

CAPITAL SECURITIES CORPORATION**Financial Statements****With Independent Auditors' Report
For The Years Ended December 31, 2020 and 2019**

Address: 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei,
Taiwan, R.O.C.
Telephone: 886-2-87898888

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

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Report	3
4. Balance Sheets	4
5. Statements of Comprehensive Income	5
6. Statements of Changes in Equity	6
7. Statements of Cash Flows	7
8. Notes to the Financial Statements	
(1) Overview	8
(2) Approval date and procedures of the financial statements	9
(3) New standards, amendments and interpretations adopted	9~10
(4) Summary of significant accounting policies	10~27
(5) Major sources of significant accounting assumptions, judgments and estimation uncertainty	27
(6) Explanation of significant accounts	28~79
(7) Related-party transactions	80~85
(8) Pledged assets	86
(9) Significant contingent liability and unrecognized contract commitment	86~89
(10) Significant catastrophic loss	89
(11) Significant subsequent events	89
(12) Other	89
(13) Other disclosures	
(a) Information on significant transactions	90
(b) Related information of investee companies	90~91
(c) Information on overseas branches and representative offices	92
(d) Information on investments in the Mainland China	92
(e) Major shareholders	92
(f) Disclosures required for securities firm investing in countries or regions without securities authority	93~94
(14) Segment information	94
9. Statement of major accounting items	95~122
10. Independent Auditor's Review Opinion and other disclosure matters	123
(1) Business conditions	124~131
(2) Financial overview	131~138
(3) CPA information	139



安侯建業聯合會計師事務所

KPMG

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

Telephone 電話 + 886 2 8101 6666

Fax 傳真 + 886 2 8101 6667

Internet 網址 kpmg.com/tw

Independent Auditors' Report

To the Board of Directors of Capital Securities Corporation:

Opinion

We have audited the financial statements of Capital Securities Corporation("the Company"), which comprise the statements of financial position as of December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and cash flows for the years ended December 31, 2020 and 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years ended December 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the years ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Company's financial statements are stated as follows:

1. Valuation of financial instruments

Please refer to Note 4(f) for the related accounting policy regarding the valuation of financial instruments, Note 6(b) financial assets, Note 6(k) Financial liabilities at fair value through profit or loss and Note 6(u)(v) fair value and fair value hierarchy of financial instruments for details.

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

2. Goodwill impairment

Please refer to Note 4(p) for the related accounting policy regarding the impairment of non-financial assets, Note 5 for accounting assumptions and estimation uncertainty of the goodwill impairment, Note 6(h)(i). for details about measurement of goodwill impairment.

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

Other Matter

We did not audit the financial statements of Capital Investment Trust Corporation, an associate of Capital Securities Corporation. Those financial statements were audited by another auditor, whose report has been furnished to us, and our conclusion, insofar as it relates to the amounts included for Capital Investment Trust Corporation, is based solely on the report of another auditor. The recognized investment amount of Capital Investment Trust Corporation under equity method constituted 1.11% and 1.36% of total assets as of December 31, 2020 and 2019, respectively, and the recognized share of profits of under using equity method constituted 3.87% and 4.72% of net income before income tax for the years ended December 31, 2020 and 2019, respectively.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
March 25, 2021

Notes to Readers

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

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(English Translation of Financial Statements Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION

Balance Sheets

December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Assets				
Current assets:				
110000				
111100	Cash and cash equivalents (note 6(a))	\$ 1,598,193	1	2,656,201 3
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	34,556,643	29	30,255,818 32
113200	Financial assets at fair value through other comprehensive income - current (note 6(b))	18,397,898	15	15,976,583 17
114030	Receivable for securities provided as collateral	14,520,591	12	11,934,900 13
114040	Refinancing margin	97,714	-	91,153 -
114050	Refinancing collateral receivable	85,261	-	137,339 -
114060	Receivable of securities business money lending	2,310,230	2	1,996,204 2
114090	Collateral for securities borrowed	796,262	1	344,523 -
114100	Security borrowing margin	760,815	1	312,084 -
114110	Notes receivable	22,779	-	22,401 -
114130	Accounts receivable (note 6(c))	10,595,102	9	6,395,116 7
114150	Prepayments	27,347	-	22,060 -
114170	Other receivables	70,610	-	93,395 -
114600	Current income tax assets	22,037	-	26,358 -
119095	Amounts held for each customer in the account (note 6(m))	13,063,932	11	3,025,153 3
119990	Other current assets-others	1,747,335	1	695,209 1
		<u>98,672,749</u>	<u>82</u>	<u>73,984,497 78</u>
Non-current assets:				
120000				
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	180,929	-	180,467 -
123200	Financial assets at fair value through other comprehensive income - non-current (note 6(b))	2,070,040	2	2,174,104 2
124100	Investments accounted for under equity method (note 6(d))	7,805,609	6	6,715,151 7
125000	Property and equipment (notes 6(e) and 8)	2,417,207	2	2,339,571 2
125800	Right-of-use assets (notes 6(f))	784,960	1	852,107 1
126000	Investment property (notes 6(g) and 8)	4,179,792	3	4,346,760 5
127000	Intangible assets (note 6(h))	3,538,857	3	3,527,506 4
128000	Deferred income tax assets (note 6(q))	77,710	-	107,610 -
129000	Other non-current assets	1,209,519	1	1,190,857 1
		<u>22,264,623</u>	<u>18</u>	<u>21,434,133 22</u>
Total assets				
		<u>\$ 120,937,372</u>	<u>100</u>	<u>95,418,630 100</u>

(English Translation of Financial Statements Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION

Balance Sheets

December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Liabilities and Equity				
Current liabilities:				
210000 Short-term borrowings (note 6(i))	\$ 3,561,089	3	6,631,002	7
211200 Commercial paper payable (note 6(j))	2,299,692	2	-	-
212000 Financial liabilities at fair value through profit or loss - current (note 6(k))	3,569,517	3	1,436,258	2
214010 Bonds sold under repurchase agreements (note 6(l))	35,482,996	29	31,893,531	33
214040 Guarantee deposited for short sales	2,631,763	2	2,390,464	3
214050 Proceeds payable from short sales	3,021,249	2	2,755,405	3
214070 Securities lending refundable deposits	1,033,425	1	336,713	-
214090 Equity for each customer in the account (note 6(m))	13,063,932	11	3,025,153	3
214110 Notes payable	152	-	-	-
214130 Accounts payable (note 6(n))	10,388,095	9	6,123,154	6
214150 Advance receipts	31,415	-	58,143	-
214160 Receipts under custody	1,631,028	1	109,866	-
214170 Other payables	929,072	1	512,459	1
214200 Other financial liabilities - current (note 6(v))	4,235,829	4	3,579,951	4
214600 Current income tax liabilities	518,241	-	183,169	-
215100 Provisions - current (note 6(p))	42,695	-	44,610	-
216000 Current lease liabilities (note 6(o))	150,214	-	156,150	-
219000 Other current liabilities	4,381	-	3,047	-
	<u>82,594,785</u>	<u>68</u>	<u>59,239,075</u>	<u>62</u>
Non-Current liabilities:				
220000 Other financial liabilities - non-current (note 6(v))	515,261	-	349,518	-
224200 Non-current lease liabilities (note 6(o))	691,314	1	751,240	1
228000 Deferred income tax liabilities(note 6(q))	412,315	-	455,196	-
229000 Other non-current liabilities(note 6(p))	837,628	1	630,961	1
	<u>2,456,518</u>	<u>2</u>	<u>2,186,915</u>	<u>2</u>
Total liabilities	<u>85,051,303</u>	<u>70</u>	<u>61,425,990</u>	<u>64</u>
Equity:				
301010 Common stock (note 6(r))	21,709,081	18	23,209,081	24
302000 Capital surplus (note 6(r))	2,743,430	2	2,852,299	3
304000 Retained earnings:				
304010 Legal reserve	1,922,939	2	1,658,360	2
304020 Special reserve	4,116,356	3	3,587,197	4
304040 Unappropriated earnings (note 6(s))	3,600,038	3	2,681,569	3
305120 Exchange differences on translation of foreign operations	(293,175)	-	(118,543)	-
305140 Unrealized gains (losses) on financial assets at fair value through other comprehensive income	2,087,400	2	1,696,677	2
305500 Treasury shares (note 6(r))	-	-	(1,574,000)	(2)
	<u>35,886,069</u>	<u>30</u>	<u>33,992,640</u>	<u>36</u>
Total liabilities and equity	<u>\$ 120,937,372</u>	<u>100</u>	<u>95,418,630</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

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

	2020		2019	
	Amount	%	Amount	%
Income:				
401000 Brokerage commissions (note 6(t))	\$ 3,513,703	48	2,205,367	38
402000 Revenues from securities business money lending	118	-	96	-
403000 Revenue from securities lending	197,207	3	195,605	3
404000 Underwriting commissions (note 6(t))	214,290	3	82,881	1
406000 Commissions on wealth management business	75,597	1	104,054	2
410000 Net gains (losses) on sale of trading securities (note 6(t))	1,308,526	18	952,684	16
421100 Securities management, distribution, and management fees	150,311	2	143,721	3
421200 Interest revenue (note 6(t))	1,381,690	19	1,506,978	26
421300 Dividend revenue	179,244	2	235,167	4
421500 Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(t))	210,821	3	949,088	16
421600 Net gains (losses) on covering of borrowed securities and bonds with resale agreements	105,698	1	77,635	1
421610 Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(34,176)	-	(88,422)	(2)
421750 Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	435,082	6	259,754	4
422000 Net gains (losses) from exchange traded notes (note 6(v))	(296)	-	(67)	-
422100 Management and commissions revenue from exchange traded notes (note 6(v))	8	-	6	-
422200 Net gains (losses) on stock warrants issued (note 6(t) and (v))	219,278	3	37,086	1
424100 Futures commission revenues	183,659	2	130,341	2
424400 Net gains (losses) on derivative instruments - futures (note 6(v))	(48,510)	(1)	(645,521)	(11)
424500 Net gains (losses) on derivative instruments - OTC (note 6(v))	(855,917)	(12)	(342,369)	(6)
425300 Impairment losses and reversal gains (note 6(u))	(33,690)	-	(1,817)	-
428000 Other operating revenues	165,091	2	83,695	2
	<u>7,367,734</u>	<u>100</u>	<u>5,885,962</u>	<u>100</u>
Expenses:				
501000 Brokerage fees	266,816	4	161,450	3
502000 Brokerage and clearing fees - proprietary trading	13,327	-	13,674	-
503000 Clearing and exchange fees - refinancing	3,696	-	2,275	-
504000 Clearing and exchange fees - underwriting	2,151	-	1,049	-
507000 Issue and management fees on exchange traded notes (note 6(v))	62	-	145	-
521200 Financial costs	348,446	5	602,497	10
521640 Loss from securities borrowing transactions	1,804	-	-	-
524200 Total securities commission expense (note 6(u))	9,738	-	3,492	-
528000 Other operating expenditure	12,551	-	6,781	-
531000 Employee benefits expenses (note 6(t))	2,288,215	31	1,879,473	32
532000 Depreciation and amortization expense (note 6(t))	359,977	5	353,271	6
533000 Other operating expenses (note 6(t))	1,214,671	16	1,081,663	19
	<u>4,521,454</u>	<u>61</u>	<u>4,105,770</u>	<u>70</u>
Other income (expenses):				
601100 Share of profit of subsidiaries, associates and joint ventures accounted for using equity method (note 6(d))	510,634	7	524,510	9
602000 Other gains and losses (note 6(t))	592,474	8	514,046	9
	<u>1,103,108</u>	<u>15</u>	<u>1,038,556</u>	<u>18</u>
902001 Net income before income tax	3,949,388	54	2,818,748	48
701000 Less: Income tax expenses (note 6(q))	379,859	5	251,925	4
Net income	<u>3,569,529</u>	<u>49</u>	<u>2,566,823</u>	<u>44</u>
805000 Other comprehensive income:				
805500 Components that may not be reclassified to profit or loss in subsequent periods:				
805510 Gains (losses) on remeasurements of defined benefit plans	(216,510)	(3)	54,421	1
805540 Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	152,710	2	632,045	11
805560 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	84,638	1	(83,371)	(2)
805599 Less: Income tax related to components of other comprehensive income	-	-	-	-
Subtotal of components that may not be subsequently reclassified into profit or loss	<u>20,838</u>	<u>-</u>	<u>603,095</u>	<u>10</u>
805600 Components that may be reclassified to profit or loss in subsequent periods:				
805610 Exchange differences on translation of foreign operations	(165,741)	(2)	(74,122)	(1)
805615 Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	249,289	3	430,568	7
805660 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(24,514)	-	(10,609)	-
805699 Less: Income tax related to components of other comprehensive income (note 6(q))	(15,623)	-	(7,256)	-
Subtotal of items that may be subsequently reclassified into profit or loss	<u>74,657</u>	<u>1</u>	<u>353,093</u>	<u>6</u>
805000 Other comprehensive income, net	<u>95,495</u>	<u>1</u>	<u>956,188</u>	<u>16</u>
902006 Total comprehensive income	<u>\$ 3,665,024</u>	<u>50</u>	<u>\$ 3,523,011</u>	<u>60</u>
975000 Basic earnings per share (note 6(s))	<u>\$ 1.64</u>		<u>\$ 1.11</u>	
985000 Diluted earnings per share (note 6(s))	<u>\$ 1.64</u>		<u>\$ 1.11</u>	

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION

Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	Stock		Retained earnings			Total other equity interest		Treasury shares	Total Equity
	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		
Balance at January 1, 2019	\$ 23,209,081	2,852,299	1,519,635	3,302,811	1,387,250	(41,068)	741,984	-	32,971,992
Net income for the year ended December 31, 2019	-	-	-	-	2,566,823	-	-	-	2,566,823
Other comprehensive income	-	-	-	-	54,190	(77,475)	979,473	-	956,188
Total comprehensive income	-	-	-	-	2,621,013	(77,475)	979,473	-	3,523,011
Appropriation and distribution of retained earnings: (note 6(r))									
Legal reserve	-	-	138,725	-	(138,725)	-	-	-	-
Special reserve	-	-	-	284,386	(284,386)	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(928,363)	-	-	-	(928,363)
Purchase of treasury stocks	-	-	-	-	-	-	-	(1,574,000)	(1,574,000)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	24,780	-	(24,780)	-	-
Balance at December 31, 2019	23,209,081	2,852,299	1,658,360	3,587,197	2,681,569	(118,543)	1,696,677	(1,574,000)	33,992,640
Net income for the year ended December 31, 2020	-	-	-	-	3,569,529	-	-	-	3,569,529
Other comprehensive income	-	-	-	-	(216,868)	(174,632)	486,995	-	95,495
Total comprehensive income	-	-	-	-	3,352,661	(174,632)	486,995	-	3,665,024
Appropriation and distribution of retained earnings: (note 6(r))									
Legal reserve	-	-	264,579	-	(264,579)	-	-	-	-
Special reserve	-	-	-	529,159	(529,159)	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(1,736,726)	-	-	-	(1,736,726)
Purchase of treasury shares	-	-	-	-	-	-	-	(30,387)	(30,387)
Retirement of treasury shares	(1,500,000)	(104,387)	-	-	-	-	-	1,604,387	-
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	96,272	-	(96,272)	-	-
Capital surplus changes in ownership interests in subsidiaries	-	(4,482)	-	-	-	-	-	-	(4,482)
Balance at December 31, 2020	\$ 21,709,081	2,743,430	1,922,939	4,116,356	3,600,038	(293,175)	2,087,400	-	35,886,069

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION

Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	2020	2019
Cash flows from operating activities:		
Net income before tax	\$ 3,949,388	2,818,748
Adjustments:		
Income and expenses items:		
Depreciation expense	334,791	327,215
Amortization expense	25,186	26,056
Impairment loss	33,690	1,817
Net gains on financial assets or liabilities at fair value through profit or loss	(176,645)	(860,666)
Financial cost	348,446	602,497
Interest revenue (including financial revenue)	(1,386,687)	(1,509,291)
Dividend revenue	(261,961)	(300,259)
Cash dividend received from investments under equity method	399,047	506,103
Share of profit of associates and joint ventures accounted for using equity method	(510,634)	(524,510)
Gains on disposal and retirement of property and equipment	(11,317)	(13,801)
Net gains on non-operating financial instruments at fair value through profit or loss	(591)	(20,826)
Gains on lease modifications	(24)	(2)
Subtotal of income of non-cash activities	<u>(1,206,699)</u>	<u>(1,765,667)</u>
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	(4,124,051)	895,930
Increase in financial assets at fair value through other comprehensive income	(2,125,746)	(4,583,290)
Increase in receivable for securities provided as collateral	(2,585,691)	(2,178,310)
Increase in refinancing margin	(6,561)	(51,539)
Decrease (increase) in receivable on refinancing collateral	52,078	(102,920)
Increase in receivable of securities business money lending	(314,026)	(47,099)
Decrease (increase) in collateral for securities borrowed	(451,739)	109,677
Decrease (increase) in security borrowing margin	(448,731)	100,064
Increase in notes receivable	(378)	(5,220)
Increase in accounts receivable	(4,294,342)	(2,160,843)
Increase in prepayments	(5,287)	(4,021)
Increase in other receivables	(12,449)	(68,953)
Decrease (increase) in other current assets	(1,047,805)	95,355
Increase in guarantee deposited for business operations	-	(67,900)
Decrease (increase) in settlement fund	(513)	12,122
Increase in other non-current assets	(18,493)	(73,200)
Increase in financial liabilities at fair value through profit or loss	2,133,259	258,943
Increase in bonds sold under repurchase agreements	3,589,465	3,663,007
Increase in guarantee deposited for short sales	241,299	73,720
Increase in proceeds payable from short sales	265,844	152,090
Increase (decrease) in securities lending refundable deposits	696,712	(308,130)
Increase (decrease) in notes payable	152	(481)
Increase in accounts payable	4,293,821	2,521,034
Increase (decrease) in advance receipts	(26,728)	31,757
Increase (decrease) in receipts under custody	1,521,162	(6,052)
Increase (decrease) in other payable	418,053	(112,340)
Increase in other financial liabilities - current	655,878	222,064
Increase (decrease) in provision - current	(1,915)	1,080
Increase (decrease) in other current liabilities	1,334	(117)
Increase in other financial liabilities - non-current	165,743	39,486
Increase (decrease) in other non-current liabilities	(9,843)	33,313
Total changes in assets and liabilities from operating activities	<u>(1,439,498)</u>	<u>(1,560,773)</u>
Total cash generated from operation	<u>(2,646,197)</u>	<u>(3,326,440)</u>

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION**Statements of Cash Flows****For the years ended December 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars)**

	<u>2020</u>	<u>2019</u>
Cash generated from operating activities	\$ 1,303,191	(507,692)
Interest received	1,483,923	1,526,748
Dividends received	262,449	297,895
Interest paid	(378,766)	(585,243)
Income taxes paid	(42,145)	(464,953)
Net Cash flows provided by operating activities	<u>2,628,652</u>	<u>266,755</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(20,000)	(35,000)
Proceeds from disposal of financial assets at fair value through other comprehensive income	21,400	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	207,270	6,800
Increase in deferred debits	(221)	(800)
Acquisition of investments using equity method	(1,013,981)	-
Proceeds from capital reduction of investments accounted for using equity method	12,638	-
Acquisition of property and equipment	(86,099)	(243,565)
Proceeds from disposal of property and equipment	20,287	14,608
Acquisition of intangible assets	(35,972)	(7,166)
Net cash flows used in investing activities	<u>(894,678)</u>	<u>(265,123)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	(3,069,913)	2,757,496
Increase in commercial papers payable	2,299,692	-
Payment of lease liabilities	(167,021)	(117,041)
Cash dividends paid	(1,736,726)	(928,363)
Purchase of treasury shares	(30,387)	(1,574,000)
Net cash flows (used in) provided by financing activities	<u>(2,704,355)</u>	<u>138,092</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(87,627)</u>	<u>(37,845)</u>
Increase (decrease) in cash and cash equivalents	(1,058,008)	101,879
Cash and cash equivalents, beginning of period	2,656,201	2,554,322
Cash and cash equivalents, end of period	<u>\$ 1,598,193</u>	<u>2,656,201</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019
(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 11F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei City, Taiwan, R.O.C. As of December 31, 2020, 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) Securities business money lending;
- (l) Managing the unexpended balance of clients’ securities accounts within their authorization;
- (m) Securities lending business (except book-entry central government securities) ;
- (n) Trust business;
- (o) Offshore securities business;
- (p) Other relevant services as approved by the authority in charge.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

The financial statements were authorized for issue by the board of directors on March 25, 2021.

