreign investment enterprises should be disclosed: Table 2 to 4.
 - g. Other: Impact of COVID-19

The Group has evaluated the economic impact caused by the COVID-19, and as of the date these consolidated financial statements were authorized for issue, there were no significant impact on the Group. The Group will continue to observe the relevant epidemic situation and evaluate its impact.

33. SEGMENTS INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Group's operating segments for 2023 and 2022 are as follows:

Securities brokerage: Buying and selling of securities on behalf of others on a centralized securities exchange market.

Securities dealing: Buying and selling of securities for own account on a centralized securities exchange market.

Securities underwriting: Raising of funds and delivering securities in the market.

Other segments: Other business activities other than securities brokers, securities dealers, and securities underwriters.

Segment revenue and results

	Securities Brokerage	Securities Underwriting	Securities Dealing	Other Segments	Total
<u>For the year ended December 31, 2023</u>					
Revenue					
Revenue from external customers	\$ 6,110,958	\$ 58,773	\$ 431,443	\$ 12,813	\$ 6,613,987
Interest revenue	<u>578,289</u>	<u>-</u>	<u>250,822</u>	<u>42</u>	<u>829,153</u>
	<u>6,689,247</u>	<u>58,773</u>	<u>682,265</u>	<u>12,855</u>	<u>7,443,140</u>
Expenses					
Interest expense	56,786	-	264,896	82,806	404,488
Depreciation and amortization	95,276	1,595	15,217	118,209	230,297
Operating expenses and other expenses	<u>3,509,712</u>	<u>80,197</u>	<u>286,841</u>	<u>697,028</u>	<u>4,573,778</u>
	<u>3,661,774</u>	<u>81,792</u>	<u>566,954</u>	<u>898,043</u>	<u>5,208,563</u>
Other gains and losses	<u>275,343</u>	<u>-</u>	<u>12,974</u>	<u>73,520</u>	<u>361,837</u>
Profit (loss) before tax	3,302,816	(23,019)	128,285	(811,668)	2,596,414
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>484,160</u>	<u>484,160</u>
Segment profit (loss)	<u>\$ 3,302,816</u>	<u>\$ (23,019)</u>	<u>\$ 128,285</u>	<u>\$ (1,295,828)</u>	<u>\$ 2,112,254</u>
<u>For the year ended December 31, 2022</u>					
Revenue					
Revenue from external customers	\$ 4,603,310	\$ 88,482	\$ 452,788	\$ (4)	\$ 5,144,576
Interest revenue	<u>560,377</u>	<u>-</u>	<u>61,424</u>	<u>-</u>	<u>621,801</u>
	<u>5,163,687</u>	<u>88,482</u>	<u>514,212</u>	<u>(4)</u>	<u>5,766,377</u>
Expenses					
Interest expense	46,708	-	42,255	10,951	99,914
Depreciation and amortization	95,275	1,815	12,490	98,751	208,331
Operating expenses and other expenses	<u>2,681,906</u>	<u>96,066</u>	<u>504,791</u>	<u>622,649</u>	<u>3,905,412</u>
	<u>2,823,889</u>	<u>97,881</u>	<u>559,536</u>	<u>732,351</u>	<u>4,213,657</u>
Other gains and losses	<u>106,318</u>	<u>-</u>	<u>13,639</u>	<u>27,919</u>	<u>147,876</u>
Profit (loss) before tax	2,446,116	(9,399)	(31,685)	(704,436)	1,700,596
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>291,172</u>	<u>291,172</u>
Segment profit (loss)	<u>\$ 2,446,116</u>	<u>\$ (9,399)</u>	<u>\$ (31,685)</u>	<u>\$ (995,608)</u>	<u>\$ 1,409,424</u>

The Group's operating decision-makers do not use the segment assets and liabilities as the basis for decision-making, hence, only information on segment profit and loss are disclosed.

