

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
**CAPITAL SECURITIES CORPORATION AND
SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
for the Three Months Ended March 31, 2018 and 2017**

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

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Independent Auditors' Review Report

To the Board of Directors of
Capital Securities Corporation:

Introduction

We have reviewed the accompanying consolidated balance sheets of the Capital Securities Corporation and its subsidiaries as of March 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. 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 International Accounting Standards (“IASs”) 34 “Interim Financial Reporting”, endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65 “Review of Financial Information Performed by the Independent Auditor of the Entity”. A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(c), the consolidated financial statements included the financial statements of certain non-major subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$3,626,051 thousands and \$3,558,438 thousands, constituting 2.57% and 2.85% of consolidated total assets as of March 31, 2018 and 2017, respectively, total liabilities amounting to \$315,863 thousands and \$690,537 thousands, constituting 0.30% and 0.74% of consolidated total liabilities as of March 31, 2018 and 2017, respectively, and total comprehensive income(loss) amounting to \$79,438 thousands and \$(24,012) thousands, constituting 11.82% and (4.43)% of consolidated total comprehensive income (loss) for the three months ended March 31, 2018 and 2017, respectively.



Furthermore, as stated in Note 6(f), the other equity accounted investments of the Capital Securities Corporation and its subsidiaries in its investee companies of \$1,478,469 thousands and \$226,399 thousands as of March 31, 2018 and 2017, respectively, and its equity in net earnings on these investee companies of \$32,679 thousands and \$28,899 thousands for the three months ended March 31, 2018 and 2017, respectively, and its equity in other comprehensive income on these investee companies of \$(302) thousands and \$(704) thousands for the three months ended March 31, 2018 and 2017, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Capital Securities Corporation and its subsidiaries as of March 31, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and IASs 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors’ review report are LEE, FENG HUI and CHUNG TAN TAN.

KPMG

Taipei, Taiwan (Republic of China)
May 11, 2018

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of March 31, 2018 and 2017

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2018, December 31, 2017, and March 31, 2017

(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2018		December 31, 2017		March 31, 2017			March 31, 2018		December 31, 2017		March 31, 2017	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Assets							Liabilities and Equity						
Current assets:							Current liabilities:						
110000 Cash and cash equivalents (note 6(a))	\$ 7,629,820	5	7,104,077	5	6,282,083	5	210000 Short-term borrowings (note 6(j))	\$ 6,761,497	5	7,081,698	5	5,764,959	5
112000 Financial assets at fair value through profit or loss - current (note 6(b))	32,715,055	23	34,737,268	24	30,908,318	25	211200 Commercial paper payable (note 6(k))	5,499,124	4	4,099,184	3	4,849,172	4
113200 Financial assets at fair value through other comprehensive income - current (note 6(b))	30,899,066	22	-	-	-	-	212000 Financial liabilities at fair value through profit or loss - current (note 6(l))	3,700,665	2	2,903,193	2	1,010,742	1
113400 Financial assets available for sale - current (notes 6(b))	-	-	32,807,779	23	27,781,984	22	214010 Bonds sold under repurchase agreements (note 6(m))	45,748,947	32	47,056,312	33	43,348,419	35
114010 Bonds purchased under resale agreements	-	-	-	-	451,918	-	214040 Guarantee deposited for short sales	1,050,945	1	2,226,264	2	1,060,615	1
114030 Receivable for securities provided as collateral	14,800,477	10	14,886,813	11	13,733,110	11	214050 Proceeds payable from short sales	1,179,872	1	2,500,853	2	1,187,443	1
114040 Refinancing margin	5,920	-	46,095	-	4,603	-	214070 Securities lending refundable deposits	995,555	1	1,190,277	1	544,618	-
114050 Refinancing collateral receivable	4,916	-	38,888	-	4,495	-	214080 Futures traders' equity (note 6(e))	26,904,899	19	27,268,226	19	24,142,693	19
114060 Receivable of securities business money lending (note 6(e))	1,133,085	1	1,532,231	1	760,811	1	214090 Customer equity of separate account ledger in settlement account (note 6(n))	12,878	-	13,479	-	12,718	-
114070 Customers' margin account	26,989,365	19	27,302,712	19	24,179,107	20	214100 Leverage contract trading - customers' equity	182,412	-	152,840	-	148,867	-
114080 Receivable - futures margin	-	-	1	-	-	-	214110 Notes payable	485	-	879	-	485	-
114090 Collateral for securities borrowed	1,240,726	1	914,343	1	158,813	-	214130 Accounts payable (note 6(o))	5,973,527	4	5,778,758	4	5,417,349	4
114100 Security borrowing margin	1,129,973	1	931,868	1	353,541	-	214150 Advance receipts	37,449	-	55,544	-	54,210	-
114110 Notes receivable	19,573	-	21,811	-	15,044	-	214160 Receipts under custody	151,007	-	346,023	-	154,953	-
114130 Accounts receivable (note 6(d))	7,943,154	6	6,726,055	5	5,363,182	4	214170 Other payables	814,411	1	995,443	1	565,103	-
114150 Prepayments	26,851	-	33,940	-	41,563	-	214200 Other financial liabilities - current (note 6(w))	5,131,125	4	4,509,983	3	2,495,416	2
114170 Other receivables	71,525	-	70,107	-	93,358	-	214600 Current income tax liabilities	318,193	-	228,401	-	283,237	-
114300 Leverage contract trading - customers' margin account	182,363	-	151,540	-	142,194	-	215100 Provisions - current (note 6(q))	54,474	-	49,066	-	53,980	-
114600 Current income tax assets	26,621	-	26,763	-	44,811	-	219000 Other current liabilities	5,342	-	6,726	-	6,220	-
119000 Other current assets	805,434	1	888,582	1	814,705	1		<u>104,522,807</u>	<u>74</u>	<u>106,463,149</u>	<u>75</u>	<u>91,101,199</u>	<u>72</u>
	<u>125,623,924</u>	<u>89</u>	<u>128,220,873</u>	<u>91</u>	<u>111,133,640</u>	<u>89</u>	220000 Non-Current liabilities:						
120000 Non-current assets:							224200 Other financial liabilities - non-current (note 6(w))	268,516	-	266,037	-	292,045	-
122000 Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	185,670	-	186,015	-	186,146	-	228000 Deferred income tax liabilities	528,120	-	479,193	-	646,839	1
123100 Financial assets measured at cost - non-current (note 6(b))	-	-	754,545	1	644,225	1	229000 Other non-current liabilities	799,325	1	799,939	1	864,824	1
123200 Financial assets at fair value through other comprehensive income - non-current (note 6(b))	1,878,536	1	-	-	-	-		<u>1,595,961</u>	<u>1</u>	<u>1,545,169</u>	<u>1</u>	<u>1,803,708</u>	<u>2</u>
123400 Financial assets available for sale - non-current (note 6(b))	-	-	-	-	73,866	-	Total liabilities	<u>106,118,768</u>	<u>75</u>	<u>108,008,318</u>	<u>76</u>	<u>92,904,907</u>	<u>74</u>
124100 Investments accounted for under equity method (note 6(f))	1,478,469	1	173,588	-	226,399	-	Equity attributable to shareholders of the parent:						
125000 Property and equipment (notes 6(g) and 8)	4,939,022	4	4,966,752	3	5,105,764	4	301000 Common stock (note 6(s))	21,690,730	15	21,690,730	15	21,690,730	17
126000 Investment property (notes 6(h) and 8)	1,792,124	1	1,796,541	1	1,723,524	2	302000 Capital surplus:						
127000 Intangible assets (note 6(i))	3,622,768	3	3,628,174	3	3,623,363	3	302010 Premium from stock issuance	1,776,413	1	1,776,413	1	1,776,413	2
128000 Deferred income tax assets	120,427	-	174,236	-	415,385	-	302020 Treasury stock transactions	437,096	-	437,096	-	437,096	-
129000 Other non-current assets	1,654,625	1	1,585,594	1	1,711,227	1	302070 Paid-in capital from merger	602,665	-	602,665	1	602,665	1
	<u>15,671,641</u>	<u>11</u>	<u>13,265,445</u>	<u>9</u>	<u>13,709,899</u>	<u>11</u>	302095 Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,338	-	1,338	-
							302096 Changes in ownership interests in subsidiaries	34,787	-	34,787	-	33,337	-
							304000 Retained earnings:						
							304010 Legal reserve	1,230,275	1	1,230,275	1	1,110,600	1
							304020 Special reserve	2,709,623	2	2,709,623	2	2,464,288	2
							304040 Unappropriated earnings	3,669,085	3	2,850,553	2	1,701,918	1
							305120 Exchange differences on translation of foreign operations	(173,192)	-	(103,566)	-	(44,425)	-
							305140 Unrealized gains (losses) on financial assets at fair value through other comprehensive income	974,293	1	-	-	-	-
							305150 Unrealized gains (losses) on financial assets available for sale	-	-	191,716	-	206,252	-
							Total equity attributable to the parent company	<u>32,953,113</u>	<u>23</u>	<u>31,421,630</u>	<u>22</u>	<u>29,980,212</u>	<u>24</u>
							Non-controlling interests	<u>2,223,684</u>	<u>2</u>	<u>2,056,370</u>	<u>2</u>	<u>1,958,420</u>	<u>2</u>
							Total equity	<u>35,176,797</u>	<u>25</u>	<u>33,478,000</u>	<u>24</u>	<u>31,938,632</u>	<u>26</u>
Total assets	\$ 141,295,565	100	141,486,318	100	124,843,539	100	Total liabilities and equity	\$ 141,295,565	100	141,486,318	100	124,843,539	100

See accompanying notes to consolidated financial statements.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		For the three months ended March 31,			
		2018		2017	
		Amount	%	Amount	%
Income:					
401000	Brokerage commissions (note 6(u))	\$ 1,160,270	41	815,072	44
402000	Revenues from securities business money lending	36	-	154	-
403000	Revenue from securities lending	29,953	1	24,801	1
404000	Underwriting commissions (note 6(u))	27,176	1	48,523	3
406000	Commissions on wealth management business	32,521	1	21,779	1
410000	Net gains (losses) on sale of trading securities (note 6(u))	9,564	-	373,498	20
421100	Securities management, distribution, and management fees	33,512	1	32,863	2
421200	Interest revenue (note 6(u))	562,029	20	441,261	24
421300	Dividend revenue	2,645	-	635	-
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(u))	96,596	4	135,562	7
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	57,661	2	9,758	1
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	60,975	2	(50,938)	(3)
421750	Realised gains (losses) on financial assets measured at fair value through other comprehensive income - bonds	(21,029)	(1)	-	-
422200	Net gains (losses) on stock warrants issued (note 6(u))	378,770	14	40,802	2
424100	Futures commission revenues (note 6(u))	177,188	6	111,893	6
424400	Net gains (losses) on derivative instruments - futures (note 6(w))	258,769	9	(82,286)	(4)
424500	Net gains (losses) on derivative instruments - OTC (note 6(w))	(43,360)	(1)	(140,617)	(7)
424800	Management fee revenues	88	-	9	-
424900	Consultancy fee revenue	5,160	-	3,592	-
425300	Impairment gain and reversal of impairment loss (note 6(v))	(54,215)	(2)	-	-
428000	Other operating revenues	48,920	2	51,997	3
		<u>2,823,229</u>	<u>100</u>	<u>1,838,358</u>	<u>100</u>
Expenses:					
501000	Brokerage fees	158,163	5	103,733	6
502000	Brokerage and clearing fees - proprietary trading	5,513	-	4,584	-
503000	Clearing and exchange fees - refinancing	508	-	327	-
504000	Clearing and exchange fees - underwriting	177	-	815	-
521200	Financial costs	208,832	7	124,848	7
524100	Futures commission expense (note 6(u))	152,715	5	107,423	6
524300	Clearing and settlement expenses	42,613	2	32,491	2
528000	Other operating expenditure	2,510	-	26	-
531000	Employee benefits expenses (note 6(u))	721,990	26	633,841	34
532000	Depreciation and amortization expense (note 6(u))	51,503	2	54,264	3
533000	Other operating expenses (note 6(u))	509,850	18	335,829	18
		<u>1,854,374</u>	<u>65</u>	<u>1,398,181</u>	<u>76</u>
Other income (expenses):					
601000	Share of profits of associates and joint venture (note 6(f))	32,679	1	28,899	1
602000	Other gains and losses (note 6(u))	174,997	6	140,159	8
		<u>207,676</u>	<u>7</u>	<u>169,058</u>	<u>9</u>
902001	Net income before income tax	1,176,531	42	609,235	33
701000	Income tax expense (note 6(r))	(200,008)	(7)	(54,571)	(3)
	Net income	<u>976,523</u>	<u>35</u>	<u>554,664</u>	<u>30</u>
805000	Other comprehensive income:				
805500	Components that may not be reclassified to profit or loss in subsequent periods:				
805540	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	111,007	4	-	-
805599	Income tax related to components of other comprehensive income	-	-	-	-
	Subtotal of components that may not be subsequently reclassified into profit or loss	<u>111,007</u>	<u>4</u>	<u>-</u>	<u>-</u>
805600	Components that may be reclassified to profit or loss in subsequent periods:				
805610	Exchange differences on translation of foreign operations	(83,690)	(3)	(192,301)	(10)
805615	Unrealized gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	(330,254)	(12)	-	-
805620	Unrealized gains (losses) on financial assets available for sale, net	-	-	151,972	8
805699	Income tax related to components of other comprehensive income (note 6(r))	(1,615)	-	27,932	2
	Subtotal of items that may be subsequently reclassified into profit or loss	<u>(415,559)</u>	<u>(15)</u>	<u>(12,397)</u>	<u>-</u>
805000	Other comprehensive income, net	<u>(304,552)</u>	<u>(11)</u>	<u>(12,397)</u>	<u>-</u>
902006	Total comprehensive income	<u>\$ 671,971</u>	<u>24</u>	<u>542,267</u>	<u>30</u>
Net income attributable to:					
913100	Shareholders of the parent	\$ 793,996	29	513,285	28
913200	Non-controlling interests	182,527	6	41,379	2
		<u>\$ 976,523</u>	<u>35</u>	<u>554,664</u>	<u>30</u>
Total comprehensive income attributable to:					
914100	Shareholders of the parent	\$ 505,057	18	524,739	29
914200	Non-controlling interests	166,914	6	17,528	1
		<u>\$ 671,971</u>	<u>24</u>	<u>542,267</u>	<u>30</u>
975000	Basic earnings per share (note 6(t))	<u>\$ 0.37</u>		<u>0.24</u>	
985000	Diluted earnings per share (note 6(t))	<u>\$ 0.37</u>		<u>0.24</u>	

See accompanying notes to consolidated financial statements.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to the parent company											Total Equity
	Retained earnings					Total other equity interest				Total equity attributable to the parent company	Non-controlling interests	
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gains (losses) on financial assets available for sale	Treasury stocks			
Balance at January 1, 2017	\$ 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
Net income for the three months ended March 31, 2017	-	-	-	-	513,285	-	-	-	-	513,285	41,379	554,664
Other comprehensive income	-	-	-	-	-	(141,583)	-	153,037	-	11,454	(23,851)	(12,397)
Total comprehensive income	-	-	-	-	513,285	(141,583)	-	153,037	-	524,739	17,528	542,267
Purchase of treasury shares	-	-	-	-	-	-	-	-	(91,539)	(91,539)	-	(91,539)
Retirement of treasury shares	(1,000,000)	73,413	-	-	-	-	-	-	926,587	-	-	-
Capital surplus changes in ownership interests in subsidiaries	-	26,464	-	-	-	-	-	-	-	26,464	-	26,464
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	617,162	617,162
Balance at March 31, 2017	\$ 21,690,730	2,850,849	1,110,600	2,464,288	1,701,918	(44,425)	-	206,252	-	29,980,212	1,958,420	31,938,632
Balance at January 1, 2018	\$ 21,690,730	2,852,299	1,230,275	2,709,623	2,850,553	(103,566)	-	191,716	-	31,421,630	2,056,370	33,478,000
Effects of retrospective application	-	-	-	-	12,367	-	1,205,775	(191,716)	-	1,026,426	400	1,026,826
Balance at January 1, 2018 after adjustments	21,690,730	2,852,299	1,230,275	2,709,623	2,862,920	(103,566)	1,205,775	-	-	32,448,056	2,056,770	34,504,826
Net income for the three months ended March 31, 2018	-	-	-	-	793,996	-	-	-	-	793,996	182,527	976,523
Other comprehensive income	-	-	-	-	-	(69,626)	(219,313)	-	-	(288,939)	(15,613)	(304,552)
Total comprehensive income	-	-	-	-	793,996	(69,626)	(219,313)	-	-	505,057	166,914	671,971
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	12,169	-	(12,169)	-	-	-	-	-
Balance at March 31, 2018	\$ 21,690,730	2,852,299	1,230,275	2,709,623	3,669,085	(173,192)	974,293	-	-	32,953,113	2,223,684	35,176,797

