

**CAPITAL SECURITIES CORPORATION**  
**BALANCE SHEETS**  
December 31, 2012 and 2011  
(New Taiwan Dollars in Thousands, Except Share Data)

ASSETS	December 31, 2012		December 31, 2011		LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2012		December 31, 2011	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Current Assets</b>					<b>Current Liabilities</b>				
Cash and cash equivalents (Notes 2 and 4(1))	\$ 2,483,507	5	2,919,372	5	Short-term borrowings (Note 4(10))	\$ -	-	1,155,000	2
Financial assets measured at fair value through profit or loss - current (Notes 2, 4(2), 4(20) and 6)	14,601,615	27	14,952,692	26	Bonds sold under repurchase agreements (Notes 4(12) and 5)	11,329,169	21	11,594,102	20
Bonds purchased under resale agreements (Notes 2, 4(3) and 6)	1,731,401	3	1,003,334	2	Financial liabilities measured at fair value through profit or loss - current (Notes 4(11) and 4(20))	1,795,255	3	1,212,796	2
Receivable for securities provided as collateral (net of allowance for doubtful accounts)	15,833,530	29	17,696,799	31	Guaranty deposited for securities lent	2,555,221	5	2,729,685	5
Refinancing margin	13,443	-	4,635	-	Proceeds payable from securities lent	3,394,642	6	3,253,659	6
Receivable on refinancing collateral	19,038	-	12,718	-	Security lending refundable deposits	1,787,545	3	2,519,992	5
Receivable for securities lending and borrowing	321,586	1	-	-	Notes payable	1,077	-	865	-
Securities borrowing margin	1,074,822	2	934,784	2	Accounts payable	32,211	-	87,033	-
Notes receivable	9,293	-	5,410	-	Advance receipts	8,631	-	13,145	-
Accounts receivable (Notes 4(4) and 5)	600,088	1	1,360,639	2	Receipts under custody	130,490	-	134,379	-
Prepayments	25,371	-	30,874	-	Other payables (Notes 2 and 4(13))	1,838,687	3	3,133,784	5
Other receivables	200,029	-	216,937	-	Deferred income tax liabilities - current (Notes 2 and 4(16))	20,547	-	58,203	-
Pledged assets - current (Note 6)	416,000	1	428,000	1	Long-term liability - current portion (Note 4(14))	299,881	1	-	-
Available-for-sale financial assets - current (Notes 2 and 4(2))	196,399	-	-	-	Other financial liabilities - current (Note 4(20))	236,897	-	283,343	1
	<u>37,526,122</u>	<u>69</u>	<u>39,566,194</u>	<u>69</u>		<u>23,430,253</u>	<u>42</u>	<u>26,175,986</u>	<u>46</u>
<b>Funds and Long-Term Investments</b>					<b>Long-Term Liabilities</b>				
Long-term investments under equity method (Notes 2 and 4(5))	2,913,614	6	3,058,557	5	Long-term borrowings (Note 4(14))	-	-	299,859	1
Available-for-sale financial assets - non-current (Notes 2 and 4(2))	646,539	1	646,539	1	Other financial liabilities - non-current (Note 4(20))	1,395,831	3	1,769,347	3
Held-to-maturity financial assets - non-current (Notes 2, 4(2) and 6)	-	-	290,000	1	Other long-term liabilities	47,691	-	47,691	-
Financial assets measured at fair value through profit or loss - non-current (Notes 2, 4(2), 4(20) and 6)	207,936	-	238,616	-		<u>1,443,522</u>	<u>3</u>	<u>2,116,897</u>	<u>4</u>
