

**CAPITAL SECURITIES CORPORATION AND  
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**AND**

**INDEPENDENT ACCOUNTANTS' AUDIT REPORT**

(English Translation of Financial Report Originally Issued in Chinese)

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# CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

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## **Representation Letter**

The entities that are required to be included in the combined financial statements of Capital Securities Corporation as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements" endorsed by Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Capital Securities Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

We hereby certify that the above statement is true.

Company: Capital Securities Corporation

Chairman of the board: Jiunn-Chih Wang

Date: March 27, 2017



安侯建業聯合會計師事務所

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## Independent Accountants' Audit Report

To the Board of Directors of Capital Securities Corporation

### Opinion

We have audited the consolidated financial statements of Capital Securities Corporation and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Firms and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountant of Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Group's financial statements are stated as follows:

#### 1. Valuation of financial instruments

Please refer to Note 4(7) for the related accounting policy regarding the valuation of financial instruments, Refer to Note 6(2) financial assets, Note 6(10) financial liabilities at fair value through profit or loss and Note 6(20) E. fair value and fair value hierarchy of financial instruments for details about the valuation of financial instruments.



Risk and descriptions of the key audit matter:

The Group's valuation of financial instruments is one of audit processes refer to important judgements. Financial instruments on balance sheets mainly belong to first or secondary level in fair value hierarchy, and can being achieved by available quoted market prices in an active market and direct or indirect evaluation of observation. Fair value of some derivative financial instruments invested and issued depends on models and observably variable factors in the market, so management's professional judgement has highly importance when using different valuation ways and assumptions. Therefore, the valuation of financial instruments is included as our key audit matter.

Procedures performed:

Our key audit procedures included considering how management selected appropriate valuation methods and assessed the key assumptions adopted. We confirmed the presentation and disclosures of financial instruments were in accordance with relevant regulations. For financial assets with quoted market prices in an active market, we selected samples to test the appropriateness of quoted prices used. For financial assets without quoted market prices in an active market and measured at fair value using valuation techniques, we selected samples to test the appropriateness of underlying parameters.

2. Goodwill impairment

Please refer to Note 4(17) for the related accounting policy regarding the impairment of non-financial assets, Note 5 for accounting assumptions and estimation uncertainty of the goodwill impairment, and Note 6(8) A. for details on the information about measurement of goodwill impairment.

Risk and descriptions of the key audit matter:

Assessment of the Group's goodwill impairment is one of our significant audit processes, because it mainly depends on the prediction of future operation and there is a high uncertainty on assessing recoverable amounts by discounted future cash flows. Therefore, the measurement of goodwill impairment is included as our key audit matter.

Procedures performed:

Our key audit procedures included evaluating tests of goodwill impairment implemented by management and related procedures of control, certifying the assumptions of management by related available external information, making professional evaluation on main parameters of predictable growth rate, discount rate, et cetera adopted by management, and assessing the appropriateness of prediction by management, involve of analyzing sensitivity on the assumptions related to evaluating impairment.

3. The assessment of litigation and contingent liability

Please refer to Note 4(19) for the related accounting policy regarding the assessment of liability provisions, and Note 9 for details on the information about the assessment of significant contingent liability and unrecognized contract commitment.

Risk and descriptions of the key audit matter:

Our contingent liabilities may occur because of the progress of ongoing litigations and other legal matters, the amounts may be significant, and when assessing liability provisions by related accounting standards, required the applying of the management's judgments. Therefore, the



assessment of litigation and contingent liability is included as our key audit matter.

Procedures performed:

Our key audit procedures for the aforementioned key audit matter included interviewing management to understand its assessment of ongoing litigation, obtaining law confirmations from the Group's external attorneys, and assessing whether the disclosure of significant ongoing litigation and contingent liabilities appropriate.

**Other Matter**

The Group has prepared its separate financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and with the IFRSs, IASs, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Taipei, Taiwan (Republic of China)

March 27, 2017

**Notice to Readers**

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

The auditors' report and the accompanying 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 auditors' report and financial statements, the Chinese version shall prevail.

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2016		December 31, 2015		LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Current Assets</b>					<b>Current Liabilities</b>				
Cash and cash equivalents (Note 6(1))	\$ 5,423,415	5	4,726,498	5	Short-term borrowings (Note 6(9))	\$ 4,236,402	4	1,791,161	2
Financial assets at fair value through profit or loss - current (Notes 6(2)and 8)	27,730,008	25	25,985,624	28	Financial liabilities at fair value through profit or loss - current (Note 6(10))	1,475,764	2	2,409,455	3
Financial assets available for sale - current (Note 6(2))	19,337,878	18	7,835,455	8	Bonds sold under repurchase agreements (Note 6(11))	34,956,642	32	23,576,243	25
Receivable for securities provided as collateral	11,924,515	11	15,155,220	16	Guarantee deposited for short sales	1,722,840	2	2,025,011	2
Refinancing margin	93,353	-	9,084	-	Proceeds payable from short sales	1,947,104	2	2,242,680	2
Refinancing collateral receivable	79,289	-	7,550	-	Securities lending refundable deposits	878,866	1	1,622,937	2
Receivable of securities business money lending	144,552	-	-	-	Futures traders' equity (Note 6(4))	23,132,231	21	16,287,312	18
Customers' margin account (Note 6(4))	23,169,842	21	16,304,756	18	Customer equity of separate account ledger in settlement account (Note 6(12))	4,537	-	4,104	-
Receivable - futures margin	894	-	900	-	Leverage contract trading - customers' equity	70	-	-	-
Collateral for securities borrowed	802,737	1	1,074,130	1	Notes payable (Note 6(13))	879	-	846	4
Security borrowing margin	775,251	1	1,460,549	2	Accounts payable (Note 6(13))	3,478,124	3	3,847,764	-
Notes receivable	16,931	-	7,955	-	Advance receipts	33,569	-	19,935	-
Accounts receivable (Note 6(3))	4,106,313	4	4,984,977	5	Receipts under custody	147,328	-	1,347,159	1
Prepayments	50,564	-	36,303	-	Other payables	663,830	1	765,523	1
Other receivables	100,312	-	87,864	-	Other financial liabilities - current (Note 6(21))	2,427,461	2	3,834,575	4
Leverage contract trading - customer margin account	72	-	-	-	Current income tax liabilities	225,883	-	154,699	-
Current income tax assets	44,685	-	59,777	-	Provisions - current (Note 6(15))	65,365	-	47,546	-
Other current assets	705,402	1	1,854,659	2	Other current liabilities	3,065	-	5,124	-
	<u>94,506,013</u>	<u>87</u>	<u>79,591,301</u>	<u>85</u>		<u>75,399,960</u>	<u>70</u>	<u>59,982,074</u>	<u>64</u>
<b>Non-current Assets</b>					<b>Non-current Liabilities</b>				
Financial assets at fair value through profit or loss - non-current (Notes 6(2) and 8)	186,073	-	190,554	-	Other financial liabilities - non-current (Note 6(21))	239,634	-	241,991	-
Financial assets measured at cost - non-current (Note 6(2))	448,460	-	411,231	-	Deferred income tax liabilities (Note 6(16))	675,975	1	693,879	1
Financial assets available for sale - non-current (Note 6(2))	76,261	-	60,966	-	Other non-current liabilities	884,366	1	865,580	1
Investments accounted for under equity method (Note 6(5))	198,205	-	157,675	-		<u>1,799,975</u>	<u>2</u>	<u>1,801,450</u>	<u>2</u>
Property and equipment(Notes 6(6) and 8)	5,129,823	5	5,177,406	6	<b>Total Liabilities</b>	<u>77,199,935</u>	<u>72</u>	<u>61,783,524</u>	<u>66</u>
Investment property (Notes 6(7) and 8)	1,727,324	2	1,740,207	2	<b>Equity Attributable to Shareholders of the Parent</b>				
Intangible assets (Note 6(8))	3,612,248	3	3,627,517	4	Common stock (Note 6(17))	22,690,730	21	23,190,730	25
Deferred income tax assets (Note 6(18))	407,397	1	484,797	1	Capital surplus				
Other non-current assets	1,752,409	2	1,869,537	2	Premium from stock issuance	1,858,310	2	1,899,259	2
	<u>13,538,200</u>	<u>13</u>	<u>13,719,890</u>	<u>15</u>	Treasury stock transactions	253,940	-	191,489	-
					Paid-in capital from merger	630,450	1	644,342	1
					Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,399	-	1,430	-
					Changes in ownership interests in subsidiaries	6,873	-	6,287	-
					Retained earnings				
					Legal reserve	1,110,600	1	955,667	1
					Special reserve	2,464,288	2	2,154,422	2
					Unappropriated earnings (Note 6(16))	1,188,633	1	1,586,994	2
					Exchange differences on translation of foreign operations	97,158	-	135,985	-
					Unrealized gains (losses) on financial assets available-for-sale	53,215	-	(6,850)	-
					Treasury stocks (Note 6(17))	(835,048)	(1)	(469,155)	-
					<b>Total equity attributed to the parent company</b>	<u>29,520,548</u>	<u>27</u>	<u>30,290,600</u>	<u>33</u>
					<b>Non-controlling interests</b>	<u>1,323,730</u>	<u>1</u>	<u>1,237,067</u>	<u>1</u>
					<b>Total Equity</b>	<u>30,844,278</u>	<u>28</u>	<u>31,527,667</u>	<u>34</u>
<b>TOTAL ASSETS</b>	<u>\$ 108,044,213</u>	<u>100</u>	<u>93,311,191</u>	<u>100</u>	<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 108,044,213</u>	<u>100</u>	<u>93,311,191</u>	<u>100</u>

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



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

	2016		2015	
	Amount	%	Amount	%
<b>Income:</b>				
Brokerage commissions (Note 6(19))	\$ 3,226,451	51	3,585,202	55
Revenues from securities business money lending	46	-	119	-
Revenue from securities lendings	71,164	1	38,789	1
Underwriting commissions (Note 6(19))	93,463	1	167,696	2
Commissions on wealth management business	64,802	1	63,025	1
Net gains on sale of trading securities (Note 6(19))	87,379	1	44,885	1
Securities management, distribution, and management fees	139,497	3	139,875	2
Interest revenue (Note 6(19))	1,463,945	23	1,430,410	22
Dividend revenue	175,857	3	146,717	2
Net gains (losses) on measurement of trading securities at fair value through profit or loss (Note 6(19))	45,390	1	(219,874)	(3)
Net gains (losses) on covering of borrowed securities and bonds with resale agreements	17,194	-	(46,842)	(1)
Net gains on measurement of borrowed securities and bonds with resale agreements	36,005	1	78,838	1
Net gains on stock warrants issued (Notes 6(19) and 6(21))	747,109	12	842,234	13
Futures commission revenues	564,369	9	123,498	2
Net gains (losses) on derivative instruments - futures (Note 6(21))	(254,211)	(4)	126,235	2
Net losses on derivative instruments - OTC (Note 6(21))	(238,978)	(4)	(54,270)	(1)
Management fee revenues	76	-	843	-
Advisory commissions	14,251	-	9,009	-
Other operating revenues	93,202	1	87,768	1
	<u>6,347,011</u>	<u>100</u>	<u>6,564,157</u>	<u>100</u>
<b>Expenses:</b>				
Brokerage fees	474,143	7	391,388	6
Brokerage and clearing fees - proprietary trading	16,577	-	22,995	-
Clearing and exchange fees - refinancing	3,309	-	3,116	-
Clearing and exchange fees - underwriting	1,749	-	2,866	-
Financial costs	288,309	5	209,012	3
Commission expense - futures	411,695	7	189,205	3
Clearing and settlement expenses	143,607	3	135,052	2
Other operating expenditure	6,807	-	9,001	-
Employee benefits expenses (Note 6(19))	2,418,060	38	2,467,074	38
Depreciation and amortization expenses (Note 6(19))	217,980	3	219,499	3
Other operating expenses (Note 6(19))	1,344,841	21	1,550,209	24
	<u>5,327,077</u>	<u>84</u>	<u>5,199,417</u>	<u>79</u>
<b>Other income and expenses :</b>				
Share of profits of associates and joint venture (Note 6(5))	106,717	2	74,775	1
Other gains and losses (Note 6(19))	545,582	8	594,520	9
	<u>652,299</u>	<u>10</u>	<u>669,295</u>	<u>10</u>
<b>Net income before income tax</b>	<u>1,672,233</u>	<u>26</u>	<u>2,034,035</u>	<u>31</u>
<b>Income tax expense (Note 6(16))</b>	<u>(265,736)</u>	<u>(4)</u>	<u>(305,677)</u>	<u>(4)</u>
<b>Net income</b>	<u>1,406,497</u>	<u>22</u>	<u>1,728,358</u>	<u>27</u>
<b>Other comprehensive income:</b>				
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Remeasurement on defined benefit plan	(19,494)	-	(29,867)	-
Income tax related to the components of other comprehensive income	-	-	-	-
<b>Subtotal of items that will not be reclassified subsequently to profit or loss</b>	<u>(19,494)</u>	<u>-</u>	<u>(29,867)</u>	<u>-</u>
<b>Items that may be reclassified to profit or loss in subsequent periods</b>				
Exchange differences on translation of foreign operations	(49,443)	(1)	81,233	1
Unrealized gains (losses) on available-for-sale financial assets, net	66,182	1	(31,021)	(1)
Income tax benefit related to components of other comprehensive income (Note 6(16))	6,951	-	(14,772)	-
Total items that will be reclassified to profit or loss in subsequent periods	23,690	-	35,440	-
<b>Other comprehensive income for the year, net of income tax</b>	<u>4,196</u>	<u>-</u>	<u>5,573</u>	<u>-</u>
<b>Total comprehensive income for the year</b>	<u>\$ 1,410,693</u>	<u>22</u>	<u>1,733,931</u>	<u>27</u>
<b>Net income attributable to</b>				
Shareholders of the parent	\$ 1,196,756	19	1,549,327	24
Non-controlling interests	209,741	3	179,031	3
	<u>\$ 1,406,497</u>	<u>22</u>	<u>1,728,358</u>	<u>27</u>
<b>Total comprehensive income attributable to:</b>				
Shareholders of the parent	\$ 1,199,521	19	1,551,672	24
Non-controlling interests	211,172	3	182,259	3
	<u>\$ 1,410,693</u>	<u>22</u>	<u>1,733,931</u>	<u>27</u>
<b>Basic earnings per share (Note 6(18))</b>	<u>\$ 0.53</u>		<u>0.66</u>	
<b>Dilutive earnings per share (Note 6(18))</b>	<u>\$ 0.53</u>		<u>0.66</u>	

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

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

	Equity attributable to shareholders of the parent											
	Capital stock	Capital surplus	Retained earnings			Exchange differences on translation of foreign operations	Others		Treasury stocks	Equity attributable to shareholders of the parent	Non-controlling interests	Total Equity
			Legal reserve	Special reserve	Unappropriated earnings		Unrealized gains (losses) on financial assets available-for-sale					
<b>Beginning balance, January 1, 2015</b>	\$ 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 year ended December 31, 2015	-	-	-	-	1,549,327	-	-	-	1,549,327	179,031	1,728,358	
Other comprehensive income	-	-	-	-	(29,441)	59,427	(27,641)	-	2,345	3,228	5,573	
Total comprehensive income	-	-	-	-	1,519,886	59,427	(27,641)	-	1,551,672	182,259	1,733,931	
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	-	-	-	-	-	-	-	(939,569)	(939,569)	-	(939,569)	
Retirement of treasury stocks	(500,000)	29,586	-	-	-	-	-	470,414	-	-	-	
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	1,461	-	-	-	-	-	-	1,461	-	1,461	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	24,949	24,949	
<b>Ending balance, December 31, 2015</b>	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 year ended December 31, 2016	-	-	-	-	1,196,756	-	-	-	1,196,756	209,741	1,406,497	
Other comprehensive income	-	-	-	-	(18,473)	(38,827)	60,065	-	2,765	1,431	4,196	
Total comprehensive income	-	-	-	-	1,178,283	(38,827)	60,065	-	1,199,521	211,172	1,410,693	
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)	(123,923)	(1,235,768)	
Purchase of treasury stocks	-	-	-	-	-	-	-	(858,314)	(858,314)	-	(858,314)	
Retirement of treasury stocks	(500,000)	7,579	-	-	-	-	-	492,421	-	-	-	
Change in the ownership interest of subsidiaries	-	586	-	-	-	-	-	-	586	(586)	-	
<b>Ending balance, December 31, 2016</b>	\$ 22,690,730	2,750,972	1,110,600	2,464,288	1,188,633	97,158	53,215	(835,048)	29,520,548	1,323,730	30,844,278	

