

**CAPITAL SECURITIES CORPORATION AND
SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015

AND

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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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 September 30, 2016 and 2015, and the related consolidated statements of comprehensive income for the period from July 1 to September 30 and January 1 to September 30, 2016 and 2015, as well as the consolidated statements of equity change and cash flows for the nine months ended September 30, 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 is limited primarily to inquiries of company personnel and applying analytical procedures to financial data and thus provides less assurance than an audit. We have not performed an audit, and accordingly, we do not express an audit 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 September 30, 2016 and 2015 were \$6,251,994 thousands and \$4,761,866 thousands, constituting 5.88% and 5.05% of total consolidated assets, respectively; the total liabilities of these investees as of September 30, 2016 and 2015 were \$2,752,786 thousands and \$2,209,252 thousands, constituting 3.68% and 3.53% of total consolidated liabilities, respectively; the total comprehensive income of these investees for the three months periods and nine months period ended September 30, 2016 and 2015 were \$31,955 thousands, \$27,589 thousands, \$67,514 thousands and \$28,470 thousands, constituting 6.03%, 14.60%, 4.81% and 2.51% of total consolidated comprehensive income, respectively.

As disclosed in note 6(6) of the consolidated financial statements, the investments under equity method amounting to \$174,223 thousands and \$103,520 thousands as of September 30, 2016 and 2015, respectively, and share of profits of associates and joint venture accounted for using equity method amounting to \$24,147 thousands, \$22,267 thousands, \$82,994 thousands and \$57,307 thousands for the three months and nine months periods ended September 30, 2016 and 2015, respectively, were based on their un-reviewed 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 IAS 34, "Interim Financial Reporting" endorsed by the Financial Supervisory Commission.

KPMG
Taipei, Taiwan, R.O.C.
November 11, 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 BALANCE SHEETS
(Expressed In Thousands of New Taiwan Dollars)

| ASSETS | (Unaudited) | | (Unaudited) | | (Unaudited) | | (Unaudited) | | (Unaudited) | | (Unaudited) | | | |
|--|-----------------------|-------------------|--------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-----------------------|-------------------|--------------------|--------------------|-------------------|------------|
| | September 30, 2016 | December 31, 2015 | September 30, 2015 | September 30, 2015 | September 30, 2016 | December 31, 2015 | September 30, 2015 | September 30, 2015 | September 30, 2016 | December 31, 2015 | September 30, 2015 | September 30, 2015 | | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | | |
| Current Assets | | | | | | | | | | | | | | |
| Cash and cash equivalents (Note 6(1)) | \$ 7,635,349 | 7 | 4,726,498 | 5 | 8,130,979 | 9 | | | \$ 1,980,731 | 2 | 1,791,161 | 2 | 685,424 | 1 |
| Financial assets at fair value through profit or loss - current (Note 6(2)) | 23,780,861 | 22 | 25,985,624 | 28 | 26,797,155 | 28 | | | 1,700,473 | 2 | 2,409,455 | 3 | 3,869,540 | 4 |
| Financial assets available for sale - current (Note 6(2)) | 18,036,739 | 17 | 7,835,455 | 8 | 6,077,858 | 6 | | | 31,383,772 | 29 | 23,576,243 | 25 | 24,621,086 | 26 |
| Bonds purchased under resale agreements (Notes 6(3) and 8) | 447,727 | - | - | - | 649,354 | 1 | | | 1,752,753 | 2 | 2,025,011 | 2 | 2,312,693 | 2 |
| Receivable for securities provided as collateral | 12,369,926 | 12 | 15,155,220 | 16 | 12,905,634 | 14 | | | 2,001,538 | 2 | 2,242,680 | 2 | 2,117,125 | 2 |
| Refinancing margin | 109,549 | - | 9,084 | - | 48,712 | - | | | 1,315,029 | 1 | 1,622,937 | 2 | 668,682 | 1 |
| Refinancing collateral receivable | 95,239 | - | 7,550 | - | 43,620 | - | | | 22,293,539 | 21 | 16,287,312 | 18 | 15,074,418 | 16 |
| Receivable of securities business money lending | 45,380 | - | - | - | 1,532 | - | | | 9,185 | - | 4,104 | - | - | - |
| Customer margin account(Note 6(5)) | 22,371,475 | 21 | 16,304,756 | 18 | 15,137,031 | 16 | | | 1,094 | - | 846 | - | 1,044 | - |
| Receivable - futures margin | 894 | - | 900 | - | 1,137 | - | | | 5,382,703 | 5 | 3,847,764 | 4 | 5,560,661 | 6 |
| Collateral for securities borrowed | 822,936 | 1 | 1,074,130 | 1 | 1,726,389 | 2 | | | 20,685 | - | 19,935 | - | 25,894 | - |
| Security borrowing margin | 802,557 | 1 | 1,460,549 | 2 | 1,920,923 | 2 | | | 350,330 | - | 1,347,159 | 1 | 125,268 | - |
| Notes receivable | 9,452 | - | 7,955 | - | 7,758 | - | | | 1,640,157 | 2 | 765,523 | 1 | 829,142 | 1 |
| Accounts receivable (Note 6(4)) | 5,300,983 | 5 | 4,984,977 | 5 | 6,150,255 | 6 | | | 2,831,101 | 3 | 3,834,575 | 4 | 4,853,064 | 5 |
| Prepayments | 52,274 | - | 36,303 | - | 42,471 | - | | | 160,434 | - | 154,699 | - | 118,497 | - |
| Other receivables | 100,859 | - | 87,864 | - | 70,978 | - | | | 47,546 | - | 47,546 | - | 46,793 | - |
| Current income tax assets | 73,069 | - | 59,777 | - | 52,581 | - | | | 19,448 | - | 5,124 | - | 6,267 | - |
| Other current assets | 774,043 | 1 | 1,854,659 | 2 | 541,337 | 1 | | | <u>72,890,518</u> | <u>69</u> | <u>59,982,074</u> | <u>64</u> | <u>60,915,598</u> | <u>64</u> |
| | <u>92,829,312</u> | <u>87</u> | <u>79,591,301</u> | <u>85</u> | <u>80,305,704</u> | <u>85</u> | | | | | | | | |
| Non-current Assets | | | | | | | | | | | | | | |
| Financial assets at fair value through profit or loss - non-current (Notes 6(2) and 8) | 190,256 | - | 190,554 | - | 189,778 | - | | | | | | | | |
| Financial assets measured at cost - non-current (Note 6(2)) | 430,719 | 1 | 411,231 | - | 411,231 | - | | | 292,714 | - | 241,991 | - | 156,702 | - |
| Financial assets available for sale - non-current (Note 6(2)) | 67,194 | - | 60,966 | - | 92,987 | - | | | 676,732 | 1 | 693,879 | 1 | 646,748 | 1 |
| Investments accounted for under equity method (Note 6(6)) | 174,223 | - | 157,675 | - | 103,520 | - | | | 863,993 | 1 | 865,580 | 1 | 835,836 | 1 |
| Property and equipment (Notes 6(7) and 8) | 5,151,325 | 5 | 5,177,406 | 6 | 5,175,479 | 6 | | | <u>1,833,439</u> | <u>2</u> | <u>1,801,450</u> | <u>2</u> | <u>1,639,286</u> | <u>2</u> |
| Investment property (Notes 6(8) and 8) | 1,731,125 | 2 | 1,740,207 | 2 | 1,912,536 | 2 | | | <u>74,723,957</u> | <u>71</u> | <u>61,783,524</u> | <u>66</u> | <u>62,554,884</u> | <u>66</u> |
| Intangible assets (Note 6(9)) | 3,612,266 | 3 | 3,627,517 | 4 | 3,615,747 | 4 | | | | | | | | |
| Deferred income tax assets | 365,908 | - | 484,797 | 1 | 491,930 | 1 | | | | | | | | |
| Other non-current assets | 1,845,293 | 2 | 1,869,537 | 2 | 2,083,009 | 2 | | | | | | | | |
| | <u>13,568,309</u> | <u>13</u> | <u>13,719,890</u> | <u>15</u> | <u>14,076,217</u> | <u>15</u> | | | | | | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | | |
| Short-term borrowings (Note 6(10)) | | | | | | | | | | | | | | |
| Financial liabilities at fair value through profit or loss - current (Note 6(11)) | | | | | | | | | | | | | | |
| Bonds sold under repurchase agreements (Note 6(12)) | | | | | | | | | | | | | | |
| Guarantee deposited for short sales | | | | | | | | | | | | | | |
| Proceeds payable from short sales | | | | | | | | | | | | | | |
| Securities lending refundable deposits | | | | | | | | | | | | | | |
| Futures traders' equity (Note 6(5)) | | | | | | | | | | | | | | |
| Customer equity of separate account ledger in settlement accounting (Note 6(13)) | | | | | | | | | | | | | | |
| Notes payable | | | | | | | | | | | | | | |
| Accounts payable (Note 6(14)) | | | | | | | | | | | | | | |
| Advance receipts | | | | | | | | | | | | | | |
| Receipts under custody | | | | | | | | | | | | | | |
| Other payables | | | | | | | | | | | | | | |
| Other financial liabilities - current (Note 6(22)) | | | | | | | | | | | | | | |
| Current income tax liabilities | | | | | | | | | | | | | | |
| Provisions - current (Note 6(16)) | | | | | | | | | | | | | | |
| Other current liabilities | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| Non-current Liabilities | | | | | | | | | | | | | | |
| Other financial liabilities -non-current (Note 6(22)) | | | | | | | | | | | | | | |
| Deferred income tax liabilities | | | | | | | | | | | | | | |
| Other non-current liabilities | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| Total Liabilities | | | | | | | | | | | | | | |
| Equity Attributable to Shareholders of the Parent | | | | | | | | | | | | | | |
| Common stock (Note 6(18)) | | | | | | | | | | | | | | |
| Capital surplus | | | | | | | | | | | | | | |
| Premium from stock issuance | | | | | | | | | | | | | | |
| Treasury stock transactions | | | | | | | | | | | | | | |
| Paid-in capital from merger | | | | | | | | | | | | | | |
| Difference between consideration and carrying amount of subsidiaries acquired and disposed | | | | | | | | | | | | | | |
| Changes in ownership interests in subsidiaries | | | | | | | | | | | | | | |
| Retained earnings | | | | | | | | | | | | | | |
| Legal reserve | | | | | | | | | | | | | | |
| Special reserve | | | | | | | | | | | | | | |
| Unappropriated earnings (Note 6(17)) | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | | | | | | | | | | | | | |
| Unrealized gains (losses) on financial assets available for sale | | | | | | | | | | | | | | |
| Treasury stocks (Note 6(18)) | | | | | | | | | | | | | | |
| Total equity attributable to Shareholders of parent | | | | | | | | | | | | | | |
| Non-controlling interests | | | | | | | | | | | | | | |
| Total Equity | | | | | | | | | | | | | | |
| TOTAL LIABILITIES AND EQUITY | | | | | | | | | | | | | | |
| | <u>\$ 106,397,621</u> | <u>100</u> | <u>93,311,191</u> | <u>100</u> | <u>94,381,921</u> | <u>100</u> | | | <u>\$ 106,397,621</u> | <u>100</u> | <u>93,311,191</u> | <u>100</u> | <u>94,381,921</u> | <u>100</u> |

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

| | For the three months ended September 30, | | | | For the nine months ended September 30, | | | |
|---|--|-------------|------------------|------------|---|------------|------------------|------------|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Income: | | | | | | | | |
| Brokerage commissions (Note 6(20)) | \$ 830,927 | 46 | 929,200 | 71 | 2,479,893 | 51 | 2,665,159 | 57 |
| Revenues from securities business money lending | 10 | - | 34 | - | 38 | - | 85 | - |
| Revenue from securities lendings | 20,417 | 1 | 7,312 | 1 | 48,810 | 1 | 24,905 | 1 |
| Underwriting commissions (Note 6(20)) | 22,530 | 1 | 16,256 | 1 | 73,987 | 1 | 139,014 | 3 |
| Commissions on wealth management business | 18,176 | 1 | 15,724 | 1 | 46,230 | 1 | 46,126 | 1 |
| Net gains (losses) on sale of trading securities (Note 6(20)) | 208,123 | 11 | (994,863) | (76) | 75,099 | 2 | (220,934) | (5) |
| Securities management, distribution, and management fees | 36,118 | 2 | 35,194 | 3 | 105,645 | 2 | 104,575 | 2 |
| Interest revenue (Note 6(20)) | 373,862 | 21 | 337,153 | 26 | 1,078,148 | 22 | 1,083,868 | 23 |
| Dividend revenue | 156,417 | 9 | 114,002 | 9 | 174,495 | 4 | 145,524 | 3 |
| Net gains (losses) on measurement of trading securities at fair value through profit or loss (Note 6(20)) | (20,146) | (1) | (37,393) | (3) | 227,917 | 5 | (300,855) | (6) |
| Net gains (losses) on covering of borrowed securities and bonds with resale agreements | 5,729 | - | 79,426 | 6 | 15,886 | - | (23,411) | (1) |
| Net gains (losses) on measurement of borrowed securities and bonds with resale agreements | 30,038 | 2 | 15,337 | 1 | (22,258) | - | 86,672 | 2 |
| Net gains on stock warrants issued (Notes 6(20) and 6(22)) | 209,239 | 12 | 359,797 | 27 | 594,458 | 12 | 603,643 | 13 |
| Futures commission revenues | 161,493 | 9 | 35,349 | 3 | 429,064 | 9 | 91,523 | 2 |
| Net gains (losses) on derivative instruments - futures (Note 6(22)) | (215,707) | (12) | 282,055 | 21 | (273,343) | (6) | 104,580 | 2 |
| Net gains (losses) on derivative instruments - OTC (Note 6(22)) | (73,442) | (4) | 84,731 | 6 | (243,955) | (5) | 36,438 | 1 |
| Management fee revenue | 10 | - | 291 | - | 96 | - | 618 | - |
| Advisory commissions | 4,320 | - | 2,169 | - | 10,829 | - | 6,254 | - |
| Other operating revenues | 29,381 | 2 | 33,049 | 3 | 67,387 | 1 | 67,015 | 2 |
| | <u>1,797,495</u> | <u>100</u> | <u>1,314,823</u> | <u>100</u> | <u>4,888,426</u> | <u>100</u> | <u>4,660,799</u> | <u>100</u> |
| Expenses: | | | | | | | | |
| Brokerage fees | 122,741 | 7 | 105,891 | 8 | 364,128 | 8 | 279,682 | 6 |
| Brokerage and clearing fees - proprietary trading | 4,536 | - | 6,471 | 1 | 12,574 | - | 18,056 | - |
| Clearing and exchange fees - refinancing | 1,066 | - | 757 | - | 2,485 | - | 2,230 | - |
| Clearing and exchange fees - underwriting | 649 | - | 77 | - | 1,511 | - | 2,449 | - |
| Financial costs | 76,577 | 4 | 52,714 | 4 | 197,942 | 4 | 154,646 | 3 |
| Commission expense - futures | 112,299 | 6 | 51,175 | 4 | 306,187 | 6 | 148,009 | 3 |
| Clearing and settlement expenses | 37,696 | 2 | 39,455 | 3 | 111,439 | 2 | 95,633 | 2 |
| Other operating expenditure | 1,703 | - | 1,641 | - | 5,689 | - | 7,448 | - |
| Employee benefits expenses (Note 6(20)) | 635,889 | 36 | 611,259 | 47 | 1,848,007 | 38 | 1,866,910 | 40 |
| Depreciation and amortization expenses (Note 6(20)) | 55,085 | 3 | 57,238 | 4 | 163,152 | 3 | 166,064 | 4 |
| Other operating expenses (Note 6(20)) | 322,615 | 18 | 423,230 | 32 | 1,016,469 | 21 | 1,182,939 | 26 |
| | <u>1,370,856</u> | <u>76</u> | <u>1,349,908</u> | <u>103</u> | <u>4,029,583</u> | <u>82</u> | <u>3,924,066</u> | <u>84</u> |
| Other income and expenses : | | | | | | | | |
| Share of profits of associates and joint venture (Note 6(6)) | 24,147 | 1 | 22,267 | 2 | 82,994 | 2 | 57,307 | 1 |
| Other gains and losses (Note 6(20)) | 136,046 | 8 | 111,310 | 8 | 456,515 | 9 | 460,571 | 10 |
| | <u>160,193</u> | <u>9</u> | <u>133,577</u> | <u>10</u> | <u>539,509</u> | <u>11</u> | <u>517,878</u> | <u>11</u> |
| Net income before income tax | 586,832 | 33 | 98,492 | 7 | 1,398,352 | 29 | 1,254,611 | 27 |
| Income tax expense (Note 6(17)) | <u>(72,115)</u> | <u>(4)</u> | <u>(42,775)</u> | <u>(3)</u> | <u>(210,305)</u> | <u>(5)</u> | <u>(208,485)</u> | <u>(5)</u> |
| Net income | <u>514,717</u> | <u>29</u> | <u>55,717</u> | <u>4</u> | <u>1,188,047</u> | <u>24</u> | <u>1,046,126</u> | <u>22</u> |
| Other comprehensive income: | | | | | | | | |
| Items that may be reclassified to profit or loss in subsequent periods | | | | | | | | |
| Exchange differences on translation of foreign operations | (77,525) | (4) | 144,257 | 11 | (122,749) | (2) | 85,128 | 2 |
| Unrealized gains on available-for-sale financial assets, net | 82,533 | 5 | 15,444 | 1 | 321,930 | 7 | 16,883 | - |
| Income tax benefit related to components of other comprehensive income (Note 6(17)) | 10,163 | - | (26,445) | (2) | 17,802 | - | (15,446) | - |
| Subtotal of items that may be subsequently reclassified into profit or loss | <u>15,171</u> | <u>1</u> | <u>133,256</u> | <u>10</u> | <u>216,983</u> | <u>5</u> | <u>86,565</u> | <u>2</u> |
| Other comprehensive income for the period, net of income tax | <u>15,171</u> | <u>1</u> | <u>133,256</u> | <u>10</u> | <u>216,983</u> | <u>5</u> | <u>86,565</u> | <u>2</u> |
| Total comprehensive income for the period | <u>\$ 529,888</u> | <u>30</u> | <u>188,973</u> | <u>14</u> | <u>1,405,030</u> | <u>29</u> | <u>1,132,691</u> | <u>24</u> |
| Net income attributable to: | | | | | | | | |
| Shareholders of the parent | \$ 463,475 | 26 | (18,379) | (2) | 1,026,666 | 21 | 906,996 | 19 |
| Non-controlling interests | 51,242 | 3 | 74,096 | 6 | 161,381 | 3 | 139,130 | 3 |
| | <u>\$ 514,717</u> | <u>29</u> | <u>55,717</u> | <u>4</u> | <u>1,188,047</u> | <u>24</u> | <u>1,046,126</u> | <u>22</u> |
| Total comprehensive income attributable to: | | | | | | | | |
| Shareholders of the parent | \$ 483,222 | 27 | 101,360 | 8 | 1,250,548 | 26 | 983,108 | 21 |
| Non-controlling interests | 46,666 | 3 | 87,613 | 6 | 154,482 | 3 | 149,583 | 3 |
| | <u>\$ 529,888</u> | <u>30</u> | <u>188,973</u> | <u>14</u> | <u>1,405,030</u> | <u>29</u> | <u>1,132,691</u> | <u>24</u> |
| Basic earnings (deficits) per share (Note 6(19)) | <u>\$</u> | <u>0.20</u> | <u>(0.01)</u> | | <u>0.45</u> | | <u>0.38</u> | |
| Dilutive earnings (deficits) per share (Note 6(19)) | <u>\$</u> | <u>0.20</u> | <u>(0.01)</u> | | <u>0.45</u> | | <u>0.38</u> | |