	<u>3,768,089</u>	<u>7</u>	<u>4,233,712</u>	<u>7</u>	<b>Other Liabilities</b>				
<b>Premises and Property (Notes 2, 4(6) and 6)</b>					Guarantee deposits received (Note 5)	18,110	-	18,567	-
Land	4,102,206	8	4,201,952	7	Accrued pension liabilities - non-current (Notes 2 and 4(15))	313,326	1	264,876	-
Buildings	2,173,790	4	2,260,989	4	Other liabilities (Notes 7(8))	71,534	-	163,546	-
Equipment	496,984	1	561,692	1		<u>402,970</u>	<u>1</u>	<u>446,989</u>	<u>-</u>
Prepayment for equipment	42,284	-	41,527	-	<b>Total Liabilities</b>	<u>25,276,745</u>	<u>46</u>	<u>28,739,872</u>	<u>50</u>
Leasehold improvements	240,999	-	239,006	-					
	7,056,263	13	7,305,166	12	<b>Stockholders' Equity</b>				
Less: Accumulated depreciation	(1,294,987)	(2)	(1,275,291)	(2)	Common stock, par value \$10 per share, 3,000,000 thousand shares authorized, 2,369,073 thousand shares issued and outstanding (Note 4(17))	23,690,730	44	23,690,730	41
	<u>5,761,276</u>	<u>11</u>	<u>6,029,875</u>	<u>10</u>	Capital surplus				
<b>Intangible Assets (Notes 2, and 4(7))</b>					Premium from stock issuance	1,940,208	4	1,940,208	3
Goodwill	3,126,698	6	3,126,698	5	Treasury stock transactions (Note 4(18))	107,031	-	107,031	-
Deferred pension cost	7,667	-	9,846	-	Long-term investments	29,534	-	29,534	-
Other intangible assets	401,387	1	404,803	1	Paid-in capital from merger (Note 1)	658,234	1	658,234	1
	<u>3,535,752</u>	<u>7</u>	<u>3,541,347</u>	<u>6</u>	Retained earnings				
<b>Other Assets</b>					Legal reserve	500,532	1	419,092	1
Guaranty deposited for business operations	1,200,098	2	985,292	2	Special reserve (Note 2)	1,277,967	2	1,136,038	2
Settlement fund	179,719	-	420,314	1	Unappropriated earnings (Notes 4(16) and 4(17))	1,095,779	2	872,948	2
Refundable deposits	116,818	-	100,224	-	Cumulative translation adjustments (Note 2)	(56,638)	-	(183)	-
Deferred debits	42,602	-	60,071	-	Net loss not recognized as pension cost	(83,917)	-	(33,664)	-
Pledged assets - non-current (Note 6)	131,439	-	147,228	-	Unrealized gain or loss on financial instruments	(32,759)	-	(3,093)	-
Leased assets (net of accumulated depreciation) (Notes 2 and 6)	1,368,261	3	1,234,965	2		<u>29,126,701</u>	<u>54</u>	<u>28,816,875</u>	<u>50</u>
Idle assets (net of accumulated depreciation) (Note 2)	19,446	-	9,904	-	<b>Total Stockholders' Equity</b>				
Deferred income tax assets - non-current (Notes 2 and 4(16))	641,739	1	851,148	2	<b>Significant commitments and contingencies</b>				
Others (net of allowance for doubtful accounts) (Notes 2 and 4(8))	261	-	8,229	-					
	<u>3,700,383</u>	<u>6</u>	<u>3,817,375</u>	<u>7</u>	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 54,403,446</u>	<u>100</u>	<u>\$ 57,556,747</u>	<u>100</u>
<b>Brokerage accounts, net (Note 4(9))</b>	111,824	-	368,244	1					
	<u>\$ 54,403,446</u>	<u>100</u>	<u>\$ 57,556,747</u>	<u>100</u>					