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

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**  
(Expressed In Thousands of New Taiwan Dollars)

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income before income tax	\$ 1,672,233	2,034,035
<b>Adjustments for:</b>		
<b>Income and expenses items with no effect on cash flows:</b>		
Depreciation expense	180,741	179,376
Amortization expense	37,239	40,123
Bad debt provision	7,393	-
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(45,390)	219,874
Interest expense	288,309	209,012
Interest revenue (including financial income)	(1,666,227)	(1,599,893)
Dividend revenue	(207,993)	(179,431)
Cash dividend received from investments under equity method	65,987	57,053
Share of profit of associates and joint ventures	(106,717)	(74,775)
Net losses (gains) on disposal and retirement of property and equipment	4,202	(58,484)
Losses on disposal and retirement of intangible assets	-	86
Gains on disposal of investments	(90)	-
Gains on disposal of financial assets available for sale - non-current	-	(13,769)
Net (gains) losses on non-operating financial instruments at fair value through profit or loss	31,837	9,258
Net changes of income and expense items with no effect on cash flows	(1,410,709)	(1,211,570)
<b>Net changes of assets from operating activities:</b>		
Decrease (increase) in financial assets at fair value through profit or loss	(1,726,844)	(1,140,884)
Decrease (increase) in financial assets available for sale - current	(11,451,162)	(7,858,230)
Decrease (increase) in receivable for securities provided as collateral	3,230,705	4,414,245
Decrease (increase) in refinancing margin	(84,269)	6,443
Decrease (increase) in receivable on refinancing collateral	(71,739)	16,884
Decrease (increase) in receivable of securities business money lending	(144,552)	-
Decrease (increase) in customers' margin account	(6,865,086)	(4,460,313)
Decrease (increase) in margin receivable of futures trading	6	(900)
Decrease (increase) in collateral for securities borrowed	271,393	(424,717)
Decrease (increase) in security borrowing margin	685,298	(866,722)
Decrease (increase) in notes receivable	(8,976)	(3,931)
Decrease (increase) in accounts receivable	911,973	1,738,439
Decrease (increase) in prepayments	(14,112)	2,895
Decrease (increase) in leverage contract trading - customer margin account	(72)	-
Decrease (increase) in other receivables	(12,186)	5,660
Decrease (increase) in pledged assets - current	73,717	(73,717)
Decrease (increase) in current income tax assets	15,097	(23,924)
Decrease (increase) in other current assets	1,049,937	(1,170,561)
Decrease (increase) in guarantee deposited for business operations	54,540	264,513
Decrease (increase) in settlement fund	17,633	(1,583)
Decrease (increase) in refundable deposits	16,507	38,120
Decrease (increase) in other non-current assets	44,858	(65,504)
<b>Total net changes in assets from operating activities:</b>	(14,007,334)	(9,603,787)
<b>Net changes in liabilities from operating activities:</b>		
Increase (decrease) in financial liabilities at fair value through profit or loss	(933,192)	1,045
Increase (decrease) in bonds sold under repurchase agreements	11,380,399	8,966,061
Increase (decrease) securities financing refundable deposits	(302,171)	(206,979)
Increase (decrease) deposits payable for securities financing	(295,576)	(351,293)
Increase (decrease) securities lending refundable deposits	(744,071)	(631,827)
Increase (decrease) in futures traders' equity	6,844,919	4,543,892
Increase (decrease) in notes payable	33	(300)
Increase (decrease) customers' equity of separate account ledger in settlement accounting	433	4,104
Increase (decrease) in leverage contract trading - customers' equity	70	-
Increase (decrease) in accounts payable	(369,640)	(2,022,921)
Increase (decrease) in advance receipts	13,634	102
Increase (decrease) in receipts under custody	(1,199,831)	1,221,313
Increase (decrease) in other payables	(120,360)	(75,949)
Increase (decrease) in other financial liabilities - current	(1,407,114)	1,693,610
Increase (decrease) in other financial liabilities - non-current	(2,357)	129,426
Increase (decrease) in provision - current	15,714	137
Increase (decrease) in other current liabilities	5,755	(4,583)
Increase (decrease) in other non-current liabilities	(708)	2,305
<b>Total net changes in liabilities from operating activities</b>	12,885,937	13,268,143
<b>Total net changes in assets and liabilities from operating activities</b>	(1,121,397)	3,664,356
<b>Total Cash generated from adjustment items</b>	(2,532,106)	2,452,786

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CON'D)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(Expressed In Thousands of New Taiwan Dollars)**

	<b>2016</b>	<b>2015</b>
Cash generated by operating activities	\$ (859,873)	4,486,821
Interest received	1,624,466	1,633,353
Dividends received	208,790	178,746
Interest paid	(269,740)	(202,599)
Income tax paid	(128,279)	(117,480)
<b>Net cash provided by (used in) operating activities</b>	<b>575,364</b>	<b>5,978,841</b>
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of financial assets available-for-sale	-	30,229
Decrease (increase) of deferred debits	(1,902)	(3,329)
Acquisition of investments under equity method	-	(59,860)
Decrease (increase) in financial assets measured at cost	(37,139)	8,750
Acquisitions of property and equipment	(125,995)	(198,281)
Proceeds from disposal of property and equipment	-	225,514
Acquisitions of intangible assets	(17,116)	(34,604)
Acquisitions of investment property	-	(260)
<b>Net cash provided by (used in) investing activities</b>	<b>(182,152)</b>	<b>(31,841)</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowing	2,445,241	(865,839)
Increase (decrease) in long-term liabilities - current portion	-	(500,000)
Increase (decrease) in commercial paper payable	-	(1,749,717)
Acquisition of treasury stocks	(858,314)	(939,569)
Cash dividends	(1,235,768)	(1,495,225)
Disposal of ownership interests in subsidiaries (without losing control)	-	24,215
<b>Net cash provided by (used in) financing activities</b>	<b>351,159</b>	<b>(5,526,135)</b>
Effect of exchange rate changes on cash and cash equivalents	(47,454)	78,050
Increase (decrease) in cash and cash equivalents	696,917	498,915
Cash and cash equivalents, beginning of the year	4,726,498	4,227,583
Cash and cash equivalents, end of the year	<b>\$ 5,423,415</b>	<b>4,726,498</b>

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

**(English Translation of Financial Report Originally Issued in Chinese)**  
**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL REPORT**  
**DECEMBER 31, 2016 AND 2015**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS UNLESS OTHERWISE STATED)**

**1. OVERVIEW**

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988, The address of the Company’s registered office is 4th Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2016, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of December 31, 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; and;
- (16) Other relevant services as approved by the authority in charge.

**2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL REPORT**

The consolidated financial statements were authorized for issuance by the board of directors on March 27, 2017.

**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, from year 2017 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 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

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

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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 above IFRSs would not have any material impact on the consolidated financial statements.

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

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has not announced the effective dates of other new IFRSs.

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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
Amendments to IFRS 4 "Insurance Contracts" ("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts")	January 1, 2018
Annual Improvements to IFRSs 2014 - 2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
Interpretations to IFRS 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 "Transfer of Investment Property"	January 1, 2018

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

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

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	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 principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: <ul style="list-style-type: none"> <li>• 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.</li> <li>• Impairment: The expected credit loss model is used to evaluate impairment.</li> <li>• Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.</li> </ul>
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: <ul style="list-style-type: none"> <li>• 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.</li> <li>• A lessor classifies a lease as either a</li> </ul>

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

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
September 11, 2014	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	<p>finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</p> <p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <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	Amendments 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 in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.</p>
December 8, 2016	Interpretations to IFRs 22 "Foreign Currency Transactions and Advance Consideration"	<p>IFRIC 22 clarifies the transaction date used to determine the exchange rate. The transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration.</p>
December 8, 2016	Amendments to IAS 40 "Transfer of Investment Property"	<p>The amendments specify that a transfer into, or out of, investment property would be made only when there has been a change in use of a property, supported by evidence that a change in use has occurred. The amendments also clarify that the list of circumstances that provide evidence of a change in use set out in paragraph 57 (a)-(d) of IAS 40 contains examples and is not an exhaustive list.</p>



## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies presented in the consolidated financial statements are summarized as follows. The significant accounting policies have been applied consistently to all periods presented in the financial statements.

(1) Statement of compliance

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

(2) Basis of preparation

A. Basis of measurement

The consolidated financial report has been prepared on a historical cost basis except for the following material items of balance sheet:

- a. Financial instruments measured at fair value through profit or loss (including derivative instruments);
- b. Financial assets available for sale that are measured at fair value; and
- c. The defined benefit asset is recognized as plan assets, plus unrecognized actuarial loss, less unrecognized actuarial gain and the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The consolidated financial report is presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Total profit or losses of subsidiaries applicable to the non-controlling interests are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

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

B. List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

Name of the Investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			Dec 31, 2016	Dec 31, 2015	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00%	100.00%	The corporation established in February, 1990 with the paid-in capitals amounted to \$70,000.
"	CSC International Holdings Ltd.	Long-term equity investment business.	100.00%	100.00%	The corporation established in March, 1996, with the paid-in capitals amounted to US\$45,000 thousand
"	Capital Futures Corp.	Engaged in domestic and foreign futures business.	59.01%	59.01%	The corporation established in February, 1997 with the paid-in capitals amounted to \$1,223,979.
"	CSC Venture Capital Corp	Venture Capital and consulting business	100.00%	-	The corporation established in January, 2016 with the paid-in capitals amounted to \$1,000,000.
"	Taiwan International Futures Corp.	Management and consulting business	99.99%	99.99%	Liquidation in progress.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for international securities business	100.00%	100.00%	The paid-in capitals amounted to US\$9,516 thousand.
"	Taiwan International Securities Investment Consulting Corp.	Management and consulting business	99.92%	99.92%	Liquidation in progress.
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business.	97.27%	95.00%	The corporation established in December, 1998. Acquired 100% of the equity on November 1, 2012, disposed 5% on April 30, 2015 and increased capital HK\$100,000 thousands to acquire additional 2.27% equity on December 12, 2016. As of December 31, 2016, the paid-in capitals amounted to HK\$220,000 thousands.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00%	100.00%	The corporation established in December, 2014. As of December 31, 2016, the paid-in capitals amounted to \$50,000.
Capital International Technology Corp.	Capital True Partner Co., Ltd	Management, consulting and information service business.	51.00%	51.00%	The corporation established on August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of December 31, 2016, the paid-in capitals amounted to CNY\$1,000 thousands.
"	Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	100.00%	-	The corporation established in October, 2016. The paid-in capitals amounted to CNY\$4,000 thousands were completed at January 10, 2017.

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

Name of the Investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			Dec 31, 2016	Dec 31, 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	The corporation established in May, 1994.
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00%	100.00%	The corporation 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) Ltd.	Long-term equity investment business.	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) Ltd.	Taiwan International Capital (HK) Ltd.	Direct investment	100.00%	100.00%	"

**C. Subsidiaries not listed in the consolidated financial statements**

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			Dec 31, 2016	Dec 31, 2015	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00%	100.00%	The corporation 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 December 31, 2016 and 2015, the total assets constituted 0.06% and 0.06% of the Group's total assets. For the year end December 31, 2016 and 2015, the operation revenue were merely 1.74% and 1.13% of the consolidated revenue which were so immaterial, thus they were excluded from the consolidated financial statement.
	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	100.00%	100.00%	The corporation 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 December 31, 2016 and 2015, the total assets constituted 0.13% and 0.11% of the Group's total assets. For the year end December 31, 2016 and 2015, the operation revenue were merely 3.94% and 2.76% of the consolidated revenue which were so immaterial, thus they were excluded from the consolidated financial statement.

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

(4) Foreign currency

A. Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available-for-sale equity investment, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges which are recognized in other comprehensive income arising on the retranslation.

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(5) Classification of current and non-current assets and liabilities

Assets that meet one of the following criteria are classify as current assets, otherwise classify as non-current assets.

- A. Assets arising from operating activities that are expected to be realized, or are intend to be sold or consumed within the normal operating cycle;
- B. Assets held primarily for the purpose of trading;
- C. Assets that are expected to be realized within twelve months from the balance sheet date;
- D. Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

Liabilities that meet one of the following criteria are classify as current liabilities, otherwise classify as non-current liabilities.

- A. Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
- B. Liabilities arising primarily for the purpose of trading;
- C. Liabilities that are to be settled within twelve months from the balance sheet date;

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

- D. Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash comprises cash on hand, demand deposits and check deposits.

Cash equivalent comprises of time deposit with maturity within 1 year, excess future margin, commercial paper and short-term, highly liquid investments. For an investment to qualify as a cash equivalents it must readily convertible to a known amount of cash and be subjected to an insignificant risk of changes in value.

(7) Financial instruments

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

A. Financial assets

The Group classifies financial assets into the following categories: financial assets measured at fair value through profit or loss, financial assets available for sale, held-to-maturity financial assets, and loans and receivables.

a. Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of disposal or repurchasing in the short term. This type of financial asset is measured at fair value at the time of initial recognition, and transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value subsequently and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss. A regular way of purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

b. Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Financial assets available for sale are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss. A regular transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment losses, and are included in financial assets measured at cost.

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

c. Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. A regular transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

d. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable and other receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables. A regular transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

e. Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the company on terms that the company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial assets carried at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment loss on financial assets available for sale is recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial assets measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment loss recognized on an available-for-sale equity security is not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

f. **Derecognition of financial assets**

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity- unrealized gain or loss on financial assets available for sale is recognized in profit or loss.

The Group separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss.

A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

**B. Financial liabilities**

a. **Financial liabilities measured at fair value through profit or loss**

A financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and transaction costs are recognized in profit or loss as incurred. Financial liabilities measured at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss.

b. **Other financial liabilities**

Financial liabilities not classified as held-for-trading or designated as measured at fair value through profit or loss, which comprise accounts payable and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

c. Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

d. Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

C. Derivative financial instruments

Derivatives are recognized initially at fair value and transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss

a. Interest rate swaps

Since there is no physical transfer of principal, only memo entries of notional principals are made of interest rate swaps. For non-trading swaps, differences in interest are included in current earnings. Trading swaps are recognized on the balance sheet in their fair value. Realized and unrealized changes in their fair value are included in current earnings at the time of occurrence.

b. Convertible bond asset- backed swaps

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The contract amount for the counter-parties receiving the convertible bond is the notional principal. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counter-parties. The Company also receives the right to call the convertible bond prior to the expiration of the contract.

The rights to call the convertible bond can be sold to third parties and counter-parties, are reflected under asset-backed options.

c. Structured instruments

The portfolio of structured instruments contract is fixed income products and financial derivatives instruments, including main-contract of non-derivatives and embedded derivatives, those shall be recognized separately. The principal value of structured instruments is the present value of fixed income products, measured at amortized cost, and recognized imputed interest with effective interest rate over the duration of contracts. Embedded derivatives are measured at fair value, and the changes in fair value are recognized through profit or loss.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are securities held for trading (including stocks, bonds and warrants) or options contracts, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are futures contracts, the accounting policy is referred to futures hedging transactions.



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d. Interest options

On the contract date, the premium received from the counterparty is recognized and gain or loss on interest options is valued using the fair value method.

e. Bond options

Over the duration of contracts, the notional principal can be executed is recorded as memo entry. Option contracts are valued at fair market value on the balance sheet date and current gain or loss is recorded. If the options are exercised and underlying bonds are been acquired or delivered, bond selling revenue or purchase costs are recorded at their fair market value. The exercise prices calculated in accordance with interest rate are recorded as receivables or payables.

f. Equity options

The buyer and seller of equity options recognized equity derivatives assets and liabilities at trading date according to fair value. Equity options are valued at fair value and the difference between book value and fair value are recognized through profit or loss over the duration of contracts.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are stocks, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are stock index options or stock options, the accounting policy is referred to those hedging transactions.

g. Forward rate agreement

As there is no principal is transferred, forward rate agreement is only recorded as memo entry on the contract date. Forward rate agreement contract is valued at fair value and recognized the gain or loss on forward rate agreement.

h. Futures contracts and options

Margins are required when trading futures or options. Changes in the margin balance of futures and options due to daily valuation are reflected under "futures margin-proprietary trading" and "call options" or "put options." When offsetting a futures or options position, the settlement difference is included in current earnings, and the difference between the settlement prices and average prices of open positions at the balance sheet date is also included in current earnings.

i. Stock warrants

Issuance of stock warrants should be recognized as a liability according to amounts actually received, and amounts paid in the repurchase of stock warrants previously issued should be listed as a deduction from liabilities.