(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 Company has initially adopted the following new amendments, which do not have a significant impact on its financial statements, from January 1, 2020:

- Amendments to IFRS 3 “Definition of a Business”
- Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”
- Amendments to IAS 1 and IAS 8 “Definition of Material”
- Amendments to IFRS 16 “COVID-19-Related Rent Concessions”

- (b) The impact of IFRS endorsed by the FSC but not yet adopted by the Company

The Company assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its financial statements:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”

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

The following new and amended standards, which may be relevant to the Company, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.	Effective date to be determined by IASB

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	<p>The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.</p> <p>The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.</p>	January 1, 2023

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

The Company does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its financial statements:

- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the financial statements.

(a) Statement of compliance

The financial statements has been prepared in accordance with the “ Regulations Governing the Preparation of Financial Reports by Securities Firms”.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial assets at fair value through profit or loss are measured at fair value (including derivative instruments);
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities (assets) are measured at fair value of plan assets less the present value of the defined benefit obligation.

(ii) Functional and presentation currency

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

(c) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies at exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) An investment in equity securities designated as at fair value through other comprehensive income;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) Qualifying cash flow hedges to the extent that the hedge is effective.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Foreign operations

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

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

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

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) Assets arising from operating activities that are expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) Assets held for the trading purposes;
- (iii) Assets that are expected to be realized within twelve months after the reporting period;
- (iv) Cash and cash equivalent, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) Liabilities arising from operating activities that are expected to be settled in the normal operating cycle;
- (ii) Liabilities incurred for the trading purposes;
- (iii) Liabilities that are to be settled within twelve months after the reporting period;
- (iv) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(e) Cash and cash equivalents

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

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

(f) Financial instruments

Account receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. An account receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular transactions of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

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

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

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

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

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

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

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

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including accounts receivable), debt instrument investments measured at FVOCI and contract assets.

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

- debt securities that are determined to have low credit risk at the reporting date; and

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

Loss allowances for financial assets measured at amortized cost are deducted from the carrying amount of the assets. For debt instrument investments at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

5) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and Equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Derivative financial instruments

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(g) Margin loan, short sale and refinancing

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

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

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

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

(h) Bonds with resell and repurchase agreements

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

(i) Securities borrowing transactions

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(j) Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Company, from the date on which significant influence commences until the date on which significant influence ceases. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in capital surplus in proportion to its ownership.

Gains and losses resulting from transactions between the Company and an associate are recognized only to the extent of unrelated the Company's interests in the associate.

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

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date. The difference between the fair value of retained investment and proceeds from disposal of the part of interest in the investment, and the carrying amount of the investment at that date was recognized in profit or loss. When the Company disposes its investment in an associate, if it loses significant influence over this associate, the amount previously recognized in other comprehensive income in relation to that associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(k) Investments in subsidiaries

When preparing the financial statement of the parent company, the Company uses the Equity Method in evaluating the control of an investee. Under Equity Method, the net income or loss for the period of separate financial statement and the other comprehensive income of separate financial statement are the same as net income or loss for the period attributed to owners of parents of consolidated statement and other comprehensive income attributed to owners of parents of consolidated statement, respectively. The equity of the separate financial statement is the same as the equity attributable to the owners of parents of the consolidated statements.

Any change in ownership interest of the subsidiaries, not resulting in loss of control, is treated as equity transaction between the owners.

(l) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognized in profit or loss.

(ii) Reclassification to investment property

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

(iii) Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(iv) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property and equipment.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Land is not depreciated.

The estimated useful lives of property and equipment are as follows:

- | | |
|---|------------|
| 1) Buildings | 3~55 years |
| 2) Transportation equipment | 5 years |
| 3) Office equipment and computer facilities | 3~5 years |
| 4) Miscellaneous equipment | 5~10 years |
| 5) Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease period. | |

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

(m) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(n) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Amortization

The amortizable amount is the cost of an asset less its residual value, other than goodwill, operation franchise and the seats of foreign futures exchanges with all indefinite useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- 1) Customer relationships: 5 years
- 2) Computer software cost and dial-up service charges: 3 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(o) Leases

(i) Identifying a lease

At inception of a contract, the Company 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 Company 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 Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset throughout the period of use only if either:
 - 1) the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - 2) the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Company 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 Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Lessee

The Company 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 Company's incremental borrowing rate. Generally, the Company 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.

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 Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a 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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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 Company 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 Company has listed right-of-use assets and leasing liabilities that are not categorized as investment properties as individual items in the balance sheet.

The Company 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 Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) Lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

(p) Non-financial assets impairment

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than deferred tax assets and assets arising from employee benefits) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash-generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(q) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(r) Revenue recognition

The recognition of the Company's major revenue:

- (i) Brokerage commissions, gains or loss on securities sold and related handling fees is recognized on the settlement date.
- (ii) Underwriting commissions

Underwriting brokerage revenue is recognized when the underwriting contract is completed; revenue from underwriting securities on a firm commitment basis is recognized when the payment received after underwriting securities, and revenue from underwriting consultation is recognized according to the period specified in the underwriting consultation contract.
- (iii) Interest revenue and expense arising from margin loan, short sale and bonds with repurchase agreements is recognized on an accrual basis during trading.
- (iv) Futures commission revenue arising from accessory services of futures trading, collecting commission from appointed futures dealer, the revenue is recognized on an accrual basis in accordance with related agreement.
- (v) Gains or losses from sale of equity investments at fair value is recognized on the trade date.
- (vi) Dividend revenue is recognized as the right of receiving payment confirmed.
- (vii) Gains on futures and options transactions: Futures margins is recognized at cost and measured at fair value each day. The income arising from futures margins daily evaluation, reverse trading and execution of the futures and options is recognized as net gains or losses.

(s) Provisions

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

(t) Income tax

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year measured using tax rates enacted or substantively enacted and any adjustment to the tax payable or receivable in respect of previous years.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) The Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) The same taxable entity; or
 - 2) Different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

- (u) Business combinations

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(v) Earnings per share (EPS)

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

(w) Segment information

The Company has disclosed the segment information on the consolidated financial report, thus, the Company does not disclose it on this financial report.

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

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

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

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

(a) The fair value of financial instrument:

The fair value of non-active market or non-quoted financial instruments is determined by evaluation method. In this case, fair value is assessed from observable data or patterns of similar financial instruments. If there are no market observables, the fair value of financial instruments is assessed using appropriate assumptions. When using the evaluation model to determine fair value, all models must be calibrated to ensure that the output reflects actual data and market prices. The model uses only observable data as much as possible; however, for the part of credit risk (risk of itself and the counterparty), the Company must estimate the fluctuation and correlation for the fair value of financial assets. For sensitivity analysis of financial instruments, please refer to note 6(v).

(b) The impairment evaluation of goodwill:

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2020	December 31, 2019
Cash	\$ <u>2,590</u>	<u>2,590</u>
Bank deposits		
Checking accounts	34,481	25,545
Demand deposits	66,682	197,121
Foreign currency deposits	<u>109,556</u>	<u>111,874</u>
Subtotal	<u>210,719</u>	<u>334,540</u>
Cash equivalents		
Time deposits	773,975	1,729,750
Futures margin - excess margin	<u>610,909</u>	<u>589,321</u>
Subtotal	<u>1,384,884</u>	<u>2,319,071</u>
Total	<u>\$ 1,598,193</u>	<u>2,656,201</u>

(b) Financial assets

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

	December 31, 2020	December 31, 2019
Open-ended funds and money-market instruments		
Open-ended funds and money-market instruments	\$ 157,049	138,052
Valuation adjustment	<u>14,452</u>	<u>13,861</u>
Subtotal	<u>171,501</u>	<u>151,913</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Trading securities - proprietary trading		
Listed stocks	\$ 854,887	1,756,341
Listed funds	666,617	791,648
OTC stocks	219,099	337,626
OTC funds	149,083	200,580
Emerging market stocks	617,219	532,189
Convertible corporate bonds	921,050	889,088
Government bonds	3,328,813	3,317,485
Corporate bonds	8,266,818	7,641,557
International bonds	5,149,292	4,536,910
Financial debentures	957,778	200,000
Foreign stocks	40,611	474,829
Other	<u>7,500</u>	<u>300</u>
	21,178,767	20,678,553
Valuation adjustment	<u>201,296</u>	<u>158,200</u>
Subtotal	<u>21,380,063</u>	<u>20,836,753</u>
Trading securities - underwriting:		
Listed stocks	203,906	37,424
OTC stocks	700	38,716
Convertible corporate bonds	<u>39,845</u>	<u>85,097</u>
	244,451	161,237
Valuation adjustment	<u>4,393</u>	<u>26,053</u>
Subtotal	<u>248,844</u>	<u>187,290</u>
Trading securities - hedging		
Listed stocks	2,371,659	2,816,447
OTC stocks	751,136	773,913
Convertible corporate bonds	6,864,305	4,948,227
Other	<u>1,826,385</u>	<u>-</u>
	11,813,485	8,538,587
Valuation adjustment	<u>468,042</u>	<u>279,305</u>
Subtotal	<u>12,281,527</u>	<u>8,817,892</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Derivatives		
Buy options	\$ 51	-
Futures margin - proprietary fund	296,313	182,308
IRS asset swaps	13,100	16,053
Asset swap options - long position	157,459	37,684
Structured notes	<u>7,785</u>	<u>25,925</u>
Subtotal	<u>474,708</u>	<u>261,970</u>
Total	<u>\$ 34,556,643</u>	<u>30,255,818</u>

As of December 31, 2020 and 2019, trading securities and financial assets at fair value through other comprehensive income undertaken for repurchase agreements of the Company, please refer to note 8 for details.

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Debt instruments at fair value through other comprehensive income		
Government bonds	\$ 2,220,744	2,225,249
International bonds	797,101	1,198,147
Overseas bonds	<u>14,607,024</u>	<u>12,054,824</u>
	17,624,869	15,478,220
Valuation adjustment	<u>593,315</u>	<u>366,972</u>
Subtotal	<u>18,218,184</u>	<u>15,845,192</u>
Equity instrument at fair value through other comprehensive income		
Listed stocks	156,852	118,428
OTC stocks	<u>30,226</u>	<u>10,756</u>
	187,078	129,184
Valuation adjustment	<u>(7,364)</u>	<u>2,207</u>
Subtotal	<u>179,714</u>	<u>131,391</u>
Total	<u>\$ 18,397,898</u>	<u>15,976,583</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

The Company 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.

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

For the years ended December 31, 2020 and 2019, the dividends were recognized from the Company designated and disposed the aforementioned equity instrument investments measured at fair value through other comprehensive income – current amounted to \$16,480 and \$11,651, respectively.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Company sold shares of stocks for a fair value \$380,907 and \$691,488, respectively, cumulative dispose gains for the years ended December 31, 2020 and 2019, amounted to \$57,675 and \$22,648, respectively, 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(u).
- 4) For the years ended December 31, 2020 and 2019, impairment test have been applied by the Company, the variation of loss allowance in the debt instrument measured at fair value through other comprehensive income of the Company please refer to note 6(u).

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Mandatorily measured at fair value through profit or loss:		
Government bonds	\$ 180,329	180,329
Valuation adjustment	<u>600</u>	<u>138</u>
Total	<u>\$ 180,929</u>	<u>180,467</u>

As of December 31, 2020 and 2019, the Company took advantage of government bonds as margins of bills, interest rate swaps, structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (for details please refer to note 8).

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Equity instruments at fair value through other comprehensive income		
Non-listed or non-over-the-counter stocks	\$ 496,464	683,734
Valuation adjustment	<u>1,573,576</u>	<u>1,490,370</u>
Total	<u>\$ 2,070,040</u>	<u>2,174,104</u>

For the year ended December 31, 2020 and 2019, the dividends were recognized from the Company designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to \$82,717 and \$65,092, respectively.

For the year ended December 31, 2020 and 2019, the Company did not sell equities recognized in FVOCI -non-current. Furthermore, the Company acquired proceeds from capital reduction amounted to \$207,270, and the distribution of residual property from liquidation amounted to \$21,400 for the year ended December 31, 2020.

- (v) The Company 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 years ended December 31, 2020 and 2019 VaR (99%, per 10-day) of equity stocks are as follows:

<u>Type of market risk</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>For the years ended December 31,</u>					
			<u>2020</u>			<u>2019</u>		
			<u>Mean</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>	<u>Minimum</u>
Equity stocks	1,351,429	1,364,147	1,237,326	1,378,457	1,066,520	1,122,594	1,364,147	932,006

- (c) Accounts Receivable

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Receivable on securities purchased by customers	\$ 40,983	21,368
Settlement	1,426,058	-
Interests receivable	434,085	527,952
Receivables on securities sold	8,609,466	5,760,596
Others	<u>84,751</u>	<u>86,906</u>
Subtotal	10,595,343	6,396,822
Less: allowance for doubtful accounts	<u>(241)</u>	<u>(1,706)</u>
Total	<u>\$ 10,595,102</u>	<u>6,395,116</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(u).
- (ii) For the years ended December 31, 2020 and 2019, impairment test have been applied by the Company, the variation of loss allowance in receivables, please refer to note 6(u).
- (d) Investments under equity method

As of December 31, 2020 and 2019, investments under equity method consisted as follow:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Subsidiaries		
Capital Investment Management Corp.	\$ 75,880	92,445
CSC International Holdings Ltd	1,528,445	1,605,349
Capital Futures Corp.	3,598,396	2,817,870
Capital Insurance Advisory Corp.	51,986	78,906
Capital Insurance Agency Corp.	39,190	43,447
CSC Venture Capital Corp.	841,121	763,112
Taiwan International Securities (B.V.I) Corp.	20	18
Taiwan International Securities Investment Consulting Corp.	-	12,644
CSC Capital Management Co.	<u>329,742</u>	<u>-</u>
Subtotal	<u>6,464,780</u>	<u>5,413,791</u>
Associates		
Capital Investment Trust Corp.	<u>1,340,829</u>	<u>1,301,360</u>
Total	<u>\$ 7,805,609</u>	<u>6,715,151</u>

- (i) Subsidiaries:

Please refer to the consolidated financial statements as of and for the years ended December 31, 2020 for further information.

For the years ended December 31, 2020 and 2019, the Group's share of gains or losses of the subsidiaries were as follows:

	<u>For the years ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Based on the audited financial statements	<u>\$ 357,922</u>	<u>391,441</u>

- (ii) Associates

<u>Name of associate</u>	<u>Nature between the Company</u>	<u>Primary business area and registered country</u>	<u>Proportion of Ownership and Voting Rights</u>	
			<u>December 31, 2020</u>	<u>December 31, 2019</u>
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	20.00 %

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The Company holds 20% of the voting shares of Capital Investment Trust Corp., which is the single largest shareholder. Although the remaining 80% of the shares are not concentrated in specific shareholders, the Company still cannot obtain more than half of the board seats, and it has not obtained more than half of the voting rights of the shareholders present at the shareholders meeting, so the Company was judged to have significant influence on it.

Summarized financial information of associates accounted for under equity method to the Company was as follows:

	December 31, 2020	December 31, 2019
Total carrying amount of the associates	\$ 1,340,829	1,301,360
	For the years ended December 31,	2020
Based on the financial statements attributable to the Company:		
Net gains from continuing operations	\$ 152,712	133,069
Other comprehensive income (losses)	2,494	6,164
Total comprehensive income (losses)	\$ 155,206	139,233

(iii) Collateral

As of December 31, 2020 and 2019, none of the investment accounted for under equity method of the Company were pledged for collateral.