34. FINANCIAL RATIO RESTRICTIONS AND ITS STATUS OF COMPLIANCE BASED ON THE RELATED FUTURES DEALING REGULATIONS

Futures dealing segment of the Company

In accordance with: “Regulations Governing Futures Commission Merchants”

(In Thousands of New Taiwan Dollars)

No.	Calculation Formula	December 31				Standard	Status of Compliance
		2023		2022			
		Calculation Formula	Ratio	Calculation Formula	Ratio		
17	<div>Total equity</div> <div>(Total liabilities - futures traders' equity)</div>	<div>\$1,101,966</div> <div>\$2</div>	550,983.00 times	<div>\$1,091,286</div> <div>\$571</div>	1,911.18 times	≥ 1	In compliance
17	<div>Total current assets</div> <div>Total current liabilities</div>	<div>\$1,492,657</div> <div>\$2</div>	746,328.50 times	<div>\$1,888,161</div> <div>\$343</div>	5,504.84 times	≥ 1	In compliance
22	<div>Total equity</div> <div>Common stock</div>	<div>\$1,101,966</div> <div>\$400,000</div>	274.49 %	<div>\$1,091,286</div> <div>\$400,000</div>	272.82%	<div>≥ 60%</div> <div>≥ 40%</div>	In compliance
22	<div>ANC</div> <div>Total customer margin accounts after offsetting futures traders' equity</div>	<div>\$1,012,312</div> <div>\$151,230</div>	669.39 %	<div>\$993,462</div> <div>\$159,636</div>	622.33%	<div>≥ 20%</div> <div>≥ 15%</div>	In compliance

Cathay Futures Co., Ltd. (the Company's subsidiary)

In accordance with: “Regulations Governing Futures Commission Merchants”

(In Thousands of New Taiwan Dollars)

No.	Calculation Formula	December 31				Standard	Status of Compliance
		2023		2022			
		Calculation Formula	Ratio	Calculation Formula	Ratio		
17	Total equity	\$3,043,872	28.70 times	\$1,985,429	20.86 times	≥ 1	In compliance
	(Total liabilities - futures traders' equity)	\$106,046		\$95,178			
17	Total current assets	\$13,034,156	1.04 times	\$15,572,868	1.03 times	≥ 1	In compliance
	Total current liabilities	\$12,491,891		\$15,126,609			
22	Total equity	\$3,043,872	507.31%	\$1,985,429	330.90%	≥ 60%	In compliance
	Common stock	\$600,000		\$600,000		≥ 40%	
22	ANC	\$2,615,095	148.95%	\$1,557,077	97.59%	≥ 20%	In compliance
	Total customer margin accounts after offsetting futures traders' equity	\$1,755,727		\$1,595,481		≥ 15%	

35. SPECIFIC RISK FROM FUTURES DEALING AND BROKERAGE

a. Futures dealing

When engaging in futures trading, the Group must pay a certain amount as security deposit. In addition, if the seller's position is held and the Group engages in option trading, a certain percentage of the amount must also be paid as security deposit. The Group calculates daily changes in its margin and premium accounts based on the market settlement price of open futures contracts and option contracts held by the Group. When the margin gradually decreases to the regulated amount due to the market price decline, the Group immediately repays the deposit or reverse write-offs.

b. Futures brokerage

When entering into futures transactions, customers must pay a certain percentage of the transaction amount as margin deposit. Due to the leverage effects of the margin deposits, customers may earn either huge profits or conversely suffer immense losses. To prevent the customers' losses from impacting the Group's financial security, the Group should calculate the changes in the margin deposit and premium accounts based on the market closing prices of the customers' open futures contracts and immediately notify the customer to top up the margin account should the margin deposit fall below a certain amount (the "maintenance margin") due to a gradual decline in market prices. If the customers fail to do so within the allotted time, the Group will close their futures position.