(8) Margin loan, short sale and refinancing

Margin loan represents loans extended to customers and is accounted for as receivables for securities provided as collateral. Such loans are secured by the securities purchased by customers. These securities are recorded through memo entries and are returned when the loans are repaid.

Short sale represents securities lent to customers and the deposits received from customers on securities lent out are accounted to guarantee deposited for securities lent. The proceeds from sales of securities lent to customers, net of securities transaction tax, commission and financing charges, is retained by the Group and are recorded under the proceeds payable from securities lent. These securities lent to customers for short sales are recorded through memo entries. The deposits received and the proceeds from short sale will be returned to customers while the

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securities are returned and paid off.

Refinancing margin loan means that the Group operates margin loan business, if capital is insufficient, the Group can refinance from securities finance companies, recorded as borrowed funds refinanced, and securities from margin loan are regarded pledged.

Refinancing short sale means the Group operates short sale business, if securities are insufficient, the Group can borrow securities from securities finance companies. For securities refinancing, the Group pays margin deposits to securities finance companies and these margin deposits are recorded as refinancing margin. The proceeds from the short sale of securities borrowed from securities finance companies is retained by the securities finance companies as collateral which are recorded as proceeds payable from securities lent and receivable on refinancing collateral, respectively.

(9) Bonds and Bills with resell and repurchase agreements

When bonds are repurchased, they are reflected under “bonds sold under repurchase agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest expense. When bonds are resold, they are reflected under “bonds purchased under resell agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest revenue.

When bonds purchased under resell agreements are resold, the amounts are recognized under “bonds purchased under resell agreements-short sales”. Unrealized gain or loss arising from the valuation at the balance sheet date is recognized under “gain or loss on valuation of borrowed securities and bonds with resell agreements”. Gain or loss arising from covering at maturity is recognized under “gain or loss on covering of borrowed securities and bonds with resell agreements”.

(10) Customers’ margin accounts and futures customers’ equity

Receiving margin deposits from customers for futures transactions as requirements is in accordance with the regulations. Customers’ margin account balances are calculated daily by marking to market the open positions of each customer and determining the required margin levels, recognized as current assets in the balance sheet. Margin deposits received from customers for futures transactions and futures customers’ equity calculated daily by marking to market, recognized as current liabilities in the balance sheet. Futures customers’ equity cannot be offset unless these accounts pertain to the same customers.

(11) Securities borrowing transactions

Engage in securities borrowing transactions, the amount of the sale of securities borrowing recognized liability, and to distinguish hedging and non-hedging purposes, in accordance with stocks and bonds. The amount paid to redeem shares or bonds borrowed, as a deduction of the subjects, the collateral paid in cash recorded as security borrowing margin, short sales delivered for securities market financing recorded as security borrowing collateral price.

(12) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

When the Group disposes associates and lose the significant influence over the associates, any remaining investments are measured at the fair value. The difference between the fair value of remaining investments in associates plus the proceeds from disposing associates and the carrying amount of remaining investment in associates when the Group loses its significant influence is recognized in profit or loss. The amount related to associates and recognized in other comprehensive income is reclassified as profit or loss from equity.

If the investments in associates become the investment in joint ventures, or vice versa, the Group is accounted for using the equity method consistently and does not remeasure the retained equity.

If the Group does not subscribe the new issuance of capital based on holding percentage and result in a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus and investments under equity method. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments under equity method is insufficient, the shortage is debited to retained earnings. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis.

#### **(13) Property and equipment**

##### **A. Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from disposal property and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other income and expenses.

##### **B. Reclassification to investment property**

The property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

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C. Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

D. Depreciation

The depreciable amount of an asset is determined after deducting its residual values, and it shall be allocated on a systematic basis over its useful life. Items of property and equipment with the same useful life may be companied in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

a. Buildings	3~55 years
b. Transportation equipment	5 years
b. Transportation equipment	3~5 years
d. Miscellaneous equipment	5~10 years
e. Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease period.	

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If the expected value differs from the previous estimation, the change regards as changes in accounting estimation.

(14) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, supply of services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost as well, the depreciation method, useful life and residual values are as same as the regulations of “property and equipment”. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(15) Intangible assets

A. Goodwill

a. Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

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b. Subsequent measurement

Goodwill is measured in accordance with cost less accumulated impairment loss. Investments under Equity Method, the carrying amount of goodwill included in the carrying amount of investments and impairment loss of such investments are not allocated to goodwill and any assets, Equity Method as part of the carrying amount of the investment.

B. Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

C. Amortization

The amortizable amount is the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, operation franchise and the seats of foreign futures exchanges with all indefinite useful lives, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

a. Customer relationships: 5 years

b. Computer software cost and dial-up service charges: 3 years

The residual value, the amortization method and the amortization period should be evaluated at least at each financial year-end. The changes of the amortization method and the period shall be accounted for as changes in accounting estimation.

(16) Leases

A. Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

B. Lessee

Operating leases are not recognized in the Group's statement of balance sheet. Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in expenses on a straight-line basis over the term of the lease. Lease incentives received are recognized as deductions of the total lease expense, over the term of the lease. Lease payments under operating lease shall be recognized in rent expenses and disclosed in financial report.

(17) Non-financial assets impairment

The Group assesses whether there is any objective evidence of impairment for non-financial assets on each reporting date except for deferred tax assets and assets arising from employee benefits and estimates the recoverable amounts for any impaired assets. If it is not possible to determine the recoverable amount for an individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable

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amount and recognized as impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior period.

The intangible assets with indefinite useful lives required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

(18) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are should be deducted. The discount rate is the yield at the reporting date market yields of government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. The recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Re-measurement comprises (a) actuarial gains and losses; (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) changes in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). Re-measurement arising on defined benefit plans is recognized in other comprehensive income in the period in which they arise and are recorded as retain earning.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, and any change in the present value of the defined benefit obligation.

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C. Termination benefits

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminating the employment of employees before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefit is expensed at the earlier of the date when the entity can no longer withdraw the offer of the termination benefits and the date when the entity recognizes related restructuring costs. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

D. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(19) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(20) Revenue recognition

A. Brokerage commissions

Handling fee revenue from trade brokerage, security financing or securities lending is recognized on an accrual basis.

B. Underwriting commissions

Revenue from underwriting business is recognized when the underwriting contract is completed; revenue from underwriting securities on a firm commitment basis is recognized when the payment received after underwriting securities, and revenue from underwriting consultation is recognized according to the period specified in the underwriting consultation contract.

C. Interest revenue

Interest revenue arising from security financing, margin loans and other operation related interest is recognized on an accrual basis.

(21) Income tax

Income tax expenses include both current income taxes and deferred income taxes. Except for business combination, expenses recognized directly in equity or other comprehensive income, all current and deferred income taxes shall be recognized in profit or loss.

Current income taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

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Deferred income taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income taxes shall not be recognized for the exceptions below:

- A. Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- B. Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- C. Initial recognition of goodwill.

Deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities may be offset against each other if the following criteria are met:

- A. The entity has the legal right to settle tax assets and liabilities on a net basis; and
- B. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
  - a. levied by the same taxing authority; or
  - b. levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred income tax asset should be recognized for an unused tax loss carry-forward or unused tax credit if, and only if, it is considered probable that there will be sufficient future taxable profit against which the loss or credit carry-forwards can be utilized. The carrying amount of deferred income tax assets should be reviewed and adjusted at the end of each reporting period.

The Group's 10% surtax on unappropriated earnings is recorded as current expense after the date of the resolution of stockholders' meeting for declaring the distribution of earnings.

Income tax of overseas subsidiaries is estimated in accordance with local regulation. Income tax of the Group is the sum of the income tax of subsidiaries in the consolidated financial statements.

(22) Business combinations

The Group only chose to restate the business combinations occurred after January 1, 2012, upon the transition from ROC GAAP to IFRSs endorsed by FSC are approved, with regard to acquisition before January 1, 2012, the amount should be recognized as Regulations Governing the Preparation of Financial Reports released by Securities Issuers as of January 10, 2009 and Statement of Financial Accounting Standards announced by Accounting Research and Development Foundation

(23) Earnings per share (EPS)

The Group presents its basic and dilutive earnings per share attributable to the ordinary equity holders. The basic earnings per share of the Group is calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Group, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Group include the estimation of employee remuneration.



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

(24) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

(25) Treasury stocks

The Group acquires its outstanding shares is stated at cost and shown as a deduction in stockholders' equity. Upon disposal, the excess of sales price over carrying value is recognized as capital surplus – treasury stock transaction. Should sales price be lower than the carrying value, the difference is charged against capital surplus from treasury stocks in the same category, and any deficit is debited to retained earnings. The carrying value of treasury stocks is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Group's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The carrying value of treasury stock in excess of the sum of its par value and premium on stock should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. The sum of the par value and premium on treasury stock in excess of its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

**5. MAJOR SOURCES OF ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY**

The preparation of the consolidated financial statements in conformity with Regulations Governing the Preparation of Financial Reports by Securities Firms, IFRSs (approved by the FSC), and IFRIC 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.

The preparation of the separate financial statements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next 12 months are included in the following notes:

The impairment of goodwill: The Group performed the impairment test of goodwill annually. The recoverable amount of the cash-generating unit was based on the value in use. The Group chose the appropriate discount rate and estimated the expected cash flows of the cash-generating unit.

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

**6. SUMMARY OF MAJOR ACCOUNTS**

(1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash	\$ 2,850	3,140
Bank deposits		
Checking accounts	58,106	48,103
Demand deposits	422,816	177,236
Time deposits	2,143,168	1,768,772
Foreign currency deposits	1,978,038	1,111,031
Subtotal	<u>4,602,128</u>	<u>3,105,142</u>
Futures margin - excess margin	818,437	1,463,300
Commercial paper	-	154,916
Subtotal	<u>818,437</u>	<u>1,618,216</u>
Total	<u>\$ 5,423,415</u>	<u>4,726,498</u>

(2) Financial assets

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<b>Open-ended funds and money-market instruments</b>		
Open-ended funds and money-market instruments	\$ 1,201,307	690,994
Valuation adjustment	(21,007)	10,561
Subtotal	<u>1,180,300</u>	<u>701,555</u>
<b>Investment in securities</b>		
Investment in securities	-	5,439
Valuation adjustment	-	(121)
Subtotal	<u>-</u>	<u>5,318</u>
<b>Trading securities - proprietary trading</b>		
Listed stocks	626,599	1,430,952
Listed funds	798,932	509,244
OTC stocks	249,061	156,121
Emerging market stocks	259,637	177,697
Emerging fund	7,964	7,424
Convertible corporate bonds	455,796	345,901
Government bonds	4,041,386	2,823,467
Corporate bonds	11,801,410	11,993,037
Financial debentures	1,659,501	752,998
Foreign stocks	269,804	478,309
Overseas bonds	64,320	164,321
Other	32,603	29,989
	<u>20,267,013</u>	<u>18,869,460</u>
Valuation adjustment	42,273	62,485
Subtotal	<u>20,309,286</u>	<u>18,931,945</u>
<b>Trading securities - underwriting</b>		
Listed stocks	43,898	42,209
OTC stocks	11,396	-
Convertible corporate bonds	57,200	51,400
	<u>112,494</u>	<u>93,609</u>
Valuation adjustment	2,140	1,223
Subtotal	<u>114,634</u>	<u>94,832</u>

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<b>Trading securities - hedging</b>		
Listed stocks	1,810,735	1,573,401
OTC stocks	446,088	470,773
Convertible corporate bonds	3,437,205	3,948,040
Foreign stocks	<u>1,092</u>	<u>1,114</u>
	5,695,120	5,993,328
Valuation adjustment	<u>(38,606)</u>	<u>(105,180)</u>
Subtotal	<u>5,656,514</u>	<u>5,888,148</u>
<b>Derivatives</b>		
Call options	68,562	50,244
Interest rate swaps	4,942	-
Futures margin - proprietary fund	352,755	270,282
IRS asset swaps	20,743	22,878
Asset swap options - long position	5,682	11,940
Currency derivatives	3	-
Structured notes	3	-
Currency swaps	<u>16,584</u>	<u>8,482</u>
Subtotal	<u>469,274</u>	<u>363,826</u>
Total	<u><b>\$ 27,730,008</b></u>	<u><b>25,985,624</b></u>

As of December 31, 2016 and 2015, the par value of trading securities - bonds under repurchase agreement of the Group were \$35,926,059 and \$23,993,535, respectively, please refer to Note 6(11) and 8 for details.

B. Financial assets available for sale - current:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Listed stocks	\$ 221,734	101,535
OTC stocks	162,878	-
Emerging market stocks	29,482	-
Overseas bonds	18,904,893	7,757,004
Valuation adjustment	<u>18,891</u>	<u>(23,084)</u>
Total	<u><b>\$ 19,337,878</b></u>	<u><b>7,835,455</b></u>

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<b>Financial assets held for trading:</b>		
Government bonds	\$ 185,799	188,818
Valuation adjustment	<u>274</u>	<u>1,736</u>
Total	<u><b>\$ 186,073</b></u>	<u><b>190,554</b></u>

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

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

<u>Name of investee</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
CME Group Inc.	\$ 33,733	33,733
Valuation adjustment	<u>42,528</u>	<u>27,233</u>
Total	<u><b>\$ 76,261</b></u>	<u><b>60,966</b></u>

The purpose for obtaining the stock of CME Group Inc. is to acquire the membership of foreign futures exchange. The Group disposed of 10,004 shares of stock of CME Group Inc. on December 29, 2015, which resulted in a gain on disposal of this investment of \$13,769.

For year 2016 and 2015, due to changes in fair value, the Group had recognized \$14,922 and \$5,446 in other comprehensive income, respectively. The amount reclassified from equity to net income (losses) is \$0 and \$(13,691), respectively.

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

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

<u>Non-listed (or non-over-the-counter)</u>	<u>December 31, 2016</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,117
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%	34,258
Prudence Venture Investment Corp.	1.50%	35,365
Chanyee Hotelday Co., Ltd.	7.41%	30,000
Miho International Co., Ltd.	1.83%	46,000
Total		<u>\$ 448,460</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>

For the year ended December 31 2016 and 2015, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$36,750 and \$7,000 respectively, and Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$2,012 and \$1,750 respectively.