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

**CAPITAL SECURITIES CORPORATION**  
**STATEMENTS OF INCOME**  
**Years Ended December 31, 2012 and 2011**  
**(New Taiwan Dollars in Thousands, Except Earnings Per Share Data)**

	2012		2011	
	Amount	%	Amount	%
<b>Revenues:</b>				
Brokerage commissions	\$ 2,295,489	38	2,690,191	35
Underwriting commissions	219,239	4	336,416	4
Gain on sale of trading securities - underwriting	13,486	-	-	-
Securities management, distribution, and management fees	155,854	3	129,339	2
Interest revenue	1,230,035	20	1,564,295	20
Dividend revenue	165,449	3	212,374	3
Gain on valuation of trading securities	406,773	7	-	-
Gain on covering of borrowed securities and bonds with resale agreements	-	-	25,652	-
Gain on valuation of borrowed securities and bonds with resale agreements	-	-	30,479	-
Gain on stock warrants issued (Note 4(20))	659,950	11	1,584,796	21
Futures commission revenue (Note 5)	79,714	1	111,962	1
Gain on derivative financial instruments - futures (Note 4(20))	-	-	10,252	-
Gain on derivative financial instruments - OTC (Note 4(20))	-	-	466,298	6
Other operating revenue	285,791	5	286,530	4
Non-operating revenue (Note 5)	327,153	5	298,969	4
Investment income under the equity method (Note 4(5))	165,885	3	-	-
	<u>6,004,818</u>	<u>100</u>	<u>7,747,553</u>	<u>100</u>
<b>Expenses:</b>				
Brokerage fees	136,285	3	174,690	2
Brokerage and clearing fees - proprietary trading	6,711	-	11,994	-
Clearing and exchange fees - refinancing	2,815	-	1,691	-
Clearing and exchange fees - underwriting	2,835	-	10,539	-
Loss on sale of trading securities - proprietary trading	136,200	2	420,480	6
Loss on sale of trading securities - underwriting	-	-	1,844	-
Loss on sale of trading securities - hedging	202,247	4	669,229	9
Interest expense (Note 5)	149,433	2	229,354	3
Loss on valuation of trading securities	-	-	932,920	12
Loss on covering of borrowed securities and bonds with resale agreements	18,158	-	-	-
Loss on valuation of borrowed securities and bonds with resale agreements	45,560	1	-	-
Loss on borrowed securities	213	-	8,386	-
Stock warrant issuance expense	63,449	1	77,519	1
Securities commission expenses - introducing brokers (Note 5)	1,875	-	2,855	-
Loss on derivative financial instruments - futures (Note 4(20))	75,509	1	-	-
Loss on derivative financial instruments - OTC (Note 4(20))	113,356	2	-	-
Operating expenses (Note 5)	3,756,961	63	3,885,048	50
Other operating expenses	9,287	-	9,670	-
Non-operating expenses	19,230	-	9,194	-
Investment loss under the equity method (Note 4(5))	-	-	19,573	-
	<u>4,740,124</u>	<u>79</u>	<u>6,464,986</u>	<u>83</u>
<b>Continuing operations' income before tax</b>	1,264,694	21	1,282,567	17
<b>Less: Income tax expense (Notes 2 and 4(16))</b>	210,437	3	468,169	6
<b>Net income</b>	<u>\$ 1,054,257</u>	<u>18</u>	<u>\$ 814,398</u>	<u>11</u>
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
<b>Basic earnings per share (Note 4(19))</b>	<u>\$ 0.53</u>	<u>0.45</u>	<u>0.54</u>	<u>0.35</u>
<b>Diluted earnings per share (Note 4(19))</b>	<u>\$ 0.53</u>	<u>0.44</u>	<u>0.54</u>	<u>0.34</u>

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

**CAPITAL SECURITIES CORPORATION**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Years Ended December 31, 2012 and 2011**  
**(New Taiwan Dollars in Thousands)**