(e) Property and equipment

Movements in property and equipment of the Company are as follows:

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at January 1, 2020	\$ 1,500,863	872,582	468,025	225,960	3,067,430
Additions	-	-	67,373	18,726	86,099
Transferred from investment property	453,207	296,634	-	-	749,841
Reclassified to investment property	(358,819)	(166,557)	-	-	(525,376)
Disposals and retirements	-	(255)	(137,431)	(18,826)	(156,512)
Balance at December 31, 2020	\$ 1,595,251	1,002,404	397,967	225,860	3,221,482
Balance at January 1, 2019	\$ 3,464,223	1,461,191	402,490	125,891	5,453,795
Additions	-	-	134,296	109,269	243,565
Transferred from investment property	126,013	32,417	-	-	158,430
Reclassified to investment property	(2,089,373)	(621,026)	-	-	(2,710,399)
Disposals and retirements	-	-	(68,761)	(9,200)	(77,961)
Balance at December 31, 2019	\$ 1,500,863	872,582	468,025	225,960	3,067,430
Depreciation and impairment loss					
Balance at January 1, 2020	\$ -	377,939	256,312	93,608	727,859
Depreciation	-	19,551	74,401	45,439	139,391
Transferred from investment property	-	129,155	-	-	129,155
Reclassified to investment property	-	(35,618)	-	-	(35,618)
Disposals and retirements	-	(255)	(137,431)	(18,826)	(156,512)
Balance at December 31, 2020	\$ -	490,772	193,282	120,221	804,275

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Balance at January 1, 2019	\$ -	557,098	255,431	64,052	876,581
Depreciation	-	21,590	69,642	38,414	129,646
Transferred from investment property	-	13,099	-	-	13,099
Reclassified to investment property	-	(213,848)	-	-	(213,848)
Disposals and retirements	-	-	(68,761)	(8,858)	(77,619)
Balance at December 31, 2019	<u>\$ -</u>	<u>377,939</u>	<u>256,312</u>	<u>93,608</u>	<u>727,859</u>
Carrying amount:					
December 31, 2020	<u>\$ 1,595,251</u>	<u>511,632</u>	<u>204,685</u>	<u>105,639</u>	<u>2,417,207</u>
December 31, 2019	<u>\$ 1,500,863</u>	<u>494,643</u>	<u>211,713</u>	<u>132,352</u>	<u>2,339,571</u>

As of December 31, 2020 and 2019, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

(f) Right-of-use assets

The Company leases many assets including buildings and equipment. Information about leases for which the Company as a lessee is presented below:

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2020	\$ 993,910	14,711	1,008,621
Additions	101,925	2,329	104,254
Reductions	(50,667)	(3,714)	(54,381)
Balance at December 31, 2020	<u>\$ 1,045,168</u>	<u>13,326</u>	<u>1,058,494</u>
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	934,538	4,680	939,218
Additions	75,643	10,031	85,674
Reductions	(16,271)	-	(16,271)
Balance at December 31, 2019	<u>\$ 993,910</u>	<u>14,711</u>	<u>1,008,621</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2020	\$ 151,405	5,109	156,514
Depreciation	162,751	5,579	168,330
Reductions	(47,744)	3,566	(51,310)
Balance at December 31, 2020	<u>\$ 266,412</u>	<u>7,122</u>	<u>273,534</u>
Balance at January 1, 2019	\$ -	-	-
Depreciation	167,262	5,109	172,371
Reductions	(15,857)	-	(15,857)
Balance at December 31, 2019	<u>\$ 151,405</u>	<u>5,109</u>	<u>156,514</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Carrying amount:			
December 31, 2020	\$ <u>778,756</u>	<u>6,204</u>	<u>784,960</u>
December 31, 2019	\$ <u>842,505</u>	<u>9,602</u>	<u>852,107</u>

(g) Investment property

Movements in investment property of the Company are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Cost or deemed cost</u>			
Balance at January 1, 2020	\$ 3,463,814	1,443,515	4,907,329
Transferred from property and equipment	358,819	166,557	525,376
Reclassified to property and equipment	(453,207)	(296,634)	(749,841)
Disposals and retirements	<u>(8,970)</u>	<u>(263)</u>	<u>(9,233)</u>
Balance at December 31, 2020	<u>\$ 3,360,456</u>	<u>1,313,175</u>	<u>4,673,631</u>
Balance at January 1, 2019	\$ 1,500,919	854,906	2,355,825
Transferred from property and equipment	2,089,373	621,026	2,710,399
Reclassified to property and equipment	(126,013)	(32,417)	(158,430)
Disposals and retirements	<u>(465)</u>	<u>-</u>	<u>(465)</u>
Balance at December 31, 2019	<u>\$ 3,463,814</u>	<u>1,443,515</u>	<u>4,907,329</u>
<u>Depreciation and impairment loss</u>			
Balance at January 1, 2020	\$ -	560,569	560,569
Depreciation	-	27,070	27,070
Transferred from property and equipment	-	35,618	35,618
Reclassified to property and equipment	-	(129,155)	(129,155)
Disposals and retirements	<u>-</u>	<u>(263)</u>	<u>(263)</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>493,839</u>	<u>493,839</u>
Balance at January 1, 2019	\$ -	334,622	334,622
Depreciation	-	25,198	25,198
Transferred from property and equipment	-	213,848	213,848
Reclassified to property and equipment	<u>-</u>	<u>(13,099)</u>	<u>(13,099)</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>560,569</u>	<u>560,569</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
December 31, 2020	\$ <u>3,360,456</u>	<u>819,336</u>	<u>4,179,792</u>
December 31, 2019	\$ <u>3,463,814</u>	<u>882,946</u>	<u>4,346,760</u>
<u>Fair Value:</u>			
December 31, 2020			<u>8,022,826</u>
December 31, 2019			<u>8,269,352</u>

The Company 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.

As of December 31, 2020 and 2019, the investment properties which are provided as collateral or pledge, please refer to note 8 for details.

Investment property include several commercial buildings for lease. Each lease contract contains original non-cancellable lease period of 1 to 12 years, which the subsequent lease period is consulted with lessee, and no contingent rent payment. Related information (including rental revenue and direct operation expense), please refer to note 6(t).

Lessor

The Company leases investment property to other under operating lease agreements. The future lease receivables under non-cancellable leases are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Within 1 year	\$ 160,153	168,174
1-5 years	480,086	467,096
Over 5 years	<u>301,791</u>	<u>402,354</u>
	<u>\$ 942,030</u>	<u>1,037,624</u>

The rental revenue from investment property for the years ended December 31, 2020 and 2019 amounted to \$177,569 and \$139,173, respectively.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(h) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of December 31, 2020 and 2019, the book value was both \$3,126,698.

Goodwill is allocated to the operating segments as follows:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	<u>1,557,096</u>	<u>1,557,096</u>
Total	<u>\$ 3,126,698</u>	<u>3,126,698</u>

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

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 2.77% and 5.24% in year 2020 and 2019 respectively. But the cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of both year 2020 and 2019 exceeded the carrying amount, no impairment occurred for both years.

(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 December 31, 2020 and 2019, the book value of the operation franchise was all \$389,999.

(iii) 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 December 31, 2020 and 2019, the amortized book value were \$22,160 and \$10,809, respectively.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(i) Short-term borrowings

<u>Nature of borrowings</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Collateralized loan	\$ 1,449,632	709,780
Credit loan	<u>2,111,457</u>	<u>5,921,222</u>
Total	<u>\$ 3,561,089</u>	<u>6,631,002</u>
Interest rate range	<u>0.44%~0.95%</u>	<u>0.95%~3.37%</u>

As of December 31, 2020 and 2019, the Company had provided the land, buildings, and certificates of time deposits as collateral, for details please refer to note 8.

(j) Commercial paper payable

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Commercial paper payable	\$ 2,300,000	-
Less: Unamortized discount	<u>(308)</u>	<u>-</u>
Net amount	<u>\$ 2,299,692</u>	<u>-</u>
Interest rate range	<u>0.358%~0.418%</u>	<u>-</u>

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Liabilities on sale of borrowed securities	\$ 947,588	384,561
Valuation adjustment	<u>(17,227)</u>	<u>(51,404)</u>
Subtotal	<u>930,361</u>	<u>333,157</u>
Exchange Traded Notes	868	699
Valuation adjustment	<u>260</u>	<u>30</u>
Subtotal	<u>1,128</u>	<u>729</u>
Stock warrants issued	9,668,055	14,997,622
Stock warrants repurchased	<u>(8,941,544)</u>	<u>(14,444,316)</u>
Subtotal	<u>726,511</u>	<u>553,306</u>
Put options	-	5
IRS asset swaps	10,968	2,436
Asset swap options - short position	1,267,802	529,328
Structured notes	619,483	11,583
Currency swaps	12,759	4,745
Interest rate swaps	<u>505</u>	<u>969</u>
Subtotal	<u>1,911,517</u>	<u>549,066</u>
Total	<u>\$ 3,569,517</u>	<u>1,436,258</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(l) Bonds sold under repurchase agreements

	December 31, 2020	December 31, 2019
Bonds sold under repurchase agreements	\$ 35,482,996	31,893,531
Agreed-upon repurchase amounts	35,533,047	32,068,191
Interest rates	0.10%~2.60%	0.20%~3.20%
Date of repurchase	2021.1.4~2021.12.16	2020.1.2~2020.12.30

(m) Equity for each customer in the account

According to article 38, subparagraph 2 of the “Regulations Governing Securities Firms”, a securities firm may, with the consent of the customer, retain the customer’s settlement funds in the securities firm’s settlement account. The securities firm shall set up a separate account ledger for each customer in the settlement account.

	December 31, 2020	December 31, 2019
Equity for each customer in the account	\$ 13,063,932	3,025,153

(n) Accounts payable

	December 31, 2020	December 31, 2019
Payable of securities sold by customers	\$ 65,929	11,136
Settlement	-	248,937
Payable of settlements	10,241,587	5,066,861
Others	80,579	796,220
Total	\$ 10,388,095	6,123,154

(o) Lease liabilities

The Company’s lease liabilities are as follow:

	December 31, 2020	December 31, 2019
Current	\$ 150,214	156,150
Non-current	\$ 691,314	751,240

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The amounts recognized in profit or loss were as follows:

	For the years ended December 31,	
	2020	2019
Interest on lease liabilities	<u>\$ 11,398</u>	<u>12,596</u>
Expenses relating to short-term leases	<u>\$ 3,430</u>	<u>4,288</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 18,184</u>	<u>23,462</u>

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

	For the years ended December 31,	
	2020	2019
Total cash outflow for leases	<u>\$ 200,033</u>	<u>157,387</u>

(p) Employee benefit

(i) Defined benefit plans

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

	December 31, 2020	December 31, 2019
Present value of defined benefit obligations	\$ (1,022,188)	(852,588)
Fair value of plan assets	<u>286,220</u>	<u>325,737</u>
Recognized liabilities for defined benefit obligations	<u>\$ (735,968)</u>	<u>(526,851)</u>

The Company's employee benefits liabilities are as follows:

	December 31, 2020	December 31, 2019
Compensated absences	<u>\$ 42,695</u>	<u>44,610</u>

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

1) Composition of plan assets

The Company set aside the pension funds in accordance with Labor Standards Act, are put under the management of the Bureau of labor funds, ministry of labor. In regards to the utilization of the fund under the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", the minimum earnings for the annual distribution shall not be less than the accrued earnings attainable from the interest rates of two year time deposit offered by the local banks.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to \$284,438 and \$276,889 as of December 31, 2020 and 2019, respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund, please refers to the information published on the website under Bureau of Labor Funds, Ministry of Labor.

The balance of pension fund under employee retirement fund management committee was \$1,782 and \$48,848 as of December 31, 2020 and 2019, respectively.

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company in 2020 and 2019 were as follows:

	For the years ended December 31,	
	2020	2019
Defined benefit obligation on January 1	\$ 852,588	946,285
Current service costs and interest	9,583	14,311
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in financial assumptions	29,578	13,358
-Experience adjustments	196,009	(59,125)
Benefits paid by the plan	(65,570)	(62,241)
Defined benefit obligation on December 31	\$ 1,022,188	852,588

3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Company in 2020 and 2019 were as follows:

	For the years ended December 31,	
	2020	2019
Fair value of plan assets on January 1	\$ 325,737	364,814
Interest revenue	2,178	3,390
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	9,077	8,654
Contributions from the employer	14,798	11,120
Benefits paid from plan assets	(65,570)	(62,241)
Fair value of plan assets on December 31	\$ 286,220	325,737

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

4) Expense recognized in profit or loss

The expenses recognized by the Company in 2020 and 2019 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Current service cost	\$ 3,914	5,575
Net interest of net defined benefit liabilities (assets)	3,491	5,346
Current pension cost	<u>\$ 7,405</u>	<u>10,921</u>

5) Re-measurement of net defined benefit plan recognized in other comprehensive income

For the years ended December 31, 2020 and 2019, the re-measurement of net defined benefit plan recognized accumulatively in other comprehensive income was as follows:

	<u>For the years ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ (102,638)	(157,059)
Recognized amount during the period	(216,510)	54,421
Balance at December 31	<u>\$ (319,148)</u>	<u>(102,638)</u>

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Discount rate	0.42%	0.67%
Future salary growth rate	2.50%	2.00%

The expected contribution to the defined benefit plan for the next year is \$11,838. The weighted average duration of the defined benefit obligation is 1 year.

7) Sensitivity Analysis

When calculating the present value of the defined benefit obligations, the Company uses judgments and estimations to determine the actuarial assumptions, including discount rate and future salary increases. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

As of December 31, 2020 and 2019, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	<u>Effects to Defined Benefit Obligations</u>	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2020		
Discount rate	(25,592)	22,317
Future salary growth rate	20,925	(20,354)

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	Effects to Defined Benefit Obligations	
	Increase 0.5%	Decrease 0.5%
December 31, 2019		
Discount rate	(21,732)	22,652
Future salary growth rate	18,013	(17,505)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The method that the sensitivity analysis adopted is in accordance with the method of calculating net pension liability.

The assumptions and methods adopted for current period sensitivity analysis are identical with the previous period.

(ii) Defined contribution plan

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

The Company contributed \$73,516 and \$66,717 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2020 and 2019, respectively.

(q) Income tax

(i) Income tax expense (benefit)

The amount of income tax expense (benefit) were as follows:

	For the years ended December 31,	
	2020	2019
Current tax expense		
Current year	\$ 388,290	176,414
Adjustment to the prior years' income tax	(11,073)	65,131
	<u>377,217</u>	<u>241,545</u>
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	13,804	(63,038)
Unrealized gains (losses) on foreign investments under Equity Method	242	879
Amortization of operation franchise	(42,881)	-
Decrease in tax loss carried forward	-	108,204
Adjustments of temporary differences for prior years	31,477	(35,665)
	<u>2,642</u>	<u>10,380</u>
Income tax expense from continuing operations	<u>\$ 379,859</u>	<u>251,925</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The amount of income tax expense (benefit) recognized in other comprehensive income were as follows:

	For the years ended December 31,	
	2020	2019
Foreign exchange difference from translating financial statements of foreign operations	\$ (15,623)	(7,256)

Reconciliation of income tax expense (benefit) and income before tax were as follows:

	For the years ended December 31,	
	2020	2019
Net income before tax	\$ 3,949,388	2,818,748
Income tax using the Company's domestic tax rate	789,878	563,750
Tax exempt income	(425,141)	(345,249)
Alternative minimum tax	31,833	3,585
Additional surtax on undistributed retained earnings	5,766	378
Amortization of operation franchise	(42,881)	-
Income tax difference of bonds purchased under resale agreements and income tax separately levied	-	(5)
Adjustments to prior years' income tax	(11,073)	65,131
Adjustments of temporary differences for prior years	31,477	(35,665)
Total	\$ 379,859	251,925

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	December 31, 2020	December 31, 2019
Tax loss carried forward	\$ -	31,476
Unrealized losses on foreign investments under Equity Method	5,421	5,663
Foreign exchange difference from translating financial statements of foreign operations	18,012	2,390
Unrecognized loss in derivative financial instruments	54,277	68,081
Total	\$ 77,710	107,610

2) Recognized deferred income tax liabilities

	December 31, 2020	December 31, 2019
Losses on intercompany transactions	\$ 1,928	1,928
Amortization of operation franchise	-	42,881
Amortization of goodwill	362,697	362,697
Land value incremental tax	47,690	47,690
Total	\$ 412,315	455,196

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Income tax assessment status

The Company's income tax returns through 2018 were assessed by the Tax Authority.

(iv) Income tax administrative relief

Since the tax loss carried forward from year 2015 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.

(r) Capital and other equity

(i) Capital stock

As of December 31, 2020 and 2019, the Company had authorized capital of \$30,000,000 and issued common stock of 2,170,908 thousand shares, and 2,320,908 thousand shares, respectively, with a par value of \$10 per share.

(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:

	December 31, 2020	December 31, 2019
Premium from stock issuance	\$ 1,661,604	1,776,413
Treasury stock transactions	486,556	437,096
Paid-in capital from merger	563,715	602,665
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,251	1,338
Changes in ownership interests in subsidiaries	<u>30,304</u>	<u>34,787</u>
	<u>\$ 2,743,430</u>	<u>2,852,299</u>

(iii) Retained earnings

1) Legal reserve

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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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.

Originally 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; However, 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. From year 2019, the special reserve can be reversed within an amount equal to special reserve for prior year 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 2019 and 2018 earnings distribution resolved by the shareholders’ meeting on June 22, 2020 and June 24, 2019, respectively, were as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Dividends per share</u>	<u>Amount</u>	<u>Dividends per share</u>
Cash dividends	<u>\$ 1,736,726</u>	0.8	<u>928,363</u>	0.4

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

On March 25, 2021, the Company's Board of Directors resolved to appropriate the 2020 earnings. These earnings were appropriated as follows:

	2020	
	Amount	Dividends per share
Cash dividends	\$ 2,387,999	1.1

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

(iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased 150,000 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity from November, 2019 to January 31, 2020, and retired all shares on February, 2020.

Based on the "Securities and Exchange Act" of the ROC, the number of reacquired shares should not exceed 10% of a company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par and realized capital surplus. Under the "Securities and Exchange Act", the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

On November 11, 2019, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2019. The cap of the repurchase was 232,090 thousand shares which were amounted to \$9,861,897. The Company repurchased 150,000 thousand shares in total and all the repurchased shares were retired and the registration of capital reduction was completed on February 21, 2020.

(s) Earnings per share

The basic earnings per share and dilutive earnings per share were calculated as follows:

	For the years ended December 31,	
	2020	2019
Net income attributable to common shareholders of the Company	\$ 3,569,529	2,566,823
Weighted-average number of common stock shares outstanding (thousands of shares)	2,170,916	2,314,284
Basic earnings per share (dollar)	\$ 1.64	1.11
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	3,363	2,912
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	2,174,279	2,317,196
Dilutive earnings per share (dollar)	\$ 1.64	1.11

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(t) Items of the statements of comprehensive income

(i) Brokerage commissions

	For the years ended December 31,	
	2020	2019
Brokerage commission from TSE market	\$ 2,523,123	1,539,188
Brokerage commission from OTC market	847,544	567,295
Handling fee from security financing	34,006	23,878
Others	<u>109,030</u>	<u>75,006</u>
	<u>\$ 3,513,703</u>	<u>2,205,367</u>

(ii) Underwriting commissions

	For the years ended December 31,	
	2020	2019
Revenue from underwriting securities on a firm commitment basis	\$ 86,283	52,495
Handling fee revenues from underwriting securities on best efforts basis	531	4,942
Processing fee revenues from underwriting operations	117,575	18,444
Revenue from underwriting consultation	8,290	5,260
Others	<u>1,611</u>	<u>1,740</u>
	<u>\$ 214,290</u>	<u>82,881</u>

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

	For the years ended December 31,	
	2020	2019
Gains (losses) on securities sold - proprietary trading	\$ 571,868	387,111
Gains (losses) on securities sold - underwriting	78,546	60,428
Gains (losses) on securities sold - hedging	<u>658,112</u>	<u>505,145</u>
	<u>\$ 1,308,526</u>	<u>952,684</u>

(iv) Interest revenue

	For the years ended December 31,	
	2020	2019
Interest revenue - margin loans	\$ 613,935	592,790
Interest revenue - bonds	646,278	836,503
Others	<u>121,477</u>	<u>77,685</u>
	<u>\$ 1,381,690</u>	<u>1,506,978</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

	For the years ended December 31,	
	2020	2019
Trading securities - proprietary	\$ 43,744	403,909
Trading securities - underwriting	(21,660)	34,364
Trading securities - hedging	188,737	510,815
	\$ 210,821	949,088

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

	For the years ended December 31,	
	2020	2019
Gains on changes in fair value of stock warrants	\$ 10,507,461	21,714,001
Gains on exercise of stock warrants before maturity	42,355,800	21,160,960
Losses on changes in fair value of stock warrants repurchased	(52,489,556)	(42,699,393)
Gains on expiration of stock warrants	43,514	15,602
Stock warrants issuance expenses	(197,941)	(154,084)
	\$ 219,278	37,086

- (vii) Employee benefits, depreciation, and amortization expenses

	For the years ended December 31,	
	2020	2019
Employee benefit expenses		
Salary expense	\$ 2,019,464	1,628,480
Health and labor insurance expense	137,941	129,502
Pension expense	80,921	77,638
Others	49,889	43,853
Depreciation expense	334,791	327,215
Amortization expense	25,186	26,056
	\$ 2,648,192	2,232,744

- (viii) Other operating expenses

	For the years ended December 31,	
	2020	2019
Rental expense	\$ 21,614	27,750
Taxes	349,310	292,479
Information technology expense	113,816	106,205
Postage expense	149,431	121,481
Professional service fee	72,749	85,214
Other expenses	507,751	448,534
	\$ 1,214,671	1,081,663

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ix) Other gains and losses

	For the years ended December 31,	
	2020	2019
Financial revenue	\$ 4,997	2,313
Net gains (losses) on disposal of investment	41,033	477
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	591	20,826
Revenue from bank's allocation fee	173,191	139,968
Revenue from information technology service	50,943	46,667
Net gains (losses) on disposal of property and equipment	11,317	13,801
Dividend revenue	82,717	65,092
Gains on reversal of prior year's liabilities	21,856	52,211
Rental income	177,569	139,173
Others	28,260	33,518
	\$ 592,474	514,046

(x) 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.