The Group acquired shares of Miho International Co., Ltd., Jason's Entertainment Co., Ltd. and Chanyee Hotelday Co., Ltd. in January, March and November, 2016, 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 in ten days 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. Year 2016 and 2015 VAR (99%, per 10-day) of equity stocks are as follows:

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

Type of market risk	December 31,		2016			2015		
	2016	2015	Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	641,484	750,181	692,555	821,890	596,609	793,730	970,662	620,732

(3) Accounts Receivable

	December 31, 2016	December 31, 2015
Receivable on securities purchased by customers	\$ 22,024	40,724
Settlement	-	50,397
Interests receivable	494,248	452,745
Receivables of settlements	3,503,940	4,206,290
Others	89,525	238,944
Subtotal	4,109,737	4,989,100
Less: allowance for doubtful accounts	(3,424)	(4,123)
Total	<u>\$ 4,106,313</u>	<u>4,984,977</u>

(4) Customers' margin account / Futures traders' equity

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

	December 31, 2016	December 31, 2015
Customers' margin account		
Cash in banks	\$ 18,011,775	\$ 12,530,482
Customers' margin account - futures clearing house	2,126,035	1,280,830
Customers' margin account - other futures commission merchants	3,030,438	2,492,357
Marketable securities	1,594	1,087
Total customers' margin account	<u>\$ 23,169,842</u>	<u>16,304,756</u>
Adjustment :		
Add:		
Others	1	-
Less:		
Commission revenue	(30,670)	(10,454)
Futures transaction tax	(1,045)	(792)
Interest revenues	(1,200)	(334)
Remittance amount of the customers after the market closed	(1,749)	(4,330)
Temporary receipts	(134)	(188)
Others	(2,814)	(1,346)
Futures traders' equity	<u>\$ 23,132,231</u>	<u>16,287,312</u>

(5) Investments under Equity Method

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

	December 31, 2016	December 31, 2015
Subsidiaries		
Capital Insurance Advisory Corp.	\$ 104,489	72,720
Capital Insurance Agency Corp.	52,200	48,274
Subtotal	<u>156,689</u>	<u>120,994</u>
Associates		
True Partner Advisor Hong Kong Ltd.	41,516	36,681
Total	<u>\$ 198,205</u>	<u>157,675</u>

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

A. Subsidiaries:

Profit sharing of gain or loss from the subsidiaries for the year 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Based on the audited financial statements	<u>\$ 101,682</u>	<u>74,781</u>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Total assets	<u>\$ 194,974</u>	<u>157,581</u>
Total liabilities	<u>\$ 38,285</u>	<u>36,587</u>
	<u>2016</u>	<u>2015</u>
Revenue	<u>\$ 360,440</u>	<u>256,723</u>
Net income	<u>\$ 101,682</u>	<u>74,781</u>

B. Associates:

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

<u>Name of associate</u>	<u>Nature between the Company</u>	<u>Primary business area and registered country</u>	<u>% of Ownership and Voting Rights</u>	
			<u>2016.12.31</u>	<u>2015.12.31</u>
True Partner Advisor Hong Kong Ltd.	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:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Total carrying amount of the associates that were not individually material	<u>\$ 41,516</u>	<u>36,681</u>
	<u>2016</u>	<u>2015</u>
Attributable to the Group:		
Net gains (losses) from continuing operations	<u>\$ 5,035</u>	<u>(6)</u>
Other comprehensive loss	<u>(200)</u>	<u>(14)</u>
Total comprehensive income	<u>\$ 4,835</u>	<u>(20)</u>

C. Collateral

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

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

(6) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvement</u>	<u>Total</u>
<b>Cost or deemed cost</b>					
Balance at January 1, 2016	\$ 3,709,682	1,956,866	624,246	97,963	6,388,757
Additions	-	-	76,072	49,900	125,972
Reclassified to investment property	(1,740)	(1,290)	-	-	(3,030)
Disposals & retirements	-	(263,557)	(110,580)	(13,811)	(387,948)
Effect of exchange rate changes	-	(2,019)	(1,917)	(220)	(4,156)
<b>Balance at December 31, 2016</b>	<b><u>\$ 3,707,942</u></b>	<b><u>1,690,000</u></b>	<b><u>587,821</u></b>	<b><u>133,832</u></b>	<b><u>6,119,595</u></b>
Balance at January 1, 2015	\$ 3,901,181	2,023,090	575,904	307,761	6,807,936
Effect of acquisition of subsidiary	-	-	6,472	150	6,622
Additions	-	255	165,958	32,068	198,281
Reclassified to investment property	(25,048)	(70,605)	-	-	(95,653)
Transferred from prepayment for equipment	-	-	4,830	2,680	7,510
Disposals & retirements	(166,451)	-	(131,457)	(245,079)	(542,987)
Effect of exchange rate changes	-	4,126	2,539	383	7,048
<b>Balance at December 31, 2015</b>	<b><u>\$ 3,709,682</u></b>	<b><u>1,956,866</u></b>	<b><u>624,246</u></b>	<b><u>97,963</u></b>	<b><u>6,388,757</u></b>
<b>Depreciation and impairment loss</b>					
Balance at January 1, 2016	\$ -	804,241	363,129	43,981	1,211,351
Depreciation	-	34,063	108,889	22,578	165,530
Reclassified to investment property	-	(702)	-	-	(702)
Disposals & retirements	-	(263,557)	(109,770)	(10,419)	(383,746)
Effect of exchange rate changes	-	(756)	(1,724)	(181)	(2,661)
<b>Balance at December 31, 2016</b>	<b><u>\$ -</u></b>	<b><u>573,289</u></b>	<b><u>360,524</u></b>	<b><u>55,959</u></b>	<b><u>989,772</u></b>
Balance at January 1, 2015	\$ -	766,342	382,074	269,313	1,417,729
Effect of acquisition of subsidiary	-	-	5,814	121	5,935
Depreciation	-	38,323	104,119	19,155	161,597
Reclassified to investment property	-	(1,872)	-	-	(1,872)
Disposals & retirements	-	-	(131,037)	(244,919)	(375,956)
Effect of exchange rate changes	-	1,448	2,159	311	3,918
<b>Balance at December 31, 2015</b>	<b><u>\$ -</u></b>	<b><u>804,241</u></b>	<b><u>363,129</u></b>	<b><u>43,981</u></b>	<b><u>1,211,351</u></b>
Carrying amount:					
December 31, 2016	<b><u>\$ 3,707,942</u></b>	<b><u>1,116,711</u></b>	<b><u>227,297</u></b>	<b><u>77,873</u></b>	<b><u>5,129,823</u></b>
December 31, 2015	<b><u>\$ 3,709,682</u></b>	<b><u>1,152,625</u></b>	<b><u>261,117</u></b>	<b><u>53,982</u></b>	<b><u>5,177,406</u></b>

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

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

(7) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
<b><u>Cost or deemed cost</u></b>			
Balance at January 1, 2016	\$ 1,255,460	862,610	2,118,070
Transferred from property and equipment	1,740	1,290	3,030
Disposal & retirements	-	(125,195)	(125,195)
<b>Balance at December 31, 2016</b>	<b><u>\$ 1,257,200</u></b>	<b><u>738,705</u></b>	<b><u>1,995,905</u></b>
Balance at January 1, 2015	\$ 1,230,412	791,745	2,022,157
Additions	-	260	260
Transferred from property and equipment	25,048	70,605	95,653
<b>Balance at December 31, 2015</b>	<b><u>\$ 1,255,460</u></b>	<b><u>862,610</u></b>	<b><u>2,118,070</u></b>
<b><u>Depreciation and impairment loss</u></b>			
Balance at January 1, 2016	\$ -	377,863	377,863
Depreciation	-	15,211	15,211
Transferred from property and equipment	-	702	702
Disposal & retirements	-	(125,195)	(125,195)
<b>Balance at December 31, 2016</b>	<b><u>\$ -</u></b>	<b><u>268,581</u></b>	<b><u>268,581</u></b>
Balance at January 1, 2015	\$ -	358,212	358,212
Depreciation	-	17,779	17,779
Transferred from property and equipment	-	1,872	1,872
<b>Balance at December 31, 2015</b>	<b><u>\$ -</u></b>	<b><u>377,863</u></b>	<b><u>377,863</u></b>
<b><u>Carrying amount:</u></b>			
December 31, 2016	<b><u>\$ 1,257,200</u></b>	<b><u>470,124</u></b>	<b><u>1,727,324</u></b>
December 31, 2015	<b><u>\$ 1,255,460</u></b>	<b><u>484,747</u></b>	<b><u>1,740,207</u></b>
<b><u>Fair value</u></b>			
December 31, 2016			<b><u>\$ 2,740,795</u></b>
December 31, 2015			<b><u>\$ 2,846,381</u></b>

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.

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

(8) Intangible assets

A. Goodwill

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

For the purpose of impairment test, goodwill was allocated to the operating segments of the Company. The operating segment is the lowest level at which the goodwill is monitored for internal management purposes, and should not be larger than the operating departments of the Company.

Goodwill is allocated to the operating segments as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	1,557,096	1,557,096
<b>Total</b>	<b><u>\$ 3,126,698</u></b>	<b><u>3,126,698</u></b>



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

Recoverable amount of the cash-generating units is assessed by the value in use, which is the present value of the future cash flows expected to be derived from the cash-generating unit. In measuring value in use, the key assumptions are as follows.

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 4.32% and 5% in year 2016 and 2015 respectively. But the cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of both year 2016 and 2015 exceeded the carrying amount, no impairment occurred for both years.

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. For the year 2016 and 2015, the book value of goodwill was \$ 22,088 for both years.

**B. 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 December 31, 2016 and 2015, the amortized book value was \$0 and \$1,139, respectively.

**C. Operation franchise**

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS No.38 "Intangible Assets," the franchise is regarded as intangible assets with an indefinite useful life. As of December 31, 2016 and 2015, the book value of the operation franchise was \$389,999 for both the year.

**D. Other intangible assets - Corporate membership at international futures exchange**

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX 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 December 31, 2016 and 2015, the book values of intangible assets were \$48,453 and \$46,427, respectively.

**E. Computer software**

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2016 and 2015, the book value was \$25,010 and \$41,166 respectively.

**(9) Short-term borrowings**

<u>Nature of borrowings</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Collateralized loan	\$ 380,000	591,444
Credit loans	3,856,402	1,199,717
Total	<u>\$ 4,236,402</u>	<u>1,791,161</u>

Short-term borrowings were based on floating interest rates. As of December 31, 2016 and 2015, the loan interest rate range was 0.60%~2.75% and 0.90%~3.06% respectively.

As of December 31, 2016 and 2015, the Group had provided the land, buildings, and certificates of time deposits as collateral, please refer to Note 8 for details.

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

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Financial liabilities held for trading :		
Liabilities on sale of borrowed securities	\$ 1,009,334	1,508,137
Redeem liabilities on sale of borrowed securities	(4,632)	(1,566)
Valuation adjustment	(66,653)	(30,461)
Subtotal	<u>938,049</u>	<u>1,476,110</u>
Settlement coverage bonds payable of short sale	-	300,550
Valuation adjustment	-	(1,146)
Subtotal	<u>-</u>	<u>299,404</u>
Stock warrants issued	10,892,801	10,530,591
Stock warrants repurchased	(10,617,763)	(10,170,444)
Subtotal	<u>275,038</u>	<u>360,147</u>
Put options	66,693	57,261
IRS asset swaps	1,974	5,398
Asset swap options - short position	177,405	193,888
Structured notes	7,515	12,243
Currency derivatives	1	-
Currency swaps	9,089	3,476
Interest rate swaps	-	1,528
Subtotal	<u>262,677</u>	<u>273,794</u>
Total	<u><b>\$ 1,475,764</b></u>	<u><b>2,409,455</b></u>

(11) Bonds sold under repurchase agreements

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Bonds sold under repurchase agreements	<u><b>\$ 34,956,642</b></u>	<u><b>23,576,243</b></u>
Agreed-upon repurchase amounts	<u><b>35,002,716</b></u>	<u><b>23,598,443</b></u>
Interest rates	<u><b>0.30%~9.00%</b></u>	<u><b>0.30%~5.00%</b></u>
Date of repurchase	<u><b>2017.1.3~2017.3.30</b></u>	<u><b>2016.1.4~2016.6.20</b></u>

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

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Customer equity of separate account ledger in settlement account	<u><b>\$ 4,537</b></u>	<u><b>4,104</b></u>

(13) Accounts payable

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Payable of securities sold by customers	\$ 21,890	34,151
Settlement price	49,986	-
Payable of settlements	3,183,985	3,573,328
Others	222,263	240,285
Total	<u><b>\$ 3,478,124</b></u>	<u><b>3,847,764</b></u>

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

(14) Operating leases

A. Lessee

Non-cancellable operating lease payables are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Within 1 year	\$ 113,003	112,176
1-5 years	185,695	177,103
Over 5 years	-	1,710
	<u><u>\$ 298,698</u></u>	<u><u>290,989</u></u>

The Group rents several offices under operating lease, the lease terms are within 1 to 5 years and the Group has the preferential renewal options when the lease term expires. The rentals are adjusted yearly to reflect market condition. Some lease terms bear the additional rental payments depends on the fluctuations of a local price index.

For the year ended December 31, 2016 and 2015, the operating lease expenses recognized in profit or loss were \$172,855 and \$195,265 respectively.

B. Lessor

The Group leases investment property to other under operating lease agreements, please refer to Note 6(7) for details. The future lease receivables under non-cancellable leases are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Within 1 year	\$ 7,663	2,091
1-5 years	63,940	109,007
	<u><u>\$ 71,603</u></u>	<u><u>111,098</u></u>

The rental revenue from investment property for the year 2016 and 2015 amounted to \$61,091 and \$49,537 respectively.

(15) Employee benefit

A. Defined benefit plans

The reconciliation in the present value of the defined benefit obligations and fair value of plan assets are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligations	\$ (1,039,300)	(1,069,335)
Fair value of plan assets	517,011	566,401
Recognized liabilities for defined benefit obligations	<u><u>\$ (522,289)</u></u>	<u><u>(502,934)</u></u>

The Group's employee benefits liabilities are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Compensated absences	<u><u>\$ 65,365</u></u>	<u><u>47,546</u></u>

Under the defined benefit plan, the Group deposited the pension fund to the labor pension preparatory special account in Bank of Taiwan. For employee subject to the Labor Standards Law, the retirement benefit are determined based on the years of services and average monthly salary in the last six-months prior to the employee's retirement.

a. Composition of plan assets

The Group set aside the pension funds in accordance with Labor Standards Act, are put under the management of the Labor Pension Fund Supervisory Committee. In regards

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

to the utilization of the fund under the “Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund”, the minimum earnings for the annual distribution shall not be less than the accrued earnings attainable from the interest rates of two year time deposit offered by the local banks.

The balance of the Group’s labor pension preparatory special account in Bank of Taiwan amounted to \$336,643 and \$270,404 as of December 31, 2016 and 2015 respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund, please refers to the information published on the website under Labor Pension Fund Supervisory Committee of the Council of Labor Affairs Executive Yuan.

The balance of employee retirement fund management committee was \$181,283 and \$296,366 as of December 31, 2016 and 2015, respectively.

b. Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Group in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Defined benefit obligation on January 1	\$ 1,069,335	1,056,772
Current service costs and interest	23,601	27,540
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in financial assumptions	12,517	21,656
-Experience adjustments	4,653	11,149
Benefits paid by the plan	(70,806)	(47,782)
Defined benefit obligation on December 31	<u>\$ 1,039,300</u>	<u>1,069,335</u>

c. Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Group in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Fair value of plan assets on January 1	\$ 566,401	583,386
Contributions made	16,747	18,542
Benefits paid from plan assets	(70,803)	(47,532)
Interest revenue	6,989	9,067
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	(2,323)	2,938
Fair value of plan assets on December 31	<u>\$ 517,011</u>	<u>566,401</u>

d. Expense recognized in profit or loss

The expenses recognized of the Group in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current service cost	\$ 10,571	11,380
Net interest of net defined benefit liabilities	6,041	7,093
Current pension cost	<u>\$ 16,612</u>	<u>18,473</u>



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

(16) Income tax

A. Income tax expense (benefit)

The amount of income tax expense (benefit) for the year 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current income tax expense		
Current year	\$ 168,692	70,491
Adjustment to the prior years' income tax	30,597	3,557
	<u>199,289</u>	<u>74,048</u>
Deferred income tax expense		
Unrealized gains (losses) on derivative financial instruments	(12,041)	33,675
Unrealized gains (losses) on foreign investments under Equity Method	(6,959)	(4,872)
Amortization of goodwill	35,436	106,308
Decrease in tax loss carried forward	-	75,935
Adjustments of the prior year's deferred income tax assets and liabilities	50,011	20,583
	<u>66,447</u>	<u>231,629</u>
Income tax expenses	<u>\$ 265,736</u>	<u>305,677</u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (6,951)</u>	<u>14,772</u>

Reconciliation of income tax expense (benefit) and income before tax in year 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Net income before tax	\$ 1,672,233	2,034,035
Income tax using the Company's domestic tax rate	\$ 336,719	391,478
Tax-exempt income	(148,673)	(109,153)
Unrecognized temporary differences for prior years	721	-
10% surtax on undistributed earnings	-	73
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(163)	(167)
Adjustments to prior years' income tax	30,597	2,756
Others	46,535	20,690
Total	<u>\$ 265,736</u>	<u>305,677</u>

B. Deferred income tax assets and liabilities

a. Recognized deferred income tax assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Tax loss carried forward and amortization of intangible assets	\$ 404,694	484,791
Unrealized losses on foreign investments under Equity Method	2,678	-
Foreign exchange difference from translating financial statements of foreign operations	25	6
Total	<u>407,397</u>	<u>484,797</u>

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

b. Not recognized deferred income tax assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unrealized losses on foreign investments under Equity Method	\$ 425	-
Tax losses carried forward	146	-
Total	<u>\$ 571</u>	<u>-</u>

The ROC Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes.

