

**CAPITAL SECURITIES CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

**Address: 4th Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C.
Telephone: 886-2-8789-8888**

CAPITAL SECURITIES CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
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安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei, 11049, Taiwan, R.O.C.

Telephone 電話 + 886 (2) 8101 6666

Fax 傳真 + 886 (2) 8101 6667

Internet 網址 kpmg.com/tw

Independent Accountants' Review Report

The Board of Directors
Capital Securities Corporation

We have reviewed the accompanying consolidated balance sheets of Capital Securities Corporation and its subsidiaries as of March 31, 2016 and 2015 and the related consolidated statements of comprehensive income, equity change, and cash flows for the three months ended March 31, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

Except for the third and fourth paragraphs, we have reviewed these consolidated financial statements in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements". A review consists primarily of making inquiries of company personnel and applying analytical procedures to financial data. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The related information of certain subsidiaries under the equity method in the accompanying consolidated financial statements were based on the investees' financial statements for the same period which were not reviewed by independent accountants. The total assets of these investees as of March 31, 2016 and 2015 were \$6,610,358 thousands and \$7,882,196 thousands, constituting 6.77% and 8.30% of total consolidated assets, respectively; the total liabilities of these investees as of March 31, 2016 and 2015 were \$3,113,942 thousands and \$5,460,912 thousands, constituting 4.73% and 8.78% of total consolidated liabilities, respectively; the total comprehensive income of these investees for the three-month periods ended March 31, 2016 and 2015 were \$8,049 thousands and \$(22,037) thousands, constituting 2.43% and (3.84)% of total consolidated comprehensive income, respectively.

As described in Note 6(6) of the consolidated statements, the investments under equity method amounting to \$180,724 thousands and \$118,098 thousands as of March 31, 2016 and 2015, respectively, and share of profits of associates and joint venture under equity method amounting to \$23,182 thousands and \$14,831 thousands for the three months periods ended March 31, 2016 and 2015, respectively, were based on their unreviewed financial statements for the same reporting period.

Based on our review, except for the effect on the consolidated financial statements which described in the first paragraph, if the financial statements of investee company were reviewed by independent accountants as explained in the third and fourth paragraphs, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above in order for them to be in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Firms" and International Accounting Standard No. 34 "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission.

KPMG
Taipei, Taiwan, R.O.C.
May 12, 2016

Notice to Readers

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

The independent accountants' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language independent accountants' review report and consolidated financial statements, the Chinese version shall prevail.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed In Thousands of New Taiwan Dollars, Except Earnings Per Share Data)
(Unaudited)

	For the three months ended March 31,			
	2016		2015	
	Amount	%	Amount	%
Income:				
Brokerage commissions (Note 6(22))	\$ 862,682	62	\$ 798,367	48
Revenue from securities business money lending	13	-	7	-
Revenue from securities lendings	14,332	1	11,564	1
Underwriting commissions (Note 6(22))	16,236	1	86,206	5
Commissions on wealth management business	12,449	1	15,392	1
Net gains (losses) on sale of trading securities (Note 6(22))	(146,012)	(10)	328,649	20
Securities management, distribution, and management fees	35,567	3	34,219	2
Interest revenue (Note 6(22))	341,477	24	359,033	22
Dividend Revenue	829	-	-	-
Net gains on measurement of trading securities at fair value through profit or loss (Note 6(22))	147,936	11	128,121	8
Net gains (losses) on covering of borrowed securities and bonds with resale agreements	73,625	5	(60,336)	(4)
Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(64,615)	(5)	2,766	-
Net gains (losses) on stock warrants issued (Notes 6(22) and 6(24))	216,044	15	182,230	11
Futures commission revenue	95,333	7	25,134	2
Net gains (losses) on derivative instruments - futures (Note 6(24))	(117,377)	(8)	(170,839)	(10)
Net gains (losses) on derivative instruments - OTC (Note 6(24))	(108,553)	(8)	(110,542)	(7)
Management fee revenue	50	-	203	-
Advisory commissions	2,865	-	1,825	-
Other operating revenue	15,973	1	12,904	1
	<u>1,398,854</u>	<u>100</u>	<u>1,644,903</u>	<u>100</u>
Expenses:				
Brokerage fees	111,226	8	74,833	5
Brokerage and clearing fees - proprietary trading	4,265	-	5,030	-
Clearing and exchange fees - refinancing	835	-	724	-
Clearing and exchange fees - underwriting	334	-	1,435	-
Financial costs	56,099	4	46,510	3
Commission expense - futures	79,997	6	47,564	3
Clearing and settlement expenses	37,088	3	24,342	1
Other operating expenditure	2,829	-	1,546	-
Employee benefits expenses (Note 6(22))	598,648	43	624,475	38
Depreciation and amortization expenses (Note 6(22))	54,348	4	54,274	3
Other operating expenses (Note 6(22))	366,367	26	344,423	21
	<u>1,312,036</u>	<u>94</u>	<u>1,225,156</u>	<u>74</u>
Other income and expenses :				
Share of profits of associates and joint venture (Note 6(6))	23,182	2	14,831	1
Other gains and losses (Note 6(22))	175,938	13	247,150	15
	<u>199,120</u>	<u>15</u>	<u>261,981</u>	<u>16</u>
Net income before income tax	<u>285,938</u>	<u>21</u>	<u>681,728</u>	<u>42</u>
Income tax expense (Note 6(19))	<u>(65,017)</u>	<u>(5)</u>	<u>(91,222)</u>	<u>(6)</u>
Net income	<u>220,921</u>	<u>16</u>	<u>590,506</u>	<u>36</u>
Other comprehensive income:				
To be reclassified to profit or loss in subsequent periods				
Exchange differences on translation of foreign operations	(49,648)	(4)	(25,612)	(1)
Unrealized gains (losses) on financial assets available for sale, net	151,375	11	4,760	-
Income tax benefit related to components of other comprehensive income (Note 6(19))	8,508	1	4,756	-
Subtotal of items that may be subsequently reclassified into profit or loss	<u>110,235</u>	<u>8</u>	<u>(16,096)</u>	<u>(1)</u>
Other comprehensive income for the period, net of income tax	<u>110,235</u>	<u>8</u>	<u>(16,096)</u>	<u>(1)</u>
Total comprehensive income for the period	<u>\$ 331,156</u>	<u>24</u>	<u>\$ 574,410</u>	<u>35</u>
Net income attributable to				
Shareholders of the parent	\$ 161,807	12	567,407	35
Non-controlling interests	59,114	4	23,099	1
	<u>\$ 220,921</u>	<u>16</u>	<u>\$ 590,506</u>	<u>36</u>
Total comprehensive income attributable to:				
Shareholders of the parent	\$ 274,852	20	550,998	34
Non-controlling interests	56,304	4	23,412	1
	<u>\$ 331,156</u>	<u>24</u>	<u>\$ 574,410</u>	<u>35</u>
Basic earnings per share (Note 6(21))	<u>\$ 0.07</u>		<u>\$ 0.24</u>	
Dilutive earnings per share (Note 6(21))	<u>\$ 0.07</u>		<u>\$ 0.24</u>	

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

	Equity attributable to shareholders of the parent										Total	
	Retained earnings					Others			Equity attributable to shareholders of the parent	Non-controlling interests		Equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets available for sale	Treasury stocks				
Beginning balance, January 1, 2015	\$ 23,690,730	2,711,760	753,136	1,756,283	2,089,222	76,558	20,791	-	31,098,480	1,103,640	32,202,120	
Net income for the three months ended March 31, 2015	-	-	-	-	567,407	-	-	-	567,407	23,099	590,506	
Other comprehensive income for the three months ended March 31, 2015	-	-	-	-	-	(19,218)	2,809	-	(16,409)	313	(16,096)	
Total comprehensive income for the three months ended March 31, 2015	-	-	-	-	567,407	(19,218)	2,809	-	550,998	23,412	574,410	
Changes of non-controlling interests	-	-	-	-	-	-	-	-	-	2,201	2,201	
Ending balance, March 31, 2015	\$ 23,690,730	2,711,760	753,136	1,756,283	2,656,629	57,340	23,600	-	31,649,478	1,129,253	32,778,731	
Beginning balance, January 1, 2016	\$ 23,190,730	2,742,807	955,667	2,154,422	1,586,994	135,985	(6,850)	(469,155)	30,290,600	1,237,067	31,527,667	
Net income for the three months ended March 31, 2016	-	-	-	-	161,807	-	-	-	161,807	59,114	220,921	
Other comprehensive income for the three months ended March 31, 2016	-	-	-	-	-	(37,367)	150,412	-	113,045	(2,810)	110,235	
Total comprehensive income for the three months ended March 31, 2016	-	-	-	-	161,807	(37,367)	150,412	-	274,852	56,304	331,156	
Changes of non-controlling interests	(500,000)	7,579	-	-	-	-	-	469,155	(23,266)	-	(23,266)	
Ending balance, March 31, 2016	\$ 22,690,730	2,750,386	955,667	2,154,422	1,748,801	98,618	143,562	-	30,542,186	1,293,371	31,835,557	

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

	For the three months ended March 31,	
	2016	2015
Cash flows from operating activities:		
Income before income tax for the period	\$ 285,938	681,728
Adjustments for:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	44,272	44,231
Amortization expense	10,076	10,043
Net gains on financial assets or liabilities at fair value through profit or loss	(147,936)	(128,121)
Interest expense	56,099	46,510
Interest income (including financial income)	(387,922)	(396,510)
Dividend income	(3,188)	(2,008)
Share of profit of associates and joint ventures	(23,182)	(14,831)
Losses on disposal and retirement of property and equipment	3,198	-
Losses (gains) on non-operating financial instruments at fair value through profit or loss	15,957	(6,531)
Net changes of income and expense items with no effect on cash flows	(432,626)	(447,217)
Changes in assets and liabilities from operating activities:		
Net changes of assets from operating activities:		
Decrease (increase) in financial assets at fair value through profit or loss	1,792,166	(4,880,353)
Decrease (increase) in financial assets available for sale - current	(3,332,355)	-
Decrease (increase) in bonds purchased under resale agreements	(397,256)	-
Decrease (increase) in receivable for securities provided as collateral	1,633,507	(5,031,590)
Decrease (increase) in refinancing margin	4,045	15,007
Decrease (increase) in receivable on refinancing collateral	1,559	24,001
Decrease (increase) in proceeds of securities borrowing	(2,185)	-
Decrease (increase) in customer margin account	(2,911,015)	193,807
Decrease (increase) in margin receivable of futures trading	6	-
Decrease (increase) in collateral for securities borrowed	481,476	330,372
Decrease (increase) in security borrowing margin	729,889	302,946
Decrease (increase) in notes receivable	2,524	2,094
Decrease (increase) in accounts receivable	(1,966,953)	(391,308)
Decrease (increase) in prepayments	(5,102)	(45,469)
Decrease (increase) in other receivables	11,017	(5,094)
Decrease (increase) in current income tax assets	(5,541)	(4,778)
Decrease (increase) in other current assets	1,227,343	(1,560,074)
Decrease (increase) in guarantee deposited for business operations	1,921	278,997
Decrease (increase) in settlement fund	184,129	7,503
Decrease (increase) in refundable deposits	(7,387)	(73,877)
Decrease (increase) in other non-current assets	(150,599)	(37,700)
Total net changes of assets from operating activities:	(2,708,811)	(10,875,516)
Net changes of liabilities from operating activities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	(385,487)	(803,161)
Increase (decrease) in bonds sold under repurchase agreements	3,326,906	2,284,005
Increase (decrease) in guaranty deposited for short sales	(928,576)	(1,416,734)
Increase (decrease) in proceeds payable from short sales	(1,072,872)	(1,602,465)
Increase (decrease) in securities lending refundable deposits	(1,116,748)	(1,619,288)
Increase (decrease) in futures traders' equity	2,870,984	(271,420)
Increase (decrease) in notes payable	(378)	(678)
Increase (decrease) in customer equity of separate account ledger in settlement account	35,608	-
Increase (decrease) in accounts payable	2,478,389	3,034,808
Increase (decrease) in advance receipts	(3,102)	(5,322)
Increase (decrease) in receipts under custody	(1,243,901)	1,503,528
Increase (decrease) in other payables	(107,560)	(133,224)
Increase (decrease) in other current liabilities	9,687	21,158
Increase (decrease) in other financial liabilities	(1,076,909)	1,203,086
Increase (decrease) in other non-current liabilities	(109)	872
Total net changes of liabilities from operating activities	2,785,932	2,195,165
Total net changes in assets and liabilities from operating activities	77,121	(8,680,351)
Total Cash generated from adjustment items	(355,505)	(9,127,568)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

	For the three months ended March 31,	
	2016	2015
Cash generated by operating activities	\$ (69,567)	(8,445,840)
Interest received	379,147	331,698
Dividends received	3,041	2,125
Interest paid	(58,158)	(49,215)
Income tax paid	(3,443)	(37,808)
Net cash provided by (used in) operating activities	251,020	(8,199,040)
Cash flows from investing activities:		
Increase (decrease) in financial assets measured at cost	(76,000)	-
Increase (decrease) of deferred debits	(399)	(452)
Acquisitions of property and equipment	(19,923)	(27,248)
Acquisitions of intangible assets	(2,561)	(28,929)
Net cash flows provided by (used in) investing activities	(98,883)	(56,629)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowing	930,412	4,267,104
Increase (decrease) in long-term liabilities - current portion	-	(500,000)
Increase (decrease) in commercial paper payable	299,983	3,398,924
Acquisition of treasury stocks	(23,266)	-
Increase (decrease) in long-term borrowings	-	1,300,000
Change in non-controlling interests	-	2,201
Net cash provided by (used in) financing activities	1,207,129	8,468,229
Effect of exchange rate changes on cash and cash equivalents	(47,771)	(23,310)
Increase (decrease) in cash and cash equivalents	1,311,495	189,250
Cash and cash equivalents, beginning of the year	4,726,498	4,227,583
Cash and cash equivalents, end of this period	\$ 6,037,993	4,416,833

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

Notes to consolidated financial statements as of March 31, 2016 and 2015 are reviewed only,
not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016 AND 2015

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS UNLESS OTHERWISE STATED)

1. OVERVIEW

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988, The address of the Company’s registered office is 4 Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C. As of March 31, 2016, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of March 31, 2016, the Company has 58 branches nationwide.

The Company is authorized to conduct the following businesses:

- (1) Underwriting of marketable securities;
- (2) Trading of marketable securities on a proprietary basis on stock exchange;
- (3) Brokerage of marketable securities on stock exchange;
- (4) Trading of marketable securities at the Company’s branches;
- (5) Brokerage of marketable securities at the Company’s branches;
- (6) Margin loan, short sale and refinancing;
- (7) Securities registration agency services;
- (8) Dealership of foreign marketable securities;
- (9) Short-term bills service;
- (10) Accessory services of futures trading;
- (11) Futures trading on a proprietary basis;
- (12) Securities business money lending;
- (13) Managing the unexpended balance of clients' securities accounts within their authorization;
- (14) Trust business;
- (15) Offshore securities business; and;
- (16) Other relevant services as approved by the authority in charge.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issuance by the board of directors on May 12, 2016.

