

**CAPITAL SECURITIES CORPORATION AND  
SUBSIDIARIES**

**Consolidated Financial Statements**

**With Independent Auditors' Review Report  
For The Nine Months Ended September 30, 2019 and 2018**

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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 Capital Securities Corporation and its subsidiaries as of September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and the nine months ended September 30, 2019 and 2018, as well as the changes in equity and cash flows for the nine months ended September 30, 2019 and 2018, 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 Standard 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 reviews.

### Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standard 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-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$2,800,768 thousands and \$3,188,593 thousands, constituting 2.13% and 2.50% of consolidated total assets as of September 30, 2019 and 2018, respectively, total liabilities amounting to \$222,128 thousands and \$377,533 thousands, constituting 0.23% and 0.41% of consolidated total liabilities as of September 30, 2019 and 2018, respectively, and total comprehensive income (loss) amounting to \$(8,773) thousands, \$(93,528) thousands, \$(111,091) thousands and \$(117,626) thousands, constituting (0.92)%, (43.15)%, (3.82)% and (7.80)% of consolidated total comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018, respectively.

Furthermore, as stated in Note 6(e), the other equity accounted investments of Capital Securities Corporation and its subsidiaries in its investee companies of \$1,428,086 thousands and \$1,396,246 thousands as of September 30, 2019 and 2018, respectively, and its equity in net earnings on these investee companies of \$52,092 thousands, \$36,736 thousands, \$151,403 thousands and \$113,805 thousands for the three months and the nine months ended September 30, 2019 and 2018, respectively, and its equity in other comprehensive income (loss) on these investee companies of \$(109) thousands, \$65 thousands, \$3,552 thousands and \$2,347 thousands for the three months and the nine months ended September 30, 2019 and 2018, 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 Capital Securities Corporation and its subsidiaries as of September 30, 2019 and 2018, and of its consolidated financial performance for the three months and the nine months ended September 30, 2019 and 2018, as well as its consolidated cash flows for the nine months ended September 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and International Accounting Standard 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)  
November 11, 2019

### **Notes to Readers**

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and 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 Originally Issued in Chinese)  
**Reviewed only, not audited in accordance with generally accepted auditing standards as of September 30, 2019 and 2018**

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**September 30, 2019, December 31, 2018, and September 30, 2018**

**(Expressed in Thousands of New Taiwan Dollars)**

	September 30, 2019		December 31, 2018		September 30, 2018			September 30, 2019		December 31, 2018		September 30, 2018	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
<b>Assets</b>							<b>Liabilities and Equity</b>						
<b>110000 Current assets:</b>							<b>210000 Current liabilities:</b>						
111100 Cash and cash equivalents (note 6(a))	\$ 8,104,149	6	7,993,419	7	7,700,427	6	211100 Short-term borrowings (note 6(j))	\$ 4,625,578	4	3,873,506	3	4,596,498	4
112000 Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	31,910,676	24	31,060,874	26	31,696,368	25	211200 Commercial paper payable (note 6(k))	-	-	-	-	1,749,881	1
113200 Financial assets at fair value through other comprehensive income- current (note 6(b))	15,697,331	12	10,865,929	9	17,392,056	14	212000 Financial liabilities at fair value through profit or loss - current (note 6(l))	1,276,332	1	1,202,215	1	1,183,127	1
114030 Receivable for securities provided as collateral	10,778,792	8	9,994,568	9	12,725,558	10	214010 Bonds sold under repurchase agreements (note 6(m))	33,974,224	26	28,032,524	24	35,203,702	28
114040 Refinancing margin	23,577	-	39,614	-	80,843	-	214040 Guarantee deposited for short sales	1,894,774	1	2,316,744	2	1,798,389	1
114050 Refinancing collateral receivable	19,616	-	34,419	-	63,754	-	214050 Proceeds payable from short sales	2,095,874	2	2,603,315	2	2,037,334	2
114060 Receivable of securities business money lending	1,896,871	2	1,949,105	2	1,793,311	1	214070 Securities lending refundable deposits	57,419	-	644,843	1	747,275	1
114070 Customers' margin account (note 6(d))	36,177,111	28	33,275,630	29	32,424,124	26	214080 Futures traders' equity (note 6(d))	36,038,209	27	33,158,826	28	32,389,958	25
114080 Receivable - futures margin	13	-	1	-	31	-	214090 Customer equity of separate account ledger in settlement account (note 6(n))	1,386,730	1	26,969	-	15,711	-
114090 Collateral for securities borrowed	295,862	-	454,200	-	292,508	-	214100 Leverage contract trading - customers' equity	265,885	-	225,899	-	226,998	-
114100 Security borrowing margin	289,005	-	412,148	-	293,380	-	214110 Notes payable	98	-	481	-	-	-
114110 Notes receivable	18,042	-	17,181	-	11,283	-	214130 Accounts payable (note 6(o))	5,665,147	4	3,857,893	4	4,883,341	4
114130 Accounts receivable (note 6(c))	6,649,944	5	4,607,173	4	6,787,258	5	214150 Advance receipts	43,034	-	37,089	-	31,088	-
114150 Prepayments	33,531	-	37,751	-	35,135	-	214160 Receipts under custody	116,735	-	120,325	-	159,707	-
114170 Other receivables	149,949	-	95,994	-	156,787	-	214170 Other payables	710,620	1	765,572	1	822,349	1
114300 Leverage contract trading - customers' margin account	265,213	-	228,564	-	228,529	-	214200 Other financial liabilities - current (note 6(x))	3,567,102	3	3,357,887	3	4,107,079	3
114600 Current income tax assets	26,588	-	26,609	-	26,607	-	214600 Current income tax liabilities	436,538	-	452,432	-	425,043	-
119000 Other current assets	2,195,122	2	876,441	1	541,783	1	215100 Provisions - current (note 6(r))	59,892	-	50,666	-	60,276	-
	<u>114,531,392</u>	<u>87</u>	<u>101,969,620</u>	<u>87</u>	<u>112,249,742</u>	<u>88</u>	216000 Current lease liabilities (note 6(q))	195,354	-	-	-	-	-
<b>120000 Non-current assets:</b>							219000 Other current liabilities	22,351	-	11,652	-	11,020	-
122000 Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	180,507	-	185,109	-	185,303	-		<u>92,431,896</u>	<u>70</u>	<u>80,738,838</u>	<u>69</u>	<u>90,448,776</u>	<u>71</u>
123200 Financial assets at fair value through other comprehensive income- non-current (note 6(b))	2,341,950	2	1,911,577	2	1,738,734	2	<b>220000 Non-Current liabilities:</b>						
124100 Investments accounted for under equity method (note 6(e))	1,428,086	1	1,432,537	1	1,396,246	1	224200 Other financial liabilities - non-current (note 6(x))	206,200	-	310,032	-	424,077	-
125000 Property and equipment (notes 6(f) and 8)	3,061,842	2	5,340,960	5	5,318,417	4	226000 Non-current lease liabilities (note 6(q))	846,516	1	-	-	-	-
125800 Right-of-use assets (notes 6(g))	979,570	1	-	-	-	-	228000 Deferred income tax liabilities	470,936	-	478,035	-	470,090	-
126000 Investment property (notes 6(h) and 8)	3,754,219	3	1,374,014	1	1,380,100	1	229000 Other non-current liabilities	683,717	1	658,266	1	795,790	1
127000 Intangible assets (note 6(i))	3,613,346	3	3,621,070	3	3,608,470	3		<u>2,207,369</u>	<u>2</u>	<u>1,446,333</u>	<u>1</u>	<u>1,689,957</u>	<u>1</u>
128000 Deferred income tax assets	167,309	-	115,770	-	107,225	-		<u>94,639,265</u>	<u>72</u>	<u>82,185,171</u>	<u>70</u>	<u>92,138,733</u>	<u>72</u>
129000 Other non-current assets	1,504,101	1	1,439,250	1	1,532,646	1	<b>Total liabilities</b>						
	<u>17,030,930</u>	<u>13</u>	<u>15,420,287</u>	<u>13</u>	<u>15,267,141</u>	<u>12</u>	<b>Equity attributable to shareholders of the parent:</b>						
<b>Total assets</b>	<b>\$ 131,562,322</b>	<b>100</b>	<b>117,389,907</b>	<b>100</b>	<b>127,516,883</b>	<b>100</b>	301010 Common stock (note 6(t))	23,209,081	18	23,209,081	20	23,209,081	18
							302000 Capital surplus (note 6(t))	2,852,299	2	2,852,299	2	2,852,299	2
							304000 Retained earnings:						
							304010 Legal reserve	1,658,360	1	1,519,635	1	1,519,635	1
							304020 Special reserve	3,587,197	3	3,302,811	3	3,302,811	3
							304040 Unappropriated earnings (note 6(t))	1,798,829	1	1,387,250	1	1,663,046	1
							305120 Exchange differences on translation of foreign operations	(16,480)	-	(41,068)	-	(54,516)	-
							305140 Unrealized gains (losses) on financial assets at fair value through other comprehensive income	1,660,954	1	741,984	1	692,530	1
								<u>34,750,240</u>	<u>26</u>	<u>32,971,992</u>	<u>28</u>	<u>33,184,886</u>	<u>26</u>
							<b>306000 Non-controlling interests</b>	<u>2,172,817</u>	<u>2</u>	<u>2,232,744</u>	<u>2</u>	<u>2,193,264</u>	<u>2</u>
							<b>Total equity</b>	<u>36,923,057</u>	<u>28</u>	<u>35,204,736</u>	<u>30</u>	<u>35,378,150</u>	<u>28</u>
							<b>Total liabilities and equity</b>	<b>\$ 131,562,322</b>	<b>100</b>	<b>117,389,907</b>	<b>100</b>	<b>127,516,883</b>	<b>100</b>

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Comprehensive Income**

**For the three months and nine months ended September 30, 2019 and 2018**

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

	For the three months ended September 30				For the nine months ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Income:</b>								
401000	\$ 991,578	47	1,079,141	65	2,790,558	50	3,452,358	52
402000	4	-	74	-	93	-	251	-
403000	56,263	3	32,792	2	140,128	3	98,487	2
404000	25,454	1	28,042	2	65,515	1	83,401	1
406000	34,218	2	26,079	2	81,786	1	87,122	1
410000	291,180	14	(599,626)	(36)	516,460	9	(638,476)	(10)
421100	39,475	2	37,581	2	108,857	2	105,441	2
421200	388,040	19	481,230	29	1,145,207	21	1,585,953	24
421300	195,600	9	203,708	12	230,876	4	245,836	4
421500	(19,778)	(1)	(133,404)	(8)	608,077	11	(320,890)	(5)
421600	(22,611)	(1)	(5,666)	-	29,650	1	174,893	3
421610	(13,120)	(1)	12,718	1	(153,124)	(3)	(4,540)	-
421750	107,526	5	(47,190)	(3)	204,558	4	(168,615)	(3)
422000	6	-	-	-	26	-	-	-
422200	50,874	2	434,894	26	119,320	2	1,357,382	20
424100	52,916	3	73,443	4	160,539	3	370,569	6
424400	(24,272)	(1)	(23,646)	(1)	(410,846)	(7)	266,624	4
424500	(71,801)	(3)	75,381	4	(189,846)	(3)	23,065	-
424800	118	-	88	-	222	-	293	-
424900	3,870	-	11,137	1	10,908	-	24,279	-
425300	623	-	(11,013)	(1)	582	-	(63,452)	(1)
428000	8,264	-	(23,681)	(1)	66,714	1	2,725	-
	<u>2,094,427</u>	<u>100</u>	<u>1,652,082</u>	<u>100</u>	<u>5,526,260</u>	<u>100</u>	<u>6,682,706</u>	<u>100</u>
<b>Expenses:</b>								
501000	117,940	6	131,017	8	332,158	6	436,422	7
502000	3,469	-	4,564	-	10,537	-	15,218	-
503000	344	-	487	-	1,553	-	1,589	-
504000	259	-	466	-	810	-	759	-
521200	166,331	8	162,562	10	484,609	9	567,970	8
521640	123	-	-	-	123	-	-	-
524100	75,807	4	89,847	5	226,868	4	365,036	6
524300	38,022	2	44,077	3	108,840	2	127,742	2
528000	1,125	-	1,177	-	2,099	-	5,430	-
531000	603,661	29	600,549	36	1,760,711	32	2,021,391	30
532000	110,739	5	51,431	3	310,755	6	154,736	2
533000	325,726	15	372,771	23	988,500	18	1,334,907	20
	<u>1,443,546</u>	<u>69</u>	<u>1,458,948</u>	<u>88</u>	<u>4,227,563</u>	<u>77</u>	<u>5,031,200</u>	<u>75</u>
<b>Other income (expenses):</b>								
601000	52,092	2	36,736	2	151,403	3	113,805	2
602000	248,972	12	200,964	12	801,972	15	639,644	9
	<u>301,064</u>	<u>14</u>	<u>237,700</u>	<u>14</u>	<u>953,375</u>	<u>18</u>	<u>753,449</u>	<u>11</u>
902001	951,945	45	430,834	26	2,252,072	41	2,404,955	36
701000	89,552	4	125,942	8	291,494	5	458,590	7
	<u>862,393</u>	<u>41</u>	<u>304,892</u>	<u>18</u>	<u>1,960,578</u>	<u>36</u>	<u>1,946,365</u>	<u>29</u>
<b>Other comprehensive income:</b>								
805500	<b>Components that may not be reclassified to profit or loss in subsequent periods:</b>							
805540	63,372	3	(119,828)	(7)	433,029	8	(89,830)	(1)
805550	-	-	-	-	3,439	-	2,059	-
805599	-	-	-	-	-	-	-	-
	<u>63,372</u>	<u>3</u>	<u>(119,828)</u>	<u>(7)</u>	<u>436,468</u>	<u>8</u>	<u>(87,771)</u>	<u>(1)</u>
805600	<b>Components that may be reclassified to profit or loss in subsequent periods:</b>							
805610	(9,669)	(1)	10,857	1	32,224	-	72,983	1
805615	37,900	2	21,845	1	483,494	9	(405,538)	(6)
805699	(677)	-	1,005	-	3,389	-	17,308	-
	<u>28,908</u>	<u>1</u>	<u>31,697</u>	<u>2</u>	<u>512,329</u>	<u>9</u>	<u>(349,863)</u>	<u>(5)</u>
805000	92,280	4	(88,131)	(5)	948,797	17	(437,634)	(6)
902006	<u>954,673</u>	<u>45</u>	<u>216,761</u>	<u>13</u>	<u>2,909,375</u>	<u>53</u>	<u>1,508,731</u>	<u>23</u>
<b>Net income attributable to:</b>								
913100	\$ 799,603	38	233,752	14	1,762,181	32	1,614,953	24
913200	62,790	3	71,140	4	198,397	4	331,412	5
	<u>\$ 862,393</u>	<u>41</u>	<u>304,892</u>	<u>18</u>	<u>1,960,578</u>	<u>36</u>	<u>1,946,365</u>	<u>29</u>
<b>Total comprehensive income attributable to:</b>								
914100	\$ 894,580	42	143,612	9	2,706,611	49	1,170,645	18
914200	60,093	3	73,149	4	202,764	4	338,086	5
	<u>\$ 954,673</u>	<u>45</u>	<u>216,761</u>	<u>13</u>	<u>2,909,375</u>	<u>53</u>	<u>1,508,731</u>	<u>23</u>
975000	\$ 0.34		0.10		0.76		0.70	
985000	\$ 0.34		0.10		0.76		0.70	

See accompanying notes to consolidated financial statements.