See accompanying notes to consolidated financial statements.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2018	2017
Cash flows from (used in) operating activities:		
Net income before tax	\$ 1,176,531	609,235
Adjustments:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	42,646	46,057
Amortization expense	8,857	8,207
Impairment loss / Provision for bad debt expense	54,215	12,883
Net gains on financial assets or liabilities at fair value through profit or loss	(157,571)	(138,900)
Interest expense	208,832	124,848
Interest income (including financial income)	(637,422)	(498,231)
Dividend revenue	(5,683)	(2,352)
Share-based payment compensation cost	-	17,530
Share of profit of associates and joint ventures	(32,679)	(28,899)
Net gains on non-operating financial instruments at fair value through profit or loss	(21,963)	(12,832)
Net changes of income and expense items with no effect on cash flows	(540,768)	(471,689)
Changes in assets and liabilities from operating activities:		
Decrease (increase) in financial assets at fair value through profit or loss	2,141,121	(3,029,980)
Increase in financial assets available for sale - current	-	(8,289,796)
Decrease in financial assets at fair value through other comprehensive income	2,220,136	-
Increase in bond purchased under resale agreements	-	(451,918)
Decrease (increase) in receivable for securities provided as collateral	67,042	(1,808,595)
Decrease in refinancing margin	40,175	88,750
Decrease in receivable on refinancing collateral	33,972	74,794
Decrease (increase) in receivable of securities business money lending	399,146	(616,259)
Decrease (increase) in customers' margin account	313,347	(1,009,265)
Decrease (increase) in margin receivable of futures trading	(34,167)	894
Decrease (increase) in collateral for securities borrowed	(326,383)	643,924
Decrease (increase) in security borrowing margin	(198,105)	421,710
Decrease in notes receivable	2,238	1,887
Increase in accounts receivable	(1,206,451)	(1,232,906)
Decrease in prepayments	7,089	8,840
Decrease (increase) in other receivables	(4,082)	6,900
Increase in leverage contract trading - customers' margin account	(30,823)	(142,122)
Increase in pledged assets - current	(55,530)	(159,161)
Decrease (increase) in guarantee deposited for business operations	(4,060)	1,222
Decrease in settlement fund	7,689	756
Increase in refundable deposits	(75,859)	(70,944)
Decrease in other current assets	141,646	49,858
Decrease in other non-current assets	27,604	100,129
Increase (decrease) in financial liabilities at fair value through profit or loss	858,447	(461,685)
Increase (decrease) in bonds sold under repurchase agreements	(1,307,365)	8,391,777
Decrease in guarantee deposited for short sales	(1,175,319)	(662,225)
Decrease in proceeds payable from short sales	(1,320,981)	(759,661)
Decrease in securities lending refundable deposits	(194,722)	(334,248)
Increase (decrease) in futures traders' equity	(363,327)	1,010,462
Increase (decrease) in customers' equity of separate account ledger in settlement account	(601)	8,181
Increase in leverage contract trading - customers' equity	29,572	148,797
Decrease in notes payable	(394)	(394)
Increase in accounts payable	194,769	1,939,225
Increase (decrease) in advance receipts	(18,095)	20,641
Increase (decrease) in receipts under custody	(195,016)	7,625
Decrease in other payable	(168,258)	(88,610)
Increase (decrease) in other current liabilities	(5,264)	2,427
Increase in other financial liabilities - current	621,142	67,955
Increase (decrease) in provision - current	5,408	(11,385)
Increase in other financial liabilities - non-current	2,479	52,411
Decrease in other non-current liabilities	(611)	(19,542)
Total changes in assets and liabilities from operating activities	427,609	(6,099,531)
Total cash generated from adjustment items	(113,159)	(6,571,220)

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2018	2017
Cash generated from operating activities	\$ 1,063,372	(5,961,985)
Interest received	628,786	461,704
Dividends received	5,686	2,353
Interest paid	(220,799)	(135,228)
Income taxes paid	(8,946)	(6,408)
Net Cash flows provided by (used in) operating activities	1,468,099	(5,639,564)
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(652,370)	-
Acquisition of financial assets measured at cost	-	(195,765)
Acquisition of investments accounted for using equity method	(1,272,505)	-
Decrease (increase) in deferred debits	(401)	74
Acquisition of property and equipment	(12,164)	(12,935)
Acquisition of intangible assets	(2,988)	(19,021)
Net cash flows provided by (used in) investing activities	(1,940,428)	(227,647)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowing	(320,201)	1,528,557
Increase in commercial papers payable	1,399,940	4,849,172
Payments to acquire treasury shares	-	(91,539)
Issuance of common stock for cash	-	626,096
Net cash flows provided by (used in) financing activities	1,079,739	6,912,286
Effect of exchange rate changes on cash and cash equivalents	(81,667)	(186,407)
Increase in cash and cash equivalents	525,743	858,668
Cash and cash equivalents, beginning of the year	7,104,077	5,423,415
Cash and cash equivalents, end of this period	\$ 7,629,820	6,282,083

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(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, Song-Jen Road, Taipei, Taiwan, R.O.C. As of March 31, 2018, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of March 31, 2018, the Company has 53 branches nationwide.

The Company is authorized to conduct the following businesses:

- (a) Underwriting of marketable securities;
- (b) Trading of marketable securities on a proprietary basis on stock exchange;
- (c) Brokerage of marketable securities on stock exchange;
- (d) Trading of marketable securities at the Company's branches;
- (e) Brokerage of marketable securities at the Company's branches;
- (f) Margin loan, short sale and refinancing;
- (g) Securities registration agency services;
- (h) Dealership of foreign marketable securities;
- (i) Short-term bills service;
- (j) Accessory services of futures trading;
- (k) Futures trading on a proprietary basis;
- (l) Securities business money lending;
- (m) Managing the unexpended balance of clients' securities accounts within their authorization;
- (n) Trust business;
- (o) Offshore securities business;
- (p) Other relevant services as approved by the authority in charge.

(2) Approval date and procedures of the consolidated financial statements:

The consolidated financial statements were authorized for issuance by the board of directors on May 11, 2018.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

- (i) IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate item in the statement of comprehensive income. Previously, the Group's approach was to include the impairment of account receivables in operating expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The detail and impact on significant accounting policies of IFRS 9 applied are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please refer to note 4(f).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please refer to note 4(f).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity items as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment on debentures had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on those asset increase insignificantly since its initial recognition.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original and new measurement categories under IAS 39 and IFRS 9 for each class of the Group's financial assets as of January 1, 2018. There were no changes on the measurement categories and the carrying amount of financial liabilities.

	IAS39		IFRS9	
	Measurement Categories	Carrying Amount	Measurement Categories	Carrying Amount
Financial Assets				
Cash and equivalents	Amortized cost	7,104,077	Amortized cost	7,104,077
Financial assets at fair value through profit or loss	FVTPL	34,923,283	FVTPL	34,916,845
		-	FVOCI (Note 2)	12,360
Financial assets available for sale	Available-for-sale	32,807,779	FVOCI (Note 1)	32,807,779
Accounts receivable	Amortized cost	25,194,975	Amortized cost	25,194,975
Customers' margin account	Amortized cost	27,302,712	Amortized cost	27,302,712
Leverage contract trading - customers' margin account	Amortized cost	151,540	Amortized cost	151,540
Financial assets measured at cost	Measured at cost	754,545	FVOCI (Note 2)	1,775,449
Other assets	Amortized cost	2,119,569	Amortized cost	2,119,569

Note1: The debt instrument investments were previously classified as financial asset available for sale under IAS 39, are held by the Group in same portfolio to provide interest income; however, they may be sold to meet liquidity requirements arising in the normal course of business. These debentures are held within a business model whose objective is both to collect contractual cash flows and sell financial assets. The contractual terms of these debentures give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Therefore, these investments were classified as financial assets at FVOCI. With the transition to IFRS 9, an impairment loss \$15,153 was recognized, the adjustments would result in a decrease in retained earnings of \$15,153 and an increase in other equity items of \$15,153 on January 1, 2018.

Note2: These equity instruments (including financial assets measured at cost) represent investments that the Group intends to hold for the long term strategic purposes or not for the trading purposes. In accordance with IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, an increase of \$1,026,826 in those assets recognized, and an increase of \$998,906, \$27,520 and \$400 were recognized in other equity items, retained earnings and non-controlling interests on January 1, 2018.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The reconciliations of carrying amount of financial assets transferred from December 31, 2017 under IAS 39, to January 1, 2018 under IFRS 9, were as follows:

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings effect	2018.1.1 Other equity items effect
Financial assets at fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 34,923,283	-	-		-	-
Subtraction – equity instruments:						
To FVOCI	-	(6,438)	-		-	-
Total	<u>\$ 34,923,283</u>	<u>(6,438)</u>	<u>-</u>	<u>34,916,845</u>	<u>-</u>	<u>-</u>
Financial assets at fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 33,562,324	-	1,020,904		-	1,020,504
Addition – equity instruments:						
From FVTPL	-	6,438	5,922		27,520	(21,598)
Total	<u>\$ 33,562,324</u>	<u>6,438</u>	<u>1,026,826</u>	<u>34,595,588</u>	<u>27,520</u>	<u>998,906</u>

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Those which may be relevant to The Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> · For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. · A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
June 7, 2017	IFRIC 23 “Uncertainty over Income Tax Treatments”	<ul style="list-style-type: none"> · In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. · If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The potential impact will be disclosed when the assessment is completed.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(4) Summary of significant accounting policies:

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Firms”, and the IAS 34 “Interim Financial Reporting” endorsed and issued into effect by the FSC and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC for full annual consolidated financial statements.

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2017. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2017 for the detail disclosures of significant accounting policies.

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss (including derivative instruments);
- 2) Financial assets available for sale that are measured at fair value; and
- 3) 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.

(ii) Functional and presentation currency

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Basis of consolidation

(i) 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
			March 31, 2018	December 31, 2017	March 31, 2017	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00 %	100.00 %	100.00 %	The corporation established in February, 1990. As of March 31, 2018, the paid-in capitals amounted to \$70,000. (note 1)
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %	100.00 %	The corporation established in March, 1996. As of March 31, 2018, the paid-in capitals amounted to US\$45,000 thousands. (note 2)
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.21 %	56.21 %	59.01 %	The corporation established in February, 1997, and increased capital on February, 2017. The ownership portion has decreased from 59.01% to 56.21%. As of March 31, 2018, the paid-in capitals amounted to \$1,603,979.
"	Taiwan International Futures Corp.	Management consultancy	99.99 %	99.99 %	99.99 %	Liquidation in progress. (note 3)
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %	100.00 %	The corporation established in December, 1996. As of March 31, 2018, the paid-in capitals amounted to US\$9,516 thousands. (note 4)
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92 %	99.92 %	99.92 %	Liquidation in progress. (note 5)
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	100.00 %	The corporation established in January, 2016. As of March 31, 2018, the paid-in capitals amounted to \$1,000,000. (note 6)
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %	97.27 %	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 March 31, 2018, the paid-in capitals amounted to HK\$220,000 thousands.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00 %	100.00 %	100.00 %	The corporation established in December, 2014. As of March 31, 2018, the paid-in capitals amounted to 50,000. (note 7)
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management, consulting and information service business.	51.00 %	51.00 %	51.00 %	The corporation established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of March 31, 2018, the paid-in capitals amounted to CNY\$1,000 thousands. (note 8)

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
Capital International Technology Corp.	Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	100.00 %	100.00 %	100.00 %	The corporation established in October, 2016. As of March 31, 2018, the paid-in capitals amounted to CNY\$4,000 thousands. (note 9)
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	100.00 %	100.00 %	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	The corporation established in May, 1994. Acquired 30% of the equity from Capital Securities (Hong Kong) Ltd. in September, 2017. (note 2)
"	Capital Securities (Hong Kong) Ltd.	Long-term equity investment business	- %	- %	100.00 %	The board of directors of the Company resolved to cease operation on October 30, 2012. The corporation's registration is cancelled on February 3, 2018.
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	The corporation established in May, 1994. (note2)
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00 %	100.00 %	100.00 %	The corporation established in April, 1995. Acquired equity from Capital Securities (Hong Kong) Ltd. on January 17, 2013. (note 2)
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Long-term equity investment business.	100.00 %	100.00 %	100.00 %	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently. (note 4)
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00 %	100.00 %	100.00 %	"

Note 1: Capital Investment Management Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2018 and 2017, the total assets amounted to \$118,561 and \$119,257, and the total liabilities amounted to \$9,196 and \$10,585, respectively. The total comprehensive income for the three months ended March 31, 2018 and 2017 were \$2,208 and \$3,342.

Note 2: CSC International Holdings Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2018 and 2017, the total consolidated assets amounted to \$1,684,150 thousands and \$1,996,017 thousands, and the total consolidated liabilities amounted to \$116,288 thousands and \$373,125 thousands, respectively. The total consolidated comprehensive income for the three months period ended March 31, 2018 and 2017 were \$12,203 thousands and \$(15,259) thousands.

Note 3: Taiwan International Futures Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2018 and 2017, the total assets amounted to \$636,868 thousands and \$334,854 thousands, and the total liabilities amounted to \$176,392 thousands and \$271,265 thousands, respectively. The total comprehensive income for the three months period ended March 31, 2018 and 2017 were \$50,096 thousands and \$(787) thousands.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Note 4: Taiwan International Securities (B.V.I) Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2018 and 2017, the total consolidated assets amounted to \$1,785 thousands and \$2,349 thousands, and the total consolidated liabilities amounted to \$1,066 thousands and \$2,758 thousands, respectively. The total consolidated comprehensive income for the three months period ended March 31, 2018 and 2017 were \$(558) thousands and \$(443) thousands.
- Note 5: Taiwan International Securities Investment Consulting Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2018 and 2017, the total assets amounted to \$13,255 thousands and \$13,523 thousands, and the total liabilities amounted to \$272 thousands and \$272 thousands, respectively. The total comprehensive income for the three months period ended March 31, 2018 and 2017 were \$(58) thousands and \$(58) thousands.
- Note 6: CSC Venture Capital Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2018 and 2017, the total assets amounted to \$1,078,055 thousands and \$998,035 thousands, and the total liabilities amounted to \$865 thousands and \$853 thousands, respectively. The total comprehensive income for the three months period ended March 31, 2018 and 2017 were \$211 thousands and \$(9,330) thousands.
- Note 7: Capital International Technology Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2018 and 2017, the total assets amounted to \$53,311 thousands and \$46,276 thousands, and the total liabilities amounted to \$406 thousands and \$261 thousands, respectively. The total comprehensive income for the three months period ended March 31, 2018 and 2017 were \$6,698 thousands and \$(47) thousands.
- Note 8: Capital True Partner Technology Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2018 and 2017, the total assets amounted to \$4,190 thousands and \$3,761 thousands, and the total liabilities amounted to \$3,763 thousands and \$4,187 thousands, respectively. The total comprehensive income for the three months period ended March 31, 2018 and 2017 were \$1,062 thousands and \$298 thousands.
- Note 9: Capital Futures Technology (Shanghai) Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2018 and 2017, the total assets amounted to \$35,876 thousands and \$44,366 thousands, and the total liabilities amounted to \$7,615 thousands and \$27,231 thousands, respectively. The total comprehensive income for the three months period ended March 31, 2018 and 2017 were \$7,576 thousands and \$(1,728) thousands.

(ii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00 %	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 March 31, 2018, December 31, 2017 and March 31, 2017, the total assets constituted 0.03%, 0.03% and 0.05% of the Group's total assets. For the three months ended March 31, 2018 and 2017, the operation revenue were merely 0.58% and 1.53% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Name of the investor</u>	<u>Subsidiaries</u>	<u>Business type</u>	<u>Ratio of Equity Ownership</u>			<u>Note</u>
			<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>	
The Company	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	100.00 %	100.00 %	100.00 %	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 March 31, 2018, December 31, 2017 and March 31, 2017, the total assets constituted 0.09%, 0.07%, and 0.13% of the Group's total assets. For the three months ended March 31, 2018 and 2017, the operation revenue were merely 1.81% and 4.10% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(d) Income tax

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

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

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

(e) Employee benefits

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

(f) Financial instruments (applicable from January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: Financial assets measured at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following criteria and is not designated as at FVTPL :

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost less impairment losses by using the effective interest method. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized is reclassified to profit or loss.

2) Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is measured at FVOCI if it meets both of the following criteria and is not designated as at FVTPL :

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated by using the effective interest method, foreign exchange gains and losses, impairment losses, and dividend income (unless the dividend clearly represents a recovery of part of the cost of the investment.) deriving from debt instruments are recognized in profit or loss. Other changes in the carrying amount are recognized in other comprehensive income and accumulated in other equity items. On derecognition, the cumulative gains and losses of debt instruments will be reclassified to profit or loss. However, the cumulative gains and losses of equity instrument investments will not be reclassified to profit or loss. Instead, they will be transferred to retained earnings.

Dividends derived from equity investments are recognized as revenue when the right to receive payment is established, which is normally the ex-dividend date.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Financial assets at fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate financial assets at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss, if they can eliminate or significantly reduce a measurement or recognition inconsistency.

On initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss as incurred. The Group subsequently measures the financial assets at fair value, and recognizes the gains or losses (including dividend and interest income) in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets at amortized costs, notes and accounts receivable, other receivables, refundable deposits and other financial assets), debt instrument investments measured at FVOCI and contract assets.

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e., the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the ECLs that result from all possible default events of a financial instrument within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered in estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The Group regards a financial asset as a default when the client of brokerage business is unable to fulfill the margin call or settlement obligation.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets measured at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the carrying amount of the assets. For debt instrument investments at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to reimburse the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Group recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gains or losses that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income" in profit or loss.

On derecognition of a debt instruments not in its entirety, the previous carrying amount and the cumulative gains or loss that had been recognized in other comprehensive income of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of 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 from the part derecognized, and any cumulative gains or losses allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) 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.

1) 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.

2) 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 Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counter-parties. The Group 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.

3) Structured instruments

The portfolio of structured instruments contract contains fixed income products and financial derivatives instruments, as well as main-contract of non-derivatives and embedded derivatives, which 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.

4) 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5) 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.

6) 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.

7) 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.

8) 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 reporting date is also included in current earnings.

9) Stock warrants

Issuance of stock warrants by a securities firm 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(5) Major sources of significant accounting assumptions, judgments and estimation uncertainty:

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

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 5 of the consolidated financial statements as of and for the year ended December 31, 2017.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	March 31, 2018	December 31, 2017	March 31, 2017
Cash	\$ <u>2,838</u>	<u>2,767</u>	<u>2,835</u>
Bank deposits			
Checking accounts	35,217	53,094	49,295
Demand deposits	658,743	956,250	163,931
Time deposits	3,367,965	2,971,870	3,481,154
Foreign currency deposits	<u>1,504,518</u>	<u>1,875,088</u>	<u>1,458,446</u>
Subtotal	<u>5,566,443</u>	<u>5,856,302</u>	<u>5,152,826</u>
Cash equivalents			
Futures margin - excess margin	1,840,638	1,098,046	1,092,932
Commercial papers	<u>219,901</u>	<u>146,962</u>	<u>33,490</u>
Subtotal	<u>2,060,539</u>	<u>1,245,008</u>	<u>1,126,422</u>
Total	<u>\$ 7,629,820</u>	<u>7,104,077</u>	<u>6,282,083</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Financial assets

(i) Financial assets at fair value through profit or loss - current:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 384,844	323,962	760,861
Valuation adjustment	<u>11,557</u>	<u>(1,886)</u>	<u>(7,078)</u>
Subtotal	<u>396,401</u>	<u>322,076</u>	<u>753,783</u>
Trading securities - proprietary trading			
Listed stocks	2,021,402	1,495,906	1,133,276
Listed funds	520,546	1,122,398	985,983
OTC stocks	753,354	742,663	298,511
OTC funds	-	40,000	-
Emerging market stocks	466,412	455,025	228,988
Emerging market funds	10,071	9,848	8,967
Convertible corporate bonds	921,479	767,352	604,718
Government bonds	6,286,683	6,695,553	6,200,318
Corporate bonds	9,104,917	9,403,722	9,665,716
International bonds	2,865,707	2,838,568	2,729,305
Financial debentures	300,000	300,000	1,659,501
Foreign stocks	740,634	646,649	590,850
Overseas bonds	58,047	59,353	60,490
Other	<u>257</u>	<u>34,858</u>	<u>32,603</u>
	24,049,509	24,611,895	24,199,226
Valuation adjustment	<u>146,333</u>	<u>132,192</u>	<u>65,950</u>
Subtotal	<u>24,195,842</u>	<u>24,744,087</u>	<u>24,265,176</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Trading securities - underwriting:			
Listed stocks	\$ 28,328	81,823	19,740
OTC stocks	43,321	48,763	34,559
Convertible corporate bonds	<u>291,314</u>	<u>129,277</u>	<u>47,100</u>
	362,963	259,863	101,399
Valuation adjustment	<u>3,149</u>	<u>11,400</u>	<u>(3,125)</u>
Subtotal	<u>366,112</u>	<u>271,263</u>	<u>98,274</u>
Trading securities - hedging			
Listed stocks	2,731,498	4,022,877	1,837,304
OTC stocks	670,173	1,191,800	408,893
Convertible corporate bonds	3,695,643	3,456,957	2,939,591
Foreign stocks	<u>974</u>	<u>999</u>	<u>1,025</u>
	7,098,288	8,672,633	5,186,813
Valuation adjustment	<u>52,285</u>	<u>(65,965)</u>	<u>77,591</u>
Subtotal	<u>7,150,573</u>	<u>8,606,668</u>	<u>5,264,404</u>
Derivatives			
Call options	111,801	132,472	48,018
Interest rate swaps	2,019	1,920	1,037
Futures margin - proprietary fund	426,908	611,870	407,856
IRS asset swaps	19,111	16,479	12,693
Asset swap options - long position	4,830	2,572	9,144
Currency derivatives	35,001	22,446	25,103
Structured notes	2,168	1,343	518
Currency swaps	<u>4,289</u>	<u>4,072</u>	<u>22,312</u>
Subtotal	<u>606,127</u>	<u>793,174</u>	<u>526,681</u>
Total	<u>\$ 32,715,055</u>	<u>34,737,268</u>	<u>30,908,318</u>

As of March 31, 2018, December 31, 2017 and March 31, 2017, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreements of the Group were \$47,711,314, \$49,006,659 and \$44,044,731, respectively, please refer to note 6(m) and note 8 for details.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Financial assets at fair value through other comprehensive income — current

	March 31, 2018
Debt instruments at fair value through other comprehensive income	
International bonds	\$ 1,644,744
Overseas bonds	28,878,903
	30,523,647
Valuation adjustment	(152,355)
Subtotal	30,371,292
Equity instrument at fair value through other comprehensive income	
Listed stocks	\$ 224,615
OTC stocks	82,346
Emerging market stocks	24,130
Foreign stocks	203,498
	534,589
Valuation adjustment	(6,815)
Subtotal	527,774
Total	\$ 30,899,066

1) Debt instrument investments at fair value through other comprehensive income

The Group has assessed the debentures shown above are held within a business model whose objective is achieved by both collecting the contractual cash flows and selling securities; therefore, they have been classified as financial asset at fair value through other comprehensive income on January 1, 2018.

2) Equity instrument investments at fair value through other comprehensive income

For the three months ended March 31, 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – current amounted to \$0.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold shares of stocks for a fair value \$42,681 and cumulative dispose gains \$12,162 were transferred from other equity items to retained earnings for the three months ended March 31, 2018.

3) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(v).

4) For the three months ended March 31, 2018, impairment test have been applied by the Group, the variation of loss allowance in the financial assets at fair value through other comprehensive income of the Group please refer to note 6(v).

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Financial assets available for sale - current:

	December 31, 2017	March 31, 2017
Listed stocks	\$ 101,209	227,402
OTC stocks	77,668	118,585
Emerging market stocks	24,907	29,327
International bonds	1,532,767	909,900
Foreign stocks	104,055	18,191
Overseas bonds	<u>30,797,054</u>	<u>26,312,652</u>
Subtotal	32,637,660	27,616,057
Valuation adjustment	<u>170,119</u>	<u>165,927</u>
Total	<u><u>\$ 32,807,779</u></u>	<u><u>27,781,984</u></u>

(iv) Financial assets at fair value through profit or loss - non-current:

	March 31, 2018	December 31, 2017	March 31, 2017
Mandatorily measured at fair value through profit or loss:			
Government bonds	\$ 185,953	-	-
Valuation adjustment	<u>(283)</u>	<u>-</u>	<u>-</u>
Subtotal	<u>185,670</u>	<u>-</u>	<u>-</u>
Financial assets held for trading:			
Government bonds	-	185,953	185,799
Valuation adjustment	<u>-</u>	<u>62</u>	<u>347</u>
Subtotal	<u>-</u>	<u>186,015</u>	<u>186,146</u>
Total	<u><u>\$ 185,670</u></u>	<u><u>186,015</u></u>	<u><u>186,146</u></u>

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group took advantage of government bonds as margins of bills, interest rate swaps and structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (please refer to note 8 for details).

(v) Financial assets available for sale - non-current:

Name of investee	December 31, 2017	March 31, 2017
CME Group Inc.	\$ -	33,733
Valuation adjustment	<u>-</u>	<u>40,133</u>
Total	<u><u>\$ -</u></u>	<u><u>73,866</u></u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The purpose for obtaining the stock of CME Group Inc. is to acquire the membership of foreign futures exchange. Due to membership requirements on shareholding being changed to paying the subscription fee by CME Group Inc., the Group disposed of 20,000 shares of stock of CME Group Inc. on April 2017, which generated a gain on disposal of this investment of \$38,920. For the three months ended March 31, 2017, due to changes in fair value, the Group had recognized \$(2,395) in other comprehensive income and there is no reclassification from equity to profit or loss.

(vi) Financial assets measured at cost - non-current

<u>Non-listed (or non-over-the-counter)</u>	<u>December 31, 2017</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 %	32,858
Prudence Venture Investment Corp.	1.50 %	27,397
Chanyee Hotelday Co., Ltd.	7.33 %	33,000
Miho International Co., Ltd.	2.37 %	49,962
LIPS Corp.	18.77 %	149,625
Xianlife Limited	2.36 %	46,140
FlexUP Technologies Corp.	15.31 %	30,000
Han Biomedical Inc.	9.20 %	23,000
Yonggu Group Co., Ltd.	1.66 %	59,726
Total		<u>\$ 754,545</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Non-listed (or non-over-the-counter)</u>	<u>March 31, 2017</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
LIPS Corp.	23.95 %	149,625
Xianlife Limited	3.26 %	46,140
Total		<u>\$ 644,225</u>

For the years 2017, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$1,400 and Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$7,968.

The Group acquired shares of LIPS Corp., Xianlife Limited, FlexUP Technologies Corp., Han Biomedical Inc. and Yonggu Group Co., Ltd. in March, April, June and December 2017, respectively.

(vii) Financial assets at fair value through other comprehensive income – non-current

	<u>March 31, 2018</u>
Equity instruments at fair value through other comprehensive income	
Non-listed or non-over-the-counter stocks	\$ 780,872
Valuation adjustment	<u>1,097,664</u>
Total	<u>\$ 1,878,536</u>

1) Equity instrument investments at fair value through other comprehensive income

For the three months ended March 31, 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to \$0.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the three months ended March 31, 2018, under the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold shares of stocks recognized in FVOCI -non-current for a fair value \$9,774 and generated cumulative dispose gains \$7, and the gains were transferred from other equity items to retained earnings.

- (viii) 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. For the three months ended March 31, 2018 and 2017 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	March 31, 2018	March 31, 2017	For the three months ended March 31,					
			2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,445,613	802,434	1,486,657	1,615,221	1,399,136	736,730	802,434	666,504

- (c) Bonds purchased under resale agreements

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Bonds purchased under resell agreements	\$ -	-	451,918
Resell price under the agreements	\$ -	-	451,914
Interest rate	-	-	(0.22)%~0.3%

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group's appropriated bonds purchased under resale agreements were \$0 (Par value \$0), \$0 (Par value \$0) and \$351,492 (Par value \$350,000) for repurchase agreement transactions purpose and \$0 (Par value \$0), \$0 (Par value \$0) and \$100,426 (Par value \$100,000) for resale agreement - short sales transactions purpose (please refers to Note 8 for details).

- (d) Accounts Receivable

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Receivable on securities purchased by customers	\$ 32,190	27,055	38,170
Settlement	-	1,000,019	-
Interests receivable	639,040	627,789	531,092
Receivables on securities sold	7,215,077	5,015,345	4,668,240
Others	59,160	57,560	129,104
Subtotal	7,945,467	6,727,768	5,366,606
Less: allowance for doubtful accounts	(2,313)	(1,713)	(3,424)
Total	<u>\$ 7,943,154</u>	<u>6,726,055</u>	<u>5,363,182</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(v).
- (ii) For the three months ended March 31, 2018, impairment test have been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(v).
- (e) Customers' margin account / Future traders' equity

As of March 31, 2018, December 31, 2017 and March 31, 2017, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Customers' margin account			
Cash in banks	\$ 19,233,504	20,131,841	18,014,184
Customers' margin account - futures clearing house	2,587,993	3,485,434	2,430,670
Customers' margin account - other futures commission merchants	5,165,791	3,683,324	3,732,319
Marketable securities	<u>2,077</u>	<u>2,113</u>	<u>1,934</u>
Total customers' margin account	<u>26,989,365</u>	<u>27,302,712</u>	<u>24,179,107</u>
Add:			
Commission expense	12,971	1,651	-
Other	48	33	-
Less:			
Commission revenue	(38,173)	(11,431)	(31,445)
Futures transaction tax	(417)	(1,356)	(772)
Interest revenues	(3,492)	(2,326)	(335)
Temporary receipts	3,271	(590)	(501)
Remittance amount of the customers after the market closed	(245)	(2,424)	(2,279)
Other receivables	<u>(58,429)</u>	<u>(18,043)</u>	<u>(1,082)</u>
Futures traders' equity	<u><u>\$ 26,904,899</u></u>	<u><u>27,268,226</u></u>	<u><u>24,142,693</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Investments under equity method

As of March 31, 2018, December 31, 2017 and March 31, 2017, investments under equity method consisted of the following:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 108,456	90,506	131,246
Capital Insurance Agency Corp.	<u>42,370</u>	<u>41,547</u>	<u>54,011</u>
Subtotal	<u>150,826</u>	<u>132,053</u>	<u>185,257</u>
Associates			
True Partner Advisor Hong Kong Ltd.	41,572	41,535	41,142
Capital Investment Trust Corp.	<u>1,286,071</u>	<u>-</u>	<u>-</u>
Subtotal	<u>1,327,643</u>	<u>41,535</u>	<u>41,142</u>
Total	<u><u>\$ 1,478,469</u></u>	<u><u>173,588</u></u>	<u><u>226,399</u></u>

(i) Subsidiaries:

For the three months ended March 31, 2018 and 2017, the Group's share of gains or losses of the subsidiaries were as follows:

	<u>For the three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Based on the self-prepared financial statements	<u>\$ 18,774</u>	<u>28,569</u>

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Total assets	<u>\$ 173,562</u>	<u>151,103</u>	<u>223,735</u>
Total liabilities	<u>\$ 22,736</u>	<u>19,050</u>	<u>38,478</u>

	<u>For the three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Revenue	<u>\$ 67,909</u>	<u>103,579</u>
Net income	<u>\$ 18,773</u>	<u>28,569</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) 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 Company acquired 20% shares of Capital Investment Trust Corporation with \$1,272,505 thousand on February 9, 2018. The relevant information is as following:

Name of associate	Nature between the Company	Primary business area and registered country	% of Ownership and Voting Rights		
			March 31, 2018	December 31, 2017	March 31, 2017
True Partner Advisor Hong Kong Ltd.	Engaged in asset management. The Subsidiary's strategic alliance in expansion of asset management.	Hong Kong	49.00 %	49.00 %	49.00 %
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	- %	- %

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Total carrying amount of the associates that were not individually material	<u>\$ 1,327,643</u>	<u>41,535</u>	<u>41,142</u>
		<u>For the three months ended March 31,</u>	
		<u>2018</u>	<u>2017</u>
Based on the self-prepared financial statements Attributable to the Group:			
Net gains from continuing operations		\$ 13,905	330
Other comprehensive loss		(302)	(704)
Total comprehensive income (losses)		<u>\$ 13,603</u>	<u>(374)</u>

(iii) Collateral

As of March 31, 2018, December 31, 2017 and March 31, 2017, none of the investment accounted for under equity method of the Group were pledged for collateral.