3. NEW STANDARDS AND INTERPRETATIONS

(1) The standards and interpretations new issued but not yet endorsed by the Financial Supervisory Commission (“FSC”)

A summary of the new issued, revised and amended standards and interpretations for IFRSs issued by the International Accounting Standards Board (“IASB”), but not yet endorsed by the FSC is as follows:

<u>Newly issued, Revised accounting standards and interpretations</u>	<u>Effective date per IASB</u>
• IFRS 9 Financial Instruments	January 1, 2018
• Amendment to IFRS 10 and IAS 28 “Sales or Contributions of Assets between an Investor and its Associate or Joint Venture”	Undecided
• Amendment to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
• Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
• IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
• IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
• IFRS 16 “Leases”	January 1, 2019
• IFRS 15 “Clarifications to IFRS 15”	January 1, 2018
• Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
• Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
• Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
• Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
• Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plant”	January 1, 2016
• Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
• Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
• Amendment to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
• Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
• Annual Improvements to IFRSs 2010–2012 and 2011–2013 Cycle	July 1, 2014
• Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016
• Interpretations to IFRS 21 “Levies”	January 1, 2014

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Group continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the above standards or interpretations. The related impact will be disclosed when the Group completes the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Firms", and the IAS 34 "Interim Financial Reporting" endorsed by the FSC and do not include all of the information required for full annual consolidated financial statements prepared in accordance with the IFRSs, IAS and interpretations endorsed by the FSC.

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2015. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2015 for the detail disclosures of significant accounting policies.

(2) Basis of preparation

Except for Note 3(1), principle of preparing consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2015. Please refer to Note 4(3) of the consolidated financial statements as of and for the year ended December 31, 2015.

A. Subsidiaries listed in the consolidated financial statement were as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Mar 31, 2016	Dec 31, 2015	Mar 31, 2015	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and consultancy	100.00%	100.00%	100.00%	Established in February, 1990 with the paid-in capitals amounted to \$70,000.
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00%	100.00%	100.00%	Established in March, 1996, with the paid-in capitals amounted to US\$45,000 thousand
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	59.01%	59.01%	59.01%	Established in February, 1997 with the paid-in capitals amounted to \$1,223,979.
"	Taiwan International Futures Corp.	Management and consulting business	99.99%	99.99%	99.99%	Liquidation in progress.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for international securities business	100.00%	100.00%	100.00%	The paid-in capitals amounted to US\$9,516 thousand.
"	Taiwan International Securities Investment Consulting Corp.	Management and consulting business	99.92%	99.92%	99.92%	Liquidation in progress.
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00%	-%	-%	Established in January, 2016 with the paid-in capitals amounted to \$1,000,000.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Mar 31, 2016	Dec 31, 2015	Mar 31, 2015	
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	95.00%	95.00%	100.00%	Established in December, 1998. Acquired 100% of the equity on November 1, 2012, disposed 5% on April 2, 2014 and reacquired 5% on December 23, 2014, then re-disposed 5% on April 30, 2015. As of March 31, 2016, the paid-in capitals amounted to HKD\$120,000 thousand.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00%	100.00%	100.00%	Established in December, 2014. As of March 31, 2016, the paid-in capitals amounted to \$50,000
Capital International Technology Corp.	Capital True Partner Co., Ltd.	Management, consulting and information service business	51.00%	51.00%	51.00%	Established on August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of March 31, 2016, the paid-in capitals amounted to CNY\$1,000 thousand.
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	Established in May, 1994.
"	Capital Securities (Hong Kong) Ltd.	Long-term equity investment business	100.00%	100.00%	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012.
"	CSC Finance Ltd.	Securities financing business	-	-	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012. The liquidation was completed on November 19, 2015.
"	CSC Asia Ltd.	Provision of corporate advisory services	-	-	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33% equity, respectively	The board of directors of the Company resolved to cease operation on October 30, 2012. The liquidation was completed on November 19, 2015.
Capital Securities (Hong Kong) Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	Established in May, 1994.
"	CSC Asia Ltd.	Provision of corporate advisory services	-	-	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33% equity, respectively	The board of directors of the Company resolved to cease operation on October 30, 2012. The liquidation was completed on November 19, 2015.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Mar 31, 2016	Dec 31, 2015	Mar 31, 2015	
Capital Securities (Hong Kong) Ltd.	CSC Financial Services Ltd.	Securities financing business	-	-	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012. The liquidation was completed on November 19, 2015.
CSC Securities (HK) Ltd.	Capital Securities Nominee Ltd.	Agency service	100.00%	100.00%	100.00%	Established in April, 1995. Acquired equity from Capital Securities (Hong Kong) Ltd. on January 17, 2013.
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Long-term equity investment business	100.00%	100.00%	100.00%	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00%	100.00%	100.00%	Not complied with the requirement of FRR of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.

B. Subsidiaries not listed in the consolidated financial statement

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Mar 31, 2016	Dec 31, 2015	Mar 31, 2015	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business	100.00%	100.00%	100.00%	Established in November 2000. The company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$7,400. As of March 31, 2016 and December 31 and March 31, 2015, the total assets constituted 0.06%, 0.06% and 0.07% of the Group's total assets. For the three months ended March 31, 2016 and 2015, the revenues were merely 1.58% and 0.93% of the consolidated revenue which were so immaterial, thus they were excluded from the consolidated financial statement.
"	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage, property insurance brokerage and manages personal insurance agent business	100.00%	100.00%	100.00%	Established in November 2000. The company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$3,890. As of March 31, 2016 and December 31 and March 31, 2015, the total assets constituted 0.12%, 0.11% and 0.08% of the Group's total assets. For the three months ended March 31, 2016 and 2015, the revenues were merely 3.71% and 2.13% of the consolidated revenue which were so immaterial, thus they were excluded from the consolidated financial statement.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Income tax

The Group estimated and disclosed interim income tax under IAS 34 “Interim Financial Reporting” Appendix B12.

Income tax expense is best estimated by multiplying pretax income for the interim reporting period with the effective annual tax rate as forecasted by the management, and is recognized as current tax expense.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled and recognized directly in equity or other comprehensive income as tax expense.

(4) Employee benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

5. MAJOR SOURCES OF ACCOUNTING ASSUMPTIONS, JUDGEMENTS AND ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in conformity with Regulations Governing the Preparation of Financial Reports by Securities Firms and IAS 34 “Interim Financial Reporting” requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 5 of the consolidated financial statements as of and for the year ended December 31, 2015.

6. SUMMARY OF MAJOR ACCOUNTS

Except as described below, the description of significant accounts in the accompanying consolidated financial statements is not materially different from the consolidated financial statements as of and for the year ended December 31, 2015. Please refer to Note 6 of the consolidated financial statements as of and for the year ended December 31, 2015 for the detailed disclosures of these significant accounts.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(1) Cash and cash equivalents

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Cash	\$ 3,011	3,140	3,148
Bank deposits			
Checking accounts	35,124	48,103	46,129
Demand deposits	816,309	177,236	116,972
Time deposits	1,986,607	1,768,772	1,929,560
Foreign currency deposits	2,267,350	1,111,031	1,462,195
Subtotal	<u>5,105,390</u>	<u>3,105,142</u>	<u>3,554,856</u>
Futures margin-excess margin	746,485	1,463,300	858,829
Commercial papers	183,107	154,916	-
Subtotal	<u>929,592</u>	<u>1,618,216</u>	<u>858,829</u>
Total	<u>\$ 6,037,993</u>	<u>4,726,498</u>	<u>4,416,833</u>

(2) Financial assets

A. Financial assets at fair value through profit or loss - current:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 349,801	690,994	262,756
Valuation adjustment	(5,323)	10,561	19,098
Subtotal	<u>344,478</u>	<u>701,555</u>	<u>281,854</u>
Securities invested by securities broker			
Securities invested by securities broker	-	5,439	261,498
Valuation adjustment	-	(121)	6,192
Subtotal	<u>-</u>	<u>5,318</u>	<u>267,690</u>
Trading securities - proprietary trading:			
Listed stocks	1,305,583	1,878,306	1,273,571
Listed funds	-	61,890	-
OTC stocks	104,837	156,121	183,951
Emerging market stocks	187,411	177,697	342,042
Convertible corporate bonds	285,820	345,901	490,020
Government bonds	2,865,045	2,823,467	6,207,115
Corporate bonds	10,285,391	11,245,486	10,084,308
Financial debentures	2,127,968	1,500,549	1,554,797
Foreign stocks	194,945	478,309	320,325
Overseas bonds	161,092	164,321	377,224
Emerging fund	7,146	7,424	6,056
Other	39,603	29,989	29,989
	<u>17,564,841</u>	<u>18,869,460</u>	<u>20,869,398</u>
Valuation adjustment	147,989	62,485	44,230
Subtotal	<u>17,712,830</u>	<u>18,931,945</u>	<u>20,913,628</u>
Trading securities - underwriting:			
Listed stocks	42,209	42,209	3,094
OTC stocks	2,202	-	8,649
Convertible corporate bonds	52,600	51,400	97,600
	<u>97,011</u>	<u>93,609</u>	<u>109,343</u>
Valuation adjustment	5,078	1,223	4,384
Subtotal	<u>102,089</u>	<u>94,832</u>	<u>113,727</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Trading securities - hedging:			
Listed stocks	\$ 1,498,018	1,573,401	3,054,833
OTC stocks	318,687	470,773	730,087
Convertible corporate bonds	3,927,159	3,948,040	4,120,130
Foreign stocks	1,090	1,114	-
Overseas funds	-	-	6,030
	<u>5,744,954</u>	<u>5,993,328</u>	<u>7,911,080</u>
Valuation adjustment	(46,008)	(105,180)	265,336
Subtotal	<u>5,698,946</u>	<u>5,888,148</u>	<u>8,176,416</u>
Derivatives:			
Call options	40,110	50,244	51,257
Futures margin - proprietary fund	385,027	270,282	238,503
IRS asset swaps	25,160	22,878	23,883
Asset swap options - long position	8,953	11,940	21,819
Structured notes	1,611	-	187
Currency swaps	6,378	8,482	1,744
Subtotal	<u>467,239</u>	<u>363,826</u>	<u>337,393</u>
Total	<u>\$ 24,325,582</u>	<u>25,985,624</u>	<u>30,090,708</u>

As of March 31, 2016, December 31, 2015 and March 31, 2015, the par value of trading securities - bonds under repurchase agreement of the Group were \$27,579,588, \$23,993,535 and \$16,975,500, respectively (please refer to Note 6(13) for details).

B. Financial assets available for sale - current:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Listed stocks	\$ 100,929	101,535	-
OTC stocks	22,210	-	-
Overseas bonds	11,070,904	7,757,004	-
Valuation adjustments	122,793	(23,084)	-
Total	<u>\$ 11,316,836</u>	<u>7,835,455</u>	<u>-</u>

C. Financial assets at fair value through profit and loss - non-current:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Financial assets held for trading:			
Government bonds	\$ 188,819	188,818	189,791
Valuation adjustment	1,594	1,736	(1,096)
Total	<u>\$ 190,413</u>	<u>190,554</u>	<u>188,695</u>

As of March 31, 2016, December 31, 2015 and March 31, 2015, the Group took advantage of government bonds as margin of bills business, interest rate swaps, structured notes and settlement fund guarantee deposits (please refer to Note 8 for details).

D. Financial assets available for sale - non-current:

<u>Investee Company</u>	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
CME GROUP	\$ 33,733	33,733	50,193
Valuation adjustment	29,640	27,233	40,234
Total	<u>\$ 63,373</u>	<u>60,966</u>	<u>90,427</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The purpose for obtaining the stock of CME GROUP is to acquire the membership of foreign futures exchange. For 2016 and 2015, due to changes in fair value, the Group had recognized \$2,407 and \$4,840 in other comprehensive income, respectively.

E. Financial assets measured at cost - non-current:

<u>Non- listed (or non-over-the-counter)</u>	<u>March 31, 2016</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,126
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	71,008
Prudence Venture Investment Corp.	1.50%	37,377
Miho International Co., Ltd.	1.83%	46,000
Jason's Entertainment Co., Ltd.	3.97%	30,000
Total		<u>\$ 487,231</u>

<u>Non- listed (or non-over-the-counter)</u>	<u>December 31, 2015</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,126
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	71,008
Prudence Venture Investment Corp.	1.50%	37,377
Total		<u>\$ 411,231</u>

<u>Non- listed (or non-over-the-counter)</u>	<u>March 31, 2015</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,126
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	78,008
Prudence Venture Investment Corp.	1.50%	39,127
Total		<u>\$ 419,981</u>

The Group acquired shares of Miho International Co., Ltd. in January, 2016 and Jason's Entertainment Co., Ltd. in March, 2016 in the amount of \$46,000 and \$30,000, respectively.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

F. The Group uses Value at Risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VAR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss per 10-day and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the three months ended March 31, 2016 and 2015 VAR (99%, per 10-day) of equity stocks were as follows:

Type of market risk	March 31,2016	March 31,2015	For the three months ended March 31,					
			2016			2015		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	678,179	872,148	631,258	678,179	596,609	890,337	970,662	828,201

(3) Bonds purchased under resale agreements

	March 31, 2016	December 31, 2015	March 31, 2015
Bonds purchased under resale agreements	\$ 397,256	-	-
Resale price under the agreements	\$ 397,242	-	-
Interest rate	(2.3)% ~0.1%	-	-

As of March 31, 2016, the Group's appropriated bonds purchased under resale agreements was \$397,256 (Par value \$400,000) for repurchase agreement transactions purpose (please refers to Note 8 for details).

(4) Accounts Receivable

	March 31, 2016	December 31,	
		2015	March 31, 2015
Receivable on securities purchased by customers	\$ 41,039	40,724	35,322
Settlement price	788,201	50,397	-
Interests receivable	464,523	452,745	551,803
Receivables of settlements	5,621,643	4,206,290	6,414,168
Others	47,785	238,944	217,207
Subtotal	6,963,191	4,989,100	7,218,500
Less: allowance for doubtful accounts	(4,123)	(4,123)	(4,645)
Total	\$ 6,959,068	4,984,977	7,213,855

(5) Customer margin account

As of March 31, 2016, December 31, 2015 and March 31, 2015, a reconciliation of the customer margin account and the futures traders' equity was as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Customer margin account			
Cash in banks	\$ 14,976,270	12,530,482	8,465,826
Customer margin account - futures clearing house	1,756,881	1,280,830	1,933,717
Customer margin account - other futures commission merchants	2,479,759	2,492,357	1,248,815
Marketable securities	2,861	1,087	2,278
Total customer margin account	19,215,771	16,304,756	11,650,636

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Adjustment :			
Commission revenue	\$ (33,935)	(10,454)	(17,663)
Futures transaction tax	(1,388)	(792)	(820)
Interest revenues	(351)	(334)	(1,008)
Temporary receipts	(65)	(188)	(261)
Remittance amount of the customers after the market closed	(18,431)	(4,330)	(12,517)
Others	(3,305)	(1,346)	(146,367)
Futures traders' equity	<u>\$ 19,158,296</u>	<u>16,287,312</u>	<u>11,472,000</u>

(6) Investments under equity method

As of March 31, 2016, December 31, 2015 and March 31, 2015, investments under equity method consisted of the following:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 92,036	72,720	55,716
Capital Insurance Agency Corp.	51,902	48,274	62,382
Subtotal	<u>\$ 143,938</u>	<u>120,994</u>	<u>118,098</u>
Associates			
True Partner Advisor Hong Kong Limited	36,786	36,681	-
Total	<u>\$ 180,724</u>	<u>157,675</u>	<u>118,098</u>

A. Subsidiaries

For the three months ended March 31, 2016 and 2015, the Group's share of gains or losses of the subsidiaries were as follows:

	<u>For the three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Based on the self-prepared financial statements	<u>\$ 22,944</u>	<u>14,831</u>

Under the equity accounting method, the financial information of the investments in subsidiaries which are individually immaterial is summarized as following:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Total assets	<u>\$ 176,635</u>	<u>157,581</u>	<u>144,184</u>
Total liabilities	<u>\$ 32,697</u>	<u>36,587</u>	<u>26,086</u>

	<u>For the three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Revenue	<u>\$ 74,060</u>	<u>\$ 50,308</u>
Net income	<u>\$ 22,944</u>	<u>\$ 14,831</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Associates

On October 2, 2015, the subsidiary Capital Futures Corporation has significant influence on True Partner Advisor Hong Kong Limited due to the acquisition of 49% shares with USD 1,123 thousands. The relevant information is as following:

Name of associate	Nature between the Company	Primary business area and registered country	% of Ownership and Voting Rights		
			March 31, 2016	December 31, 2015	March 31, 2015
True Partner Advisor Hong Kong Limited	Engaged in asset management. The Company's strategic alliance in expansion of asset management.	Hong Kong	49.00%	49.00%	-

Summarized financial information of associates accounted for under equity method that was not individually material to the Group was as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Total carrying amount of the associates that were not individually material	\$ 36,786	36,681	-
For the three months ended March 31,			
	2016	2015	
Attributable to the Group:			
Net gains from continuing operations	\$ 238	-	
Other comprehensive loss	(133)	-	
Total comprehensive income	\$ 105	-	

C. Collateral

As of March 31, 2016, December 31, 2015 and March 31, 2015, none of the investment accounted for under equity method of the Group were pledged for collateral.