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

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the nine months ended September 30, 2019 and 2018**

**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to the parent company										Non-controlling interests	Total Equity
	Stock	Retained earnings				Total other equity interest			Total equity attributable to the parent company			
		Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income		Unrealized gains (losses) on financial assets available for sale		
<b>Balance at January 1, 2018</b>	\$ 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 nine months ended September 30, 2018	-	-	-	-	1,614,953	-	-	-	1,614,953	331,412	1,946,365	
Other comprehensive income	-	-	-	-	(26)	49,050	(493,332)	-	(444,308)	6,674	(437,634)	
Total comprehensive income	-	-	-	-	1,614,927	49,050	(493,332)	-	1,170,645	338,086	1,508,731	
Appropriation and distribution of retained earnings: (note 6(t))												
Legal reserve	-	-	289,360	-	(289,360)	-	-	-	-	-	-	
Special reserve	-	-	-	593,188	(593,188)	-	-	-	-	-	-	
Cash dividends of common stocks	-	-	-	-	(433,815)	-	-	-	(433,815)	-	(433,815)	
Stock dividends of common stocks	1,518,351	-	-	-	(1,518,351)	-	-	-	-	-	-	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	19,913	-	(19,913)	-	-	-	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(201,592)	(201,592)	
<b>Balance at September 30, 2018</b>	<b>\$ 23,209,081</b>	<b>2,852,299</b>	<b>1,519,635</b>	<b>3,302,811</b>	<b>1,663,046</b>	<b>(54,516)</b>	<b>692,530</b>	<b>-</b>	<b>33,184,886</b>	<b>2,193,264</b>	<b>35,378,150</b>	
<b>Balance at January 1, 2019</b>	\$ 23,209,081	2,852,299	1,519,635	3,302,811	1,387,250	(41,068)	741,984	-	32,971,992	2,232,744	35,204,736	
Net income for the nine months ended September 30, 2019	-	-	-	-	1,762,181	-	-	-	1,762,181	198,397	1,960,578	
Other comprehensive income	-	-	-	-	-	24,588	919,842	-	944,430	4,367	948,797	
Total comprehensive income	-	-	-	-	1,762,181	24,588	919,842	-	2,706,611	202,764	2,909,375	
Appropriation and distribution of retained earnings: (note 6(t))												
Legal reserve	-	-	138,725	-	(138,725)	-	-	-	-	-	-	
Special reserve	-	-	-	284,386	(284,386)	-	-	-	-	-	-	
Cash dividends of common stocks	-	-	-	-	(928,363)	-	-	-	(928,363)	-	(928,363)	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	872	-	(872)	-	-	-	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(262,691)	(262,691)	
<b>Balance at September 30, 2019</b>	<b>\$ 23,209,081</b>	<b>2,852,299</b>	<b>1,658,360</b>	<b>3,587,197</b>	<b>1,798,829</b>	<b>(16,480)</b>	<b>1,660,954</b>	<b>-</b>	<b>34,750,240</b>	<b>2,172,817</b>	<b>36,923,057</b>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements 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 nine months ended September 30, 2019 and 2018**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from (used in) operating activities:</b>		
<b>Net income before tax</b>	\$ 2,252,072	2,404,955
<b>Adjustments:</b>		
<b>Income and expenses items with no effect on cash flows:</b>		
Depreciation expense	285,395	129,175
Amortization expense	25,360	25,561
Expected credit loss (gain)	(582)	63,452
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(454,953)	325,430
Interest expense	484,609	567,970
Interest revenue (including financial revenue)	(1,572,955)	(1,854,196)
Dividend revenue	(292,515)	(295,326)
Cash dividend received from investments under equity method	159,432	165,998
Share of profit of associates and joint ventures	(151,403)	(113,805)
Losses on disposal and retirement of property and equipment	342	122
Gain on disposal of investments under equity method	-	(30,500)
Net gains on non-operating financial instruments at fair value through profit or loss	(23,729)	(1,778)
<b>Net changes of income and expense items with no effect on cash flows</b>	<u>(1,540,999)</u>	<u>(1,017,897)</u>
<b>Changes in assets and liabilities from operating activities:</b>		
Decrease (increase) in financial assets at fair value through profit or loss	(365,091)	2,711,500
Decrease (increase) in financial assets at fair value through other comprehensive income	(4,257,182)	14,967,238
Decrease (increase) in receivable for securities provided as collateral	(782,790)	2,146,526
Decrease (increase) in refinancing margin	16,037	(34,748)
Decrease (increase) in receivable on refinancing collateral	14,803	(24,866)
Decrease (increase) in receivable of securities business money lending	52,234	(261,080)
Increase in customers' margin account	(2,901,481)	(5,121,412)
Decrease (increase) in margin receivable of futures trading	1,585	(33,506)
Decrease in collateral for securities borrowed	158,338	621,835
Decrease in security borrowing margin	123,143	638,488
Decrease (increase) in notes receivable	(861)	10,528
Increase in accounts receivable	(2,023,861)	(96,467)
Decrease (increase) in prepayments	4,220	(1,195)
Increase in other receivables	(60,043)	(99,118)
Increase in leverage contract trading - customers' margin account	(36,649)	(76,989)
Decrease (increase) in other current assets	(1,318,681)	380,533
Increase in guarantee deposited for business operations	(58,366)	(18,550)
Decrease in settlement fund	10,620	5,110
Decrease (increase) in refundable deposits	15,015	(12,072)
Decrease (increase) in other non-current assets	(30,939)	77,815
Increase (decrease) in financial liabilities at fair value through profit or loss	72,663	(1,720,066)
Increase (decrease) in bonds sold under repurchase agreements	5,941,701	(11,852,610)
Decrease in guarantee deposited for short sales	(421,970)	(427,875)
Decrease in proceeds payable from short sales	(507,441)	(463,519)
Decrease in securities lending refundable deposits	(587,424)	(443,002)
Increase in futures traders' equity	2,879,383	5,121,732
Increase in customers' equity of separate account ledger in settlement account	1,359,761	2,232
Increase in leverage contract trading - customers' equity	39,986	74,158
Decrease in notes payable	(383)	(879)
Increase (decrease) in accounts payable	1,810,576	(905,613)
Increase (decrease) in advance receipts	5,945	(24,456)
Decrease in receipts under custody	(3,590)	(186,316)
Decrease in other payable	(63,789)	(170,871)
Increase in other current liabilities	10,699	1,059
Increase (decrease) in other financial liabilities - current	209,215	(402,904)
Increase in provision - current	14,418	10,510
Decrease (increase) in other financial liabilities - non-current	(103,832)	158,040
Increase (decrease) in other non-current liabilities	25,451	(4,149)
<b>Total changes in assets and liabilities from operating activities</b>	<u>(758,580)</u>	<u>4,545,041</u>
<b>Total cash generated from adjustment items</b>	<u>(2,299,579)</u>	<u>3,527,144</u>



(English Translation of Consolidated Financial Statements 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 nine months ended September 30, 2019 and 2018**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Cash generated from operating activities	\$ (47,507)	5,932,099
Interest received	1,583,729	1,903,780
Dividends received	270,086	272,154
Interest paid	(485,693)	(559,786)
Income taxes paid	(369,519)	(221,182)
<b>Net Cash flows provided by (used in) operating activities</b>	<b>951,096</b>	<b>7,327,065</b>
<b>Cash flows from (used in) investing activities:</b>		
Increase in financial assets at fair value through other comprehensive income	(94,864)	(2,134)
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	9,767
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	3,874	1,085
Acquisition of investments accounted for using equity method	-	(1,272,505)
Increase in deferred debits	(607)	(892)
Acquisition of property and equipment	(241,633)	(62,638)
Acquisition of intangible assets	(17,031)	(6,208)
Proceeds from disposal of intangible assets	-	1,927
<b>Net cash flows provided by (used in) investing activities</b>	<b>(350,261)</b>	<b>(1,331,598)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term borrowings	752,072	(2,485,200)
Decrease in commercial papers payable	-	(2,349,303)
Payment of lease liabilities	(83,108)	-
Cash dividends paid	(1,191,029)	(635,399)
<b>Net cash flows provided by (used in) financing activities</b>	<b>(522,065)</b>	<b>(5,469,902)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>31,960</b>	<b>70,785</b>
<b>Increase in cash and cash equivalents</b>	<b>110,730</b>	<b>596,350</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>7,993,419</b>	<b>7,104,077</b>
<b>Cash and cash equivalents, end of this period</b>	<b>\$ 8,104,149</b>	<b>7,700,427</b>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements 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**

**September 30, 2019 and 2018**

**(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 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei, Taiwan, R.O.C. As of September 30, 2019, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of September 30, 2019, except for the Head Office, the Company has established an Offshore Securities Unit branch and 51 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 November 11, 2019.

(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, 2019.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
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 19 “Plan Amendment, Curtailment or Settlement”	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

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 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in opening balance on January 1, 2019. The details of the changes in accounting policies are disclosed below,

- 1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(d)

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

- 2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities on balance sheet.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The Group decided to apply recognition exemptions to short-term leases of office equipment and leases of transportation equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$1,070,869 of right-of-use assets and \$1,070,869 of lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.36%.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<b>January 1, 2019</b>
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 1,068,369
Recognition exemption for:	
short-term leases	(3,642)
leases of low -value assets	(2,174)
Extension and termination options reasonably certain to be exercised	57,616
	1,120,169
Discounted using the incremental borrowing rate at January 1, 2019	1,070,869
Lease liabilities recognized at January 1, 2019	<b>\$ 1,070,869</b>

(b) The impact of IFRS endorsed by FSC but not yet effective

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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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 17 "Insurance Contracts"	January 1, 2021
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020

The Group assessed that the above IFRSs may not be relevant to the Group.

(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 a complete set of the 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, 2018. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2018 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 at fair value through other comprehensive income; 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.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Inter-company transactions, balances and any unrealized gains or losses on transactions between companies within the Group are eliminated.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) 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
			September 30, 2019	December 31, 2018	September 30, 2018	
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 September 30, 2019, 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 September 30, 2019, 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 %	56.21 %	The corporation established in February, 1997. As of September 30, 2019, the paid-in capitals amounted to \$1,764,376.
"	Taiwan International Futures Corp.	Management consultancy	- %	- %	99.99 %	Completion of liquidation. (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 September 30, 2019, 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 September 30, 2019, 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. As of September 30, 2019, 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 September 30, 2019, 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 September 30, 2019, the paid-in capitals amounted to CNY\$1,000 thousands. (note 8)
"	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 September 30, 2019, 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 %	100.00 %	The corporation established in May, 1994. (note 2)

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00 %	100.00 %	100.00 %	The corporation established in April, 1995. (note 2)
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Liquidation in progress	100.00 %	100.00 %	100.00 %	Liquidation in progress (note 4)
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Liquidation in progress	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 September 30, 2019 and 2018, the total assets amounted to \$150,524 and \$115,171, and the total liabilities amounted to \$57,090 and \$11,877, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018 were \$(840), \$2,394, \$(3,806) and \$7,126.

Note 2: CSC International Holdings Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2019 and 2018, the total consolidated assets amounted to \$1,805,338 and \$1,804,249, and the total consolidated liabilities amounted to \$147,445 and \$175,317, respectively. The total consolidated comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018 were \$(4,867), \$(16,460), \$4,300 and \$(4,880).

Note 3: Taiwan International Futures Corp. is a non-major subsidiary; its financial statements have not been reviewed. The stockholders' special meeting of Taiwan International Securities Corp. acknowledged its documents for completion of liquidation on December 17, 2018. The entity was been permitted from the court approval of its completion of liquidation on February 12, 2019. As of September 30, 2018, the total assets amounted to \$215,097, and the total liabilities amounted to \$176,900. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2018 were \$106 and \$(3,235).

Note 4: Taiwan International Securities (B.V.I) Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2019 and 2018, the total consolidated assets amounted to \$93 and \$652, and the total consolidated liabilities amounted to \$0 and \$0, respectively. The total consolidated comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018 were \$(354), \$341, \$(365) and \$(344).

Note 5: Taiwan International Securities Investment Consulting Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2019 and 2018, the total assets amounted to \$12,662 and \$13,139, and the total liabilities amounted to \$1 and \$271, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018 were \$(24), \$(58), \$(148) and \$(174).

Note 6: CSC Venture Capital Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2019 and 2018, the total assets amounted to \$759,942 and \$958,258, and the total liabilities amounted to \$12,033 and \$1,326, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018 were \$(394), \$(75,967), \$(106,997) and \$(120,047).

Note 7: Capital International Technology Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2019 and 2018, the total assets amounted to \$43,773 and \$46,518, and the total liabilities amounted to \$188 and \$604, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018 were \$(1,466), \$(2,224), \$(2,698) and \$(293).

Note 8: Capital True Partner Technology Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2019 and 2018, the total assets amounted to \$8,902 and \$4,655, and the total liabilities amounted to \$4,824 and \$3,990, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018 were \$1,149, \$364, \$2,233 and \$1,299.

Note 9: Capital Futures Technology (Shanghai) Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2019 and 2018, the total assets amounted to \$19,534 and \$30,854, and the total liabilities amounted to \$547 and \$7,248, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018 were \$(1,977), \$(2,024), \$(3,610) and \$2,922.

(iii) Subsidiaries not listed in the consolidated financial statements

(Continued)



**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
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 September 30, 2019, December 31, 2018 and September 30, 2018, the total assets constituted 0.04% · 0.04% and 0.04% of the Group's total assets. For the nine months ended September 30, 2019 and 2018, the operation revenue were merely 1.35% and 0.82% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.
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 September 30, 2019, December 31, 2018 and September 30, 2018, the total assets constituted 0.09% · 0.09% and 0.07% of the Group's total assets. For the nine months ended September 30, 2019 and 2018, the operation revenue were merely 2.71% and 2.05% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(d) Leases (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of an asset if either:

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- the Group has the right to operate the asset; or
- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) Lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of office equipment and transportation equipment etc. that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(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) 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.

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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, 2018.