(iv) The unreviewed financial statements of investments accounted for using equity method

Investments were accounted for by the equity method, and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Carrying amount:					
January 1, 2018	\$ <u>3,652,474</u>	<u>1,048,517</u>	<u>195,694</u>	<u>70,067</u>	<u>4,966,752</u>
March 31, 2018	\$ <u>3,652,762</u>	<u>1,039,059</u>	<u>182,744</u>	<u>64,457</u>	<u>4,939,022</u>
March 31, 2017	\$ <u>3,707,942</u>	<u>1,104,078</u>	<u>218,458</u>	<u>75,286</u>	<u>5,105,764</u>

As of March 31, 2018, December 31, 2017 and March 31, 2017, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

(h) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
January 1, 2018	\$ <u>1,312,668</u>	<u>483,873</u>	<u>1,796,541</u>
March 31, 2018	\$ <u>1,312,379</u>	<u>479,745</u>	<u>1,792,124</u>
March 31, 2017	\$ <u>1,257,200</u>	<u>466,324</u>	<u>1,723,524</u>
<u>Fair Value:</u>			
January 1, 2018			<u>2,809,179</u>
March 31, 2018			<u>2,805,379</u>
March 31, 2017			<u>2,740,795</u>

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

As of March 31, 2018, December 31, 2017 and March 31, 2017, the investment properties were provided as collateral or pledge, please refer to note 8 for details.

(i) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of March 31, 2018, December 31, 2017 and March 31, 2017, the book value was all \$3,126,698.

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Technology Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. As of March 31, 2018, December 31, 2017 and March 31, 2017, the book value of goodwill was all \$22,088.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(ii) Other intangible assets - Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS No.38 “Intangible Assets” endorsed by the FSC, the franchise is regarded as intangible assets with an indefinite useful life. As of March 31, 2018, December 31, 2017 and March 31, 2017, the book value of the operation franchise was all \$389,999.

(iii) Other intangible assets - Membership of foreign futures Exchanges

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX and CME for business development. In accordance with IAS 38 “Intangible Assets” endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of March 31, 2018, December 31, 2017 and March 31, 2017, the book values of intangible assets were \$48,003, \$48,102 and \$48,199 respectively.

(iv) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of March 31, 2018, December 31, 2017 and March 31, 2017, the amortized book value was \$35,980, \$41,287 and \$36,379 respectively.

(j) Short-term borrowings

<u>Nature of borrowings</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Collateralized loan	\$ 380,000	380,000	380,000
Credit loans	6,381,497	6,701,698	5,384,959
Total	<u>\$ 6,761,497</u>	<u>7,081,698</u>	<u>5,764,959</u>
Interest rate range	<u>0.60%~3.00%</u>	<u>0.60%~2.56%</u>	<u>0.60%~2.58%</u>

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group had provided the land, buildings, and certificates of time deposits as collateral; please refer to note 8 for details.

(k) Commercial paper payable

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Commercial paper payable	\$ 5,500,000	4,100,000	4,850,000
Less: Unamortized discount	(876)	(816)	(828)
Net amount	<u>\$ 5,499,124</u>	<u>4,099,184</u>	<u>4,849,172</u>
Interest rate range	<u>0.51%~0.56%</u>	<u>0.53%~0.56%</u>	<u>0.55%~0.56%</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Bond purchased under resale agreements - short sales	\$ -	-	100,225
Valuation adjustment	-	-	187
Subtotal	-	-	100,412
Liabilities on sale of borrowed securities	1,543,439	1,130,377	240,366
Redeem liabilities on sale of borrowed securities	(5,583)	(6,714)	(54,271)
Valuation adjustment	(155,095)	(94,120)	(15,715)
Subtotal	<u>1,382,761</u>	<u>1,029,543</u>	<u>170,380</u>
Settlement coverage bonds payable of short sale	651,355	49,983	-
Valuation adjustment	769	(29)	-
Subtotal	<u>652,124</u>	<u>49,954</u>	-
Stock warrants issued	15,122,677	14,405,116	11,050,236
Stock warrants repurchased	(13,933,027)	(13,098,267)	(10,610,737)
Subtotal	<u>1,189,650</u>	<u>1,306,849</u>	<u>439,499</u>
Put options	90,148	131,636	66,302
Equity derivatives	1,428	61	-
IRS asset swaps	1,008	239	1,754
Asset swap options - short position	362,231	364,910	207,795
Structured notes	9,152	9,234	7,915
Currency derivatives	1,780	2,847	10,681
Currency swaps	<u>10,383</u>	<u>7,920</u>	<u>6,004</u>
Subtotal	<u>476,130</u>	<u>516,847</u>	<u>300,451</u>
Total	<u>\$ 3,700,665</u>	<u>2,903,193</u>	<u>1,010,742</u>

(m) Bonds sold under repurchase agreements

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Bonds sold under repurchase agreements	\$ <u>45,748,947</u>	<u>47,056,312</u>	<u>43,348,419</u>
Agreed-upon repurchase amounts	<u>46,008,834</u>	<u>47,174,205</u>	<u>43,399,037</u>
Interest rates	<u>0.31%~4.50%</u>	<u>0.20%~4.30%</u>	<u>(0.5)%~4.8%</u>
Date of repurchase	<u>2018.4.2~2019.3.29</u>	<u>2018.1.2~2018.12.27</u>	<u>2017.4.5~2018.3.22</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

	March 31, 2018	December 31, 2017	March 31, 2017
Customer equity of separate account ledger in settlement	<u>\$ 12,878</u>	<u>13,479</u>	<u>12,718</u>

(o) Accounts payable

	March 31, 2018	December 31, 2017	March 31, 2017
Payable of securities sold by customers	\$ 44,594	44,575	27,132
Settlement price	140,793	-	323,609
Payable of settlements	5,565,374	5,440,461	4,845,056
Others	<u>222,766</u>	<u>293,722</u>	<u>221,552</u>
Total	<u>\$ 5,973,527</u>	<u>5,778,758</u>	<u>5,417,349</u>

(p) Operating leases

The Group has no material incremental operating leases contracts for the three months ended March 31, 2018 and 2017. Please refer to note 6(o) of the consolidated financial statements as of and for the year ended December 31, 2017 for other relevant information.

(q) Employee benefit

(i) Defined benefit plans

Subsequent to December 31, 2017, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the consolidated financial statements is measured and disclosed according to the respective actuarial report as of December 31, 2017 and 2016.

For the three months ended March 31, 2018 and 2017, the Group's pension expenses recognized in profit or loss were \$3,464 and \$6,850, respectively.

(ii) Defined contribution plan

In accordance with the Labor Pension Act of R.O.C, the Group contributes 6% of the employee's monthly wages to the Bureau of the Labor Insurance. Therefore, the Group has no further legal or constructive obligations to make any additional contribution once the contributions have been paid.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group contributed \$21,919 and \$17,694 under defined contribution plan to the Bureau of the Labor Insurance for the three months ended March 31, 2018 and 2017, respectively.

- (iii) For the three months ended March 31, 2018 and 2017, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$1,003 and \$506, respectively.
- (iv) Provision for employee benefits liabilities

	March 31, 2018	December 31, 2017	March 31, 2017
Compensated absences	\$ 54,474	49,066	53,980

- (r) Income tax

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

- (i) The detail of income tax expense for the three months ended March 31, 2018 and 2017 were as follows:

	For the three months ended March 31,	
	2018	2017
Current tax expense	\$ 76,579	63,762
Adjustment to the prior years' income tax	22,307	-
	98,886	63,762
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	(35,399)	(6,522)
Unrealized gains (losses) on foreign investments under Equity Method	2,397	(2,669)
Decrease in tax loss carried forward	98,565	-
Adjustments of deferred income tax assets	(19,915)	-
Changes in tax rate	55,474	-
Deferred income tax expense (benefit)	101,122	(9,191)
	\$ 200,008	54,571

- (ii) The amount of income tax expense or benefit recognized in other comprehensive income for the three months ended March 31, 2018 and 2017 were as follows:

	For the three months ended March 31,	
	2018	2017
Foreign exchange difference from translating financial statement of foreign operations	\$ 1,615	(27,932)

- (iii) As of March 31, 2018, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

Loss Year	Amount	Expiration Year
2011(Approved)	\$ 367,705	2021

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Income tax assessment status

- 1) The Company's income tax returns through 2014 were assessed by the Tax Authority.
- 2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2016 were assessed by the Tax Authority.
- 3) Subsidiary - Capital Futures Corp.'s income tax returns through 2016 were assessed by the Tax Authority.
- 4) 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.
- 5) Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.
- 6) Subsidiary - Capital International Technology Corp.'s income tax returns through 2016 were assessed by the Tax Authority.
- 7) Subsidiary - CSC Venture Capital Corp.'s income tax returns through 2016 were assessed by the Tax Authority.

(v) 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.

(s) Capital and other equity

(i) Capital stock

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Company had authorized capital of \$30,000,000 and issued common stock of 2,169,073 thousand shares with \$10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for the three months ended March 31, 2018 and the fiscal year 2017, please refer to (iv). "Treasury stocks" for more details.

(ii) 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 "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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The followings are the capital surplus of the Company:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Premium from stock issuance	\$ 1,776,413	1,776,413	1,776,413
Treasury stock transactions	437,096	437,096	437,096
Paid-in capital from merger	602,665	602,665	602,665
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,338	1,338
Changes in ownership interests in subsidiaries	<u>34,787</u>	<u>34,787</u>	<u>33,337</u>
	<u>\$ 2,852,299</u>	<u>2,852,299</u>	<u>2,850,849</u>

(iii) Retained earnings

1) 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.

2) Special reserve

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

In accordance with Ruling No. 10500278285 issued by the Financial Supervisory Commission on August 5, 2016, 0.5% to 1.0% of the current year's earnings after tax should be set aside as special reserve for year 2016 to 2018. From year 2017, the aforementioned special reserve can be reversed within an amount equal to the expenditures stemming from employee re-training, re-assignments, or relocations made necessary by the introduction of financial technology.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Undistributed earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then appropriated 10% as legal reserve, 20% as special reserve and any other as required by law.

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 capital budget of the Company, the payout of stock dividend is for retaining necessary capital and the remainder can be paid as cash dividend. Cash dividend shall not fall below 10% of the total dividend.

The Company's 2016 earnings distribution for cash dividends \$802,558 had been resolved by the shareholders' meeting on June 26, 2017.

The Company's 2017 earnings distribution for cash dividends \$433,815 and stock dividends \$1,518,351 had been resolved by the board meeting on March 26, 2018. The stockholders had not resolved the distribution of earnings mentioned above.

The information about the appropriations is available at the Market Observation Post System website.

(iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased 100,000 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity from November 2016 to December 31, 2017. As of December 31, 2017, all the repurchased shares were retired.

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 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. The Company repurchased 100,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 10, 2017.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months ended March 31, 2018 and 2017 were calculated as follows:

	For the three months ended March 31,	
	2018	2017
Net income attributable to ordinary shareholders of the Company	\$ <u>793,996</u>	<u>513,285</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,169,073</u>	<u>2,169,561</u>
Basic earnings per share (dollar)	\$ <u>0.37</u>	<u>0.24</u>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<u>886</u>	<u>1,007</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,169,959</u>	<u>2,170,568</u>
Dilutive earnings per share (dollar)	\$ <u>0.37</u>	<u>0.24</u>

Note: The number of shares issued was calculated based on the closing price at the reporting date.

(u) Items of the comprehensive income statement

(i) Brokerage commissions

	For the three months ended March 31,	
	2018	2017
Brokerage commission from TSE market	\$ 450,097	322,501
Brokerage commission from OTC market	171,094	130,665
Handling fee from security financing	7,382	6,136
Futures commission income - brokerage	487,799	324,862
Overseas subsidiaries	17,497	14,224
Others	<u>26,401</u>	<u>16,684</u>
	\$ <u>1,160,270</u>	<u>815,072</u>

(ii) Underwriting commissions

	For the three months ended March 31,	
	2018	2017
Revenue from underwriting securities on a firm commitment basis	\$ 18,943	13,206
Handling fee revenues from underwriting securities on best efforts basis	125	861
Processing fee revenues from underwriting operations	1,604	19,096
Revenue from underwriting consultation	4,045	1,390
Others	<u>2,459</u>	<u>13,970</u>
	\$ <u>27,176</u>	<u>48,523</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Net gains (losses) on sale of trading securities

	For the three months ended March 31,	
	2018	2017
Gains on securities sold - proprietary trading	\$ 171,405	46,531,077
Losses on securities sold - proprietary trading	(68,993)	(46,269,697)
Subtotal	<u>102,412</u>	<u>261,380</u>
Gains on securities sold - underwriting	8,045	91,432
Losses on securities sold - underwriting	-	(82,290)
Subtotal	<u>8,045</u>	<u>9,142</u>
Gains on securities sold - hedging	765,594	5,572,868
Losses on securities sold - hedging	(866,487)	(5,469,892)
Subtotal	<u>(100,893)</u>	<u>102,976</u>
Total	<u>\$ 9,564</u>	<u>373,498</u>

(iv) Interest revenue

	For the three months ended March 31,	
	2018	2017
Interest revenue - margin loans	\$ 203,619	177,651
Interest revenue - bonds	329,717	244,995
Overseas subsidiaries	13,086	8,503
Others	<u>15,607</u>	<u>10,112</u>
	<u>\$ 562,029</u>	<u>441,261</u>

(v) Net gains (losses) on measurement of trading securities at fair value through profit or loss

	For the three months ended March 31,	
	2018	2017
Trading securities - proprietary	\$ (12,605)	24,630
Trading securities - underwriting	(8,251)	(5,266)
Trading securities - hedging	118,250	116,198
Settlement coverage bonds payable of short sale	<u>(798)</u>	<u>-</u>
	<u>\$ 96,596</u>	<u>135,562</u>

(vi) Net gains (losses) on stock warrants issued

	For the three months ended March 31,	
	2018	2017
Gains on changes in fair value of stock warrants	\$ 6,305,598	3,405,351
Gains on exercise of stock warrants before maturity	6,741,654	4,383,025
Losses on changes in fair value of stock warrants repurchased	(12,644,347)	(7,710,126)
Gains on expiration of stock warrants	19,799	2,424
Stock warrants issuance expenses	<u>(43,934)</u>	<u>(39,872)</u>
	<u>\$ 378,770</u>	<u>40,802</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Futures commission income

	For the three months ended March 31,	
	2018	2017
Futures commission income - CSC Futures(HK) Ltd.	\$ 177,188	111,893

Future commission income is the commission revenue from future trading by CSC Futures (HK) Ltd, the second level subsidiary, which is reflected under “brokerage commission income”. The Group recognized the commission from CSC Futures (HK) Ltd as “Futures commission income” in the consolidated financial statements.

(viii) Commission expenses - future

	For the three months ended March 31,	
	2018	2017
Future trading - reconsignment	\$ 74,179	51,989
Future trading - introducing brokers	2,521	-
Commission expenses - CSC Futures (HK) Ltd.	76,015	55,434
	\$ 152,715	107,423

(ix) Employee benefits, depreciation, and amortization expenses

	For the three months ended March 31,	
	2018	2017
Employee benefit expenses		
Salary expense	\$ 633,693	551,330
Health and labor insurance expense	46,565	42,946
Pension expense	26,386	25,050
Others	15,346	14,515
Depreciation expense	42,646	46,057
Amortization expense	8,857	8,207
	\$ 773,493	688,105

(x) Other operating expenses

	For the three months ended March 31,	
	2018	2017
Rental expense	\$ 40,125	39,160
Taxes	115,801	74,109
Information technology expense	49,820	47,351
Postage expense	34,622	32,961
Professional service fee	129,875	16,107
Other expenses	139,607	126,141
	\$ 509,850	335,829

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(xi) Other gains and losses

	For the three months ended March 31,	
	2018	2017
Financial revenue	\$ 75,393	56,970
Currency exchange gains (losses)	(4,203)	(14,176)
Net gains (losses) on disposal of investment	(21)	108
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	21,963	12,832
Dividend revenue	3,038	1,717
Others	78,827	82,708
	\$ 174,997	140,159

(xii) Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2.0% 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.