(7) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Carrying amount:					
January 1, 2016	\$ 3,709,682	1,152,625	261,117	53,982	5,177,406
March 31, 2016	\$ 3,707,942	1,142,101	245,294	59,165	5,154,502
March 31, 2015	\$ 3,828,133	1,243,852	194,701	42,725	5,309,411

As of March 31, 2016, December 31, 2015 and March 31, 2015, the property and equipment were provided as collateral or pledge, please refer to Note 8 for details.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods from January 1 to March 31 in 2016 and 2015. For the three months ended March 31 of 2016 and 2015, \$2,327 and \$96,756 of land and buildings were reclassified as investment property. Please refer to Note 6(22) for details of the depreciation expense occurring in this period and Note 6(6) of the consolidated financial statements as of and for the year ended December 31, 2015 for other relevant information.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(8) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
January 1, 2016	\$ 1,255,460	484,747	1,740,207
March 31, 2016	<u>\$ 1,257,200</u>	<u>481,529</u>	<u>1,738,729</u>
March 31, 2015	<u>\$ 1,303,460</u>	<u>430,764</u>	<u>1,734,224</u>
<u>Fair value</u>			
January 1, 2016			<u>\$ 2,846,381</u>
March 31, 2016			<u>\$ 2,740,795</u>
March 31, 2015			<u>\$ 2,835,952</u>

The Group elected to apply Cost Method to evaluate investment properties. The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods from January 1 to March 31 in 2016 and 2015. For the three months ended March 31 of 2016 and 2015, \$2,327 and \$96,756 of land and buildings were transferred from property and equipment. Please refer to Note 6(22) for details of the depreciation expense occurring in this period and Note 6(7) of the consolidated financial statements as of and for the year ended December 31, 2015 for other relevant information.

(9) Intangible assets

A. Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized goodwill. As of March 31, 2016, December 31, 2015 and March 31, 2015, the book value was all \$3,126,698.

Due to the needs of operation expansion, the subsidiary Capital International Technology Corp. acquired 51% of the equity of Capital True Partner Co., Ltd. The excess of the acquisition cost over the fair value of the investee's net identifiable assets was recognized as goodwill. As of March 31, 2016, December 31, 2015 and March 31, 2015, the book value was all \$22,088.

B. Other intangible assets - Customer relationships

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized other intangible assets - customer relationships as \$17,082. As of March 31, 2016, December 31, 2015 and March 31, 2015, the amortized book value was \$285, \$1,139, and \$3,701, respectively.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. Other intangible assets - Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS 38 "Intangible Assets", the franchise is regarded as intangible assets with an indefinite useful life. As of March 31, 2016, December 31, 2015 and March 31, 2015, the book value of the operation franchise was all \$389,999.

D. Other intangible assets - The memberships of foreign futures Exchanges

The subsidiaries obtained the memberships of foreign futures Exchanges - NYMEX, COMEX, CBOT and CME for business development. In accordance with IAS 38 "Intangible Assets" endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of March 31, 2016, December 31, 2015 and March 31, 2015, the book value of the intangible assets was \$46,385, \$46,427 and \$46,328, respectively.

E. Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of March 31, 2016, December 31, 2015 and March 31, 2015, the book value after amortization was \$35,167, \$41,166 and \$35,905, respectively.

(10) Short-term loans

Nature of borrowings	March 31, 2016	December 31, 2015	March 31, 2015
Collateralized loan	\$ 413,153	591,444	3,989,104
Credit loans	2,308,420	1,199,717	2,935,000
Total	<u>\$ 2,721,573</u>	<u>1,791,161</u>	<u>6,924,104</u>
Interest rate range	1.057%~2.75%	0.90%~3.06%	0.90%~1.54%

The Group had provided the land, buildings, and certificates of time deposits as collateral. For more information about the collateral as of March 31, 2016, December 31, 2015 and March 31, 2015, please refer to Note 8.

(11) Commercial paper payable

	March 31, 2016	December 31, 2015	March 31, 2015
Commercial paper payable	\$ 300,000	-	5,150,000
Less: Unamortized discount	(17)	-	(1,359)
Net amount	<u>\$ 299,983</u>	<u>-</u>	<u>5,148,641</u>
Interest rate range	<u>0.548%</u>	<u>- %</u>	<u>0.848%~0.958%</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Bond purchased under resale agreements - short sales	\$ 397,250	-	-
Valuation adjustment on bonds purchased under resale agreements - short sales	27	-	-
Subtotal	<u>397,277</u>	<u>-</u>	<u>-</u>
Liabilities on sale of borrowed securities	914,704	1,508,137	437,194
Redeem liabilities on sale of borrowed securities	(62,405)	(1,566)	-
Valuation adjustment	34,046	(30,461)	45,611
Subtotal	<u>886,345</u>	<u>1,476,110</u>	<u>482,805</u>
Settlement coverage bonds payable of short sale	-	300,550	-
Valuation adjustment on settlement coverage bonds payable of short sale	-	(1,146)	-
Subtotal	<u>-</u>	<u>299,404</u>	<u>-</u>
Stock warrants issued	10,838,400	10,530,591	11,426,712
Stock warrants repurchased	(10,409,192)	(10,170,444)	(10,767,430)
Subtotal	<u>429,208</u>	<u>360,147</u>	<u>659,282</u>
Put options	57,918	57,261	56,050
IRS asset swaps	4,617	5,398	2,200
Asset swap options - short position	220,328	193,888	388,644
Structured notes	8,752	12,243	7,745
Currency swaps	18,708	3,476	4,783
Interest rate swaps	815	1,528	3,740
Subtotal	<u>311,138</u>	<u>273,794</u>	<u>463,162</u>
Total	<u>\$ 2,023,968</u>	<u>2,409,455</u>	<u>1,605,249</u>

(13) Bonds sold under repurchase agreements

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Bonds sold under repurchase agreements	\$ 26,903,149	23,576,243	16,894,187
Agreed-upon repurchase amounts	<u>\$ 26,927,307</u>	<u>23,598,443</u>	<u>16,900,486</u>
Interest rates range	<u>0.31% ~4.10%</u>	<u>0.30% ~5.00%</u>	<u>0.45% ~0.85%</u>

(14) Customer equity of separate account ledger in settlement account

According to article 38, subparagraph 2 of the “Regulations Governing Securities Firms”, a securities firm may, with the consent of the customer, retain the customer's settlement funds in the securities firm's settlement account. The securities firm shall set up a separate account ledger for each customer in the settlement account. Also, according to article 22-4, paragraph 1, subparagraph 5 of the “Offshore Banking Act”, an offshore securities branch may conduct account custody business for natural persons, juristic persons, government agencies, or financial institutions within or outside the territory of the ROC. As of March 31, 2016 and December 31, 2015, customers of offshore securities branches retain total settlement funds \$35,608 and \$4,104 in the securities firm's settlement account.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(15) Accounts payable

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Payable of securities sold by customers	\$ 54,299	34,151	51,405
Settlement price	-	-	907,816
Payable of settlements	5,993,308	3,573,328	7,599,460
Others	278,975	240,285	346,648
Total	<u>\$ 6,326,582</u>	<u>3,847,764</u>	<u>8,905,329</u>

(16) Long-term borrowings

As of March 31, 2016, December 31, 2015 and March 31, 2015, the Company's long-term borrowings were as follows:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Long-term borrowings	\$ -	-	1,300,000
Collateral			Real estate
Interest rate range	- %	- %	1.080%

Hua Nan Bank approved a three years long-term borrowing of \$4,000,000 to the Company. The credit line would not be diminished gradually, and would be assessed annually. The credit line bears a floating interest rate.

(17) Operating leases

The Group has no material incremental operating leases contracts for the three months ended March 31, 2016 and 2015. Please refer to Note 6(16) of the consolidated financial statements as of and for the year ended December 31, 2015 for the related information.

(18) Employee benefit

A. Defined benefit plans

Subsequent to December 31, 2015, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the consolidated financial statements is measured and disclosed according to the respective actuarial report for the years ended December 31, 2015 and 2014.

For the three months ended March 31, 2016 and 2015, the Group's pension costs recognized in profit or loss were \$4,171 and \$4,637, respectively.

B. Defined contribution plan

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group allocates a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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The Group contributed \$21,270 and \$22,081 under defined contribution plan to the Bureau of the Labor Insurance for the three months ended March 31, 2016 and 2015, respectively.

C. For the three months ended March 31, 2016 and 2015, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$1,146 and \$977, respectively.

D. Provision for employee benefits liabilities

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Compensated absences	<u>\$ 47,546</u>	<u>47,546</u>	<u>46,793</u>

(19) Income tax

Income tax expense is best estimated by multiplying pretax income for the interim reporting period with the effective annual tax rate as forecasted by the management.

A. The detail of income tax expense for the three months ended March 31, 2016 and 2015 were as follows:

	<u>For the three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Current income tax expense	<u>\$ 18,276</u>	<u>39,571</u>
Deferred income tax expense		
Unrealized losses on derivative financial instruments	(8,467)	(25,014)
Unrealized losses on foreign investments under equity method	(329)	(639)
Amortization of goodwill	26,577	26,577
Decrease in tax losses carried forward	28,960	50,727
	<u>46,741</u>	<u>51,651</u>
	<u>\$ 65,017</u>	<u>\$ 91,222</u>

B. The amount of income tax expense or benefit recognized in other comprehensive income for the three months ended March 31, 2016 and 2015 were as follows:

	<u>For the three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ 8,508</u>	<u>\$ 4,756</u>

C. As of March 31, 2016, net operating losses available for carried forward to offset against future taxable income were as follows:

<u>Loss Year</u>	<u>Amount</u>	<u>Expiration Year</u>
2011(Assessed)	<u>\$ 1,545,631</u>	2021

D. Income tax assessment status

a. Except 2012, the Company's income tax returns through 2013 were assessed by the Tax Authority.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- b. Subsidiary - Capital Investment Management Corp.'s income tax returns through 2014 were assessed by the Tax Authority.
- c. Subsidiary - Capital Futures Corp.'s income tax returns through 2012 were assessed by the Tax Authority.
- d. Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 were assessed by the Tax Authority.
- e. Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.
- f. The income tax returns of the merged entity, Taiwan International Securities Corp., have been assessed by the Tax Authority through 2010.

E. The information about imputation system is as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Undistributed earnings after 1998	\$ 1,748,801	1,586,994	2,656,629
Imputation credit account	\$ 3,072,442	3,072,442	3,450,690
		2015 (Estimated)	2014 (Actual)
Deductible ratio for earnings distributed to ROC residents		23.91%	23.24%

The above imputation information was calculated according to the Ruling No. 10204562810 issued by the Ministry of Finance on October 17, 2013.

F. Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2008 to 2011 and 2013 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept.

(20) Capital and other equity

A. Capital stock

As of March 31, 2016, December 31, 2015 and March 31, 2015, the Company had authorized capital of \$30,000,000 and issued common stock of 2,269,073, 2,319,073, and 2,369,073 thousand shares respectively with a par value of \$10 dollars per share.

B. Capital surplus

In accordance with the ROC Company Act amended in January 2012, realized capital surplus can only be used to cover accumulated deficit or to issue new shares or cash to

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

C. Retained earnings

a. Legal reserve

In accordance with Company Act amended in January 2012, 10 percent of the current year's earnings after tax should be set aside as legal reserve, until the cumulative balance equals to the total amount of paid-in capital. If the Company incurs no loss for the year, the distribution of the legal reserve, either by issuing new shares or by cash, shall be decided at the shareholders' meeting, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

b. Special reserve

In accordance with Article 41 of the Securities and Exchange Law, 20 percent of the current year's earnings after tax should be set aside as special reserve. Ruling No. 1010028514 issued by the Financial Supervisory Commission on June 29, 2012, an equivalent amount of special reserve should be set aside from earnings after tax of the current year and the undistributed earnings of the prior period based on the decreased amount of stockholders' equity. For the cumulative deduction in stockholders' equity of the prior period, the equal amount of special reserve set aside based on undistributed earnings should not be distributed. If there is any reversal of the deduction in stockholders' equity, the earnings may be distributed based on the reversal proportion.

c. Undistributed earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then 10% and 20% of the remainder should be appropriated as legal reserve and special reserve, respectively. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. The rest may be distributed in the ratio specified below:

- (1) Remuneration to directors and supervisors: 1%~4%.
- (2) Employees bonuses: 1%~3%.
- (3) The rests are dividends to stockholders.

In accordance with the amended Company Act which was published in May 2015, employee bonuses and remuneration to directors and supervisors are no longer a part of the composition of appropriation and distribution of earnings. The Company will amend the articles of incorporation accordingly within the period prescribed by the authority.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The estimation of employee bonuses and remunerations to directors and supervisors was calculated based on the income after tax of the year deducted by legal reserve and special reserve and multiplied by the distribution rates of employee bonuses and remunerations to directors and supervisors which are regulated in the Company's articles of incorporation. The estimated employee bonuses of \$10,838 and remunerations to directors and supervisors of \$18,063, respectively and was recognized in operating expense for the three months ended March 31, 2015.

To continue its expansion and increase profitability, and maintain its capital adequacy ratio, the Company adopts the residual dividend policy. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the budget plan, stock dividends are distributed to retain necessary funds first, and may then be paid as cash dividends subsequently. Cash dividends cannot be less than 10%.