For the years ended December 31, 2020 and 2019, the estimated amounts of remuneration to employees were \$45,574 and \$32,756, and to directors were \$76,446 and \$54,594, 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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

For the years ended December 31, 2019 and 2018, the estimated amounts of remuneration to employees were \$32,756 and \$20,971, and to directors were \$54,594 and \$34,951 by the Company. The difference between actual employee remuneration of \$27,027 and \$14,587 and actual remuneration to directors of \$45,335 and \$24,248 were \$14,988 and \$17,087 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2020 and 2019. The information about the appropriations is available at the website of the Market Observation Post System.

(u) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2020 and 2019, the maximum credit exposure amounted to \$80,732,835, and \$58,834,957, respectively.

The regional distribution of financial assets' credit risk exposure amount which owned by the Company is as the list below. The region of exposure is mostly in Taiwan (74.16%); secondly, is in Asia (10.33%, exclusion of Taiwan); then, is in America (9.86%). Compare to the same period of last year, there is no significant change in proportion of region of investments.

<u>Region</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Taiwan	\$ 59,869,221	40,940,023
Asia (Taiwan is excluded)	8,340,313	6,645,342
America	7,963,866	7,442,466
Europe	3,671,081	3,807,126
Other	888,354	-
Total	<u>\$ 80,732,835</u>	<u>58,834,957</u>

2) Impairment loss

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

	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Total amount</u>	<u>Allowance</u>	<u>Total amount</u>	<u>Allowance</u>
Not past due	\$27,525,783	29,250	20,427,312	836
Past due 0~30 days	182	182	275	275
Past due 31~120 days	399	399	127	127
Past due 121~360 days	297	297	8	8
Past due more than 360 days	<u>212,496</u>	<u>212,496</u>	<u>216,334</u>	<u>216,334</u>
	<u>\$27,739,157</u>	<u>242,624</u>	<u>20,644,056</u>	<u>217,580</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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 December 31, 2020 and 2019, the impairment losses of accrued receivables were recognized \$242,624 and \$217,580, respectively.

3) Credit risk of accrued receivables and debt securities

Debt securities held by the Company 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(f).

The Company 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 Company. Thus, the Company will recognize the impairment losses.

The loss allowance provision for the years ended December 31, 2020 and 2019 was as follows:

	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		Total
	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	
Balance on January 1, 2020	\$ -	7,567	-	-	217,580	-	225,147
Provision or reversal of Impairment loss	-	1,824	-	-	31,866	-	33,690
Amounts written off	-	-	-	-	(6,822)	-	(6,822)
Balance on December 31, 2020	<u>\$ -</u>	<u>9,391</u>	<u>-</u>	<u>-</u>	<u>242,624</u>	<u>-</u>	<u>252,015</u>

	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		Total
	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	
Balance on January 1, 2019	-	5,861	-	-	237,968	-	243,829
Provision or reversal of Impairment loss	-	1,706	-	-	111	-	1,817
Amounts written off	-	-	-	-	(20,499)	-	(20,499)
Balance on December 31, 2019	<u>\$ -</u>	<u>7,567</u>	<u>-</u>	<u>-</u>	<u>217,580</u>	<u>-</u>	<u>225,147</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>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, 2020							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 930,361	930,361	930,361	-	-	-	-
Stock warrants issued	726,511	726,511	644,819	81,692	-	-	-
Exchange traded notes	1,128	1,128	1,128	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	24,232	24,232	13,298	(1,809)	4,829	7,914	-
Put options	1,267,802	1,267,802	280,120	137,993	399,655	450,034	-
Short-term borrowings	3,561,089	3,561,089	3,561,089	-	-	-	-
Commercial paper payable	2,299,692	2,300,000	2,300,000	-	-	-	-
Bonds sold under repurchase agreements	35,482,996	35,533,047	27,120,589	8,412,458	-	-	-
Guarantee deposited for short sales	2,631,763	2,631,763	2,631,763	-	-	-	-
Proceeds payable from short sales	3,021,249	3,021,249	3,021,249	-	-	-	-
Securities lending refundable deposits	1,033,425	1,033,425	1,033,425	-	-	-	-
Equity for each customer in the account	13,063,932	13,063,932	13,063,932	-	-	-	-
Notes payable and accounts payable	118,382	118,382	118,382	-	-	-	-
Receipts under custody	1,631,028	1,631,028	1,631,028	-	-	-	-
Other payables	929,072	929,072	929,072	-	-	-	-
Structured notes	5,370,573	5,370,573	3,980,110	266,846	171,945	951,672	-
Lease liabilities	841,528	879,357	86,267	73,930	135,568	339,931	243,661
	<u>\$ 72,934,763</u>	<u>73,022,951</u>	<u>61,346,632</u>	<u>8,971,110</u>	<u>711,997</u>	<u>1,749,551</u>	<u>243,661</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the 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, 2019							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 333,157	333,157	333,157	-	-	-	-
Stock warrants issued	553,306	553,306	465,459	87,847	-	-	-
Put options - futures	5	5	5	-	-	-	-
Exchange traded notes	729	729	-	-	-	729	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,150	8,150	4,592	822	(711)	3,447	-
Put options	529,328	529,328	41,762	67,521	208,340	211,705	-
Short-term borrowings	6,631,002	6,631,002	6,631,002	-	-	-	-
Bonds sold under repurchase agreements	31,893,531	32,068,191	24,577,057	7,491,134	-	-	-
Guarantee deposited for short sales	2,390,464	2,390,464	2,390,464	-	-	-	-
Proceeds payable from short sales	2,755,405	2,755,405	2,755,405	-	-	-	-
Securities lending refundable deposits	336,713	336,713	336,713	-	-	-	-
Notes payable and accounts payable	3,865,851	3,865,851	3,865,851	-	-	-	-
Receipts under custody	109,866	109,866	109,866	-	-	-	-
Other payables	512,459	512,459	512,459	-	-	-	-
Structured notes	3,941,052	3,941,052	3,296,957	294,709	241,782	107,604	-
Lease liabilities	907,390	954,367	89,740	77,553	139,137	312,884	335,053
	<u>\$ 54,768,408</u>	<u>54,990,045</u>	<u>45,410,489</u>	<u>8,019,586</u>	<u>588,548</u>	<u>636,369</u>	<u>335,053</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

	December 31, 2020		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 20,740	28.4800	590,675
AUD	1,791	21.9500	39,312
CAD	68	22.3500	1,520
EUR	488	35.0200	17,090
GBP	20	38.9000	778
HKD	10,380	3.6730	38,126
JPY	8,660	0.2763	2,393
SGD	7	21.5600	151
CNY	28,098	4.3770	122,985
<u>Non-Monetary Item</u>			
USD	582,021	28.4800	16,575,958
AUD	105,749	21.9500	2,321,191
EUR	33,014	35.0200	1,156,150
HKD	1,031	3.6730	3,787
JPY	10,105	0.2763	2,792
CNY	238,236	4.3770	1,042,759
<u>Investments under equity method</u>			
USD	53,763	28.4300	1,528,465
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	606,539	28.4800	17,274,231
AUD	97,069	21.9500	2,130,665
CAD	66	22.3500	1,475
EUR	31,921	35.0200	1,117,873
GBP	20	38.9000	778
HKD	69,172	3.6730	254,069
JPY	13,959	0.2763	3,857
SGD	20	21.5600	431
CNY	157,183	4.3770	687,990

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

				December 31, 2019
				Foreign Currency
				(thousands)
				Exchange Rate
				Amount
<u>Financial assets</u>				
<u>Monetary Item</u>				
USD	\$	54,944	29.9800	1,647,221
AUD		2,200	21.0050	46,211
CAD		4	22.9900	92
EUR		1,420	33.5900	47,698
GBP		635	39.3600	24,994
HKD		8,997	3.8490	34,629
JPY		7,769	0.2760	2,144
SGD		8	22.2800	178
CNY		40,454	4.3050	174,154
ZAR		6	2.1200	13
KRW		18	0.0262	-
<u>Non-Monetary Item</u>				
USD		476,215	29.9800	14,276,926
AUD		143,300	21.0050	3,010,017
EUR		1,185	33.5900	39,804
HKD		338	3.8490	1,301
JPY		2,475	0.2760	683
CNY		251,594	4.3050	1,083,112
<u>Investments under equity</u>				
<u>method</u>				
USD		53,638	29.9300	1,605,367
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
USD		529,342	29.9800	15,869,673
AUD		132,660	21.0050	2,786,523
EUR		2,297	33.5900	77,156
GBP		635	39.3600	24,994
HKD		66,162	3.8490	254,658
JPY		57	0.2760	16
SGD		1	22.2800	22
CNY		168,381	4.3050	724,880

Because there are a variety of functional currencies, the Company discloses a summary of currency exchange variation on the monetary items. For the years ended December 31, 2020 and 2019, the realized and unrealized currency exchange gains amounted to \$98,722 and \$9,561, respectively.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

2) Sensitivity analysis

The currency risk of the Company 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, short-term borrowings, 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 years ended December 31, 2020 and 2019, 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 years ended December 31, 2020		For the years ended December 31, 2019	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
	Net income	(620,603)	620,603	(518,752)
Other comprehensive income	699,513	(699,513)	609,017	(609,017)

(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 Company's exposure to floating rates on its bond position.

Market risk type	December 31, 2020	December 31, 2019	For the years ended December 31,					
			2020			2019		
			Average	Maximum	Minimum	Average	Maximum	Minimum
Interest risk	1,560,150	1,409,781	1,574,731	1,758,733	1,378,218	1,497,257	1,572,243	1,409,781

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(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 Company 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 Company'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 Company 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.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

2) Not measured at fair value

As of December 31, 2020 and 2019, the fair value information of the financial assets and financial liabilities of the Company was as follows:

a) Fair value information

	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets :				
Cash and cash equivalents	\$ 1,598,193	1,598,193	2,656,201	2,656,201
Accrued receivable	42,345,333	42,345,333	24,378,626	24,378,626
Restricted assets - current	20,829	20,829	615,927	615,927
Other non-current assets	1,098,324	1,098,324	1,114,091	1,114,091
Financial liabilities :				
Short-term borrowings	3,561,089	3,561,089	6,631,002	6,631,002
Commercial paper payable	2,299,692	2,299,692	-	-
Bonds sold under repurchase agreements	35,482,996	35,482,996	31,893,531	31,893,531
Accrued payable	33,216,957	33,216,957	15,436,383	15,436,383
Other financial liabilities - current	4,235,829	4,235,829	3,579,951	3,579,951
Other financial liabilities - non-current	515,261	515,261	349,518	349,518
Other non-current liabilities	101,660	101,660	104,110	104,110

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				
December 31, 2020	<u>\$ -</u>	<u>-</u>	<u>8,022,826</u>	<u>8,022,826</u>
December 31, 2019	<u>\$ -</u>	<u>-</u>	<u>8,269,352</u>	<u>8,269,352</u>

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

- i) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, accrued receivable, other current assets, other non-current assets, short-term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
- ii) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

3) Measured at fair value

a) Hierarchy information of fair value

The Company'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>
December 31, 2020				
Financial assets at fair value through profit or loss	\$ 11,567,025	22,695,839	-	34,262,864
Financial assets at fair value through other comprehensive income	2,438,619	15,959,279	2,070,040	20,467,938
Derivative financial assets	<u>296,364</u>	<u>178,344</u>	<u>-</u>	<u>474,708</u>
	<u>\$ 14,302,008</u>	<u>38,833,462</u>	<u>2,070,040</u>	<u>55,205,510</u>
Financial liabilities at fair value through profit or loss	\$ 1,658,000	-	-	1,658,000
Derivative financial liabilities	<u>608,356</u>	<u>1,303,161</u>	<u>-</u>	<u>1,911,517</u>
	<u>\$ 2,266,356</u>	<u>1,303,161</u>	<u>-</u>	<u>3,569,517</u>
December 31, 2019				
Financial assets at fair value through profit or loss	\$ 11,709,290	18,465,025	-	30,174,315
Financial assets at fair value through other comprehensive income	2,356,682	13,619,901	2,174,104	18,150,687
Derivative financial assets	<u>182,308</u>	<u>79,662</u>	<u>-</u>	<u>261,970</u>
	<u>\$ 14,248,280</u>	<u>32,164,588</u>	<u>2,174,104</u>	<u>48,586,972</u>
Financial liabilities at fair value through profit or loss	\$ 887,192	-	-	887,192
Derivative financial liabilities	<u>5</u>	<u>549,061</u>	<u>-</u>	<u>549,066</u>
	<u>\$ 887,197</u>	<u>549,061</u>	<u>-</u>	<u>1,436,258</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.

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

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

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

ii) Derivative financial instruments

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

4) Transfer between Level 1 and Level 2

For the years ended December 31, 2020 and 2019, 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 Company. 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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

(In Thousands Dollars)

Item	For the year ended December 31, 2020								
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		Ending Balance	
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Capital reduction		Transferred from Level 3
Financial assets at fair value through other comprehensive income	\$ 2,174,104	-	104,606	20,000	-	21,400	207,270	-	2,070,040

Item	For the year ended December 31, 2019								
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		Ending Balance	
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Capital reduction		Transferred from Level 3
Financial assets at fair value through other comprehensive income	\$ 1,627,616	-	518,288	35,000	-	6,800	-	-	2,174,104

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

The Company's Level 3 fair value measurements are financial assets at fair value through other comprehensive income – equity instruments investment.

The Company'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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

- 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 Company 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:

	Change in fair value recognized in other comprehensive income	
	Favorable change	Unfavorable change
December 31, 2020		
Financial assets fair value through other comprehensive income	\$ <u>20,700</u>	<u>(20,700)</u>
December 31, 2019		
Financial assets fair value through other comprehensive income	\$ <u>21,741</u>	<u>(21,741)</u>

Favorable and unfavorable movements of the Company 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 Company 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 Company cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Company 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	December 31, 2020				
	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>37,581,050</u>	<u>35,482,996</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

December 31, 2019					
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	\$ 33,493,218	31,893,531	-	-	-

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

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

December 31, 2020						
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	\$ 178,344	-	178,344	-	-	178,344

December 31, 2020						
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	\$ 1,911,517	-	1,911,517	-	-	1,911,517
Under repurchase agreements	35,482,996	-	35,482,996	35,482,996	-	-
Total	\$ 37,394,513	-	37,394,513	35,482,996	-	1,911,517

December 31, 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	\$ 79,662	-	79,662	-	-	79,662

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

December 31, 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	\$ 549,061	-	549,061	-	-	549,061
Under repurchase agreements	31,893,531	-	31,893,531	31,893,531	-	-
Total	\$ 32,442,592	-	32,442,592	31,893,531	-	549,061

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

(v) Financial risk management

(i) Brief

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

- 1) credit risk
- 2) liquidity risk
- 3) market risk

The disclosure hereby presents above-mentioned risk information, evaluation, and objectives, policies, and procedures of managing information. Further information regarding quantity disclosure please refers to related disclosures.

(ii) Risk management framework

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

(iii) Credit risk

- 1) Determining whether credit risk has increased significantly since initial recognition
 - a) The Company measures each financial instrument that applies under IFRS9 if the credit risk of financial asset at the reporting date has increased significantly since initial recognition. The Company considers reasonable and supportable information that is relevant and available, including forward-looking information, since initial recognition for assessment. Main factors taking into consideration include credit risk rating and information of past due condition.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

- b) Low Credit Risk: A financial instrument has low credit risk at the reporting date, assumed to have no significant increase in credit risk since initial recognition. The determination criteria are the financial instrument's external credit rating is 'investment grade' or above.
- 2) Measurement of Expected Credit Losses (ECL)
- a) Methods adopted and assumptions

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

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

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

(iv) Liquidity risk

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

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

(v) Market risk

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

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

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

(vi) Hedging strategies (financial hedging)

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

1) Equity securities:

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

2) Fixed income instruments:

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

3) Stock warrants:

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

4) Structured notes:

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

5) Asset swap:

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

(vii) Financial risk information of financial derivatives and other financial instruments as approved by the authority

As of December 31, 2020 and 2019, the related financial risk and the presentation of the Company's derivatives and other financial instruments as approved by the authority were as follows:

Stock warrants

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

Financial Instruments	December 31, 2020		December 31, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Stock warrants issued	\$ 14,988,329	-	18,302,776	-

The Company 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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

The Company 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 Company'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.

- (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 year ended December 31, 2020 and 2019:

- a) Gains (losses) on valuation

	<u>For the years ended December 31,</u>		<u>Account</u>
	<u>2020</u>	<u>2019</u>	
Stock warrants issued	\$ 17,825,096	11,359,166	Gains (losses) on stock warrants issued
Stock warrants repurchased	(17,761,848)	(11,382,768)	Gains (losses) on stock warrants issued

- b) Gains (losses) on sale

	<u>For the years ended December 31,</u>		<u>Account</u>
	<u>2020</u>	<u>2019</u>	
Security borrowing	\$ 48,780	55,194	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	61,457	340,093	Gains (losses) on sale of trading securities
Futures transaction	(132,451)	(319,856)	Gains (losses) on derivative financial instruments - futures

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

c) Gains (losses) on maturity

	For the years ended December 31,		Account
	2020	2019	
Stock warrants issued	\$ 35,081,679	31,531,397	Gains (losses) on stock warrants issued
Stock warrants repurchased	(34,727,708)	(31,316,625)	Gains (losses) on stock warrants issued

Exchange traded notes

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

Financial Instruments	December 31, 2020		December 31, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Exchange traded notes issued	\$ 1,128	-	729	-

Index-related products trading (futures or other derivative products) will take certain credit risk from counterparties. The Company 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.