**(6) Explanation of significant accounts:**

(a) Cash and cash equivalents

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Cash	\$ 2,809	2,796	2,820
Bank deposits			
Checking accounts	35,981	31,226	31,020
Demand deposits	397,573	735,856	749,318
Foreign currency deposits	<u>931,896</u>	<u>1,080,614</u>	<u>1,408,588</u>
Subtotal	<u>1,365,450</u>	<u>1,847,696</u>	<u>2,188,926</u>
Cash equivalents			
Time deposits	5,227,435	4,122,157	3,350,906
Futures margin - excess margin	1,472,508	1,998,273	2,132,784
Commercial papers	<u>35,947</u>	<u>22,497</u>	<u>24,991</u>
Subtotal	<u>6,735,890</u>	<u>6,142,927</u>	<u>5,508,681</u>
Total	<u>\$ 8,104,149</u>	<u>7,993,419</u>	<u>7,700,427</u>

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**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>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>
<b>Open-ended funds and money-market instruments</b>			
Open-ended funds and money-market instruments	\$ 168,560	305,950	324,826
Valuation adjustment	<u>8,640</u>	<u>(8,129)</u>	<u>1,261</u>
Subtotal	<u>177,200</u>	<u>297,821</u>	<u>326,087</u>
<b>Securities invested by securities broker</b>			
Securities invested by securities broker	29,765	74,553	204,435
Valuation adjustment	<u>(335)</u>	<u>(7,283)</u>	<u>(1,773)</u>
Subtotal	<u>29,430</u>	<u>67,270</u>	<u>202,662</u>
<b>Trading securities - proprietary trading</b>			
Listed stocks	1,440,060	1,324,802	2,181,075
Listed funds	801,912	852,293	822,447
OTC stocks	381,443	306,931	596,818
OTC funds	200,940	83,480	84,500
Emerging market stocks	523,279	498,304	553,446
Emerging market funds	-	12,414	10,957
Convertible corporate bonds	789,376	496,130	840,800
Government bonds	6,370,178	6,511,541	5,225,753
Corporate bonds	7,795,372	9,652,271	8,852,270
International bonds	4,453,460	4,079,947	4,405,890
Financial debentures	600,000	300,000	300,000
Foreign stocks	139,349	219,070	342,526
Overseas bonds	243,666	302,675	300,574
Other	<u>293</u>	<u>257</u>	<u>257</u>
	23,739,328	24,640,115	24,517,313
Valuation adjustment	<u>30,250</u>	<u>(256,660)</u>	<u>(150,571)</u>
Subtotal	<u>23,769,578</u>	<u>24,383,455</u>	<u>24,366,742</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>
<b>Trading securities - underwriting:</b>			
Listed stocks	\$ 46,621	107,320	105,595
OTC stocks	39,001	55,690	65,035
Convertible corporate bonds	91,559	141,011	345,171
Other	<u>14,175</u>	<u>-</u>	<u>-</u>
	191,356	304,021	515,801
Valuation adjustment	<u>24,718</u>	<u>(8,312)</u>	<u>28,223</u>
Subtotal	<u>216,074</u>	<u>295,709</u>	<u>544,024</u>
<b>Trading securities - hedging</b>			
Listed stocks	2,419,888	1,746,810	1,939,476
OTC stocks	467,050	397,140	306,774
Convertible corporate bonds	<u>4,434,510</u>	<u>3,799,450</u>	<u>3,729,322</u>
	7,321,448	5,943,400	5,975,572
Valuation adjustment	<u>55,751</u>	<u>(231,510)</u>	<u>(93,328)</u>
Subtotal	<u>7,377,199</u>	<u>5,711,890</u>	<u>5,882,244</u>
<b>Derivatives</b>			
Call options	-	11,580	9,253
Futures margin - proprietary fund	262,778	223,490	295,561
IRS asset swaps	12,515	13,855	16,895
Asset swap options - long position	35,450	4,072	10,597
Currency derivatives	26,333	46,967	30,499
Structured notes	3,103	3,075	3,532
Currency swaps	-	1,690	5,324
Interest rate swaps	<u>1,016</u>	<u>-</u>	<u>2,948</u>
Subtotal	<u>341,195</u>	<u>304,729</u>	<u>374,609</u>
Total	<u><u>\$ 31,910,676</u></u>	<u><u>31,060,874</u></u>	<u><u>31,696,368</u></u>

As of September 30, 2019, December 31, 2018 and September 30, 2018, trading securities, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreements of the Group were \$34,788,255, \$29,145,321 and \$36,817,660, respectively, please refer to note 6(m) and note 8 for details.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>
Debt instruments at fair value through other comprehensive income			
International bonds	\$ 1,240,331	1,226,189	1,420,136
Overseas bonds	<u>13,834,481</u>	<u>9,205,561</u>	<u>15,619,336</u>
	15,074,812	10,431,750	17,039,472
Valuation adjustment	<u>432,214</u>	<u>(50,161)</u>	<u>(233,862)</u>
Subtotal	<u>15,507,026</u>	<u>10,381,589</u>	<u>16,805,610</u>
Equity instrument at fair value through other comprehensive income			
Listed stocks	70,645	237,755	296,699
OTC stocks	10,756	40,353	116,553
Emerging market stocks	24,130	24,130	24,130
Foreign stocks	<u>90,512</u>	<u>279,832</u>	<u>226,056</u>
	196,043	582,070	663,438
Valuation adjustment	<u>(5,738)</u>	<u>(97,730)</u>	<u>(76,992)</u>
Subtotal	<u>190,305</u>	<u>484,340</u>	<u>586,446</u>
Total	<u>\$ 15,697,331</u>	<u>10,865,929</u>	<u>17,392,056</u>

1) Debt instrument investments measured 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 from January 1, 2018.

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

For the three months and the nine months ended September 30, 2019 and 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments measured at fair value through other comprehensive income – current amounted to \$9,623, \$21,948, \$11,651 and \$25,412.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold shares of stocks for a fair value \$167,549, \$97,814, \$568,700 and \$298,159, cumulative dispose losses for the three months and the nine months ended September 30, 2019 and 2018, amounted \$6,311, \$(131), \$872 and \$19,906 were transferred from other equity items to retained earnings.

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

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- 4) For the nine months ended September 30, 2019 and 2018, impairment test have been applied by the Group, the variation of loss allowance in the debt instrument measured at fair value through other comprehensive income of the Group please refer to note 6(w).

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
<b>Mandatorily measured at fair value through profit or loss:</b>			
Government bonds	\$ 180,329	185,952	185,952
Valuation adjustment	<u>178</u>	<u>(843)</u>	<u>(649)</u>
Total	<u><u>\$ 180,507</u></u>	<u><u>185,109</u></u>	<u><u>185,303</u></u>

As of September 30, 2019, December 31, 2018 and September 30, 2018, 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 (for details please refer to note 8).

- (iv) Financial assets at fair value through other comprehensive income — non-current

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Equity instruments at fair value through other comprehensive income			
Non-listed or non-over-the-counter stocks	\$ 1,154,922	1,064,667	779,787
Valuation adjustment	<u>1,187,028</u>	<u>846,910</u>	<u>958,947</u>
Total	<u><u>\$ 2,341,950</u></u>	<u><u>1,911,577</u></u>	<u><u>1,738,734</u></u>

For the three months and the nine months ended September 30, 2019 and 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 \$26,793, \$48,992, \$61,553 and \$52,529.

For the three months and the nine months ended September 30, 2019 and 2018, under the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold equities recognized in FVOCI -non-current for a fair value \$0, \$0, \$0 and \$9,774, generated cumulative dispose gains \$0, \$0, \$0 and \$7, and the gains were transferred from other equity items to retained earnings.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (v) 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 nine months ended September 30, 2019 and 2018 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	September 30, 2019	December 31, 2018	September 30, 2018	For the nine months ended September 30,					
				2019			2018		
				Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,163,965	997,970	1,136,932	1,056,933	1,173,374	932,006	1,356,594	1,615,221	1,136,932

(c) Accounts Receivable

	September 30, 2019	December 31, 2018	September 30, 2018
Receivable on securities purchased by customers	\$ 11,671	8,642	21,812
Settlement	-	712,274	539,058
Interests receivable	544,185	547,595	571,159
Receivables on securities sold	5,963,018	3,261,956	5,546,582
Others	<u>132,776</u>	<u>78,419</u>	<u>112,166</u>
Subtotal	6,651,650	4,608,886	6,790,777
Less: allowance for doubtful accounts	<u>(1,706)</u>	<u>(1,713)</u>	<u>(3,519)</u>
Total	<u>\$ 6,649,944</u>	<u>4,607,173</u>	<u>6,787,258</u>

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(w).
- (ii) For the nine months ended September 30, 2019 and 2018, impairment test have been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(w).

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

As of September 30, 2019, December 31, 2018 and September 30, 2018, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Customers' margin account			
Cash in banks	\$ 26,219,417	24,386,388	24,085,008
Customers' margin account - futures clearing house	5,383,596	2,579,464	2,580,477
Customers' margin account - other futures commission merchants	4,573,428	6,309,528	5,757,493
Marketable securities	<u>670</u>	<u>250</u>	<u>1,146</u>
Total customers' margin account	<u>36,177,111</u>	<u>33,275,630</u>	<u>32,424,124</u>
Add:			
Commission expense	6,331	5,035	7,594
Other	47	52	113
Less:			
Commission revenue	(33,423)	(17,259)	(21,029)
Futures transaction tax	(1,505)	(1,426)	(2,056)
Interest revenues	(8,643)	(3,726)	(5,817)
Temporary receipts	(377)	(669)	(278)
Remittance amount of the customers after the market closed	(3,861)	(7,179)	(5,616)
Other receivables	<u>(97,471)</u>	<u>(91,632)</u>	<u>(7,077)</u>
Futures traders' equity	<u><u>\$ 36,038,209</u></u>	<u><u>33,158,826</u></u>	<u><u>32,389,958</u></u>

(e) Investments under equity method

As of September 30, 2019, December 31, 2018 and September 30, 2018, investments under equity method consisted of the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 71,738	84,732	70,981
Capital Insurance Agency Corp.	<u>43,605</u>	<u>40,757</u>	<u>41,030</u>
Subtotal	<u>115,343</u>	<u>125,489</u>	<u>112,011</u>
Associates			
True Partner Advisor Hong Kong Ltd.	48,076	45,719	43,960
Capital Investment Trust Corp.	<u>1,264,667</u>	<u>1,261,329</u>	<u>1,240,275</u>
Subtotal	<u>1,312,743</u>	<u>1,307,048</u>	<u>1,284,235</u>
Total	<u><u>\$ 1,428,086</u></u>	<u><u>1,432,537</u></u>	<u><u>1,396,246</u></u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) Subsidiaries:

For the three months and the nine months ended September 30, 2019 and 2018, the Group's share of gains or losses of the subsidiaries were as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	2019	2018	2019	2018
The Group's share of gains based on the subsidiaries' financial statements	\$ <u>16,110</u>	<u>10,890</u>	<u>50,084</u>	<u>46,755</u>
		<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Total assets		\$ <u>166,910</u>	<u>151,345</u>	<u>140,243</u>
Total liabilities		\$ <u>51,567</u>	<u>25,856</u>	<u>28,232</u>
		<u>For the three months ended September 30,</u>	<u>For the nine months ended September 30,</u>	
		2019	2019	2018
Revenue	\$ <u>69,168</u>	<u>52,528</u>	<u>224,593</u>	<u>191,865</u>
Net income	\$ <u>16,110</u>	<u>10,890</u>	<u>50,084</u>	<u>46,755</u>

(ii) Associates

The subsidiary Capital Futures Corporation acquired 49% shares of True Partner Advisor Hong Kong Ltd. with USD 1,123 thousands on October 2, 2015. The Company acquired 20% shares of Capital Investment Trust Corporation with \$1,272,505 on February 9, 2018. The relevant information is as following:

Name of associate	Nature between the Company	Primary business area and registered country	Proportion of Ownership and Voting Rights		
			September 30, 2019	December 31, 2018	September 30, 2018
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 %	20.00 %	20.00 %

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

	<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>
	2019	2018	2018
Total carrying amount of the associates that were not individually material	\$ <u>1,312,743</u>	<u>1,307,048</u>	<u>1,284,235</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
The Group's share of gains based on the associates' financial statements:				
Net gains from continuing operations	\$ 35,982	25,846	101,319	67,050
Other comprehensive income (losses)	(109)	65	3,552	2,347
Total comprehensive income (losses)	\$ 35,873	25,911	104,871	69,397

(iii) Collateral

As of September 30, 2019, December 31, 2018 and September 30, 2018, none of the investment accounted for under equity method of the Group were pledged for collateral.

(f) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Carrying amount:					
September 30, 2019	\$ 1,916,596	744,644	250,124	150,478	3,061,842
January 1, 2019	\$ 3,929,272	1,148,298	188,593	74,797	5,340,960
September 30, 2018	\$ 3,927,420	1,154,897	172,185	63,915	5,318,417

As of September 30, 2019, December 31, 2018 and September 30, 2018, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods for the nine months ended September 30, 2019 and 2018. For the nine months ended September 30, 2019 and 2018, \$2,429,307 and \$0 of property and equipment were transferred to investment property, and \$34,077 and \$404,900 of investment property were transferred to property and equipment. Please refer to note 6(v) for details of the depreciation expense occurring in this period and note 6(f) of the consolidated financial statements as of and for the year ended December 31, 2018 for other relevant information.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(g) Right-of-use assets

The Group leases many assets including land and buildings, machinery, and vehicles. Information about leases for which the Group as a lessee is presented below:

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	1,062,820	8,049	1,070,869
Acquisitions	37,244	13,203	50,447
Effect of changes in foreign exchange rates	(408)	-	(408)
Balance at September 30, 2019	<u>\$ 1,099,656</u>	<u>21,252</u>	<u>1,120,908</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2019	\$ -	-	-
Depreciation	(136,330)	(5,046)	(141,376)
Effect of changes in foreign exchange rates	38	-	38
Balance at September 30, 2019	<u>\$ (136,292)</u>	<u>(5,046)</u>	<u>(141,338)</u>
Carrying amount:			
September 30, 2019	<u>\$ 963,364</u>	<u>16,206</u>	<u>979,570</u>

(h) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
September 30, 2019	<u>\$ 3,048,546</u>	<u>705,673</u>	<u>3,754,219</u>
January 1, 2019	<u>\$ 1,035,870</u>	<u>338,144</u>	<u>1,374,014</u>
September 30, 2018	<u>\$ 1,037,722</u>	<u>342,378</u>	<u>1,380,100</u>
<u>Fair Value:</u>			
September 30, 2019			<u>7,460,444</u>
January 1, 2019			<u>2,237,610</u>
September 30, 2018			<u>2,239,610</u>

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

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

As of September 30, 2019, December 31, 2018 and September 30, 2018, the investment properties were provided as collateral or pledged, for details please refer to note 8.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods for the nine months ended September 30, 2019 and 2018. For the nine months ended September 30, 2019 and 2018, \$2,429,307 and \$0 of property and equipment were transferred to investment property, and \$34,077 and \$404,900 of investment property were transferred to property and equipment. Please refer to note 6(v) for details of the depreciation expense occurring in this period and note 6(g) of the consolidated financial statements as of and for the year ended December 31, 2018 for other relevant information.

(i) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of September 30, 2019, December 31, 2018 and September 30, 2018, 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 September 30, 2019, December 31, 2018 and September 30, 2018, the book value of goodwill was all \$22,088.