As of December 31, 2016, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

<u>Loss Year</u>	<u>Amount</u>	<u>Expiration Year</u>
2016(Estimated)	\$ 857	2026

c. Recognized deferred income tax liabilities

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Foreign exchange difference from translating financial statements of foreign operations	\$ 24,027	34,109
Unrealized gains on derivative financial instruments	34,631	46,672
Unrealized gains on foreign investments under Equity Method	-	4,281
Losses on intercompany transactions	1,639	1,639
Amortization of operation franchise	36,448	63,384
Amortization of goodwill	531,539	496,103
Land value incremental tax	47,691	47,691
Deferred income tax liabilities	<u>\$ 675,975</u>	<u>693,879</u>

C. Income tax assessment status

- The Company's income tax returns through 2014 were assessed by the Tax Authority.
- Subsidiary - Capital Investment Management Corp.'s income tax returns through 2015 were assessed by the Tax Authority.
- Subsidiary - Capital Futures Corp.'s income tax returns through 2014 were assessed by the Tax Authority.
- 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.
- Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.
- Subsidiary - Capital International Technology Corp.'s income tax returns through 2014 were assessed by the Tax Authority.

D. The information about imputation system was as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Undistributed earnings after 1998	<u>\$ 1,188,633</u>	<u>1,586,994</u>
Imputation credit account	<u>\$ 2,675,250</u>	<u>3,072,442</u>
	<u>2016 (Estimated)</u>	<u>2015 (Actual)</u>
Deductible ratio for earnings distributed to ROC residents	<u>24.20%</u>	<u>23.80%</u>

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

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

E. Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2010 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. And the different assessment of amortization of intangible assets, which resulted to decrease on loss of income tax, is in the procedures for administrative remedies. The Company disclosed the total of deferred income tax assets and liabilities separately and appropriately, based on conservative concept.

(17) Capital and other equity

A. Capital stock

As of December 31, 2016 and 2015, the Company had authorized capital of \$30,000,000 and issued common stock of \$2,269,073 thousand and \$2,319,073 thousand shares with \$10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for 2016 and 2015, please refer to Note 6(17) D for more details.

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.

The followings are the capital surplus of the Company:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Premium from stock issuance	\$ 1,858,310	1,899,259
Treasury stock transactions	253,940	191,489
Paid-in capital from merger	630,450	644,342
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,399	1,430
Changes in ownership interests in subsidiaries	6,873	6,287
	<u><u>\$ 2,750,972</u></u>	<u><u>2,742,807</u></u>

C. Retained earnings

a. Legal reserve

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

b. Special reserve

In accordance with Article 41 of the Securities and Exchange Law, 20 percent of the current year's earnings after tax should be set aside as special reserve. Ruling No. 1010028514 issued by the Financial Supervisory Commission on June 29, 2012, an equivalent amount of special reserve should be set aside from earnings after tax of the current year and the undistributed earnings of the prior period based on the decreased



## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

amount of stockholders' equity. For the cumulative deduction in stockholders' equity of the prior period, the equal amount of special reserve set aside based on undistributed earnings should not be distributed. If there is any reversal of the deduction in stockholders' equity, the earnings may be distributed based on the reversal proportion.

c. Unappropriated 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. 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%.

The Company's 2014 earnings distribution for cash dividends \$1,421,444 had been resolved by the shareholders meeting on June 22, 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

Pursuant to Article 28-2 of the Securities and Exchange Act, the Company repurchased 92,677 thousand and 97,485 thousand shares as treasury shares to maintain the Company's credit and shareholders' equity for the year 2015 and 2016. As of December 31, 2016, a total 100,000 thousand shares were retired and the rest 90,162 thousand shares were not.

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 \$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.

On November 11, 2016, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2016. The cap of the repurchase was 226,907 thousand shares which were amounted to \$7,356,004.

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

The company repurchased 90,162 thousand shares at this buyback plan as of December 31, 2016.

(18) Earnings per share

The basic earnings per share and dilutive earnings per share of year 2016 and 2015 were calculated as follows:

	<b>2016</b>	<b>2015</b>
Net income attributable to ordinary shareholders of the Company	<b>\$ 1,196,756</b>	<b>1,549,327</b>
Weighted-average number of common stock shares outstanding (thousands of shares)	<b>2,265,158</b>	<b>2,357,324</b>
Basic earnings per share (dollar)	<b>\$ 0.53</b>	<b>0.66</b>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<b>1,248</b>	<b>1,740</b>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<b>2,266,406</b>	<b>2,359,064</b>
Dilutive earnings per share (dollar)	<b>\$ 0.53</b>	<b>0.66</b>

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

(19) Items of comprehensive income statement

A. Brokerage commissions

	<b>2016</b>	<b>2015</b>
Brokerage commission from TSE market	\$ 1,133,422	1,456,786
Brokerage commission from OTC market	474,588	576,174
Handling fee from security financing	32,595	56,824
Futures commission income - brokerage	1,463,945	1,340,284
Overseas subsidiaries	70,438	93,452
Others	51,463	61,682
	<b>\$ 3,226,451</b>	<b>3,585,202</b>

B. Underwriting commissions

	<b>2016</b>	<b>2015</b>
Revenue from underwriting securities on a firm commitment basis	\$ 49,824	46,428
Handling fee revenues from underwriting securities on best-efforts basis	895	1,548
Processing fee revenues from underwriting operations	17,346	54,436
Revenue from underwriting consultation	7,975	13,856
Others	17,423	51,428
	<b>\$ 93,463</b>	<b>167,696</b>

C. Net gains on sale of trading securities

	<b>2016</b>	<b>2015</b>
Revenue from securities sold - proprietary trading	\$ 203,630,026	330,665,618
Cost of securities sold - proprietary trading	(203,461,507)	(330,534,051)
Subtotal	<u>168,519</u>	<u>131,567</u>
Revenue from securities sold - underwriting	2,568,524	244,644
Cost of securities sold - underwriting	(2,560,057)	(228,856)
Subtotal	<u>8,467</u>	<u>15,788</u>
Revenue from securities sold - hedging	23,463,311	41,194,934
Cost of securities sold - hedging	(23,552,918)	(41,297,404)
Subtotal	<u>(89,607)</u>	<u>(102,470)</u>
Total	<b>\$ 87,379</b>	<b>44,885</b>

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

D. Interest revenue

	<u>2016</u>	<u>2015</u>
Interest revenue - margin loans	\$ 737,656	1,009,722
Interest revenue - bonds	657,211	323,029
Overseas subsidiaries	35,326	57,364
Others	33,752	40,295
	<u><u>\$ 1,463,945</u></u>	<u><u>1,430,410</u></u>

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

	<u>2016</u>	<u>2015</u>
Trading securities - Proprietary	\$ (20,955)	64,229
Trading securities - Underwriting	918	1,719
Trading securities - Hedging	66,573	(286,984)
Settlement coverage bonds payable of short sale	(1,146)	1,162
	<u><u>\$ 45,390</u></u>	<u><u>(219,874)</u></u>

F. Net gains on stock warrants issued

	<u>2016</u>	<u>2015</u>
Gains on changes in fair value of stock warrants	\$ 30,713,780	30,567,126
Gains on exercise of stock warrants before maturity	7,721,981	9,065,630
Losses on changes in fair value of stock warrants repurchased	(37,563,166)	(38,715,506)
Gains on expiration of stock warrants	23,683	44,439
Stock warrants issuance expenses	(149,169)	(119,455)
	<u><u>\$ 747,109</u></u>	<u><u>842,234</u></u>

G. Employee benefits, depreciation and amortization expenses

	<u>2016</u>	<u>2015</u>
Employee benefit expenses		
Salary expense	\$ 2,092,387	2,123,293
Health and labor insurance expense	157,870	167,987
Pension expense	106,191	109,051
Others	61,612	66,743
Depreciation expense	180,741	179,376
Amortization expense	37,239	40,123
	<u><u>\$ 2,636,040</u></u>	<u><u>2,686,573</u></u>

H. Other operating expenses

	<u>2016</u>	<u>2015</u>
Rental expense	\$ 172,855	195,265
Taxes	298,817	388,094
Information technology expense	191,755	196,387
Postage expense	135,745	137,192
Professional service fee	96,802	65,184
Other expenses	448,867	568,087
	<u><u>\$ 1,344,841</u></u>	<u><u>1,550,209</u></u>

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

I. Other gains and losses

	<u>2016</u>	<u>2015</u>
Financial revenue	\$ 202,282	169,483
Currency exchange gains (losses)	74,687	(90,586)
Net gains on disposal of investment	86	176,445
Net losses on measurement of non-operating instruments at fair value through profit or loss	(31,837)	(9,258)
Revenue from bank's allocation fee	142,111	149,594
Net gains (losses) on disposal of property and equipment	(4,202)	59,064
Lease revenue	61,091	49,537
Gains on reversal of prior year's liabilities	34,584	14,670
Dividend revenue	32,136	32,714
Others	34,644	42,857
	<u>\$ 545,582</u>	<u>594,520</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.

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 and supervisors.

For the year, 2016 and 2015, the estimated amounts of remuneration to employee were \$12,090 and \$17,241, and to directors and supervisors by the Company were \$20,149 and \$28,734, 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 year 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.

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.

For the year 2016 and 2015, the estimated amounts of remuneration to employee were \$7,547 and \$6,842 and to directors and supervisors were \$7,642 and \$6,842 by the domestic subsidiaries of the Group, respectively.

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

(20) Financial instruments

A. Credit risk

a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2016 and 2015, the maximum credit exposure amounted to \$86,612,218 and \$69,117,075, respectively. Among them, the main counterparties of cash and cash equivalent, receivable for securities provided as collateral and customer margin account are domestic and foreign financial institutions. The credit risk as follows:

The regional distribution of financial assets' credit risk exposure amount which owned by the Group is as the list. The region of exposure is mostly in Taiwan (67.28%); secondly, is in Asia (14.01%, exclusion of Taiwan); then, is in Europe (10.17%). Compare to the same period of last year, there is no significant change in proportion of region of investments. Cash and cash equivalent and customers' margin account accounted for major portion of the subsidiary Capital Futures Corp.

<u>Region</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Taiwan	\$ 57,799,502	53,736,041
Asia (Taiwan is excluded)	12,039,498	7,912,934
Europe	8,732,426	3,702,900
America	4,247,626	1,971,377
Other	3,089,041	1,164,814
Total	<u>\$ 85,908,093</u>	<u>68,488,066</u>

b. Impairment loss

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

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Total amount</u>	<u>Impairment</u>	<u>Total amount</u>	<u>Impairment</u>
Not past due	\$ 16,277,081	1,389	20,230,707	2,646
Past due 0~30 days	363	363	336	336
Past due 31~120 days	188	188	234	234
Past due 121~360 days	-	-	1,714	1,714
Past due more than one year	1,712	1,712	15	15
	<u>\$ 16,279,344</u>	<u>3,652</u>	<u>20,233,006</u>	<u>4,945</u>

Allowance for doubtful debts under receivables is recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2016 and 2015, the impairment losses of account receivables were recognized \$3,652 and \$4,945 respectively.

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

**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.

<b>December 31, 2016</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 6 months</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Financial liabilities at fair value through profit or loss - current</b>							
Liabilities on sale of borrowed securities	\$ 938,049	938,049	938,049	-	-	-	-
Stock warrants issued	275,038	275,038	254,719	19,620	699	-	-
Put options - futures	66,693	66,693	66,693	-	-	-	-
Interest rate swaps and Currency swaps ( including IRS asset swaps )	11,063	11,063	9,130	696	1,194	43	-
Put options	177,405	177,405	32,773	41,655	68,186	34,791	-
Short-term borrowings	4,236,402	4,236,402	4,236,402	-	-	-	-
Bonds sold under repurchase agreements	34,956,642	35,002,716	35,002,716	-	-	-	-
Securities financing refundable deposits	1,722,840	1,722,840	1,722,840	-	-	-	-
Deposits payable for securities financing	1,947,104	1,947,104	1,947,104	-	-	-	-
Securities lending refundable deposits	878,866	878,866	878,866	-	-	-	-
Futures traders' equity	23,132,231	23,132,231	23,132,231	-	-	-	-
Notes payable and accounts payable	416,571	416,571	416,571	-	-	-	-
Receipts under custody	147,328	147,328	147,328	-	-	-	-
Other payables	663,830	663,830	661,223	2,607	-	-	-
Structured notes	2,674,610	2,674,610	2,293,958	141,018	184,695	54,939	-
Currency derivatives	1	1	1	-	-	-	-
	<b>\$ 72,244,673</b>	<b>72,290,747</b>	<b>71,740,604</b>	<b>205,596</b>	<b>254,774</b>	<b>89,773</b>	<b>-</b>

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

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

C. Currency risk

a. Currency risk exposure

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

<b>December 31, 2016</b>			
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 361,996	32.2500	11,674,371
HKD	59,547	4.1580	247,596
EUR	19,881	33.9000	673,966
JPY	984,579	0.2756	271,350
GBP	401	39.6100	15,884
AUD	3,024	23.2850	70,414
SGD	176	22.2900	3,923
CNY	106,922	4.6170	493,659
KRW	3,106,094	0.0270	83,896
THB	1,361	0.9050	1,232
CHF	48	31.5250	1,513
CAD	1	23.9100	24
ZAR	3	2.3600	7
PHP	9	0.6684	6
<b><u>Non-Monetary Item</u></b>			
USD	492,316	32.2500	15,877,191
HKD	29,720	4.1580	123,576
JPY	37,720	0.2756	10,396
AUD	217,379	23.2850	5,061,670
CNY	133,526	4.6170	616,490
<b><u>Investments under equity method</u></b>			
HKD	9,985	4.1580	41,516
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	820,687	32.2500	26,467,156
HKD	122,451	4.1580	509,151
CNY	112,949	4.6170	521,486
CHF	48	31.5250	1,513
JPY	926,157	0.2756	255,249
GBP	400	39.6100	15,844
AUD	217,296	23.2850	5,059,737
EUR	19,473	33.9000	660,135
SGD	167	22.2900	3,722
THB	817	0.9050	739
KRW	2,970,692	0.0270	80,238

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

December 31, 2015				
		Foreign Currency		
		(thousands)	Exchange Rate	Amount
<b><u>Financial assets</u></b>				
<b><u>Monetary Item</u></b>				
	USD	\$ 251,046	32.8300	8,241,840
	HKD	12,826	4.2400	54,382
	EUR	2,341	35.8800	83,995
	JPY	875,334	0.2727	238,704
	GBP	312	48.6700	15,185
	AUD	1,525	23.9900	36,585
	SGD	1,131	23.2500	26,296
	CNY	66,619	4.9950	332,762
	KRW	2,970,021	0.0281	83,458
	THB	745	0.9146	681
	CHF	57	33.1900	1,892
	MYR	117	7.3425	859
<b><u>Non-Monetary Item</u></b>				
	USD	204,035	32.8300	6,698,469
	HKD	55,140	4.2400	233,794
	EUR	343	35.8800	12,307
	AUD	58,860	23.9900	1,412,051
	CNY	233,206	4.9950	1,164,864
<b><u>Investments under equity method</u></b>				
	HKD	8,661	4.2350	36,681
<b><u>Financial liabilities</u></b>				
<b><u>Monetary Item</u></b>				
	USD	466,601	32.8300	15,318,511
	HKD	90,440	4.2400	383,466
	CNY	133,647	4.9950	667,567
	CHF	57	33.1900	1,892
	JPY	873,290	0.2727	238,146
	GBP	312	48.6700	15,185
	AUD	50,411	23.9900	1,209,360
	EUR	1,986	35.8800	71,258
	SGD	896	23.2500	20,832
	THB	629	0.9146	575
	MYR	45	7.3425	330
	KRW	2,807,367	0.0281	78,887

Because there are a variety of functional currencies, the Group discloses a summary of its information on exchange gain or loss. The realized and unrealized exchange gains (losses) amounted to \$74,687 and (\$90,586) for the year ended December 31, 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 and securities lending refundable deposits, which are denominated in foreign currencies. Foreign exchange gain or loss occurs when translating the foreign currency assets to NTD assets. For the year ended December 31, 2016 and 2015, given other factors remain the same, if NTD increase or decrease 5% contrary to other currencies, the income after tax will increase or decrease by \$718,311 and \$295,061,



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

and the other comprehensive income will increase or decrease by \$786,878 and \$321,841, respectively.

D. Sensitivity analysis of interest rate risk

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For floating rate instruments, the sensitivity analysis assumes the liabilities are outstanding for the whole year at the reporting date. The 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 Group's exposure to floating rates on its bond position.