(iv) Type, purpose, and strategy of other financial instruments as approved by the authority held:

The Company'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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(v) Presentation of other financial instruments as approved by the authority:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>Account</u>
Margin - exchange traded notes	\$ 25	25	Other non-current assets
Outstanding liabilities - exchange traded notes	1,128	729	Financial liabilities at fair value through profit or loss - current
	<u>For the years ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>Account</u>
Gains (losses) on exchange traded notes	\$ (296)	(67)	Net gains (losses) from exchange traded notes
Management and commissions revenue on exchange traded notes	8	6	Management and commissions revenue from exchange traded notes
Issue and management fees on exchange traded notes	(62)	(145)	Issue and management fees on exchange traded notes

Futures

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

<u>Financial Instruments</u>	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:				
Taiex Futures	\$ -	-	117,741	-
Finance Sector Index Futures	-	-	135,817	-
U.S.dollar Index Futures	25,557	-	-	-
Gold Futures	53,681	-	-	-
Wheat Futures	2,732	-	-	-
Soybean Futures	7,499	-	-	-
10 year U.S.-Note Futures	109,920	-	-	-
Long-term Euro-BTP Futures	292,916	-	33,538	-
Euro-Bond Futures	62,338	-	17,265	-

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Financial Instruments	December 31, 2020		December 31, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For non-trading purpose:				
Taonex Futures	\$ 339,185	-	132,665	-
Mini-Taonex Futures	-	-	4,198	-
Single Stock Futures	550,140	-	1,038,306	-
Mini-S&P 500 Futures	52,133	-	-	-
Mini-Nasdaq Futures	7,129	-	-	-
HSI Futures	44,464	-	5,379	-
U.S.dollar Index Futures	12,941	-	-	-
Soybean Futures	10,636	-	-	-
Gold Futures	240,756	-	-	-
Mini-HSI Futures	-	-	11,921	-
Crude oil Futures	-	-	30,513	-
FTSE China A50 Index Futures	300,197	-	238,645	-
VIX Futures	281,920	-	23,342	-
SGX Nikkei 225 Index Futures	18,423	-	16,488	-
Tokyo Stock Price Index Futures	34,977	-	-	-
Japanese yen Futures	3,429	-	10,326	-
Brent Crude Oil Futures	4,316	-	-	-
Stock Options	62	-	-	-
Crude Oil Options	-	-	4	-

Should counterparties to futures and options default, the associated loss is borne by the futures commission merchants. Hence, the Company 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 Company 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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

- (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 Company 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 Company. For margin calls, the Company 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 Company has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

- (iv) Presentation of financial derivatives:

	December 31, 2020	December 31, 2019	Account
Futures margin - proprietary fund	\$ 296,313	182,308	Financial assets at fair value through profit or loss - current
Excess futures margin	610,909	589,321	Cash and cash equivalent
Buy options	51	-	Financial assets at fair value through profit or loss - current
Put options	-	5	Financial liabilities at fair value through profit or loss - current
	For the years ended December 31,		
	2020	2019	Account
Gains (losses) on futures and options transactions	(48,510)	(645,521)	Gains (losses) on derivatives - futures

Derivative instruments - OTC

- (i) Interest rate financial derivatives

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

Financial Instruments	December 31, 2020		December 31, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
NT dollar interest swaps	\$ 10,900,000	-	21,300,000	-

Counterparties to interest rate swaps are banks with good credit ratings. The Company 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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

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

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

The Company entered into non-trading NT dollar interest rate swaps with banks to hedge against interest rate fluctuations of claims and obligations. The Company'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 Company engages in trading NT dollar interest rate swaps to gain from the differences in interest rates upon evaluation of the trending of interest rates.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Structured notes

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

Financial Instruments	December 31, 2020		December 31, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 1,311,000	-	215,789	-
Principal guaranteed notes	3,264,693	-	2,935,907	-
Credit-linked notes	783,100	-	669,900	-
Principal guaranteed notes (in USD thousands)	USD 100	-	USD 3,690	-

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

(iii) Convertible bond asset swaps

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

Financial Instruments	December 31, 2020		December 31, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset swaps	\$ 1,109,900	-	886,900	-
Convertible bond options	7,035,300	-	4,452,000	-

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

For convertible bond options, the Company 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 swaps, the Company 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 swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Company also receives the right to call the convertible bond prior to the expiration of the contract. Therefore, there is no significant liquidity risk or significant cash demand.

(iv) Options

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

<u>Financial Instruments</u>	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Notional principal/ Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal/ Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:				
Equity options	\$ 839	-	200,000	-

The counterparties that the Company entered into derivative transactions with are all well-known financial institutions with good credit ratings. The Company 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 Company can confine losses to a predictable range. Therefore there is no significant market risk.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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 Company 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) Presentation of derivative instruments in financial statement

As of December 31, 2020 and 2019, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset swaps and currency swaps were presented on the balance sheets as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 13,100	16,053
Asset swap options-long position	157,459	37,684
Structured notes	<u>7,785</u>	<u>25,925</u>
Total	<u>\$ 178,344</u>	<u>79,662</u>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 10,968	2,436
Asset swap options-short position	1,267,802	529,328
Structured notes	619,483	11,583
Currency swaps	12,759	4,745
Interest rate swaps	<u>505</u>	<u>969</u>
Total	<u>\$ 1,911,517</u>	<u>549,061</u>
Other financial liabilities - current		
Structured notes principal value	<u>\$ 4,235,829</u>	<u>3,579,951</u>
Other financial liabilities - non-current		
Structured notes principal value	<u>\$ 515,261</u>	<u>349,518</u>

For the years ended December 31, 2020 and 2019, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset swaps and currency swaps are presented on statements of income as follows:

	<u>For the year ended December 31, 2020</u>		<u>For the year ended December 31, 2019</u>	
	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (1,065)	(505)	(517)	(969)
Equity derivatives	(21)	38	(232)	51
Structured notes	(27,345)	(8,650)	(67,731)	(16,490)
IRS asset swaps	86	2,131	218	13,617
Asset swap options	(803,808)	(251,220)	(264,473)	11,817
Currency swaps	<u>(23,764)</u>	<u>(12,759)</u>	<u>(9,634)</u>	<u>(4,745)</u>
Total	<u>\$ (855,917)</u>	<u>(270,965)</u>	<u>(342,369)</u>	<u>3,281</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(w) Capital management

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

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

	December 31, 2020	December 31, 2019
Capital adequacy ratio	369 %	390 %

(x) Financing activities not affecting current cash flow

The Company's financing activities which did not affect the current cash flow in the year ended December 31, 2020 and 2019, were as follows:

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

	<u>January 1, 2020</u>	<u>Cash flows</u>	Non-cash changes			<u>December 31, 2020</u>
			<u>Other</u>	<u>Foreign exchange movement</u>	<u>Fair value changes</u>	
Short-term borrowings	\$ 6,631,002	(3,069,913)	-	-	-	3,561,089
Commercial papers payable	-	2,299,692	-	-	-	2,299,692
Lease liabilities	907,390	(178,419)	112,557	-	-	841,528
Total liabilities from financing activities	<u>\$ 7,538,392</u>	<u>(948,640)</u>	<u>112,557</u>	<u>-</u>	<u>-</u>	<u>6,702,309</u>

	<u>January 1, 2019</u>	<u>Cash flows</u>	Non-cash changes			<u>December 31, 2019</u>
			<u>Other</u>	<u>Foreign exchange movement</u>	<u>Fair value changes</u>	
Short-term borrowings	\$ 3,873,506	2,757,496	-	-	-	6,631,002
Lease liabilities	939,218	(129,637)	97,809	-	-	907,390
Total liabilities from financing activities	<u>\$ 4,812,724</u>	<u>2,627,859</u>	<u>97,809</u>	<u>-</u>	<u>-</u>	<u>7,538,392</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(7) Related-party transactions:

- (a) Relationships between parents and subsidiaries

Refer to Note 13(b) for a detailed list of the Company's subsidiaries.

- (b) Parent company and ultimate controlling party

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

- (c) Names of related parties and relationships

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

<u>Names of related parties</u>	<u>Relationships</u>
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp	Subsidiary
Capital Futures Corp.	Subsidiary
Capital Investment Management Corp.	Subsidiary
CSC Venture Capital Corp.	Subsidiary
Taiwan International Securities Investment Consulting Corp. (Note 1)	Subsidiary
CSC Capital Massgement Corp. (Note 2)	Subsidiary
CSC Securities (HK) Ltd.	Second-level subsidiary
Capital International Technology Corp.	Second-level subsidiary
Capital Investment Trust Corp.	Associate
Funds issued by Capital Investment Trust Corp.	Funds issued by associate
San Ho Enterprise Corp., Ltd. (Note 3)	Juristic-person director
Other related parties	Key management personnel and others

Note 1: The corporation was liquidated on June 15, 2020.

Note 2: The corporation was established on December 3, 2020.

Note 3 : The corporation was discharged on June 24, 2019.

- (d) Key management personnel transactions

- (i) Key management personnel compensation

	For the years ended December 31,	
	2020	2019
Short-term employee benefits	\$ 174,327	136,567
Post-employment benefits	1,344	1,348
Total	\$ 175,671	137,915

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Bonds sold under repurchase agreements

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	\$ <u>8,262</u>	<u>22,500</u>
		<u>22,670</u>
		<u>For the years ended December 31,</u>
		<u>2020</u>
Total financial expenses		<u>2019</u>
Key management personnel	\$ <u>120</u>	<u>182</u>

(iii) Structured notes transactions

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Key management personnel	\$ <u>106,800</u>	<u>71,393</u>

(e) Significant transactions with related parties

(i) Bonds sold under repurchase agreements

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	<u>Par value</u>	<u>Purchase price</u>
Funds issued by associate	\$ 31,178	30,871
Subsidiaries	<u>271,500</u>	<u>271,530</u>
Total	<u>\$ 302,678</u>	<u>46,000</u>
		<u>46,000</u>
		<u>For the years ended December 31,</u>
		<u>2020</u>
Total financial expenses		<u>2019</u>
Funds issued by associate	\$ 135	472
Subsidiaries	338	461
Juristic-person directors	-	56
Total	<u>\$ 473</u>	<u>989</u>

Transaction terms are the same as the general clients.

(ii) Futures commission revenue

The Company provided futures trading assistance for subsidiary.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Commission receivable	\$ <u>14,679</u>	<u>10,914</u>
Other Receivable (Default loss)	\$ <u>3,832</u>	<u>3,892</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	For the years ended December 31,	
	2020	2019
Futures commission revenue	\$ 183,659	130,341

(iii) Futures trading

The futures margin in subsidiary of the Company is as follow:

	December 31, 2020	December 31, 2019
Futures margin-proprietary fund	\$ 824,368	688,447

	For the years ended December 31,	
	2020	2019
Interest revenue of futures margin	\$ 169	428
Handling fees charge	\$ 4,881	9,455

(iv) Lease agreements

	For the years ended December 31,	
	2020	2019
Lease revenue		
Subsidiaries	\$ 18,144	18,326
Associates	17,247	17,247
Total	\$ 35,391	35,573

	December 31, 2020	December 31, 2019
Guarantee deposits received		
Subsidiaries	\$ 4,633	4,018
Associates	3,811	3,811
Total	\$ 8,444	7,829

(v) Information technology service

	For the years ended December 31,	
	2020	2019
Subsidiaries	\$ 50,943	46,667

(vi) Insurance commission revenues

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

	For the years ended December 31,	
	2020	2019
Commission revenue		
Subsidiaries	\$ 8,158	12,931

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Accounts receivable	December 31, 2020	December 31, 2019
Subsidiaries	\$ <u>811</u>	<u>1,877</u>

(vii) Brokerage and sub-brokerage

The commission received from the related parties of the Company engaging in securities and futures trading for the years ended December 31, 2020 and 2019 were as follows:

Brokerage commissions	For the years ended December 31,	
	2020	2019
Subsidiaries	\$ 22	-
Fund issued by associate	45,083	23,738
Other related parties	<u>2,517</u>	<u>1,044</u>
Total	\$ <u>47,622</u>	<u>24,782</u>

Re-consigned handling commissions	For the years ended December 31,	
	2020	2019
Second-level subsidiaries	9	-
Funds issued by associate	\$ 6,703	8,696
Other related parties	<u>559</u>	<u>193</u>
Total	\$ <u>7,271</u>	<u>8,889</u>

Re-consigned handling costs	For the years ended December 31,	
	2020	2019
Second-level subsidiary	\$ <u>2,547</u>	<u>4,618</u>

(viii) Fund services business

Fund service revenue	For the years ended December 31,	
	2020	2019
Associates	\$ <u>2,108</u>	<u>-</u>

Channel service revenue	For the years ended December 31,	
	2020	2019
Associates	\$ <u>2,108</u>	<u>-</u>

Accounts receivable	December 31, 2020	December 31, 2019
Associates	\$ <u>870</u>	<u>-</u>

(ix) Wealth management business

Trust account commissions revenue	For the years ended December 31,	
	2020	2019
Associates	\$ <u>5,708</u>	<u>-</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

		<u>For the years ended December 31,</u>	
		<u>2020</u>	<u>2019</u>
	Trust account management fee revenue		
	Associates	\$ <u>605</u>	<u>229</u>
 (x) Underwriting business			
		<u>For the years ended December 31,</u>	
		<u>2020</u>	<u>2019</u>
	Stock service income		
	Subsidiaries	\$ 502	545
	Associates	<u>122</u>	<u>124</u>
	Total	\$ <u>624</u>	<u>669</u>
	<u>Handling fee revenues from underwriting securities on best efforts basis</u>		
	Fund issued by associates	\$ <u>1</u>	<u>4,406</u>
	<u>Revenue from underwriting securities on a firm commitment basis</u>		
	Subsidiaries	\$ <u>138</u>	<u>-</u>
	Accounts receivable	<u>December 31,</u>	<u>December 31,</u>
		<u>2020</u>	<u>2019</u>
	Associates	\$ <u>10</u>	<u>10</u>
 (xi) Other revenues			
		<u>For the years ended December 31,</u>	
		<u>2020</u>	<u>2019</u>
	Subsidiaries	\$ 679	767
	Associates	<u>3</u>	<u>3</u>
	Total	\$ <u>682</u>	<u>770</u>
 (xii) Custody account business			
		<u>For the years ended December 31,</u>	
		<u>2020</u>	<u>2019</u>
	Custody account business revenue		
	Second-level subsidiaries	\$ <u>6,600</u>	<u>-</u>
 (xiii) Consulting business			
		<u>For the years ended December 31,</u>	
		<u>2020</u>	<u>2019</u>
	Consulting fee expense		
	Subsidiaries	\$ <u>63,000</u>	<u>75,600</u>
 (xiv) Stock commission expenses			
		<u>December 31,</u>	<u>December 31,</u>
		<u>2020</u>	<u>2019</u>
	Accounts payable		
	Subsidiaries	\$ <u>2,679</u>	<u>373</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	For the years ended December 31,	
	2020	2019
Stock commission expenses		
Subsidiaries	\$ 9,738	3,492
 (xv) Information technology fees		
	For the years ended December 31,	
	2020	2019
Subsidiaries	\$ 1,989	390
 (xvi) Accrued receivables		
	December 31,	December 31,
	2020	2019
Accounts receivable		
Subsidiaries	\$ -	29
Second-level subsidiaries	680	-
Total	\$ 680	29
 Other receivable		
Subsidiaries	\$ 5,111	1,124
Second-level subsidiaries	55	19
Total	\$ 5,166	1,143
 Other payable		
Second-level subsidiaries	\$ 16	15
 Receipts under custody		
Second-level subsidiaries	\$ 58	73

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(8) Pledged assets:

The following assets were pledged as collateral or restricted in use as of December 31, 2020 and 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>The collateral use</u>
Restricted assets - current	\$ 20,829	615,927	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	35,773,131	32,552,236	Repurchase agreement
Property and equipment	1,369,767	1,484,200	Bank borrowings
Financial assets at fair value through profit or loss - non-current	180,929	180,467	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	<u>3,177,104</u>	<u>3,323,085</u>	Bank borrowings
Total	<u>\$ 40,521,760</u>	<u>38,155,915</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:

	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities procured through margin purchase	595,559	\$ 5,955,590	520,214	5,202,140
Collateral for margin purchase	10,578	105,780	8,868	88,680
Lending securities to customers through short sales	67,810	678,100	57,750	577,500
Collateral for short sales	13,284	132,840	6,900	69,000

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

	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities borrowed from securities finance companies	2,117	\$ 21,170	3,594	35,940
Collateral for refinancing margin	83	830	969	9,690

- (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>December 31, 2020</u>	<u>December 31, 2019</u>
Promissory notes	<u>\$ 21,980,000</u>	<u>25,510,000</u>
Promissory notes (in USD thousands)	<u>USD 65,000</u>	<u>USD 60,000</u>

- (d) As of December 31, 2020 and 2019, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$7,031,255 and \$5,687,926, respectively.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

- (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 first instance claimed the case in favor of the Company. Plaintiff appealed against the judgement. The case is under the trial of Taiwan High 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 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) A resigned employee of Xi-Song branch scammed the clients. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation of \$16,375. 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.
- (h) 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. 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 December 31, 2020.
- (i) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC Securities (HK) Ltd.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

(i) Balance sheet of trust accounts

Balance Sheet of Trust Accounts

December 31, 2020 and 2019

Trust Assets	December 31, 2020	December 31, 2019	Trust Liabilities	December 31, 2020	December 31, 2019
Bank deposits	\$ 1,459,272	1,123,650	Accounts payable	\$ 72	44
Short-term investment			Trust capital	12,097,468	13,751,705
Funds	9,959,655	12,115,260	Accumulated earnings or deficit	298,641	(103,139)
Stocks	252,364	177,628			
Bonds	57,995	31,715			
Structured notes	610,954	10,013			
Accounts receivable	55,941	190,344			
Total Assets	<u>\$ 12,396,181</u>	<u>13,648,610</u>	Total Liabilities	<u>\$ 12,396,181</u>	<u>13,648,610</u>

(ii) Income statement of trust accounts

Income Statement of Trust Accounts

For the years ended December 31, 2020 and 2019

	For the years ended December 31,	
	<u>2020</u>	<u>2019</u>
Trust revenue		
Interest revenue	\$ 35,710	5,626
Cash dividends revenue	405,516	522,595
Rental revenue	7,319	6,674
Investment gains - unrealized	102,158	938,923
Currency exchange gains	-	94,949
Subtotal	<u>550,703</u>	<u>1,568,767</u>
Trust expense		
Management fee	371	679
Service fee	39,599	60,976
Investment losses - realized	109,012	46,561
Currency exchange losses - unrealized	-	1,702,347
Other expenses	31	92
Subtotal	<u>149,013</u>	<u>1,810,655</u>
Gain (Loss) before income tax	401,690	(241,888)
Income tax expense	(190)	(319)
Net loss	<u>\$ 401,500</u>	<u>(242,207)</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Property list of trust accounts

Property list of trust accounts

December 31, 2020 and 2019

Investment items	December 31, 2020	December 31, 2019
Bank deposits	\$ 1,459,272	1,123,650
Short-term investment		
Funds	9,959,655	12,115,260
Stocks	252,364	177,628
Bonds	57,995	31,715
Structured Notes	610,954	10,013
Account receivables	<u>55,941</u>	<u>190,344</u>
Total	<u>\$ 12,396,181</u>	<u>13,648,610</u>

(10) Significant Catastrophic Loss: None

(11) Significant Subsequent Events: None

(12) Other: None

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the 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 Company:

(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 28,322	- %	2	-	Operations	-	-	-	US 53,762	US 53,762
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	39,540	39,540	14,121	5 %	2	-	Trading	-	-	-	181,681	908,403
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	169,456	169,456	41,234	3.23 %	2	-	Trading	-	-	-	181,681	908,403
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	84,728	84,728	-	1.23 % ~ 3.23 %	2	-	Trading	-	-	-	181,681	908,403
7	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	79,080	79,080	-	3.23 %	2	-	Trading	-	-	-	181,681	908,403
8	CSC Futures (HK) Ltd.	Derivatives China Alpha Fund	Account receivables - Customer	No	79,080	79,080	-	3.23 %	2	-	Trading	-	-	-	181,681	908,403
9	CSC Futures (HK) Ltd.	Perfect Hexagon Limited	Account receivables - Customer	No	84,728	84,728	-	3.23 %	2	-	Trading	-	-	-	181,681	908,403

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

(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 December 31, 2020	Balance on December 31, 2019	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 %	75,880	63,913	(16,565)	(16,565)	-	Subsidiary
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.	1,896,520	1,212,539	119,066,014	56.58 %	3,598,396	2,132,302	622,166	351,228	226,225	-

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the 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 December 31, 2020	Balance on December 31, 2019	Shares	Ratio	Book value					
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 %	1,528,445	23,047	766	766	-	Subsidiary
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 %	51,986	109,144	26,125	26,125	53,045	"
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 %	39,190	49,812	(217)	(217)	4,040	"
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 %	20	446	446	446	-	"
0	Taiwan International Securities Investment Consulting Corp. (Note 4)	Taipei, Taiwan, R.O.C.	March 3, 1994		Completion of liquidation.	-	9,992	-	- %	-	-	(6)	(6)	-	"
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 %	841,121	2,546	(3,597)	(3,597)	-	"
0	CSC Capital Management Corp.	Taipei, Taiwan, R.O.C.	December 3, 2020	No. FSC-1090349163 dated September 7, 2020	Engaged in investment, consulting management, venture and general investment business	330,000	-	33,000,000	100.00 %	329,742	-	(258)	(258)	-	"
0	Capital Investment Trust Corp.	Taipei, Taiwan, R.O.C.	October 16, 1995		Engaged in security investment and discretionary investment services.	1,272,505	1,272,505	33,067,507	20.00 %	1,340,829	1,918,834	763,559	152,712	115,737	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 172,829 thousands	HK 38,653 thousands	HK 6,126 thousands	-	-	Second-level Subsidiary
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 thousand	HK 265,000 thousand	265,000,000	100.00 %	HK (26,051) thousand	HK -	HK 119 thousand	-	-	"
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 (66,020) thousands	HK -	HK 66 thousands	-	-	Third-level Subsidiary
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 %	883,604	370,616	(13,999)	-	-	Second-level Subsidiary
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 %	41,028	2,304	(1,548)	-	-	"
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 %	49,281	147,943	4,702	-	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	2	100.00 %	HK -	HK -	HK -	-	-	Third-level Subsidiary

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 was liquidated as approved by the court on June 15, 2020.