(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 September 30, 2019, December 31, 2018 and September 30, 2018, 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 September 30, 2019, December 31, 2018 and September 30, 2018, the book values of intangible assets were \$46,289, \$46,270 and \$46,261 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 September 30, 2019, December 31, 2018 and September 30, 2018, the amortized book value were \$28,272, \$36,015 and \$23,424 respectively.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (j) Short-term borrowings

Nature of borrowings	September 30, 2019	December 31, 2018	September 30, 2018
Collateralized loan	\$ 1,536,553	1,635,394	1,725,192
Credit loans	3,089,025	2,238,112	2,871,306
Total	<u>\$ 4,625,578</u>	<u>3,873,506</u>	<u>4,596,498</u>
Interest rate range	<u>0.70%~4.80%</u>	<u>0.65%~4.40%</u>	<u>0.60%~3.99%</u>

As of September 30, 2019, December 31, 2018 and September 30, 2018, the Group had provided the land, buildings, and certificates of time deposits as collateral, for details please refer to note 8.

## (k) Commercial paper payable

	September 30, 2019	December 31, 2018	September 30, 2018
Commercial paper payable	\$ -	-	1,750,000
Less: Unamortized discount	-	-	(119)
Net amount	<u>\$ -</u>	<u>-</u>	<u>1,749,881</u>
Interest rate range	<u>-</u>	<u>-</u>	<u>0.63%~0.70%</u>

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

	September 30, 2019	December 31, 2018	September 30, 2018
Liabilities on sale of borrowed securities	\$ 345,153	668,469	459,038
Redeem liabilities on sale of borrowed securities	(10,880)	(62,095)	(61,381)
Valuation adjustment	13,299	(139,826)	(89,580)
Subtotal	<u>347,572</u>	<u>466,548</u>	<u>308,077</u>
Settlement coverage bonds payable of short sale	-	-	49,428
Valuation adjustment	-	-	6
Subtotal	<u>-</u>	<u>-</u>	<u>49,434</u>
Exchange Traded Notes	889	-	-
Valuation adjustment	(15)	-	-
Subtotal	<u>874</u>	<u>-</u>	<u>-</u>
Stock warrants issued	14,117,121	13,077,314	11,282,874
Stock warrants repurchased	(13,601,590)	(12,617,507)	(10,789,568)
Subtotal	<u>515,531</u>	<u>459,807</u>	<u>493,306</u>
Put options	40	16,074	13,011
Equity derivatives	1	-	-
IRS asset swaps	590	763	1,394
Asset swap options - short position	400,049	208,927	282,502
Structured notes	10,822	8,914	8,085
Currency derivatives	853	9,063	3,668
Currency swaps	-	31,575	23,650
Interest rate swaps	-	544	-
Subtotal	<u>412,355</u>	<u>275,860</u>	<u>332,310</u>
Total	<u>\$ 1,276,332</u>	<u>1,202,215</u>	<u>1,183,127</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(m) Bonds sold under repurchase agreements

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>
Bonds sold under repurchase agreements	\$ <u>33,974,224</u>	<u>28,032,524</u>	<u>35,203,702</u>
Agreed-upon repurchase amounts	<u>34,218,168</u>	<u>28,213,380</u>	<u>35,525,879</u>
Interest rates	<u>0.42%~3.30%</u>	<u>0.35%~4.40%</u>	<u>0.33%~4.50%</u>
Date of repurchase	<u>2019.10.1~2020.7.31</u>	<u>2019.1.2~2019.12.20</u>	<u>2018.10.1~2019.9.27</u>

(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.

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>
Customer equity of separate account ledger in settlement	\$ <u>1,386,730</u>	<u>26,969</u>	<u>15,711</u>

(o) Accounts payable

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>
Payable of securities sold by customers	\$ 11,426	10,731	21,836
Settlement	914,685	-	-
Payable of settlements	4,479,078	3,476,398	4,470,051
Others	<u>259,958</u>	<u>370,764</u>	<u>391,454</u>
Total	<u>\$ 5,665,147</u>	<u>3,857,893</u>	<u>4,883,341</u>

(p) Operating leases

The Group has no material incremental operating leases contracts for the nine months ended September 30, 2018. The relevant information please refer to note 6(o) of the consolidated financial statements as of and for the year ended December 31, 2017.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(q) Lease liabilities

The Group's lease liabilities are as follow:

	<b>September 30, 2019</b>
Current	<u>\$ 195,354</u>
Non-current	<u>\$ 846,516</u>

The maturity analysis please refer to note 6(w) financial instruments.

The amounts recognized in profit or loss were as follows:

	<b>For the three months ended September 30, 2019</b>	<b>For the nine months ended September 30, 2019</b>
Interest on lease liabilities	<u>\$ 3,755</u>	<u>10,625</u>
Expenses relating to short-term leases	<u>\$ 1,540</u>	<u>16,893</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 6,537</u>	<u>19,636</u>

The amounts recognized in the statement of cash flows for the Group was as follows:

	<b>For the nine months ended September 30, 2019</b>
Total cash outflow for leases	<u>\$ 130,262</u>

(r) Employee benefit

(i) Defined benefit plans

In the prior fiscal year, 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 interim consolidated financial statements is measured and disclosed according to the respective actuarial report as of December 31, 2018 and 2017.

For the three months and the nine months ended September 30, 2019 and 2018, the Group's pension expenses recognized in profit or loss were \$2,866, \$3,473, \$8,589 and \$10,411, respectively.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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 employee's individual pension accounts under 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.

The Group contributed \$19,887, \$21,567, \$60,907 and \$65,199 under defined contribution plan to the Bureau of the Labor Insurance for the three months and the nine months ended September 30, 2019 and 2018, respectively.

(iii) For the three months and the nine months ended September 30, 2019 and 2018, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$1,144, \$1,042, \$3,577 and \$3,208, respectively.

(iv) Provision for employee benefits liabilities

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Compensated absences	<b>\$ 59,892</b>	<b>50,666</b>	<b>60,276</b>

(s) Income tax

(i) The Group's tax rate interpretation was as follow:

The Company and its subsidiaries including Capital Investment Management Corp., Capital Futures Corp., Taiwan International Securities Investment Consulting Corp, Taiwan International Futures Corp., and CSC Venture Capital Corp. are founded in Taiwan. The corporate income tax rate are both 20% for the years ended December 31, 2019 and 2018.

The subsidiaries CSC International Holdings Ltd. and Taiwan International Securities (B.V.I) Corp is founded in British Virgin Islands, and it has a tax exemption for the years ended December 31, 2019 and 2018.

The tax rate of reinvestment business of subsidiaries which founded in Hong Kong are all 16.5% for the years ended December 31, 2019 and 2018.

The tax rate of reinvestment business of subsidiaries which founded in Mainland are all 25% for the years ended December 31, 2019 and 2018.

(ii) The detail of income tax expense for the three months and the nine months ended September 30, 2019 and 2018 were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Current tax expense	\$ 79,753	184,865	345,103	417,990
Deferred income tax expense (benefit)	9,799	(58,923)	(53,609)	40,600
Total	<b>\$ 89,552</b>	<b>125,942</b>	<b>291,494</b>	<b>458,590</b>

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (iii) The amount of income tax expense or benefit recognized in other comprehensive income for the three months and the nine months ended September 30, 2019 and 2018 were as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	2019	2018	2019	2018
Foreign exchange difference from translating financial statement of foreign operations	\$ <u>(677)</u>	<u>1,005</u>	<u>3,389</u>	<u>17,308</u>

- (iv) Income tax assessment status

- 1) The Company's income tax returns through 2017, except for 2015, were assessed by the Tax Authority.
- 2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2017 were assessed by the Tax Authority.
- 3) Subsidiary - Capital Futures Corp.'s income tax returns through 2017 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 - Capital International Technology Corp.'s income tax returns through 2017 were assessed by the Tax Authority.
- 6) Subsidiary - CSC Venture Capital Corp.'s income tax returns through 2017 were assessed by the Tax Authority.

- (v) Income tax administrative relief

Since amortization of intangible assets withheld from year 2011 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.

- (t) Capital and other equity

- (i) Capital stock

As of September 30, 2019, December 31, 2018 and September 30, 2018, the Company had authorized capital of \$30,000,000 and issued common stock of 2,320,908 thousand shares with a par value of \$10 per share.

On June 27, 2018, the Company's stockholders resolved to transfer un-appropriated earnings of \$1,518,351 and issued 151,835 thousand shares of common stock. The capital increase was approved by the Financial Supervisory Commission on July 12, 2018 and the record date was September 1, 2018. The Company has completed the registration of change in paid-in capital on September 25, 2018.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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.

The followings are the capital surplus of the Company:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</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>34,787</u>
	<u>\$ 2,852,299</u>	<u>2,852,299</u>	<u>2,852,299</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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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.

In accordance with Ruling No. 1080321644 issued by the Financial Supervisory Commission on July 10, 2019, from year 2019, a special reserve can not to be set aside, but an certain amount of budget should be designated for the current year to pay for employee trasformation and training to protect employee's right and interest. From year 2019, the special reserve can be reversed within an amount equal to special reserve for year 2016 to 2018 when the aforementioned fees being expended.

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 2018 and 2017 earnings distributions resolved by the shareholders' meetings on June 24, 2019 and June 27, 2018, respectively, were as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Dividends per share</u>	<u>Amount</u>	<u>Dividends per share</u>
Cash dividends	\$ 928,363	0.4	433,815	0.2
Stock dividends	-	-	1,518,351	0.7
	<u>\$ 928,363</u>		<u>1,952,166</u>	

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(u) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months and the nine months ended September 30, 2019 and 2018 were calculated as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income attributable to common shareholders of the Company	\$ <u>799,603</u>	<u>233,752</u>	<u>1,762,181</u>	<u>1,614,953</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,320,908</u>	<u>2,320,908</u>	<u>2,320,908</u>	<u>2,320,908</u>
Basic earnings per share (dollar)	\$ <u>0.34</u>	<u>0.10</u>	<u>0.76</u>	<u>0.70</u>
Effect of potentially dilutive common stock				
- Employee remuneration (thousands of shares) (Note)	<u>1,231</u>	<u>537</u>	<u>2,551</u>	<u>2,215</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,322,139</u>	<u>2,321,445</u>	<u>2,323,459</u>	<u>2,323,123</u>
Dilutive earnings per share (dollar)	\$ <u>0.34</u>	<u>0.10</u>	<u>0.76</u>	<u>0.70</u>

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

(v) Items of the statements of comprehensive income

(i) Brokerage commissions

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Brokerage commission from TSE market	\$ 408,118	470,425	1,094,438	1,450,216
Brokerage commission from OTC market	146,162	144,890	408,944	515,165
Handling fee from security financing	6,087	9,901	17,950	25,495
Futures commission income - brokerage	406,814	425,879	1,181,371	1,363,639
Overseas subsidiaries	7,241	11,970	34,117	41,645
Others	<u>17,156</u>	<u>16,076</u>	<u>53,738</u>	<u>56,198</u>
	\$ <u>991,578</u>	<u>1,079,141</u>	<u>2,790,558</u>	<u>3,452,358</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Underwriting commissions

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue from underwriting securities on a firm commitment basis	\$ 18,824	22,140	41,567	58,791
Handling fee revenues from underwriting securities on best efforts basis	2,934	243	4,074	905
Processing fee revenues from underwriting operations	2,481	3,669	14,008	6,473
Revenue from underwriting consultation	900	1,324	4,160	7,707
Others	315	666	1,706	9,525
	<u>\$ 25,454</u>	<u>28,042</u>	<u>65,515</u>	<u>83,401</u>

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Gains (losses) on securities sold - proprietary trading	\$ 173,158	(129,584)	292,910	147,520
Gains (losses) on securities sold - underwriting	29,086	7,897	38,474	12,928
Gains (losses) on securities sold - hedging	88,936	(477,939)	185,076	(798,924)
Total	<u>\$ 291,180</u>	<u>(599,626)</u>	<u>516,460</u>	<u>(638,476)</u>

(iv) Interest revenue

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Interest revenue - margin loans	\$ 147,593	201,829	431,587	620,683
Interest revenue - bonds	214,740	254,850	630,029	882,004
Overseas subsidiaries	7,848	10,379	31,825	38,968
Others	17,859	14,172	51,766	44,298
	<u>\$ 388,040</u>	<u>481,230</u>	<u>1,145,207</u>	<u>1,585,953</u>

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Trading securities - proprietary	\$ (48,742)	(169,109)	287,787	(310,316)
Trading securities - underwriting	(105)	10,347	33,029	16,824
Trading securities - hedging	29,069	25,364	287,261	(27,363)
Settlement coverage bonds payable of short sale	-	(6)	-	(35)
	<u>\$ (19,778)</u>	<u>(133,404)</u>	<u>608,077</u>	<u>(320,890)</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Gains on changes in fair value of stock warrants	\$ 6,660,270	10,528,651	19,635,806	22,165,869
Gains on exercise of stock warrants before maturity	4,172,239	4,450,103	12,014,149	19,865,915
Losses on changes in fair value of stock warrants repurchased	(10,746,133)	(14,549,744)	(31,428,013)	(40,639,127)
Gains on expiration of stock warrants	2,121	54,319	11,805	96,067
Stock warrants issuance expenses	(37,623)	(48,435)	(114,427)	(131,342)
	<u>\$ 50,874</u>	<u>434,894</u>	<u>119,320</u>	<u>1,357,382</u>

(vii) Futures commission revenues

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Futures commission revenues - CSC Futures (HK) Ltd.	\$ <u>52,916</u>	<u>73,443</u>	<u>160,539</u>	<u>370,569</u>

Future commission revenues 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 revenues” in the consolidated financial statements.