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY CHANGE
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

| | Equity attributable to shareholders of the parent | | | | | | | | | | |
|---|---|------------------|------------------|------------------|-------------------------|---|--|-----------------|---|---------------------------|-------------------|
| | Retained earnings | | | | | Others | | | Equity attributable to shareholders of the parent | Non-controlling interests | Total Equity |
| | Capital 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 period | - | - | - | - | 906,996 | - | - | - | 906,996 | 139,130 | 1,046,126 |
| Other comprehensive income | - | - | - | - | - | 62,212 | 13,900 | - | 76,112 | 10,453 | 86,565 |
| Total comprehensive income | - | - | - | - | 906,996 | 62,212 | 13,900 | - | 983,108 | 149,583 | 1,132,691 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | |
| Legal reserve | - | - | 202,531 | - | (202,531) | - | - | - | - | - | - |
| Special Reserve | - | - | - | 405,061 | (405,061) | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | (1,421,444) | - | - | - | (1,421,444) | (73,781) | (1,495,225) |
| Reversal of special reserve for deduction of stockholders' equity | - | - | - | (6,922) | 6,922 | - | - | - | - | - | - |
| Purchase of treasury stocks | - | - | - | - | - | - | (38,960) | (38,960) | - | - | (38,960) |
| Difference between consideration and carrying amount of subsidiaries acquired or disposed | - | 1,461 | - | - | - | - | - | - | 1,461 | - | 1,461 |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | 24,950 | 24,950 |
| Ending balance, September 30, 2015 | \$ 23,690,730 | 2,713,221 | 955,667 | 2,154,422 | 974,104 | 138,770 | 34,691 | (38,960) | 30,622,645 | 1,204,392 | 31,827,037 |
| 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 period | - | - | - | - | 1,026,666 | - | - | - | 1,026,666 | 161,381 | 1,188,047 |
| Other comprehensive income | - | - | - | - | - | (95,558) | 319,440 | - | 223,882 | (6,899) | 216,983 |
| Total comprehensive income | - | - | - | - | 1,026,666 | (95,558) | 319,440 | - | 1,250,548 | 154,482 | 1,405,030 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | |
| Legal reserve | - | - | 154,933 | - | (154,933) | - | - | - | - | - | - |
| Special Reserve | - | - | - | 309,866 | (309,866) | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | (1,111,845) | - | - | - | (1,111,845) | (123,922) | (1,235,767) |
| Purchase of treasury stocks | - | - | - | - | - | - | (23,266) | (23,266) | - | - | (23,266) |
| Retirement of treasury stocks | (500,000) | 7,579 | - | - | - | - | 492,421 | - | - | - | 492,421 |
| Ending balance, September 30, 2016 | \$ 22,690,730 | 2,750,386 | 1,110,600 | 2,464,288 | 1,037,016 | 40,427 | 312,590 | - | 30,406,037 | 1,267,627 | 31,673,664 |

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

| | For the nine months ended September 30, | |
|--|--|--------------------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income before income tax | \$ 1,398,352 | 1,254,611 |
| Adjustments for: | | |
| Income and expenses items with no effect on cash flows: | | |
| Depreciation expense | 134,411 | 135,952 |
| Amortization expense | 28,741 | 30,112 |
| Net losses (gains) on financial assets or liabilities at fair value through profit or loss | (227,917) | 300,855 |
| Interest expense | 197,942 | 154,646 |
| Interest revenue (including financial revenue) | (1,224,540) | (1,207,991) |
| Dividend revenue | (206,360) | (177,842) |
| Cash dividend received from investments under equity method | 65,987 | 57,054 |
| Share of profit of associates and joint ventures | (82,994) | (57,307) |
| 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 | 6,169 | 21,255 |
| Net changes of income and expense items with no effect on cash flows | <u>(1,305,363)</u> | <u>(743,266)</u> |
| Net changes of assets from operating activities: | | |
| Decrease (increase) in financial assets at fair value through profit or loss | 2,426,133 | (2,044,649) |
| Decrease (increase) in financial assets available for sale - current | (9,885,430) | (6,068,254) |
| Decrease (increase) in bonds purchased under resale agreements | (447,727) | (649,354) |
| Decrease (increase) in receivable for securities provided as collateral | 2,785,294 | 6,663,831 |
| Decrease (increase) in refinancing margin | (100,465) | (33,185) |
| Decrease (increase) in receivable on refinancing collateral | (87,689) | (19,186) |
| Decrease (increase) in receivable of securities business money lending | (45,380) | (1,532) |
| Decrease (increase) in customer margin account | (6,066,719) | (3,292,588) |
| Decrease (increase) in margin receivable of futures trading | 6 | (1,137) |
| Decrease (increase) in collateral for securities borrowed | 251,194 | (1,076,976) |
| Decrease (increase) in security borrowing margin | 657,992 | (1,327,096) |
| Decrease (increase) in notes receivable | (1,497) | (3,734) |
| Decrease (increase) in accounts receivable | (269,555) | 554,159 |
| Decrease (increase) in prepayments | (15,971) | (3,274) |
| Decrease (increase) in other receivables | (17,297) | 23,261 |
| Decrease (increase) in pledged assets - current | 73,717 | (26,378) |
| Decrease (increase) in current income tax assets | (13,309) | (16,729) |
| Decrease (increase) in other current assets | 1,006,898 | 95,422 |
| Decrease (increase) in guarantee deposited for business operations | 53,211 | 235,849 |
| Decrease (increase) in settlement fund | 21,334 | (694) |
| Decrease (increase) in refundable deposits | (84,428) | (129,746) |
| Decrease (increase) in other non-current assets | (6,955) | (84,676) |
| Total net changes in assets from operating activities: | <u>(9,766,643)</u> | <u>(7,206,666)</u> |
| Net changes in liabilities from operating activities: | | |
| Increase (decrease) in financial liabilities at fair value through profit or loss | (708,297) | 1,461,130 |
| Increase (decrease) in bonds sold under repurchase agreements | 7,807,529 | 10,010,904 |
| Increase (decrease) securities financing refundable deposits | (272,258) | 80,703 |
| Increase (decrease) deposits payable for securities financing | (241,142) | (476,848) |
| Increase (decrease) securities lending refundable deposits | (307,908) | (1,586,082) |
| Increase (decrease) in futures traders' equity | 6,006,227 | 3,330,998 |
| Increase (decrease) in notes payable | 248 | (102) |
| Increase (decrease) customer equity of separate account ledger in settlement accounting | 5,081 | - |
| Increase (decrease) in accounts payable | 1,534,939 | (312,068) |
| Increase (decrease) in advance receipts | 750 | 6,061 |
| Increase (decrease) in receipts under custody | (996,829) | (893) |
| Increase (decrease) in other payables | 876,330 | (8,380) |
| Increase (decrease) in other current liabilities | 22,734 | (2,704) |
| Increase (decrease) in other financial liabilities-current | (1,003,474) | 2,712,099 |
| Increase (decrease) in other financial liabilities-non current | 50,723 | 44,137 |
| Increase (decrease) in other non-current liabilities | (1,587) | 2,428 |
| Total net changes in liabilities from operating activities | <u>12,773,066</u> | <u>15,261,383</u> |
| Total net changes in assets and liabilities from operating activities | <u>3,006,423</u> | <u>8,054,717</u> |
| Total Cash generated from adjustment items | <u>1,701,060</u> | <u>7,311,451</u> |

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CON'D)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

| | For the nine months ended September 30, | |
|--|--|--------------------|
| | 2016 | 2015 |
| Cash generated by operating activities | \$ 3,099,412 | 8,566,062 |
| Interest received | 1,227,447 | 1,273,729 |
| Dividends received | 161,304 | 165,630 |
| Interest paid | (199,638) | (152,903) |
| Income tax paid | (85,025) | (111,427) |
| Net cash provided by (used in) operating activities | 4,203,500 | 9,741,091 |
| Cash flows from investing activities: | | |
| Decrease (increase) in financial assets measured at cost | (46,000) | - |
| Decrease (increase) of deferred debits | (1,428) | (2,091) |
| Acquisition of investments under equity method | - | (23,160) |
| Proceeds from capital reduction of financial assets measured at cost | 26,512 | 8,750 |
| Acquisitions of property and equipment | (74,535) | (159,394) |
| Proceeds from disposal of property and equipment | - | 580 |
| Acquisitions of intangible assets | (11,625) | (13,705) |
| Disposal of intangible assets | - | 86 |
| Net cash flows provided by (used in) investing activities | (107,076) | (188,934) |
| Cash flows from financing activities: | | |
| Increase (decrease) in short-term borrowing | 189,570 | (1,971,575) |
| Increase (decrease) in long-term liabilities - current portion | - | (500,000) |
| Increase (decrease) in commercial paper payable | - | (1,749,717) |
| Acquisition of treasury stocks | (23,266) | (38,960) |
| Cash dividends | (1,235,767) | (1,495,225) |
| Disposal of ownership interests in subsidiaries (without losing control) | - | 24,216 |
| Net cash provided by (used in) financing activities | (1,069,463) | (5,731,261) |
| Effect of exchange rate changes on cash and cash equivalents | (118,110) | 82,500 |
| Increase in cash and cash equivalents | 2,908,851 | 3,903,396 |
| Cash and cash equivalents, beginning of the year | 4,726,498 | 4,227,583 |
| Cash and cash equivalents, end of this period | \$ 7,635,349 | 8,130,979 |

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

Notes to consolidated financial statements as of September 30, 2016 and 2015 are reviewed only, not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 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, Song-Jen Road, Taipei, Taiwan, R.O.C. As of September 30, 2016, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of September 30, 2016, the Company has 56 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;
- (16) Other relevant services as approved by the authority in charge.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issuance by the board of directors on November 11, 2016.

3. NEW STANDARDS AND INTERPRETATIONS

- (1) Impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) but not yet in effect

According to Ruling No. 1050040146 issued on October 20, 2016, by the FSC, securities firms are required to conform to the IFRSs which were issued by the International Accounting Standards Board (“IASB”) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 (excluding IFRS 9 “Financial Instruments”, IFRS 15 “Revenue from Contracts with Customers”, and others which have yet to be approved by the FSC in order for them to take effect) in preparing their financial statements. The new related standards, interpretations, and amendments are as follows:

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

| Newly issued, Revised accounting standards and interpretations | Effective date per IASB |
|--|--------------------------------|
| Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception” | January 1, 2016 |
| Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations” | January 1, 2016 |
| IFRS 14 “Regulatory Deferral Accounts” | January 1, 2016 |
| Amendment to IAS 1 “Disclosure Initiative” | January 1, 2016 |
| 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 Plants” | January 1, 2016 |
| Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions” | July 1, 2014 |
| Amendment to IAS 27 “Equity Method in Separate Financial Statements” | January 1, 2016 |
| Amendments to IAS 36 “Recoverable Amount Disclosures for Non- Financial Assets” | January 1, 2014 |
| Amendments 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 |

The Group assessed that the initial application of the IFRSs above would have no significant material impact on the consolidated financial statements.

- (2) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new issued, revised and amended standards and interpretations for IFRSs issued by the IASB, but not yet endorsed by the FSC is as follows:

| Newly issued, Revised accounting standards and interpretations | Effective date per IASB |
|--|--------------------------------|
| IFRS 9 “Financial Instruments” | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture” | Undecided |
| IFRS 15 “Revenue from Contracts with Customers” | January 1, 2018 |
| IFRS 16 “Leases” | January 1, 2019 |
| Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions” | January 1, 2018 |
| Amendment to IFRS 15 “Clarifications of IFRS 15” | January 1, 2018 |
| Amendment to IAS 7 “Disclosure Initiative” | January 1, 2017 |
| Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses” | January 1, 2017 |

The Group is still currently determining the potential impact of the standards listed below:

| Issuance / Release Dates | Standards or Interpretations | Content of amendment |
|---------------------------------|-------------------------------------|--|
| May 28, 2014 | IFRS 15 “Revenue from | IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a |
| April 12, 2016 | Contracts with Customers” | |

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

| <u>Issuance / Release Dates</u> | <u>Standards or Interpretations</u> | <u>Content of amendment</u> |
|------------------------------------|---|---|
| November 19, 2013 July 24, 2014 | IFRS 9 “Financial Instruments” | <p>principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.</p> <p>The standard will replace IAS 39 “Financial Instruments: Recognition and Measurement”, and the main amendments are as follows:</p> <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio. |
| January 13, 2016 | IFRS 16 “Leases” | <p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17. |
| September 11, 2014 | IFRS 10 and IAS 28 “Sales or Contributions of Assets between an Investor and its Associate or Joint Venture” | <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> |
| January 19, 2016 | Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses” | <p>The objective of this project is to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. It clarifies that 'taxable profit excluding tax deductions' used for assessing the utilization of deductible temporary differences is different from taxable profit on which income taxes are payable.</p> |
| January 29, 2016 | Amendments to IAS 7 “Disclosure Initiative” | <p>The amendments will require entities to provide disclosures that enable investors to evaluate changes</p> |

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

| <u>Issuance / Release Dates</u> | <u>Standards or Interpretations</u> | <u>Content of amendment</u> |
|-------------------------------------|---|---|
| | | in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. |

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

The 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 | <u>Ratio of Equity Ownership</u> | | | Note |
|-------------------------|---|--|----------------------------------|------------------------------|-------------------------------|---|
| | | | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> | |
| The Company | Capital Investment Management Corp. | Engaged in providing advice on securities investment and securities investment consultancy | 100.00% | 100.00% | 100.00% | Established in February, 1990 with the paid-in capitals amounting 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 amounting to US\$45,000 thousands |
| " | 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 amounting to \$1,223,979. |
| " | Taiwan International Futures Corp. | Management consultancy | 99.99% | 99.99% | 99.99% | Liquidation in progress. |
| " | Taiwan International Securities (B.V.I) Corp. | Holding company for offshore securities units | 100.00% | 100.00% | 100.00% | The paid-in capitals amounted to US\$9,516 thousands. |
| " | Taiwan International Securities Investment Consulting Corp. | Investment consultancy | 99.92% | 99.92% | 99.92% | Liquidation in progress. |