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.

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(c) Information on overseas branches and 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	-	-	-	-	-	-	-	

(d) Information on investments in the Mainland China:

(i) Investment in the Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2020	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2020	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 December 31, 2020
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	1,144	28.86%	330 B(2)	13,286	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	(2,321)	56.58%	(1,313) B(2)	8,920	-

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 China:

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

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

(e) Major shareholders:

There was no shareholder who held 5% or more of the issuer's equity.

Note 1: Taiwan Depository & Clearing Corporation calculates the information of the shareholders holding 5% or more of the Company's non-physical common shares and special shares which have been registered in dematerialized form (including treasury shares) based on the last business day of every quarter. The stock recorded in the Company's financial statements may differs from the shares which have been registered in dematerialized form because of different basis of preparation.

Note 2: If the shareholders deliver shareholdings to the trust, it shows the trustor's separate account opened by the trustee. As to insiders' equity declaration of shareholdings over 10% under securities trading laws, the shareholders' shareholdings include their own shareholdings and shares delivered to the trust with the right to decide how to use the trust property. The information related to insiders' equity declaration please refers to Market Observation Post System.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

According to article 1, paragraph 3, no. 5 of the letter no. 10703209011 issued by Financial Supervisory Commission on June 1, 2018, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2020 are as follows:

- (i) Balance sheet and income statement:

- 1) Balance sheet

Unit: US \$ thousands

Nature	Company	Taiwan International Securities (B.V.I) Corp.
	CSC International Holdings Ltd. December 31, 2020	December 31, 2020
Current assets	10,214	1
Long-term investments	22,294	-
Property and premises	1,926	-
Other assets	19,395	3,380
Total assets	53,829	3,381
Current liabilities	67	20
Other liabilities	-	3,360
Total liabilities	67	3,380
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,780	(9,431)
Cumulative translation adjustments	(18)	(84)
Total stockholders' equity	53,762	1
Total liabilities and stockholders' equity	53,829	3,381

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

2) Income statement

Unit: US \$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	For the years ended December 31, 2020	For the years ended December 31, 2020
Operating revenue	788	15
Operating expense	(761)	-
Non-operating revenue	5	-
Non-operating expense	(6)	-
Income (loss) before tax	26	15
Net income (loss)	26	15

(ii) Securities held as of December 31, 2020

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2020	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u>22,294</u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u>(3,360)</u>

(iii) Derivatives financial instrument transactions and the source of capital: None.

(iv) Revenue from engagement in consultation on assets management business, service contents and litigation: None.

(14) Segment information:

Please refer to the consolidated financial statements of the Company as of and for the year ended December 31, 2020.

Capital Securities Corporation
Statement of cash and cash equivalents
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Cash	Petty cash	\$ 2,590	
Bank deposits	Checking accounts	34,481	
	Demand deposits	66,682	
	Foreign currency deposits	109,556	USD1,773 Thousands @ 28.48 HKD305 Thousands @ 3.673 EUR248 Thousands @ 35.02 JPY1,001 Thousands @ 0.2763 SGD6 Thousands @ 21.56 CNY6,145 Thousands @ 4.377 AUD1,000 Thousands @ 21.950
Cash equivalents	Time deposits	708,320	Maturity dates are 2021.1.3 to 2021.12.5 and the interest rates are 0.77%~0.82%
	Foreign time deposits	65,655	CNY15,000 Thousands @ 4.377 Maturity date is 2021.2.11 and the interest rate is 2.35%
	Futures margin - excess margin (NTD)	442,790	
	Futures margin - excess margin (Foreign currency)	168,119	HKD819 Thousands @ 3.673 EUR18 Thousands @ 35.02 JPY(7,305) Thousands @ 0.2763 USD5,846 Thousands @ 28.48
Total		<u>\$ 1,598,193</u>	

Capital Securities Corporation

**Statement of financial assets at fair value through profit or loss - current—open-ended funds and
money-market instruments**

December 31, 2020

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
FSITC Money Market Fund		78,528	-	-	-	\$ 14,049	179.85	14,123	-	
Fuh Hwa Money Market Fund		2,086,315	-	-	-	30,000	14.54	30,343	-	
Prudential Financial India Opportunity Bond Fund		272,786	-	-	-	3,000	10.49	2,862	-	
Cathy China Domestic Demand Growth Fund		1,458,671	-	-	-	45,000	32.43	47,305	-	
Franklin Templeton SinoAm AI Hi-Tech Fund		1,000,000	-	-	-	10,000	10.35	10,350	-	
Franklin Templeton SinoAm China Consumption Fund		1,792,639	-	-	-	20,000	14.42	25,850	-	
Franklin Templeton SinoAm Preferred Securities Income Fund A		488,758	-	-	-	5,000	11.49	5,616	-	
JPMorgan(Taiwan) Eastern Technology Fund		306,748	-	-	-	15,000	62.00	19,019	-	
JPMorgan (Taiwan) Global Dividend Fund		1,244,813	-	-	-	15,000	12.88	16,033	-	
Total						157,049		<u>171,501</u>		
Valuation adjustment						14,452				
Net amount						<u>\$ 171,501</u>				

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current—trading securities
(Proprietary trading)
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars; Foreign currencies)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
Listed stocks										
Turvo International Co., Ltd.		655,000	\$ 10	6,550		51,204	83.70	54,824	-	
Elite Material Co., Ltd.		439,000	10	4,390		69,553	157.00	68,923	-	
Media Tek Inc.		70,000	10	700		49,378	747.00	52,290	-	
Hung Sheng Construction Co., Ltd.		3,155,360	10	31,554		88,116	19.60	61,845	-	
Machvision, Inc. Co. Ltd.		200,000	10	2,000		58,383	294.50	58,900	-	
Powertech Technology Co., Ltd.		1,435,000	10	14,350		131,560	94.90	136,181	-	
Others		5,312,000	10	53,120		406,693		413,597	-	Note
Subtotal						854,887		846,560		
Listed funds										
Fubon Taiwan Technology Tracker Fund		500,000	10	5,000		55,011	110.20	55,100	-	
Cathy FTSE China A50 ETF		2,441,000	10	24,410		64,535	27.45	67,005	-	
Cathy FTSE China A50 Daily Leveraged 2X ETF		1,735,000	10	17,350		86,194	53.50	92,823	-	
Yuanta S&P GSCI Gold 2X Leveraged ER Futures ETF		3,847,000	10	38,470		114,338	30.17	116,064	-	
Cathay Taiwan 5G Plus ETF		6,554,000	10	65,540		97,883	15.25	99,949	-	
Others		12,552,000	10	125,520		248,656		257,369	-	Note
Subtotal						666,617		688,310		
OTC stocks										
Landmark Optoelectronics Corp.		280,000	10	2,800		76,606	282.50	79,100	-	
Dynapack International Technology Corp.		700,000	10	7,000		58,842	84.40	59,080	-	
Ardentec Technology Inc.		320,000	10	3,200		12,557	38.65	12,368	-	
Taidoc Technology Corp.		135,000	10	1,350		27,117	181.50	24,503	-	
Parade Technologies Corp.		15,000	10	150		16,681	1110.00	16,650	-	
Galaxy Software Services Corp.		205,393	10	2,054		13,593	62.00	12,734	-	
Others		65,508	10	655		13,703		14,618	-	Note
Subtotal						219,099		219,053		
OTC funds										
Fubon 1-3 Years US Treasury Bond ETF		370,000	10	3,700		14,195	37.82	13,993	-	
Fubon China Policy Bank Bond 0-1 ETF		750,000	10	7,500		30,000	40.01	30,008	-	
Fubon FTSE Asian Broad Bond Index-China Investment-Grade ETF		630,000	10	6,300		25,200	38.59	24,312	-	
Fubon FTSE World Broad Investment-Grade USD Bank Bond 10+ Years Index ETF		690,000	10	6,900		29,595	46.08	31,795	-	
Fubon Emerging Market USD Investment Grade Bond ETF		515,000	10	5,150		20,553	38.74	19,951	-	
Fubon 7-15 Years Europe USD Banking ETF		597,000	10	5,970		23,804	39.08	23,331	-	
Others		126,000	10	1,260		5,736		5,752	-	Note
Subtotal						149,083		149,142		

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current—trading securities
(Proprietary trading)
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars; Foreign currencies)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
Emerging market stocks										
Century Wind Power Co., Ltd.		1,139,913	\$ 10	11,399		156,216	166.58	189,886	-	
Powerchip Semiconductor Manufacturing Corp.		974,364	10	9,744		47,214	49.98	48,699	-	
Unictron Technologies Corp.		945,356	10	9,544		91,165	94.34	90,034	-	
Others		7,963,696	10	79,637		322,624		313,254	-	Note
Subtotal						617,219		641,873		
Convertible bonds										
Walsin Technology Corp. (24921)		510	100,000	51,000		53,016	114.60	58,446	-	
Ennoconn Corporation (64143)		944	100,000	94,400		101,057	114.20	107,805	-	
Top Bright Holding Co., Ltd. (84991)		497	100,000	49,700		56,315	115.00	57,155	-	
Century Iron And Steel Industrial Co., Ltd. (99584)		446	100,000	44,600		48,237	123.80	55,215	-	
Others		6,115	100,000	611,500		662,425		671,754	-	Note
Subtotal						921,050		950,375		
Government bonds										
A01105	2012/03/07~2022/03/07			200,000	1.25%	204,229	101.32	202,645	-	Interest payment every year
A07107	2018/07/20~2023/07/20			199,400	0.63%	198,569	101.23	201,854	-	"
A07111	2018/11/23~2023/11/23			250,000	0.75%	249,487	101.72	254,306	-	"
A08101	2019/01/14~2024/01/14			250,000	0.63%	249,049	101.36	253,422	-	"
A08109	2019/10/14~2029/10/14			300,000	0.63%	301,608	102.69	308,073	-	"
A08111	2019/11/22~2021/11/22			400,000	0.50%	399,746	100.34	401,384	-	"
A09101	2020/01/10~2025/01/10			400,000	0.50%	401,131	101.35	405,421	-	"
A09107	2020/07/17~2025/07/17			250,000	0.25%	249,217	100.29	250,732	-	"
A09109	2020/10/14~2030/10/14			300,000	0.25%	299,003	99.37	298,126	-	"
A09113	2020/12/29~2040/12/29			300,000	0.38%	295,706	98.83	296,506	-	"
Others				470,000		481,068		483,195	-	Note
Subtotal						3,328,813		3,355,664		
Corporate bonds										
Winbond Electronics Co. (B61424)	2018/07/17~2025/07/17			500,000	1.00%	500,037	101.85	509,265	-	Interest payment every year
Shanyuan Co., Ltd. (B87001)	2017/05/31~2022/05/31			500,000	1.14%	500,000	100.89	504,454	-	"
Cathay Financial Holdings Co., Ltd. (B98906)	2020/06/23~2025/06/23			500,000	0.59%	500,000	100.71	503,572	-	"
Shanyuan Co., Ltd. (B87001)	2017/05/31~2022/05/31			500,000	1.14%	500,000	100.93	504,699	-	"
EVA Air (B93866)	2016/12/29~2021/12/29			500,000	1.07%	500,000	100.54	502,748	-	"
Zkteco Inc. (B95451)	2015/08/03~2020/08/03			500,000	1.35%	400,915	100.42	401,713	-	"
Others				6,765,000		6,766,781		6,800,043	-	Note
Subtotal						8,266,818		8,317,334		

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current—trading securities
(Proprietary trading)
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars; Foreign currencies)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note		
							Unit price (Dollars)	Total amount				
International bonds												
QNB Finance Ltd.	2018/06/21~2021/06/21			CNY	100,000	5.25%	437,700	CNY	100.97	441,959	-	Interest payment every year
Central American Bank for Economic Integration	2020/06/17~2025/06/17			USD	30,000	1.68%	854,400	USD	103.97	888,354	-	Interest payment every season
KEB Hana Bank	2018/07/26~2023/07/26			USD	15,000	1.01%	427,200	USD	100.71	430,237	-	"
QNB Finance Ltd.	2018/05/31~2021/05/31			USD	20,000	1.57%	569,600	USD	100.46	572,237	-	"
Arab Petroleum Investments Corporation	2017/10/26~2022/10/26			USD	11,000	1.31%	313,280	USD	100.61	315,185	-	"
First Abu Dhabi Bank	2019/07/08~2024/07/08			USD	20,000	1.13%	569,600	USD	100.23	570,921	-	"
Woori Card Co., Ltd.	2020/10/16~2025/10/16			USD	15,000	1.23%	427,200	USD	100.00	427,200	-	"
Orsted Wind Power TW Holding A/S	2019/11/19~2026/11/19			TWD	300,000	0.92%	300,000	TWD	101.23	303,696	-	Interest payment every year
Others							1,250,312			1,258,241	-	Note
Subtotal							5,149,292			5,208,030		
Financial debentures												
G10162	2019/09/25~2022/09/25				200,000	0.65%	200,000		100.23	200,463	-	Interest payment every year
G13313	2018/03/28~2023/03/28				250,000	0.85%	251,985		100.00	250,000	-	"
G13418	2019/01/23~2022/01/23				300,000	0.77%	301,109		100.32	300,989	-	"
G189AE	2012/11/06~2022/11/06				200,000	1.55%	204,684		101.89	203,785	-	"
Subtotal							957,778			955,237		
Foreign stocks												
iShares PHLX Semiconductor ETF		3,823					40,611	USD	379.18	41,285	-	
SPDR S&P 500 ETF		25,300					236,229	CNY	321.86	244,129	-	"
Others		4,200					4,456			1,681	-	Note
Subtotal							40,611			41,285		
Other												
Acer E-Enabling Service Business Inc.		100,000	10	1,000			7,200		72.00	7,200	-	
Chainlong Inc.			4,612	10	46		28		-	-	-	
Others		20,706	10	207			300			-	-	Note
Subtotal							7,500			7,200		
Total							21,178,767			\$ 21,380,063		
Valuation adjustment							201,296					
Net amount							\$ 21,380,063					

Note: The amount of single security is under 5% of the subject.

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current—trading securities
(Underwriting business)
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
Listed stocks										
Chailease PREF A		1,901,000	\$ 10	19,010		190,100	99.60	189,340	-	
Other		565,000	10	5,650		13,806	-	12,740	-	Note
Subtotal						203,906		202,080		
OTC stocks										
Optivision Technology Inc.		10,000	10	100		700	79.10	791	-	
Subtotal						700		791		
Convertible bonds										
Chung-hsin Electric & Machinery Mfg. Corp. 2nd		285	100,000	28,500		28,614	117.85	33,587	-	
TEAM Group Inc. 2nd		55	100,000	5,500		5,856	125.20	6,886	-	
KMC International Inc. 3rd		50	100,000	5,000		5,375	110.00	5,500	-	
Subtotal						39,845		45,973		
Total						244,451		248,844		
Valuation adjustment						4,393				
Net amount						\$ 248,844				

Note: The amount of single security is under 5% of the subject.

Capital Securities Corporation

Statement of financial assets at fair value through profit or loss - current—trading securities

(Hedging business)

December 31, 2020

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
Listed stocks										
Fubon S&P 500 VIX Short-Term Futures ETF		31,987,000	\$ 10	319,870		135,189	3.96	126,668	-	Warrants
Taiwan Semiconductor Manufacturing Co., Ltd.		356,960	10	3,570		177,813	530.00	189,189	-	"
Others		116,783,916	10	1,167,839		2,058,657		2,148,773	-	Warrants/Note
Subtotal						2,371,659		2,464,630		
OTC stocks										
Pix Art Imaging Inc.		222,225	10	2,222		44,042	192.00	42,667	-	Warrants
International Games System Co., Ltd.		71,316	10	713		52,339	758.00	54,058	-	"
Xintec Inc.		489,000	10	4,890		88,866	183.50	89,731	-	"
Oneness Biotech Co., Ltd.		172,000	10	1,720		43,209	241.00	41,452	-	"
Sino American Silicon Products Inc.		330,718	10	3,307		44,059	177.50	58,702	-	"
Globalwafers. Co., Ltd.		74,518	10	745		48,543	708.00	52,759	-	"
Others		11,376,978	10	113,770		430,078		424,923	-	Warrants/Note
Subtotal						751,136		764,292		
Convertible bonds										
Highwealth Construction Corp.		3,198	100,000	319,800		375,082	121.20	387,598	-	Asset swaps
Others		59,173	100,000	5,917,300		6,489,223		6,831,292	-	Asset swaps/Note
Subtotal						6,864,305		7,218,890		
Others										
Capital Global Financial Bond Fund		189,194,891	10	1,891,949		1,826,385	9.69	1,833,715	-	ELN
Subtotal						1,826,385		1,833,715		
Total						11,813,485		12,281,527		
Valuation adjustment						468,042				
Net amount						\$ 12,281,527				

Note: The amount of single security is under 5% of the subject.