(viii) Commission expenses - future

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Future trading - reconignment	\$ 65,142	59,785	186,748	204,643
Future trading - introducing brokers	158	347	572	1,791
Commission expenses - CSC Futures (HK) Ltd.	10,507	29,715	39,548	158,602
	<u>\$ 75,807</u>	<u>89,847</u>	<u>226,868</u>	<u>365,036</u>

(ix) Employee benefits, depreciation, and amortization expenses

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Employee benefit expenses				
Salary expense	\$ 527,096	518,923	1,526,702	1,770,008
Health and labor insurance expense	37,919	40,295	118,353	126,812
Pension expense	23,897	26,082	73,073	78,818
Others	14,749	15,249	42,583	45,753
Depreciation expense	102,201	43,169	285,395	129,175
Amortization expense	8,538	8,262	25,360	25,561
	<u>\$ 714,400</u>	<u>651,980</u>	<u>2,071,466</u>	<u>2,176,127</u>

(Continued)



**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(x) Other operating expenses

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Rental expense	\$ 8,076	39,663	36,529	120,245
Taxes	82,923	104,751	250,066	323,815
Information technology expense	49,263	43,875	157,072	153,007
Postage expense	44,156	38,516	128,531	112,790
Professional service fee	3,390	26,287	14,335	220,519
Other expenses	137,918	119,679	401,967	404,531
	<u>\$ 325,726</u>	<u>372,771</u>	<u>988,500</u>	<u>1,334,907</u>

(xi) Other gains and losses

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Financial revenue	\$ 139,350	103,363	427,748	268,243
Currency exchange gains (losses)	(1,310)	(4,864)	(160)	13,000
Net gains (losses) on disposal of investment	(681)	(3,978)	6,063	34,910
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	3,829	(3,545)	23,729	1,778
Revenue from bank's allocation fee	35,315	33,127	102,882	99,464
Net gains (losses) on disposal of property and equipment	-	(122)	(342)	(122)
Dividend revenue	26,879	48,992	61,639	49,490
Gains on reversal of prior year's liabilities	303	324	52,201	25,626
Others	45,287	27,667	128,212	147,255
	<u>\$ 248,972</u>	<u>200,964</u>	<u>801,972</u>	<u>639,644</u>

(xii) Remuneration to employees and directors

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 appropriate 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.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

For the three months and the nine months ended September 30, 2019 and 2018, the estimated amounts of remuneration to employee were \$9,959, \$3,854, \$22,474 and \$22,817, and to directors were \$16,599, \$6,424, \$37,456 and \$38,028, 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, 2018 and 2017, the estimated amounts of remuneration to employee were \$20,971 and \$33,369, and to directors were \$34,951 and \$61,971 by the Company. The difference between actual employee remuneration of \$14,587 and \$30,515 and actual remuneration to directors of \$24,248 and \$50,859 were \$17,087 and \$13,966 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2019 and 2018. The information about the appropriations is available at the website of the Market Observation Post System.

For the three months and the nine months ended September 30, 2019 and 2018, the estimated amounts of remuneration to employees were \$1,850, \$1,605, \$6,630 and \$10,248 and to directors were \$1,850, \$1,580, \$6,630 and \$10,175 by the domestic subsidiaries of the Group, respectively.

(w) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of September 30, 2019, December 31, 2018 and September 30, 2018, the maximum credit exposure amounted to \$103,275,079, \$92,766,076 and \$100,845,597, 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 (72.11%); secondly, is in Asia (14.78%, exclusion of Taiwan); then, is in America (8.33%). Compare to the same period of last year, there is no significant change in proportion of region of investments. The subsidiary Capital Futures Corp. only reveals the regional distribution in cash and cash equivalent and customers' margin account.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<u>Region</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Taiwan	\$ 74,511,839	68,026,272	69,763,480
Asia (Taiwan is excluded)	14,989,602	13,929,523	16,364,538
Europe	4,755,271	4,495,750	5,384,039
America	8,451,623	5,709,464	8,676,387
Other	91,040	82,619	86,228
Total	<u>\$ 102,799,375</u>	<u>92,243,628</u>	<u>100,274,672</u>

2) Impairment loss

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

	<u>September 30, 2019</u>		<u>December 31, 2018</u>		<u>September 30, 2018</u>	
	<u>Total amount</u>	<u>Allowance</u>	<u>Total amount</u>	<u>Allowance</u>	<u>Total amount</u>	<u>Allowance</u>
Not past due	\$ 19,492,604	10,174	16,677,224	23,522	21,493,113	23,307
Past due 0~30 days	284	284	272	272	543	543
Past due 31~120 days	141	141	914	914	3,162	3,162
Past due 121~360 days	8	8	25,523	25,523	110,066	110,066
Past due more than 360 days	308,474	308,474	288,286	288,286	197,557	197,557
	<u>\$ 19,801,511</u>	<u>319,081</u>	<u>16,992,219</u>	<u>338,517</u>	<u>21,804,441</u>	<u>334,635</u>

Allowance for doubtful debts under receivables and overdue receivables are recorded for the impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of September 30, 2019, December 31, 2018 and September 30, 2018, the impairment losses of accrued receivables were recognized \$319,081, \$338,517 and \$334,635, respectively.

3) Credit risk of accrued receivables and debt securities

Debt securities held by the Group including government bonds, listed and unlisted 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(g) of the consolidated financial statements as of and for the year ended December 31, 2018.

The Group regards a financial asset as a default when the client of brokerage business is unable to fulfill the settlement obligation, which the counterparty is unable to pay the Group. Thus, the Group will recognize the impairment losses.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The loss allowance provision for the nine months ended September 30, 2019 and 2018 was as follows:

	<u>12-month ECL</u>		<u>Lifetime ECL -not credit impaired</u>		<u>Lifetime ECL -credit impaired</u>		<u>Total</u>
	<u>Accrued receivables</u>	<u>Debt securities at FVOCI</u>	<u>Accrued receivables</u>	<u>Debt securities at FVOCI</u>	<u>Accrued receivables</u>	<u>Debt securities at FVOCI</u>	
	Balance on January 1, 2019	-	5,861	-	-	338,517	
Provision or reversal of Impairment loss	-	2,185	-	-	(2,767)	-	(582)
Amounts written off	-	-	-	-	(20,832)	-	(20,832)
Effect of exchange rate	-	-	-	-	4,163	-	4,163
Balance on September 30, 2019	<u>\$ -</u>	<u>8,046</u>	<u>-</u>	<u>-</u>	<u>319,081</u>	<u>-</u>	<u>327,127</u>

	<u>12-month ECL</u>		<u>Lifetime ECL -not credit impaired</u>		<u>Lifetime ECL -credit impaired</u>		<u>Total</u>
	<u>Accrued receivables</u>	<u>Debt securities at FVOCI</u>	<u>Accrued receivables</u>	<u>Debt securities at FVOCI</u>	<u>Accrued receivables</u>	<u>Debt securities at FVOCI</u>	
	Balance on January 1 per IAS39	\$ -	-	-	-	260,851	
Adjustment on initial application of IFRS 9	-	15,153	-	-	-	-	15,153
Balance on January 1, 2018	-	15,153	-	-	260,851	-	276,004
Provision or reversal of Impairment loss	-	(6,532)	-	-	69,984	-	63,452
Effect of exchange rate	-	-	-	-	3,800	-	3,800
Balance on September 30, 2018	<u>\$ -</u>	<u>8,621</u>	<u>-</u>	<u>-</u>	<u>334,635</u>	<u>-</u>	<u>343,256</u>

(Continued)

**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.

September 30, 2019	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 347,572	347,572	347,572	-	-	-	-
Stock warrants issued	515,531	515,531	463,244	52,287	-	-	-
Put options - futures	40	40	40	-	-	-	-
Exchange traded notes	874	874	-	-	874	-	-
Equity derivatives	1	1	1	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	590	590	23	-	876	(309)	-
Put options	400,049	400,049	17,994	71,035	142,167	168,853	-
Currency derivatives	853	853	853	-	-	-	-
Short-term borrowings	4,625,578	4,625,578	4,625,578	-	-	-	-
Bonds sold under repurchase agreements	33,974,224	34,218,168	34,218,168	-	-	-	-
Guarantee deposited for short sales	1,894,774	1,894,774	1,894,774	-	-	-	-
Proceeds payable from short sales	2,095,874	2,095,874	2,095,874	-	-	-	-
Securities lending refundable deposits	57,419	57,419	57,419	-	-	-	-
Futures traders' equity	36,038,209	36,038,209	36,038,209	-	-	-	-
Leverage contract trading customers' equity	265,885	265,885	265,885	-	-	-	-
Notes payable and accounts payable	1,646,787	1,646,787	1,646,787	-	-	-	-
Receipts under custody	116,735	116,735	116,735	-	-	-	-
Other payables	710,620	710,620	709,077	1,543	-	-	-
Structured notes	3,784,124	3,784,124	3,268,050	309,873	149,777	56,424	-
Lease liabilities	1,041,870	1,096,083	111,974	96,576	284,713	306,954	295,866
	<u>\$ 87,517,609</u>	<u>87,815,766</u>	<u>85,878,257</u>	<u>531,314</u>	<u>578,407</u>	<u>531,922</u>	<u>295,866</u>

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 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, 2018							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 466,548	466,548	466,548	-	-	-	-
Stock warrants issued	459,807	459,807	442,191	17,616	-	-	-
Put options - futures	16,074	16,074	16,074	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	32,882	32,882	33,869	(2,727)	814	926	-
Put options	208,927	208,927	8,925	19,064	125,073	55,865	-
Currency derivatives	9,063	9,063	9,063	-	-	-	-
Short-term borrowings	3,873,506	3,873,506	3,714,303	159,203	-	-	-
Bonds sold under repurchase agreements	28,032,524	28,213,380	28,213,380	-	-	-	-
Guarantee deposited for short sales	2,316,744	2,316,744	2,316,744	-	-	-	-
Proceeds payable from short sales	2,603,315	2,603,315	2,603,315	-	-	-	-
Securities lending refundable deposits	644,843	644,843	644,843	-	-	-	-
Futures traders' equity	33,158,826	33,158,826	33,158,826	-	-	-	-
Leverage contract trading customers' equity	225,899	225,899	225,899	-	-	-	-
Notes payable and accounts payable	381,154	381,154	381,154	-	-	-	-
Receipts under custody	120,325	120,325	120,325	-	-	-	-
Other payables	765,572	765,572	763,523	2,049	-	-	-
Structured notes	3,676,833	3,676,833	3,175,382	191,419	237,377	72,655	-
	<u>\$ 76,992,842</u>	<u>77,173,698</u>	<u>76,294,364</u>	<u>386,624</u>	<u>363,264</u>	<u>129,446</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>Less than 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
September 30, 2018							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 308,077	308,077	308,077	-	-	-	-
Settlement coverage bonds payable of short sale	49,434	49,434	49,434	-	-	-	-
Stock warrants issued	493,306	493,306	485,981	7,325	-	-	-
Put options - futures	13,011	13,011	13,011	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	25,044	25,044	17,659	6,071	1,314	-	-
Put options	282,502	282,502	15,146	27,422	128,874	111,060	-
Currency derivatives	3,668	3,668	3,668	-	-	-	-
Short-term borrowings	4,596,498	4,596,498	4,596,498	-	-	-	-
Commercial paper payable	1,749,881	1,750,000	1,750,000	-	-	-	-
Bonds sold under repurchase agreements	35,203,702	35,525,879	35,525,879	-	-	-	-
Guarantee deposited for short sales	1,798,389	1,798,389	1,798,389	-	-	-	-
Proceeds payable from short sales	2,037,334	2,037,334	2,037,334	-	-	-	-
Securities lending refundable deposits	747,275	747,275	747,275	-	-	-	-
Futures traders' equity	32,389,958	32,389,958	32,389,958	-	-	-	-
Leverage contract trading customers' equity	226,998	226,998	226,998	-	-	-	-
Notes payable and accounts payable	391,454	391,454	391,454	-	-	-	-
Receipts under custody	159,707	159,707	159,707	-	-	-	-
Other payables	822,349	822,349	821,083	1,266	-	-	-
Structured notes	4,539,241	4,539,241	4,037,824	77,340	316,653	107,424	-
	<u>\$ 85,837,828</u>	<u>86,160,124</u>	<u>85,375,375</u>	<u>119,424</u>	<u>446,841</u>	<u>218,484</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:

<b>September 30, 2019</b>			
<b>Financial assets</b>	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Monetary Item</u></b>			
USD	\$ 615,143	31.0400	19,094,039
AUD	2,682	20.9650	56,228
CAD	72	23.4600	1,689
CHF	47	31.2650	1,469
EUR	7,988	33.9500	271,193
GBP	3,056	38.2000	116,739
HKD	72,375	3.9580	286,460
JPY	1,171,939	0.2878	337,284
SGD	230	22.4700	5,168
CNY	68,235	4.3500	296,822
ZAR	1	2.0400	2
KRW	233,745	0.0261	6,101
NZD	56	19.4500	1,089
THB	2,525	1.0205	2,577
MYR	22	7.1220	157
<b><u>Non-Monetary Item</u></b>			
USD	509,297	31.0400	15,808,579
AUD	153,535	20.9650	3,218,861
HKD	354	3.9580	1,401
JPY	2,112	0.2878	608
CNY	308,687	4.3500	1,342,788
<b><u>Investments under equity method</u></b>			
HKD	12,147	3.9580	48,076

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>September 30, 2019</b>		
<b><u>Financial liabilities</u></b>	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Monetary Item</u></b>			
USD	\$ 1,086,781	31.0400	33,733,682
AUD	141,835	20.9650	2,973,571
CHF	47	31.2650	1,469
EUR	7,091	33.9500	240,739
GBP	2,986	38.2000	114,065
HKD	165,586	3.9580	655,389
JPY	1,198,388	0.2878	344,896
SGD	272	22.4700	6,112
CNY	239,443	4.3500	1,041,577
KRW	79,104	0.0261	2,065
THB	957	1.0205	977
MYR	22	7.1220	157
<b><u>Non-Monetary Item</u></b>			
JPY	2,918	0.2878	840
NZD	1	19.4500	19

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>December 31, 2018</b>		
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 555,736	30.7150	17,069,431
AUD	6,781	21.6650	146,910
CAD	232	22.5800	5,239
CHF	50	31.1850	1,559
EUR	9,261	35.2000	325,987
GBP	3,656	38.8800	142,145
HKD	123,996	3.9210	486,188
JPY	1,551,889	0.2782	431,736
SEK	4	3.4200	14
SGD	854	22.4800	19,198
CNY	68,900	4.4720	308,121
ZAR	5	2.1200	11
KRW	347,958	0.0278	9,673
NZD	51	20.6200	1,052
THB	5,447	0.9532	5,192
<b><u>Non-Monetary Item</u></b>			
USD	310,103	30.7150	9,524,814
AUD	167,642	21.6650	3,631,964
EUR	44	35.2000	1,549
GBP	2	38.8800	78
HKD	26,380	3.9210	103,436
JPY	10,593	0.2782	2,947
CNY	416,174	4.4720	1,861,130
<b><u>Investments under equity method</u></b>			
HKD	11,660	3.9210	45,719

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>December 31, 2018</b>		
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 840,061	30.7150	25,802,474
AUD	169,752	21.6650	3,677,677
CAD	7	22.5800	158
CHF	50	31.1850	1,559
EUR	8,557	35.2000	301,206
GBP	3,553	38.8800	138,141
HKD	204,497	3.9210	801,833
JPY	1,498,089	0.2782	416,768
SEK	4	3.4200	14
SGD	852	22.4800	19,153
CNY	324,111	4.4720	1,449,424
KRW	168,066	0.0278	4,672
NZD	1	20.6200	21
THB	4,727	0.9532	4,506
<b><u>Non-Monetary Item</u></b>			
USD	179	30.7150	5,498
AUD	2	21.6650	43
CAD	14	22.5800	316
JPY	9,730	0.2782	2,707
CNY	113	4.4720	505