Market risk type	December 31, 2016	December 31, 2015	2016			2015		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	1,492,731	1,201,645	1,331,427	1,492,731	1,119,156	1,003,569	1,250,286	734,670

E. Fair value and hierarchy information

a. Fair value information

(1) General description

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

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

(2) Definition of fair value hierarchy

A) Level 1

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

B) Level 2

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

C) Level 3

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. Not based on fair value measurement

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

(1) Fair value information

	December 31, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
<b>Financial assets :</b>				
Cash and cash equivalents	\$ 5,423,415	5,423,415	4,726,498	4,726,498
Accrued receivable	18,088,832	18,088,832	22,848,006	22,848,006
Customers' margin account	23,169,842	23,169,842	16,304,756	16,304,756
Restricted assets - current	637,002	637,002	570,321	570,321
Financial assets measured at cost-non-current	448,460	448,460	411,231	411,231
Other non-current assets	1,717,516	1,717,516	1,836,443	1,836,443
<b>Financial liabilities :</b>				
Short-term borrowings	\$ 4,236,402	4,236,402	1,791,161	1,791,161
Bonds sold under repurchase	34,956,642	34,956,642	23,576,243	23,576,243
Accrued payable	9,069,391	9,069,391	12,010,723	12,010,723
Futures traders' equity	23,132,231	23,132,231	16,287,312	16,287,312
Other financial liabilities - current	2,427,461	2,427,461	3,834,575	3,834,575
Other financial liabilities - non-current	239,634	239,634	241,991	241,991
Other non-current liabilities	362,077	362,077	337,611	337,611

(2) Unmeasured by fair value, which has to be disclosed with hierarchy information of fair value

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

(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, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current , other financial liabilities - non-current, and other non-current liabilities.
- B) Financial assets measured at cost and equity investments in unlisted stocks do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Group considers the book value as a reasonable approximation of fair value.
- C) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

c. Based on fair value measurement

(1) Hierarchy information of fair value

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

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2016</b>				
Financial assets at fair value through profit or loss	\$ 9,910,349	17,536,458	-	27,446,807
Financial assets available for sale	494,831	18,919,308	-	19,414,139
Derivative financial assets	421,317	47,957	-	469,274
	<u>\$ 10,826,497</u>	<u>36,503,723</u>	<u>-</u>	<u>47,330,220</u>
Financial liabilities at fair value through profit or loss	\$ 1,213,087	-	-	1,213,087
Derivative financial liabilities	66,693	195,984	-	262,677
	<u>\$ 1,279,780</u>	<u>195,984</u>	<u>-</u>	<u>1,475,764</u>
<b>December 31, 2015</b>				
Financial assets at fair value through profit or loss	\$ 8,557,048	17,255,304	-	25,812,352
Financial assets available for sale	154,449	7,741,972	-	7,896,421
Derivative financial assets	320,526	43,300	-	363,826
	<u>\$ 9,032,023</u>	<u>25,040,576</u>	<u>-</u>	<u>34,072,599</u>
Financial liabilities at fair value through profit or loss	\$ 2,135,661	-	-	2,135,661
Derivative financial liabilities	57,261	216,533	-	273,794
	<u>\$ 2,192,922</u>	<u>216,533</u>	<u>-</u>	<u>2,409,455</u>

(2) Valuation techniques

A) Non-derivative financial instruments

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

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

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

cetera).

B) Derivative financial instruments

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

d. Transfer between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 f for the year ended December 31, 2016 and 2015.

e. Fair value adjustments

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

F. Transfer of financial assets

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

December 31, 2016					
Types of financial assets	Book value of the transferred financial assets	Book value 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	\$ 35,130,407	34,956,642	-	-	-
December 31, 2015					
Types of financial assets	Book value of the transferred financial assets	Book value 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	-	-	-

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

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

G. Offsetting financial assets and financial 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. The above transactions are settled on a net basis after offsetting financial assets with financial liabilities if both parties of the transaction choose to use net settlement; the above transactions are settled on a gross basis if both parties do not choose to use net settlement. However, if one party defaults, the other party can choose to use net settlement.

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

		December 31, 2016					
		Financial assets under offsetting or general agreement of net amount settlement or similar norms					
		Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
					(a)	(b)	
Derivative financial assets	\$	47,957	-	47,957	-	-	47,957
		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
					(a)	(b)	
Derivative financial liabilities	\$	195,984	-	195,984	-	-	195,984
Under repurchase agreements		34,956,642	-	34,956,642	34,956,642	-	-
Total	\$	35,152,626	-	35,152,626	34,956,642	-	195,984
		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
					(a)	(b)	
Derivative financial assets	\$	43,300	-	43,300	-	-	43,300

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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	-	-
<b>Total</b>	<b>\$ 23,792,776</b>	<b>-</b>	<b>23,792,776</b>	<b>23,576,243</b>	<b>-</b>	<b>216,533</b>

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

(21) Financial risk management

A. Brief

The Group is exposed to the following risks due to the usage of financial instruments:

- a. Credit risk
- b. Liquidity risk
- c. Market risk

This note describes the Group's information concerning risk exposure, and the Group's targets, policies and procedures to measure and manage the risks. The further detail of the quantitative result please refers to each note.

B. Risk management framework

The risk management system includes the set-up of an independent risk management department and whole risk management framework which comprises segregation of duties and delegation of board of directors, president, risk management department, auditing department, finance department, settlement and clearing department and other business department. The Group also established an operating strategy, capital structure, risk management policy and executive procedure by risk and operating activities. Furthermore, the Group set up a risk management information system to assist whole risk management execute effectively.

C. Credit risk

Credit risk refers to the risk of financial losses to the Group arising from default by the clients or counterparties of financial instruments on the contract obligation.

The Group sets up the credit limits for issuers and counterparties according to the credit information requirements of the authorities and the credit rating information release by credit rating agencies. The credit limit of securities margin transactions is subject to the requirements of the competent authority. The derivatives' credit exposure of counterparty shall be measured on a daily basis. If the limits are exceeded, to increase of collateral or lower transaction position is required. The bonds can be invested only its credit rating is above a prescribed level. And monitor the material information disclosed, information on capital raising activities and operation status of counterparty as a reference for measuring the possibility of credit default. The bond position should be disposed if the credit rating is lower than required.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

D. Liquidity risk

Liquidity risk refers to the risk that the Group cannot meet obligations because of the inability to obtain adequate funding or liquidate other financial assets to settle the financial liabilities. It includes financial funding risk and financial market liquidity risk.

Besides decentralizing the financial institutions, the Group also to diversify the financing channels for funding. The Group plans and controls the daily funding operation in advance as the need for funding from various business situations. Also utilizes the simulation analysis mechanism of special event to keep up with the abnormal funding need from the system risks. The Group has set up the rules based on the different risk factors such as issue amount, trading volume, counterparty and etc to address the liquidity risk of each holding position. Moreover, the Group operates a dynamic monitoring of the volatility of market to manage the liquidity risk of holding positions.

E. Market risk

Market risk refers to the risk that change in market prices, exchange rates, interest rates and equity instrument prices, which will affect the Group's revenue or the value of its holdings of financial instruments.

The Group has set up the trading quotas and upper limit of Value at Risk ("VaR") in all operation to ensure the capital adequacy ratio meets the qualification requirements and maximum loss limit to be controlled. The different risk factors that the Group uses to measure the market risk are as follows:

- a. Equity securities: calculate by variance-covariance method and to conduct back testing to estimate the VaR of one day at 99% of confidence interval.
- b. Bond: use the base point (0.01%) value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- c. Financial derivatives: use the Delta and Gamma value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- d. Margin trading: use the maintenance ratio ruled by the competent authority as the standard for disposal.

Each business departments of the Group can utilizes approved financial hedging instruments (such as Futures, Options, Swap and etc) to adjust the risk level to improve the risk management system implemented.

F. Hedging strategies (financial hedging)

The Group's strategies use financial derivatives to hedge market price fluctuations in the attainable scope. The Group sets up each business quota, the capacity for tolerating risk and hedging strategy according to risk tolerance and establishes a monitoring system to understand variation of hedging position. In addition, the Group also formulates principal to conduct over or under limitations with hedging position.

a. Equity securities:

As equity securities price fluctuate, the Group will suffer losses when the unfavorable variation of equity securities price is incurred. To reduce the above risk, the Group not only relies on its well-designed risk management system but also uses index futures and options to hedge the market risk of equity securities.

b. Fixed income instruments:

Risk of fixed income instruments is mainly affected by the fluctuations of market rate. The Group will suffer losses when unfavorable variation of market rate is incurred. The Group uses financial derivatives such as interest rate swap, government bond futures and bond options whose variation in fair value and cash flow are negative correlated

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

with the hedged position to hedge the market risk.

c. Stock warrants:

The market risk of stock warrants issued arises from the fluctuations of market price of the underlying securities and the risk of investors' exercising the stock warrants. The Group will acquire stock warrants of the same underlying securities issued by others whose theoretical price was underestimated to hedge against the fluctuations. Furthermore, the Group will also adjust the hedged position such as the underlying securities, convertible corporate bonds and stock warrants based on the dynamic hedging strategies with the variation of Delta.

d. Structured notes:

Structured notes are the combination of fixed income and asset option. The market risk includes variation of interest rate, stock price and the volatility. In order to hedge the interest rate risk in the fixed income aspect, the Group uses the interest which it generates from investing to repay the principal due. In the asset option aspect, the Group establishes related hedged position to hedge the stock price and the volatility risk.

e. Asset swap:

Convertible bond asset swap is a hybrid derivative comprising of an interest rate swap and a call option on a convertible bond. The related risks are market risk and credit risk of the counterparties. The Group manages its risk through selling of the interest rate swap and options with third parties and verifies its counterparty's credit limit to lower the above risk.

G. Financial risk information of derivative financial instruments

As of December 31, 2016 and 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

<u>Financial Instruments</u>	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:				
Stock warrants issued	\$ 7,931,022	-	10,260,292	-

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

b. Market risk

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

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

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

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



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

The Group's strategy is to avoid most of the 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

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

In 2016 and 2015:

(1) Gains (losses) on valuation

	<u>2016</u>	<u>2015</u>	<u>Account</u>
Stock warrants issued	\$ 8,811,311	11,070,099	Gains (losses) on stock warrants issued
Stock warrants repurchased	(8,606,442)	(10,814,221)	Gains (losses) on stock warrants issued

(2) Gains (losses) on sale

	<u>2016</u>	<u>2015</u>	<u>Account</u>
Security borrowing	\$ 7,011	(45,496)	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(122,647)	(366,765)	Gains (losses) on sale of trading securities
Futures	(221,525)	(5,348)	Gains (losses) on derivative financial instruments - futures

(3) Gains (losses) on maturity

	<u>2016</u>	<u>2015</u>	<u>Account</u>
Stock warrants issued	\$ 29,648,133	28,607,096	Gains (losses) on stock warrants issued
Stock warrants repurchased	(28,956,724)	(27,901,285)	Gains (losses) on stock warrants issued

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Futures

a. Notional principal (nominal amount) and credit risk

<b>Financial Instruments</b>	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>
For trading purpose:				
Taiex Futures	\$ 1,246,867	-	716,991	-
Electronic Sector Index Futures	1,477	-	27,203	-
Finance Sector Index Futures	46,101	-	18,764	-
Non-Finance Non-Electronics Sub-Index Futures	4,547	-	8,083	-
Stock Futures	140,814	-	228,537	-
USD/CNY FX Futures	86,582	-	-	-
Nifty 50 Index Futures	248,013	-	-	-
USD/JPY FX Futures	326,514	-	-	-
EUR/USD FX Futures	550,668	-	-	-
Euro dollar Futures	270,616	-	-	-
H stocks Index Futures	1,921	-	-	-
JPY dollar Futures	13,867	-	-	-
MSCI Taiwan Index Futures	351,842	-	-	-
VIX Futures	46,924	-	-	-
U.S. 5-Year T-Note Futures	169,495	-	-	-
U.S. 10-Year T-Note Futures	40,005	-	-	-
Soybean Futures	-	-	5,699	-
Coffee Futures	-	-	3,013	-
Crude Oil Futures	-	-	16,659	-
NT Dollar Gold Futures	5,437	-	-	-
HSI Futures	13,448	-	-	-
FTSE China A50 Index Futures	124,946	-	13,141	-
Euro 10-Year Bund Futures	-	-	455,705	-
Mini-S&P Futures	36,100	-	-	-
S&P Futures	-	-	16,827	-
SIN Futures	7,925	-	-	-
Platinum Futures	-	-	2,926	-
Sugar No.11 Futures	-	-	2,787	-
U.S. 30-Year T-Bond Futures	-	-	15,187	-
Taiex Options	86,416	-	103,725	-
Stock Options	8,219	-	4,758	-
Taiex Weekly Options	23,600	-	4,416	-
Electronic Sector Index Options	2,006	-	5,593	-
Finance Sector Index Options	4,482	-	2,949	-
Mini-S&P Sector Index Options	18,722	-	-	-
S&P Sector Index Options	-	-	3,512	-
Gold Options	223	-	230	-
Mini-USD/CNY FX Options	14,141	-	-	-
USD/CNY FX Options	6,238	-	-	-
For non-trading purpose:				
Taiex Futures	239,765	-	197,542	-
Stock Futures	501,055	-	320,278	-
Electronic Sector Index Futures	7,357	-	-	-
FTSE China A50 Index Futures	66,764	-	-	-
Gold Futures	11,151	-	-	-
H stocks Index Futures	-	-	35,626	-
HSI Futures	4,569	-	9,336	-
Mini-H stocks Index Futures	-	-	838	-
Mini-HSI Futures	17,930	-	16,805	-
Nikkei Index Futures	10,209	-	-	-
Taiex Options	-	-	18,390	-
Stock Options	-	-	355	-

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. Market risk

Market risk resulted from the purchase and sale 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 the fluctuations of index tends to offset gain and loss 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.

Stock index futures and government bond futures are considered 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

In 2016 and 2015, losses on futures and options transactions amounted to \$254,211 and \$126,235, respectively, and were reflected as gains or losses on derivatives - futures. As of December 31, 2016 and 2015, futures margin - proprietary fund amounted to \$352,755 and \$270,282, respectively, and were reflected as financial assets at fair value through profit or loss - current; excess future margin which recognized as cash and cash equivalent amounted to \$818,437 and \$1,463,300, respectively.

In 2016 and 2015, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$68,562 and \$50,244, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$66,693 and \$57,261, respectively

Derivative financial instruments - OTC

a. Interest rate financial derivatives

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

Financial Instruments	December 31, 2016		December 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
NT dollar interest swaps	\$ 46,500,000	-	55,700,000	-

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

(2) Market risk

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

In order to manage risk, Stop-loss points are established in accordance to the

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

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

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

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

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

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

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

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

b. Structured notes

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

<b>Financial Instruments</b>	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>
For trading purpose:				
Equity-linked notes	\$ 3,000	-	2,000	-
Principal guaranteed notes	2,173,544	-	3,761,609	-
Credit-linked notes	488,700	-	317,200	-
Principal guarantee note	USD \$100 (thousands)		USD	-

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

- (2) Market risk

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

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

c. Convertible bond asset-backed swaps

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

<u>Financial Instruments</u>	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Notional principal</u> <u>/ Nominal amount</u>	<u>Credit</u> <u>Risk</u>	<u>Notional principal</u> <u>/ Nominal amount</u>	<u>Credit</u> <u>Risk</u>
For trading purpose:				
Convertible bond asset-backed swaps	\$ 1,230,100	-	1,304,600	-
Convertible bond options	2,528,400	-	2,947,200	-

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

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

(2) Market risk

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

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

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

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

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

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d. Presentation of derivative financial instruments - OTC

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 20,743	22,878
Interest rate swaps	4,942	-
Currency swaps	16,584	8,482
Asset swap options - long position	5,682	11,940
Structured notes	3	-
Currency derivatives	3	-
<b>Total</b>	<b><u>\$ 47,957</u></b>	<b><u>43,300</u></b>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 1,974	5,398
Interest rate swaps	-	1,528
Currency swaps	9,089	3,476
Asset swap options - short position	177,405	193,888
Structured notes	7,515	12,243
Currency derivative	1	-
<b>Total</b>	<b><u>\$ 195,984</u></b>	<b><u>216,533</u></b>
Other financial liabilities - current		
Structured notes principal value	<b><u>\$ 2,427,461</u></b>	<b><u>3,834,575</u></b>
Other financial liabilities - non-current		
Structured notes principal value	<b><u>\$ 239,634</u></b>	<b><u>241,991</u></b>

In year 2016 and 2015, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps are presented on statements of income as follows:

	<u>2016</u>		<u>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 swaps	\$ 3,893	4,942	(830)	(1,528)
Equity derivatives	92	-	245	-
Structured notes	(32,536)	(6,146)	(48,375)	(8,003)
IRS asset swaps	533	18,769	511	527
Asset swap options	(43,107)	66,482	(41,617)	158,261
Currency swaps	(167,857)	7,495	35,796	5,005
Currency derivatives	4	4	-	-
<b>Total</b>	<b><u>\$ (238,978)</u></b>	<b><u>91,546</u></b>	<b><u>(54,270)</u></b>	<b><u>154,262</u></b>

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

(22) Capital management

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

As of December 31, 2016, the Group 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 Company.