For the three months ended March 31, 2018 and 2017, the estimated amounts of remuneration to employee were \$9,965 and \$10,117, and to directors by the Company were \$16,608 and \$18,789, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and director multiple the earnings allocation percentage as stated under the Company's Articles of Incorporation and were recognized as operating expense. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

For the years ended December 31, 2017 and 2016, the estimated amounts of remuneration to employee were \$33,369 and \$12,090, and to directors and supervisors were \$61,971 and \$20,149 by the Company, respectively. The difference between actual employee remuneration of \$50,859 and \$9,120 and actual remuneration to directors and supervisors of \$30,515 and \$17,410 were \$13,966 and \$5,709 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2018 and 2017. The information about the appropriations is available at the Market Observation Post System website.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the three months ended March 31, 2018 and 2017, the estimated amounts of remuneration to employee were \$4,627 and \$1,433 and to directors and supervisors were \$4,645 and \$1,450 by the domestic subsidiaries of the Group, respectively.

(v) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of March 31, 2018, December 31, 2017 and March 31, 2017, the maximum credit exposure amounted to \$110,875,811, \$111,905,084 and \$101,313,633, respectively.

The regional distribution of financial assets' credit risk exposure amount which owned by the Group is as the list below. The region of exposure is mostly in Taiwan (62.11%); secondly, is in Asia (17.75%, exclusion of Taiwan); then, is in America (10.82%). 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>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Taiwan	\$ 68,474,287	68,514,346	64,617,904
Asia (Taiwan is excluded)	19,565,913	20,531,390	14,498,438
Europe	8,305,623	8,375,096	9,848,784
America	11,932,664	12,370,332	7,984,354
Other	<u>1,974,242</u>	<u>1,317,645</u>	<u>3,669,714</u>
Total	<u>\$ 110,252,729</u>	<u>111,108,809</u>	<u>100,619,194</u>

2) Impairment loss

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

	<u>December 31, 2017</u>		<u>March 31, 2017</u>	
	<u>Total amount</u>	<u>Impairment</u>	<u>Total amount</u>	<u>Impairment</u>
Not past due	\$ 23,216,757	1,551	19,952,140	1,679
Past due 0~30 days	2,115	2,115	144	144
Past due 31~120 days	31	31	193	193
Past due 121~360 days	85,694	85,694	-	-
Past due more than one year	<u>135,899</u>	<u>128,771</u>	<u>1,712</u>	<u>1,712</u>
	<u>\$ 23,440,496</u>	<u>218,162</u>	<u>19,954,189</u>	<u>3,728</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, 2017 and March 31, 2017, the impairment losses of accrued receivables were recognized \$218,162 and \$3,728, respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Credit risk of accrued receivables and debt securities

Accrued receivables(including accounts receivable, receivable for securities provided as collateral, doubtful debts and other receivables), receivable – futures margin and debt securities are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f).

The Group regards a financial asset as a default when the client of brokerage business is unable to fulfill the margin call or settlement obligation.

The loss allowance provision for the three months ended March 31, 2018 was as follows:

	Accrued receivables	Receivable - futures margin	Debt securities at FVOCI	Total
Balance on January 1 per IAS39	\$ 218,162	-	-	218,162
Adjustment on initial application of IFRS 9	-	-	15,153	15,153
Balance on January 1 per IFRS 9	218,162	-	15,153	233,315
Provision or reversal of Impairment loss	20,906	34,168	(859)	54,215
Balance on March 31	<u>\$ 239,068</u>	<u>34,168</u>	<u>14,294</u>	<u>287,530</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) 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.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
March 31, 2018							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,382,761	1,382,761	1,382,761	-	-	-	-
Settlement coverage bonds payable of short sale	652,124	652,124	652,124	-	-	-	-
Stock warrants issued	1,189,650	1,189,650	1,093,146	96,504	-	-	-
Put options - futures	90,148	90,148	90,148	-	-	-	-
Equity derivatives	1,428	1,428	1,428	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	11,391	11,391	4,770	5,613	560	448	-
Put options	362,231	362,231	36,349	42,412	104,465	179,005	-
Currency derivatives	1,780	1,780	1,780	-	-	-	-
Short-term borrowings	6,761,497	6,761,497	6,761,497	-	-	-	-
Commercial paper payable	5,499,124	5,500,000	5,500,000	-	-	-	-
Bonds sold under repurchase agreements	45,748,947	46,008,834	46,008,834	-	-	-	-
Guarantee deposited for short sales	1,050,945	1,050,945	1,050,945	-	-	-	-
Proceeds payable from short sales	1,179,872	1,179,872	1,179,872	-	-	-	-
Securities lending refundable deposits	995,555	995,555	995,555	-	-	-	-
Futures traders' equity	26,904,899	26,904,899	26,904,899	-	-	-	-
Notes payable and accounts payable	226,469	226,469	226,469	-	-	-	-
Other payables	814,411	814,411	813,345	1,066	-	-	-
Receipts under custody	151,007	151,007	151,007	-	-	-	-
Structured notes	5,408,793	5,408,793	4,766,962	373,315	207,880	60,636	-
	<u>\$ 98,433,032</u>	<u>98,693,795</u>	<u>97,621,891</u>	<u>518,910</u>	<u>312,905</u>	<u>240,089</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2017							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,029,543	1,029,543	1,029,543	-	-	-	-
Settlement coverage bonds payable of short sale	49,954	49,954	49,954	-	-	-	-
Stock warrants issued	1,306,849	1,306,849	1,265,875	40,974	-	-	-
Put options - futures	131,636	131,636	131,636	-	-	-	-
Equity derivatives	61	61	61	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,159	8,159	7,770	155	234	-	-
Put options	364,910	364,910	44,131	51,385	106,359	163,035	-
Currency derivatives	2,847	2,847	2,847	-	-	-	-
Short-term borrowings	7,081,698	7,081,698	7,081,698	-	-	-	-
Commercial paper payable	4,099,184	4,100,000	4,100,000	-	-	-	-
Bonds sold under repurchase agreements	47,056,312	47,174,205	47,174,205	-	-	-	-
Guarantee deposited for short sales	2,226,264	2,226,264	2,226,264	-	-	-	-
Proceeds payable from short sales	2,500,853	2,500,853	2,500,853	-	-	-	-
Securities lending refundable deposits	1,190,277	1,190,277	1,190,277	-	-	-	-
Futures traders' equity	27,268,226	27,268,226	27,268,226	-	-	-	-
Notes payable and accounts payable	296,967	296,967	296,967	-	-	-	-
Receipts under custody	346,023	346,023	346,023	-	-	-	-
Other payables	995,443	995,443	994,660	783	-	-	-
Structured notes	4,785,254	4,785,254	4,380,929	138,288	151,580	114,457	-
	<u>\$ 100,740,460</u>	<u>100,859,169</u>	<u>100,091,919</u>	<u>231,585</u>	<u>258,173</u>	<u>277,492</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
March 31, 2017							
Financial liabilities at fair value through profit or loss - current							
Bond purchased under resale agreements - short sales	\$ 100,412	100,412	100,412	-	-	-	-
Liabilities on sale of borrowed securities	170,380	170,380	170,380	-	-	-	-
Stock warrants issued	439,499	439,499	410,800	28,699	-	-	-
Put options - futures	66,302	66,302	66,302	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	7,758	7,758	5,736	621	1,384	17	-
Put options	207,795	207,795	19,597	55,887	85,270	47,041	-
Currency derivatives	10,681	10,681	10,681	-	-	-	-
Short-term borrowings	5,764,959	5,764,959	5,764,959	-	-	-	-
Commercial paper payable	4,849,172	4,850,000	4,850,000	-	-	-	-
Bonds sold under repurchase agreements	43,348,419	43,399,037	43,399,037	-	-	-	-
Securities financing refundable deposits	1,060,615	1,060,615	1,060,615	-	-	-	-
Deposits payable for securities financing	1,187,443	1,187,443	1,187,443	-	-	-	-
Securities lending refundable deposits	544,618	544,618	544,618	-	-	-	-
Futures traders' equity	24,142,693	24,142,693	24,142,693	-	-	-	-
Notes payable and accounts payable	222,038	222,038	222,038	-	-	-	-
Receipts under custody	154,953	154,953	154,953	-	-	-	-
Other payables	565,103	565,103	563,372	1,731	-	-	-
Structured notes	2,795,376	2,795,376	2,220,451	282,880	175,265	116,780	-
	<u>\$ 85,638,216</u>	<u>85,689,662</u>	<u>84,894,087</u>	<u>369,818</u>	<u>261,919</u>	<u>163,838</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

	March 31, 2018		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 496,969	29.1050	14,464,283
AUD	46,554	22.3450	1,040,249
CAD	356	22.5700	8,035
CHF	156	30.4950	4,757
EUR	12,070	35.8700	432,951
GBP	4,438	40.7900	181,026
HKD	107,382	3.7080	398,172
JPY	1,133,238	0.2739	310,394
SGD	1,293	22.2100	28,718
CNY	74,450	4.6470	345,969
ZAR	4	2.4500	10
KRW	223,460	0.0276	6,167
NZD	8	21.1000	169
THB	1,708	0.9384	1,603
<u>Non-Monetary Item</u>			
USD	842,071	29.1050	24,508,476
AUD	373,972	22.3450	8,356,404
EUR	69	35.8700	2,475
HKD	39,217	3.7080	145,417
JPY	6,205	0.2739	1,700
CNY	314,062	4.6470	1,459,446
NZD	1	21.1000	21
<u>Investments under equity method</u>			
HKD	11,211	3.7080	41,572

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		March 31, 2018		
		Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
USD	\$	1,288,527	29.1050	37,502,578
AUD		414,093	22.3450	9,252,908
CHF		156	30.4950	4,757
EUR		11,535	35.8700	413,760
GBP		4,339	40.7900	176,988
HKD		213,401	3.7080	791,291
JPY		1,097,600	0.2739	300,633
SGD		1,282	22.2100	28,473
CNY		224,575	4.6470	1,043,600
KRW		24,221	0.0276	668
THB		1,500	0.9384	-
<u>Non-Monetary Item</u>				
USD		51	29.1050	1,484
AUD		2	22.3450	45
JPY		567	0.2739	155
CAD		4	22.5700	90
		December 31, 2017		
		Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>				
<u>Monetary Item</u>				
USD	\$	502,643	29.7600	14,958,656
HKD		96,636	3.8070	367,893
EUR		7,470	35.5700	265,708
JPY		1,031,092	0.2642	272,415
GBP		1,764	40.1100	70,754
AUD		6,898	23.1850	159,930
SGD		751	22.2600	16,717
CNY		85,660	4.5650	391,038
KRW		226,616	0.0281	6,368
THB		121	0.9176	111
CHF		18	30.4550	548
CAD		13	23.7100	308
NZD		234	21.1400	4,947
IDR		4,402	0.0022	10
ZAR		8	2.4100	19

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2017			
Non-Monetary Item	Foreign Currency (thousands)	Exchange Rate	Amount
USD	\$ 919,907	29.7600	27,376,432
AUD	351,673	23.1850	8,153,539
GBP	4	40.1100	160
JPY	4,392	0.2642	1,160
HKD	46,999	3.8070	178,925
CNY	163,599	4.5650	746,829
NZD	1	21.1400	21
<u>Investments under equity method</u>			
HKD	10,910	3.8070	41,535
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	1,381,491	29.7600	41,113,172
AUD	349,769	23.1850	8,109,394
JPY	959,895	0.2642	253,604
CAD	20	23.7100	474
HKD	163,657	3.8070	623,042
EUR	6,981	35.5700	248,314
GBP	1,686	40.1100	67,625
SGD	744	22.2600	16,561
KRW	28,139	0.0281	791
CNY	148,453	4.5650	677,688
CHF	18	30.4550	548
<u>Non-Monetary Item</u>			
USD	49	29.7600	1,458
JPY	3,635	0.2642	960
CAD	18	23.7100	427

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	March 31, 2017		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 421,757	30.3300	12,791,890
HKD	68,717	3.9040	268,271
EUR	15,648	32.4300	507,465
JPY	1,136,586	0.2713	308,356
GBP	427	37.8200	16,149
AUD	4,104	23.2250	95,315
SGD	160	21.7100	3,474
CNY	106,432	4.4070	469,046
PHP	14	0.6219	9
KRW	3,800,052	0.0273	103,741
THB	1,075	0.8859	952
NZD	1	21.1900	21
CHF	2	30.3050	61
ZAR	1	2.2500	2
CAD	18	22.7500	410
IDR	12,175	0.0023	28
<u>Non-Monetary Item</u>			
USD	768,699	30.3300	23,314,641
AUD	270,763	23.2250	6,288,471
JPY	63,710	0.2713	17,285
HKD	21,452	3.9040	83,749
CNY	135,275	4.4070	596,157
<u>Investments under equity method</u>			
HKD	10,538	3.9040	41,142
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	1,098,882	30.3300	33,329,091
AUD	260,452	23.2250	6,048,998
JPY	1,132,707	0.2713	307,303
CAD	46	22.7500	1,047
HKD	136,987	3.9040	534,797
EUR	15,339	32.4300	497,444
GBP	653	37.8200	24,696
THB	262	0.8859	232
SGD	158	21.7100	3,430
KRW	3,645,334	0.0273	99,518
NZD	1	-	-
CNY	113,448	4.4070	499,965
CHF	2	30.3050	61

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Because there are a variety of functional currencies, the Group discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains amounted to \$23,048 and \$7,917 for the three month ended March 31, 2018 and 2017, respectively.

2) 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, customers' margin account, futures traders' equity, and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the three month ended March 31, 2018 and 2017, given other factors remain the same, if NTD appreciates or depreciates 5% against other currencies, the net income and other comprehensive income will increase or decrease by \$1,136,148, \$991,009, \$1,224,916 and \$1,138,751, respectively.

(iv) 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	March 31, 2018	March 31, 2017	For the three months ended March 31,					
			2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	2,059,433	1,873,264	2,058,478	2,076,354	2,039,647	1,810,771	1,873,264	1,746,721

(v) Fair value information and hierarchy

1) Fair value information

a) 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.