According to the resolution of shareholders' meeting on June 22, 2015, the Company's 2014 earnings distribution for employee bonuses, remuneration to directors and supervisors and cash dividends were \$22,210, \$37,017 and \$1,421,444, respectively. Due to the above changes, the difference between employee bonuses of \$23,487 and remuneration to directors and supervisors of \$39,144 for 2014 financial statements was \$3,404 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2015

The Company's 2015 earnings distribution for cash dividends \$1,111,846 had been proposed by board of directors on March 28, 2016 and is subject to the resolution of the shareholders' meeting. The information about the appropriations is available at the Market Observation Post System website.

d. Treasury stocks

From January 1, 2015 to March 31, 2016, the Company repurchased 100,000 thousand shares in accordance with article 28-2 of the Securities and Exchange Act to maintain the Company's credit and shareholders' equity. As of March 31, 2016 and December 31, 2015, 50,000 thousand shares were retired, respectively.

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of a company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par and realized capital surplus.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

On September 21, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest audited financial report on June 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,809,506. The company repurchased 50,000 thousand shares at this buyback plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

All the repurchased shares were retired and the registration of capital reduction was completed on November 26, 2015.

On November 11, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,791,127. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 15, 2016.

(21) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months ended March 31, 2016 and 2015 were calculated as follows:

	For the three months ended March 31,	
	2016	2015
Net income attributable to ordinary shareholders of the Company	\$ 161,807	567,407
Weighted-average number of common stock shares outstanding (thousands of shares)	2,269,243	2,369,073
Basic earnings per share (dollar)	\$ 0.07	0.24
Assumed conversion of all dilutive potential ordinary shares - employees' bonus (thousands of shares) (Note)	337	1,057
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	2,269,580	2,370,130
Dilutive earnings per share (dollar)	\$ 0.07	0.24

Note: The shares were calculated based on the closing price at the reporting date.

(22) Items of comprehensive income statement

A. Brokerage commissions

	For the three months ended March 31,	
	2016	2015
Brokerage commission from TSE market	\$ 314,127	343,538
Brokerage commission from OTC market	137,992	128,627
Handling fee from security financing	8,929	10,992
Futures commission income - brokerage	374,343	283,660
Overseas subsidiaries	17,091	16,600
Others	10,200	14,950
	\$ 862,682	798,367

B. Underwriting commissions

	For the three months ended March 31,	
	2016	2015
Revenues from underwriting securities on a firm commitment basis	\$ 2,832	34,985
Handling fee revenues from underwriting securities on best- efforts basis	204	219
Processing fee revenues from underwriting operations	3,948	42,267
Revenues from underwriting consultation	2,125	1,835
Others	7,127	6,900
	\$ 16,236	86,206

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. Net gains or losses on sale of trading securities

	For the three months ended March 31,	
	2016	2015
Revenue from securities sold - proprietary trading	\$ 63,782,682	107,274,328
Cost of securities sold - proprietary trading	(63,891,039)	(107,116,442)
Subtotal	(108,357)	157,886
Revenue from securities sold - underwriting	11,364	85,470
Cost of securities sold - underwriting	(10,800)	(80,002)
Subtotal	564	5,468
Revenue from securities sold - hedging	6,614,933	9,519,307
Cost of securities sold - hedging	(6,653,152)	(9,354,012)
Subtotal	(38,219)	165,295
Total	\$ (146,012)	328,649

D. Interest revenue

	For the three months ended March 31,	
	2016	2015
Interest revenue - margin loans	\$ 193,737	296,454
Interest revenue - bonds	126,109	46,854
Overseas subsidiaries	11,942	6,189
Others	9,689	9,536
	\$ 341,477	359,033

E. Net gains (losses) on valuation of trading securities measured at fair value through profit or loss

	For the three months ended March 31,	
	2016	2015
Trading securities - Proprietary	\$ 86,055	39,692
Trading securities - Underwriting	3,855	4,880
Trading securities - Hedging	59,172	83,532
Settlement coverage bonds payable of short sales	(1,146)	17
	\$ 147,936	128,121

F. Net gains (losses) on stock warrants issued

	For the three months ended March 31,	
	2016	2015
Gains on changes in fair value of stock warrants	\$ 8,092,959	5,847,846
Gains on exercise of stock warrants before maturity	1,199,161	1,112,978
Losses on changes in fair value of stock warrants repurchased	(9,052,822)	(6,760,353)
Gains on expiration of stock warrants	8,424	11,883
Stock warrants issuance expenses	(31,678)	(30,124)
	\$ 216,044	182,230

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G. Employee benefits, depreciation and amortization expenses

	For the three months ended March 31,	
	2016	2015
Employee benefit expenses		
Salary expense	\$ 513,844	534,559
Health and labor insurance expense	43,090	46,861
Pension expense	26,587	27,695
Others	15,127	15,360
Depreciation expense	44,272	44,231
Amortization expense	10,076	10,043
	\$ 652,996	678,749

H. Other operating expenses

	For the three months ended March 31,	
	2016	2015
Rental expense	\$ 47,902	52,272
Taxes	79,533	90,071
Information technology expense	47,904	46,954
Postage expense	32,945	33,418
Professional service fee	30,784	7,161
Other expenses	127,299	114,547
	\$ 366,367	344,423

I. Other gains and losses

	For the three months ended March 31,	
	2016	2015
Financial revenue	\$ 46,445	37,477
Exchange gains (losses)	66,834	(146)
Net gains (losses) on disposal of investment	(1,710)	129,131
Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss	(15,957)	6,531
Net gains (losses) on disposal of property and equipment	(3,198)	-
Dividend revenue	2,359	2,008
Others	81,165	72,149
	\$ 175,938	247,150

J. Remuneration to employees, directors and supervisors

The amendments to the Company's Articles of Incorporation was proposed by the Company's Board of Directors but not yet resolved by the shareholders' meeting, which stipulated to distribute employees' remuneration at the rates from 0.6% to 2% and remuneration to directors at the rate no higher than 3%, respectively, of net profit before tax. However, the Company's accumulated deficit should have been covered. The employees' remuneration distributed, in the form of shares or in cash, to the employees including the employees of subsidiaries meeting certain specific requirement.

For the three months ended March 31, 2016, the estimated amounts of remuneration to employee and directors and supervisors by the Company were \$2,959 and \$4,931,

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respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and directors and supervisors multiple the earnings allocation percentage as stated under the Company's articles of incorporation. It is recognized as operating expense for the three months ended in March 31, 2016. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

For the three months ended March 31, 2016, the estimated amounts of remuneration to employee and directors and supervisors by the domestic subsidiaries of the Group were \$2,297 and \$2,297, respectively.

The estimate amount of remuneration to employee and director and supervisors by the Company for 2015 were \$17,241 and \$28,734, respectively. If the amendments of articles of incorporation proposed by the Company's board of directors are different from the resolution at the shareholders' meeting, differences between the actual distributed and estimated amounts are accounted for as changes in accounting estimates and recognized as current year profit or loss.

(23) Financial instruments

A. Credit risk

a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of March 31, 2016, December 31, 2015 and March 31, 2015, the maximum credit exposure amounted to \$65,228,639, \$61,534,808 and \$68,202,180, respectively.

b. Impairment losses

The Group's ageing analysis of receivables at reporting date is as follows:

	March 31, 2016		December 31, 2015		March 31, 2015	
	Total amount	Impairment	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 20,557,815	2,436	20,230,707	2,646	31,972,740	67,525
Past due 0~30 days	233	233	336	336	182	182
Past due 31~120 days	565	565	234	234	90	90
Past due 121~360 days	1,713	1,713	1,714	1,714	162	162
Past due more than one year	-	-	15	15	707	707
	<u>\$ 20,560,326</u>	<u>4,947</u>	<u>20,233,006</u>	<u>4,945</u>	<u>31,973,881</u>	<u>68,666</u>

Allowance for doubtful debts under receivables is recorded for the debt expense or impairment losses. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of March 31, 2016, December 31, 2015 and March 31, 2015, the impairment losses of account receivables were recognized \$4,947, \$4,945 and \$68,666, respectively.

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B. Liquidity risk

The following table shows the effect of contract maturity on financial liabilities. The Group predicts the cash flow occurring point or the actual amount of this maturity analysis will not be significantly earlier or different.

March 31, 2016	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities at fair value through profit or loss - current							
Bond purchased under resale agreements - short	\$ 397,277	397,277	397,277	-	-	-	-
Liabilities on sale of borrowed securities	886,345	886,345	886,345	-	-	-	-
Stock warrants issued	429,208	429,208	355,927	73,281	-	-	-
Put options - futures	57,918	57,918	57,918	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	24,140	24,140	17,380	2,235	7,518	(2,993)	-
Put options	220,328	220,328	11,901	38,019	106,856	63,552	-
Short-term borrowings	2,721,573	2,721,573	2,721,573	-	-	-	-
Commercial paper payable	299,983	300,000	300,000	-	-	-	-
Bonds sold under repurchase agreements	26,903,149	26,927,307	26,927,307	-	-	-	-
Securities financing refundable deposits	1,096,435	1,096,435	1,096,435	-	-	-	-
Deposits payable for securities financing	1,169,808	1,169,808	1,169,808	-	-	-	-
Securities lending refundable deposits	506,189	506,189	506,189	-	-	-	-
Futures traders' equity	19,158,296	19,158,296	19,158,296	-	-	-	-
Notes payable and accounts payable	279,443	279,443	279,443	-	-	-	-
Receipts under custody	103,438	103,438	103,438	-	-	-	-
Other payables	651,360	651,360	649,029	2,311	-	-	-
Structured notes	3,008,409	3,008,409	2,615,348	77,804	224,978	90,279	-
	\$ 57,913,299	57,937,474	57,253,614	193,650	339,352	150,838	-

December 31, 2015	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,476,110	1,476,110	1,476,110	-	-	-	-
Settlement coverage bonds payable of short sale	299,404	299,404	299,404	-	-	-	-
Stock warrants issued	360,147	360,147	342,817	16,145	1,185	-	-
Put options - futures	57,261	57,261	57,261	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	10,402	10,402	5,568	(2,160)	5,867	1,127	-
Put options	193,888	193,888	6,017	34,126	100,470	53,275	-
Short-term borrowings	1,791,161	1,791,161	1,791,161	-	-	-	-
Bonds sold under repurchase agreements	23,576,243	23,598,443	23,598,443	-	-	-	-
Securities financing refundable deposits	2,025,011	2,025,011	2,025,011	-	-	-	-
Deposits payable for securities financing	2,242,680	2,242,680	2,242,680	-	-	-	-
Securities lending refundable deposits	1,622,937	1,622,937	1,622,937	-	-	-	-
Futures traders' equity	16,287,312	16,287,312	16,287,312	-	-	-	-
Notes payable and accounts payable	395,962	395,962	395,962	-	-	-	-
Receipts under custody	1,347,159	1,347,159	1,347,159	-	-	-	-
Other payables	765,523	765,523	762,505	3,018	-	-	-
Structured notes	4,088,809	4,088,809	3,798,140	48,678	180,348	61,643	-
	\$ 56,540,009	56,562,209	56,058,487	99,807	287,870	116,045	-

March 31, 2015	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 482,805	482,805	482,805	-	-	-	-
Stock warrants issued	659,282	659,282	633,936	25,346	-	-	-
Put options - futures	56,050	56,050	56,050	-	-	-	-
Currency swaps	10,723	10,723	5,332	460	(429)	5,360	-
Put options	388,644	388,644	68,922	35,801	205,441	78,480	-
Short-term borrowings	6,924,104	6,924,104	6,924,104	-	-	-	-
Commercial paper payable	5,148,641	5,150,000	5,150,000	-	-	-	-
Bonds sold under repurchase agreements	16,894,187	16,915,505	16,915,505	-	-	-	-
Securities financing refundable deposits	815,256	815,256	815,256	-	-	-	-
Deposits payable for securities financing	991,508	991,508	991,508	-	-	-	-
Securities lending refundable deposits	635,476	635,476	635,476	-	-	-	-
Futures traders' equity	11,472,000	11,472,000	11,472,000	-	-	-	-
Notes payable and accounts payable	347,116	347,116	347,116	-	-	-	-
Receipts under custody	1,629,231	1,629,231	1,629,231	-	-	-	-
Other payables	692,165	692,165	688,015	4,150	-	-	-
Long-term borrowings	1,300,000	1,300,000	-	-	-	1,300,000	-
Structured notes	3,464,361	3,464,361	3,256,024	62,744	120,378	25,215	-
	\$ 51,911,549	51,934,226	50,071,280	128,501	325,390	1,409,055	-

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C. Currency risk

a. Currency risk exposure

The Group's significant exposure to foreign currency risk of financial assets and liabilities is as follows:

				March 31, 2016		
				Foreign Currency	Exchange Rate	Amount
<u>Financial assets</u>						
<u>Monetary Item</u>						
	USD	\$	303,359	32.185		9,763,609
	HKD		33,336	4.15		138,344
	EUR		3,419	36.51		124,828
	JPY		1,050,543	0.2863		300,770
	GBP		301	46.17		13,897
	AUD		26,015	24.595		639,839
	SGD		489	23.85		11,663
	CNY		118,417	4.972		588,769
	KRW		2,603,037	0.0284		73,926
	THB		1,337	0.9185		1,228
	MYR		58	7.8955		458
	CHF		66	33.365		2,202
	ZAR		2	2.17		4
<u>Non-Monetary Item</u>						
	USD		301,308	32.185		9,697,598
	HKD		19,135	4.15		79,410
	CNY		201,453	4.972		1,001,624
<u>Investments at equity</u>						
	HKD		8,864	4.15		36,786
<u>Financial liabilities</u>						
<u>Monetary Item</u>						
	USD		584,051	32.185		18,797,681
	HKD		132,065	4.15		548,070
	EUR		3,169	36.51		115,700
	JPY		1,047,833	0.2863		299,995
	GBP		299	46.17		13,805
	AUD		79,379	24.595		1,952,327
	SGD		486	23.85		11,591
	KRW		2,521,198	0.0284		71,602
	THB		1,026	0.9185		942
	MYR		(18)	7.8955		(142)
	CNY		45,932	4.972		228,374
	CHF		65	33.365		2,169
				December 31, 2015		
				Foreign Currency	Exchange Rate	Amount
<u>Financial assets</u>						
<u>Monetary Item</u>						
	USD	\$	251,046	32.83		8,241,840
	HKD		12,826	4.24		54,382
	EUR		2,341	35.88		83,995
	JPY		875,334	0.2727		238,704
	GBP		312	48.67		15,185
	AUD		1,525	23.99		36,585
	SGD		1,131	23.25		26,296
	CNY		66,619	4.995		332,762
	KRW		2,970,021	0.0281		83,458
	THB		745	0.9146		681
	CHF		57	33.19		1,892
	MYR		117	7.3425		859

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		December 31, 2015		
		Foreign Currency	Exchange Rate	Amount
Financial assets				
<u>Non-Monetary Item</u>				
	USD	\$ 204,035	32.83	6,698,469
	HKD	55,140	4.24	233,794
	EUR	343	35.88	12,307
	AUD	58,860	23.99	1,412,051
	CNY	233,206	4.995	1,164,864
<u>Investments at equity</u>				
	HKD	8,661	4.24	36,681
Financial liabilities				
<u>Monetary Item</u>				
	USD	466,601	32.83	15,318,511
	HKD	90,440	4.24	383,466
	CNY	133,647	4.995	667,567
	CHF	57	33.19	1,892
	JPY	873,290	0.2727	238,146
	GBP	312	48.67	15,185
	AUD	50,411	23.99	1,209,360
	EUR	1,986	35.88	71,258
	SGD	896	23.25	20,832
	THB	629	0.9146	575
	MYR	45	7.3425	330
	KRW	2,807,367	0.0281	78,887
		March 31, 2015		
		Foreign Currency	Exchange Rate	Amount
Financial assets				
<u>Monetary Item</u>				
	USD	\$ 159,954	31.30	5,006,561
	HKD	115,685	4.04	467,369
	EUR	2,860	33.65	96,246
	JPY	345,321	0.2604	89,922
	GBP	448	46.24	20,711
	AUD	245	23.82	5,841
	SGD	344	22.76	7,831
	CNY	90,778	5.040	457,884
	KRW	1,541,304	0.0288	44,390
	THB	459	0.97	445
	MYR	(48)	8.21	(394)
<u>Non-Monetary Item</u>				
	USD	12,427	31.30	388,966
	HKD	71,960	4.04	290,718
	CNY	222,691	5.040	1,123,255
Financial liabilities				
<u>Monetary Item</u>				
	USD	155,266	31.30	4,859,819
	HKD	73,064	4.04	295,179
	EUR	2,588	33.65	87,078
	JPY	340,534	0.2604	88,675
	GBP	446	46.24	20,646
	AUD	244	23.82	5,823
	SGD	(9)	22.76	(211)
	KRW	1,433,743	0.0288	41,292
	THB	4,422	0.97	4,289
	MYR	(58)	8.21	(479)
	CNY	448	5.040	2,262

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Because there are a variety of functional currencies, the Group discloses a summary of its information on exchange gain or loss. The realized and unrealized exchange gains (losses) amounted to \$66,834 and \$(146) for the three months ended March 31, 2016 and 2015, respectively.

b. Sensitivity analysis

The Group's exposure to foreign currency risk arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets measured at fair value through profit or loss, customers margin accounts, futures traders' equity and securities lending refundable deposits, which are denominated in different foreign currencies. Foreign exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the three months ended March 31, 2016 and 2015, given other factors remain constant, if NTD increase or decrease 5% contrary to other currencies, the net income will increase or decrease by \$387,983 and \$107,708, respectively, and the other comprehensive income will increase or decrease by \$468,005 and \$0, respectively.