(2) Key management personnel transactions

A. Key management personnel compensation:

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 166,365	155,674
Post-employment benefits	2,147	1,806
Termination benefits	-	1,056
Total	<u>\$ 168,512</u>	<u>158,536</u>

B. Bond transactions

Bonds sold under repurchase agreements between key management personnel in year 2016 and 2015 are as follows:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	<u>\$ 43,600</u>	<u>43,749</u>	<u>50,500</u>	<u>50,691</u>
<b>Total financial expenses</b>			<b>2016</b>	<b>2015</b>
Key management personnel			<u>\$ 230</u>	<u>415</u>

C. Structured notes transactions

The Group engages in structured notes transactions with key management personnel. As of December 31, 2016 and 2015, the balances of structured notes transactions were \$20,700 and \$17,600 respectively.

(3) Significant transactions with related parties

A. Bond transactions

Bonds sold under repurchase agreements in year 2016 and 2015 are as follows:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Subsidiaries	\$ 10,000	10,580	13,500	13,535
Others	14,900	15,000	13,400	13,400
Total	<u>\$ 24,900</u>	<u>25,580</u>	<u>26,900</u>	<u>26,935</u>

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

	<b>2016</b>	<b>2015</b>
	<b>Total financial expense</b>	<b>Total financial expense</b>
Subsidiaries	\$ 67	148
Others	77	67
Total	<b>\$ 144</b>	<b>215</b>

Transaction terms are the same as those with general clients.

**B. Structured notes transaction**

As of December 31, 2016 the balances of structured notes transactions with other related parties of the Company was \$4,995.

**C. Lease agreements**

a. Lease revenue

	<b>2016</b>	<b>2015</b>
Subsidiaries	<b>\$ 1,036</b>	<b>1,036</b>

b. Guarantee deposits received

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

**D. Insurance commission income**

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

a. Commission revenues

	<b>2016</b>	<b>2015</b>
Subsidiaries	<b>\$ 18,315</b>	<b>10,304</b>

b. Accounts receivable

	<b>2016</b>	<b>2015</b>
Subsidiaries	<b>\$ 2,452</b>	<b>1,200</b>

**E. Brokerage commissions**

The investors of CSC Securities (HK) Ltd. traded of market securities with the Company through the trust account named "Capital Securities Nominees Ltd." In year 2016 and 2015, the brokerage commissions were \$6,423 and \$7,406 respectively.

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



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

**8. PLEDGED ASSETS**

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>The collateral use</u>
Restricted assets - current	\$ 637,002	570,321	Bank borrowings, commercial paper, accounts settled, money trust (Annotation 1) and guaranty deposited for business operations (Annotation 2)
Restricted assets - non - current	170,167	178,353	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)	35,926,059	23,993,535	Repurchase agreement - Investments in Bonds with Resale Agreements - RS
Property and equipment	4,049,331	4,074,595	Bank borrowings
Financial assets at fair value through profit or loss - non-current	186,073	190,554	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment
Investment property	881,143	890,116	Bank borrowings
Total	<u>\$ 41,849,775</u>	<u>29,897,474</u>	

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

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

**9. SIGNIFICANT CONTINGENT LIABILITY AND UNRECOGNIZED CONTRACT COMMITMENT**

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

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	663,916	\$ 6,639,160	826,231	8,262,310
Collateral for margin purchase	12,555	125,550	33,476	334,760
Collateral for short sales	4,427	44,270	13,332	133,320
Lending securities to customers through short sales	37,135	371,350	44,174	441,740

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

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	1,346	\$ 13,460	217	2,170
Collateral for refinancing margin	144	1,440	-	-

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

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Promissory notes	<u>\$ 24,160,000</u>	<u>21,850,000</u>
Promissory notes	<u>USD 85,000</u>	<u>80,000</u>

- (4) As of December 2016, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes was \$311,755.
- (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 Supreme 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 to violate the Regulations Governing Securities Firms due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. However, relevant evidence is still under inspection and the legal responsibilities are pending clarification. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$8,734,798 dollars (including claim amount US\$354,006 dollars towards Taiwan International Securities Investment Consulting Corp.). As of December 31, 2016, the damages claimed for amounted to US\$2,930,000, which was in favor of the Company, instead of US\$5,026,873, and the investors reached compromises to waive off the appeal rights. Since the case is currently on trial, the possible loss remains uncertain at the moment according to the opinion from the attorney of the Company. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is \$173,000, thus the Company recognized this amount as other liabilities. As of December 31, 2016, the balance of other liabilities was \$48,034.
- (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 December 28, 2016 the CDFH withdraw the litigation and this lawsuit has been concluded.

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

(9) The Company provided the Letter of Comfort for its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.

(10) In October 2005, the former account executive of the Company's subsidiary - Taiwan International Futures Corporation (hereinafter known as "TIFC") was suspected for deceiving futures investors and causing a material loss. Several investors institute proceedings towards TIFC and claim joint responsibility of compensation for damages. After viewing by TIFC and its attorney, those litigations were classified by actual situations and relevant matters, thereon adopted different solutions. As of December 31, 2015, 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 the Supreme Court, Taiwan High Court and Taiwan Taipei District Court, respectively. Three litigations were ruled by the Supreme Court that the resigned-employee and TIFC should be jointly responsible for the compensation for damages, and TIFC had indemnified \$125,117 for the investor. As of December 31, 2016, TIFC has paid \$162,812 for compensation and the estimated losses amounted to \$254,389 in other non-current liabilities - other.

The plaintiffs applied to the court for provisional seizure and the amount of provisional seizure and execution fees were \$222,991.

As of December 31, 2016, the objects of provisional seizure are as follows:

	<b>Provisional Seizure Amount</b>
Bank deposit	\$ 88,821
Clearing and Settlement fund	15,121
Accounts receivable and Other accounts receivable	13
	<b>\$ 103,955</b>

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.

(11) Due to the development of future operation, the subsidiary, Capital Futures Corp., purchased system of hardware and software for business necessities, which cost \$6,760 for contract price. As of December 31, 2016, the unpaid account amounted to \$3,212.

(12) Due to having preparation for foreign currency margin as a leverage transaction merchant, the subsidiary, Capital Futures Corp., purchased the transaction system for US\$100 thousand (approximate NT\$3,225) for contract price. As of December 31, 2016, the unpaid account amounted to US\$44 thousand (approximate NT\$1,411).

(13) Due to the business development of Taichung branch, the subsidiary, Capital Futures Corp., planned to move and redecorate, which cost \$4,360 for contract price. As of December 31, 2016, the unpaid account amounted to \$2,992.

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

(14) According to the Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet, income statement and list of trust properties of trust accounts were declared as follows:

a. Balance sheet of trust accounts

<b>Balance Sheet of Trust Accounts</b>					
<b>December 31, 2016 and 2015</b>					
<b>Trust Assets</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>Trust Liabilities</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Bank deposits	\$ 971,862	801,071	Accounts payable	\$ 380	723
Short-term investment			Trust capital	8,902,241	7,995,479
Funds	6,893,668	5,844,770	Accumulated earnings or deficit	(176,994)	(273,608)
Stocks	529,461	428,052			
Securities lent	195,508	345,528			
Bond investment under agreements to repurchase	48,788	266,975			
Bonds	1,386	-			
Structured notes	31,109	5,400			
Accounts receivable	53,845	30,798			
<b>Total Assets</b>	<b>\$ 8,725,627</b>	<b>7,722,594</b>	<b>Total Liabilities</b>	<b>\$ 8,725,627</b>	<b>7,722,594</b>

b. Income statement of trust accounts

<b>Income Statement of Trust Accounts</b>		
<b>Year Ended December 31, 2016 and 2015</b>		
	<b>2016</b>	<b>2015</b>
Revenue		
Interest revenue	\$ 10,289	5,580
Cash dividends revenue	134,857	90,984
Rental revenue	7,733	7,912
Realized investment gain	179,128	239,909
Unrealized investment gain	138,573	71,832
Unrealized foreign exchange gain	121,607	218,494
Currency exchange gain	55,880	76,773
Subtotal	<u>648,067</u>	<u>711,484</u>
Expense		
Administrative fee	1,304	1,464
Commission expenses	54,264	54,058
Realized investment loss	183,197	235,269
Unrealized investment loss	467,130	601,332
Unrealized foreign exchange loss	71,042	32,758
Postage expense	1	-
Currency exchange loss	40,244	29,403
Supplementary insurance premium	256	226
Subtotal	<u>817,438</u>	<u>954,510</u>
Net loss before tax	(169,371)	(243,026)
Income tax expense	(1,015)	(464)
Net loss after income tax	<u><b>\$ (170,386)</b></u>	<u><b>(243,490)</b></u>

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

c. List of trust properties

**List of Trust Properties**  
**December 31, 2016 and 2015**

<u>Investment items</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Bank deposits	\$ 971,862	801,071
Short-term investment		
Stocks	529,461	428,052
Securities lent	195,508	345,528
Bond investments under agreement to repurchase	48,788	266,975
Structured notes	31,109	5,400
Bonds	1,386	
Funds	6,893,668	5,844,770
Total	<u>\$ 8,671,782</u>	<u>7,691,796</u>

**10. SIGNIFICANT CATASTROPHIC LOSS : NONE**

**11. SIGNIFICANT SUBSEQUENT EVENTS :**

The cumulative shares by the Company repurchased were 100,000 thousand after the reporting date. All the repurchased shares were retired and the registration of capital reduction was completed on February 10, 2017.

On January 23, 2017, the Company's board meeting resolved to subscribe the new shares issue of Capital Futures Corp. The amount of investment was \$716,008 and has completed the relevant investment procedures.

The Board of Directors of the subsidiary, Capital Futures Corp., approved to raise new cash capital on September 29, 2016 for \$380,000, and issued new common stock of 38,000 thousand shares with \$10 dollars face value per share. On September 29, 2016, the Board of Directors approved to issue the stock at \$31.38 per share. The capital increase plan got the approval by the FSC No. 1050044467 on November 15, 2016. The record date of a capital increase is February 10, 2017 and the registration of capital increase was completed on February 24, 2017.

The Board of Directors of the subsidiary, Capital International Technology Corp., approved to establish Capital Futures Technology (Shanghai) Co., Ltd. on June 29, 2016. The investment got the approval by the FSC No. 1050026448 on July 22, 2016. The investment related procedure was completed on January 10, 2017.

**12. OTHERS**

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

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

A. December 31, 2016

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taiex Futures	Long	18	\$ 32,699	33,253	
	Taiex Futures	Short	788	(1,453,933)	(1,458,394)	
	Electronic Sector Index Futures	Short	6	(8,834)	(8,868)	
	Finance Sector Index Futures	Short	43	(46,101)	(46,345)	
	Non-Finance Non-Electronics Sub-Index Futures	Short	4	(4,547)	(4,542)	
	Stock Futures	Long	1,016	118,049	118,491	
	Stock Futures	Short	4,933	(523,820)	(521,273)	
	USD/CNY FX Futures	Short	26	(86,582)	(86,961)	
	USD/JPY FX Futures	Long	246	154,546	157,738	
	USD/JPY FX Futures	Short	267	(171,968)	(171,689)	
	Nifty 50 Index Futures	Long	19	7,800	7,754	
	Nifty 50 Index Futures	Short	357	(240,213)	(241,492)	
	EUR/USD FX Futures	Long	201	139,916	136,750	
	EUR/USD FX Futures	Short	603	(410,752)	(410,249)	
	Euro dollar Futures	Long	64	270,616	272,809	
	H stocks Index Futures	Short	1	(1,921)	(1,938)	
	HSI Futures	Long	4	18,017	18,165	
	Mini HSI Futures	Short	20	(17,930)	(18,264)	
	SIN Futures	Short	15	(7,925)	(7,918)	
	JPY dollar Futures	Short	4	(13,867)	(13,863)	
	NT Dollar Gold Futures	Long	12	5,437	5,451	
	Gold Futures	Long	3	11,151	11,143	
	MSCI Taiwan Index Futures	Long	317	351,842	351,475	
	VIX Futures	Short	95	(46,924)	(48,210)	
	FTSE China A50 Index Futures	Short	588	(191,710)	(188,819)	
	Mini-S&P Futures	Long	10	36,100	35,791	
	Nikkei Index Futures	Long	4	10,209	10,511	
	U.S. 5-Year T-Note Futures	Short	45	(169,495)	(170,760)	
	U.S. 10-Year T-Note Futures	Long	10	40,005	40,081	
	Subtotal			(2,200,135)		
Options contract :						
	Taiex Options (Call)	Long	17,162	\$ 32,562	27,543	
	Taiex Options (Put )	Long	9,632	13,323	7,145	
	Taiex Options (Call)	Short	4,730	(26,028)	(27,259)	
	Taiex Options (Put )	Short	7,286	(14,503)	(6,477)	
	Stock Options (Call)	Long	749	2,082	1,869	
	Stock Options (Put)	Long	887	3,116	2,690	
	Stock Options (Call)	Short	334	(1,774)	(1,013)	
	Stock Options (Put)	Short	331	(1,247)	(1,156)	
	Taiex Weekly Options (Call)	Long	16,137	3,295	3,533	
	Taiex Weekly Options (Put)	Long	14,685	2,411	1,081	
	Taiex Weekly Options (Call)	Short	3,990	(6,739)	(10,733)	
	Taiex Weekly Options (Put)	Short	4,755	(11,155)	(6,233)	
	Gold Option (Call)	Long	7	26	27	
	Gold Option (Put)	Long	13	68	67	
	Gold Option (Call)	Short	54	(125)	(190)	
	Gold Option (Put)	Short	5	(4)	(2)	
	Electronic Sector Index Options (Call)	Long	256	721	855	
	Electronic Sector Index Options (Put)	Long	85	271	164	
	Electronic Sector Index Options (Call)	Short	1	(5)	(7)	
	Electronic Sector Index Options (Put)	Short	263	(1,009)	(722)	
	Finance Sector Index Options (Call)	Long	825	2,591	2,854	
	Finance Sector Index Options (Put)	Long	813	1,693	1,078	
	Finance Sector Index Options (Put)	Short	95	(198)	(118)	
	Mini-S&P Sector Index Options (Call)	Long	93	1,866	1,021	
	Mini-S&P Sector Index Options (Put)	Long	72	1,900	2,685	
	Mini-S&P Sector Index Options (Call)	Short	120	(6,083)	(3,562)	
	Mini-S&P Sector Index Options (Put)	Short	209	(8,873)	(5,848)	
	Mini USD/CNY FX Options (Call)	Long	64	10,652	10,725	
	Mini USD/CNY FX Options (Put)	Short	80	(3,489)	(2,461)	
	USD/CNY FX Options (Call)	Long	153	5,194	5,225	
	USD/CNY FX Options (Call)	Short	4	(93)	(103)	
	USD/CNY FX Options (Put)	Short	153	(951)	(809)	
	Subtotal			(505)		
Total				<b>\$ (2,200,640)</b>		