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>September 30, 2018</b>		
<b>Financial assets</b>	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Monetary Item</u></b>			
USD	\$ 655,747	30.5250	20,016,677
AUD	36,453	22.0350	803,242
CAD	334	23.4600	7,836
CHF	32	31.2750	1,001
EUR	9,248	35.4800	328,119
GBP	3,713	39.9000	148,149
HKD	65,339	3.9010	254,887
JPY	1,274,685	0.2692	343,145
SEK	4	3.4500	14
SGD	246	22.3300	5,493
CNY	60,224	4.4360	267,154
ZAR	74	2.1500	159
KRW	402,621	0.0277	11,153
NZD	32	20.1800	646
THB	1,750	0.9485	1,660
<b><u>Non-Monetary Item</u></b>			
USD	477,974	30.5250	14,590,156
AUD	230,682	22.0350	5,083,078
EUR	115	35.4800	4,080
GBP	1	39.9000	40
HKD	19,206	3.9010	74,923
JPY	6,278	0.2692	1,690
CNY	501,464	4.4360	2,224,494
NZD	2	20.1800	40
<b><u>Investments under equity method</u></b>			
HKD	11,269	3.9010	43,960

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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	September 30, 2018		
	Foreign Currency (thousands)	Exchange Rate	Amount
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 1,094,523	30.5250	33,410,315
AUD	262,511	22.0350	5,784,430
CHF	32	31.2750	1,001
EUR	8,406	35.4800	298,245
GBP	3,610	39.9000	144,039
HKD	175,205	3.9010	683,475
JPY	1,219,744	0.2692	328,355
SEK	4	3.4500	14
SGD	241	22.3300	5,382
CNY	244,188	4.4360	1,083,218
ZAR	14	2.1500	30
KRW	186,405	0.0277	5,163
THB	1,268	0.9485	1,203
<b><u>Non-Monetary Item</u></b>			
USD	106	30.5250	3,236
CAD	5	23.4600	117
JPY	1,092	0.2692	294
CNY	8	4.4360	35

Because there are a variety of functional currencies, the Group discloses a summary of currency exchange variation on the monetary items. For the three months and the nine months ended September 30, 2019 and 2018, the realized and unrealized currency exchange gains (losses) amounted to \$(23,904), \$(52,228), \$(21,130) and \$(58,093), respectively.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, 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 nine months ended September 30, 2019 and 2018, given other factors remain the same, if the relevant foreign currencies, when compared with the NTD, had appreciates or depreciates by 5%, the net income and other comprehensive income will changes as follows:

	For the nine months ended September 30, 2019		For the nine months ended September 30, 2018	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
	Net income	(555,406)	555,406	(583,601)
Other comprehensive income	626,676	(626,676)	682,124	(682,124)

(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	September 30, 2019	December 31, 2018	September 30, 2018	For the nine months ended September 30,					
				2019			2018		
				Average	Maximum	Minimum	Average	Maximum	Minimum
Interest risk	1,535,060	1,384,626	1,538,376	1,514,305	1,572,243	1,473,449	1,825,254	2,076,354	1,538,376

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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(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.

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 satisfies all the following conditions: 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. The Group's investments in Taiwan central government bonds, equity instruments, debt instruments and derivative instruments with public quote in an active market 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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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2) Not measured at fair value

As of September 30, 2019, December 31, 2018 and September 30, 2018, the fair value information of the financial assets and financial liabilities of the Group was as follows:

a) Fair value information

	<u>September 30, 2019</u>		<u>December 31, 2018</u>		<u>September 30, 2018</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	\$ 8,104,149	8,104,149	7,993,419	7,993,419	7,700,427	7,700,427
Accrued receivable	21,534,990	21,534,990	17,631,012	17,631,012	22,231,320	22,231,320
Customers' margin account	36,177,111	36,177,111	33,275,630	33,275,630	32,424,124	32,424,124
Leverage contract trading - customers' margin account	265,213	265,213	228,564	228,564	228,529	228,529
Restricted assets - current	732,233	732,233	730,728	730,728	476,121	476,121
Other non-current assets	1,467,657	1,467,657	1,416,547	1,416,547	1,486,542	1,486,542
Financial liabilities :						
Short-term borrowings	4,625,578	4,625,578	3,873,506	3,873,506	4,596,498	4,596,498
Commercial paper payable	-	-	-	-	1,749,881	1,749,881
Bonds sold under repurchase agreements	33,974,224	33,974,224	28,032,524	28,032,524	35,203,702	35,203,702
Accrued payable	12,363,935	12,363,935	10,788,574	10,788,574	10,889,149	10,889,149
Futures traders' equity	36,038,209	36,038,209	33,158,826	33,158,826	32,389,958	32,389,958
Leverage contract trading - customers' equity	265,885	265,885	225,899	225,899	226,998	226,998
Other financial liabilities - current	3,567,102	3,567,102	3,357,887	3,357,887	4,107,079	4,107,079
Other financial liabilities - non- current	206,200	206,200	310,032	310,032	424,077	424,077
Other non-current liabilities	95,964	95,964	68,458	68,458	245,089	245,089

b) Hierarchy information of non-financial instruments not measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property				
September 30, 2019	<u>\$ -</u>	<u>-</u>	<u>7,460,444</u>	<u>7,460,444</u>
December 31, 2018	<u>\$ -</u>	<u>-</u>	<u>2,237,610</u>	<u>2,237,610</u>
September 30, 2018	<u>\$ -</u>	<u>-</u>	<u>2,239,610</u>	<u>2,239,610</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- 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, 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) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

3) Measured at fair value

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>
<b>September 30, 2019</b>				
Financial assets at fair value through profit or loss	\$ 13,253,268	18,496,720	-	31,749,988
Financial assets at fair value through other comprehensive income	190,305	15,507,026	2,341,950	18,039,281
Derivative financial assets	<u>262,778</u>	<u>78,417</u>	<u>-</u>	<u>341,195</u>
	<u>\$ 13,706,351</u>	<u>34,082,163</u>	<u>2,341,950</u>	<u>50,130,464</u>
Financial liabilities at fair value through profit or loss	\$ 863,977	-	-	863,977
Derivative financial liabilities	<u>40</u>	<u>412,315</u>	<u>-</u>	<u>412,355</u>
	<u>\$ 864,017</u>	<u>412,315</u>	<u>-</u>	<u>1,276,332</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2018</b>				
Financial assets at fair value through profit or loss	\$ 12,267,176	18,674,078	-	30,941,254
Financial assets at fair value through other comprehensive income	484,340	10,381,589	1,911,577	12,777,506
Derivative financial assets	<u>235,070</u>	<u>69,659</u>	<u>-</u>	<u>304,729</u>
	<u>\$ 12,986,586</u>	<u>29,125,326</u>	<u>1,911,577</u>	<u>44,023,489</u>
Financial liabilities at fair value through profit or loss	\$ 926,355	-	-	926,355
Derivative financial liabilities	<u>16,074</u>	<u>259,786</u>	<u>-</u>	<u>275,860</u>
	<u>\$ 942,429</u>	<u>259,786</u>	<u>-</u>	<u>1,202,215</u>
<b>September 30, 2018</b>				
Financial assets at fair value through profit or loss	\$ 12,721,725	18,785,337	-	31,507,062
Financial assets at fair value through other comprehensive income	586,446	16,805,610	1,738,734	19,130,790
Derivative financial assets	<u>304,814</u>	<u>69,795</u>	<u>-</u>	<u>374,609</u>
	<u>\$ 13,612,985</u>	<u>35,660,742</u>	<u>1,738,734</u>	<u>51,012,461</u>
Financial liabilities at fair value through profit or loss	\$ 850,817	-	-	850,817
Derivative financial liabilities	<u>13,011</u>	<u>319,299</u>	<u>-</u>	<u>332,310</u>
	<u>\$ 863,828</u>	<u>319,299</u>	<u>-</u>	<u>1,183,127</u>

b) Valuation techniques of financial instruments measured at fair value

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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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

For the nine months ended September 30, 2019 and 2018, there is no transfer of financial instruments between Level 1 and Level 2.

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.

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

(In Thousands Dollars)

Item	For the nine months ended September 30, 2019							Ending Balance
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		
		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	\$ 1,911,577	-	340,118	94,864	-	4,609	-	2,341,950

  

Item	For the nine months ended September 30, 2018							Ending Balance
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		
		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	-	(40,358)	2,135	-	10,852	-	1,738,734

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 instruments investment.

The Group's equity instruments investment 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	· Price-to-Book Ratio  · Discount for lack of marketability	· The higher the multiple, the higher fair value.  · The higher the discount for lack of marketability, the lower the fair value.
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

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- 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:

	<b>Change in fair value recognized in other comprehensive income</b>	
	<b>Favorable change</b>	<b>Unfavorable change</b>
<b>September 30, 2019</b>		
Financial assets fair value through other comprehensive income	\$ <u>23,420</u>	<u>(23,420)</u>
<b>December 31, 2018</b>		
Financial assets fair value through other comprehensive income	\$ <u>19,116</u>	<u>(19,116)</u>
<b>September 30, 2018</b>		
Financial assets fair value through other comprehensive income	\$ <u>17,387</u>	<u>(17,387)</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 which 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:

Types of financial assets	September 30, 2019				
	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>33,495,993</u>	<u>33,974,224</u>	<u>-</u>	<u>-</u>	<u>-</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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December 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>28,357,997</u>	<u>28,032,524</u>	<u>-</u>	<u>-</u>	<u>-</u>

  

September 30, 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>36,197,646</u>	<u>35,203,702</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:

September 30, 2019						
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	\$ <u>78,417</u>	<u>-</u>	<u>78,417</u>	<u>-</u>	<u>-</u>	<u>78,417</u>

  

September 30, 2019						
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	\$ 412,315	-	412,315	-	-	412,315
Under repurchase agreements	33,974,224	-	33,974,224	33,974,224	-	-
Total	\$ <u>34,386,539</u>	<u>-</u>	<u>34,386,539</u>	<u>33,974,224</u>	<u>-</u>	<u>412,315</u>

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December 31, 2018						
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	\$ 69,659	-	69,659	-	-	69,659
December 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	\$ 259,786	-	259,786	-	-	259,786
Under repurchase agreements	28,032,524	-	28,032,524	28,032,524	-	-
Total	\$ 28,292,310	-	28,292,310	28,032,524	-	259,786
September 30, 2018						
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	\$ 69,795	-	69,795	-	-	69,795
September 30, 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	\$ 319,299	-	319,299	-	-	319,299
Under repurchase agreements	35,203,702	-	35,203,702	35,203,702	-	-
Total	\$ 35,523,001	-	35,523,001	35,203,702	-	319,299

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

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(x) 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 6(v) of the consolidated financial statements as of and for the year ended December 31, 2018.

As of September 30, 2019, December 31, 2018 and September 30, 2018, 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	September 30, 2019		December 31, 2018		September 30, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Stock warrants issued	\$ 15,804,335	-	17,901,620	-	16,839,468	-

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 September 30, 2019 and the nine months ended September 30, 2019:

a) Gains (losses) on valuation

	<u>For the three months ended September 30, 2019</u>	<u>For the nine months ended September 30, 2019</u>	<u>Account</u>
Stock warrants issued	\$ 2,757,262	11,191,952	Gains (losses) on stock warrants issued
Stock warrants repurchased	(2,711,101)	(11,071,698)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the three months ended September 30, 2019</u>	<u>For the nine months ended September 30, 2019</u>	<u>Account</u>
Security borrowing	\$ (22,443)	7,743	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	25,010	67,045	Gains (losses) on sale of trading securities
Futures transaction	(39,193)	(132,215)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended September 30, 2019</u>	<u>For the nine months ended September 30, 2019</u>	<u>Account</u>
Stock warrants issued	\$ 8,077,368	20,469,808	Gains (losses) on stock warrants issued
Stock warrants repurchased	(8,035,032)	(20,356,315)	Gains (losses) on stock warrants issued

2) For the three months ended September 30, 2018 and the nine months ended September 30, 2018:

a) Gains (losses) on valuation

	<u>For the three months ended September 30, 2018</u>	<u>For the nine months ended September 30, 2018</u>	<u>Account</u>
Stock warrants issued	\$ 3,679,940	16,824,655	Gains (losses) on stock warrants issued
Stock warrants repurchased	(3,624,611)	(16,282,823)	Gains (losses) on stock warrants issued

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b) Gains (losses) on sale

	<b>For the three months ended September 30, 2018</b>	<b>For the nine months ended September 30, 2018</b>	<b>Account</b>
Security borrowing	\$ (13,565)	168,152	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(529,526)	(988,134)	Gains (losses) on sale of trading securities
Futures transaction	41,629	(152,611)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<b>For the three months ended September 30, 2018</b>	<b>For the nine months ended September 30, 2018</b>	<b>Account</b>
Stock warrants issued	\$ 11,353,133	25,303,196	Gains (losses) on stock warrants issued
Stock warrants repurchased	(10,925,133)	(24,356,304)	Gains (losses) on stock warrants issued

Exchange traded notes

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

<b>Financial Instruments</b>	<b>September 30, 2019</b>		<b>December 31, 2018</b>		<b>September 30, 2018</b>	
	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>
For trading purpose:						
Exchange traded notes issued	\$ 874	-	-	-	-	-

Index-related products trading (futures or other derivative products) will take certain credit risk from counterparties. The Group determines those with international credit rating BBB (inclusive) or above, and therefore, no default is expected and credit risk is accordingly remote.

(ii) Market risk:

There is no tracking error on exchange traded notes (ETN). Issuers hedge and manage the position via stocks or other products (futures or other derivative products) which are related to the index.

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

Stocks with small market cap or transaction volume will be replaced by other stocks in case the liquidity risk affects the index performance.

The duration of exchange traded notes issued is three years from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

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(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 are used to hedge against risk from investors. These underlying securities used as hedging instruments exhibit highly positive correlation with the fair values of exchange traded notes, and positions held are evaluated and adjusted periodically.

(v) Presentation of financial derivatives:

For the three months and the nine months ended September 30, 2019, gains (losses) on exchange traded notes amounted to \$6 and \$26, and were reflected as net gains (losses) from exchange traded notes. As of September 30, 2019, margin exchange traded notes amounted to \$25, and were reflected as other non current assets; outstanding liabilities exchange traded notes which recognized as financial liabilities at fair value through profit or loss current amounted to \$874.

Futures

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

Please refer to note 12(a) for the notional principal and nominal amount as of September 30, 2019, December 31, 2018 and September 30, 2018.

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.

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.

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(iv) Presentation of financial derivatives:

For the three months and the nine months ended September 30, 2019 and 2018, gains (losses) on futures and options transactions amounted to \$(24,272), \$(23,646), \$(410,846) and \$266,624, respectively, and were recognized in gains (losses) on derivatives - futures. As of September 30, 2019, December 31, 2018 and September 30, 2018, futures margin - proprietary fund amounted to \$262,778, \$223,490 and \$295,561, respectively, and were recognized in financial assets at fair value through profit or loss - current; excess future margin which recognized in cash and cash equivalent amounted to \$1,472,508, \$1,998,273 and \$2,132,784, respectively.

As of September 30, 2019, December 31, 2018 and September 30, 2018, the balance of call options which recognized in financial assets at fair value through profit or loss - current amounted to \$0, \$11,580 and \$9,253, respectively, put options which recognized in financial liabilities at fair value through profit or loss - current amounted to \$40, \$16,074 and \$13,011, respectively.