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

| Name of the investor | Subsidiaries | Business type | Ratio of Equity Ownership | | | Note |
|--|--|---|---|---|---|---|
| | | | September 30, 2016 | December 31, 2015 | September 30, 2015 | |
| The Company | 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 Futures Corp. | CSC Futures (HK) Ltd. | Futures dealing business | 95.00% | 95.00% | 95.00% | Established in December, 1998. Acquired 100% of the equity on November 1, 2012, and disposed 5% on April 30, 2015. As of September 30, 2016, the paid-in capitals amounted to HKD\$120,000 thousands. |
| " | Capital International Technology Corp. | Management consulting business and Information technology software | 100.00% | 100.00% | 100.00% | Established in December, 2014. As of September 30, 2016, the paid-in capitals amounted to \$50,000. |
| Capital International Technology Corp. | Capital True Partner Co., Ltd. | Management consulting business and Information technology software | 51.00% | 51.00% | 51.00% | Established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of September 30, 2016, the paid-in capitals amounted to CNY\$1,000 thousands. |
| 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. owns 70% and 30% of the equity, respectively | CSC International Holdings Ltd and Capital Securities (Hong Kong) Ltd. owns 70% and 30% of the equity, respectively | CSC International Holdings Ltd and Capital Securities (Hong Kong) Ltd. owns 70% and 30% of the 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. | Margin trading 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. | Financial businesses and investment consultancy | - | - | 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. |

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

| Name of the investor | Subsidiaries | Business type | Ratio of Equity Ownership | | | Note |
|---|--|--|---------------------------|-------------------|---|--|
| | | | September 30, 2016 | December 31, 2015 | September 30, 2015 | |
| Capital Securities (Hong Kong) Ltd. | CSC Asia Ltd. | Financial businesses and investment consultancy businesses | - | - | 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. |
| " | CSC Finance Ltd. | Securities brokerage 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 Nominees Ltd. | Agency service business | 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% | " |

B. Subsidiaries not listed in the consolidated financial statements

| Name of the investor | Subsidiaries | Business type | Ratio of Equity Ownership | | | Note |
|----------------------|----------------------------------|--|---------------------------|-------------------|--------------------|---|
| | | | September 30, 2016 | December 31, 2015 | September 30, 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 September 30, 2016, December 31, 2015 and September 30, 2015, the total assets constituted 0.05%, 0.06% and 0.06% of the Group's total assets. For the nine months end September 30, 2016 and 2015, the operation revenue were merely 1.67% and 1.17% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement. |
| " | Capital Insurance Advisory Corp. | Engaged in personal insurance brokerage and 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 \$5,000. As of September 30, 2016, December 31, 2015 and September 30, 2015, the total assets constituted 0.11%, 0.11% and 0.08% of the Group's total assets. For the nine months end September |

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

30, 2016 and 2015, the operation revenue were merely 4.01% and 2.84% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(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>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|------------------------------|---------------------------|--------------------------|---------------------------|
| Cash | \$ 3,042 | 3,140 | 3,129 |
| Bank deposits | | | |
| Checking accounts | 44,348 | 48,103 | 55,075 |
| Demand deposits | 2,448,178 | 177,236 | 954,413 |
| Time deposits | 2,299,460 | 1,768,772 | 1,951,030 |
| Foreign currency deposits | 1,706,045 | 1,111,031 | 1,460,497 |
| Subtotal | <u>6,498,031</u> | <u>3,105,142</u> | <u>4,421,015</u> |
| Cash equivalents | | | |
| Futures margin-excess margin | 864,554 | 1,463,300 | 1,417,054 |
| Commercial papers | 269,722 | 154,916 | 2,289,781 |
| Subtotal | <u>1,134,276</u> | <u>1,618,216</u> | <u>3,706,835</u> |
| Total | <u>\$ 7,635,349</u> | <u>4,726,498</u> | <u>8,130,979</u> |

(2) Financial assets

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

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|--|---------------------------|--------------------------|---------------------------|
| Open-ended funds and money-market instruments | | | |
| Open-ended funds and money-market instruments | \$ 403,631 | 690,994 | 354,735 |
| Valuation adjustment | 1,622 | 10,561 | (1,083) |
| Subtotal | <u>405,253</u> | <u>701,555</u> | <u>353,652</u> |
| Securities invested by securities broker | | | |
| Securities invested by securities broker | 38,536 | 5,439 | 17,369 |
| Valuation adjustment | 2,864 | (121) | (473) |
| Subtotal | <u>41,400</u> | <u>5,318</u> | <u>16,896</u> |
| Trading securities - proprietary trading: | | | |
| Listed stocks | 709,226 | 1,878,306 | 677,817 |
| Listed funds | 924,384 | 61,890 | - |
| OTC stocks | 243,608 | 156,121 | 64,411 |
| Emerging market stocks | 225,625 | 177,697 | 235,240 |
| Convertible corporate bonds | 375,262 | 345,901 | 345,922 |
| Government bonds | 2,227,586 | 2,823,467 | 3,584,081 |
| Corporate bonds | 9,008,332 | 11,245,486 | 10,066,003 |
| Financial debentures | 3,349,554 | 1,500,549 | 3,908,598 |
| Foreign stocks | 196,062 | 478,309 | 363,053 |
| Overseas bonds | 62,544 | 164,321 | 422,382 |
| Emerging fund | 7,610 | 7,424 | 7,062 |
| Other | 32,603 | 29,989 | 29,989 |
| | <u>17,362,396</u> | <u>18,869,460</u> | <u>19,704,558</u> |
| Valuation adjustment | 162,762 | 62,485 | (31,349) |
| Subtotal | <u>17,525,158</u> | <u>18,931,945</u> | <u>19,673,209</u> |
| Trading securities - underwriting: | | | |
| Listed stocks | 56,443 | 42,209 | 22,550 |
| OTC stocks | 8,420 | - | - |
| Convertible corporate bonds | 41,400 | 51,400 | 83,700 |
| | <u>106,263</u> | <u>93,609</u> | <u>106,250</u> |
| Valuation adjustment | 2,183 | 1,223 | 1,819 |
| Subtotal | <u>108,446</u> | <u>94,832</u> | <u>108,069</u> |

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

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|--------------------------------------|---------------------------|--------------------------|---------------------------|
| Trading securities - hedging: | | | |
| Listed stocks | 1,378,735 | 1,573,401 | 1,823,786 |
| OTC stocks | 449,604 | 470,773 | 409,563 |
| Convertible corporate bonds | 3,423,701 | 3,948,040 | 4,008,808 |
| Foreign stocks | 1,062 | 1,114 | 1,136 |
| | <u>5,253,102</u> | <u>5,993,328</u> | <u>6,243,293</u> |
| Valuation adjustment | 21,739 | (105,180) | (91,125) |
| Subtotal | <u>5,274,841</u> | <u>5,888,148</u> | <u>6,152,168</u> |
| Derivatives: | | | |
| Call options | 74,640 | 50,244 | 56,386 |
| Futures margin - proprietary fund | 319,814 | 270,282 | 386,240 |
| IRS asset swaps | 20,518 | 22,878 | 23,063 |
| Asset swap options - long position | 6,793 | 11,940 | 19,759 |
| Structured notes | 91 | - | 219 |
| Currency swaps | 3,907 | 8,482 | 7,494 |
| Subtotal | <u>425,763</u> | <u>363,826</u> | <u>493,161</u> |
| Total | <u>\$ 23,780,861</u> | <u>25,985,624</u> | <u>26,797,155</u> |

As of September 30, 2016, December 31, 2015 and September 30, 2015, the par value of trading securities - bonds under repurchase agreement were \$31,498,913, \$23,993,535 and \$25,066,161, respectively (please refer to Note 6(12) for details).

B. Financial assets available for sale - current:

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|------------------------|---------------------------|--------------------------|---------------------------|
| Listed stocks | \$ 201,477 | 101,535 | 167,521 |
| OTC stocks | 90,459 | - | - |
| Emerging market stocks | 30,000 | - | - |
| Overseas bonds | 17,433,309 | 7,757,004 | 5,900,736 |
| Subtotal | <u>17,755,245</u> | <u>7,858,539</u> | <u>6,068,257</u> |
| Valuation adjustment | 281,494 | (23,084) | 9,601 |
| Total | <u>\$ 18,036,739</u> | <u>7,835,455</u> | <u>6,077,858</u> |

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

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|---|---------------------------|--------------------------|---------------------------|
| Financial assets held for trading: | | | |
| Government bonds | \$ 188,818 | 188,818 | 188,818 |
| Valuation adjustment | 1,438 | 1,736 | 960 |
| Total | <u>\$ 190,256</u> | <u>190,554</u> | <u>189,778</u> |

As of September 30, 2016, December 31, 2015 and September 30, 2015, the Group took advantage of government bonds as margins of bills, interest rate swaps and structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (please refer to Note 8 for details).

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

| <u>Investee Company</u> | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|-------------------------|---------------------------|--------------------------|---------------------------|
| CME Group | \$ 33,733 | 33,733 | 50,193 |
| Valuation adjustment | 33,461 | 27,233 | 42,794 |
| Total | <u>\$ 67,194</u> | <u>60,966</u> | <u>92,987</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 the nine months ended September 30, 2016 and 2015, due to changes in fair value, the Group had recognized \$6,076 and \$7,279 in other comprehensive income, respectively.

E. Financial assets measured at cost - non-current

| <u>Non-listed (or non-over-the-counter)</u> | <u>September 30, 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% | 46,508 |
| Prudence Venture Investment Corp. | 1.50% | 35,365 |
| Miho International Co., Ltd. | 1.83% | 46,000 |
| Total | | <u>\$ 430,719</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>September 30, 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> |

For the nine months ended September 30, 2016 and 2015, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$24,500 and \$7,000 respectively, and Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$2,012 and \$1,750 respectively.

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

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. On August, 2016 the Jason's Entertainment Co., Ltd. registered on Emerging Stock Board, so reclassified it to financial assets available for sale – current.

- 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 nine months ended September 30, 2016 and 2015 VAR (99%, per 10-day) of equity stocks were as follows:

| Type of market risk | September 30, 2016 | September 30, 2015 | For the nine months ended September 30, | | | | | |
|---------------------|--------------------|--------------------|---|---------|---------|---------|---------|---------|
| | | | 2016 | | | 2015 | | |
| | | | Mean | Maximum | Minimum | Mean | Maximum | Minimum |
| Equity stocks | 720,119 | 620,732 | 707,581 | 821,890 | 596,609 | 827,663 | 970,662 | 620,732 |

(3) Bonds purchased under resale agreements

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|---|---------------------------|--------------------------|---------------------------|
| Bonds purchased under resell agreements | \$ 447,727 | - | 649,354 |
| Resell price under the agreements | \$ 447,600 | - | 649,364 |
| Interest rate | 0.10%~(3.89)% | - | 0.11%~0.30% |

As of September 30, 2016 and 2015, the Group's appropriated bonds purchased under resale agreements were \$398,119 (Par value \$400,000) and \$49,950 (Par value \$50,000) for repurchase agreement transactions purpose, respectively. As of September 30, 2016 and 2015, the Group's appropriated bonds purchased under resale agreements were \$49,608 (Par value \$50,000) and \$599,404 (Par value \$600,000) for resale agreement - short sales transactions purpose, respectively (please refers to Note 8 for details).

(4) Accounts Receivable

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|---|---------------------------|--------------------------|---------------------------|
| Receivable on securities purchased by customers | \$ 58,890 | 40,724 | 27,634 |
| Settlement | 640,831 | 50,397 | - |
| Interests receivable | 454,143 | 452,745 | 420,206 |
| Receivables of settlements | 3,533,347 | 4,206,290 | 5,455,919 |
| Others | 617,895 | 238,944 | 250,641 |
| Subtotal | 5,305,106 | 4,989,100 | 6,154,400 |
| Less: allowance for doubtful accounts | (4,123) | (4,123) | (4,145) |
| Total | <u>\$ 5,300,983</u> | <u>4,984,977</u> | <u>6,150,255</u> |

(5) Customer margin account / Future traders' equity

As of September 30, 2016, December 31, 2015 and September 30, 2015, a reconciliation of the customer margin account and the futures traders' equity was as follows:

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

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|--|---------------------------|--------------------------|---------------------------|
| Customer margin account | | | |
| Add: | | | |
| Cash in bank | \$ 17,567,943 | 12,530,482 | 11,976,297 |
| Customer margin account - futures clearing house | 1,770,961 | 1,280,830 | 1,377,369 |
| Customer margin account - other futures commission merchants | 3,031,642 | 2,492,357 | 1,780,832 |
| Marketable securities | 929 | 1,087 | 2,533 |
| Total customer margin account | <u>\$ 22,371,475</u> | <u>16,304,756</u> | <u>15,137,031</u> |
| Less: | | | |
| Commission revenue | (30,031) | (10,454) | (24,973) |
| Futures transaction tax | (1,074) | (792) | (1,314) |
| Interest revenues | (909) | (334) | (2,132) |
| Temporary receipts | (15,747) | (188) | (463) |
| Remittance amount of the customers after the market closed | (2,623) | (4,330) | (2,888) |
| Others | (27,552) | (1,346) | (30,843) |
| Futures traders' equity | <u>\$ 22,293,539</u> | <u>16,287,312</u> | <u>15,074,418</u> |

(6) Investments under equity method

As of September 30, 2016, December 31, 2015, and September 30, 2015, investments under the equity method consisted of the following:

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|--|---------------------------|--------------------------|---------------------------|
| Subsidiaries | | | |
| Capital Insurance Advisory Corp. | \$ 84,338 | 72,720 | 56,044 |
| Capital Insurance Agency Corp. | 48,136 | 48,274 | 47,476 |
| Subtotal | <u>132,474</u> | <u>120,994</u> | <u>103,520</u> |
| Associates | | | |
| True Partner Advisor Hong Kong Limited | 41,749 | 36,681 | - |
| Total | <u>\$ 174,223</u> | <u>157,675</u> | <u>103,520</u> |

A. Subsidiaries

For the nine months ended September 30, 2016 and 2015, the Group's share of gains or losses of the subsidiaries were as follows:

| | <u>For the nine months ended September 30,</u> | |
|---|--|---------------|
| | <u>2016</u> | <u>2015</u> |
| Based on the self-prepared financial statements | <u>\$ 77,467</u> | <u>57,307</u> |

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

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|-------------------|---------------------------|--------------------------|---------------------------|
| Total assets | <u>\$ 175,717</u> | <u>157,581</u> | <u>133,047</u> |
| Total liabilities | <u>\$ 43,243</u> | <u>36,587</u> | <u>29,527</u> |

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

| | For the nine months ended September 30, | |
|------------|---|---------|
| | 2016 | 2015 |
| Revenue | \$ 278,429 | 187,880 |
| Net income | \$ 77,467 | 57,307 |

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 | | |
|--|---|--|----------------------------------|-------------------|--------------------|
| | | | September 30, 2016 | December 31, 2015 | September 30, 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:

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|--------------------|-------------------|--------------------|
| Total carrying amount of the associates that were not individually material | \$ 41,749 | 36,681 | - |

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|--------------------------------------|--|------|---|------|
| | 2016 | 2015 | 2016 | 2015 |
| Attributable to the Group: | | | | |
| Net gains from continuing operations | \$ 1,002 | - | 5,527 | - |
| Other comprehensive loss | (269) | - | (459) | - |
| Total comprehensive income | \$ 733 | - | 5,068 | - |

C. Collateral

As of September 30, 2016 and December 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 |
| September 30, 2016 | \$ 3,707,942 | 1,123,272 | 240,030 | 80,081 | 5,151,325 |
| September 30, 2015 | \$ 3,707,942 | 1,160,515 | 263,626 | 43,396 | 5,175,479 |

As of September 30, 2016, December 31, 2015 and September 30, 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 September 30 in 2016 and 2015. For the nine months ended September 30, 2016 and 2015, \$2,327 and

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

\$259,032 of land and buildings were reclassified as investment property. Please refer to Note 6(20) 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.

(8) Investment property

| | Land and improvements | Buildings | Total |
|--------------------------------|----------------------------------|------------------|------------------|
| <u>Carrying Amount:</u> | | | |
| January 1, 2016 | <u>\$ 1,255,460</u> | <u>484,747</u> | <u>1,740,207</u> |
| September 30, 2016 | <u>\$ 1,257,200</u> | <u>473,925</u> | <u>1,731,125</u> |
| September 30, 2015 | <u>\$ 1,423,650</u> | <u>488,886</u> | <u>1,912,536</u> |
| <u>Fair Value:</u> | | | |
| January 1, 2016 | | | <u>2,846,381</u> |
| September 30, 2016 | | | <u>2,740,795</u> |
| September 30, 2015 | | | <u>3,066,122</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 September 30 in 2016 and 2015. For the nine months ended September 30, 2016 and 2015, \$2,327 and \$259,032 of land and buildings were transferred from property and equipment. Please refer to Note 6(20) 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 September 30, 2016, December 31, 2015, and September 30, 2015, the book value was \$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 September 30, 2016, December 31, 2015 and September 30, 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 September 30, 2016, December 31, 2015 and September 30, 2015, the amortized book values were \$0, \$1,139, and \$1,992, 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 to continue generating cash inflows. In accordance with IAS No.38 “Intangible Assets,” the franchise is regarded as intangible asset with an indefinite useful life. As of September 30, 2016, December 31, 2015 and September 30, 2015, the book value of the operation franchise was all \$389,999.