	Retained earnings					Shareholder's equity - other items			Total
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gain (loss) on financial instruments	
<b>Beginning balance, January 1, 2011</b>	\$ 23,057,225	2,598,127	254,533	509,066	1,660,446	(58,001)	-	111	28,021,507
Issuance common stock through merger	283,396	136,880	-	-	-	-	-	-	420,276
Net income for 2011	-	-	-	-	814,398	-	-	-	814,398
Appropriation of 2010 earnings (Note 1) :									
Legal reserve	-	-	164,559	-	(164,559)	-	-	-	-
Special reserve	-	-	-	387,010	(387,010)	-	-	-	-
Cash dividends	-	-	-	-	(700,218)	-	-	-	(700,218)
Capital increased from retained earnings	350,109	-	-	-	(350,109)	-	-	-	-
Net loss not recognized as pension cost	-	-	-	-	-	-	(33,664)	-	(33,664)
Foreign currency translation adjustments	-	-	-	-	-	57,818	-	-	57,818
Adjustment from changes in equity recognized under equity method	-	-	-	54,778	-	-	-	(3,204)	51,574
Adjustment for reserve of default & trading loss to special reserve	-	-	-	185,184	-	-	-	-	185,184
<b>Ending balance, December 31, 2011</b>	<b>23,690,730</b>	<b>2,735,007</b>	<b>419,092</b>	<b>1,136,038</b>	<b>872,948</b>	<b>(183)</b>	<b>(33,664)</b>	<b>(3,093)</b>	<b>28,816,875</b>
Net income for 2012	-	-	-	-	1,054,257	-	-	-	1,054,257
Appropriation of 2011 earnings (Note 2) :									
Legal reserve	-	-	81,440	-	(81,440)	-	-	-	-
Special reserve	-	-	-	162,880	(162,880)	-	-	-	-
Cash dividends	-	-	-	-	(592,268)	-	-	-	(592,268)
Indemnification to stockholders due to merger (Note 10(3))	-	-	-	-	(15,789)	-	-	-	(15,789)
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	(29,666)	(29,666)
Net loss not recognized as pension cost	-	-	-	-	-	-	(50,253)	-	(50,253)
Foreign currency translation adjustments	-	-	-	-	-	(56,455)	-	-	(56,455)
Reversal of special reserve	-	-	-	(20,951)	20,951	-	-	-	-
<b>Ending balance, December 31, 2012</b>	<b>\$ 23,690,730</b>	<b>2,735,007</b>	<b>500,532</b>	<b>1,277,967</b>	<b>1,095,779</b>	<b>(56,638)</b>	<b>(83,917)</b>	<b>(32,759)</b>	<b>29,126,701</b>

Note 1 : The remuneration to directors and supervisors and the employee bonuses were \$45,175 and \$33,882 which were deducted from the statement of income, respectively.

Note 2 : The remuneration to directors and supervisors and the employee bonuses were \$25,474 and \$18,105 which were deducted from the statement of income, respectively.

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

**CAPITAL SECURITIES CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2012 and 2011**  
**(New Taiwan Dollars in Thousands)**