D. Sensitivity analysis of interest rate risk

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For floating rate instruments, the sensitivity analysis assumes the liabilities are outstanding for the whole year at the reporting date. The Group's internal reports to key management level showed the increases or decreases in the interest rates and the exposure to changes in interest rates on 20 basis points so as to allow key management to evaluate the reasonableness of the changes in the interest rates.

market risk type	March 31, 2016	March 31, 2015	2016			2015		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
interest risk	1,173,670	913,441	1,185,283	1,263,024	1,119,156	812,071	913,441	734,670

E. Fair value and hierarchy information

a. Fair value information

1. General description

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Initially, financial instruments should be measured at fair value, which mostly refers to transaction price. Except for those measured at amortized cost, financial instruments are subsequently measured at fair value. A quoted market in an active market provides the most reliable evidence of fair value. If the market is not active, the Group determines the fair value of financial instruments in accordance with (a) the calculation of valuation techniques, (b) valuation provided by the professional electronic information company and commonly

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used by market participants, or (c) quoted prices of the counter party.

2. Definition of fair value hierarchy

A) Level 1

The input of Level 1 is the public quote of the same financial instrument in an active market. An active market is a market that meets all the conditions listed below: Products traded in the market is of homogeneity; it is able to reach buyer and seller anytime in the market and the price information can be accessed by the public. Taiwan government bonds, equity instruments, debt instruments and derivative instruments with public quote in an active market possessed by the Group belong to Level 1.

B) Level 2

The input of Level 2 refers to observable price except public quote in an active market, including direct observable input parameters (such as price) or indirect observable input parameters (derivation from price). The bond instruments without public quotes in an active market and most of the derivative financial instruments of the Group belong to Level 2.

C) Level 3

Level 3 means input in this level are based neither on direct market data nor from the counter party.

b. Not based on fair value measurement

As of March 31, 2016, December 31, 2015 and March 31, 2015, the fair value information of the financial assets and financial liabilities of the Group was as follows:

1. Fair value information

	March 31, 2016		December 31, 2015		March 31, 2015	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets :						
Cash and cash equivalents	\$ 6,037,993	6,037,993	4,726,498	4,726,498	4,416,833	4,416,833
Bonds purchased under resale agreements	397,256	397,256	-	-	-	-
Accrued receivable	21,963,549	21,963,549	22,848,006	22,848,006	32,558,358	32,558,358
Customer margin account	19,215,771	19,215,771	16,304,756	16,304,756	11,650,636	11,650,636
Pledged assets - current	521,129	521,129	570,321	570,321	577,319	577,319
Financial assets measured at cost - non-current	487,231	487,231	411,231	411,231	419,981	419,981
Other assets - non-current	1,805,087	1,805,087	1,836,443	1,836,443	1,879,659	1,879,659

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	March 31, 2016		December 31, 2015		March 31, 2015	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial liabilities :						
Short-term borrowings	\$ 2,721,573	2,721,573	1,791,161	1,791,161	6,924,104	6,924,104
Commercial paper payable	299,983	299,983	-	-	5,148,641	5,148,641
Bonds sold under repurchase agreements	26,903,149	26,903,149	23,576,243	23,576,243	16,894,187	16,894,187
Accrued payable	9,969,628	9,969,628	10,663,564	10,663,564	12,241,311	12,241,311
Futures traders' equity	19,158,296	19,158,296	16,287,312	16,287,312	11,472,000	11,472,000
Other financial liabilities - current	2,684,400	2,684,400	3,834,575	3,834,575	3,311,024	3,311,024
Long-term borrowings	-	-	-	-	1,300,000	1,300,000
Other financial liabilities - non-current	315,257	315,257	241,991	241,991	145,592	145,592
Other liabilities - non-current	337,611	337,611	337,611	337,611	337,611	337,611

2. Hierarchy information of fair value

	March 31, 2016			
	Total	Level 1	Level 2	Level 3
Investment property	2,740,795	-	-	2,740,795
	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Investment property	2,846,381	-	-	2,846,381
	March 31, 2015			
	Total	Level 1	Level 2	Level 3
Investment property	2,835,952	-	-	2,835,952

3. Valuation techniques used in estimating the fair values of financial instruments

- A) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, customer margin account, other current assets, other assets - non-current, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, futures traders' equity, other financial liabilities - current, other financial liabilities - non-current, and other liabilities - non-current.
- B) Financial assets measured at cost and equity investments in unlisted stocks do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Group considers the book value as a reasonable approximation of fair value.
- C) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

c. Based on fair value measurement

1. Hierarchy information of fair value

The Group's financial instruments measured at fair value are evaluated on a

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recurring basis. The financial assets and liabilities measured at fair value as of March 31, 2016, December 31 and March 31, 2015 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
March 31, 2016				
Financial assets at fair value through				
profit or loss	\$ 7,123,296	16,925,460	-	24,048,756
Financial assets available for sale	186,949	11,193,260	-	11,380,209
Derivative financial assets	425,137	42,102	-	467,239
	<u>\$ 7,735,382</u>	<u>28,160,822</u>	<u>-</u>	<u>35,896,204</u>
Financial liabilities at fair value through profit or loss	\$ 1,712,830	-	-	1,712,830
Derivative financial liabilities	57,918	253,220	-	311,138
	<u>\$ 1,770,748</u>	<u>253,220</u>	<u>-</u>	<u>2,023,968</u>
December 31, 2015				
Financial assets at fair value through				
profit or loss	\$ 8,557,048	17,255,304	-	25,812,352
Financial assets available for sale	154,449	7,741,972	-	7,896,421
Derivative financial assets	320,526	43,300	-	363,826
	<u>\$ 9,032,023</u>	<u>25,040,576</u>	<u>-</u>	<u>34,072,599</u>
Financial liabilities at fair value through profit or loss	\$ 2,135,661	-	-	2,135,661
Derivative financial liabilities	57,261	216,533	-	273,794
	<u>\$ 2,192,922</u>	<u>216,533</u>	<u>-</u>	<u>2,409,455</u>
March 31, 2015				
Financial assets at fair value through				
profit or loss	13,079,437	16,862,573	-	29,942,010
Financial assets available for sale	90,427	-	-	90,427
Derivative financial assets	289,760	47,633	-	337,393
	<u>13,459,624</u>	<u>16,910,206</u>	<u>-</u>	<u>30,369,830</u>
Financial liabilities at fair value through profit or loss	\$ 1,142,087	-	-	1,142,087
Derivative financial liabilities	56,050	407,112	-	463,162
	<u>\$ 1,198,137</u>	<u>407,112</u>	<u>-</u>	<u>1,605,249</u>

2. Valuation techniques

A) Non-derivative financial instruments

Financial instruments are initially recognized at fair value. For active markets, fair value is measured according to quoted prices. Publicly listed and over-the-counter traded equity instruments of primary stock exchanges along with central government bonds that are popular securities all regard active market quotes as the basis of fair value.

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When quotes of financial instruments are obtained from the Stock Exchange, Reuters, Bloomberg, dealers or competent authorities and the prices represent arm's length transactions with sufficient frequency, the financial instruments are regarded as active market quotes. If the aforementioned requirements are not met, then the financial instruments are regarded as quotes without an active market. Large bid-ask spreads or low trade volumes are features of quotes without an active market.

Excluding the above-mentioned financial instruments with active market quotes, the fair value of the remaining financial instruments are obtained by financial valuation models or referencing counterparty quotes. Fair value obtained through the calculations of financial valuation models include, but are not limited to, fair value references of substantive factors and characteristics from similar financial instruments, those obtained from the cash flow discounting method or those obtained by other financial valuation techniques. Fair values obtained through financial valuation techniques are derived from market information on the balance sheet date, and utilizes the fair values derived from the calculations of financial valuation models (for example referencing the yield curve from the Taipei Exchange, Reuters' average commercial paper interest et cetera).

B) Derivative financial instruments

The fair value of derivative financial instruments is determined by using valuation model. Option instruments are determined by using Black-Scholes Model and non-option derivative financial instruments are determined by using discounted cash flow method. The market inputs for the valuation are derived from stock exchange market and independent financial information service institution, such as Stock Exchange, Futures Exchange, Reuters and Bloomberg. Closing price, settlement price, and the average rate of ask and bid price during certain specific time are adopted.

d. Transfer between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 for the three months end March 31, 2016 and 2015.

e. Fair value adjustments

Financial valuation techniques do not necessarily completely reflect all relevant elements of financial or non-financial instruments held by the Group. Thus, the outputs of financial valuation models may need necessary adjustments in line with important relevant elements. The valuation models and adjustment parameters were verified to ensure valuation procedures and results are in accordance with the requirements, so the valuation adjustments are pertinent and appropriate. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market condition.

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F. Transfer of financial assets

The transferred financial assets of the Group that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchased agreements or equity securities under securities lending agreement. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, the Group cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, the Group still bears the interest rate risk and credit risk, the transferred financial assets are not fully derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

March 31, 2016					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 26,672,040	26,903,149	-	-	-
December 31, 2015					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 23,740,296	23,576,243	-	-	-
March 31, 2015					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 18,945,529	16,894,187	-	-	-

Note: The counterparties in repurchase agreements hold the right of recourse not merely on the transferred assets against the Company; hence according to IFRS 7 pg.42 D(d), disclosure of the fair values of transferred assets and their relevant liabilities and fair value net position is not mandatory.

G. Offsetting of financial assets and financial liabilities

The Group did not hold any financial instruments contract which meet Section 42 of the FSC endorsed by IAS 32, therefore, the financial assets and financial liabilities will be offset on the balance sheet.

The Group has transactions, such as repurchase and resell agreements, that are or are similar to net settled master netting arrangements but do not meet the offsetting criteria. The above transactions are settled on a net basis after offsetting financial assets with financial liabilities if both parties of the transaction choose to use net settlement; the above transactions are settled on a gross basis if both parties do not choose to use net settlement. However, if one party defaults, the other party can choose to use net settlement.

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The offsetting of financial assets and liabilities information is as below:

		March 31, 2016					
		Financial assets under offsetting or general agreement of net amount settlement or similar norms					
		Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
					Financial instruments	Cash received as collaterals	
		(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets		\$ 42,102	-	42,102	-	-	42,102
		March 31, 2016					
		Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
		Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
					Financial instruments	Cash received as collaterals	
		(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities		\$ 253,220	-	253,220	-	-	253,220
Under repurchase agreements		26,903,149	-	26,903,149	26,903,149	-	-
Total		\$ 27,156,369	-	27,156,369	26,903,149	-	253,220
		December 31, 2015					
		Financial assets under offsetting or general agreement of net amount settlement or similar norms					
		Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
					Financial instruments	Cash received as collaterals	
		(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets		\$ 43,300	-	43,300	-	-	43,300
		December 31, 2015					
		Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
		Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
					Financial instruments	Cash received as collaterals	
		(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities		\$ 216,533	-	216,533	-	-	216,533
Under repurchase agreements		23,576,243	-	23,576,243	23,576,243	-	-
Total		\$ 23,792,776	-	23,792,776	23,576,243	-	216,533
		March 31, 2015					
		Financial assets under offsetting or general agreement of net amount settlement or similar norms					
		Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
					Financial instruments	Cash received as collaterals	
		(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets		\$ 47,633	-	47,633	-	-	47,633

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	March 31, 2015				
	Financial liabilities under offsetting or general agreement of net amount settlement or similar norms			Related amount not offset in the	
	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	balance sheet (d)	
(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	\$ 407,112	-	407,112	-	407,112
Under repurchase agreements	16,894,187	-	16,894,187	-	-
Total	\$ 17,301,299	-	17,301,299	16,894,187	407,112

Note : Including netting settlement agreement and non-cash financial collaterals.

(24) Financial risk management

There is no material change in object and policy of financial risk management in comparison to Note 6(24) of the consolidated financial statements as of and for the year ended December 31, 2015.

As of March 31, 2016, December 31 and March 31, 2015, the related financial risk and the presentation of the Group's financial derivatives were as follows:

Stock warrants

A. Notional principal (nominal amount) and credit risk

Financial Instruments	March 31, 2016		December 31, 2015		March 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Stock warrants issued	\$ 10,725,110	-	10,260,292	-	21,499,208	-

The Group collects premium from investors prior to issuing stock warrants, and therefore, does not assume any credit risk.

B. Market risk

Market risk of stock warrants issued arises from changes in prices of the underlying securities. Market risk can be hedged by adjusting the positions of stock warrants.

C. Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand.

The Group establishes hedging positions by collecting margins or premium prior to the issue of stock warrants, which are based on the underlying securities. Therefore there is no significant funding demand. Furthermore, since the underlying security are restricted by certain market prices and diversification requirements, the risk of being unable to sell securities at reasonable prices is rather low; likewise for liquidity risk as well. The only risk is capital demands resulting from hedged positions adjusted for changes in

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

securities prices. However, under the assumption of good market liquidity, cash flow risk is assessed to be low.

The duration of stock warrants issued is three months to two years from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

D. Type, purpose, and strategy of financial derivatives held

The Group's strategy is to avoid most of the market risk. Marketable securities hedging positions and futures position held for non-trading purpose are used to hedge against risk from investors' exercising of stock warrants. These underlying securities used as hedging instruments exhibit highly positive correlation with the fair values of stock warrants issued, and positions held are evaluated and adjusted periodically.