D. Other intangible assets – The membership of foreign futures Exchanges

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT and CME for business development. In accordance with IAS No. 38 “Intangible Assets” endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of September 30, 2016, December 31, 2015 and September 30, 2015, the book value of the intangible assets were \$48,339, \$46,427 and \$46,431, respectively.

E. Other intangible assets – Computer software

Computer software was booked at cost and amortized using the straight-line method over the estimated useful life. As of September 30, 2016, December 31, 2015 and September 30, 2015, the book value after amortization was \$25,142, \$41,166, and \$28,539, respectively.

(10) Short-term loans

| <u>Nature of borrowings</u> | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|-----------------------------|---------------------------|--------------------------|---------------------------|
| Collateralized loan | \$ 32,855 | 591,444 | 162,267 |
| Credit loans | 1,947,876 | 1,199,717 | 523,157 |
| Total | <u>\$ 1,980,731</u> | <u>1,791,161</u> | <u>685,424</u> |
| Interest rate range | <u>0.93%~4.20%</u> | <u>0.90%~3.06%</u> | <u>1.057%~2.750%</u> |

The Group had provided the land, buildings, and certificates of time deposits as collateral. For more information about the collateral as of September 30, 2016, December 31, 2015 and September 30, 2015, please refer to Note 8.

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

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

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|---|---------------------------|--------------------------|---------------------------|
| Bond purchased under resale agreements - short sales | \$ 49,535 | - | 598,295 |
| Valuation adjustment on bonds purchased under resale agreements - short sales | 74 | - | 1,097 |
| Subtotal | <u>49,609</u> | <u>-</u> | <u>599,392</u> |
| Liabilities on sale of borrowed securities | 969,175 | 1,508,137 | 2,127,307 |
| Redeem liabilities on sale of borrowed securities | (4,632) | (1,566) | - |
| Valuation adjustment | (8,278) | (30,461) | (39,392) |
| Subtotal | <u>956,265</u> | <u>1,476,110</u> | <u>2,087,915</u> |
| Settlement coverage bonds payable of short sale | - | 300,550 | 102,197 |
| Valuation adjustment on settlement coverage bonds payable of short sale | - | (1,146) | (49) |
| Subtotal | <u>-</u> | <u>299,404</u> | <u>102,148</u> |
| Stock warrants issued | 12,225,095 | 10,530,591 | 12,743,097 |
| Stock warrants repurchased | (11,818,532) | (10,170,444) | (12,041,372) |
| Subtotal | <u>406,563</u> | <u>360,147</u> | <u>701,725</u> |
| Put options | 63,961 | 57,261 | 141,167 |
| Equity derivatives | - | - | 3 |
| IRS asset swaps | 1,990 | 5,398 | 6,032 |
| Asset swap options - short position | 204,154 | 193,888 | 213,834 |
| Structured notes | 8,357 | 12,243 | 15,273 |
| Currency swaps | 6,978 | 3,476 | 465 |
| Interest rate swaps | 2,596 | 1,528 | 1,586 |
| Subtotal | <u>288,036</u> | <u>273,794</u> | <u>378,360</u> |
| Total | <u>\$ 1,700,473</u> | <u>2,409,455</u> | <u>3,869,540</u> |

(12) Bonds sold under repurchase agreements

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|--|---------------------------|--------------------------|---------------------------|
| Bonds sold under repurchase agreements | \$ 31,383,722 | 23,576,243 | 24,621,086 |
| Agreed-upon repurchase amounts | <u>31,406,766</u> | <u>23,598,443</u> | <u>24,636,826</u> |
| Interest rates | <u>(1.60)%~6.5%</u> | <u>0.30%~5.00%</u> | <u>0.44%~5.00%</u> |

(13) Customer equity of separate account ledger in settlement accounting

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 September 30, 2016 and December 31, 2015, customers of offshore securities branches retain total settlement funds \$9,185 and \$4,104 in the securities firm's settlement account.

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

(14) Accounts payable

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|---|---------------------------|--------------------------|---------------------------|
| Payable of securities sold by customers | \$ 49,928 | 34,151 | 45,108 |
| Settlement price | - | - | 581,471 |
| Payable of settlements | 4,745,331 | 3,573,328 | 4,748,116 |
| Others | 587,444 | 240,285 | 185,966 |
| Total | <u>\$ 5,382,703</u> | <u>3,847,764</u> | <u>5,560,661</u> |

(15) Operating leases

The Group has no material incremental operating leases contracts for the nine months ended September 30, 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 other relevant information.

(16) 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 and nine months ended September 30, 2016 and 2015, the Group's pension expenses recognized in profit or loss were \$4,180, \$4,728, \$12,532 and \$13,929, 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.

The Group contributed \$20,415, \$21,043, \$62,549, and \$64,344 under defined contribution plan to the Bureau of the Labor Insurance for the three and nine months ended September 30, 2016 and 2015, respectively.

C. For the three and nine months ended September 30, 2016 and 2015, the pension expenses contributed by overseas subsidiaries in compliance with local ordinance were \$1,151, \$1,085, \$3,392 and \$3,149, respectively.

D. Provision for employee benefits liabilities

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|----------------------|---------------------------|--------------------------|---------------------------|
| Compensated absences | <u>\$ 47,546</u> | <u>47,546</u> | <u>46,793</u> |

(17) Income tax

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

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

- A. The detail of income tax expense for the three and nine months ended September 30, 2016 and 2015 were as follows:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|-----------------------------|---|---------------|--|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Current income tax expense | \$ 17,710 | 2,107 | 90,659 | 31,793 |
| Deferred income tax expense | 54,405 | 40,668 | 119,646 | 176,692 |
| | <u>\$ 72,115</u> | <u>42,775</u> | <u>210,305</u> | <u>208,485</u> |

- B. The amount of income tax expense or benefit recognized in other comprehensive income for the three and nine months ended September 30, 2016 and 2015 were as follows:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---------------|--|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Foreign exchange difference from translating financial statements of foreign operations | <u>\$ (10,163)</u> | <u>26,445</u> | <u>(17,802)</u> | <u>15,446</u> |

- C. As of September 30, 2016, net operating losses available for carried forward to offset against future taxable income were as follows:

| Loss Year | Amount | Expiration Year |
|----------------|-------------------|-----------------|
| 2011(Assessed) | <u>\$ 375,609</u> | 2021 |

- D. Income tax assessment status

- a. The Company's income tax returns through 2014 were assessed by the Tax Authority.
- 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 2014 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.

- E. The information about imputation system is as follows:

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|-----------------------------------|---------------------------|--------------------------|---------------------------|
| Undistributed earnings after 1998 | \$ 1,037,016 | 1,586,994 | 974,104 |
| Imputation credit account | <u>2,675,250</u> | <u>3,072,442</u> | <u>3,009,535</u> |

| | <u>2016 (Estimated)</u> | <u>2015 (Actual)</u> |
|--|-------------------------|----------------------|
| Deductible ratio for earnings distributed to ROC residents | <u>23.81%</u> | <u>23.80%</u> |

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

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 2014 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.

(18) Capital and other equity

A. Capital stock

As of September 30, 2016, December 31, 2015 and September 30, 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 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 states, that 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.

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

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 Company's earnings distribution was proposed by board of directors and is subject to the resolution of the shareholders' meeting. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. To continue its expansion, 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 \$1,111,845 had been resolved by the shareholders' meeting on June 27, 2016. The information about the appropriations is available at the Market Observation Post System website.

d. Treasury stocks

As of September 30, 2016 and 2015, the Company repurchased 50,000 thousand shares, respectively, in accordance with article 28-2 of the Securities and Exchange Act to maintain the Company's credit and shareholders' equity.

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. 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

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

\$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.

(19) Earnings per share

The basic earnings per share and dilutive earnings per share for the three and nine months ended, September 30, 2016 and 2015, were calculated as follows:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|-----------|--|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income attributable to ordinary shareholders of the Company | \$ 463,475 | (18,379) | 1,026,666 | 906,996 |
| Weighted-average number of common stock shares outstanding (thousands of shares) | 2,269,073 | 2,368,950 | 2,269,130 | 2,369,031 |
| Basic earnings per share (dollar) | \$ 0.20 | (0.01) | 0.45 | 0.38 |
| Dilutive potential ordinary shares (thousands of shares) (Note) | 987 | 453 | 2,193 | 1,916 |
| Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares) | 2,270,060 | 2,369,403 | 2,271,323 | 2,370,947 |
| Dilutive earnings per share (dollar) | 0.20 | (0.01) | 0.45 | 0.38 |

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

(20) Items of the comprehensive income statement

A. Brokerage commissions

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---------------------------------------|---|----------------|--|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Brokerage commission from TSE market | \$ 303,676 | 360,156 | 876,903 | 1,094,515 |
| Brokerage commission from OTC market | 122,966 | 127,993 | 380,469 | 403,869 |
| Handling fee from security financing | 7,190 | 15,659 | 25,398 | 42,322 |
| Futures commission income - brokerage | 360,872 | 386,291 | 1,102,830 | 1,000,350 |
| Overseas subsidiaries | 21,143 | 23,771 | 56,076 | 75,582 |
| Others | 15,080 | 15,330 | 38,217 | 48,521 |
| | \$ 830,927 | 929,200 | 2,479,893 | 2,665,159 |

B. Underwriting commissions

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---------------|--|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues from underwriting securities on a firm commitment basis | \$ 8,559 | 1,086 | 39,061 | 43,247 |
| Handling fee revenues from underwriting securities on best-efforts basis | 143 | 259 | 537 | 1,084 |
| Processing fee revenues from underwriting operations | 6,374 | 1,421 | 13,123 | 47,113 |
| Revenues from underwriting consultation | 1,930 | 2,491 | 6,815 | 7,086 |
| Others | 5,524 | 10,999 | 14,451 | 40,484 |
| | \$ 22,530 | 16,256 | 73,987 | 139,014 |

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

C. Net gains (losses) on sale of trading securities

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|--|---|------------------|--|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue from securities sold - proprietary trading | \$ 50,546,351 | 78,319,828 | 166,243,191 | 269,846,190 |
| Cost of securities sold - proprietary trading | (50,383,392) | (78,623,942) | (166,124,353) | (269,879,673) |
| Subtotal | 162,959 | (304,114) | 118,838 | (33,483) |
| Revenue from securities sold - underwriting | 66,753 | 50,346 | 2,521,705 | 185,650 |
| Cost of securities sold - underwriting | (60,714) | (48,188) | (2,514,401) | (173,806) |
| Subtotal | 6,039 | 2,158 | 7,304 | 11,844 |
| Revenue from securities sold - hedging | 7,294,319 | 10,778,613 | 18,059,441 | 32,682,959 |
| Cost of securities sold - hedging | (7,255,194) | (11,471,520) | (18,110,484) | (32,882,254) |
| Subtotal | 39,125 | (692,907) | (51,043) | (199,295) |
| Total | <u>\$ 208,123</u> | <u>(994,863)</u> | <u>75,099</u> | <u>(220,934)</u> |

D. Interest revenue

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---------------------------------|---|----------------|--|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest revenue - margin loans | \$ 184,485 | 217,683 | 564,181 | 804,108 |
| Interest revenue - bonds | 173,339 | 92,835 | 458,824 | 204,907 |
| Foreign subsidiaries | 6,325 | 15,787 | 26,677 | 43,551 |
| Others | 9,713 | 10,848 | 28,466 | 31,302 |
| | <u>\$ 373,862</u> | <u>337,153</u> | <u>1,078,148</u> | <u>1,083,868</u> |

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

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|-----------------|--|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Trading securities - Proprietary | \$ 6,885 | 577 | 101,183 | (30,306) |
| Trading securities - Underwriting | (9,005) | (2,857) | 960 | 2,315 |
| Trading securities - Hedging | (18,026) | (35,163) | 126,920 | (272,930) |
| Settlement coverage bonds payable of short sale | - | 50 | (1,146) | 66 |
| | <u>\$ (20,146)</u> | <u>(37,393)</u> | <u>227,917</u> | <u>(300,855)</u> |

F. Net gains (losses) on stock warrants issued

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|----------------|--|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Gains on changes in fair value of stock warrants | \$ 5,467,097 | 7,986,555 | 21,567,207 | 22,126,685 |
| Gains on exercise of stock warrants before maturity | 4,701,340 | 4,419,431 | 6,472,833 | 7,037,059 |
| Losses on changes in fair value of stock warrants repurchased | (9,923,343) | (12,024,215) | (27,357,451) | (28,494,928) |
| Gains on expiration of stock warrants | 3,970 | 10,981 | 17,687 | 30,695 |
| Stock warrants issuance expenses | (39,825) | (32,955) | (105,818) | (95,868) |
| | <u>\$ 209,239</u> | <u>359,797</u> | <u>594,458</u> | <u>603,643</u> |

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

G. Employee benefits, depreciation, and amortization expenses

| | For the three months ended | | For the nine months ended | |
|------------------------------------|----------------------------|----------------|---------------------------|------------------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Employee benefit expenses | | | | |
| Salary expense | \$ 555,550 | 526,055 | 1,602,710 | 1,607,695 |
| Health and labor insurance expense | 38,846 | 41,057 | 120,675 | 128,274 |
| Pension expense | 25,746 | 26,856 | 78,473 | 81,422 |
| Others | 15,747 | 17,291 | 46,149 | 49,519 |
| Depreciation expense | 46,080 | 47,253 | 134,411 | 135,952 |
| Amortization expense | 9,005 | 9,985 | 28,741 | 30,112 |
| | <u>\$ 690,974</u> | <u>668,497</u> | <u>2,011,159</u> | <u>2,032,974</u> |

H. Other operating expenses

| | For the three months ended | | For the nine months ended | |
|--------------------------------|----------------------------|----------------|---------------------------|------------------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Rental expense | \$ 41,602 | 48,922 | 132,219 | 147,473 |
| Taxes | 79,624 | 103,557 | 226,287 | 297,456 |
| Information technology expense | 47,838 | 49,043 | 141,927 | 144,550 |
| Postage expense | 33,798 | 35,828 | 101,251 | 104,444 |
| Professional service fee | 7,812 | 43,352 | 57,477 | 59,785 |
| Other expenses | 111,941 | 142,528 | 357,308 | 429,231 |
| | <u>\$ 322,615</u> | <u>423,230</u> | <u>1,016,469</u> | <u>1,182,939</u> |

I. Other gains and losses

| | For the three months | | For the nine months | |
|---|----------------------|----------------|---------------------|----------------|
| | ended September 30, | | ended September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Financial revenue | \$ 49,724 | 47,522 | 146,392 | 124,123 |
| Exchange gains (losses) | (4,916) | 8,034 | 77,040 | (26,793) |
| Net gains (losses) on disposal of investment | (898) | 4,388 | (3,814) | 158,574 |
| Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss | 5,074 | (30,299) | (6,169) | (21,255) |
| Revenue from bank's allocation fee | 35,772 | 37,588 | 106,172 | 113,452 |
| Net gains (losses) on disposal of property and equipment | - | - | (3,198) | - |
| Gains on reversal of prior year's liabilities | 28,357 | 1,230 | 62,216 | 11,329 |
| Dividend revenue | 26,162 | 23,925 | 31,865 | 32,318 |
| Others | (3,229) | 18,922 | 46,011 | 68,823 |
| | <u>\$ 136,046</u> | <u>111,310</u> | <u>456,515</u> | <u>460,571</u> |

J. Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2% of its earnings, if applicable, as remuneration to employees. The Board of Directors shall determine if the employees' remuneration distributed, in the form of shares or in cash. The targets of remuneration shall include the employees of subsidiaries meeting certain specific requirement that shall be determined by the Company's Board of Directors. The Company shall also allocate no more than 3% of the aforementioned amount of earnings as remuneration to the Directors. The proposal for the remuneration to employees and directors shall be reported to the shareholders' meeting.

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

If there is accumulated deficit, specific amount shall be retained to cover, and appropriate the remainder in the aforementioned percentage as remuneration to employees and directors.