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b) Definition of fair value hierarchy

i) 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.

ii) 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.

iii) Level 3

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

2) Not based on fair value measurement

As of March 31, 2018, December 31, 2017 and March 31, 2017, the fair value information of the financial assets and financial liabilities of the Group was as follows:

a) Fair value information

	<u>March 31, 2018</u>		<u>December 31, 2017</u>		<u>March 31, 2017</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets :						
Cash and cash equivalents	\$ 7,629,820	7,629,820	7,104,077	7,104,077	6,282,083	6,282,083
Bonds purchased under resale agreements	-	-	-	-	451,918	451,918
Accrued receivable	26,375,970	26,375,970	25,194,975	25,194,975	20,531,607	20,531,607
Customers' margin account	26,989,365	26,989,365	27,302,712	27,302,712	24,179,107	24,179,107
Leverage contract trading - customers' margin account	182,363	182,363	151,540	151,540	142,194	142,194
Restricted assets - current	632,038	632,038	554,215	554,215	638,536	638,536
Financial assets measured at cost - non-current	-	-	754,545	754,545	644,225	644,225
Other non-current assets	1,629,292	1,629,292	1,565,354	1,565,354	1,683,124	1,683,124

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	<u>March 31, 2018</u>		<u>December 31, 2017</u>		<u>March 31, 2017</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial liabilities :						
Short-term borrowings	\$ 6,761,497	6,761,497	7,081,698	7,081,698	5,764,959	5,764,959
Commercial paper payable	5,499,124	5,499,124	4,099,184	4,099,184	4,849,172	4,849,172
Bonds sold under repurchase agreements	45,748,947	45,748,947	47,056,312	47,056,312	43,348,419	43,348,419
Accrued payable	10,496,873	10,496,873	13,280,377	13,280,377	9,226,521	9,226,521
Futures traders' equity	26,904,899	26,904,899	27,268,226	27,268,226	24,142,693	24,142,693
Leverage contract trading - customers' equity	182,412	182,412	152,840	152,840	148,867	148,867
Other financial liabilities - current	5,131,125	5,131,125	4,509,983	4,509,983	2,495,416	2,495,416
Other financial liabilities - non-current	268,516	268,516	266,037	266,037	292,045	292,045
Other non-current liabilities	248,747	248,747	249,277	249,277	342,727	342,727

b) Hierarchy information of fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property				
March 31, 2018	\$ -	-	<u>2,805,379</u>	<u>2,805,379</u>
December 31, 2017	\$ -	-	<u>2,809,179</u>	<u>2,809,179</u>
March 31, 2017	\$ -	-	<u>2,740,795</u>	<u>2,740,795</u>

c) Valuation techniques used in estimating the fair values of financial instruments

- i) 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, customers' margin account, leverage contract trading - customers' margin account, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, futures traders' equity, leverage contract trading - customers' equity, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
- ii) Financial assets measured at cost and equity investments in unlisted stocks before year 2017 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.
- iii) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

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3) Based on fair value measurement

a) Hierarchy information of fair value

The Group's financial instruments measured at fair value are evaluated on a recurring basis. The financial assets and liabilities measured at fair value were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
March 31, 2018				
Financial assets at fair value through profit or loss	\$ 14,903,547	17,391,051	-	32,294,598
Financial assets at fair value through other comprehensive income	527,774	30,371,292	1,878,536	32,777,602
Derivative financial assets	<u>538,709</u>	<u>67,418</u>	<u>-</u>	<u>606,127</u>
	<u>\$ 15,970,030</u>	<u>47,829,761</u>	<u>1,878,536</u>	<u>65,678,327</u>
Financial liabilities at fair value through profit or loss	\$ 3,224,535	-	-	3,224,535
Derivative financial liabilities	<u>90,148</u>	<u>385,982</u>	<u>-</u>	<u>476,130</u>
	<u>\$ 3,314,683</u>	<u>385,982</u>	<u>-</u>	<u>3,700,665</u>
December 31, 2017				
Financial assets at fair value through profit or loss	\$ 20,578,355	13,551,754	-	34,130,109
Financial assets available for sale	27,670,817	5,136,962	-	32,807,779
Derivative financial assets	<u>744,342</u>	<u>48,832</u>	<u>-</u>	<u>793,174</u>
	<u>\$ 48,993,514</u>	<u>18,737,548</u>	<u>-</u>	<u>67,731,062</u>
Financial liabilities at fair value through profit or loss	\$ 2,386,346	-	-	2,386,346
Derivative financial liabilities	<u>131,636</u>	<u>385,211</u>	<u>-</u>	<u>516,847</u>
	<u>\$ 2,517,982</u>	<u>385,211</u>	<u>-</u>	<u>2,903,193</u>
March 31, 2017				
Financial assets at fair value through profit or loss	\$ 12,783,226	17,784,557	-	30,567,783
Financial assets available for sale	476,105	27,379,745	-	27,855,850
Derivative financial assets	<u>455,874</u>	<u>70,807</u>	<u>-</u>	<u>526,681</u>
	<u>\$ 13,715,205</u>	<u>45,235,109</u>	<u>-</u>	<u>58,950,314</u>
Financial liabilities at fair value through profit or loss	\$ 710,291	-	-	710,291
Derivative financial liabilities	<u>66,302</u>	<u>234,149</u>	<u>-</u>	<u>300,451</u>
	<u>\$ 776,593</u>	<u>234,149</u>	<u>-</u>	<u>1,010,742</u>

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b) Valuation techniques

i) Non-derivative financial instruments

The quoted market price is used as the fair value when the financial instruments have an active market. Publicly listed and over-the-counter traded equity instruments of primary stock exchanges along with central government bonds that are popular securities all regard active market quotes as the basis of fair value.

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

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

ii) 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.

4) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the three months ended March 31, 2018 and 2017.

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5) 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.

6) Movements of financial assets at fair value classified into Level 3

(In Thousands Dollars)

Item	For the three months ended March 31, 2018							
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		Ending Balance
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through other comprehensive income	\$ 1,787,809	-	98,359	2,135	-	9,767	-	1,878,536

7) Quantified information of fair value measurement for significant unobservable inputs (Level 3)

The Group's Level 3 fair value measurements are financial assets at fair value through other comprehensive income – equity instrument.

The Group's equity investments without active market include multiple significant unobservable inputs. Those unobservable inputs of equity instrument without active market are independent from each other, thus, they are not correlative. Since the correlation between significant unobservable inputs and fair value cannot be fully measured in practical, the quantified information is not disclosed.

Item	Valuation technique	Significant unobservable inputs	Correlation between inputs and fair value
Financial assets at fair value through other comprehensive income - equity instruments without an active market	Market approach	<ul style="list-style-type: none"> · Price-to-Book Ratio · Discount for lack of marketability 	<ul style="list-style-type: none"> · The higher price-to-book ratio is, the higher fair value is. · The higher discount for lack of marketability is, the lower the fair value is.

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<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Correlation between inputs and fair value</u>
Financial assets at fair value through other comprehensive income - equity instruments without an active market - venture capital corporation	Net Asset Value Method	Net Asset Value	Not applicable

- 8) Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value

The fair value measurement that the Group made for the financial instruments is deemed reasonable; however, different valuation models or inputs could result in different valuation results. Specifically, if the valuation input of financial instruments classified in the Level 3 changes by 1%, the effects on other comprehensive income are as follows:

	<u>Change in fair value recognized in other comprehensive income</u>	
	<u>Favorable</u>	<u>Unfavorable</u>
March 31, 2018		
Financial assets fair value through other comprehensive income	\$ <u><u>18,785</u></u>	<u><u>(18,785)</u></u>

Favorable and unfavorable movements of the Group refer to the fluctuation of fair value, and the fair value is calculated through the valuation technique according to the unobservable inputs to different extent. If the fair value of a financial instrument is affected by more than one input, the above table only illustrates the effect as a result of one single input, and the correlation and variance among multiple inputs are not listed here.

- (vi) 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:

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March 31, 2018					
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	\$ <u>45,132,694</u>	<u>45,748,947</u>	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2017					
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	\$ <u>47,104,528</u>	<u>47,056,312</u>	<u>-</u>	<u>-</u>	<u>-</u>
March 31, 2017					
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	\$ <u>43,404,237</u>	<u>43,348,419</u>	<u>-</u>	<u>-</u>	<u>-</u>

Note: The counterparties in repurchase agreements hold the right of recourse not merely on the transferred assets against the Group; hence according to IFRS7p42D(d), disclosure of the fair values of transferred assets and their relevant liabilities and fair value net position is not mandatory.

(vii) Offsetting financial assets and financial liabilities

The Group did not hold any financial instruments contracts which meet Section 42 of IAS 32 endorsed by the FSC 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:

March 31, 2018						
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 (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ <u>67,418</u>	<u>-</u>	<u>67,418</u>	<u>-</u>	<u>-</u>	<u>67,418</u>

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March 31, 2018						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 385,982	-	385,982	-	-	385,982
Under repurchase agreements	45,748,947	-	45,748,947	45,748,947	-	-
Total	\$ 46,134,929	-	46,134,929	45,748,947	-	385,982

December 31, 2017						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ 48,832	-	48,832	-	-	48,832

December 31, 2017						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 385,211	-	385,211	-	-	385,211
Under repurchase agreements	47,056,312	-	47,056,312	47,056,312	-	-
Total	\$ 47,441,523	-	47,441,523	47,056,312	-	385,211

March 31, 2017						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ 70,807	-	70,807	-	-	70,807

March 31, 2017						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 234,149	-	234,149	-	-	234,149
Under repurchase agreements	43,348,419	-	43,348,419	43,348,419	-	-
Total	\$ 43,582,568	-	43,582,568	43,348,419	-	234,149

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

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(w) Financial risk management

Except the following mentioned, there were no material changes in the Group's financial risk management and policies as disclosed in note(v) of the consolidated financial statements as of and for the year ended December 31, 2017.

(i) Determining whether credit risk has increased significantly since initial recognition

- 1) The Group measures each financial instrument that applies under IFRS9 if the credit risk of financial asset at the reporting date has increased significantly since initial recognition. The Group considers reasonable and supportable information that is relevant and available, including forward-looking information, since initial recognition for assessment. Main factors taking into consideration include credit risk rating and information of past due condition.
- 2) Low Credit Risk: A financial instrument has low credit risk at the reporting date, assumed to have no significant increase in credit risk since initial recognition. The determination criteria are the financial instrument's external credit rating is 'investment grade' (Baa3) or above.

(ii) Measurement of Expected Credit Losses (ECL)

1) Methods adopted and assumptions

The Group applies 12-month ECLs to measure the impairment loss of financial instruments, which have not increased significantly since initial recognition. For those financial instruments have increased significantly after initial recognition or with credit loss, the Group adopts lifetime ECLs to measure.

In order to measure ECLs, the Group takes into the future 12 months and lifetime probability of default (PD) on the financial assets, issuer, and counterparty to the possibility of Loss given default (LGD), then multiplies the amount of exposure at default (EAD) with the consideration of time value on currency, to calculate the 12 month and lifetime ECLs respectively.

Probability of PD is the probability of defaults occurring of an issuer or the counterparty. Probability of LGD is the percentage of the amount of loss incurred when issuers or the counterparty default. The probability of PD and LGD used by the Group was referring to the information periodically release from international credit rating institutions such as S&P, Moody's and Fitch.

The Group measures EAD by the amortized cost plus interest receivables of financial instruments.

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(iii) Financial risk information of derivative financial statements

As of March 31, 2018, December 31, 2017 and March 31, 2017, the related financial risk and the presentation of the Group's financial derivatives were as follows:

Stock warrants

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

Financial Instruments	March 31, 2018		December 31, 2017		March 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Stock warrants issued	\$ 62,136,760	-	73,019,951	-	11,717,235	-

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

(ii) 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.

(iii) 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.

(iv) 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.

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(v) 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:

1) For the three months ended March 31, 2018 and 2017:

a) Gains (losses) on valuation

	<u>For the three months ended March 31,</u>		<u>Account</u>
	<u>2018</u>	<u>2017</u>	
Stock warrants issued	\$ 8,357,562	4,401,160	Gains (losses) on stock warrants issued
Stock warrants repurchased	(7,973,012)	(4,344,700)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the three months ended March 31,</u>		<u>Account</u>
	<u>2018</u>	<u>2017</u>	
Security borrowing	\$ 57,912	9,328	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(173,535)	50,899	Gains (losses) on sale of trading securities
Futures transaction	(143,280)	(42,048)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended March 31,</u>		<u>Account</u>
	<u>2018</u>	<u>2017</u>	
Stock warrants issued	\$ 4,709,489	3,389,640	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,671,335)	(3,365,426)	Gains (losses) on stock warrants issued

Futures

(i) Notional principal (nominal amount) and credit risk:

Please refer to note 12(a) for the notional principal and nominal amount as of March 31, 2018, December 31, 2017 and March 31, 2017.

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.

(ii) 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.

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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.

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

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

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

For options trading, 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.

- (iv) Presentation of financial derivatives:

For the three months ended March 31, 2018 and 2017, gains (losses) on futures and options transactions amounted to \$258,769 and \$(82,286), respectively, and were reflected as gains (losses) on derivatives - futures. As of March 31, 2018, December 31, 2017 and March 31, 2017, futures margin - proprietary fund amounted to \$426,908, \$611,870 and \$407,856, 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 \$1,840,638, \$1,098,046 and \$1,092,932, respectively.

As of March 31, 2018, December 31, 2017 and March 31, 2017, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$111,801, \$132,472 and \$48,018, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$90,148, \$131,636 and \$66,302, respectively.

Derivative financial instruments - OTC

- (i) Interest rate financial derivatives

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

	March 31, 2018		December 31, 2017		March 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
Financial Instruments						
For trading purpose:						
NT dollar interest swaps	\$ 41,100,000	-	43,100,000	-	44,600,000	-

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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 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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(ii) Structured notes

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

Financial Instruments	March 31, 2018		December 31, 2017		March 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Equity-linked notes	\$ 81,894	-	40,461	-	30,091	-
Principal guaranteed notes	4,502,467	-	3,949,038	-	2,224,029	-
Credit-linked notes	497,200	-	490,600	-	475,500	-
Principle guaranteed notes	USD11,092 thousands	-	USD9,962 thousands	-	USD2,052 thousands	-

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.

(iii) Convertible bond asset-backed swaps

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

Financial Instruments	March 31, 2018		December 31, 2017		March 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Convertible bond asset-backed swaps	\$ 921,000	-	943,700	-	913,700	-
Convertible bond options	2,647,900	-	2,437,300	-	2,392,700	-

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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.

(iv) Options

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.

(v) Presentation of derivative financial instruments - OTC

As of March 31, 2018, December 31, 2017 and March 31, 2017, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps were presented on the balance sheets as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 19,111	16,479	12,693
Interest rate swaps	2,019	1,920	1,037
Currency swaps	4,289	4,072	22,312
Asset swap options - long position	4,830	2,572	9,144
Structured notes	2,168	1,343	518
Currency derivatives	<u>35,001</u>	<u>22,446</u>	<u>25,103</u>
Total	<u>\$ 67,418</u>	<u>48,832</u>	<u>70,807</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Financial liabilities at fair value through profit or loss - current			
IRS asset swaps	\$ 1,008	239	1,754
Currency swaps	10,383	7,920	6,004
Asset swap options - short position	362,231	364,910	207,795
Equity derivatives	1,428	61	-
Structured notes	9,152	9,234	7,915
Currency derivatives	<u>1,780</u>	<u>2,847</u>	<u>10,681</u>
Total	<u>\$ 385,982</u>	<u>385,211</u>	<u>234,149</u>
Other financial liabilities - current			
Structured notes principal value	<u>\$ 5,131,125</u>	<u>4,509,983</u>	<u>2,495,416</u>
Other financial liabilities - non-current			
Structured notes principal value	<u>\$ 268,516</u>	<u>266,037</u>	<u>292,045</u>

For the three months ended March 31, 2018 and 2017, 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>For the three months ended March 31, 2018</u>		<u>For the three months ended March 31, 2017</u>	
	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (1,146)	2,019	(5,152)	1,037
Equity derivatives	45	44	-	-
Structured notes	(9,251)	(3,276)	(7,937)	(3,323)
IRS asset swaps	78	18,103	103	10,939
Asset swap options	(36,259)	(68,746)	(69,275)	37,889
Currency swaps	(16,534)	(6,093)	(65,012)	16,308
Currency derivatives	<u>19,707</u>	<u>13,622</u>	<u>6,656</u>	<u>14,420</u>
Total	<u>\$ (43,360)</u>	<u>(44,327)</u>	<u>(140,617)</u>	<u>77,270</u>

(x) 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 March 31, 2018, the Company maintains no change of its capital management. The Company's capital adequacy ratio on March 31, 2018 was 322%.

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Notes to the Consolidated Financial Statements

(7) Related party transactions:

(a) Parent company and ultimate controlling party

The Company is the parent company and the ultimate controlling party of the consolidated company.

(b) Names of related parties and relationships

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<u>Names of related parties</u>	<u>Relationships</u>
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp	Subsidiary
Capital Investment Trust Corp. (Note)	Associate
Funds issued by Capital Investment Trust Corp. (Note)	Funds issued by associate
San Ho Enterprise Co., Ltd.	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Others	Key management personnel

Note: The corporation has become an associate of the Company from February 9, 2018.

(c) Key management personnel transactions

(i) Key management personnel compensation:

	<u>For the three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 118,571	83,269
Post-employment benefits	568	577
Total	<u>\$ 119,139</u>	<u>83,846</u>

(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of March 31, 2018, December 31, 2017 and March 31, 2017 were as follows:

	<u>March 31, 2018</u>		<u>December 31, 2017</u>		<u>March 31, 2017</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	<u>\$ 46,600</u>	<u>46,965</u>	<u>43,600</u>	<u>43,941</u>	<u>43,600</u>	<u>43,800</u>
	Total financial expenses				<u>For the three months ended March 31,</u>	
Key management personnel					<u>2018</u>	<u>2017</u>
					<u>\$ 48</u>	<u>55</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Structured notes transactions

As of March 31, 2018, December 31, 2017 and March 31, 2017, the balances of structured notes transactions with key management personnel were \$51,907, \$45,971 and \$19,850, respectively.

(d) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with related parties as of March 31, 2018, December 31, 2017 and March 31, 2017 were as follows:

	March 31, 2018		December 31, 2017		March 31, 2017	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Capital Money Market Fund	\$ 50,000	51,216	-	-	-	-
Subsidiaries	-	-	-	-	10,000	10,589
Juristic-person directors	<u>10,500</u>	<u>10,500</u>	<u>10,700</u>	<u>10,700</u>	<u>14,800</u>	<u>14,800</u>
Total	<u>\$ 60,500</u>	<u>61,716</u>	<u>10,700</u>	<u>10,700</u>	<u>24,800</u>	<u>25,389</u>
	Total financial expenses		For the three months ended March 31,		2017	
Capital Money Market Fund			\$	53	-	
Subsidiaries					-	10
Juristic-person directors					<u>14</u>	<u>20</u>
Total			<u>\$</u>	<u>67</u>	<u>30</u>	

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction

As of March 31, 2018, December 31, 2017 and March 31, 2017 the balances of structured notes transactions with juristic-person directors of the Group were \$4,950, \$4,995 and \$4,995.