E. Presentation of financial derivatives

Relevant transaction pertaining to issuance of stock warrants, its presentation and valuation, and gains or losses on sale and expiration and settlement prior to maturity date, were reflected as follows:

For the three months ended March 31, 2016 and 2015:

(1) Gains (losses) on valuation

	For the three months ended March 31,		Account
	2016	2015	
Stock warrants issued	\$ 4,731,244	4,427,929	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,641,765)	(4,309,564)	Gains (losses) on stock warrants issued

(2) Gains (losses) on sale

	For the three months ended March 31,		Account
	2016	2015	
Security borrowing	\$ 70,633	- 61,780	Gains (losses) on covering of borrowed securities
Trading securities - hedging	(45,871)	78,182	Gains (losses) on sale of trading securities
Futures	(43,498)	(72,072)	Gains (losses) on derivative financial instruments - futures

(3) Gains (losses) on maturity

	For the three months ended March 31,		Account
	2016	2015	
Stock warrants issued	\$ 4,569,300	2,544,778	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,411,057)	(2,450,789)	Gains (losses) on stock warrants issued

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Futures

A. Notional principal (nominal amount) and credit risk

Financial Instruments	March 31, 2016		December 31, 2015		March 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Taiex Futures	\$ 1,809,291	-	716,991	-	1,495,996	-
Mini-Taiex Futures	-	-	-	-	17,198	-
Electronic Sector Index Futures	37,575	-	27,203	-	13,696	-
Finance Sector Index Futures	6,667	-	18,764	-	57,195	-
Non-Finance Non-Electronics Sub-Index Futures	13,062	-	8,083	-	160,798	-
Stock Futures	334,662	-	228,537	-	88,451	-
Soy bean Futures	-	-	5,699	-	-	-
Coffee Futures	-	-	3,013	-	-	-
Crude oil Futures	-	-	16,659	-	-	-
H stocks index Futures	27,938	-	-	-	-	-
HSI Futures	17,033	-	-	-	-	-
FTSE China A50 Index Futures	42,746	-	13,141	-	16,707	-
Nifty 50 Index Futures	29,840	-	-	-	-	-
Euro 10-year Bund Futures	-	-	455,705	-	-	-
S&P Futures	285,203	-	16,827	-	3,226	-
Mini S&P Futures	3,315	-	-	-	-	-
JPY dollar Futures	14,277	-	-	-	-	-
GBP dollar Futures	5,777	-	-	-	-	-
CAD dollar Futures	7,296	-	-	-	-	-
EUR dollar Futures	9,064	-	-	-	-	-
AUD dollar Futures	7,251	-	-	-	-	-
Platinum Futures	-	-	2,926	-	-	-
CBOE VIX Futures	8,879	-	-	-	-	-
Sugar No. 11 Futures	-	-	2,787	-	-	-
U.S. 5-Year T-Note Futures	-	-	-	-	172,389	-
U.S. 10-Year T-Note Futures	-	-	-	-	16,121	-
U.S. 30-Year T-Bond Futures	26,361	-	15,187	-	-	-
Taiex Options	67,475	-	103,725	-	66,623	-
Stock Options	11,425	-	4,758	-	27,378	-
Taiex Weekly Options	7,344	-	4,416	-	10,178	-
Electronic Sector Index Options	2,499	-	5,593	-	2,101	-
Finance Sector Index Options	1,210	-	2,949	-	2,485	-
S&P Sector Index Options	3,418	-	3,512	-	2,531	-
Gold Options	4,357	-	230	-	1,050	-
For non-trading purpose:						
Taiex Futures	538,508	-	197,542	-	309,967	-
Stock Futures	613,813	-	320,278	-	1,471,086	-
Electronic Sector Index Futures	1,388	-	-	-	-	-
Finance Sector Index Futures	1,898	-	-	-	-	-
H stocks Index Futures	-	-	35,626	-	-	-
HSI Futures	-	-	9,336	-	-	-
Mini H stocks Index Futures	-	-	838	-	-	-
Mini-HSI Futures	-	-	16,805	-	-	-
Gold Futures	23,791	-	-	-	-	-
FTSE China A50 Index Futures	13,292	-	-	-	328,631	-
Taiex Options	8,204	-	18,390	-	-	-
Stock Options	1,960	-	355	-	-	-

Should counterparties to futures and options default, the associated losses is borne by the futures commission merchants. Hence, the Group is subject to insignificant credit risk.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Market risk

Market risk of trading futures and options resulted from the transaction of futures and options. Since the fair values of futures and options are available, and stop-loss points are established in order to manage risk, the Group can confine losses to a predictable range. Therefore, there is no significant market risk.

For non-trading futures or options contracts, gains or losses from the fluctuations of index tends to offset gains and losses of the hedged items. Hence, there is no significant market risk.

C. Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand

The open positions of futures and options held by the Group can be settled on the market at reasonable prices, and as such there is no liquidity risk.

Futures are considered as margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Group. For margin calls, the Group has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

For options, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Group has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

D. Presentation of financial derivatives

For the three months ended March 31, 2016 and 2015, losses on futures and options transactions amounted to \$117,377 and \$170,839, respectively, and were reflected as gains or losses on derivative financial instruments - futures. As of March 31, 2016, December 31, 2015 and March 31, 2015, futures margin - proprietary fund amounted to \$385,027, \$270,282 and \$238,503, respectively, and were reflected as financial assets at fair value through profit or loss - current.

As of March 31, 2016, December 31, 2015 and March 31, 2015, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$40,110, \$50,244 and \$51,257, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$57,918, 57,261, and \$56,050, respectively.

Derivative financial instruments - OTC

A. Interest rate financial derivatives

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(1) Notional principal (nominal amount) and credit risk

Financial Instruments	March 31, 2016		December 31, 2015		March 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
NT dollar interest swaps	\$ 52,500,000	-	55,700,000	-	52,400,000	-

Counterparties to interest rate swaps are banks with good credit ratings. The Group pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

(2) Market risk

Non-trading NT dollar interest rate swaps are primarily held for hedging. Gains or losses from the fluctuations of interest rate tend to offset gains and losses of the hedged items, and therefore market risk is insignificant.

In order to manage risk, Stop-loss points are established in accordance to the changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, and therefore there is no significant market risk.

(3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

The Group's non-trading NT dollar interest rate swaps are used to hedge against interest rate fluctuations of claims and obligations. On the settlement date, interest receivables or payables are derived from multiplying the notional principals by interest rate differences, and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand.

For trading NT dollar interest rate swaps, the interest receivables or payables are derived through multiplying of its notional principals by interest rate differences on the settlement dates; and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand associated.

(4) Type, purpose, and strategy of financial derivatives held

The Group entered into non-trading NT dollar interest rate swaps with banks to hedge against interest rate fluctuations of claims and obligations. The Group's strategy is to avoid most of the market risk. Financial derivatives exhibiting highly negative correlation with the fair value of hedged items are used as hedging instruments and evaluated periodically.

The Group engages in trading NT dollar interest rate swaps to gains from the differences in interest rates upon evaluation of the trending of interest rates.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Structured notes

(1) Notional principal (nominal amount) and credit risk

Financial Instruments	March 31, 2016		December 31, 2015		March 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Equity-linked notes	\$ 26,000	-	2,000	-	39,272	-
Principal guaranteed notes	2,563,130	-	3,761,609	-	3,085,652	-
Credit-linked notes	414,700	-	317,200	-	333,800	-

The Group collects premium from investors prior to conducting structured note transactions, and therefore, does not assume any credit risk.

(2) Market risk

For structured notes, the respective products are exercised at their fair value and the hedged items all have fair values. Therefore, there is no significant market risk of structured notes.

(3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

The Group collects premium from investors prior to transacting in structured notes, therefore there is no significant liquidity risk.

C. Convertible bond asset-backed swaps

(1) Notional principal (nominal amount) and credit risk

Financial Instruments	March 31, 2016		December 31, 2015		March 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Convertible bond asset-backed swaps	\$ 1,291,100	-	1,304,600	-	1,192,900	-
Convertible bond options	2,994,500	-	2,947,200	-	3,027,000	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the Company maintains good credit risk control over counterparties, the credit risks is minimal.

For convertible bond options, the Group collects premium or margins from investor prior to issuing convertible bond options, and therefore, there is no credit risk.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Market risk

For convertible bond asset-backed swaps, the Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Therefore, there is no market risk.

For convertible bond options, since the exercise price of the convertible bonds acquired through underwriting or proprietary trading is determined on the contract date, there is no market risk.

(3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Group also receives the right to call the convertible bond prior to the expiration of the contract. Therefore, there is no significant liquidity risk or significant cash demand.

The underlying assets of Convertible bond option transaction in which the Group engages in were acquired through underwriting or proprietary trading. Prior to issuing convertible bond options, the Group has collected premium or margins from investors; therefore there is no significant liquidity risk.

D. Options

The underlying assets of Convertible bond option in which the Group engages in were acquired through underwriting or proprietary trading. Prior to issuing convertible bond options, the Group has collected premium or margins from investors; therefore there is no significant cash demand.

E. Presentation of derivative financial instruments – OTC

As of March 31, 2016, December 31, 2015 and March 31, 2015, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps were presented on the balance sheets as follows:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 25,160	22,878	23,883
Currency swaps	6,378	8,482	1,744
Asset swap options - long position	8,953	11,940	21,819
Structured notes	1,611	-	187
Total	<u>\$ 42,102</u>	<u>43,300</u>	<u>47,633</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Financial liabilities at fair value through profit or loss - current			
Asset swap options - short position	\$ 220,328	193,888	388,644
IRS asset swaps	4,617	5,398	2,200
Structured notes	8,752	12,243	7,745
Currency swaps	18,708	3,476	4,783
Interest rate swaps	815	1,528	3,740
Total	<u>\$ 253,220</u>	<u>216,533</u>	<u>407,112</u>
Other financial liabilities - current			
Structured notes principal value	<u>\$ 2,684,400</u>	<u>3,834,575</u>	<u>3,311,024</u>
Other financial liabilities - non-current			
Structured notes principal value	<u>\$ 315,257</u>	<u>241,991</u>	<u>145,592</u>

For the three months ended March 31, 2016 and 2015, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps were presented on statements of income as follows:

	<u>For the three months ended March 31,</u>			
	<u>2016</u>		<u>2015</u>	
	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (283)	(815)	(878)	(3,740)
Equity derivatives	92	-	56	-
Structured notes	(9,124)	(3,273)	(10,510)	(5,660)
IRS asset swaps	128	20,543	144	21,684
Asset swap options	(21,274)	129,696	(84,528)	(48,661)
Currency swaps	(78,092)	(12,330)	(14,826)	(3,038)
Total	<u>\$ (108,553)</u>	<u>133,821</u>	<u>(110,542)</u>	<u>(39,415)</u>

(25) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital base includes shares capital, capital surplus and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to make sure the company has sufficient financial resources to cope with the future need of operating fund, capital expenditure and other operating need.

As of March 31, 2016, the Company maintains no change of its capital management.

7. RELATED PARTY TRANSACTIONS

(1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Key management personnel transactions

A. Key management personnel compensation:

	For the three months ended March 31,	
	2016	2015
Short-term employee benefits	\$ 62,104	71,326
Post-employment benefits	493	463
Termination benefits	-	1,056
Total	\$ 62,597	72,845

B. Bond transactions- bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with key management personnel as of March 31, 2016, December 31, 2015 and March 31, 2015 were as follows:

	March 31, 2016		December 31, 2015		March 31, 2015	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Key management personnel	\$ 38,600	38,668	50,500	50,691	57,500	59,021

Total financial expenses	For the three months ended March 31,	
	2016	2015
Key management personnel	\$ 82	102

C. Structured notes transactions

As of March 31, 2016, December 31, 2015 and March 31, 2015, the balances of structured notes transactions with key management personnel were \$18,100, \$17,600 and \$23,600, respectively.

(3) Significant transactions with related parties

A. Bond transactions- bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with subsidiaries and other related parties as of March 31, 2016, December 31, 2015 and March 31, 2015 were as follows:

	March 31, 2016		December 31, 2015		March 31, 2015	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Subsidiaries	\$ 13,500	13,549	13,500	13,535	20,500	21,112
Others	12,400	12,400	13,400	13,400	4,900	4,900
Total	\$ 25,900	25,949	26,900	26,935	25,400	26,012

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Total financial expense</u>	<u>For the three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Subsidiaries	\$ 15	27
Others	22	18
Total	<u>\$ 37</u>	<u>45</u>

Transaction terms are the same as those with general clients.

B. Lease agreements

a. Lease revenue

	<u>For the three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Subsidiaries	<u>\$ 259</u>	<u>259</u>

b. Guarantee deposits received

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Subsidiaries	<u>\$ 200</u>	<u>200</u>	<u>200</u>

C. Insurance commission income

The Group assists subsidiaries to recruit insurance contracts and charge commission income. The details were as follows:

a. Commission revenue

	<u>For the three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Subsidiaries	<u>\$ 3,945</u>	<u>2,375</u>

b. Accounts receivable

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Subsidiaries	<u>\$ 1,761</u>	<u>1,200</u>	<u>381</u>

J. Brokerage commissions

The investors of CSC Securities (HK) Ltd. traded of market securities with the Company through the trust account named "Capital Securities Nominee Limited" for the three months ended March 31, 2016 and 2015, the brokerage commissions were \$1,746 and \$2,122, respectively.

L. The Company issued Letter of Comfort to the banks which loaned to subsidiaries.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

8. PLEDGED ASSETS

The following assets were pledged as collateral or restricted in use on March 31, 2016, December 31, 2015 and March 31, 2015:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>	<u>The collateral use</u>
Restricted assets - current	\$ 521,129	570,321	577,319	Bank borrowings, commercial paper, accounts settled, money trust (Annotation 1) and guaranty deposited for business operations (Annotation 2)
Restricted assets - non - current	178,775	178,353	234,541	Trust to a impartial third party (Note 12(4)) and the amount of provisional seizure (Note 9(12))
Trading securities and bonds purchased under resale agreements (par value)	27,979,588	23,993,535	16,975,500	Repurchase agreement, Investments in Bonds with Resale Agreements - short sale
Property and equipment	4,068,478	4,074,595	4,096,670	Bank borrowings
Financial assets at fair value through profit or loss - non-current	190,413	190,554	188,695	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	888,049	890,116	896,997	Bank borrowings
Total	<u>\$ 33,826,432</u>	<u>29,897,474</u>	<u>22,969,722</u>	

Annotation 1 : Money trust received from the client by the subsidiary TIS Securities (HK) limited

Annotation 2 : According to the request of Financial Supervisory Commission No. 09600744341, the guaranty deposit for business operations which Taiwan International Futures Corp. deposited can't be transferred to the its own working capital temporarily for protecting creditors.