For the nine months ended September 30, 2016 and 2015, the estimated amounts of remuneration to employee were \$17,893 and \$17,204, and directors and supervisors by the Company were \$29,822 and \$28,673, 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 nine months ended in September 30, 2016 and 2015. 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. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

For the nine months ended September 30, 2016 and 2015, the estimated amounts of remuneration to employee were \$6,119 and \$5,135 and to directors and supervisors were \$6,119 and \$5,236 by the domestic subsidiaries of the Group, respectively.

The estimated amounts of remuneration to employee and director and supervisors by the Company for 2015 were \$17,241 and \$28,734, respectively. The difference between actual employee bonuses of \$14,994 and actual remuneration to directors and supervisors of \$26,527 was \$4,454 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2016. The information about the appropriations is available at the Market Observation Post System website.

(21) Financial instruments

A. Credit risk

a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of September 30, 2016, December 31, 2015 and September 30, 2015, the maximum credit exposure amounted to \$84,308,153, \$61,534,808 and \$65,051,149, respectively.

b. Impairment losses

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

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|-----------------------------|--------------------|------------|-------------------|------------|--------------------|------------|
| | Total amount | Impairment | Total amount | Impairment | Total amount | Impairment |
| Not past due | \$ 17,819,309 | 2,161 | 20,230,707 | 2,646 | 19,130,296 | 3,429 |
| Past due 0~30 days | 324 | 324 | 336 | 336 | 76 | 76 |
| Past due 31~120 days | 228 | 228 | 234 | 234 | 1,775 | 1,775 |
| Past due 121~360 days | 521 | 521 | 1,714 | 1,714 | 1 | 1 |
| Past due more than one year | 1,712 | 1,712 | 15 | 15 | 15 | 15 |
| | \$ 17,822,094 | 4,946 | 20,233,006 | 4,945 | 19,132,163 | 5,296 |

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

The allowance for doubtful accounts, under receivables, is recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful accounts should be written off to financial assets account. As of September 30, 2016, December 31 and September 30, 2015, the impairment losses of account receivables were recognized \$4,946, \$4,945, and \$5,296, respectively.

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.

| | Carrying amount | Contractual cash flows | Within 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|----------------------|---------------------------|--------------------|----------------|------------------|------------------|----------------------|
| September 30, 2016 | | | | | | | |
| Financial liabilities at fair value through profit or loss - current | | | | | | | |
| Bond purchased under resale agreements - short sale | \$ 49,609 | 49,609 | 49,609 | - | - | - | - |
| Liabilities on sale of borrowed securities | 956,265 | 956,265 | 956,265 | - | - | - | - |
| Stock warrants issued | 406,563 | 406,563 | 380,145 | 26,418 | - | - | - |
| Put options - futures | 63,961 | 63,961 | 63,961 | - | - | - | - |
| Interest rate swaps and Currency swaps (including IRS asset swaps) | 11,564 | 11,564 | 8,686 | (272) | 17,439 | (14,289) | - |
| Put options | 204,154 | 204,154 | 35,094 | 50,088 | 89,762 | 29,210 | - |
| Short-term borrowings | 1,980,731 | 1,980,731 | 1,980,731 | - | - | - | - |
| Bonds sold under repurchase agreements | 31,383,772 | 31,406,766 | 31,406,766 | - | - | - | - |
| Guarantee deposited for short sales | 1,752,753 | 1,752,753 | 1,752,753 | - | - | - | - |
| Proceeds payable from short sales | 2,001,538 | 2,001,538 | 2,001,538 | - | - | - | - |
| Securities lending refundable deposits | 1,315,029 | 1,315,029 | 1,315,029 | - | - | - | - |
| Futures traders' equity | 22,293,539 | 22,293,539 | 22,293,539 | - | - | - | - |
| Notes payable and Accounts payable | 588,538 | 588,538 | 588,538 | - | - | - | - |
| Receipts under custody | 350,330 | 350,330 | 350,330 | - | - | - | - |
| Other payables | 1,640,157 | 1,640,157 | 1,637,830 | 2,327 | - | - | - |
| Structured notes | 3,132,172 | 3,132,172 | 2,740,959 | 98,499 | 230,498 | 62,216 | - |
| | \$ 68,130,675 | 68,153,669 | 67,561,773 | 177,060 | 337,699 | 77,137 | - |
| | Carrying | Contractual | Within 6 | 6-12 | 1-2 years | 2-5 years | More than |
| | amount | cash flows | months | months | 1-2 years | 2-5 years | 5 years |
| December 31, 2015 | | | | | | | |
| 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 | - | - | - | - |
| Guarantee deposited for short sales | 2,025,011 | 2,025,011 | 2,025,011 | - | - | - | - |
| Proceeds payable from short sales | 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 | - |

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

| September 30, 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 | | | | | | | |
| Bond purchased under resale agreements - short sale | \$ 599,392 | 599,392 | 599,392 | - | - | - | - |
| Liabilities on sale of borrowed securities | 2,087,915 | 2,087,915 | 2,087,915 | - | - | - | - |
| Settlement coverage bonds payable of short sales | 102,148 | 102,148 | 102,148 | - | - | - | - |
| Stock warrants issued | 701,725 | 701,725 | 648,245 | 53,480 | - | - | - |
| Put options - futures | 141,167 | 141,167 | 141,167 | - | - | - | - |
| Equity derivatives | 3 | 3 | 3 | - | - | - | - |
| Interest rate swaps and Currency swaps (including IRS asset swaps) | 8,083 | 8,083 | 331 | (1,323) | 5,004 | 4,071 | - |
| Put options | 213,834 | 213,834 | 44,794 | 30,099 | 96,830 | 42,111 | - |
| Short-term borrowings | 685,424 | 685,424 | 685,424 | - | - | - | - |
| Bonds sold under repurchase agreements | 24,621,086 | 24,636,826 | 24,636,826 | - | - | - | - |
| Guarantee deposited for short sales | 2,312,693 | 2,312,693 | 2,312,693 | - | - | - | - |
| Proceeds payable from short sales | 2,117,125 | 2,117,125 | 2,117,125 | - | - | - | - |
| Securities lending refundable deposits | 668,682 | 668,682 | 668,682 | - | - | - | - |
| Futures traders' equity | 15,074,418 | 15,074,418 | 15,074,418 | - | - | - | - |
| Notes payable and accounts payable | 187,010 | 187,010 | 187,010 | - | - | - | - |
| Receipts under custody | 125,268 | 125,268 | 125,268 | - | - | - | - |
| Other payables | 829,142 | 829,142 | 824,246 | 4,896 | - | - | - |
| Structured notes | 5,025,039 | 5,025,039 | 4,779,117 | 89,220 | 136,894 | 19,808 | - |
| | <u>\$ 55,500,154</u> | <u>55,515,894</u> | <u>55,034,804</u> | <u>176,372</u> | <u>238,728</u> | <u>65,990</u> | <u>-</u> |

C. Currency risk

a. Currency risk exposure

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

| | September 30, 2016 | | |
|-------------------------------------|---------------------|--------|-----------------------|
| | Foreign Currency | Rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | |
| <u>Monetary Item</u> | | | |
| USD | \$ 356,676 | 31.360 | 11,185,359 |
| HKD | 34,285 | 4.044 | 138,649 |
| EUR | 18,889 | 35.080 | 662,626 |
| JPY | 1,250,784 | 0.3109 | 388,869 |
| GBP | 417 | 40.630 | 16,943 |
| AUD | 1,936 | 23.835 | 46,145 |
| SGD | 193 | 22.970 | 4,433 |
| CNY | 120,544 | 4.693 | 565,713 |
| PHP | 39 | 0.6647 | 26 |
| KRW | 2,620,653 | 0.0287 | 75,213 |
| THB | 4,160 | 0.9226 | 3,838 |
| CHF | 54 | 32.385 | 1,749 |
| CAD | 1 | 23.800 | 24 |
| <u>Non-Monetary Item</u> | | | |
| USD | 467,225 | 31.360 | 14,652,176 |
| AUD | 204,023 | 23.835 | 4,862,888 |
| EUR | 160 | 35.080 | 5,613 |
| JPY | 17,869 | 0.3109 | 5,555 |
| HKD | 19,455 | 4.044 | 78,676 |
| CNY | 157,987 | 4.693 | 741,433 |
| <u>Investments at equity</u> | | | |
| HKD | 10,324 | 4.044 | 41,749 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | | | | September 30, 2016 | | |
|-------------------------------------|-----|----|-----------|---------------------------|-------------|-------------------|
| | | | | Foreign | | New Taiwan |
| | | | | Currency | Rate | Dollars |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary Item</u> | | | | | | |
| | USD | \$ | 796,623 | 31.360 | | 24,982,097 |
| | HKD | | 121,143 | 4.044 | | 489,902 |
| | EUR | | 18,530 | 35.080 | | 650,032 |
| | JPY | | 1,246,600 | 0.3109 | | 387,568 |
| | GBP | | 415 | 40.630 | | 16,861 |
| | AUD | | 203,606 | 23.835 | | 4,852,949 |
| | SGD | | 194 | 22.970 | | 4,456 |
| | KRW | | 2,508,320 | 0.0287 | | 71,989 |
| | THB | | 3,872 | 0.9226 | | 3,572 |
| | CNY | | 110,345 | 4.693 | | 517,849 |
| | CHF | | 54 | 32.385 | | 1,749 |
| | | | | | | |
| | | | | December 31, 2015 | | |
| | | | | Foreign | | New Taiwan |
| | | | | Currency | Rate | Dollars |
| <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 | 33.190 | | 1,892 |
| | MYR | | 117 | 7.3425 | | 859 |
| <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 |
| <u>Financial liabilities</u> | | | | | | |
| <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 |

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

| | | | | September 30, 2015 | | |
|-------------------------------------|-----|---------------------|--------|-----------------------|--|--|
| | | Foreign Currency | Rate | New Taiwan Dollars | | |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary Item</u> | | | | | | |
| | USD | \$ 200,150 | 32.87 | 6,578,937 | | |
| | HKD | 14,696 | 4.24 | 62,312 | | |
| | EUR | 1,767 | 36.92 | 65,242 | | |
| | JPY | 1,071,034 | 0.2739 | 293,356 | | |
| | GBP | 265 | 49.83 | 13,201 | | |
| | AUD | 1,684 | 23.03 | 38,790 | | |
| | SGD | 908 | 23.10 | 20,981 | | |
| | CNY | 131,003 | 5.176 | 678,069 | | |
| | KRW | 1,525,707 | 0.0280 | 42,720 | | |
| | THB | 1,303 | 0.9097 | 1,185 | | |
| | MYR | 154 | 7.1605 | 1,102 | | |
| | CHF | 45 | 33.71 | 1,513 | | |
| <u>Non-Monetary Item</u> | | | | | | |
| | USD | 164,047 | 32.87 | 5,392,240 | | |
| | HKD | 42,420 | 4.24 | 179,862 | | |
| | CNY | 288,714 | 5.176 | 1,494,383 | | |
| | AUD | 42,842 | 23.03 | 986,657 | | |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary Item</u> | | | | | | |
| | USD | 360,507 | 32.87 | 11,849,871 | | |
| | HKD | 73,283 | 4.24 | 310,719 | | |
| | EUR | 1,405 | 36.92 | 51,886 | | |
| | JPY | 1,066,470 | 0.2739 | 292,107 | | |
| | GBP | 262 | 49.83 | 13,064 | | |
| | AUD | 30,228 | 23.03 | 696,161 | | |
| | SGD | 560 | 23.10 | 12,935 | | |
| | KRW | 1,307,045 | 0.0280 | 36,597 | | |
| | THB | 899 | 0.9097 | 817 | | |
| | MYR | 90 | 7.1605 | 644 | | |
| | CNY | 123,584 | 5.176 | 639,672 | | |
| | CHF | 45 | 33.71 | 1,509 | | |

Since the Group has many functional currencies, the exchange gains and losses of monetary items are summarized to be disclosed. The realized and unrealized exchange gains (losses) amounted to \$77,040 and \$(26,793) for the nine months ended September 30, 2016 and 2015, respectively.

b. Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets measured at fair value through profit or loss, customer margin account, futures traders' equity, and securities lending refundable deposits, which are denominated in foreign currencies. Foreign exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the nine months ended September 30, 2016 and 2015, given other factors remain the same, if NTD appreciates or depreciates 5% against other currencies, the net income and other comprehensive income will increase or decrease by \$674,451, \$164,356, \$736,644 and \$245,056, respectively.

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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 variable rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. This is mainly attributable to the Company's exposure to floating rates on its bond position.

| Market risk type | September 30, 2016 | September 30, 2015 | For the nine months ended September 30, | | | | | |
|------------------|--------------------|--------------------|---|-----------|-----------|---------|-----------|---------|
| | | | 2016 | | | 2015 | | |
| | | | Mean | Maximum | Minimum | Mean | Maximum | Minimum |
| interest risk | 1,369,188 | 1,161,226 | 1,288,097 | 1,369,188 | 1,119,156 | 940,914 | 1,250,286 | 734,670 |

E. Fair value information and hierarchy

a. Fair value information

1) General description

Fair value is the price that is 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 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 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.

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

C) Level 3

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

b. Not based on fair value measurement

As of September 30, 2016, December 31, 2015 and September 30, 2015, the fair value information of the financial assets and financial liabilities of the Group was as follows:

1) Fair value information

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|---|--------------------|------------|-------------------|------------|--------------------|------------|
| | Book value | Fair value | Book value | Fair value | Book value | Fair value |
| Financial assets : | | | | | | |
| Cash and cash equivalents | \$ 7,635,349 | 7,635,349 | 4,726,498 | 4,726,498 | 8,130,979 | 8,130,979 |
| Bonds purchased under resale agreements | 447,727 | 447,727 | - | - | 649,354 | 649,354 |
| Accrued receivables | 19,730,844 | 19,730,844 | 22,848,006 | 22,848,006 | 22,929,519 | 22,929,519 |
| Customer margin account | 22,371,475 | 22,371,475 | 16,304,756 | 16,304,756 | 15,137,031 | 15,137,031 |
| Pledged assets - current | 503,353 | 503,353 | 570,321 | 570,321 | 497,378 | 497,378 |
| Financial assets measured at cost - non-current | 430,719 | 430,719 | 411,231 | 411,231 | 411,231 | 411,231 |
| Other non-current assets | 1,819,008 | 1,819,008 | 1,836,443 | 1,836,443 | 2,032,233 | 2,032,233 |
| Financial liabilities : | | | | | | |
| Short-term borrowings | 1,980,731 | 1,980,731 | 1,791,161 | 1,791,161 | 685,424 | 685,424 |
| Bonds sold under repurchase agreements | 31,383,772 | 31,383,772 | 23,576,243 | 23,576,243 | 24,621,086 | 24,621,086 |
| Accrued payable | 12,613,223 | 12,613,223 | 12,010,723 | 12,010,723 | 11,733,112 | 11,733,112 |
| Futures traders' equity | 22,293,539 | 22,293,539 | 16,287,312 | 16,287,312 | 15,074,418 | 15,074,418 |
| Other financial liabilities - current | 2,831,101 | 2,831,101 | 3,834,575 | 3,834,575 | 4,853,064 | 4,853,064 |
| Other financial liabilities - non-current | 292,714 | 292,714 | 241,991 | 241,991 | 156,702 | 156,702 |
| Other non-current liabilities | 361,251 | 361,251 | 362,646 | 362,646 | 362,770 | 362,770 |

2) Hierarchy information of fair value

| | September 30, 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 |
| September 30, 2015 | | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Investment property | \$ 3,066,122 | - | - | 3,066,122 |

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

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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 recurring basis. The financial assets and liabilities measured at fair value as of September 30, 2016, December 31, 2015 and September 30, 2015 were as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------------------|-------------------|----------|-------------------|
| September 30, 2016 | | | | |
| Financial assets at fair value through profit or loss | \$ 7,125,139 | 16,420,215 | - | 23,545,354 |
| Financial assests available for sale | 395,519 | 17,708,414 | - | 18,103,933 |
| Derivative financial assets | 394,454 | 31,309 | - | 425,763 |
| | \$ 7,915,112 | 34,159,938 | - | 42,075,050 |
| Financial liabilities at fair value through profit or loss | \$ 1,412,437 | - | - | 1,412,437 |
| Derivative financial liabilities | 63,961 | 224,075 | - | 288,036 |
| | \$ 1,476,398 | 224,075 | - | 1,700,473 |
| December 31, 2015 | | | | |
| Financial assets at fair value through profit or loss | \$ 8,557,048 | 17,255,304 | - | 25,812,352 |
| Financial assests available for sale | 154,449 | 7,741,972 | - | 7,896,421 |
| Derivative financial assets | 320,526 | 43,300 | - | 363,826 |
| | \$ 9,032,023 | 25,040,576 | - | 34,072,599 |
| Financial liabilities at fair value through profit or loss | \$ 2,135,661 | - | - | 2,135,661 |
| Derivative financial liabilities | 57,261 | 216,533 | - | 273,794 |
| | \$ 2,192,922 | 216,533 | - | 2,409,455 |
| September 30, 2015 | | | | |
| Financial assets at fair value through profit or loss | \$ 7,838,038 | 18,655,734 | - | 26,493,772 |
| Financial assests available for sale | 265,946 | 5,904,899 | - | 6,170,845 |
| Derivative financial assets | 442,626 | 50,535 | - | 493,161 |
| | \$ 8,546,610 | 24,611,168 | - | 33,157,778 |
| Financial liabilities at fair value through profit or loss | \$ 3,491,180 | - | - | 3,491,180 |
| Derivative financial liabilities | 141,167 | 237,193 | - | 378,360 |
| | \$ 3,632,347 | 237,193 | - | 3,869,540 |

2) Valuation techniques

A) Non-derivative financial instruments

Financial instruments are initially recognized at fair value. For active markets,

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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.