Capital Securities Corporation
Statement of financial assets at fair value through other comprehensive income - current
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Accumulated impairment	Fair Value		Note
								Unit price (Dollars)	Total amount	
Debt instruments										
<u>Government bonds</u>										
A04112	2015/9/11~2025/9/11		Repayment of principal at maturity.	800,000	1.13%	\$ 819,134	-	104.44	835,560	Interest payment every year
A05111	2016/9/7 ~2026/9/7		"	600,000	0.63%	600,298	-	102.11	612,671	"
A07107	2018/7/20~2023/7/20		"	200,000	0.63%	200,286	-	101.23	202,462	"
A08101	2019/1/14~2024/1/14		"	600,000	0.63%	601,026	-	101.36	608,212	"
Subtotal						2,220,744			2,258,905	
<u>International bonds</u>										
Natixis	2018/3/8 ~2048/3/8		Repayment of principal at maturity.	USD 10,000	-	284,800	-	USD 114.65	326,527	Interest payment every year
QNB Finance Ltd.	2016/7/18~2021/7/18		"	USD 10,000	1.79%	284,461	-	USD 100.67	286,694	Interest payment every season
ADCB Finance (Cayman) Ltd.	2020/2/12~2025/2/12		"	USD 8,000	1.24%	227,840	-	USD 98.52	224,456	"
Subtotal						797,101			837,677	
<u>Foreign bonds</u>										
Others						14,607,024			15,121,602	Note
Subtotal						14,607,024			15,121,602	
Total						17,624,869			18,218,184	
Valuation adjustment						593,315				
Net amount						18,218,184				
Equity instrument										
<u>Listed stocks</u>										
Asia Cement Corporation		1,000,000	10			\$ 44,802	-	43.20	43,200	
Formosa Plastics Corporation		160,000	10			15,447	-	96.40	15,424	
Lite-On Technology Corporation		400,000	10			19,486	-	49.80	19,920	
Transcend Information, Inc.		533,000	10			44,698	-	65.00	34,645	
Chlitina Holding Ltd.		162,000	10			32,419	-	198.00	32,076	
Subtotal						156,852			145,265	
<u>OTC stocks</u>										
Dynapack International Technology Corp.		219,000	10			13,743	-	84.40	18,484	
Senao Networks Inc.		155,000	10			16,483	-	103.00	15,965	
Subtotal						30,226			34,449	
Total						187,078			179,714	
Valuation adjustment						(7,364)				
Net amount						179,714				
Grand Total						\$ 18,397,898				

Note: The amount of single security is under 5% of the subject.

Capital Securities Corporation
Statement of receivable for securities provided as
collateral
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Name of security</u>	<u>Shares or units</u>	<u>Amount</u>	<u>Note</u>
Others	595,559,000	\$ 14,539,775	Note: The amount of single security is under 5% of the subject.
Less: allowance for doubtful accounts		(19,184)	
Total		<u>\$ 14,520,591</u>	

Statement of derivative instruments and others
approved by the authority

<u>Name of derivative instrument</u>	<u>Description</u>	<u>Fair Value</u>	<u>Note</u>
Derivative financial asset	Futures margin - proprietary fund	\$ 296,313	
	Call options	51	
	IRS asset swaps	13,100	
	Asset swap options - long position	157,459	
	Structured notes	<u>7,785</u>	
	Total		<u>\$ 474,708</u>
Other liabilities approved by the authority	Exchange Traded Notes	\$ 868	
	Valuation Adjustment	260	
Derivative financial liability	Stock warrants issued	9,668,055	
	Stock warrants repurchased	(8,941,544)	
	Structured notes	619,483	
	Asset swap options - short position	1,267,802	
	IRS asset swaps	10,968	
	Interest rate swaps	505	
	Currency swaps	<u>12,759</u>	
	Total		<u>\$ 2,639,156</u>

Capital Securities Corporation
Statement of accounts receivable
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Client name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
TWSE&TPEx, etc.	Receivables on securities sold	\$ 8,609,466	
"	Settlement	1,426,058	
Subsidiaries	Commission receivable	16,360	
Customers of the Brokerage	Receivable on securities purchased by customers	40,983	Note: The amount of single client is under 5% of the subject.
"	Interests receivable - financing	171,102	"
Others	Interests receivable - others	262,983	"
"	Others	<u>68,391</u>	"
	Subtotal	10,595,343	
	Less: allowance for doubtful accounts	<u>(241)</u>	
	Total	<u><u>\$ 10,595,102</u></u>	

Statement of prepayments

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
TWSE	Prepaid listing fees	\$ 3,246	
TPEx	Prepaid OTC fees	1,366	
Others	Prepaid other insurance	2,946	Note: The amount of single item is under 5% of the subject.
"	Prepaid informaiton fees	3,330	"
"	Prepaid advertisement expense	1,751	"
"	Prepaid repairs and maintenance	2,730	"
"	Others	<u>11,978</u>	"
Total		<u><u>\$ 27,347</u></u>	

Capital Securities Corporation

Statement of other receivables

December 31, 2020

(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Other receivable	Default receivable	\$ 11,768	
	Rental receivable	47,334	
	Other receivables-CSC Futures	4,759	
	Other receivables-bank allocation fees	3,532	
	Others	7,049	Note: The amount of single item is under 5% of the subject.
	Subtotal	<u>74,442</u>	
Less: allowance for doubtful accounts		(3,832)	
	Total	<u><u>\$ 70,610</u></u>	

Statement of other current assets

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Restricted assets - current		\$ 20,829	
Amounts held for settlement		235,627	
Receipts under custody from customer's security subscription		1,490,866	
Others		13	Note: The amount of single item is under 5% of the subject.
Total		<u><u>\$ 1,747,335</u></u>	

Capital Securities Corporation

**Statement of changes in financial assets at fair value through profit or loss –
non-current**

For the year ended December 31, 2020

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Beginning Balance		Addition		Decrease		Ending Balance		Collateral	Note
	Par value	Fair value	Par value	Amount	Par value	Amount	Par value	Fair value		
A05113	\$ 130,000	130,243	-	341	-	-	130,000	130,584	Yes	Interest payment every year
A06102	50,000	<u>50,224</u>	-	<u>121</u>	-	<u>-</u>	50,000	<u>50,345</u>	"	"
Total		<u>\$ 180,467</u>		<u>462</u>		<u>-</u>		<u>180,929</u>		

Capital Securities Corporation
Statement of financial assets measured at fair value through other
comprehensive income – non-current

For the year ended December 31, 2020

(Expressed in Thousands of New Taiwan Dollars)

Name	Beginning Balance		Addition		Decrease		Ending Balance		Accumulated impairment	Collateral	Note
	Shares or units	Fair value	Shares or units	Amount	Shares or units	Amount	Shares or units	Fair value			
Taiwan Depository & Clearing Corporation	4,905,887	\$ 463,656	122,647	68,263	-	-	5,028,534	531,919	Not applicable	No	
Taiwan Futures Exchange Corporation	10,094,656	932,746	403,786	-	-	17,702	10,498,442	915,044	"	"	
Taiwan Stock Exchange Corporation	4,189,607	486,078	125,688	77,499	-	-	4,315,295	563,577	"	"	
Huan Hua Co., Ltd.	24,186,568	254,443	-	-	23,060,248	241,513	1,126,320	12,930	"	"	
Others	5,564,516	37,181	2,002,781	11,725	458,845	2,336	7,108,452	46,570	"	"	Note
Total		\$ 2,174,104		157,487		261,551		2,070,040			

Note: The amount of single item is under 5% of the subject.

Capital Securities Corporation

Statement of changes in investments accounted for using the equity method

For the year ended December 31, 2020

(Expressed in Thousands of New Taiwan Dollars)

Name of investee	Beginning Balance		Addition		Decrease		Ending Balance			Market Value or Net Assets Value		Collateral
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Percentage of ownership	Amount	Unit price	Total amount	
Capital Investment Management Corp.	7,000,000	\$ 92,445	-	-	-	16,565	7,000,000	100.00 %	75,880	10.84	75,880	No
CSC International Holdings Ltd.	45,000,000	1,605,349	-	766	-	77,670	45,000,000	100.00 %	1,528,445	33.97	1,528,445	"
Capital Futures Corp.	99,182,845	2,817,870	19,883,169	1,036,148	-	255,622	119,066,014	56.58 %	3,598,396	38.70	4,607,855	"
Capital Insurance Advisory Corp.	500,000	78,906	-	26,125	-	53,045	500,000	100.00 %	51,986	103.97	51,986	"
Capital Insurance Agency Corp.	740,000	43,447	-	-	-	4,257	740,000	100.00 %	39,190	52.96	39,190	"
CSC Venture Capital Corp.	100,000,000	763,112	-	81,606	-	3,597	100,000,000	100.00 %	841,121	8.41	841,121	"
Taiwan International Securities (B.V.I) Corp.	300	18	-	446	-	444	300	100.00 %	20	66.67	20	"
Taiwan International Securities Investment Consulting Corp.	999,200	12,644	-	-	999,200	12,644	-	- %	-	-	-	"
CSC Capital Management Co.	-	-	33,000,000	330,000	-	258	33,000,000	100.00 %	329,742	9.99	329,742	"
Capital Investment Trust Corp.	33,067,507	1,301,360	-	155,206	-	115,737	33,067,507	20.00 %	1,340,829	24.91	823,712	"
Total		\$ 6,715,151		1,630,297		539,839			7,805,609		8,297,951	

Note 1: The decrease of Capital Investment Management Corp. is due to losses on investment amounted to \$16,565.

Note 2: The addition of CSC International Holdings Ltd. is due to gains on investment amounted to \$766; the decrease is due to allocation of exchange differences on translation of foreign operations amounted to \$77,670.

Note 3: The addition of Capital Futures Corp. is due to investment profits amounted to \$351,228, and unrealised gains from investments in equity instruments measured at fair value through other comprehensive income amounted to \$683,981; the decrease is due to allocation of exchange differences on translation of foreign operations amounted to \$24,514, the declared for cash dividends distribution by the investee amounted to \$226,225, the actuarial losses on capital surplus changes in ownership interests in subsidiaries amounted to \$4,482, and the actuarial loss from defined benefit plans amounted to \$401.

Note 4: The addition of Capital Insurance Advisory Corp. is due to investment profits amounted to \$26,125; the decrease is due to the declared for cash dividends distribution by the investee amounted to \$53,045.

Note 5: The decrease of Capital Insurance Agency Corp. is due to investment loss amounted to \$217 and the declared for cash dividends distribution by the investee amounted to \$4,040.

Note 6: The addition of CSC Venture Capital Corp. is due to unrealised gains from investments in equity instruments measured at fair value through other comprehensive income amounted to \$81,606. The decrease of CSC Venture Capital Corp. is due to investment losses amounted to \$3,597.

Note 7: The addition of Taiwan International Securities (B.V. I) Corp. is due to investment gains amounted to \$446; the decrease is due to exchange differences on translation of foreign operations amounted to \$444.

Note 8: The decrease of Taiwan International Securities Investment Consulting Corp. is due to investment losses amounted \$6, and the liquidation of remaining assets amounted to \$12,638.

Note 9: CSC Capital Management Co. is due to increased investments amounted to \$330,000, and the decrease is due to investment loss amounted to \$258.

Note 10: The addition of Capital Investment Trust Corp. is due to investment profits amounted to \$152,712, unrealised gains from investments in equity instruments measured at fair value through other comprehensive income amounted to \$2,451, and actuarial gains on defined benefit plans amounted to \$43; the decrease is due to the declared for cash dividends distribution by the investee amounted to \$115,737.

Capital Securities Corporation
Statement of changes in property and equipment
For the year ended December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

Item	Beginning Balance	Addition	Decrease	Ending Balance	Note
Land	\$ 1,500,863	453,207	358,819	1,595,251	Land provides as collateral amounted to \$1,023,372.
Buildings	872,582	296,634	166,812	1,002,404	Undepreciated Buildings provides as collateral amounted to \$346,395.
Equipment					
Office	26,396	2,535	448	28,483	
Computer facilities	316,315	53,330	134,804	234,841	
Miscellaneous	125,314	11,508	2,179	134,643	
Leasehold improvements	225,960	18,726	18,826	225,860	
Total	\$ 3,067,430	835,940	681,888	3,221,482	

Note: The addition includes purchases and transferred-in, and the decrease includes disposals and transferred-out.

Capital Securities Corporation

**Statement of changes in accumulated depreciation of
property and equipment**

For the year ended December 31, 2020

(Expressed in Thousands of New Taiwan Dollars)

Item	Beginning Balance	Addition	Decrease	Ending Balance	Note
Buildings	\$ 377,939	148,706	35,873	490,772	
Equipment					
Office	6,710	4,507	448	10,769	
Computer facilities	195,579	48,653	134,803	109,429	
Miscellaneous	54,023	21,241	2,180	73,084	
Leasehold improvements	93,608	45,439	18,826	120,221	
Total	\$ <u>727,859</u>	<u>268,546</u>	<u>192,130</u>	<u>804,275</u>	

Note 1: The addition includes purchases and transferred-in, and the decrease includes disposals and transferred-out.

Note 2: The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

(1) Buildings : 3~55 years

(2) Transportation equipment : 5 years

(3) Office equipment and computer facilities : 3~5 years

(4) Miscellaneous equipment : 5~10 years

(5) Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease term.

Capital Securities Corporation
Statement of changes in right-of-use assets
For the year ended December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

Item	Beginning Balance	Addition	Decrease	Ending Balance	Note
Buildings	\$ 993,910	101,925	50,667	1,045,168	
Equipment	14,711	2,329	3,714	13,326	
Total	\$ 1,008,621	104,254	54,381	1,058,494	

**Statement of changes in accumulated depreciation of
right-of-use assets**

Item	Beginning Balance	Addition	Decrease	Ending Balance	Note
Buildings	\$ 151,405	162,751	47,744	266,412	
Equipment	5,109	5,579	3,566	7,122	
Total	\$ 156,514	168,330	51,310	273,534	

Capital Securities Corporation
Statement of changes in investment property
For the year ended December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Note</u>
Land	\$ 3,463,814	358,819	462,177	3,360,456	The property is subsequently measured at cost method, the depreciation is recognized on a straight-line basis, and the useful life is estimated 3~50 years.
Buildings	1,443,515	166,557	296,897	1,313,175	
Total	<u>\$ 4,907,329</u>	<u>525,376</u>	<u>759,074</u>	<u>4,673,631</u>	

Note 1: The addition includes transferred-in, and the decrease includes transferred-out.

Note 2: Land provides as collateral amounted to \$2,649,774, and undepreciated buildings provides as collateral amounted to \$527,330.

Statement of changes in accumulated depreciation of investment property

<u>Item</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending Balance</u>
Buildings	<u>\$ 560,569</u>	<u>62,688</u>	<u>129,418</u>	<u>493,839</u>

Note: The addition includes depreciation and transferred-in, and the decrease includes transferred-out.

Capital Securities Corporation
Statement of deferred income tax assets
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Unrealized losses on financial derivative instruments		\$ 54,277	
Unrealized losses on foreign investments under equity method		18,012	
Exchange differences on translation of foreign financial statements		5,421	
		<u>\$ 77,710</u>	

Statement of other non-current assets

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Guarantee deposited for business operations	Time deposits within one year and government bonds	\$ 870,000	
Settlement fund	Deposited at Taiwan Stock Exchange, Taipei Exchange and Taiwan Futures Exchange	143,517	
Refundable deposits		84,782	
Deferred fee		10,445	
Prepayments for business facilities		100,750	
Overdue receivables		219,367	
Others		<u>25</u>	
Subtotal		1,428,886	
Less: allowance for doubtful accounts		(219,367)	
Total		<u>\$ 1,209,519</u>	

Capital Securities Corporation
Statement of short-term borrowings
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Type</u>	<u>Description</u>	<u>Ending balance</u>	<u>Contract term</u>	<u>Range of interest rate</u>	<u>Loan Commitment</u>	<u>Collateral</u>	<u>Note</u>
Collateralized loan	loans from financial institutions	\$ 1,449,632	due within one year	0.75%	2,100,000	Property	
Credit loan	"	2,111,457	"	0.44%~0.95%	11,804,400		
		<u>\$ 3,561,089</u>					

Capital Securities Corporation
Statement of financial liabilities at fair value through profit or loss(excluding derivatives) - current
(Liabilities on sale of borrowed securities)
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Fair Value		Fair value changes is attributable to the changes in credit risk	Note
						Unit price (Dollars)	Total amount		
Hedged									
Yuanta S&P GSCI Crude Oil ER Futures ETF		10,957,000		\$ 89,576		8.29	90,834	-	Warrants-hedged
Fubon S&P 500 VIX Short-Term Futures ETF		113,856,000		513,274		3.96	450,870	-	"
JKO S&P GSCI Brent Crude 2x Leveraged ER Futu		18,793,000		76,262		4.57	85,884	-	"
Yuanta Securities Investment Trust Co., Ltd.		1,006,000		104,143		122.25	122,983	-	"
Others		2,425,000		119,367			140,008	-	"/Note
Subtotal				<u>902,622</u>			<u>890,579</u>		
Non-hedged									
Fubon S&P 500 VIX Short-Term Futures ETF		10,046,000		<u>44,966</u>		3.96	<u>39,782</u>	-	
Subtotal				<u>44,966</u>			<u>39,782</u>		
Total				947,588					
Valuation adjustment				(17,227)			<u>\$ 930,361</u>		
Net amount				<u>\$ 930,361</u>					

Note : The amount of single security is under 5% of the subject.

Capital Securities Corporation
Statement of bonds sold under repurchase
agreements
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

Name of security	Contract terms			Type	Amount		Note
	Start Date	Maturity date	Range of interest rate		Par value (Dollars)	Turnover	
Others	2020/04/14 ~ 2020/12/31	2021/01/4 ~ 2021/12/16	0.10%~2.60%		\$ <u>35,773,131</u>	<u>35,482,996</u>	Note

Note: The amount of single security is under 5% of the subject.

Statement of guarantee deposited for short sales

Name of security	Shares	Amount	Note
MediaTek Inc.	274,000	\$ 156,692	
Evergreen Marine Corp.	8,663,000	154,611	
Auras Technology Co., Ltd.	766,000	147,107	
Others	58,107,000	2,173,353	Note: The amount of single security is under 5% of the subject.
	<u>67,810,000</u>	\$ <u>2,631,763</u>	

Capital Securities Corporation
Statement of proceeds payable from short sales
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Name of security</u>	<u>Shares</u>	<u>Amount</u>	<u>Note</u>
MediaTek Inc.	274,000	\$ 173,376	
Evergreen Marine Corp.	8,663,000	238,118	
Auras Technology Co., Ltd.	766,000	162,824	
Others	58,107,000	2,446,931	Note: The amount of single security is under 5% of the subject.
	<u>67,810,000</u>	<u>\$ 3,021,249</u>	

Statement of accounts payable

<u>Client name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Taipei Exchange	Payable on securities purchased	\$ 59,894	
Taiwan Stock Exchange	"	223,986	
Customers of the brokerage		9,920,346	Note: The amount of single client is under 5% of the subject.
"	Payable of securities sold by customers	65,929	"
Subsidiaries	Commission payable	2,679	
Others	Payable on securities purchased	37,361	Note: The amount of single client is under 5% of the subject.
"	Others	<u>77,900</u>	"
	Total	<u>\$ 10,388,095</u>	

Capital Securities Corporation
Statement of other payables
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Salary and bonus payable		\$ 469,767	
Service charge discounts payable		174,238	
Employees and directors' remuneration		122,021	
Others		163,046	Note: The amount of single item is under 5% of the subject.
Total		<u>\$ 929,072</u>	

Statement of lease liabilities

<u>Item</u>	<u>Description</u>	<u>Lease Term</u>	<u>Discount Rate</u>	<u>Ending Balance</u>	<u>Note</u>
Buildings		2019.1.1~2028.8.31	0.99%~1.35%	\$ 835,246	Note
Equipment		2019.3.19~2024.12.23	0.99%~1.35%	6,282	"
				<u>\$ 841,528</u>	

Note: Lease liabilities due within one year have been transferred to current liabilities.