36. TRUST BUSINESS UNDER THE TRUST ENTERPRISE ACT

According to Article 17 of the Trust Enterprise Act, the balance sheets, income statements and trust estate catalogs of trust accounts which should be disclosed were as follows:

a. Balance sheet of trust business

Balance Sheets of Trust Accounts December 31, 2023 and 2022

	Unit: NT\$	
	2023	2022
<u>Trust assets</u>		
Bank deposits	\$ 4,210	\$ 4,720
Funds	338,412	254,249
Securities sold receivables	3,138	633
Interest receivables	<u>1</u>	<u>1</u>
	<u>\$ 345,761</u>	<u>\$ 259,603</u>
<u>Trust liabilities</u>		
Trust capital	\$ 399,219	\$ 389,442
Profit (loss) for current year	(39,598)	(127,785)
Accumulated loss	<u>(13,860)</u>	<u>(2,054)</u>
	<u>\$ 345,761</u>	<u>\$ 259,603</u>

b. Income statement of trust accounts

Income Statements of Trust Accounts
Years Ended December 31, 2023 and 2022

	Unit: NT\$	
	2023	2022
Trust income		
Dividends	\$ 1,997	\$ 1,734
Investment income (loss) - realized	(3,970)	(7,771)
Investment loss - unrealized	<u>(37,625)</u>	<u>(121,748)</u>
Income (loss) before income tax	(39,598)	(127,785)
Income tax expense	<u>-</u>	<u>-</u>
Net income (loss) after tax	<u>\$ (39,598)</u>	<u>\$ (127,785)</u>

c. Trust estate catalog

Trust Estate Catalog of Trust Accounts
December 31, 2023 and 2022

	Unit: NT\$	
Investment Portfolio	2023	2022
Bank deposits	\$ 4,210	\$ 4,720
Funds	338,412	254,249
Securities sold receivables	3,138	633
Interest receivables	<u>1</u>	<u>1</u>
	<u>\$ 345,761</u>	<u>\$ 259,603</u>

The Company is entrusted to manage and use the trust funds, independently setting up accounts and preparing the financial statements. The trust assets and the profit or loss of such assets are not included in the Company's consolidated statements of comprehensive income.

37. INFORMATION DISCLOSED ACCORDING TO ZHENG-GRE-FU LETTER NO. 1030026386

The offshore securities unit of the Company is engaged in the custody and investment of funds on behalf of customers. The amount of the related bank deposits under such affairs as of December 31, 2023 was US\$1,481 thousand.

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2023
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Date of Incorporation	Approval Date of Financial Supervisory Commission and Ref. No.	Main Businesses and Products	Original Investment Amount		As of December 31, 2023			Operating Revenues of the Investee	Net Income (Loss) of the Investee	Share of Profit (Loss)	Cash Dividends	Note
						December 31, 2023	December 31, 2022	Number of Shares	Proportion	Carrying Amount					
Cathay Securities Corporation	Cathay Futures Co., Ltd.	Taiwan	December 29, 1993	N/A	Futures related business	\$ 710,406	\$ 710,406	66,693,748	99.99%	\$ 3,043,588	\$ 437,023	\$ 158,055	\$ 158,040	\$ 64,282	
	Cathay Securities (Hong Kong) Limited	Hong Kong	March 22, 2007	Rule No. 1040009705, issued by the FSC	Securities related business	902,723	902,723	270,000	100.00%	401,638	87,772	(53,211)	(53,211)	-	
Cathay Securities (Hong Kong) Limited	Cathay Capital (Asia) Limited	Hong Kong	February 24, 2020	Rule No. 1080340541, issued by the FSC	Investment related business	3,875 (HK\$ 1,000 thousand)	3,875 (HK\$ 1,000 thousand)	1,000	100.00%	(89,658)	16,767	(15,540)	(15,540)	-	

Note: All intercompany transactions have been eliminated upon consolidation.