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
<b>Net income</b>	\$ 1,054,257	814,398
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Depreciation expense	181,683	182,538
Amortization	38,233	31,562
Amortization of held-to-maturity financial assets - non-current	-	885
Amortization of discount on commercial paper payable - long term	22	-
Investment loss (gain) under the equity method	(165,885)	19,573
Cash dividend received from long-term investments under equity method	149,497	25,749
Loss (gain) on disposal of premises and property	511	(49)
Loss (gain) on disposal of long term investment under equity method	(143)	(638)
Investment loss (gain) on disposal of available-for-sale financial assets - non-current	-	(4,586)
Loss (gain) on valuation of trading securities	(406,773)	932,920
<b>Net changes of operating assets and liabilities:</b>		
<b>Net changes of operating assets:</b>		
Decrease in financial assets measured at fair value through profit or loss - current	788,530	228,773
Decrease (increase) in bonds purchased under resale agreements	(728,067)	572,225
Decrease (increase) in receivable for securities provided as collateral	1,863,269	12,220,931
Decrease (increase) in refinancing margin	(8,808)	(2,420)
Decrease (increase) in receivable on refinancing collateral	(6,320)	971
Decrease (increase) in receivable for securities borrowing and lending	-	1,464
Decrease (increase) in securities lending refundable deposits	(321,586)	-
Decrease (increase) in security borrowing margin	(140,038)	(788,858)
Decrease (increase) in notes receivable	(3,883)	769
Decrease (increase) in accounts receivable	760,551	(357,721)
Decrease (increase) in prepayments	5,503	32,166
Decrease (increase) in other receivables	16,908	69,302
Decrease (increase) in pledged assets - current	12,000	494,500
Deferred income tax assets and liabilities, net	183,315	375,038
Decrease (increase) in available-for-sale financial assets - current	(225,997)	-
Decrease (increase) in other assets	7,968	(7,884)
Brokerage accounts , net	256,420	(234,199)
<b>Changes in operating assets:</b>	<u>2,459,765</u>	<u>12,605,057</u>
<b>Net changes of operating liabilities:</b>		
Increase (decrease) in bonds sold under repurchase agreements	(264,933)	3,242,946
Increase (decrease) in financial liabilities measured at fair value through profit or loss - current	582,459	(499,987)
Increase (decrease) in guaranty deposited for securities lent	(174,464)	866,391
Increase (decrease) in proceeds payable from securities lent	140,983	1,063,028
Increase (decrease) in securities lending refundable deposits	(732,447)	1,269,766
Increase (decrease) in notes payable	212	(23,009)
Increase (decrease) in accounts payable	(54,822)	(179,080)
Increase (decrease) in advance receipts	(4,514)	187
Increase (decrease) in receipts under custody	(3,889)	(64,823)
Increase (decrease) in other payables	(1,295,097)	(1,871,368)
Increase (decrease) in accrued pension liabilities	376	(8,948)
Increase (decrease) in other financial liabilities	(419,962)	484,286
Increase (decrease) in guarantee deposits received	(457)	2,058
Increase (decrease) in other liabilities	(92,012)	(12,586)
<b>Changes in operating liabilities:</b>	<u>(2,318,567)</u>	<u>4,268,861</u>
<b>Net cash provided by (used in) operating activities</b>	<u>992,600</u>	<u>18,876,270</u>

**CAPITAL SECURITIES CORPORATION**  
**STATEMENTS OF CASH FLOWS (CONT'D)**  
**Years Ended December 31, 2012 and 2011**  
**(New Taiwan Dollars in Thousands)**

	<u>2012</u>	<u>2011</u>
<b>Cash flows from investing activities:</b>		
Proceeds from capital reduction of Available-for-sale financial assets	\$ -	4,929
Repayment from maturity of held-to-maturity financial assets	290,000	500,000
Purchase of long term investments under the equity method	-	(146)
Proceeds from capital reduction of investments under the equity method	93,387	56,100
Purchase of premises and property	(56,463)	(162,024)
Proceeds from disposal of premises and property	151	67
Decrease (increase) in leased asset	(120)	-
Decrease (increase) in guaranty deposited for business operations	(214,806)	(271,087)
Decrease (increase) in settlement fund	240,595	62,055
Decrease (increase) in refundable deposits	(16,594)	3,560
Purchase of deferred debits	(17,347)	(32,335)
Cash transfer from merger	-	205,915
Cash payment for merger	-	(861,861)
<b>Net cash provided by (used in) investing activities</b>	<u>318,803</u>	<u>(494,827)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowings	(1,155,000)	(2,647,027)
Increase (decrease) in commercial paper payable	-	(9,058,325)
Reimburse in long-term borrowings	-	(4,400,008)
Cash dividends	(592,268)	(700,218)
<b>Net cash provided by (used in) financing activities</b>	<u>(1,747,268)</u>	<u>(16,805,578)</u>
Increase in cash and cash equivalents	(435,865)	1,575,865
Cash and cash equivalents, beginning of the year	2,919,372	1,343,507
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 2,483,507</u>	<u>2,919,372</u>
<b>Supplemental disclosures of cash flows information:</b>		
Cash paid during the year for interest	<u>\$ 131,062</u>	<u>227,868</u>
Cash paid during the year for income taxes	<u>\$ 1,200,874</u>	<u>1,543,501</u>
<b>Material item not affecting investing and financing activities</b>		
Long-term liabilities - current portion	<u>\$ 299,881</u>	<u>-</u>
Capital increased from retained earnings	<u>\$ -</u>	<u>350,109</u>

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