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

d. Transfer between Level 1 and Level 2

There was no significant transfer between Level 1 and Level 2 for the nine months ended September 30, 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. 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, since the Group still bear the interest rate risk and credit risk, transferred financial assets are not completely derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

| September 30, 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 | \$ 31,345,758 | 31,383,772 | - | - | - |
| 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 | - | - | - |
| September 30, 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 | \$ 24,817,358 | 24,621,086 | - | - | - |

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), listing the net fair values of transferred assets and their relevant liabilities is not mandatory.

G. Off-setting between financial assets and liabilities

The Group did not hold any financial instruments contracts 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. These 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 information of financial assets and liabilities is as below:

| September 30, 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 | | | | | |
| \$ 31,309 | - | 31,309 | - | - | 31,309 |

| September 30, 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 | | | | | |
| \$ 224,075 | - | 224,075 | - | - | 224,075 |
| Under repurchase agreements | | | | | |
| 31,383,772 | - | 31,383,772 | 31,383,772 | - | - |
| Total | | | | | |
| \$ 31,607,847 | - | 31,607,847 | 31,383,772 | - | 224,075 |

| 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 |

| September 30, 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 | | | | | |
| \$ 50,535 | - | 50,535 | - | - | 50,535 |

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

September 30, 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 (e)=(c)-(d) |
| | | | | Financial instruments (Note) | Cash received as collaterals | |
| | (a) | (b) | (c)=(a)-(b) | | | |
| Derivative financial liabilities | \$ 237,193 | - | 237,193 | - | - | 237,193 |
| Under repurchase agreements | 24,621,086 | - | 24,621,086 | 24,621,086 | - | - |
| Total | \$ 24,858,279 | - | 24,858,279 | 24,621,086 | - | 237,193 |

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

(22) Financial risk management

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

As of September 30, 2016, December 31, 2015 and September 30, 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:

| | September 30, 2016 | | December 31, 2015 | | September 30, 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 | \$ 11,597,550 | - | 10,260,292 | - | 24,920,285 | - |

The Group collects premium from investors prior to issuing stock warrants, therefore, no credit risk is assumed.

B. Market risk:

The 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 premiums 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 is restricted by certain market prices and diversification requirements, the risk of being unable to sell securities at reasonable prices is low; the same goes for the liquidity risk. The only risk is capital demand resulting from hedged positions adjusted for changes in prices of securities. 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.

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

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

The Group's strategy is to avoid market risk. Non-trading marketable securities hedging positions 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

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

a. For the three and nine months ended September 30, 2016:

1) Gains (losses) on valuation

| | For the three months ended, September 30, 2016 | For the nine months ended, September 30, 2016 | Account |
|-----------------------|---|--|---|
| Stock warrants issued | \$ 1,640,099 | 9,669,080 | Gains (losses) on stock warrants issued |
| Stock warrants | (1,649,435) | (9,476,680) | Gains (losses) on stock warrants issued |

2) Gains (losses) on sale

| | For the three months ended, September 30, 2016 | For the nine months ended, September 30, 2016 | Account |
|----------------------|---|--|---|
| Security borrowing | \$ 4,683 | 10,356 | Gains (losses) on covering of borrowed securities and bonds with resale |
| Trading securities - | 23,449 | (77,289) | Gains (losses) on sale of trading |
| Futures transaction | (187,546) | (210,137) | Gains (losses) on derivative financial instruments - futures |

3) Gains (losses) on sale

| | For the three months ended, September 30, 2016 | For the nine months ended, September 30, 2016 | Account |
|-----------------------|---|--|---|
| Stock warrants issued | \$ 8,532,308 | 18,388,647 | Gains (losses) on stock warrants issued |
| Stock warrants | (8,273,908) | (17,880,771) | Gains (losses) on stock warrants issued |

b. For the three and nine months ended September 30, 2015:

1) Gains (losses) on valuation

| | For the three months ended, September 30, 2015 | For the nine months ended, September 30, 2015 | Account |
|-----------------------|---|--|---|
| Stock warrants issued | \$ 2,781,849 | 11,642,616 | Gains (losses) on stock warrants issued |
| Stock warrants | (2,529,908) | (11,281,992) | Gains (losses) on stock warrants issued |

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

2) Gains (losses) on sale

| | For the three months ended, September 30, 2015 | For the nine months ended, September 30, 2015 | Account |
|----------------------|---|--|---|
| Security borrowing | \$ 80,078 | (24,203) | Gains (losses) on covering of borrowed securities and bonds with resale |
| Trading securities - | (692,434) | (367,819) | Gains (losses) on sale of trading |
| Futures transaction | 132,785 | 2,284 | Gains (losses) on derivative financial instruments - futures |

3) Gains (losses) on maturity

| | For the three months ended, September 30, 2015 | For the nine months ended, September 30, 2015 | Account |
|-----------------------|---|--|---|
| Stock warrants issued | \$ 9,635,118 | 17,551,823 | Gains (losses) on stock warrants issued |
| Stock warrants | (9,494,307) | (17,212,936) | Gains (losses) on stock warrants issued |

Futures

A. Notional principal (nominal amount) and credit risk:

| Financial Instruments | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|--|--|------------------------|--|------------------------|--|------------------------|
| | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk |
| <i>For trading purpose:</i> | | | | | | |
| Taiex Futures | \$ 1,777,249 | - | 716,991 | - | 983,292 | - |
| Mini-Taiex Futures | - | - | - | - | 42,093 | - |
| Electronic Sector Index Futures | 27,260 | - | 27,203 | - | 70,479 | - |
| Finance Sector Index Futures | 6,052 | - | 18,764 | - | 5,051 | - |
| Non-Finance Non-Electronics Sub-Index Futures | 24,472 | - | 8,083 | - | 4,061 | - |
| Stock Futures | 136,530 | - | 228,537 | - | 191,131 | - |
| Soybean Futures | - | - | 5,699 | - | 4,361 | - |
| Coffee Futures | - | - | 3,013 | - | 1,501 | - |
| Crude oil Futures | - | - | 16,659 | - | - | - |
| Gold Futures | 4,561 | - | - | - | 25,420 | - |
| MSCI Taiwan Index Futures | 258,268 | - | - | - | - | - |
| VIX Futures | 2,596 | - | - | - | - | - |
| H stocks Index Futures | 3,851 | - | - | - | - | - |
| HSI Futures | 23,450 | - | - | - | - | - |
| Mini-HSI Futures | 1,919 | - | - | - | - | - |
| FTSE China A50 Index Futures | 40,836 | - | 13,141 | - | 10,511 | - |
| Euro 10-Year Bund Futures | - | - | 455,705 | - | - | - |
| S&P Futures | - | - | 16,827 | - | 217,849 | - |
| Mini-S&P Futures | 70,489 | - | - | - | - | - |
| Platinum Futures | - | - | 2,926 | - | 4,648 | - |
| Sugar No.11 Futures | - | - | 2,787 | - | 1,782 | - |
| Cocoa bean Futures | - | - | - | - | 2,105 | - |
| Unleaded Gasoline Futures | - | - | - | - | 1,899 | - |
| U.S. 2-Year T-Note Futures | - | - | - | - | 71,723 | - |
| U.S. 5-Year T-Note Futures | 171,707 | - | - | - | 196,714 | - |
| U.S. 10-Year T-Note Futures | - | - | - | - | 21,134 | - |
| U.S. 30-Year T-Bond Futures | - | - | 15,187 | - | 51,637 | - |
| Taiex Options | 103,859 | - | 103,725 | - | 123,308 | - |
| Stock Options | 6,341 | - | 4,758 | - | 2,973 | - |
| Taiex Weekly Options | 20,687 | - | 4,416 | - | 7,233 | - |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Financial Instruments | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|---------------------------------|--|------------------------|--|------------------------|--|------------------------|
| | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk |
| Electronic Sector Index Options | 2,238 | - | 5,593 | - | 7,813 | - |
| Finance Sector Index Options | 1,210 | - | 2,949 | - | 4,268 | - |
| Mini-S&P Sector Index Options | 10,987 | - | - | - | - | - |
| S&P Sector Index Options | - | - | 3,512 | - | 4,769 | - |
| Gold Options | 3,961 | - | 230 | - | 1,289 | - |
| <i>For non-trading purpose:</i> | | | | | | |
| Taix Futures | 875,526 | - | 197,542 | - | 155,938 | - |
| Stock Futures | 423,903 | - | 320,278 | - | 511,520 | - |
| Finance Sector Index Futures | 9,131 | - | - | - | - | - |
| H stocks Index Futures | - | - | 35,626 | - | - | - |
| HSI Futures | - | - | 9,336 | - | - | - |
| Mini H Stock Futures | - | - | 838 | - | - | - |
| Mini-HSI Futures | - | - | 16,805 | - | - | - |
| Gold Futures | 17,060 | - | - | - | - | - |
| Micro Gold Futures | 426 | - | - | - | - | - |
| Crude oil Futures | 1,586 | - | - | - | - | - |
| FTSE China A50 Index Futures | 55,908 | - | - | - | - | - |
| Nikkei Index Futures | 17,986 | - | - | - | - | - |
| Taix Options | 349 | - | 18,390 | - | 17,928 | - |
| Stock Options | - | - | 355 | - | 1,943 | - |

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

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, gain or loss from fluctuations of the 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 and nine months ended, September 30, 2016 and 2015, gains (losses) on

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

index futures and stock futures transactions amounted to (\$215,707), \$282,055, (\$273,343) and \$104,580, respectively, and were reflected as gains or losses on derivatives - futures. As of September 30, 2016, December 31, 2015 and September 30, 2015, futures margin - proprietary fund had amounted to \$319,814, \$270,282 and \$386,240, respectively, and were reflected as financial assets at fair value through profit or loss – current; future margin - excess margin amounted to \$864,554, \$1,463,300 and \$1,417,054 respectively, and were reflected as cash and cash equivalents.

As of September 30, 2016, December 31, 2015 and September 30, 2015, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$74,640 and \$50,244, \$56,386, respectively. Put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$63,961, \$57,261 and \$141,167, respectively.

Derivative financial instruments – OTC

A. Interest rate financial derivatives

a. Notional principal (nominal amount) and credit risk:

| Financial Instruments | September 30, 2016 | | December 31, 2015 | | September 30, 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 | \$ 46,300,000 | - | 55,700,000 | - | 56,900,000 | - |

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.

b. 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 with the changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, therefore there is no significant market risk.

c. 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 resulting amount is insignificant, given that there is no physical transfer of principals on maturity, liquidity risk, cash flow risk, or significant cash demand.

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

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

significant cash demand associated.

d. 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 has been 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 gain from the differences in interest rates upon evaluation of the trending of interest rates.

B. Structured notes

a. Notional principal (nominal amount) and credit risk:

| Financial Instruments | September 30, 2016 | | December 31, 2015 | | September 30, 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 | \$ 14,000 | - | 2,000 | - | 28,215 | - |
| Principal guaranteed notes | 2,614,275 | - | 3,761,609 | - | 4,694,540 | - |
| Credit-linked notes | 497,000 | - | 317,200 | - | 295,600 | - |
| Principle guaranteed notes | USD 100 | - | USD - | - | USD - | - |

The Group collects premium from investors prior to conducting structured note transactions, therefore, no credit risk is assumed.

b. 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.

c. 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

a. Notional principal (nominal amount) and credit risk:

| Financial Instruments | September 30, 2016 | | December 31, 2015 | | September 30, 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 | \$ 1,127,600 | - | 1,304,600 | - | 1,276,200 | - |
| Convertible bond options | 2,530,200 | - | 2,947,200 | - | 3,082,800 | - |

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Group 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Group maintains good credit risk control over counterparties, the credit risks are minimal.

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

b. 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.

c. 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 September 30, 2016, December 31, 2015 and September 30, 2015, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, forward bonds, and convertible bond asset-backed swaps were presented on the balance sheets as follows:

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|---|---------------------------|--------------------------|---------------------------|
| Financial assets at fair value through profit or loss - current | | | |
| IRS asset swaps | \$ 20,518 | 22,878 | 23,063 |
| Currency swaps | 3,907 | 8,482 | 7,494 |
| Asset swap options - long position | 6,793 | 11,940 | 19,759 |
| Structured notes | 91 | - | 219 |
| Total | <u>31,309</u> | <u>43,300</u> | <u>50,535</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|--|---------------------------|--------------------------|---------------------------|
| Financial liabilities at fair value through profit or loss - current | | | |
| Asset swap options - short position | \$ 204,154 | 193,888 | 213,834 |
| IRS asset swaps | 1,990 | 5,398 | 6,032 |
| Equity derivatives | - | - | 3 |
| Structured notes | 8,357 | 12,243 | 15,273 |
| Currency swaps | 6,978 | 3,476 | 465 |
| Interest rate swaps | 2,596 | 1,528 | 1,586 |
| Total | <u>224,075</u> | <u>216,533</u> | <u>237,193</u> |
| Other financial liabilities - current | | | |
| Structured notes principal value | <u>\$ 2,831,101</u> | <u>3,843,575</u> | <u>4,853,064</u> |
| Other financial liabilities - non-current | | | |
| Structured notes principal value | <u>\$ 292,714</u> | <u>241,991</u> | <u>156,702</u> |

For the three and nine months ended September 30, 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 September 30, 2016</u> | | <u>For the nine months ended September 30, 2016</u> | |
|--------------------|---|----------------------------------|---|----------------------------------|
| | <u>Gains (losses) on derivative financial instrumnets - OTC</u> | <u>Unrealized Gains (losses)</u> | <u>Gains (losses) on derivative financial instrumnets - OTC</u> | <u>Unrealized Gains (losses)</u> |
| Interest rate | \$ 1,087 | 947 | (2,028) | (1,068) |
| Equity | - | - | 92 | - |
| Structured notes | (9,133) | 2,530 | (25,320) | 4,232 |
| IRS asset swaps | 150 | 5,807 | 408 | (1,048) |
| Asset swap options | (35,070) | (47,414) | (63,521) | (93,970) |
| Currency swaps | (30,476) | (1,698) | (153,586) | (8,077) |
| Total | <u>\$ (73,442)</u> | <u>(39,828)</u> | <u>(243,955)</u> | <u>(99,931)</u> |

| | <u>For the three months ended September 30, 2015</u> | | <u>For the nine months ended September 30, 2015</u> | |
|------------------|---|----------------------------------|---|----------------------------------|
| | <u>Gains (losses) on derivative financial instrumnets - OTC</u> | <u>Unrealized Gains (losses)</u> | <u>Gains (losses) on derivative financial instrumnets - OTC</u> | <u>Unrealized Gains (losses)</u> |
| Interest rate | \$ (444) | 832 | (697) | (1,586) |
| Equity | 14 | 14 | 126 | 14 |
| Structured notes | (11,837) | (135) | (34,704) | (6,784) |
| IRS asset swaps | 108 | 26 | 383 | 453 |
| Asset swap | 58,758 | 54,031 | 39,320 | 143,550 |
| Currency swaps | 38,132 | 5,210 | 32,010 | 7,029 |
| Total | <u>\$ 84,731</u> | <u>59,978</u> | <u>36,438</u> | <u>142,676</u> |

(23) Capital management

The Board's policy is to maintain a strong capital base in order 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

As of September 30, 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 consolidated Group.