Derivative instruments - OTC

(i) Interest rate financial derivatives

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

Financial Instruments	September 30, 2019		December 31, 2018		September 30, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
NT dollar interest swaps	\$ 23,100,000	-	29,800,000	-	33,400,000	-

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

2) Market risk:

Non-trading NT dollar interest rate swaps are primarily held for hedging. 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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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.

(ii) Structured notes

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

<b>Financial Instruments</b>	<b>September 30, 2019</b>		<b>December 31, 2018</b>		<b>September 30, 2018</b>	
	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>
For trading purpose:						
Equity-linked notes	\$ 230,996	-	49,225	-	135,838	-
Principal guaranteed notes	2,792,506	-	2,730,772	-	3,468,963	-
Credit-linked notes	601,800	-	562,300	-	581,300	-
Principle guaranteed notes (in USD thousands)	USD 4,792	-	USD 10,597	-	USD 11,298	-

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

2) Market risk

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

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

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

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(iii) Convertible bond asset-backed swaps

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

<b>Financial Instruments</b>	<b>September 30, 2019</b>		<b>December 31, 2018</b>		<b>September 30, 2018</b>	
	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>	<b>Notional principal / Nominal amount</b>	<b>Credit Risk</b>
For trading purpose:						
Convertible bond asset-backed swaps	\$ 864,800	-	694,900	-	773,700	-
Convertible bond options	3,971,900	-	3,012,400	-	2,929,000	-

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

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

2) Market risk:

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

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

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

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

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**Notes to the Consolidated Financial Statements**

(iv) Options

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

Financial Instruments	September 30, 2019		December 31, 2018		September 30, 2018	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:						
Equity options	\$ 50,000	-	-	-	-	-

The counterparties that the Group entered into derivative transactions with are all well-known financial institutions with good credit ratings. The Group does not expect the counter-party will default. Therefore, the credit risks is minimal.

2) Market risk:

Market risk of trading equity options results from the purchase and sale of options. Since the fair values of 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.

3) Liquidity risk, cash flow risk, and the amount of future cash demand:

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

(v) Currency derivatives

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

Financial Instruments	September 30, 2019		December 31, 2018		September 30, 2018	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:						
Currency derivatives-long position	\$ 2,028,771	-	1,568,749	-	1,334,398	-
Currency derivatives-short position	2,117,043	-	1,510,240	-	1,159,613	-

The Group does the Know-Your-Customer (KYC) process before trading, and gives counterparties appropriate leverage multiples and risk ratings based on their financial status and past trading experience. Besides, the Group collects margins from counterparties and sets the Pre-Settlement Risk (PSR) to manage credit risk. The Group examines the limits regularly to insure their overall credit risk is acceptable, and therefore the risk is controllable.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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2) Market risk:

The Group has established the product types, trading quotas, market risk limits, stop-loss and stop-right standards to manage market risk, and therefore losses are within predictable range.

3) Liquidity risk, cash flow risk, and the amount of future cash demand:

The Group monitors the concentration rate and trading volume, and selects registered brokers which have related licenses, experience and a certain amount of asset to cover the position to meet the liquidity need and control the liquidity risk.

(vi) Presentation of derivative instruments in financial statement - OTC

As of September 30, 2019, December 31, 2018 and September 30, 2018, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset-backed swaps and currency swaps were presented on the balance sheets as follows:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 12,515	13,855	16,895
Asset swap options-long position	35,450	4,072	10,597
Currency derivatives	26,333	46,967	30,499
Structured notes	3,103	3,075	3,532
Currency swaps	-	1,690	5,324
Interest rate swaps	1,016	-	2,948
Total	<u>\$ 78,417</u>	<u>69,659</u>	<u>69,795</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(y) 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.

The Company maintains no change of its capital management. The Company's capital adequacy ratio is as below:

	<b>September 30,</b>	<b>December 31,</b>	<b>September 30,</b>
	<b>2019</b>	<b>2018</b>	<b>2018</b>
Capital adequacy ratio	424 %	435 %	396 %

(z) Financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the nine months ended September 30, 2019 and 2018, were as follows:

- (i) For Short-term borrowings, please refer to note 6(j).
- (ii) For Commercial papers payable, please refer to note 6(k).
- (iii) For Right-of-use assets, please refer to note 6(g).

	<b>January 1,</b>	<b>Cash flows</b>	<b>Non-cash changes</b>			<b>September</b>
			<b>2019</b>	<b>Other</b>	<b>Foreign</b>	
				<b>exchange</b>	<b>changes</b>	
				<b>movement</b>		
Short-term borrowings	\$ 3,873,506	752,072	-	-	-	4,625,578
Lease liabilities	1,070,869	(83,108)	54,493	(384)	-	1,041,870
Total liabilities from financing activities	<b>\$ 4,944,375</b>	<b>668,964</b>	<b>54,493</b>	<b>(384)</b>	<b>-</b>	<b>5,667,448</b>

	<b>January 1,</b>	<b>Cash flows</b>	<b>Non-cash changes</b>			<b>September</b>
			<b>2018</b>	<b>Other</b>	<b>Foreign</b>	
				<b>exchange</b>	<b>changes</b>	
				<b>movement</b>		
Short-term borrowings	\$ 7,081,698	(2,485,200)	-	-	-	4,596,498
Commercial papers payable	4,099,184	(2,349,303)	-	-	-	1,749,881
Total liabilities from financing activities	<b>\$ 11,180,882</b>	<b>(4,834,503)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,346,379</b>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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**(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 1)	Associate
Funds issued by Capital Investment Trust Corp. (Note 1)	Funds issued by associate
San Ho Enterprise Co., Ltd. (Note 2)	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Tai Chun Enterprise Co., Ltd	Juristic-person director
Other related parties	Key management personnel

Note 1: Since February 9, 2018, the corporation has become an associate of the Company.

Note 2: The corporation was discharged on June 24, 2019.

(c) Key management personnel transactions

(i) Key management personnel compensation:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 66,051	72,225	168,515	233,219
Post-employment benefits	671	677	2,049	1,899
Total	<u>\$ 66,722</u>	<u>72,902</u>	<u>170,564</u>	<u>235,118</u>

(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of September 30, 2019, December 31, 2018 and September 30, 2018 were as follows:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>		<u>September 30, 2018</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>32,500</u>	<u>32,676</u>	<u>43,000</u>	<u>43,060</u>	<u>23,000</u>	<u>23,036</u>
<b>Total financial expenses</b>	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>			
Key management personnel	<u>\$ 46</u>	<u>26</u>	<u>144</u>	<u>112</u>		

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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(iii) Structured notes transactions

As of September 30, 2019, December 31, 2018 and September 30, 2018, the balances of structured notes transactions with key management personnel were \$65,938, \$55,612 and \$53,335, 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 September 30, 2019, December 31, 2018 and September 30, 2018 were as follows:

	September 30, 2019		December 31, 2018		September 30, 2018	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Funds issued by associate	\$ -	-	50,000	50,044	-	-
Juristic-person directors	-	-	20,300	20,315	19,000	19,600
Total	<u>\$ -</u>	<u>-</u>	<u>70,300</u>	<u>70,359</u>	<u>19,000</u>	<u>19,600</u>

  

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
<b>Total financial expenses</b>				
Funds issued by associate	\$ 158	15	472	104
Juristic-person directors	-	22	56	54
Total	<u>\$ 158</u>	<u>37</u>	<u>528</u>	<u>158</u>

Transaction terms are the same as the general clients.

(ii) Structured notes transaction and future transactions

As of September 30, 2019, December 31, 2018 and September 30, 2018 the balances of structured notes transactions with juristic-person directors and others of the Group were \$0, \$17,082 and \$4,950, respectively. The balance of future transactions with the associate were \$289,485, \$287,357 and \$184,951, respectively.

(iii) Lease agreements

1) Lease revenue

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Subsidiaries	\$ -	260	346	779
Associates	4,312	4,312	12,935	11,498
Total	<u>\$ 4,312</u>	<u>4,572</u>	<u>13,281</u>	<u>12,277</u>

2) Guarantee deposits received

	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiaries	\$ -	200	200
Associates	3,811	3,811	3,811
Total	<u>\$ 3,811</u>	<u>4,011</u>	<u>4,011</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 September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Subsidiaries	\$ 2,991	2,447	10,509	8,949

2) Accounts receivable

	September 30, 2019	December 31, 2018	September 30, 2018
	Subsidiaries	\$ 2,016	2,020

(v) Commissions

The commission received from the Juristic-person directors, funds issued by associate of the Group and other related parties engaging in securities and futures trading for the three months and the nine months ended September 30, 2019 and 2018, were as follows:

Brokerage commissions	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Associates	\$ 296	225	859	540
Funds issued by associate	10,095	3,345	18,114	7,284
Juristic-person directors	-	186	-	288
Other related parties	250	7,079	812	11,473
Total	\$ 10,641	10,835	19,785	19,585

Re-consigned handling commissions	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Funds issued by associate	\$ 946	1,286	5,210	3,380
Other related parties	83	109	160	188
Total	\$ 1,029	1,395	5,370	3,568

Other commissions	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Funds issued by associate	\$ 2,793	-	3,690	366

(vi) Management service income and stock service income:

For the three months and the nine months ended September 30, 2019 and 2018, the Group provided management service and stock service for associate, and the service income amounted to \$62, \$98, \$219 and \$201, respectively.

(vii) Accrued receivables

The accrued receivables between the associate and the Group primarily were securities management service receivable. As of September 30, 2019, December 31, 2018 and September 30, 2018, the accrued receivables amounted to \$10, \$10 and \$10, respectively.

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**Notes to the Consolidated Financial Statements**

(viii) Disposals of financial assets

On January 16, 2018, the Group disposed all its shares (941 thousand shares) of Reliance Securities Investment Trust Co., Ltd (which was recognized in financial assets at fair value through other comprehensive income - non-current) to a juristic-person director. The selling price and gains on disposal amounted to \$9,774 and \$7, respectively.

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

**(8) Pledged assets:**

The following assets were pledged as collateral or restricted in use as of September 30, 2019, December 31, 2018 and September 30, 2018:

	September 30, 2019	December 31, 2018	September 30, 2018	<u>The collateral use</u>
Restricted assets - current	\$ 732,233	730,728	476,121	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	34,788,255	29,145,321	36,817,660	Repurchase agreement
Property and equipment	1,854,232	3,968,485	3,973,662	Bank borrowings
Financial assets at fair value through profit or loss - non - current	180,507	185,109	185,303	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	2,930,389	895,814	898,276	Bank borrowings
Total	<u>\$ 40,485,616</u>	<u>34,925,457</u>	<u>42,351,022</u>	

**(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:

	September 30, 2019		December 31, 2018		September 30, 2018	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	539,639	\$ 5,396,390	528,296	5,282,960	601,341	6,013,410
Collateral for margin purchase	12,986	129,860	34,550	345,500	18,707	187,070
Collateral for short sales	2,777	27,770	6,150	61,500	4,546	45,460
Lending securities to customers through short sales	63,853	638,530	50,957	509,570	39,764	397,640

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

	September 30, 2019		December 31, 2018		September 30, 2018	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	531	\$ 5,310	1,074	10,740	1,595	15,950
Collateral for refinancing margin	-	-	53	530	142	1,420

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Promissory notes	\$ <u>26,570,000</u>	<u>26,440,000</u>	<u>24,040,000</u>
Promissory notes (in USD thousands)	USD <u>60,000</u>	USD <u>60,000</u>	USD <u>60,000</u>

- (d) As of September 30, 2019, December 31, 2018 and September 30, 2018, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$4,671,871, \$3,848,765 and \$3,513,461, 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) A resigned employee of Wan-Hua branch was accused of privately soliciting investment to scam. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$2,798. The case is under the trial of Taiwan Taipei District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (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.). The damages claimed for amounted to US\$6,355,536 dollars, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. There was one case that mutual reach the settlement and withdraw appeals on May 7, 2019. 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 September 30, 2019.
- (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) The subsidiary, Capital Futures Corp., acquired hardware and software system for the development of future operation, which cost \$3,520 for contract price. As of September 30, 2019, the unpaid balance was amounted to \$1,512.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(10) Significant Catastrophic Loss:None**

**(11) Significant Subsequent Events:**

In order to retain the Company's credits and shareholders' interests, the Company's board meeting resolved a share buyback plan on November 11, 2019.

**(12) Other:**

(a) As of September 30, 2019, December 31, 2018 and September 30, 2018, the open positions of futures and option contracts were as follows:

(i) September 30, 2019

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Short	62	\$ (134,706)	(134,194)	
	Mini-TAIEX Futures	Short	15	(8,154)	(8,118)	
	Electronic Sector Index Futures	Short	6	(10,987)	(10,918)	
	Single Stock Futures	Long	454	100,984	100,581	
	Single Stock Futures	Short	7,724	(1,417,944)	(1,417,719)	
	HSI Futures	Short	3	(15,398)	(15,461)	
	Mini-HSI Futures	Long	2	2,054	2,061	
	FTSE China A50 Index Futures	Long	74	31,594	31,216	
	FTSE China A50 Index Futures	Short	368	(157,734)	(155,235)	
	SGX Nikkei 225 Index Futures	Short	4	(12,208)	(12,514)	
	5 Year U.S. T-Note Futures	Short	20	(73,919)	(73,967)	
	10 Year U.S. T-Note Futures	Short	5	(20,501)	(20,224)	
	Ultra U.S. Treasury Bond Futures	Long	1	6,063	5,957	
	Crude Oil Futures	Short	88	(152,650)	(147,693)	
	Japanese Yen Futures	Long	2	7,253	7,215	
	VIX Futures	Short	4	(2,297)	(2,126)	
	Subtotal			<u>(1,858,550)</u>		
Options contract :						
	Crude Oil Option (Put)	Short	13	(42)	(40)	
	Subtotal			<u>(42)</u>		
Total				<u>\$ (1,858,592)</u>		

(Continued)