(iii) Lease agreements

1) Lease revenue

	For the three months ended March 31,	
	2018	2017
Subsidiaries	\$ <u>260</u>	<u>260</u>
Associates	\$ <u>4,312</u>	<u>-</u>

2) Guarantee deposits received

	March 31, 2018	December 31, 2017	March 31, 2017
Subsidiaries	\$ 200	200	200
Associates	<u>3,811</u>	-	-
Total	<u>\$ 4,011</u>	<u>200</u>	<u>200</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(iv) Insurance commission revenues

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

1) Commission revenues

	For the three months ended March 31,	
	2018	2017
Subsidiaries	\$ 3,206	6,900

2) Accounts receivable

	March 31, 2018	December 31, 2017	March 31, 2017
Subsidiaries	\$ 2,084	1,169	3,549

(v) Brokerage commissions

The brokerage commission received from the Juristic-person directors and other related parties of the Group engaging in securities and futures trading were \$5,273 and \$2,185 for the three months ended March 31, 2018 and 2017, respectively.

(vi) The Company provided the Letter of Comfort to the banks which loaned to subsidiaries CSC International Holdings Ltd. and CSC Securities (HK) Ltd.

(vii) Accrued receivables

The accrued receivables between the associate, Capital Investment Trust Corp. and the Group include stock service receivable, printing service receivable and advance stock service receivable. As of March 31, 2018, the accrued receivables amounted to \$28.

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(8) Pledged assets:

The following assets were pledged as collateral or restricted in use as of March 31, 2018, December 31, 2017 and March 31, 2017:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>	<u>The collateral use</u>
Restricted assets - current	\$ 632,038	554,215	638,536	Bank borrowings, commercial paper, accounts settled, repurchase agreement, money trust (Annotation 1), guaranty deposited for business operations (Annotation 2) and the amount of provisional seizure
Restricted assets - non-current	94,875	94,875	66,998	Trust to an impartial third party (Note 12(d))
Trading securities and bonds purchased under resale agreements (par value)	47,711,314	49,006,659	44,394,731	Repurchase agreement and bond purchased under resale agreements - short sales
Property and equipment	3,931,988	3,938,041	4,042,955	Bank borrowings
Financial assets at fair value through profit or loss - non-current	185,670	186,015	186,146	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	953,106	955,695	878,840	Bank borrowings
Total	<u>\$ 53,508,991</u>	<u>54,735,500</u>	<u>50,208,206</u>	

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

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

(9) Significant contingent liability and unrecognized contract commitment:

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

	<u>March 31, 2018</u>		<u>December 31, 2017</u>		<u>March 31, 2017</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities procured through margin purchase	666,935	\$ 6,669,350	715,087	7,150,870	692,963	6,929,630
Collateral for margin purchase	4,846	48,460	4,429	44,290	9,491	94,910
Collateral for short sales	1,614	16,140	5,063	50,630	3,822	38,220
Lending securities to customers through short sales	23,964	239,640	48,278	482,780	22,159	221,590

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

	<u>March 31, 2018</u>		<u>December 31, 2017</u>		<u>March 31, 2017</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities borrowed from securities finance companies	253	\$ 2,530	1,005	10,050	111	1,110
Collateral for refinancing margin	-	-	15	150	11	110

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Promissory notes	<u>\$ 24,290,000</u>	<u>24,890,000</u>	<u>24,160,000</u>
Promissory notes	<u>USD 40,000</u>	<u>80,000</u>	<u>70,000</u>

- (d) As of March 31, 2018, December 31, 2017 and March 31, 2017, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$2,544,610, \$1,990,743 and \$1,990,743 respectively.
- (e) 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.
- (f) The client, Mr. Wu, declared that a resigned employee of Da-Sing branch conducted transactions for Mr. Chen without his consent. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$ 2,192. The case is currently under the trial of Taiwan Taipei District Court. According to the opinion of the Company, the case is a dispute between the employee and the client. Therefore, the company shall not be held liable to the damages. The obligation is not recognized in the financial statement.
- (g) 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. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$7,956,873 dollars (including claim amount US\$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). As of March 31, 2018, the damages claimed for amounted to US\$6,355,536, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of March 31, 2018, there is still one case that currently under the review of the Taiwan High Court. 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 and the balance was \$48,034 as of March 31, 2018.

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- (h) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (i) 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 lawsuits were classified by actual situations and relevant matters, thereon adopted different solutions. As of March 31, 2018, seventeen lawsuits 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). The left one that Taiwan Taipei District Court dismissed the plaintiff's claim in September, 2017, and the forgoing lawsuit has been concluded in December, 2017. As of March 31, 2018, TIFC has paid \$275,898 for compensation and recognized the loss reserves \$141,204 in other non-current liabilities - other.

The Financial Supervisory Commission 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.

- (j) The subsidiary, Capital Futures Corp., acquired hardware and software system for the development of future operation, which cost \$6,760 for contract price. As of March 31, 2018, the remaining payable balance was \$2,072.

(10) Significant Catastrophic Loss:None

(11) Significant Subsequent Events:None

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Notes to the Consolidated Financial Statements

(12) Other:

(a) As of March 31, 2018, December 31, 2017 and March 31, 2017, the open positions of futures and option contracts were as follows:

(i) March 31, 2018

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taixex Futures	Long	27	\$ 55,285	56,247	
	Taixex Futures	Short	2,175	(4,735,699)	(4,751,808)	
	Mini Taiex Futures	Long	40	21,857	21,848	
	Mini Taiex Futures	Short	31	(16,237)	(16,820)	
	Electronic Sector Index Futures	Short	24	(43,906)	(43,857)	
	Finance Sector Index Futures	Short	41	(49,675)	(49,799)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	5	6,137	6,289	
	Non-Finance Non-Electronics Sub-Index Futures	Short	6	(7,498)	(7,567)	
	Stock Futures	Long	2,193	203,867	202,855	
	Stock Futures	Short	4,137	(687,842)	(681,349)	
	HSI Futures	Short	4	(22,504)	(22,150)	
	SGX Nifty 50 Index Futures	Short	3	(1,786)	(1,789)	
	Dow Futures	Long	77	36,919	37,168	
	Dow Futures	Short	12	(5,869)	(5,795)	
	Mini-Dow Futures	Long	13	45,177	45,686	
	Mini-Dow Futures	Short	11	(38,139)	(38,654)	
	Soybean Futures	Long	14	21,294	21,285	
	Gold Futures	Short	8	(30,890)	(30,905)	
	MSCI Taiwan Index Futures	Long	423	500,153	501,936	
	FTSE China A50 Index Futures	Long	4,398	1,657,290	1,621,168	
	FTSE China A50 Index Futures	Short	191	(71,861)	(70,330)	
	Real Estate Index Futures	Short	3	(2,562)	(2,612)	
	VIX Futures	Long	54	28,953	30,110	
	S&P 500 Futures	Long	95	50,394	50,262	
	Mini-S&P 500 Futures	Long	95	367,553	362,419	
	Mini-S&P 500 Futures	Short	13	(49,649)	(50,078)	
	Nikkei 225 Index Futures	Short	1	(5,919)	(5,878)	
	SGX Nikkei 225 Index Futures	Short	2	(5,753)	(5,875)	
	U.S. 5-Year T-Note Futures	Short	8	(26,662)	(26,651)	
	U.S. 10-Year T-Note Futures	Short	578	(2,023,535)	(2,037,911)	
	U.S. Treasury Bond Futures	Short	5	(21,260)	(21,338)	
	Ultra 10-Year U.S. Treasury Note Futures	Short	16	(60,320)	(60,473)	
	Euro-Bund Futures	Short	31	(177,143)	(177,281)	
	Crude Oil Futures	Long	3	5,710	5,645	
	Crude Oil Futures	Short	5	(9,091)	(9,450)	
	USD/CNY FX Futures	Short	15	(49,516)	(43,824)	
	Mini-USD/CNY FX Futures	Long	77	50,972	44,993	
	Mini-USD/CNY FX Futures	Short	2	(1,214)	(1,169)	
	Nifty 50 Index Futures	Long	4	2,047	2,049	
	USD/JPY FX Futures	Long	114	65,580	65,953	
	USD/JPY FX Futures	Short	26	(14,863)	(14,969)	
	EUR/USD FX Futures	Long	1	734	726	
	EUR/USD FX Futures	Short	100	(72,842)	(72,081)	
	JPY dollar Futures	Long	18	62,281	61,842	
	NT dollar Gold Futures	Short	5	(2,363)	(2,338)	
	Euro dollar Futures	Long	19	86,285	85,428	
	Subtotal			(4,966,110)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	Taixex Options (Call)	Long	11,891	\$ 27,373	22,343	
	Taixex Options (Put)	Long	10,175	33,380	24,066	
	Taixex Options (Call)	Short	2,830	(21,335)	(19,775)	
	Taixex Options (Put)	Short	17,109	(90,580)	(62,775)	
	Stock Options (Call)	Long	2,836	18,940	16,320	
	Stock Options (Put)	Long	1,011	9,221	9,903	
	Stock Options (Call)	Short	228	(1,213)	(911)	
	Stock Options (Put)	Short	274	(1,760)	(1,008)	
	Taixex Weekly Options (Call)	Long	8,063	10,523	10,704	
	Taixex Weekly Options (Put)	Long	5,007	11,011	6,228	
	Taixex Weekly Options (Call)	Short	306	(1,222)	(1,288)	
	Taixex Weekly Options (Put)	Short	1,059	(3,023)	(1,160)	
	Electronic Sector Index Options (Call)	Long	1,469	2,153	1,433	
	Electronic Sector Index Options (Put)	Long	133	738	714	
	Electronic Sector Index Options (Call)	Short	22	(88)	(102)	
	Electronic Sector Index Options (Put)	Short	84	(473)	(389)	
	Finance Sector Index Options (Call)	Long	1,649	2,473	1,341	
	Finance Sector Index Options (Put)	Long	460	1,173	977	
	Finance Sector Index Options (Put)	Short	40	(92)	(21)	
	S&P 500 Options (Call)	Long	64	2,880	784	
	S&P 500 Options (Put)	Long	167	8,681	16,962	
	S&P 500 Options (Call)	Short	40	(1,938)	(724)	
	S&P 500 Options (Put)	Short	35	(1,649)	(1,772)	
	JPY dollar Options (Put)	Short	2	(7)	(7)	
	Gold Option (Call)	Long	28	53	13	
	Gold Option (Put)	Long	53	31	13	
	Gold Option (Call)	Short	9	(31)	(23)	
	Gold Option (Put)	Short	50	(221)	(193)	
	Mini-USD/CNY FX Options (Call)	Short	1	(7)	-	
	Subtotal			4,991		
Total				<u>\$ (4,961,119)</u>		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) December 31, 2017

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taixex Futures	Long	166	\$ 341,696	351,721	
	Taixex Futures	Short	2,305	(4,866,095)	(4,899,355)	
	Mini Taiex Futures	Short	113	(59,538)	(59,835)	
	Electronic Sector Index Futures	Short	118	(206,165)	(208,247)	
	Finance Sector Index Futures	Long	17	20,196	20,190	
	Finance Sector Index Futures	Short	1	(1,177)	(1,189)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	24	29,054	29,801	
	Stock Futures	Long	2,755	365,398	367,120	
	Stock Futures	Short	8,226	(1,524,440)	(1,517,181)	
	H Stocks Index Futures	Long	5	11,037	11,076	
	SGX Nifty 50 Index Futures	Long	83	52,124	52,161	
	Dow Futures	Long	92	45,670	45,711	
	Dow Futures	Short	97	(48,132)	(48,174)	
	Mini-Dow Futures	Long	6	22,185	22,083	
	Mini-Dow Futures	Short	2	(7,362)	(7,366)	
	Sugar Futures	Long	43	41,196	40,977	
	Soybean Meal Futures	Long	32	3,557	3,534	
	Gold Futures	Long	1	3,866	3,896	
	Gold Futures	Short	13	(49,580)	(50,654)	
	MSCI Taiwan Index Futures	Long	140	163,256	163,740	
	FTSE China A50 Index Futures	Long	570	227,493	224,470	
	FTSE China A50 Index Futures	Short	1,030	(408,178)	(405,920)	
	Real Estate Index Futures	Short	5	(4,836)	(4,782)	
	VIX Futures	Long	40	13,313	13,550	
	S&P 500 Futures	Long	63	33,766	33,875	
	S&P 500 Futures	Short	3	(1,616)	(1,614)	
	Mini-S&P 500 Futures	Long	11	43,562	43,479	
	Mini-S&P 500 Futures	Short	27	(107,897)	(107,538)	
	Nikkei 225 Index Futures	Short	2	(11,799)	(12,021)	
	SGX Nikkei 225 Index Futures	Short	2	(6,025)	(6,012)	
	U.S. 5-Year T-Note Futures	Short	95	(328,692)	(328,419)	
	U.S. 10-Year T-Note Futures	Short	267	(982,781)	(985,667)	
	Crude Oil Futures	Long	2	3,446	3,595	
	Crude Oil Futures	Short	69	(117,989)	(124,070)	
	USD/CNY FX Futures	Long	7	22,476	20,937	
	USD/CNY FX Futures	Short	17	(54,697)	(51,083)	
	Mini-USD/CNY FX Futures	Long	81	52,641	48,696	
	Nifty 50 Index Futures	Short	99	(52,266)	(52,272)	
	USD/JPY FX Futures	Long	76	45,094	45,066	
	USD/JPY FX Futures	Short	90	(53,137)	(53,082)	
	EUR/USD FX Futures	Long	134	95,766	96,370	
	EUR/USD FX Futures	Short	188	(133,994)	(134,423)	
	JPY dollar Futures	Long	2	6,698	6,632	
	JPY dollar Futures	Short	3	(9,942)	(9,948)	
	NT dollar Gold Futures	Long	3	1,399	1,399	
	Euro dollar Futures	Long	9	40,182	40,428	
	Subtotal			(7,351,267)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	Taix Options (Call)	Long	22,356	\$ 40,998	61,369	
	Taix Options (Put)	Long	26,265	59,047	33,040	
	Taix Options (Call)	Short	4,712	(30,079)	(40,087)	
	Taix Options (Put)	Short	27,994	(80,955)	(50,405)	
	Stock Options (Call)	Long	1,724	6,916	4,070	
	Stock Options (Put)	Long	2,277	8,629	9,133	
	Stock Options (Call)	Short	1,181	(4,230)	(4,026)	
	Stock Options (Put)	Short	940	(3,472)	(2,621)	
	Taix Weekly Options (Call)	Long	3,328	2,811	3,250	
	Taix Weekly Options (Put)	Long	22,035	2,720	1,137	
	Taix Weekly Options (Call)	Short	3,236	(10,161)	(24,567)	
	Taix Weekly Options (Put)	Short	4,941	(6,726)	(4,168)	
	Electronic Sector Index Options (Call)	Long	2,221	4,656	4,830	
	Electronic Sector Index Options (Put)	Long	473	2,066	1,116	
	Electronic Sector Index Options (Call)	Short	40	-	-	
	Electronic Sector Index Options (Put)	Short	130	(559)	(275)	
	Finance Sector Index Options (Call)	Long	826	1,025	853	
	Finance Sector Index Options (Put)	Long	598	1,537	847	
	Finance Sector Index Options (Call)	Short	39	(330)	(294)	
	Finance Sector Index Options (Put)	Short	42	(10)	-	
	Crude Oil Options (Put)	Short	1	(1)	-	
	S&P 500 Options (Call)	Long	145	926	640	
	S&P 500 Options (Put)	Long	5	111	87	
	S&P 500 Options (Put)	Short	4	(38)	(48)	
	Mini-S&P 500 Options (Call)	Short	55	(653)	(134)	
	Sugar Option (Call)	Long	473	1,352	671	
	Sugar Option (Put)	Long	1,068	2,993	4,588	
	Sugar Option (Call)	Short	6	-	-	
	Sugar Option (Put)	Short	150	(678)	(724)	
	Soybean Meal Options (Call)	Short	381	(617)	(447)	
	Soybean Meal Options (Put)	Short	84	(397)	(418)	
	Gold Option (Call)	Long	1	1	1	
	Gold Option (Put)	Long	33	143	128	
	Gold Option (Call)	Short	5	(26)	(26)	
	Gold Option (Put)	Short	4	(5)	(3)	
	Mini-USD/CNY FX Options (Call)	Long	2	12	-	
	Mini-USD/CNY FX Options (Put)	Long	78	1,424	3,734	
	Mini-USD/CNY FX Options (Call)	Short	1	(7)	-	
	USD/CNY FX Options (Put)	Long	12	1,155	2,978	
	USD/CNY FX Options (Put)	Short	22	(463)	(3,393)	
	Subtotal			(885)		
Total				\$ (7,352,152)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) March 31, 2017