TABLE 2

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

SECURITIES HELD
DECEMBER 31, 2023
(In H.K. Dollars, Unless Stated Otherwise)

Holding Company Name	Name and Type of Marketable Securities	Financial Statement Account	December 31, 2023				Note
			Number of Shares	Carrying Value	Percentage of Ownership (%)	Fair Value	
Cathay Capital (Asia) Limited	<u>Foreign bonds</u>						
	MASQUH 3.75 11/15/24	Financial assets at fair value through profit or loss - current	7,230,000	\$ 7,617,588	-	\$ 7,958,005	-
	KNFP 8.5 05/15/26	Financial assets at fair value through profit or loss - current	12,620,000	5,062,649	-	5,030,490	-
	EBIUH 3 08/14/30 EMTN	Financial assets at fair value through profit or loss - current	726,000	4,704,608	-	4,950,763	-
	EBIUH 3.05 08/06/30 EMTN	Financial assets at fair value through profit or loss - current	620,000	4,130,751	-	4,231,508	-
	EBIUH 4.38 07/26/29	Financial assets at fair value through profit or loss - current	2,620,000	2,784,856	-	2,926,243	-
	BNP 4 03/01/24 EMTN	Financial assets at fair value through profit or loss - current	2,000,000	2,143,356	-	2,197,234	-
	EBIUH 4.38 08/01/29 EMTN	Financial assets at fair value through profit or loss - current	1,630,000	1,737,246	-	1,820,525	-
	Others			<u>1,503,904</u>		<u>1,506,708</u>	Note
				29,684,958		<u>\$ 30,621,476</u>	
	Valuation adjustments			<u>936,518</u>			
	Net balance			<u>\$ 30,621,476</u>			

Note: The balance of each item under “others” does not exceed 5% of the total.

TABLE 3**CATHAY CAPITAL (ASIA) LIMITED****BALANCE SHEETS****DECEMBER 31, 2023 AND 2022****(In H.K. Dollars)**

ASSETS	2023		2022	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents	\$ 524,546	1	\$ 105,991,877	60
Financial assets at fair value through profit or loss	30,621,476	84	69,373,228	39
Accounts receivable	4,918,827	13	-	-
Other receivables	616,194	2	1,611,351	1
Prepayments	<u>1,417</u>	<u>-</u>	<u>1,795</u>	<u>-</u>
Total current assets	<u>36,682,460</u>	<u>100</u>	<u>176,978,251</u>	<u>100</u>
TOTAL ASSETS	<u>\$ 36,682,460</u>	<u>100</u>	<u>\$ 176,978,251</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans	\$ 59,393,709	162	\$ 167,435,667	95
Other payables	79,954	-	96,761	-
Other payables to related parties	<u>-</u>	<u>-</u>	<u>28,335,213</u>	<u>16</u>
Total current liabilities	<u>59,473,663</u>	<u>162</u>	<u>195,867,641</u>	<u>111</u>
Total liabilities	<u>59,473,663</u>	<u>162</u>	<u>195,867,641</u>	<u>111</u>
EQUITY				
Share capital	1,000,000	3	1,000,000	-
Accumulated losses	<u>(23,791,203)</u>	<u>(65)</u>	<u>(19,889,390)</u>	<u>(11)</u>
Total equity	<u>(22,791,203)</u>	<u>(62)</u>	<u>(18,889,390)</u>	<u>(11)</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 36,682,460</u>	<u>100</u>	<u>\$ 176,978,251</u>	<u>100</u>

TABLE 4**CATHAY CAPITAL (ASIA) LIMITED****STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In H.K. Dollars)**