9. SIGNIFICANT CONTINGENT LIABILITY AND UNRECOGNIZED CONTRACT COMMITMENT

(1) Information of handling margin purchase and short sale lending operations in securities trading are as follows:

	<u>March 31, 2016</u>		<u>December 31, 2015</u>		<u>March 31, 2015</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities procured through margin purchase	733,066	\$ 7,330,660	826,231	8,262,310	1,072,393	10,723,930
Collateral for margin purchase	24,519	245,190	33,476	334,760	3,992	39,920
Collateral for short sales	6,910	69,100	13,332	133,320	3,998	39,980
Lending securities to customers through short sales	22,933	229,330	44,174	441,740	18,229	182,290

(2) Information of the collateral provided or the securities borrowed of refinancing margin from securities finance companies are as follows:

	<u>March 31, 2016</u>		<u>December 31, 2015</u>		<u>March 31, 2015</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities borrowed from securities finance companies	365	\$ 3,650	217	2,170	3	30
Collateral for refinancing margin	35	350	-	-	-	-

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (3) Information of issuing promissory notes in connection with guaranty for segregated error accounts, debt, and issuance of commercial paper are as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Promissory notes	\$ 25,410,000	21,850,000	21,340,000
Promissory notes	USD 75,000	USD 80,000	USD 80,000

- (4) The Company designated Mr. Liu as a consultant to assist expanding brokerage business and entered into a non-competition agreement with him. The Company paid the consulting fee according to the actual operating performance. During March, 2011, Mr. Liu and the Company re-signed a supplementary to replace the old agreement and the major difference is the annual consulting fee is fixed for \$16,000. The effective period is from January 1, 2011 to March 31, 2016. The Company already recognized \$0 and \$4,000 as miscellaneous expense for the three months ended March 31, 2016 and 2015.
- (5) Securities and Futures Investors Protection Center claims against the Company for compensation of \$2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (6) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole and sold off his stocks and withdrew his deposit illegally. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$36,000 with additional interests. Based on Year 2008 Chung Su No.684 verdict, the Taiwan Taipei District Court ruled in favor of the Company. Mr. Wu was unwilling accept the result and appealed to the high court. This case is currently under the review of the Taiwan High Court. According to the opinion from the attorney of the Company, the case is a personal financial dispute between customer and the former employee and had no impact to the Company.
- (7) The client, Mr. Chen, declared that Entie Securities Finance Ltd. (the Company's merged entity) did not return the remaining amount of the transaction and requested the Company to reimburse \$1,826 and related interests. Based on recent verdict, the Taiwan High Court ruled against the Company. The Company had filed an appeal and it is currently under the review of the Supreme Court.
- (8) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as "TISC") is suspected to violate the Regulations Governing Securities Firms due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. However, relevant evidence is still under inspection and the legal responsibilities are pending clarification. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$8,734,798 dollars (including claim amount US\$354,006 dollars towards Taiwan International Securities Investment Consulting Corp.). As of March 31, 2016, the damages claimed for amounted to US\$2,930,000 dollars which is favorable to the Company instead of US\$5,026,873 dollars; that the investors reached compromises to waive

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

off the appeal rights. Since the case is currently on trial, the possible loss remains uncertain at the moment according to the opinion from the attorney of the Company. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is \$173,000, thus the Company recognized this amount as other liabilities.

- (9) Ding-Li Assets Management Co., Ltd. (hereinafter known as “Ding-Li”) acquired the financing creditor’s right of Mr. Huang and two other person and claimed that employees of Chang-Li Securities Corp. and Da-Yong Securities Corp. opened these three people’s accounts without their consent. Since Chang-Li Securities Corp. and Da-Yong Securities Corp. were acquired by the Company, Ding-Li filed a lawsuit to claim against the Company; amounting to \$1,800. Taiwan Taipei District Court ruled in favor of the Company. As of March 31, 2016, the case is currently under the review of the Taiwan High Court.
- (10) The original shareholder of Taiwan International Securities Corporation (hereinafter known as “TISC”), China Development Financial Holdings (hereinafter known as “CDFH”), possessed a different point of view towards the election motion of 2009 shareholder’s meeting and instituted a proceeding in terms of the existence of fiduciary relation toward the TISC. On June 4, 2010, Taiwan Taipei District Court ruled that the fiduciary relation between TISC and aforementioned board of directors and supervisors was not existed based on Year 2009 No. 1086 verdict. The CDFH and TISC both appealed to the verdict. On July 12, 2011, Taiwan High Court ruled that the CDFH has no legal interests in demanding such judgment after the Company merged the TISC and reversed the original judgment and dismissed all the related appeals based on Year 2010 No. 507 verdict. The CDFH appealed to the Supreme Court. The Supreme Court reversed the case to Taiwan High Court based on July 19, Year 2012 No 1093 verdict that the original verdict was in contravention of the laws because the distributing method of the remuneration for directors and supervisors was not explained.
- (11) The Company provided the Letter of Comfort for its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (12) In October 2005, the former account executive of the Company’s subsidiary - Taiwan International Futures Corporation (hereinafter known as “TIFC”) was suspected for deceiving futures investors and causing a material loss. Several investors institute proceedings towards TIFC and claim joint responsibility of compensation for damages. After viewing by TIFC and its attorney, those litigations were classified by actual situations and relevant matters, thereon adopted different solutions. As of March 31, 2016, sixteen litigations with civic claim were filed (including seven cases with ancillary civil action transferred from Taiwan Taipei District Court Criminal Division to Taiwan Taipei District Court Civic Division). Two litigations had been settled and dismissed. Eleven litigations were ruled in favor of TIFC by Taiwan Supreme Court, Taiwan High Court and Taiwan Taipei District Court, respectively. Two litigations were ruled by Supreme Court that the resigned-employee and TIFC should be jointly responsible for the compensation for damages, and TIFC had indemnified \$52,701 for the investor. One litigation was ruled against TIFC by Taiwan High Court on November 30, 2015 and TIFC has filed an appeal to The Supreme Court. As of March 31, 2016, TIFC has paid \$162,812 for compensation and the estimated losses amounted to \$254,389 in other liabilities – non-current.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The alleged damages amounted to \$72,416 for only one lawsuit is still on trial. In addition, the plaintiffs of those four cases applied to the court for provisional seizure and the amount of provisional seizure and execution fees were \$222,991.

As of March 31, 2016, the objects of provisional seizure were as follows:

	Provisional Seizure Amount
Bank deposit	\$ 88,821
Clearing and Settlement fund	15,121
Accounts receivable and other accounts receivable	13
	\$ 103,955

The Financial Supervisory Commission Executive Yuan voided TIFC's business license on December 27, 2007. Thus, the shareholders' special meeting of TIFC decided to dissolve the company on September 18, 2008. Mr. Kuo, a certified public accountant, and Mr. Liu, a lawyer were designated as liquidators. TIFC is still in the process of liquidation.

10. SIGNIFICANT CATASTROPHIC LOSS : NONE

11. SIGNIFICANT SUBSEQUENT EVENTS : NONE

12. OTHERS

- (1) As of March 31, 2016, December 31, 2015 and March 31, 2015, the open positions of futures and option contracts were as follows:

A. March 31, 2016

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taiex Futures	Long	387	\$ 678,501	674,618	
	Taiex Futures	Short	962	(1,669,298)	(1,675,541)	
	Electronic Sector Index Futures	Short	28	(38,963)	(39,009)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	11	11,964	11,999	
	Non-Finance Non-Electronics Sub-Index Futures	Short	1	(1,098)	(1,090)	
	Stock Futures	Long	2,062	195,518	196,000	
	Stock Futures	Short	4,277	(752,957)	(760,857)	
	Finance Sector Index Futures	Short	9	(8,565)	(8,622)	
	H stocks Index Futures	Long	8	14,925	14,943	
	H stocks Index Futures	Short	7	(13,013)	(13,008)	
	Nifty 50 Index Futures	Short	60	(29,840)	(30,077)	
	HSI Futures	Long	4	17,033	17,145	
	Gold Futures	Long	1	3,923	3,997	
	Gold Futures	Short	5	(19,868)	(19,884)	
	AUD dollar Futures	Long	3	7,251	7,386	
	GBP dollar Futures	Short	2	(5,777)	(5,782)	
	CAD dollar Futures	Short	3	(7,296)	(7,441)	
	EUR dollar Futures	Short	2	(9,064)	(9,182)	
	JPY dollar Futures	Short	4	(14,277)	(14,329)	
	S&P Futures	Short	87	(285,203)	(285,088)	
	Mini S&P Futures	Short	1	(3,315)	(3,301)	
	CBOE VIX Futures	Short	16	(8,879)	(8,140)	
	FTSE China A50 Index Futures	Short	181	(56,038)	(55,868)	
	US 30-Year T-Bond Futures	Short	5	(26,361)	(26,462)	
	Subtotal			(2,020,697)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	Taix Options (Call)	Long	6,973	\$ 9,499	16,820	
	Taix Options (Put)	Long	10,106	12,640	6,333	
	Taix Options (Call)	Short	8,067	(31,644)	(33,561)	
	Taix Options (Put)	Short	5,409	(21,896)	(12,737)	
	Stock Options (Call)	Long	927	3,202	3,113	
	Stock Options (Put)	Long	1,310	5,671	4,013	
	Stock Options (Call)	Short	414	(2,435)	(2,293)	
	Stock Options (Put)	Short	294	(2,077)	(1,785)	
	Taix Weekly Options (Call)	Long	1,715	1,050	980	
	Taix Weekly Options (Put)	Long	2,137	2,537	2,375	
	Taix Weekly Options (Call)	Short	247	(2,481)	(2,328)	
	Taix Weekly Options (Put)	Short	627	(1,276)	(1,590)	
	Gold option (Call)	Long	160	629	281	
	Gold option (Put)	Long	800	1,672	1,646	
	Gold option (Call)	Short	90	(156)	(8)	
	Gold option (Put)	Short	119	(1,900)	(2,645)	
	Electronic Sector Index Options (Call)	Long	911	1,476	1,481	
	Electronic Sector Index Options (Put)	Long	420	555	257	
	Electronic Sector Index Options (Put)	Short	80	(468)	(265)	
	Finance Sector Index Options (Call)	Long	353	234	131	
	Finance Sector Index Options (Put)	Long	66	108	47	
	Finance Sector Index Options (Call)	Short	50	(85)	(89)	
	Finance Sector Index Options (Put)	Short	104	(783)	(617)	
	S&P Sector Index Options (Call)	Long	408	2,891	2,341	
	S&P Sector Index Options (Put)	Long	33	527	292	
	Subtotal			(22,510)		
Total				<u>\$ (2,043,207)</u>		

B. December 31, 2015

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Futures contract :						
	Taix Futures	Long	70	\$ 118,276	117,949	
	Taix Futures	Short	479	(796,257)	(792,419)	
	Electronic Futures	Short	21	(27,203)	(27,392)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	8	8,083	8,240	
	Stock Futures	Long	1,363	260,472	255,395	
	Stock Futures	Short	2,698	(288,343)	(287,868)	
	Finance Sector Index Futures	Long	19	18,764	18,586	
	H stocks Index Futures	Short	17	(35,626)	(34,936)	
	Mini H stocks Index Futures	Short	2	(838)	(822)	
	HSI Futures	Short	2	(9,336)	(9,379)	
	Mini HSI Futures	Short	18	(16,805)	(16,702)	
	Sugar No.11 Futures	Long	5	2,787	2,801	
	Gold Futures	Short	5	(17,276)	(17,401)	
	Coffee Futures	Long	2	3,013	3,119	
	Soy bean Futures	Short	4	(5,699)	(5,674)	
	Crude oil Futures	Long	14	16,659	17,022	
	S&P Futures	Long	5	16,827	16,583	
	FTSE China A50 Index Futures	Long	12	4,209	4,124	
	FTSE China A50 Index Futures	Short	26	(8,932)	(8,871)	
	U.S. 30-Year T-Bond Futures	Short	3	(15,187)	(15,141)	
	Platinum Futures	Short	2	2,926	2,932	
	Subtotal			(769,486)		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Options contract :						
	Taix Options (Call)	Long	11,356	\$ 25,752	20,111	
	Taix Options (Put)	Long	13,664	23,550	18,065	
	Taix Options (Call)	Short	6,444	(24,127)	(13,828)	
	Taix Options (Put)	Short	11,120	(48,686)	(36,903)	
	Stock Options (Call)	Long	1,221	1,958	2,492	
	Stock Options (Put)	Long	1,262	2,352	2,350	
	Stock Options (Call)	Short	209	(375)	(224)	
	Stock Options (Put)	Short	172	(428)	(414)	
	Taix Weekly Options (Call)	Long	871	728	787	
	Taix Weekly Options (Put)	Long	1,607	1,843	1,775	
	Taix Weekly Options (Call)	Short	214	(881)	(919)	
	Taix Weekly Options (Put)	Short	160	(964)	(899)	
	Gold Option (Call)	Long	12	190	150	
	Gold Option (Putl)	Long	1	1	1	
	Gold Option (Call)	Short	12	(10)	(4)	
	Gold Option (Put)	Short	12	(29)	(31)	
	Electronic Sector Index Options (Call)	Long	574	3,135	2,536	
	Electronic Sector Index Options (Put)	Long	269	1,195	1,143	
	Electronic Sector Index Options (Call)	Short	140	(434)	(194)	
	Electronic Sector Index Options (Put)	Short	58	(829)	(637)	
	Finance Sector Index Options (Call)	Long	174	371	178	
	Finance Sector Index Options (Put)	Long	187	863	656	
	Finance Sector Index Options (Call)	Short	475	(935)	(362)	
	Finance Sector Index Options (Put)	Short	190	(780)	(740)	
	S&P Sector Index Options (Call)	Short	24	(1,685)	(1,324)	
	S&P Sector Index Options (Put)	Short	34	(1,827)	(782)	
	Subtotal			(20,052)		
Total				\$ (789,538)		

C. March 31, 2015

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taix Futures	Long	588	\$ 1,135,871	1,138,727	
	Taix Futures	Short	329	(670,092)	(673,188)	
	Mini-Taix Futures	Short	36	(17,198)	(17,248)	
	Electronic Sector Index Futures	Short	9	(13,696)	(13,703)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	788	131,345	131,995	
	Non-Finance Non-Electronics Sub-Index Futures	Short	25	(29,453)	(29,468)	
	Stock Futures	Long	523	123,369	124,895	
	Stock Futures	Short	8,349	(1,436,168)	(1,435,672)	
	Finance Sector Index Futures	Short	51	(57,195)	(57,271)	
	S&P Futures	Short	1	(3,226)	(3,201)	
	A50 Index Futures	Short	935	(345,338)	(348,033)	
	US 5-Year T-Note Futures	Long	46	172,389	173,080	
	US 10-Year T-Note Futures	Long	4	16,121	16,139	
	Subtotal			(993,271)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Options contract :						
	Taix Options (Call)	Long	3,594	8,454	9,673	
	Taix Options (Put)	Long	14,113	19,614	17,339	
	Taix Options (Call)	Short	6,942	(21,677)	(19,851)	
	Taix Options (Put)	Short	11,405	(16,877)	(13,448)	
	Stock Options (Call)	Long	2,381	4,295	8,005	
	Stock Options (Put)	Long	10,346	15,157	8,763	
	Stock Options (Call)	Short	1,828	(6,002)	(13,595)	
	Stock Options (Put)	Short	728	(1,924)	(1,373)	
	Taix Weekly Options (Call)	Long	4,070	1,640	1,778	
	Taix Weekly Options (Put)	Long	10,456	1,883	847	
	Taix Weekly Options (Call)	Short	3,291	(3,061)	(2,821)	
	Taix Weekly Options (Put)	Short	1,168	(3,594)	(2,789)	
	Gold option (Call)	Long	286	586	189	
	Gold option (Put)	Long	106	266	235	
	Gold option (Call)	Short	28	(91)	(66)	
	Gold option (Put)	Short	61	(107)	(87)	
	Electronic Sector Index Options (Call)	Long	257	618	102	
	Electronic Sector Index Options (Put)	Long	144	534	1,260	
	Electronic Sector Index Options (Call)	Short	208	(552)	(152)	
	Electronic Sector Index Options (Put)	Short	252	(397)	(438)	
	Finance Sector Index Options (Call)	Long	476	1,196	1,360	
	Finance Sector Index Options (Put)	Long	493	896	759	
	Finance Sector Index Options (Call)	Short	55	(68)	(55)	
	Finance Sector Index Options (Put)	Short	39	(325)	(201)	
	S&P Sector Index Options (Call)	Long	107	850	248	
	S&P Sector Index Options (Put)	Long	11	508	699	
	S&P Sector Index Options (Call)	Short	22	(642)	(735)	
	S&P Sector Index Options (Put)	Short	13	(531)	(439)	
	Subtotal			649		
Total				<u>\$ (992,622)</u>		

- (2) Restrictions and enforcement of the Group's various financial ratios under futures trading law

Subsidiary - Capital Futures Corp.'s the restrictions and enforcement of each financial ratio was calculated in accordance with Regulations Governing Futures Commission Merchants as follow:

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	Stockholders' equity	3,091,082	6.64	2,751,622	12.51	≥ 1	Satisfactory to requirement
	(Total liabilities –futures traders' equity)	465,493		219,972			
17	Current Assets	21,413,782	1.11	13,572,780	1.15	≥ 1	"
	Current Liabilities	19,278,305		11,756,064			
22	Stockholders' equity	3,091,082	277.23%	2,751,622	384.84%	≥ 60%	"
	Minimum paid-in capital	1,115,000		715,000			
22	Post-adjustment net capital	2,143,414	65.16%	1,929,995	87.19%	≥ 20%	"
	Total customer margin deposits required for open positions of customers	3,289,584		2,213,607			

- (3) Unique risks to specific futures commission merchant services

Transactions in futures and options carry a high degree of risk because of the amount of initial margin is small relative to the value of the futures contract, meaning that transactions are heavily leveraged, the fluctuation of underlying markets is unpredictable, and the variance risk of the exchange rate is high. Futures industry thus bears higher operation risk than other industries. If the customers can't exercise the contract or maintain the proper

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

margin, in order to dealing with such abrupt condition, the futures firm needs sufficient liquidity to cover the transactions and suffer the loss may occur.