(2) Key management personnel transactions

A. Key management personnel compensation:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|------------------------------|---|---------------|--|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Short-term employee benefits | \$ 60,417 | 43,234 | 155,361 | 137,151 |
| Post-employment benefits | 549 | 439 | 1,570 | 1,340 |
| Termination benefit | - | - | - | 1,056 |
| Total | \$ 60,966 | 43,673 | 156,931 | 139,547 |

B. Bond transactions- bonds sold under repurchase agreements

Bonds sold under repurchase agreements between key management personnel as of September 30, 2016, December 31, 2015 and September 30, 2015 were as follows:

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|--------------------------|--------------------|----------------|-------------------|----------------|--------------------|----------------|
| | Par value | Purchase price | Par value | Purchase price | Par value | Purchase price |
| Key management personnel | <u>\$ 23,600</u> | <u>23,706</u> | <u>50,500</u> | <u>50,691</u> | <u>58,500</u> | <u>58,645</u> |

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---------------------------------|---|------------|--|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Total financial expenses | | | | |
| Key management personnel | <u>\$ 52</u> | <u>108</u> | <u>176</u> | <u>314</u> |

C. Structured notes transactions

As of September 30, 2016, December 31, 2015 and September 30, 2015, the balances of structured notes transactions with key management personnel were \$19,700, \$17,600 and \$22,700, 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 September 30, 2016, December 31, 2015 and September 30, 2015 were as follows:

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

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|--------------|--------------------|----------------|-------------------|----------------|--------------------|----------------|
| | Par value | Purchase price | Par value | Purchase price | Par value | Purchase price |
| Subsidiaries | \$ 13,500 | 13,574 | 13,500 | 13,535 | 13,500 | 13,519 |
| Others | 15,100 | 15,400 | 13,400 | 13,400 | 13,600 | 13,740 |
| Total | \$ 28,600 | 28,974 | 26,900 | 26,935 | 27,100 | 27,259 |

| Total financial expense | For the three months ended September 30, | | For the nine months ended September 30, | |
|-------------------------|---|-----------|--|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Subsidiaries | \$ 27 | 51 | 57 | 130 |
| Others | 16 | 14 | 56 | 41 |
| Total | \$ 43 | 65 | 113 | 171 |

Transaction terms are the same as those with general clients.

B. Lease agreements

a. Lease revenue

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|--------------|---|------|--|------|
| | 2016 | 2015 | 2016 | 2015 |
| Subsidiaries | \$ 259 | 259 | 777 | 777 |

b. Guarantee deposits received

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|--------------|--------------------|-------------------|--------------------|
| Subsidiaries | \$ 200 | 200 | 200 |

C. Insurance commission income

The Group assists subsidiaries in recruiting insurance contracts and charging commission income. The details were as follows:

a. Commission revenue

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|--------------|---|-------|--|-------|
| | 2016 | 2015 | 2016 | 2015 |
| Subsidiaries | \$ 4,095 | 3,128 | 14,578 | 7,310 |

b. Accounts receivable

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|--------------|--------------------|-------------------|--------------------|
| Subsidiaries | \$ 2,986 | 1,200 | 734 |

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

D. Brokerage commissions

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|--------|---|-------|--|-------|
| | 2016 | 2015 | 2016 | 2015 |
| | \$ 1,166 | 1,499 | 5,001 | 5,137 |
| Others | | | | |

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

8. PLEDGED ASSETS

The following assets were pledged as collateral or restricted in use on September 30, 2016, December 31, 2015 and September 30, 2015:

| | September 30, 2016 | December 31, 2015 | September 30, 2015 | The collateral use |
|--|-----------------------|----------------------|-----------------------|--|
| | \$ 503,353 | 570,321 | 497,378 | |
| Restricted assets - current | | | | Bank borrowings, commercial paper, accounts settled, money trust (Annotation 1) and guaranty deposited for business operations (Annotation 2) |
| Restricted assets - non - current | 169,791 | 178,353 | 177,580 | Trust to a impartial third party (Note 12(4)) and the amount of provisional seizure(Note 9(10)) |
| Trading securities and bonds purchased under resale agreements (par value) | 31,897,032 | 23,993,535 | 25,716,161 | Repurchase agreement, Investments in Bonds with Resale Agreements - short sale |
| Property and equipment | 4,055,708 | 4,074,595 | 4,081,083 | Bank borrowings |
| Financial assets at fair value through profit or loss - non-current | 190,256 | 190,554 | 189,778 | Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business |
| Investment property | 883,445 | 890,116 | 892,410 | Bank borrowings |
| Total | \$ 37,699,585 | 29,897,474 | 31,554,390 | |

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

Annotation 2 : According to the request of Financial Supervisory Commission No. 09600744341, the guaranty deposit for business operations which Taiwan International Futures Corporation deposited for the establishment of futures commission merchants cannot be transferred to the subsidiary's own working capital temporarily in order to protect 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:

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|---|---|-----------|--------------------------|-----------|--------------------------|-----------|
| | Shares (in thousands) | Par value | Shares (in thousands) | Par value | Shares (in thousands) | Par value |
| | Securities procured through margin purchase | 696,358 | \$ 6,963,578 | 826,231 | 8,262,310 | 771,541 |
| Collateral for margin purchase | 15,800 | 157,999 | 33,476 | 334,760 | 53,865 | 538,646 |
| Collateral for short sales | 6,038 | 60,380 | 13,332 | 133,320 | 7,186 | 71,860 |
| Lending securities to customers through short sales | 35,671 | 356,710 | 44,174 | 441,740 | 40,233 | 402,332 |

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

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

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|---|--------------------------|-----------|--------------------------|-----------|--------------------------|-----------|
| | Shares (in thousands) | Par value | Shares (in thousands) | Par value | Shares (in thousands) | Par value |
| Securities borrowed from securities finance companies | 78 | \$ 780 | 217 | 2,170 | 96 | 960 |
| Collateral for refinancing margin | 1,191 | 11,910 | - | - | 702 | 7,020 |

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

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|------------------|----------------------|-------------------|--------------------|
| Promissory notes | <u>\$ 27,160,000</u> | <u>21,850,000</u> | <u>21,930,000</u> |
| Promissory notes | <u>USD 85,000</u> | <u>80,000</u> | <u>80,000</u> |

- (4) Due to conducting borrowing and lending business with unrestricted purposes, there were collaterals valued \$108,574, which received from customers.
- (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) 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 in violating the Regulations Governing Securities Firms due to the sale of private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) by some employees. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount totaled 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\$8,464,801 dollars (including claim amount US\$354,006 dollars towards Taiwan International Securities Investment Consulting Corp.). As of September 30, 2016, the damages claimed for amounted to US\$2,930,000 dollars, which was in favor of the Company, instead of US\$5,026,873 dollars, and the investors reached compromises to waive off the appeal rights. According to the opinion of the Company's attorney, since the case is currently on trial, the possible loss remains uncertain. 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 afforded by

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

the Company was \$173,000, therefore the Company recognized this amount as other liabilities.

- (8) 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.
- (9) The Company provided the Letter of Comfort to its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (10) On 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 instituted proceedings towards TIFC and claimed joint responsibility of compensation for damages. After review by TIFC and its attorney, these litigations were classified as actual situations and relevant matters, thereon adopted different solutions. As of September 30, 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. In November 30, 2015, the Taiwan High Court second instance verdict against the Company, the Company appealed to the Supreme Court and the appeal was dismissed on October 12, 2016. As of September 30, 2016, TIFC has paid \$162,812 for compensation and the estimated losses amounted to \$254,389 in other liabilities – non-current.

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 September 30, 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.

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

10. SIGNIFICANT CATASTROPHIC LOSS : NONE

11. SIGNIFICANT SUBSEQUENT EVENTS :

In order to retain the Company's credits and shareholders' interests, the Company's board meeting resolved a share buyback plan on November 11, 2016.

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

12. OTHERS

- (1) As of September 30, 2016, December 31, 2015, September 30, 2015, the open positions of futures and option contracts were as follows:

A. September 30, 2016

| 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 | 91 | \$ 163,756 | 164,289 | |
| | Taix Futures | Short | 1,356 | (2,489,019) | (2,475,639) | |
| | Electronic Futures | Long | 18 | 27,260 | 26,975 | |
| | Non-Finance Non-Electronics Sub-Index Futures | Long | 22 | 24,472 | 24,132 | |
| | Stock Futures | Long | 2,450 | 271,288 | 272,681 | |
| | Stock Futures | Short | 2,485 | (289,145) | (285,978) | |
| | Finance Sector Index Futures | Short | 15 | (15,183) | (14,967) | |
| | H stocks Index Futures | Short | 2 | (3,851) | (3,853) | |
| | HSI Futures | Long | 5 | 23,450 | 23,395 | |
| | Mini-HSI Futures | Short | 2 | (1,919) | (1,886) | |
| | Gold Futures | Short | 13 | (21,621) | (21,048) | |
| | Micro Gold Futures | Short | 1 | (426) | (413) | |
| | MSCI Taiwan Index Futures | Short | 238 | (258,268) | (255,034) | |
| | VIX Futures | Short | 5 | (2,596) | (2,638) | |
| | Nikkei Index Futures | Long | 7 | 17,986 | 17,813 | |
| | Crude oil Futures | Long | 1 | 1,586 | 1,648 | |
| | Mini-S&P Sector Index Options | Short | 21 | (70,489) | (70,596) | |
| | FTSE China A50 Index Futures | Long | 6 | 1,793 | 1,787 | |
| | FTSE China A50 Index Futures | Short | 314 | (94,951) | (94,212) | |
| | U.S. 5-Year T-Note Futures | Short | 45 | (171,707) | (171,483) | |
| | Subtotal | | | (2,887,584) | | |
| Options contract: | | | | | | |
| | Taix Options (Call) | Long | 19,848 | \$ 44,536 | 44,120 | |
| | Taix Options (Put) | Long | 6,437 | 14,089 | 12,713 | |
| | Taix Options (Call) | Short | 2,389 | (10,576) | (9,867) | |
| | Taix Options (Put) | Short | 12,624 | (35,007) | (30,749) | |
| | Stock Options (Call) | Long | 635 | 2,058 | 1,332 | |
| | Stock Options (Put) | Long | 583 | 2,718 | 3,255 | |
| | Stock Options (Call) | Short | 202 | (909) | (765) | |
| | Stock Options (Put) | Short | 130 | (656) | (694) | |
| | Taix Weekly Options (Call) | Long | 5,047 | 882 | 338 | |
| | Taix Weekly Options (Put) | Long | 13,277 | 4,199 | 6,042 | |
| | Taix Weekly Options (Call) | Short | 2,262 | (7,307) | (4,052) | |
| | Taix Weekly Options (Put) | Short | 3,957 | (8,299) | (12,863) | |
| | Gold options (Call) | Long | 587 | 2,162 | 1,472 | |
| | Gold options (Put) | Long | 505 | 1,770 | 1,375 | |
| | Gold options (Call) | Short | 31 | (29) | (5) | |
| | Electronic Sector Index Options (Call) | Long | 370 | 465 | 305 | |
| | Electronic Sector Index Options (Put) | Long | 383 | 783 | 494 | |
| | Electronic Sector Index Options (Call) | Short | 104 | (450) | (447) | |
| | Electronic Sector Index Options (Put) | Short | 55 | (540) | (125) | |
| | Finance Sector Index Options (Call) | Long | 417 | 806 | 407 | |
| | Finance Sector Index Options (Put) | Long | 73 | 144 | 171 | |
| | Finance Sector Index Options (Put) | Short | 158 | (260) | (408) | |
| | Mini-S&P Sector Index Options (Call) | Long | 226 | 2,856 | 2,096 | |
| | Mini-S&P Sector Index Options (Put) | Long | 49 | 665 | 520 | |
| | Mini-S&P Sector Index Options (Call) | Short | 49 | (2,042) | (2,602) | |
| | Mini-S&P Sector Index Options (Put) | Short | 130 | (5,424) | (1,378) | |
| | USD/CNY FX Options (Call) | Short | 3 | - | (6) | |
| | Subtotal | | | 6,634 | | |
| Total | | | | \$ (2,880,950) | | |

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

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 : | | | | | | |
| | Taiex Futures | Long | 70 | \$ 118,276 | 117,949 | |
| | Taiex Futures | Short | 479 | (796,257) | (792,419) | |
| | Electronic Sector Index 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 Stock 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) | | |
| Options contract : | | | | | | |
| | Taiex Options (Call) | Long | 11,356 | \$ 25,752 | 20,111 | |
| | Taiex Options (Put) | Long | 13,664 | 23,550 | 18,065 | |
| | Taiex Options (Call) | Short | 6,444 | (24,127) | (13,828) | |
| | Taiex 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) | |
| | Taiex Weekly Options (Call) | Long | 871 | 728 | 787 | |
| | Taiex Weekly Options (Put) | Long | 1,607 | 1,843 | 1,775 | |
| | Taiex Weekly Options (Call) | Short | 214 | (881) | (919) | |
| | Taiex Weekly Options (Put) | Short | 160 | (964) | (899) | |
| | Gold Options (Call) | Long | 12 | 190 | 150 | |
| | Gold Options (Put) | Long | 1 | 1 | 1 | |
| | Gold Options (Call) | Short | 12 | (10) | (4) | |
| | Gold Options (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 | | | | <u>\$ (789,538)</u> | | |

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

C. September 30, 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 | 125 | \$ 217,169 | 202,740 | |
| | Taix Futures | Short | 564 | (922,061) | (917,536) | |
| | Mini-stock Futures | Short | 104 | (42,093) | (42,302) | |
| | Electronic Futures | Short | 56 | (70,479) | (70,504) | |
| | Non-Finance Non-Electronics Sub-Index Futures | Long | 4 | 4,061 | 4,072 | |
| | Stock Futures | Long | 2,113 | 356,957 | 349,731 | |
| | Stock Futures | Short | 2,976 | (345,694) | (332,849) | |
| | Finance Sector Index Futures | Long | 5 | 5,051 | 5,057 | |
| | Sugar No.11 Futures | Long | 4 | 1,782 | 1,897 | |
| | Gold Futures | Short | 7 | (25,420) | (25,659) | |
| | Unleaded gasoline Futures | Long | 1 | 1,899 | 1,887 | |
| | Cocoa bean Futures | Short | 2 | (2,105) | (2,047) | |
| | Coffee Futures | Long | 1 | 1,501 | 1,496 | |
| | Soy bean Futures | Long | 3 | 4,361 | 4,398 | |
| | S&P Futures | Long | 71 | 217,849 | 221,136 | |
| | A50 Index Futures | Long | 35 | 10,511 | 10,590 | |
| | U.S. 5-Year T-Note Futures | Long | 50 | 196,714 | 198,067 | |
| | U.S. 10-Year T-Note Futures | Long | 5 | 21,134 | 21,157 | |
| | U.S. 2-Year T-Note Futures | Long | 10 | 71,723 | 71,996 | |
| | U.S. 30-Year T-Note Futures | Short | 10 | (51,637) | (51,719) | |
| | Platinum Futures | Short | 3 | (4,648) | (4,482) | |
| | Subtotal | | | (353,425) | | |
| Options contract : | | | | | | |
| | Taix Options (Call) | Long | 12,886 | \$ 22,344 | 17,201 | |
| | Taix Options (Put) | Long | 4,899 | 16,831 | 23,560 | |
| | Taix Options (Call) | Short | 4,858 | (32,892) | (28,200) | |
| | Taix Options (Put) | Short | 6,343 | (69,169) | (99,334) | |
| | Stock Options (Call) | Long | 601 | 2,704 | 4,101 | |
| | Stock Options (Put) | Long | 311 | 1,011 | 902 | |
| | Stock Options (Call) | Short | 141 | (575) | (350) | |
| | Stock Options (Put) | Short | 216 | (626) | (973) | |
| | Taix Weekly Options (Call) | Long | 1,217 | 2,180 | 2,501 | |
| | Taix Weekly Options (Put) | Long | 2,414 | 3,936 | 3,279 | |
| | Taix Weekly Options (Call) | Short | 515 | (1,065) | (1,063) | |
| | Taix Weekly Options (Put) | Short | 208 | (52) | (19) | |
| | Gold Options (Call) | Long | 62 | 257 | 186 | |
| | Gold Options (Putl) | Long | 113 | 460 | 383 | |
| | Gold Options (Call) | Short | 77 | (286) | (220) | |
| | Gold Options (Put) | Short | 131 | (286) | (165) | |
| | Electronic Sector Index Options (Call) | Long | 392 | 925 | 936 | |
| | Electronic Sector Index Options (Put) | Long | 168 | 581 | 432 | |
| | Electronic Sector Index Options (Call) | Short | 316 | (1,037) | (933) | |
| | Electronic Sector Index Options (Put) | Short | 765 | (5,270) | (3,786) | |
| | Finance Sector Index Options (Call) | Long | 388 | 513 | 35 | |
| | Finance Sector Index Options (Put) | Long | 491 | 1,193 | 1,541 | |
| | Finance Sector Index Options (Call) | Short | 500 | (1,675) | (576) | |
| | Finance Sector Index Options (Put) | Short | 215 | (887) | (1,146) | |
| | S&P Sector Index Options (Call) | Long | 3 | 165 | 79 | |
| | S&P Sector Index Options (Put) | Long | 183 | 1,958 | 1,250 | |
| | S&P Sector Index Options (Call) | Short | 104 | (2,646) | (4,402) | |
| | Subtotal | | | (61,408) | | |
| Total | | | | \$ (414,833) | | |

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

- (2) Restrictions and enforcement of the Company's various financial ratios under the 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 | 3,026,773 | 11.06 | 2,866,064 | 8.40 | ≥ 1 | Satisfactory to requirement |
| | (Total liabilities –futures traders' equity) | 273,666 | | 341,363 | | | |
| 17 | Current Assets | 24,026,023 | 1.09 | 17,638,859 | 1.12 | ≥ 1 | " |
| | Current Liabilities | 22,041,719 | | 15,730,700 | | | |
| 22 | Stockholders' equity | 3,026,773 | 271.46% | 2,866,064 | 257.05% | ≥ 60% | " |
| | Minimum paid-in capital | 1,115,000 | | 1,115,000 | | ≥ 40% | |
| 22 | Post-adjustment net capital | 2,100,202 | 61.79% | 2,039,840 | 98.49% | ≥ 20% | " |
| | Total customer margin deposits required | 3,398,921 | | 2,071,192 | | ≥ 15% | |

- (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 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 of Taiwan International Futures Corporation (hereinafter known as "TIFC"). After being decided by the court or accommodated by the investors of TIFC, such deposit shall be allocated by the trustee to the stockholders, based on the proportion of their shareholdings in TISC,

As of September 30, 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 September 30, 2016, the trust amount of the impartial third party was \$130,586 and the accumulated compensation expense was \$51,414.