**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) December 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 :						
	TAIEX Futures	Long	219	\$ 419,425	423,418	
	TAIEX Futures	Short	674	(1,300,015)	(1,303,020)	
	Mini-TAIEX Futures	Short	264	(126,317)	(127,524)	
	Electronic Sector Index Futures	Long	23	35,333	35,397	
	Finance Sector Index Futures	Short	30	(35,369)	(35,358)	
	Single Stock Futures	Long	1,938	347,884	344,406	
	Single Stock Futures	Short	3,226	(395,545)	(380,106)	
	H Stocks Index Futures	Long	7	13,704	13,757	
	HSI Futures	Short	5	(25,340)	(25,343)	
	Mini-HSI Futures	Long	4	4,067	4,055	
	SGX Nifty 50 Index Futures	Short	36	(24,058)	(24,155)	
	Dow Futures	Short	58	(26,931)	(26,880)	
	E-mini-Dow Futures	Long	5	17,770	17,867	
	E-mini-Dow Futures	Short	2	(7,113)	(7,151)	
	Soybean Futures	Short	12	(16,964)	(16,964)	
	FTSE China A50 Index Futures	Short	466	(149,721)	(148,929)	
	MSCI Taiwan Index Futures	Short	70	(76,977)	(76,654)	
	S&P 500 Futures	Long	42	98,471	100,602	
	S&P 500 Futures	Short	12	(6,009)	(5,993)	
	Mini-S&P 500 Futures	Long	16	60,226	61,558	
	Mini-S&P 500 Futures	Short	6	(22,746)	(23,115)	
	SGX Nikkei 225 Index Futures	Short	4	(12,002)	(11,092)	
	2 Year U.S. T-Note Futures	Short	1	(6,495)	(6,521)	
	10 Year U.S. T-Note Futures	Short	100	(372,827)	(374,771)	
	Euro-Bund Futures	Short	23	(132,141)	(132,402)	
	Nifty 50 Index Futures	Long	48	26,045	26,189	
	Nifty 50 Index Futures	Short	4	(2,193)	(2,192)	
	JPY/USD Futures	Long	53	32,509	32,120	
	JPY/USD Futures	Short	213	(130,851)	(130,068)	
	EUR/USD Futures	Long	113	79,609	80,110	
	USD Index Futures	Short	1	(2,946)	(2,940)	
	Japanese Yen Futures	Long	3	10,249	10,563	
	Japanese Yen Futures	Short	28	(97,593)	(98,591)	
	Euro Futures	Short	18	(79,280)	(79,631)	
	Subtotal			(1,904,141)		
Options contract :						
	TAIEX Options (Call)	Long	572	1,584	1,183	
	TAIEX Options (Put)	Long	1,475	8,648	9,788	
	TAIEX Options (Call)	Short	538	(4,898)	(3,805)	
	TAIEX Options (Put)	Short	403	(3,794)	(3,187)	
	Equity Options (Call)	Long	1	98	30	
	Equity Options (Put)	Long	54	184	127	
	Equity Options (Call)	Short	1,153	(3,777)	(2,063)	
	Equity Options (Put)	Short	172	(2,263)	(2,749)	
	TAIEX Weekly Options (Put)	Long	240	72	25	
	TAIEX Weekly Options (Call)	Short	90	(173)	(208)	
	S&P 500 Options (Put)	Long	24	654	427	
	S&P 500 Options (Call)	Short	24	(1,684)	(4,059)	
	Japanese Yen Options (Put)	Short	3	(6)	(3)	
	Subtotal			(5,355)		
Total				\$ (1,909,496)		

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) September 30, 2018

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	39	\$ 85,438	85,449	
	TAIEX Futures	Short	1,051	(2,278,048)	(2,302,631)	
	Mini-TAIEX Futures	Long	283	154,273	154,921	
	Mini-TAIEX Futures	Short	8	(4,327)	(4,372)	
	Electronic Sector Index Futures	Short	12	(21,010)	(20,995)	
	Finance Sector Index Futures	Long	17	21,825	22,141	
	Finance Sector Index Futures	Short	1	(1,304)	(1,302)	
	Non-Finance Non-Electronics Sub-Index Futures	Short	29	(38,550)	(38,524)	
	Single Stock Futures	Long	2,563	198,454	198,366	
	Single Stock Futures	Short	6,403	(941,591)	(960,826)	
	HSI Futures	Short	5	(27,019)	(27,187)	
	SGX Nifty 50 Index Futures	Long	22	14,761	14,719	
	Dow Futures	Long	95	50,649	50,384	
	Dow Futures	Short	11	(5,743)	(5,829)	
	Mini-Dow Futures	Short	17	(68,919)	(68,791)	
	Soybean Futures	Short	12	(17,617)	(15,485)	
	Gold Futures	Short	11	(42,351)	(40,165)	
	Micro Gold Futures	Long	8	2,928	2,921	
	MSCI Taiwan Index Futures	Short	73	(90,746)	(90,684)	
	FTSE China A50 Index Futures	Long	455	165,116	165,451	
	FTSE China A50 Index Futures	Short	589	(204,689)	(214,177)	
	Real Estate Index Futures	Short	1	(987)	(971)	
	S&P 500 Futures	Long	43	25,097	25,125	
	Mini-S&P 500 Futures	Short	9	(39,987)	(40,096)	
	10-Year U.S. T-Note Futures	Short	301	(1,090,530)	(1,091,365)	
	Ultra 10-Year U.S. T-Note Futures	Short	25	(96,058)	(96,154)	
	Ultra 10-Year U.S. Treasury Note Futures	Short	5	(21,439)	(21,444)	
	Euro-Bond Futures	Short	52	(292,252)	(292,961)	
	Crude Oil Futures	Long	4	8,880	8,944	
	Nifty 50 Index Futures	Short	27	(14,844)	(14,805)	
	JPY/USD FX Futures	Long	3	1,795	1,822	
	JPY/USD FX Futures	Short	141	(84,735)	(84,933)	
	EUR/USD FX Futures	Long	2	1,430	1,428	
	EUR/USD FX Futures	Short	102	(72,924)	(72,899)	
	USD Index Futures	Short	30	(86,626)	(86,755)	
	Japanese Yen Futures	Long	3	10,341	10,135	
	Japanese Yen Futures	Short	28	(95,088)	(94,871)	
	NT dollar Gold Futures	Short	2	(895)	(873)	
	Euro Futures	Long	16	71,394	71,319	
	Subtotal			(4,825,898)		

(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 :						
	TAIEX Options (Call)	Long	842	\$ 3,263	3,205	
	TAIEX Options (Put)	Long	1,767	5,390	1,383	
	TAIEX Options (Call)	Short	737	(1,573)	(1,999)	
	TAIEX Options (Put)	Short	1,536	(5,212)	(3,240)	
	Equity Options (Call)	Long	142	1,634	1,167	
	Equity Options (Put)	Long	118	298	177	
	Equity Options (Call)	Short	211	(1,242)	(1,729)	
	Equity Options (Put)	Short	236	(1,752)	(779)	
	TAIEX Weekly Options (Call)	Long	1,899	1,467	1,231	
	TAIEX Weekly Options (Put)	Long	1,749	736	614	
	TAIEX Weekly Options (Call)	Short	1,035	(3,801)	(2,558)	
	TAIEX Weekly Options (Put)	Short	256	(495)	(407)	
	Electronic Sector Index Options (Call)	Long	180	596	414	
	Electronic Sector Index Options (Put)	Long	107	467	431	
	Electronic Sector Index Options (Call)	Short	88	(425)	(344)	
	Electronic Sector Index Options (Put)	Short	53	(111)	(101)	
	Finance Sector Index Options (Call)	Long	125	226	361	
	Finance Sector Index Options (Put)	Long	151	344	229	
	Finance Sector Index Options (Call)	Short	59	(170)	(216)	
	Finance Sector Index Options (Put)	Short	92	(95)	(11)	
	VIX Options (Put)	Short	500	(1,740)	(1,471)	
	JPY dollar Options (Put)	Short	3	(10)	(14)	
	Gold Option (Call)	Long	22	32	11	
	Gold Option (Put)	Long	23	21	30	
	Gold Option (Call)	Short	2	(4)	(1)	
	Gold Option (Put)	Short	11	(104)	(141)	
	Subtotal			(2,260)		
Total				\$ (4,828,158)		

(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 financial ratio in the table below is prepared according to "Regulations Governing Futures Commission Merchants" :

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Stockholders' equity}}{\text{(Total liabilities - futures traders' equity)}}$	$\frac{4,894,307}{552,646}$	8.86	$\frac{4,943,587}{500,813}$	9.87	$\geq 1$	Satisfactory to requirement
17	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{40,145,966}{36,748,156}$	1.09	$\frac{36,775,054}{33,304,887}$	1.10	$\geq 1$	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{4,894,307}{1,115,000}$	438.95 %	$\frac{4,943,587}{1,115,000}$	443.37 %	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Adjusted net capital}}{\text{Total amount of customers' margin required for open positions of futures trader}}$	$\frac{3,541,203}{8,131,987}$	43.55 %	$\frac{3,496,190}{6,002,631}$	58.24 %	$\geq 20\%$ $\geq 15\%$	"

- (c) Unique risk for futures trading

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 business needs sufficient liquidity to cover the transactions and suffer the loss may occur.

(Continued)

**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 29,322	US 29,322	US 29,322	- %	2	-	Operations	-	-	-	US 53,741	US 53,741
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited.	Other receivables - Related party	Yes	US 3,380	US 3,380	US 3,380	- %	2	-	Operations & repayment of financing	-	-	-	US 3,380	US 3,380
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	- %	2	-	Repayment of financing	-	-	-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	43,104	43,104	18,443	5 %	2	-	Tradings	-	-	-	101,065	404,261
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	86,208	86,208	18,473	5.81 %	2	-	Tradings	-	-	-	101,065	404,261
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	86,208	86,208	-	3.5 %	2	-	Tradings	-	-	-	101,065	404,261
7	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	86,208	86,208	-	5.81 %	2	-	Tradings	-	-	-	101,065	404,261

Note: Type of Loans

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

- (ii) Providing endorsements and guarantees for other parties:None
- (iii) Acquisition of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (iv) Disposal of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (v) Handling fee discounts on transactions with related parties exceeding NT\$5 million:None
- (vi) Accounts receivables from related parties exceeding NT\$100 million or 20% of paid-in capital:None
- (vii) Significant transactions between parent company and subsidiaries for the nine months ended September 30, 2019:

(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	324		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	8,956		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivable	1,660		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	37,002		0.03 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payable	3,989		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,819		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	96,785	General transaction	1.75 %

(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			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	12,821	General transaction	0.23 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	334	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	401	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	38	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	2,334	General transaction	0.04 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	292	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expense	7,338	General transaction	0.13 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenue	35,225	General transaction	0.64 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Accounts receivable	23		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	54,921	General transaction	0.99 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	400	General transaction	0.01 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other operating revenue	23	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Lease revenue	85	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Non-operating revenue	150	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Revenue from securities management, distribution, and management fees	90	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Non-operating expense	3,098	General transaction	0.06 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	321	General transaction	0.01 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	1	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Lease revenue	109	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Non-operating revenue	45		- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantee deposits received	36		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	1,260,104		0.96 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,260,104		0.96 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	573,387		0.44 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	4,154,188		3.16 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payable	3,023		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	6,489	General transaction	0.12 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	48,620	General transaction	0.88 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	6,173	General transaction	0.11 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	3,795,932		2.89 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	215,132		0.16 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expense	248	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	1,200		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	15,480	General transaction	0.28 %
2	CSC Futures (HK) Ltd.	CSC Securities (HK) Ltd.	3	Lease revenue	4,013	General transaction	0.07 %

(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			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
2	CSC Futures (HK) Ltd.	CSC Securities (HK) Ltd.	3	Financial costs	219	General transaction	- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivable	HK 9		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 3,134	General transaction	0.22 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 219	General transaction	0.02 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 228,306		0.68 %
4	Taiwan International Securities (B.V.I.) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,248		0.08 %

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.

(b) Related information of investee companies:

(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 September 30, 2019	Balance on December 31, 2018	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 %	93,434	54,978	(3,806)	(3,806)	9,450	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	99,182,845	56.21 %	2,751,161	1,290,130	452,643	254,526	337,222	"
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 %	1,657,893	19,381	4,300	4,300	-	"
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 %	71,738	149,929	45,882	45,882	58,875	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 %	43,605	74,664	4,202	4,202	1,354	"
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 %	93	(358)	(365)	(365)	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities Investment Consulting Corp. (Note 4)	Taipei, Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92 %	12,651	-	(148)	(148)	-	"
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 %	747,909	954	(4,308)	(4,308)	-	"

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## 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 September 30, 2019	Balance on December 31, 2018	Shares	Ratio	Book value					
0	Capital Investment Trust Corp.	Taipei, Taiwan, R.O.C.	October 10, 1995		Engaged in security investment and discretionary investment services.	1,272,505	1,272,505	33,067,507	20.00 %	1,264,667	1,188,315	495,509	99,102	99,203	Associates
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 thousands	HK 128,000 thousands	128,000,000	100.00 %	HK 165,303 thousands	HK 26,979 thousands	HK 4,919 thousands	-	-	The transaction has been written off in the consolidated financial statements
2	TIS Securities (HK) Limited. (Note 5)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousands	HK 265,000 thousands	265,000,000	100.00 %	HK (26,339) thousands	HK -	HK (91) thousands	-	-	The transaction has been written off in the consolidated financial statements
3	Taiwan International Capital (HK) Ltd. (Note 5)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,181) thousands	HK -	HK (24) thousands	-	-	"
4	CSC Futures (HK) Ltd.	Hong Kong	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 %	983,062	194,050	(35,053)	-	-	"
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 %	43,585	-	(2,088)	-	-	"
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 %	48,076	83,746	4,525	-	-	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 resolved to dissolve on June 27, 2012, and the company is being liquidated now.

Note 5: 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.

#### (c) Information on overseas branches or representative offices:

(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	-	-	-	-	-	-	-	

(Continued)



**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (d) Information on investments in the Mainland Area:

## (i) Investment in the Mainland Area 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, 2019	Remittance of recoverable investment this period		Accumulated remittance as of September 30, 2019	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 September 30, 2019
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	2,329	28.67%	668 B(3)	13,585	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	(3,049)	56.21%	(1,714) B(3)	10,673	-

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 the Mainland Area:

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) General 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) Corporate financing 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) Futures: 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) Profits or losses, assets and liabilities of segments information

For the three months ended September 30, 2019								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 876,077	119,201	511,314	120,659	46,684	481,418	(60,926)	2,094,427
Segment profit or loss	\$ 365,428	82,275	400,900	72,722	(77,969)	181,739	(73,150)	951,945

  

For the three months ended September 30, 2018								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 961,301	109,638	(82,305)	143,015	38,971	552,135	(70,673)	1,652,082
Segment profit or loss	\$ 434,172	72,814	(264,914)	76,984	(5,963)	193,797	(76,056)	430,834

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

For the nine months ended September 30, 2019								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ <u>2,398,721</u>	<u>288,222</u>	<u>1,237,203</u>	<u>188,431</u>	<u>162,239</u>	<u>1,429,911</u>	<u>(178,467)</u>	<u>5,526,260</u>
Segment profit or loss	\$ <u>940,249</u>	<u>183,412</u>	<u>782,179</u>	<u>34,311</u>	<u>(4,187)</u>	<u>566,212</u>	<u>(250,104)</u>	<u>2,252,072</u>

  

For the nine months ended September 30, 2018								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ <u>3,026,679</u>	<u>254,699</u>	<u>615,741</u>	<u>530,880</u>	<u>159,729</u>	<u>2,323,705</u>	<u>(228,727)</u>	<u>6,682,706</u>
Segment profit or loss	\$ <u>1,435,358</u>	<u>137,288</u>	<u>(24,373)</u>	<u>339,337</u>	<u>79,241</u>	<u>858,162</u>	<u>(420,058)</u>	<u>2,404,955</u>

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 regions

Since the revenue from foreign customers were not significant and there was no disclosure.

(f) Information about major customers

There was no disclosure because no single customer accounted for 10% or more of the Group's revenues for the current periods.