- (4) Taiwan International Securities Corp. (hereinafter known as “TISC”), the Company’s merged entity, entrusted \$182,000 to an impartial third party on the merging date with First Securities Co., Ltd. and Far East Securities Co., Ltd. In relations to the agreement of indemnification to the stockholders with aforementioned companies arising from the fraud matter of Taiwan International Futures Corporation (hereinafter known as “TIFC”). Such deposit shall be allocated by the trustee to the stockholders who are merged in proportion of their shareholdings in TISC, after being decided by the court or accommodated by the investors of TIFC.

As of March 31, 2016, TIFC had reached partial consensus with its investors, and the accumulated amount of compensation was \$162,812. According to the indemnification to the former stockholders of First Securities Co., Ltd. and Far Eastern Securities Co., Ltd, the Company needs to pay all of the compensation to the company participating in the merger. As of March 31, 2016, the trust amount of the impartial third party is \$130,586 and the accumulated compensation expense is \$51,414.

13. DISCLOSURES REQUIRED

- (1) Information on significant transaction:

The followings are the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

- A. Loans to others: Exhibit 1.
 - B. Endorsements and guarantee for others: None.
 - C. Acquisition of real estate over \$100 million or 20% of paid-in capital: None.
 - D. Disposal of real estate over \$100 million or 20% of paid-in capital: None.
 - E. Discount on commissions of transactions with related parties over \$5 millions: None.
 - F. Receivables from related parties over \$100 million or 20% of paid-in capital: None.
 - G. Details of material transactions between parent company and subsidiaries: Exhibit 2.
- (2) Information on reinvestment business: Exhibit 3.
- (3) Information on investments in China:

- A. Investment in Mainland China and related information :

Name of the investee in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2016	Remittance or recoverable investment this period		Accumulated remittance as of March 31, 2016	Net gains or losses of investee	Direct or indirect shareholdings (%) by the company	Investment gains or losses recognized during this period (Note 2)	Ending balance of investment	Investment income remitted back as of March 31, 2016
					Remittance amount	Recoverable amount						
Capital True Partner Co., Ltd.	Management, consulting and information service business	5,013	C	24,372	-	-	24,372	(2,714)	30.10%	(787) B (3)	14,286	-

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Note 1: Investment methods are classified into the following three categories:

- A. Directly invest in a company in Mainland China.
- B. Through investing in an existing company in the third area, which then invested in the investee in Mainland China (Please indicate the investee name of the third area).
- C. Through a subsidiary to invest in a company in Mainland China..

Note 2: Investment gains and losses recognized during the period

- A. It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- B. Indicate the basis for investment gains and losses recognition in the number of one of the following three categories:
 - (1) The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
 - (2) The financial statements that are audited and attested by R.O.C. parent company's CPA.
 - (3) The financial statements that are provided by the investee without audited by CPA.

Note 3: Above information is expressed in New Taiwan Dollars.

B. Quota for investment in China:

Unit: NT\$ thousands

Company Name	Accumulative remittance from Taiwan to Mainland China as of March 31, 2016	Amount of investment approved by Investment Commission, Ministry of Economic Affairs (MOEA)	Limit on the amount of investment in Mainland China by MOEA
Capital International Technology Corp.	24,372	24,372	30,877

14. SEGMENT INFORMATION:

(1) Operating segment information

The operating segments are consistent with the internal reports provided to the chief operating decision-maker. The Group's operating segments are classified into brokerage, underwriting, dealing, derivative instrument and reinvestment according to the sources of revenue. The remaining operating results which have not reached the threshold requirements are consolidated in 'other operating segments'. Sources of income from products and services rendered by each segment are as follows:

- A. Brokerage segment: Engaged in brokerage trading, margin trading, and securities lending business.
- B. Underwriting segment: Engaged in providing advisory on initial public offering or to register on the emerging or listed market, securities underwriting and sales, corporate finance, mergers and acquisitions.
- C. Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.
- D. Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.
- E. Capital Futures Corporation: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(2) Measurement of segment information

All of the Group's operating segments' accounting policies are no material difference from the ones described in Note 4 "significant accounting policies". The Group evaluates segment performance based on the net profit before tax of various operating segments. Income and

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

expense attributable to each operating segment are directly attributed to the profits and losses of the corresponding operating segment. Indirect expenses and expenses from logistic support segment that cannot be directly attributed are listed under 'other segments'.

(3) Information about segments' gains or losses, assets and liabilities

For the three months ended March 31, 2016								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 743,356	58,133	(100,606)	141,339	56,700	567,605	(67,673)	1,398,854
Income	\$ 227,472	14,696	(102,198)	100,830	(32,889)	163,137	(85,110)	285,938

For the three months ended March 31, 2015								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 859,002	133,147	269,532	185,852	53,071	198,087	(53,788)	1,644,903
Income	\$ 325,825	75,049	210,904	138,885	(105,322)	70,877	(34,490)	681,728

Note 1: Internal segment revenues are eliminated on consolidation.

Note 2: The Group's segment assets and liabilities are not provided to the chief operating decision maker, so such items are not required to be disclosed.

(4) Information about products and services

The Group identified the reportable segments based on the type of products and service provided and the general information is already to be disclosed. Thus, no additional disclosure is required.

(5) Information about geographical areas

The Group received revenue from any single foreign customer is insignificant and there is no need to disclose the information.

(6) Information about major customers

The Group does not receive revenue from any single customer which exceeds 10% or more of operating income and there is no need to disclose the information.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 1: Loans to others

(In thousands dollars)

No.	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related Party	Maximum Balance of this Period	Ending Balance	Capital Employed	Range of interest Rate	Type of Loans	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on loans to a single business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Account receivables - Related party	yes	US 22,288	US 22,288	US 22,288	-	2	-	Operations	-		-	US 55,367	US 55,367
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other receivables - Related party	yes	US 3,380	US 3,404	US 3,380	-	2	-	Operations & repayment of financing	-		-	US 3,404	US 3,404
3	TIS Securities (HK) Limited	TIS Capital Co., Ltd.	Other receivables	yes	HK 1,463	HK 1,463	HK 1,463	-	2	-	Repayment of financing	-		-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	AP CAPITAL INVESTMENT LIMITED	Account receivables - Customer	no	HK 7,754	HK -	HK -	5%	2	-	Tradings	-		-	HK 7,754	HK 47,158
5	CSC Futures (HK) Ltd.	KLAW TRADING LIMITED	Account receivables - Customer	no	HK 7,754	HK -	HK -	5%	2	-	Tradings	-		-	HK 10,855	HK 47,158

Note: Type of Loans

1. Business transactions
2. Necessaries of short-term financing

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 3: Significant transactions between parent company and subsidiaries for the three months ended March 31, 2016

(In thousands dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Transaction details			
				General ledger account	Amount	Transaction terms	Percentage(%) of total consolidated revenue or total assets
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	353		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	18,464		0.02%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	148		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	600,027		0.61%
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	40,295	General transactions	2.88%
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	3,335	General transactions	0.24%
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	84	General transactions	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	549	General transactions	0.04%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	1	General transactions	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	891	General transactions	0.06%
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	25	General transactions	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	2,071	General transactions	0.15%
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	4,684	General transactions	0.33%
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	160	General transactions	0.01%
0	Capital Securities Corp.	Capital International Technology Corp.	1	Other non-operating revenues	15	General transactions	- %
0	Capital Securities Corp.	Capital Investment Management Corporation	1	Professional service fees	20,500	General transactions	1.47%
0	Capital Securities Corp.	Capital Investment Management Corporation	1	Lease revenue	300	General transactions	0.02%
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp	1	Guarantee deposits received	30		- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp	1	Lease revenue	30	General transactions	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp	1	Other non-operating revenues	30	General transactions	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Guarantee deposits received	171		- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	249	General transactions	0.02%
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Other non-operating revenues	150	General transactions	0.01%
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	39		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other payable	22		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	9		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	240	General transactions	0.02%
1	Capital Futures Corp.	Capital Securities Corp.	2	Customer margin account	382,469		0.39%
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	382,469		0.39%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customer margin account	428,722		0.44%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	1,465,082		1.50%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Margin of futures trading	1,699		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	3,957	General transactions	0.28%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions	19,921	General transactions	1.42%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	94	General transactions	0.01%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Information technology expense	4,130	General transactions	0.30%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payable	2,440		- %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Lease revenue	36	General transactions	- %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customer margin account	1,361,874		1.39%
2	CSC Futures (HK) Ltd.	Capital True Partner Co., Ltd.	3	Information technology expense	122	General transactions	0.01%
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 52		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 870		0.26%
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payable	USD 22,288		0.75%
4	Capital Securities (Hong Kong) Ltd.	CSC International Holdings Ltd.	3	Other receivables	HK 3,440		0.01%
5	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,208		0.11%

Note 1: The numbers in the Ref No. column represent as follows:

- (1) 0 stands for the parent company.
- (2) Subsidiaries are coded from No 1 per respective companies.

Note 2: Transaction relationship with the counterparties are as follows:

- (1) Parent company to subsidiaries.
- (2) Subsidiaries to parent company.
- (3) Subsidiaries to subsidiaries.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 2: Disclosure required of investee companies

Ref No.	Name of investee company (Notes 1 and 2)	Area	Primary business operation	Original investment amount		Equity Ownership by the company (Note 3)			Net gains or losses of investee during this period	Investment gain or loss recognized during this period	Note
				Balance on March 31, 2016	Balance on December 31, 2015	Shares	Ratio	Book value			
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	Engaged in providing advice on securities investment and related matters , or securities investment consultancy analyzing the published materials on securities investments.	72,515	72,515	7,000,000	100.00%	108,908	3,814	3,814	The transaction has been written off in the consolidated financial statements
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	Engaged in domestic and foreign futures business.	649,610	649,610	72,227,136	59.01%	1,824,047	144,776	85,432	"
0	CSC International Holdings Ltd.	British Virgin Island	Long-term equity investment businesses.	1,339,555	1,339,555	45,000,000	100.00%	1,777,170	(1,704)	(1,704)	"
0	Capital Insurance Advisory Corp.	Taipei ,Taiwan, R.O.C.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	389,000	100.00%	92,036	19,316	19,316	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	Manages personal insurance agent business.	7,400	7,400	740,000	100.00%	51,902	3,628	3,628	"
0	Taiwan International Futures Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	Liquidation is in progress.	429,990	429,990	11,999,721	99.99%	-	-	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	Holding company for international securities business	1,394,817	1,394,817	300	100.00%	455	(232)	(232)	"
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei ,Taiwan, R.O.C.	Liquidation in progress.	9,992	9,992	999,200	99.92%	13,497	(53)	(53)	"
0	CSC Venture Capital Corp.	Taipei ,Taiwan, R.O.C.	Venture Capital and consulting business	1,000,000	-	100,000,000	100.00%	998,332	(1,668)	(1,668)	"
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	Long-term equity investment businesses.	HK 48,644 thousand	HK 48,644 thousand	4,864,400	100.00%	HK 54,285 thousand	HK 130 thousand	-	"
1	CSC Securities (HK) Ltd.	Hong Kong	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 89,600 thousand	HK 89,600 thousand	89,600,000	70.00%	HK 118,640 thousand	HK 430 thousand	-	"
2	CSC Securities (HK) Ltd.	Hong Kong	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 38,400 thousand	HK 38,400 thousand	38,400,000	30.00%	HK 50,846 thousand	HK 430 thousand	-	"
3	TIS Securities (HK) Limited (Note 6)	Hong Kong	Liquidation is in progress.	HK 265,000 thousand	HK 265,000 thousand	265,000,000	100.00%	HK (26,284) thousand	HK (55) thousand	-	"
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	Liquidation is in progress.	HK 2	HK 2	2	100.00%	HK (49,216) thousand	HK (7) thousand	-	"
5	CSC Futures (HK) Ltd.	Hong Kong	Futures dealing business.	450,631	450,631	114,000,000	95.00%	461,437	21,026	-	"
5	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	Management, consulting and information service business	50,000	50,000	5,000,000	100.00%	50,985	(15)	-	"
5	True Partner Advisor Hong Kong Limited	Hong Kong	Asset Management	36,701	36,701	245,000	49.00%	36,786	487	-	Associates
6	Capital Securities Nominee Ltd.	Hong Kong	Agency services.	HK 2	HK 2	2	100.00%	HK -	HK -	-	The transaction has been written off in the consolidated financial statements

Note 1: (0) Capital Securities Corporation (1) CSC International Holdings Ltd.(2) Capital Securities (Hong Kong) Ltd.(3) Taiwan International Securities (B.V.I) Corp. (4)TIS Securities (HK) Limited. (5) Capital Futures Corp. (6) CSC Securities (HK) Ltd.

Note 2: Includes the Company's investment in overseas business and its reinvestments in other businesses, etc.

Note 3: Book value is the investment balance according to equity method, including investment income (loss), cash dividends, and cumulative translation adjustment, etc.

Note 4: The stockholders' special meeting of Taiwan International Securities Corp. resolved to dissolve the investee company on September 18, 2008 and the liquidation procedure is ongoing.

Note 5: The stockholders' special meeting resolved to dissolve on June 27, 2012.

Note 6: The board of directors of the Company resolved to dissolve the investee company on December 30, 2011.

Note 7: The board of directors of Company resolved to cease operation on October 30, 2012.