	2023		2022	
	Amount	%	Amount	%
REVENUE AND EXPENSE				
Net gains (loss) from sale of securities held for operations	\$ 1,126,196	27	\$ (23,188,293)	240
Interest revenue	1,971,622	47	9,944,815	(103)
Net gains from measurement at fair value through profit or loss for securities held for operations	1,119,095	26	1,943,587	(20)
Net gains from derivative financial instruments - futures	-	-	1,458,695	(15)
Other operating revenue (losses)	(7,049)	-	206,859	(2)
Total revenues (losses)	<u>4,209,864</u>	<u>100</u>	<u>(9,634,337)</u>	<u>100</u>
Dealers' exchange fee expenses	(863,255)	(21)	(701,592)	7
Finance costs	(4,678,206)	(111)	(5,757,004)	60
Employee benefits expenses	(443,000)	(11)	(443,000)	5
Other operating expenses	<u>(2,154,128)</u>	<u>(51)</u>	<u>(4,182,818)</u>	<u>43</u>
Total expenses	<u>(8,138,589)</u>	<u>(194)</u>	<u>(11,084,414)</u>	<u>115</u>
OPERATING LOSS	(3,928,725)	(94)	(20,718,751)	215
NON-OPERATING INCOME AND EXPENSES	<u>26,912</u>	<u>1</u>	<u>26,474</u>	<u>-</u>
NET LOSS BEFORE TAX	(3,901,813)	(93)	(20,692,277)	215
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	(3,901,813)	(93)	(20,692,277)	215
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS	<u>\$ (3,901,813)</u>	<u>(93)</u>	<u>\$ (20,692,277)</u>	<u>215</u>

TABLE 5

CATHAY SECURITIES CORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2023
(In Thousands of New Taiwan Dollars)**

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transaction Details			
				Financial Statement Accounts	Amount	Payment Terms	% of Total Operating Revenue or Assets (Note 3)
0	Cathay Securities Corporation	Cathay Financial Holding Co., Ltd.	b	Other payables	\$ 289,636	Note 4	0.42
		Cathay Financial Holding Co., Ltd.	b	Revenue from the underwriting business	5,550	Note 4	0.07
		Cathay Futures Co., Ltd.	a	Financial assets at fair value through profit or loss - current	487,715	Note 4	0.70
		Cathay Futures Co., Ltd.	a	Other receivables	9,382	Note 4	0.01
		Cathay Futures Co., Ltd.	a	Other non-operating income	16,339	Note 4	0.22
		Cathay Futures Co., Ltd.	a	Futures commission income	44,814	Note 4	0.60
		Cathay Futures Co., Ltd.	a	Accounts receivable	3,264	Note 4	0.00
		Cathay Futures Co., Ltd.	a	Other payables	4,545	Note 4	0.01
		Cathay Futures Co., Ltd.	a	Other operating expenses	95,970	Note 4	1.29
		Cathay Futures Co., Ltd.	a	Brokerage fee revenue	10,356	Note 4	0.14
		Cathay Securities (Hong Kong) Limited	a				
1	Cathay Futures Co., Ltd.	Cathay Securities (Hong Kong) Limited	c	Deposits for securities lending	12,100	Note 4	0.02
2	Cathay Securities (Hong Kong) Limited	Cathay Capital (Asia) Limited	c	Other operating income	7,593	Note 4	0.10
		Cathay Capital (Asia) Limited	c	Consultant fee income	19,350	Note 4	0.03
		Cathay Capital (Asia) Limited	c	Accounts payable	3,438	Note 4	0.05

Note 1: Parent company is numbered 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationships:

- a. Parent to subsidiary.
- b. Subsidiary to parent.
- c. Between subsidiaries.

Note 3: Percentage of transaction amount to total consolidated operating revenue and assets is calculated as follows:

For balance sheet accounts: Transaction amount ÷ Total consolidated assets.
For income statement accounts: Accumulated transaction amount in current period ÷ Total consolidated operating revenues.

Note 4: Terms and conditions of related party transactions are made on arm’s length basis. There is no difference in the terms and conditions between related party and non-related party transactions.

Note 5: All intercompany transactions have been eliminated upon consolidation.

Note 6: The table discloses transactions over \$3,000 thousand.