13. DISCLOSURES REQUIRED

- (1) Information on significant transaction:

The following lists 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 \$300 million or 20% of paid-in capital: None.

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- D. Disposal of real estate over \$300 million or 20% of paid-in capital: None.
- E. Discount on commissions of transactions with related parties over \$5 million: 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. Name of the investee, major operating item in China :

| 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 September 30, 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 September 30, 2016 |
|--|---|----------------|-------------------------------|--|--|--------------------|---|---------------------------------|---|---|------------------------------|--|
| | | | | | Remittance amount | Recoverable amount | | | | | | |
| Capital True Partner Co., Ltd. | Management, consulting and information service business | 5,013 | C | 24,372 | - | - | 24,372 | (7,241) | 30.10% | (2,089) B(3) | 12,924 | - |

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. Within the arrangement, the investment gains or losses were not recognized.
- B. The method of investment gains and losses is defined based on the following three methods, indicating in the following categories:
- (1) The recognition of investment gains or losses is based on the financial statements audited by international certified public accountant cooperated with a certified public accountant of the Republic of China.
- (2) The recognition of investment gains or losses is based on the financial statements audited by certified public accountant of the Company.
- (3) The recognition of investment gains or losses is based on the financial statements provided by the investee without audited by certified public account.

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

B. Limitation of investment in China:

Unit: NT\$'000

| Company Name | Accumulated investments in Mainland China | Investment Amounts Authorized by Investment Commission (MOEA) | Upper Limit on Investment regulated by Investment Commission (MOEA) |
|---|---|---|---|
| Capital International Technology, Corp. | 24,372 | 24,372 | 28,472 |

Note: The Company invests through a subsidiary to invest in Mainland China and the quota for investment is 60% of the subsidiary's stockholders' equity.

14. SEGMENT INFORMATION:

(1) Operating segment information

The management of the Group identifies reportable segments based on the reporting information used by the group's operating decision-maker. Segments are reviewed on a basis of sources of main business revenues. The group divides its operation into the following departments: brokerage business, underwriting business, dealing business, derivative instrument business and reinvestment business. The rest of the operation departments, which do not reach the quantized threshold, are jointly expressed in other column. Sources of revenues and services provided by the departments are as follows:

- A. Brokerage business: Engaged in brokerage trading, margin trading, and securities lending

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business.

- B. Underwriting segment: Engaged in helping business enterprises to have an initial public offering or to register on the emerging or listed market, in underwriting and selling securities, in assisting business enterprises to raise funds, and related business.
- C. Dealing business: 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 segmental information

Measurement of segmental accounting policies is in accordance with the group's accounting policies. The operating segments of the Group report their profit or loss based on the net income before tax, the value of which is the foundation of performance evaluation. Any allocated revenue or expense is directly allocated to certain department. Indirect expense and administrative expenses are allocated to others.

(3) Income, assets and liabilities between segments

| | | For the three months ended September 30, 2016 | | | | | | | |
|--------------------------|--|---|--------------------------|---------------------|--------------------------------------|----------|--------------------------|----------------------------------|-----------|
| | | Brokerage business | Underwriting business | Dealing business | Derivative instrument business | Others | Capital Futures Corp. | Adjustment and elimination | Total |
| Revenue between segments | | \$ 720,050 | 68,428 | 320,090 | 143,781 | 54,707 | 560,597 | (70,158) | 1,797,495 |
| Income between segments | | \$ 257,729 | 24,346 | 211,800 | 95,830 | (73,593) | 148,903 | (78,183) | 586,832 |

| | | For the three months ended September 30, 2015 | | | | | | | |
|--------------------------|--|---|--------------------------|---------------------|--------------------------------------|----------|--------------------------|----------------------------------|-----------|
| | | Brokerage business | Underwriting business | Dealing business | Derivative instrument business | Others | Capital Futures Corp. | Adjustment and elimination | Total |
| Revenue between segments | | \$ 817,784 | 61,873 | (88,448) | (6,843) | 60,368 | 540,755 | (70,666) | 1,314,823 |
| Income between segments | | \$ 244,113 | 9,982 | (150,539) | (72,286) | (40,322) | 193,205 | (85,661) | 98,492 |

| | | For the nine months ended September 30, 2016 | | | | | | | |
|--------------------------|--|--|--------------------------|---------------------|--------------------------------------|-----------|--------------------------|----------------------------------|-----------|
| | | Brokerage business | Underwriting business | Dealing business | Derivative instrument business | Others | Capital Futures Corp. | Adjustment and elimination | Total |
| Revenue between segments | | \$ 2,132,997 | 212,984 | 464,346 | 410,706 | 165,677 | 1,705,457 | (203,741) | 4,888,426 |
| Income between segments | | \$ 666,529 | 81,238 | 296,388 | 288,898 | (167,558) | 461,214 | (228,357) | 1,398,352 |

| | | For the nine months ended September 30, 2015 | | | | | | | |
|--------------------------|--|--|--------------------------|---------------------|--------------------------------------|-----------|--------------------------|----------------------------------|-----------|
| | | Brokerage business | Underwriting business | Dealing business | Derivative instrument business | Others | Capital Futures Corp. | Adjustment and elimination | Total |
| Revenue between segments | | \$ 2,605,604 | 279,882 | 328,974 | 281,512 | 202,669 | 1,149,789 | (187,631) | 4,660,799 |
| Income between segments | | \$ 899,928 | 116,395 | 121,028 | 107,211 | (173,889) | 384,863 | (200,925) | 1,254,611 |

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.

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(4) Information about products and services

On the bases of different products and services, the reportable departments of the Group disclose general information and the types of products and services that generate its revenue. Additional disclosures on revenue according to products and services are not compulsory.

(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.

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(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 the Period | | Ending Balance | | Capital Employed | | Range of interest Rate | Type of Loans (Note) | 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 22,289 | US 19,322 | US 19,322 | US 19,322 | - | 2 | - | - | Operations | - | | - | US 54,970 | US 54,970 | |
| 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 | US 3,380 | - | 2 | - | - | Operations & repayment of financing | - | | - | US 3,404 | US 3,404 | |
| 3 | TIS Securities (HK) Limited | Taiwan International Capital (HK) Ltd. | Other receivables | Yes | HK 1,463 | 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 10,854 | HK - | HK - | HK - | 5% | 2 | - | - | Transactions | - | | - | HK 10,854 | HK 54,051 | |
| 5 | CSC Futures (HK) Ltd. | KLAW TRADING LIMITED | Account receivables - Customer | No | HK 10,854 | HK - | HK - | HK - | 5% | 2 | - | - | Transactions | - | | - | HK 10,854 | HK 54,051 | |
| 6 | CSC Futures (HK) Ltd. | THREE ARROWS CAPITAL LTD | Account receivables - Customer | No | HK 10,854 | HK 8,141 | HK 8,141 | HK 8,141 | 5% | 2 | - | - | Transactions | - | | - | HK 10,854 | HK 54,051 | |
| 7 | CSC Futures (HK) Ltd. | FUTURE LEADING INVESTMENT PTE LTD | Account receivables - Customer | No | HK 10,854 | HK - | HK - | HK - | 3.5% | 2 | - | - | Transactions | - | | - | HK 10,854 | HK 54,051 | |

Note: Type of Loans

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

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

Exhibit 2: Significant transactions between parent company and subsidiaries for the nine months ended September 30, 2016

| | | | | (In thousands dollars) | | | |
|-------------------|---|---|------------------------------|---|------------|---------------------|---|
| Ref No. Note 1 | Trader name | Counter-party trade | Trade relationship Note 2 | Transaction details | | | |
| | | | | Subject | Amount | Trading terms | Percentage(%) of total consolidated revenue or total assets |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Accounts payable | 159 | | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Accounts receivable | 25,468 | | 0.02% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Other receivables | 129 | | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Bonds sold under repurchase agreements | 112,756 | | 0.11% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Guarantee deposits received | 3,508 | | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Future commission revenues | 115,959 | General transaction | 2.37% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Lease revenues | 11,524 | General transaction | 0.24% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Revenue from securities management, distribution, and management fees | 263 | General transaction | 0.01% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Financial costs | 1,354 | General transaction | 0.03% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Other operating revenues | 11 | General transaction | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Securities commission expense | 2,647 | General transaction | 0.05% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Interest revenues | 146 | General transaction | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Miscellaneous expenses | 6,953 | General transaction | 0.14% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Non-operating revenues | 14,051 | General transaction | 0.29% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Brokerage commissions | 206 | General transaction | - % |
| 0 | Capital Securities Corp. | Capital International Technology Corp. | 1 | Other non-operating revenues | 45 | General transaction | - % |
| 0 | Capital Securities Corp. | Capital International Technology Corp. | 1 | Financial costs | 1 | General transaction | - % |
| 0 | Capital Securities Corp. | Capital Investment Management Corporation | 1 | Professional service fees | 61,500 | General transaction | 1.26% |
| 0 | Capital Securities Corp. | Capital Investment Management Corporation | 1 | Lease revenues | 900 | General transaction | 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 | 90 | General transaction | - % |
| 0 | Capital Securities Corp. | Taiwan International Securities Investment Consulting Corp. | 1 | Other non-operating revenues | 90 | General transaction | - % |
| 0 | Capital Securities Corp. | Taiwan International Securities Investment Consulting Corp. | 1 | Guarantee deposits received | 171 | | - % |
| 0 | Capital Securities Corp. | Taiwan International Securities Investment Consulting Corp. | 1 | Financial costs | 2 | General transaction | - % |
| 0 | Capital Securities Corp. | Taiwan International Futures Corp. | 1 | Lease revenues | 749 | General transaction | 0.02% |
| 0 | Capital Securities Corp. | Taiwan International Futures Corp. | 1 | Other non-operating revenues | 450 | General transaction | 0.01% |
| 0 | Capital Securities Corp. | CSC Securities (HK) Ltd. | 1 | Other receivables | 23 | | - % |
| 0 | Capital Securities Corp. | CSC Venture Capital Corp. | 1 | Guarantee deposits received | 160 | | - % |
| 0 | Capital Securities Corp. | CSC Venture Capital Corp. | 1 | Financial costs | 1 | General transaction | - % |
| 0 | Capital Securities Corp. | CSC Venture Capital Corp. | 1 | Lease revenues | 721 | General transaction | 0.01% |
| 1 | Capital Futures Corp. | Capital Securities Corp. | 2 | Customer margin account | 400,110 | | 0.38% |
| 1 | Capital Futures Corp. | Capital Securities Corp. | 2 | Futures traders' equity | 400,110 | | 0.38% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Customer margin account | 345,623 | | 0.32% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Futures traders' equity | 1,173,462 | | 1.10% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Future commission expense | 9,440 | General transaction | 0.19% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Brokerage commissions | 48,951 | General transaction | 1.00% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Financial costs | 271 | General transaction | 0.01% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Information technology expense | 10,536 | General transaction | 0.22% |
| 1 | Capital Futures Corp. | Capital International Technology Corp. | 3 | Lease revenues | 109 | General transaction | - % |
| 2 | CSC Futures (HK) Ltd. | Capital Futures Corp. | 3 | Customer margin account | 1,083,903 | | 1.02% |
| 2 | CSC Futures (HK) Ltd. | Capital Futures Corp. | 3 | Futures traders' equity | 256,064 | | 0.24% |
| 2 | CSC Futures (HK) Ltd. | Capital True Partner Co., Ltd. | 3 | Information technology expense | 357 | General transaction | 0.01% |
| 2 | CSC Futures (HK) Ltd. | Capital True Partner Co., Ltd. | 3 | Accumulated depreciation | 300 | | - % |
| 2 | CSC Futures (HK) Ltd. | Capital True Partner Co., Ltd. | 3 | Depreciation expense | 300 | | 0.01% |
| 3 | CSC Securities (HK) Ltd. | CSC Futures (HK) Ltd. | 3 | Other receivables | HK 11 | | - % |
| 3 | CSC Securities (HK) Ltd. | CSC Futures (HK) Ltd. | 3 | Other operating revenues | HK 2,730 | General transaction | 0.23% |
| 3 | CSC Securities (HK) Ltd. | CSC Futures (HK) Ltd. | 3 | Brokerage commissions | HK 1,148 | General transaction | 0.10% |
| 3 | CSC Securities (HK) Ltd. | CSC International Holdings Ltd. | 3 | Other payables | USD 19,322 | | 0.59% |
| 4 | Capital Securities (Hong Kong) Ltd. | CSC International Holdings Ltd. | 3 | Other receivables | HK 3,367 | | 0.01% |
| 5 | Taiwan International Securities (B.V.I) Corp. | TIS Securities (HK) Limited | 3 | Other receivables | HK 26,206 | | 0.10% |

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.

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(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 3: Information on reinvestment business

| Ref No. | Name of investee company (Notes 1 and 2) | Area | Primary business operation | Original investment amount | | Equity Ownership by Company | | | Net gains or losses of investee during this period | Investment gain or loss recognized during this period | Note |
|---------|---|------------------------|--|-------------------------------|------------------------------|-----------------------------|---------|---------------------|--|---|---|
| | | | | Balance on September 30, 2016 | Balance on December 31, 2015 | Shares | Ratio | Book value (Note 3) | | | |
| 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% | 104,535 | 10,851 | 10,851 | 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% | 1,786,098 | 390,771 | 230,594 | " |
| 0 | CSC International Holdings Ltd. | British Virgin Island | Long-term equity investment business. | 1,339,555 | 1,339,555 | 45,000,000 | 100.00% | 1,716,002 | (17,625) | (17,625) | " |
| 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 | 500,000 | 100.00% | 84,338 | 67,245 | 67,245 | Subsidiary |
| 0 | Capital Insurance Agency Corp. | Taipei ,Taiwan, R.O.C. | Manages personal insurance agent business. | 7,400 | 7,400 | 740,000 | 100.00% | 48,136 | 10,222 | 10,222 | " |
| 0 | Taiwan International Futures Corp.(Note 4) | Taipei ,Taiwan, R.O.C. | Liquidation 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% | 463 | (207) | (207) | " |
| 0 | Taiwan International Securities Investment Consultine Corp.(Note 5) | Taipei ,Taiwan, R.O.C. | Liquidation in progress. | 9,992 | 9,992 | 999,200 | 99.92% | 13,356 | (194) | (194) | " |
| 0 | CSC Venture Capital Corp. | Taipei ,Taiwan, R.O.C. | Venture investment and consulting business | 1,000,000 | - | 100,000,000 | 100.00% | 1,010,050 | (3,472) | (3,472) | " |
| 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% | HK53,699 thousand | HK(456) 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% | HK117,441 thousand | HK(1,283) 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% | HK50,332 thousand | HK(1,283) thousand | - | " |
| 3 | TIS Securities (HK) Limited(Note 6) | Hong Kong | Liquidation in progress. | HK 265,000 thousand | HK 265,000 thousand | 265,000,000 | 100.00% | HK(26,279) thousand | HK(50) thousand | - | " |
| 4 | Taiwan International Capital (HK) Ltd. (Note 6) | Hong Kong | Liquidation in progress. | HK 2 | HK 2 | 2 | 100.00% | HK(49,216) thousand | HK(8) thousand | - | " |
| 5 | CSC Futures (HK) Ltd. | Hong Kong | Futures dealing business. | 450,631 | 450,631 | 114,000,000 | 95.00% | 515,278 | 92,104 | - | " |
| 5 | Capital International Technology Corp. | Taipei ,Taiwan, R.O.C. | Management and consulting business. Information technology software | 50,000 | 50,000 | 5,000,000 | 100.00% | 46,900 | (4,120) | - | " |
| 5 | True Partner Advisor Hong Kong Limited | Hong Kong | Asset management | 36,701 | 36,701 | 245,000 | 49.00% | 41,749 | 11,280 | - | 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 and the liquidation procedure is ongoing.

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.