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taixex Futures	Long	29	\$ 53,974	54,648	
	Taixex Futures	Short	1,086	(2,107,077)	(2,131,996)	
	Electronic Sector Index Futures	Long	13	20,884	20,797	
	Non-Finance Non-Electronics Sub-Index Futures	Long	12	14,150	14,122	
	Non-Finance Non-Electronics Sub-Index Futures	Short	1	(1,180)	(1,175)	
	Stock Futures	Long	1,836	146,424	146,013	
	Stock Futures	Short	7,286	(829,402)	(830,613)	
	Finance Sector Index Futures	Short	32	(36,000)	(35,642)	
	H stocks Index Futures	Long	11	22,221	21,921	
	SGX Nifty 50 Index Futures	Short	86	(47,841)	(47,984)	
	HSI Futures	Long	3	14,147	14,023	
	HSI Futures	Short	2	(9,551)	(9,421)	
	MSCI Taiwan Index Futures	Long	55	60,728	60,504	
	VIX Futures	Long	75	31,060	29,966	
	GBP dollar Futures	Long	85	199,799	202,312	
	EUR dollar Futures	Long	38	155,981	154,469	
	JPY dollar Futures	Short	19	(64,643)	(64,913)	
	Mini-Dow Futures	Long	5	15,646	15,623	
	NT Dollar Gold Futures	Short	28	(12,871)	(12,810)	
	USD/CNY FX Futures	Long	18	55,345	55,255	
	USD/CNY FX Futures	Short	7	(21,250)	(21,266)	
	Nifty 50 Index Futures	Long	111	50,961	51,020	
	Nifty 50 Index Futures	Short	7	(3,002)	(3,238)	
	Mini-USD/CNY FX Futures	Short	4	(2,428)	(2,430)	
	USD/JPY FX Futures	Short	106	(63,652)	(63,998)	
	EUR/USD FX Futures	Short	238	(156,204)	(154,939)	
	USD dollar Futures	Short	15	(45,322)	(45,594)	
	Crude Oil Futures	Long	9	13,959	13,812	
	Crude Oil Futures	Short	14	(21,182)	(21,531)	
	Mini-S&P 500 Futures	Short	168	(594,819)	(596,458)	
	FTSE China A50 Index Futures	Long	30	9,462	9,486	
	FTSE China A50 Index Futures	Short	769	(243,301)	(243,792)	
	U.S. 5-Year T-Note Futures	Short	70	(249,852)	(249,945)	
	U.S. 10-Year T-Note Futures	Long	211	(796,682)	(797,154)	
	Subtotal			(4,441,518)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Options contract :						
	Taixex Options (Call)	Long	4,448	\$ 13,569	11,498	
	Taixex Options (Put)	Long	12,919	14,058	11,262	
	Taixex Options (Call)	Short	6,192	(19,433)	(26,441)	
	Taixex Options (Put)	Short	9,932	(20,636)	(17,995)	
	Stock Options (Call)	Long	1,758	4,313	2,930	
	Stock Options (Put)	Long	1,682	3,592	3,658	
	Stock Options (Call)	Short	53	(568)	(565)	
	Stock Options (Put)	Short	25	(228)	(316)	
	Taixex Weekly Options (Call)	Long	9,969	2,315	797	
	Taixex Weekly Options (Put)	Long	43,897	3,237	2,082	
	Taixex Weekly Options (Call)	Short	2,519	(4,629)	(1,239)	
	Taixex Weekly Options (Put)	Short	3,962	(8,959)	(10,614)	
	Cathay FTSE China A50 ETF Options (Call)	Short	10	(43)	(19)	
	Cathay FTSE China A50 ETF Options (Put)	Short	30	(33)	(21)	
	Electronic Sector Index Options (Call)	Long	217	431	223	
	Electronic Sector Index Options (Put)	Long	48	107	21	
	Electronic Sector Index Options (Call)	Short	14	(69)	(76)	
	Electronic Sector Index Options (Put)	Short	88	(290)	(298)	
	Finance Sector Index Options (Call)	Long	553	759	294	
	Finance Sector Index Options (Put)	Long	484	519	539	
	Finance Sector Index Options (Call)	Short	44	(4)	(5)	
	S&P 500 Options (Call)	Long	716	9,934	7,223	
	S&P 500 Options (Put)	Long	139	4,978	3,265	
	S&P 500 Options (Call)	Short	13	(321)	(240)	
	S&P 500 Options (Put)	Short	249	(6,536)	(3,366)	
	Gold Option (Call)	Long	176	451	398	
	Gold Option (Put)	Long	76	146	116	
	Gold Option (Put)	Short	20	(81)	(63)	
	Mini USD/CNY FX Options (Call)	Long	21	1,174	1,133	
	Mini USD/CNY FX Options (Put)	Long	25	1,696	1,377	
	Mini USD/CNY FX Options (Call)	Short	23	(215)	(142)	
	Mini USD/CNY FX Options (Put)	Short	23	(111)	(178)	
	USD/CNY FX Options (Call)	Long	51	247	95	
	USD/CNY FX Options (Put)	Long	78	1,375	1,107	
	USD/CNY FX Options (Call)	Short	78	(430)	(412)	
	VIX Options (Call)	Short	1,025	(4,654)	(4,312)	
	Subtotal			(4,339)		
Total				\$ (4,445,857)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Stockholders' equity}}{\text{(Total liabilities - futures traders' equity)}}$	$\frac{5,017,158}{665,958}$	7.53	$\frac{4,416,108}{471,081}$	9.37	≥ 1	Satisfactory to requirement
17	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{31,565,057}{27,970,930}$	1.13	$\frac{26,715,869}{23,737,166}$	1.13	≥ 1	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{5,017,158}{1,115,000}$	449.97 %	$\frac{4,416,018}{1,115,000}$	396.06 %	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Post-adjustment net capital}}{\text{Total customers' margin deposits required for open positions of customers}}$	$\frac{3,564,087}{5,687,359}$	62.67 %	$\frac{3,042,096}{4,231,574}$	71.89 %	$\geq 20\%$ $\geq 15\%$	"

- (c) 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.

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

As of March 31, 2018, the accumulated amount of compensation of TIFC was \$275,897. According to the indemnification to the former stockholders of First Securities Co., Ltd. and Far Eastern Securities Co., Ltd, the Company needs to pay all of the compensation to the company participating in the merger. As of March 31, 2018, the trust amount of the impartial third party is \$94,875 and the accumulated compensation expense is \$87,125.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities firms” for the Group:

(i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on loans to a single business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd	Account receivables - Related party	Yes	US 19,322 thousand	US 19,322 thousand	US 19,322 thousand	- %	2	-	Operations	-	-	-	US 53,632 thousand	US 53,632 thousand
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited.	Other receivables - Related party	Yes	US 3,380 thousand	US 3,401 thousand	US 3,380 thousand	- %	2	-	Operations & repayment of financing	-	-	-	US 3,401 thousand	US 3,401 thousand
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463 thousand	HK 1,463 thousand	HK 1,463 thousand	- %	2	-	Repayment of financing	-	-	-	HK 1,463 thousand	HK 1,463 thousand
4	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte.	Account receivables - Customer	No	2,886	80,817	-	4 %	2	-	Tradings	-	-	-	97,088	388,353
5	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	-	40,408	-	5 %	2	-	Tradings	-	-	-	97,088	388,353
6	CSC Futures (HK) Ltd.	Three Arrows Capital Ltd.	Account receivables - Customer	No	-	80,817	-	5 %	2	-	Tradings	-	-	-	97,088	388,353
7	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	-	40,408	-	3.5 %	2	-	Tradings	-	-	-	97,088	388,353
8	CSC Futures (HK) Ltd.	Tetron Capital Limited	Account receivables - Customer	No	-	6,933	-	- %	2	-	Tradings	-	-	-	97,088	388,353

Note: Type of Loans

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

- (ii) Guarantees and endorsements for other parties:None
- (iii) Acquisition of individual real estate with amount over \$300 million or 20% of paid-in capital:None
- (iv) Disposal of individual real estate over \$300 million or 20% of paid-in capital:None
- (v) Service charge discounts on transactions with related parties over NT\$5 million:None
- (vi) Receivables from related parties over \$100 million or 20% of paid-in capital:None

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Business relationships and significant intercompany transactions for the three months ended March 31, 2018:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	352		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	20,672		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	2,579		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	35,002		0.02 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payables	20,719		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	46,019	General transaction	1.63 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	3,932	General transaction	0.14 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	96	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	47	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	1	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	1,223	General transaction	0.04 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	16	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	8,803	General transaction	0.31 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	6,898	General transaction	0.24 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	20,500	General transaction	0.73 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	300	General transaction	0.01 %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Guarantee deposits received	30		- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Lease revenue	30	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	249	General transaction	0.01 %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Revenue from securities management, distribution, and management fees	60		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	48		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	8		- %
0	Capital Futures Corp.	CSC Securities (HK) Ltd.	1	Other operating expenditure	2,099	General transaction	0.07 %
0	Capital Futures Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160		- %
0	Capital Futures Corp.	CSC Venture Capital Corp.	1	Other receivables	80		- %
0	Capital Futures Corp.	CSC Venture Capital Corp.	1	Lease revenue	240	General transaction	0.01 %
0	Capital Futures Corp.	Capital International Technology Corp.	1	Other non-operating revenue	52	General transaction	- %
0	Capital Futures Corp.	Capital International Technology Corp.	1	Guarantee deposits received	36		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	1,307,269		0.93 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,307,269		0.93 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	370,576		0.26 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	2,620,887		1.85 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payables	1,600		- %

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	2,760	General transaction	0.10 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	19,300	General transaction	0.68 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	219	General transaction	0.01 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	2,555,521		1.81 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	305,210		0.22 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expense	204	General transaction	0.01 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	966		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Depreciation expense	100	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Prepayments	100	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	3,757	General transaction	0.13 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Membership fee	110	General transaction	- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 10		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 1,080	General transaction	0.14 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 206	General transaction	0.03 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 150,000		0.41 %
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK)Limited	3	Other receivables	HK 26,405		0.07 %

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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Information on reinvestment business:

(In Thousands of New Taiwan Dollars)

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 or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on March 31, 2018	Balance on December 31, 2017	Shares	Ratio	Book value					
0	Capital Investment Management Corp.	Taipei, Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	7,000,000	100.00 %	109,365	20,500	2,208	2,208	-	The transaction has been written off in the consolidated financial statements
0	Capital Futures Corp.	Taipei, Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,539	1,212,539	90,166,223	56.21 %	2,820,144	901,657	412,564	231,902	-	"
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 %	1,567,862	14,971	12,203	12,203	-	"
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 %	108,456	51,137	17,951	17,951	-	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 %	42,370	16,482	823	823	-	"
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 %	460,476	-	(3,880)	-	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Long-term equity investment business.	1,394,817	1,394,817	300	100.00 %	719	(551)	(558)	(558)	-	"
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 %	12,983	-	(58)	(58)	-	"
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	1,000,000	100,000,000	100.00 %	1,077,190	357	1,919	1,919	-	"
0	Capital Investment Trust Corp.	Taipei, Taiwan, R.O.C.	October 10, 1995		Engaged in security investment and discretionary investment services.	1,272,505	-	33,067,507	20.00 %	1,286,071	310,395	123,781	13,566	-	Associates
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	June 29, 1993	No. FSC-17433 dated April 7, 1993	Completion of liquidation.	HK -	HK -	-	- %	HK -	HK -	HK -	-	-	The transaction has been written off in the consolidated financial statements

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on March 31, 2018	Balance on December 31, 2017	Shares	Ratio	Book value					
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.	HK 128,000 thousand	HK 128,000 thousand	128,000,000	100.00 %	HK 162,036 thousand	HK 8,697 thousand	HK 3,984 thousand	-	-	The transaction has been written off in the consolidated financial statements
2	TIS Securities (HK) Limited. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousand	HK 265,000 thousand	265,000,000	100.00 %	HK (26,502) thousand	HK -	HK (147) thousand	-	-	"
3	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,170) thousand	-	HK (69) thousand	-	-	"
4	CSC Futures (HK) Ltd.	CSC Futures (HK) Ltd.	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Future brokerage and other businesses permitted by local law of Hong Kong.	862,631	862,631	214,000,000	97.27 %	944,377	221,761	47,329	-	-	"
4	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 %	52,836	-	6,303	-	-	"
4	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 %	41,572	16,861	693	-	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	2	100.00 %	HK -	HK -	HK -	-	-	The transaction has been written off in the consolidated financial statements

Note 1: (0) Capital Securities Corp. (1) CSC International Holdings Ltd. (2) Taiwan International Securities (B.V.I) Corp. (3) TIS Securities (HK) Limited. (4) Capital Futures Corp. (5) 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. The representative office of China dissolved in 2014 as well. According to the laws of Hong Kong, it can't be liquidated voluntarily because the total assets of TIS Securities (HK) Limited. and Taiwan International Capital (HK) Ltd. can't cover the liabilities. The company has briefed it to the accountant in Hong Kong to plan the solutions.

Note 7: The company cancelled its registration on February 3, 2018.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Information on branch units or representative offices overseas:

(In Thousands of New Taiwan Dollars)

Name	Region	Date of establishment	Approval date and number of FSC	Primary business operation	Operating Revenues	Net Income	Assignment of working capital				Transactions with parent company	Note	
							Beginning amount	Add	Less	Ending amount			
CSC International Holdings Ltd. Shanghai Representative Office	Shanghai	November 27, 1997	Ruling No. 16322 by FSC on Feb.22, 1997	Investigation of business, research of industrial technology and related information collection							-	-	

(d) Information on investments in China:

(i) Investment in Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2018	Remittance of recoverable investment this period		Accumulated remittance as of March 31, 2018	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the company	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of March 31, 2018
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	1,069	28.67%	335 B(3)	12,500	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	7,178	56.21%	4,035 B(3)	15,886	-

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

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

Note 2: Investment gains and losses recognized during the period

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

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

(ii) Limitation on investment in Mainland China:

Company Name	Accumulated remittance from Taiwan to Mainland China	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment in Mainland China regulated by MOEA
Capital International Technology Corp.	43,235	43,235	80,000

Note: The Company invests through subsidiaries, 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

(a) Operating segment information

The operating segments are consistent with the internal reports provided to the chief operating decision-maker. The Group's operating segments are classified into brokerage, underwriting, dealing, derivative instrument and reinvestment according to the sources of revenue. The remaining operating results which have not reached the threshold requirements are consolidated in other operating segments.

Sources of income from products and services rendered by each segment are as follows:

- (i) Brokerage segment: Engaged in brokerage trading, margin trading, and securities lending business.
- (ii) 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.
- (iii) Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.
- (iv) Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.
- (v) Capital Futures Corporation: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(b) 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".

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

		For the three months ended March 31, 2018							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$	<u>971,923</u>	<u>63,220</u>	<u>427,372</u>	<u>281,326</u>	<u>61,078</u>	<u>1,101,958</u>	<u>(83,648)</u>	<u>2,823,229</u>
Income	\$	<u>440,118</u>	<u>25,830</u>	<u>216,216</u>	<u>220,060</u>	<u>49,638</u>	<u>468,404</u>	<u>(243,735)</u>	<u>1,176,531</u>
		For the three months ended March 31, 2017							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$	<u>744,401</u>	<u>86,506</u>	<u>438,002</u>	<u>77,984</u>	<u>52,208</u>	<u>504,785</u>	<u>(65,528)</u>	<u>1,838,358</u>
Income	\$	<u>260,805</u>	<u>40,924</u>	<u>300,077</u>	<u>46,239</u>	<u>(111,038)</u>	<u>111,934</u>	<u>(39,706)</u>	<u>609,235</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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.

(d) 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.

(e) Information about geographical areas

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

(f) 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.