**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 :						
	Taix Futures	Long	70	\$ 118,276	117,949	
	Taix 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 stocks Index Futures	Short	2	(838)	(822)	
	HSI Futures	Short	2	(9,336)	(9,379)	
	Mini HSI Futures	Short	18	(16,805)	(16,702)	
	Sugar No.11 Futures	Long	5	2,787	2,801	
	Gold Futures	Short	5	(17,276)	(17,401)	
	Coffee Futures	Long	2	3,013	3,119	
	Soy bean Futures	Short	4	(5,699)	(5,674)	
	Crude oil Futures	Long	14	16,659	17,022	
	S&P Futures	Long	5	16,827	16,583	
	FTSE China A50 Index Futures	Long	12	4,209	4,124	
	FTSE China A50 Index Futures	Short	26	(8,932)	(8,871)	
	U.S. 30-Year T-Bond Futures	Short	3	(15,187)	(15,141)	
	Platinum Futures	Short	2	2,926	2,932	
	Subtotal			(769,486)		
Options contract :						
	Taix Options (Call)	Long	11,356	\$ 25,752	20,111	
	Taix Options (Put )	Long	13,664	23,550	18,065	
	Taix Options (Call)	Short	6,444	(24,127)	(13,828)	
	Taix Options (Put )	Short	11,120	(48,686)	(36,903)	
	Stock Options (Call)	Long	1,221	1,958	2,492	
	Stock Options (Put)	Long	1,262	2,352	2,350	
	Stock Options (Call)	Short	209	(375)	(224)	
	Stock Options (Put)	Short	172	(428)	(414)	
	Taix Weekly Options (Call)	Long	871	728	787	
	Taix Weekly Options (Put)	Long	1,607	1,843	1,775	
	Taix Weekly Options (Call)	Short	214	(881)	(919)	
	Taix Weekly Options (Put)	Short	160	(964)	(899)	
	Gold Option (Call)	Long	12	190	150	
	Gold Option (Put)	Long	1	1	1	
	Gold Option (Call)	Short	12	(10)	(4)	
	Gold Option (Put)	Short	12	(29)	(31)	
	Electronic Sector Index Options (Call)	Long	574	3,135	2,536	
	Electronic Sector Index Options (Put)	Long	269	1,195	1,143	
	Electronic Sector Index Options (Call)	Short	140	(434)	(194)	
	Electronic Sector Index Options (Put)	Short	58	(829)	(637)	
	Finance Sector Index Options (Call)	Long	174	371	178	
	Finance Sector Index Options (Put)	Long	187	863	656	
	Finance Sector Index Options (Call)	Short	475	(935)	(362)	
	Finance Sector Index Options (Put)	Short	190	(780)	(740)	
	S&P Sector Index Options (Call)	Short	24	(1,685)	(1,324)	
	S&P Sector Index Options (Put)	Short	34	(1,827)	(782)	
	Subtotal			(20,052)		
Total				<b>\$ (789,538)</b>		

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

- (2) Restrictions and enforcement of the Company's various financial ratios under futures trading law  
 Subsidiary - Capital Futures Corp.'s the restrictions and enforcement of each financial ratio was  
 calculated in accordance with Regulations Governing Futures Commission Merchants as follow:

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	Stockholders' equity	3,167,389	11.61	2,951,929	9.11	≥ 1	Satisfactory to requirement
	(Total liabilities –futures traders' equity)	272,752		323,878			
17	Current Assets	24,406,882	1.08	18,986,411	1.12	≥ 1	"
	Current Liabilities	22,699,891		16,992,319			
22	Stockholders' equity	3,167,389	284.07%	2,951,929	264.75%	≥ 60%	"
	Minimum paid-in capital	1,115,000		1,115,000		≥ 40%	
22	Post-adjustment net capital	1,873,933	51.95%	2,064,456	88.31%	≥ 20%	"
	Total customers' margin deposits required for open positions of customers	3,607,236		2,337,827		≥ 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 matter of Taiwan International Futures Corporation (hereinafter known as "TIFC"). Such deposit shall be allocated by the trustee to the stockholders who are merged in proportion of their shareholdings in TISC, after being decided by the court or accommodated by the investors of TIFC.

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

**13. DISCLOSURES REQUIRED**

- (1) Information on significant transaction:

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

- A. Loans to others: Exhibit 1.
- B. Endorsements and guarantee for others: None.
- C. Acquisition of real estate over \$100 millions or 20% of paid-in capital: None.
- D. Disposal of real estate over \$100 millions or 20% of paid-in capital: None.
- E. Discount on commissions of transactions with related parties over \$5 millions: None.
- F. Receivables from related parties over \$100 millions 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.



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

(3) Information on branch units or representative offices overseas

Unit: NT\$ thousands

Name	Region	Date of establishment	Approval date and number of FSC	Primary business operation	Operating Income	After-tax operation	Assignment of working capital				Transactions with parent company	Note
							Beginning amount	Add	Less	Ending amount		
CSC International Holdings Ltd. Shanghai Representative	Shanghai	1997.11.27	Ruling No. 16322 by FSC on Feb. 22, 1997	Investigation of business, research of industrial technology and related information collection							-	

(4) Information on investments in China:

A. Investment in Mainland China and related information :

Unit: NT\$ thousands

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 December 31, 2016	Net gains or losses of investee	Direct or indirect shareholdings (%) by the company	Investment gains and losses recognized during this period (Note 2)	Ending balance of investment	Investment income remitted back as of December 31, 2016
					Remittance amount	Recoverable amount						
Capital True Partner Co., Ltd.	Management, consulting and information service business	5,013	C	24,372	-	-	24,372	(8,321)	30.10%	(2,384)	12,626	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service	Note 3	C	-	Note 3	-	Note 3	-	59.01%	-	-	-

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

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

Note 2: Investment gains and losses recognized during the period

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

Note 3: Capital Futures Technology (Shanghai) Co., Ltd. established in October, 2016 but the paid-in capitals CNY\$4,000 thousands was completed until January 10, 2017.

B. Limitation of investment in China:

Unit: NT\$ thousands

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	80,000

Note: The Company invests through a subsidiary, Capital International Technology Corp., to invest in Mainland China. According to the relevant rules to small and medium enterprises, the upper limit for investment in China is \$80,000.

(5) Disclosures required for securities firm investing in countries or regions without securities authority:

According to article 4, no. 5 of the letter no. 10400414001 issued by Financial Supervisory Commission on November 19, 2015, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2016 are as follows:

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

A. Balance sheet and income statement:

a. Balance sheet

Unit: US\$ thousands

Company	CSC International Holdings Ltd. December 31, 2016	Taiwan International Securities (B.V.I) Corp. December 31, 2016
<b>Nature</b>		
Current assets	11,548	23
Long-term investments	21,517	-
Property and premises	2,249	-
Other assets	19,394	3,380
Total assets	54,708	3,403
Current liabilities	504	-
Other liabilities	86	3,408
Total liabilities	590	3,408
Common stock	45,000	9,516
Retained earnings ( Accumulated deficit )	9,153	(9,439)
Cumulative translation adjustments	(35)	(82)
Total stockholders' equity	54,118	(5)
Total liabilities and stockholders' equity	54,708	3,403

b. Income statement

Unit: US\$ thousands

Company	CSC International Holdings Ltd. 2016	Taiwan International Securities (B.V.I) Corp. 2016
<b>Nature</b>		
Operating revenue	(721)	(26)
Operating expense	(896)	(1)
Non-operating revenue	431	-
Non-operating expense	(45)	-
Income (loss) before tax	(1,231)	(27)
Net income (loss)	(1,231)	(27)

B. Marketable securities held as of December 31, 2016

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2016	
			Shares	Book value
CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Long-term investments	4,864,400	\$ 6,759
	CSC Securities (HK) Ltd.	Long-term investments	89,600,000	14,758
	Total			\$ 21,517
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Other	265,000,000	\$ (3,408)

C. Transactions of financial derivatives: None.

D. Revenue on advisory and consulting service and related lawsuit: None

**14. SEGMENT INFORMATION:**

(1) Operating segment information

The operating segments are consistent with the internal reports provided to the chief operating decision-maker. The Group's operating segments are classified into brokerage, underwriting,

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dealing, derivative instrument and reinvestment according to the sources of revenue. The remaining operating results which have not reached the threshold requirements are consolidated in 'other operating segments'. Sources of income from products and services rendered by each segment are as follows:

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

(2) Measurement of segmental information

All of the Group's operating segments' accounting policies are no material difference from the ones described in Note 4 "significant accounting policies". The Group evaluates segment performance based on the net profit before tax of various operating segments. Income and expense attributable to each operating segment are directly attributed to the profits and losses of the corresponding operating segment. Indirect expenses and expenses from logistic support segment that cannot be directly attributed are listed under 'other segments'.

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

		2016							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$	2,767,666	271,040	578,530	530,234	217,159	2,254,796	(272,414)	6,347,011
Income	\$	807,626	97,508	340,595	371,872	(273,205)	603,707	(275,870)	1,672,233

  

		2015							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$	3,456,022	356,119	733,039	458,348	263,495	1,551,837	(254,703)	6,564,157
Income	\$	1,176,082	142,036	423,378	234,775	(199,171)	502,424	(245,489)	2,034,035

Note 1: Internal segment revenues are eliminated on consolidation.

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

(4) Information about products and services

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

(5) Information about geographical areas

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

(6) Information about major customers

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

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Exhibit 1: Loans to others

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		(In thousands dollars)	
													Name	Value	Limit on loans to a single business	Limit on the Amount of Loans
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Account receivables - Related party	Yes	US 22,289	US 19,322	US 19,322	-	2	-	Operations	-	-	-	US 54,118	US 54,118
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Other receivables - Related party	Yes	US 3,380	US 3,403	US 3,380	-	2	-	Operations & repayment of financing	-	-	-	US 3,403	US 3,403
3	TIS Securities (HK) Ltd.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	-	2	-	Repayment of financing	-	-	-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	AP CAPITAL INVESTMENT LIMITED	Account receivables - Customer	No	HK 10,856	HK 10,856	HK -	5%	2	-	Tradings	-	-	-	HK 10,856	HK 92,534
5	CSC Futures (HK) Ltd.	KLAW TRADING LIMITED	Account receivables - Customer	No	HK 10,856	HK 10,856	HK 775	5%	2	-	Tradings	-	-	-	HK 10,856	HK 92,534
6	CSC Futures (HK) Ltd.	THREE ARROWS CAPITAL LTD	Account receivables - Customer	No	HK 10,856	HK 10,856	HK 3,220	5%	2	-	Tradings	-	-	-	HK 10,856	HK 92,534
7	CSC Futures (HK) Ltd.	FUTURE LEADING INVESTMENT PTE LTD	Account receivables - Customer	No	HK 10,856	HK 10,856	HK -	3.5%	2	-	Tradings	-	-	-	HK 10,856	HK 92,534

Note: Type of Loans

1. Business transactions

2. Necessaries of short-term financing

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**Exhibit 2: Significant transactions between parent company and subsidiaries for the year ended December 31, 2016**

(In thousands dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	General ledger account	Transaction details		Percentage(%) of total consolidated revenue
					Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	262		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	11,512		0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	123		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	148,803		0.14%
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Future commission revenue	155,588	General transaction	2.45%
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	15,525	General transaction	0.24%
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	353	General transaction	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	1,574	General transaction	0.02%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	11	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	2,936	General transaction	0.05%
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	183	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	10,296	General transaction	0.16%
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	22,427	General transaction	0.35%
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	216	General transaction	- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivables	126		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	82,000	General transaction	1.29%
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	1,200	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	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Revenue from securities management, distribution, and management fees	24	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Other non-operating revenue	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Guarantee deposits received	171		- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	998	General transaction	0.02%
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Revenue from securities management, distribution, and management fees	50	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Other non-operating revenue	600	General transaction	0.01%
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Financial costs	2	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	28		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	51		- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Other non-operating revenue	60	General transaction	- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	962	General transaction	0.02%
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	2	General transaction	- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	308,212		0.29%
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	308,212		0.29%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	256,606		0.24%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	1,377,458		1.27%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Commission expense - futures	11,766	General transaction	0.19%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions	60,627	General transaction	0.96%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	430	General transaction	0.01%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Information technology expense	13,955	General transaction	0.22%
1	Capital Futures Corp.	Capital International Technology Corp.	3	Lease revenue	146	General transaction	- %
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 11		- %
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 3,660	General transaction	0.24%
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 1,286	General transaction	0.09%
2	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	USD 19,322		0.58%
3	Capital Securities (Hong Kong) Ltd.	CSC International Holdings Ltd.	3	Other receivables	USD 425		0.01%
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	3	Other receivables	HK 26,210		0.10%
5	CSC Futures (HK) Ltd.	Capital True Partner Co., Ltd.	3	Accumulated depreciation	400		- %
5	CSC Futures (HK) Ltd.	Capital True Partner Co., Ltd.	3	Depreciation expense	400	General transaction	0.01%
5	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	159,813		0.16%
5	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	1,280,666		1.19%
5	CSC Futures (HK) Ltd.	Capital True Partner Co., Ltd.	3	Information technology expense	472	General transaction	0.01%

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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Exhibit 3: Disclosure required of investee companies

Ref No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by Company (Note 3)			Operating income of investee company	The highest shareholding ratio or capital contribution	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2016	Balance on December 31, 2015	Shares	Ratio	Book value						
0	Capital Investment Management Corp.	Taipei, Taiwan, R.O.C.	February 16, 1990		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%	105,330	82,000	100.00%	11,646	11,646	11,410	The transaction has been writtenoff in the consolidated financial statements
0	Capital Futures Corp.	Taipei, Taiwan, R.O.C.	February 26, 1997		Engaged in domestic and foreign futures business.	649,610	649,610	72,227,136	59.01%	1,869,075	1,677,309	59.01%	511,809	302,019	178,401	-
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment business.	1,339,555	1,339,555	45,000,000	100.00%	1,742,614	(23,477)	100.00%	(40,052)	(40,052)	-	-
0	Capital Insurance Advisory Corp.	Taipei, Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	500,000	100.00%	104,489	249,915	100.00%	87,396	87,396	55,627	Subsidiary
0	Capital Insurance Agency Corp.	Taipei, Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	740,000	100.00%	52,200	110,525	100.00%	14,286	14,286	10,360	-
0	Taiwan International Futures Corp. (Note 4)	Taipei, Taiwan, R.O.C.	November 25, 1993		Liquidation in progress.	429,990	429,990	11,999,721	99.99%	-	-	99.99%	-	-	-	The transaction has been writtenoff in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Holding company for international securities business.	1,394,817	1,394,817	300	100.00%	(13,298)	(850)	100.00%	(885)	(885)	-	-
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei, Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92%	13,298	-	99.92%	(252)	(252)	-	-
0	CSC Venture Capital Corp.	Taipei, Taiwan, R.O.C.	January 12, 2016	No. FSC-1040034071 dated September 8, 2015	Venture Capital and consulting business	1,000,000	-	100,000,000	100.00%	1,006,512	1,446	100.00%	(4,419)	(4,419)	-	-
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	June 29, 1993	No. FSC-17433 dated April 7, 1993	Liquidation in progress.	HK48,644 thousand	HK48,644 thousand	4,864,400	100.00%	HK52,429 thousand	HK(1,658) thousand	100.00%	HK(1,726) thousand	-	-	-
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK89,600 thousand	HK89,600 thousand	89,600,000	70.00%	HK114,472 thousand	HK 25,166 thousand	70.00%	HK(5,526) thousand	-	-	-
2	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK38,400 thousand	HK38,400 thousand	38,400,000	30.00%	HK49,059 thousand	HK 25,166 thousand	30.00%	HK(5,526) thousand	-	-	-
3	TIS Securities (HK) Ltd. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK265,000 thousand	HK265,000 thousand	265,000,000	100.00%	HK(26,432) thousand	HK-	100.00%	HK(203) thousand	-	-	-
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK2	HK2	2	100.00%	HK(49,216) thousand	HK-	100.00%	HK(7) thousand	-	-	-
5	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-86239 dated October 31, 1998 No. FSC-1010027412 dated August 24, 2012 No. FSC-1020050525 dated January 29, 2014 No. FSC-1050038018 dated October 21, 2016	Futures dealing business.	862,631	450,631	214,000,000	97.27%	928,880	643,870	100.00%	77,457	-	-	-
5	Capital International Technology Co., Ltd.	Taipei, Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	5,000,000	100.00%	45,739	2,030	100.00%	(5,326)	-	-	-
5	True Partner Advisor Hong Kong Ltd.	Hong Kong	May 31, 2010	No. FSC-1040027513 dated July 16, 2015	Asset Management	36,701	36,701	245,000	49.00%	41,516	66,027	49.00%	10,276	-	-	Associates
6	Capital Securities Nominees Ltd.	Hong Kong	April 7, 1995		Agency services.	HK2	HK2	2	100.00%	HK-	HK-	100.00%	HK-	-	-	The transaction has been writtenoff in the consolidated financial statements

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

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

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

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

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

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

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