Statement of provisions - current

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Employee benefits liabilities provisions	Compensated absences	<u>\$ 42,695</u>	

Capital Securities Corporation
Statement of deferred income tax liabilities
December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Amortization of goodwill		\$ 362,697	
Land value incremental tax		47,690	
Others		1,928	Note: The amount of single item is under 5% of the subject.
		<u>\$ 412,315</u>	

Statement of other non-current liabilities

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Guarantee deposits received		\$ 53,626	
Pension liability payable		735,968	
Others	Contingent liability	<u>48,034</u>	
Total		<u>\$ 837,628</u>	

Capital Securities Corporation
Statement of brokerage commissions
For the year ended December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

Month	Brokerage commission		Securities	Other brokerage commission	Total
	TSE market	OTC market	Lending Fees Income		
January	\$ 124,400	38,133	1,352	7,066	170,951
February	144,973	50,112	2,386	7,908	205,379
March	212,535	56,829	3,422	9,479	282,265
April	178,262	54,301	3,160	8,075	243,798
May	192,020	71,338	2,846	8,204	274,408
June	201,400	79,610	2,425	10,817	294,252
July	277,729	120,417	3,524	10,681	412,351
August	244,159	78,337	3,219	8,829	334,544
September	214,526	69,326	3,274	9,012	296,138
October	166,224	50,281	2,388	7,952	226,845
November	236,676	80,471	2,923	10,327	330,397
December	<u>330,219</u>	<u>98,389</u>	<u>3,087</u>	<u>10,680</u>	<u>442,375</u>
Total	\$ <u>2,523,123</u>	<u>847,544</u>	<u>34,006</u>	<u>109,030</u>	<u>3,513,703</u>

Capital Securities Corporation
Statement of underwriting commissions
For the year ended December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Month</u>	<u>Remuneration</u>	<u>Revenues from underwriting securities on a best efforts basis</u>	<u>Revenues from underwriting processing fee</u>	<u>Revenue from underwriting advisory fees</u>	<u>Other</u>	<u>Total</u>	<u>Note</u>
January	\$ 7,441	19	1,038	2,630	400	11,528	
February	8,598	73	2,450	420	-	11,541	
March	2,794	39	252	510	-	3,595	
April	10,786	48	1,154	720	61	12,769	
May	2,942	37	714	360	400	4,453	
June	9,391	35	2,310	(240)	20	11,516	
July	10,250	54	299	420	50	11,073	
August	12,279	47	5,212	360	300	18,198	
September	3,156	46	86,364	480	300	90,346	
October	6,693	45	7,081	2,090	50	15,959	
November	4,614	46	979	180	-	5,819	
December	7,339	42	9,722	360	30	17,493	
Total	\$ 86,283	531	117,575	8,290	1,611	214,290	

Capital Securities Corporation
Statement of gains (losses) on sale of trading
securities
For the year ended December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Revenue from sale of securities</u>	<u>Cost from sale of securities</u>	<u>Net gains (losses) from sale of securities</u>	<u>Note</u>
<u>Dealing</u>				
TSE market:				
Stocks	\$ 15,051,547	14,885,288	166,259	
OTC market:				
Stocks	11,570,613	11,318,841	251,772	
Bonds	118,124,484	118,073,933	50,551	
Convertible bonds	1,397,519	1,299,626	97,893	
foreign market:				
Stocks	4,471,670	4,466,890	4,780	
Bonds	<u>196,836</u>	<u>196,223</u>	<u>613</u>	
Total	<u>\$ 150,812,669</u>	<u>150,240,801</u>	<u>571,868</u>	
<u>Underwriting</u>				
TSE market:				
Stocks	\$ 79,773	56,540	23,233	
OTC market:				
Stocks	46,333	50,754	(4,421)	
Convertible bonds	<u>629,063</u>	<u>569,329</u>	<u>59,734</u>	
Total	<u>\$ 755,169</u>	<u>676,623</u>	<u>78,546</u>	
<u>Hedging</u>				
TSE market:				
Stocks	\$ 25,491,903	25,458,122	33,781	
OTC market:				
Stocks	8,433,420	8,468,659	(35,239)	
Convertible bonds	13,987,208	13,329,627	657,581	
Fund	<u>648,104</u>	<u>646,115</u>	<u>1,989</u>	
Total	<u>\$ 48,560,635</u>	<u>47,902,523</u>	<u>658,112</u>	

Capital Securities Corporation
Statement of interest revenue
For the year ended December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Interest revenue - margin loans		\$ 613,935	
Interest revenue - bonds		646,278	
Others		<u>121,477</u>	
Total		<u>\$ 1,381,690</u>	

Statement of financial costs

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Interest expense - bonds with repurchase agreements		\$ 246,230	
Interest expense - bank borrowings		67,724	
Others		34,492	Note: The amount of single item is under 5% of the subject.
Total		<u>\$ 348,446</u>	

Capital Securities Corporation
Statement of employee benefits, depreciation,
amortization, and other operating expenses
For the year ended December 31, 2020
(Expressed in Thousands of New Taiwan Dollars)

Item	2020	2019	Note
Employee benefit expenses			
Salary expense	\$ 1,924,128	1,554,431	
Labor and national health insurance expense	137,941	129,502	
Pension expense	80,921	77,638	
Remuneration of directors	95,336	74,049	
Others	49,889	43,853	
Depreciation expense	334,791	327,215	
Amortization expense	25,186	26,056	
Others	<u>1,214,671</u>	<u>1,081,663</u>	
	<u>\$ 3,862,863</u>	<u>3,314,407</u>	

The number of employees hired by the company as of the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Employee Count	<u><u>1,883</u></u>	<u><u>1,805</u></u>
Unemployed trustee count	<u><u>9</u></u>	<u><u>9</u></u>
Average employee benefit expense	<u><u>\$ 1,170</u></u>	<u><u>1,005</u></u>
Average employee salary expense	<u><u>\$ 1,027</u></u>	<u><u>865</u></u>
Average employee salary adjustments	<u><u>18.73 %</u></u>	
Supervisor Compensation	<u><u>\$ -</u></u>	<u><u>-</u></u>

The Company's remuneration policies including directors, supervisors, managers and employees:

The remuneration to directors of the Company is based on degree of operation, contribution and industry average, and is determined by the board of directors. The remuneration to managers and employees of the Company is based on personal performance, participation, contribution to the Company, job, and reasonable relationship between performance of the Company and risks of future. The remuneration of directors and managers above must reviewed by the Remuneration and Compensation Committee and authorized by the board of directors.

CAPITAL SECURITIES CORPORATION

Other Disclosures in Financial Reports

For the Year Ended December 31, 2020

Capital Securities Corporation
Review Report of Other Disclosures in Financial Reports

To the Board of Directors
Capital Securities Corporation:

We have audited the financial statements of Capital Securities Corporation for the year ended December 31, 2020. Our audit was made in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and Republic of China generally accepted auditing standards, and we issued the audit report thereon on March 25, 2021. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The attached “Other Disclosures in Financial Reports” (Other Disclosures) is prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms. We have reviewed the information included in the Other Disclosures in accordance with article 32 paragraph 2 of Regulations Governing the Preparation of Financial Reports by Securities Firms.

Based on our review, the Other Disclosures in Financial Reports of Capital Securities Corporation for the year ended December 31, 2020 are in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms. The financial information disclosed is consistent with the basic financial statements and does not need any modification.

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)
March 25, 2021

Notes to Readers

The accompanying other disclosures in financial reports are intended only to present the statement of 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 audit such other disclosures in financial reports are those generally accepted and applied in the Republic of China.

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

CAPITAL SECURITIES CORPORATION
Other Disclosures in Financial Reports
For the year ended December 31, 2020

(1) Information on business conditions

(a) Significant business matters for the last 5 years

- (i) Acquisition or merger: None
- (ii) Demerger: None
- (iii) Investments in affiliated enterprises

(In Thousands of New Taiwan Dollars)

Name of investee	2020		2019		2018		2017		2016	
	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares
Capital Investment Management Corp.	75,880	7,000,000	92,445	7,000,000	106,690	7,000,000	107,158	7,000,000	105,330	7,000,000
CSC International Holdings Ltd.	1,528,445	45,000,000	1,605,349	45,000,000	1,636,902	45,000,000	1,593,416	45,000,000	1,742,614	45,000,000
Capital Futures Corp.	3,598,396	119,066,014	2,817,870	99,182,845	2,828,539	99,182,845	2,606,869	90,166,223	1,869,075	72,227,136
Capital Insurance Advisory Corp.	51,986	500,000	78,906	500,000	84,732	500,000	90,506	500,000	104,489	500,000
Capital Insurance Agency Corp.	39,190	740,000	43,447	740,000	40,757	740,000	41,547	740,000	52,200	740,000
Taiwan International Futures Corp.	-	-	-	-	-	-	-	11,999,721	-	11,999,721
Taiwan International Securities (B.V. L.) Corporation	20	300	18	300	347	300	881	300	(157)	300
Taiwan International Securities Investment Consulting Corp.	-	-	12,644	999,200	12,799	999,200	13,031	999,200	13,298	999,200
CSC Venture Capital Corp.	841,121	100,000,000	763,112	100,000,000	854,906	100,000,000	997,913	100,000,000	1,006,512	100,000,000
CSC Capital Management Co.	329,742	33,000,000	-	-	-	-	-	-	-	-
Capital Investment Trust Corporation	1,340,829	33,067,507	1,301,360	33,067,507	1,261,329	33,067,507	-	-	-	-

- (iv) Reorganization: None
- (v) Acquisition or disposal of major assets: None
- (vi) Significant changes in operation method (including sales system) or business activity: None

(Continued)

- (b) Remuneration to directors, supervisors, the president, vice presidents, and Chairmen of the board and presidents rehired as consultants after retiring from the securities firms or its affiliated enterprises and related information
- (i) Remuneration to Directors (including Independent Directors) (individual disclosure of names and remuneration)

(In Thousands of New Taiwan Dollars)

Title	Name	Director's remuneration								Relevant remuneration received by Directors who are also employees								Ratio of total remuneration (A+B+C+D+E+F+G) to net income(%)		Paid to Directors from Non-consolidated affiliates		
		Compensation(A)		Severance pay and Pension(B)		Compensation to Directors (C)		Allowances (D)		Ratio of total remuneration (A+B+C+D) to net income(%)		Salaries, bonuses, special allowances etc (E)		Severance pay and Pension (F)		Profit Sharing-Employee Bounes (G)						
		The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company		All companies included in the consolidated statements			The Company	All companies included in the consolidated statements
		Cash	Stock	Cash	Stock	Cash	Stock															
Chairmen	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	14,634	14,634	-	-	17,641	17,641	1,106	1,141	0.94 %	0.94 %	-	-	-	-	-	-	-	-	0.94 %	0.94 %	None
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	-	-	-	-	5,881	5,881	130	280	0.17 %	0.17 %	-	-	-	-	-	-	-	-	0.17 %	0.17 %	None
Director	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIHMING	-	-	-	-	5,881	5,881	130	130	0.17 %	0.17 %	-	-	-	-	-	-	-	-	0.17 %	0.17 %	None

1. The policy, system, standard and structure of remuneration to independent directors and the relevance between the amount of payment and responsibilities, risk, time engaged and other factors:
The remuneration to independent directors of the Company was based on the market and the salary standard of the same trade concerned, and was based on the principle of being in line with the industry's usual standards. Besides, it also considered the performance of each independent director, the degree of their participation in the Company's operation, contributions, responsibilities, degree of achievement of the Company's operating goals and the financial position of the Company. The remuneration to independent directors was reviewed by the Remuneration and Compensation Committee and resolved by the Board of Directors. The Remuneration and Compensation Committee regularly evaluated the remuneration to independent directors, and reviewed the remuneration system based on the operating condition and relevant regulations in order to pursue the balance between the Company's sustainable operation and risk management.

2. Compensation received by director for providing service to any Company included in the consolidated financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: NTS0.

(Continued)

(ii) Remuneration to Directors (including Independent Directors) (aggregate disclosure of names and remuneration)

(In Thousands of New Taiwan Dollars)

Title	Name	Director's remuneration								Relevant remuneration received by Directors who are also employees								Ratio of total remuneration (A+B+C+D+E+F+G) to net income(%)		Paid to Directors from Non-consolidated affiliates		
		Compensation (A)		Severance pay and Pension (B)		Compensation to Directors (C)		Allowances (D)		Ratio of total remuneration (A+B+C+D) to net income(%)		Salaries, bonuses, special allowances etc (E)		Severance pay and Pension (F)		Profit Sharing-Employee Bounes (G)						
		The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company		All companies in the consolidated financial statements			The Company	All companies included in the consolidated statements
																Cash	Stock	Cash	Stock			
Director	Kwang Hsing Industrial Co., Ltd Representative:TING, HSUEH-WEN																					
Director	Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI																					
Director	Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING	-	-	-	-	29,402	29,402	590	590	0.84 %	0.84 %	-	-	-	-	-	-	-	-	0.84 %	0.84 %	None
Director	Hong Long Enterprise Co., Ltd. Representative:CHIA, CHUNG-TAO																					
Director	Tai Ho Construction Management Co., Ltd. Representative:HUNG TSUNG-YEN																					
Independent Director	SHEA, JIA-DONG																					
Independent Director	LEE, SHEN-YI	1,800	1,801	-	-	17,641	17,646	500	540	0.56 %	0.56 %	-	-	-	-	-	-	-	-	0.56 %	0.56 %	Note
Independent Director	SU, PING-CHANG																					

1. The policy, system, standard and structure of remuneration to independent directors and the relevance between the amount of payment and responsibilities, risk, time engaged and other factors:
The remuneration to independent directors of the Company was based on the market and the salary standard of the same trade concerned, and was based on the principle of being in line with the industry's usual standards. Besides, it also considered the performance of each independent director, the degree of their participation in the Company's operation, contributions, responsibilities, degree of achievement of the Company's operating goals and the financial position of the Company. The remuneration to independent directors was reviewed by the Remuneration and Compensation Committee and resolved by the Board of Directors. The Remuneration and Compensation Committee regularly evaluated the remuneration to independent directors, and reviewed the remuneration system based on the operating condition and relevant regulations in order to pursue the balance between the Company's sustainable operation and risk management.

2. Compensation received by director for providing service to any Company included in the consolidated financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: NTS 0.

Note1: The compensation paid to drivers amounted to NT\$811 thousands for the year ended December 31, 2020.

(Continued)

Remuneration bracket table

Range of remuneration paid to directors	Name of directors			
	Sum of the First 4 items (A+B+C+D)		Sum of the First 7 items (A+B+C+D+E+F+G)	
	The Company	All companies included in the consolidated statements (H)	The Company	All companies included in the consolidated statements (I)
Under NT\$ 1,000,000	-	-	-	-
NT\$1,000,000(included)~ NT\$2,000,000(excluded)	-	-	-	-
NT\$2,000,000(included)~ NT\$3,500,000(excluded)	-	-	-	-
NT\$3,500,000(included)~ NT\$5,000,000(excluded)	-	-	-	-
NT\$5,000,000(included)~ NT\$10,000,000(excluded)	Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Kwang Hsing Industrial Co., Ltd. Representative: TING,HSUEH-WEN Hong Long Enterprise Co., Ltd. Representative: KUO,YUH-CHYI Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO Tai Ho Construction Management Co., Ltd. Representative: HUNG TSUNG YEN SHEA,JIA-DONG, LEE, SHEN-YI, SU, PING-CHANG	Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Kwang Hsing Industrial Co., Ltd. Representative: TING,HSUEH-WEN Hong Long Enterprise Co., Ltd. Representative: KUO,YUH-CHYI Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO Tai Ho Construction Management Co., Ltd. Representative: HUNG TSUNG YEN SHEA,JIA-DONG, LEE, SHEN-YI, SU, PING-CHANG	Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Kwang Hsing Industrial Co., Ltd. Representative: TING,HSUEH-WEN Hong Long Enterprise Co., Ltd. Representative: KUO,YUH-CHYI Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO Tai Ho Construction Management Co., Ltd. Representative: HUNG TSUNG YEN SHEA,JIA-DONG, LEE, SHEN-YI, SU, PING-CHANG	Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Kwang Hsing Industrial Co., Ltd. Representative: TING,HSUEH-WEN Hong Long Enterprise Co., Ltd. Representative: KUO,YUH-CHYI Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO Tai Ho Construction Management Co., Ltd. Representative: HUNG TSUNG YEN SHEA,JIA-DONG, LEE, SHEN-YI, SU, PING-CHANG
NT\$10,000,000(included)~ NT\$15,000,000(excluded)	-	-	-	-
NT\$15,000,000(included)~ NT\$30,000,000(excluded)	-	-	-	-
NT\$30,000,000(included)~ NT\$50,000,000(excluded)	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH
NT\$50,000,000(included)~ NT\$100,000,000(excluded)	-	-	-	-
Over NT\$100,000,000	-	-	-	-
Total	11	11	11	11

(Continued)

(iii) Remuneration to the President and Executive Vice Presidents (aggregate disclosure of names and remuneration)

(In Thousands of New Taiwan Dollars)

Title	Name	Salary (A)		Severance pay and Pension (B)		Bonus and special allowances (C)		Profit-sharing-Employee bonuses (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation received from non-consolidated affiliates	
		The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company		All companies included in the consolidated statements		The Company	All companies included in the consolidated statements		
								Cash	Stock	Cash	Stock				
Chief Strategy Officer	WANG, JUNN-CHIH														
President	CHIA, CHUNG-TAO														
Executive Vice President	CHEN, MIN-HSI														
Executive Vice President	HUANG, CHI-MING														
Executive Vice President	FANG, CHIH-HONG														
Executive Vice President	ZHANG, PEI-WEN														
Executive Vice President	CHIU, CHIEN-HUA	33,142	33,142	1,344	1,344	40,693	40,693	5,156	-	5,156	-	2.25 %	2.25 %	None	
Executive Vice President	TAN, DE-CHENG														
Senior Executive Vice President	YANG, JIE-BIN														
Executive Vice President	ZHANG, JIA-WEN														
Executive Vice President	LAI, JUN-FU														
Executive Vice President	LIN, YAN-FEN														
Executive Vice President	WANG, CHUAN-HUI														
Executive Vice President	MA, JIA-HUAN														

Note1: The compensation paid to drivers amounted to NT\$566 thousands for the year ended December 31, 2020.

(Continued)

Remuneration bracket table

Range of remuneration	Name of the president and vice presidents	
	The Company	All companies included in the consolidated statements (E)
Under NT\$ 1,000,000	WANG, JIUNN-CHIH	WANG, JIUNN-CHIH
NT\$1,000,000(included)~ NT\$2,000,000(excluded)	-	-
NT\$2,000,000(included)~ NT\$3,500,000(excluded)	FANG, CHIH-HONG, LAI, JUN-FU	FANG, CHIH-HONG, LAI, JUN-FU
NT\$3,500,000(included)~ NT\$5,000,000(excluded)	CHEN, MIN-HSI, HUANG, CHI-MING, CHIU, CHIEN-HUA, ZHANG, PEI-WEN, TAN, DE-CHENG, WANG, CHUAN-HUI	CHEN, MIN-HSI, HUANG, CHI-MING, CHIU, CHIEN-HUA, ZHANG, PEI-WEN, TAN, DE-CHENG, WANG, CHUAN-HUI
NT\$5,000,000(included)~ NT\$10,000,000(excluded)	YANG, JIE-BIN, LIN, ZHANG, JIA-WEN, MA, JIA-HUAN	YANG, JIE-BIN, LIN, ZHANG, JIA-WEN, MA, JIA-HUAN
NT\$10,000,000(included)~ NT\$15,000,000(excluded)	CHIA, CHUNG-TAO	CHIA, CHUNG-TAO
NT\$15,000,000(included)~ NT\$30,000,000(excluded)	LIN, YAN-FEN	LIN, YAN-FEN
NT\$30,000,000(included)~ NT\$50,000,000(excluded)	-	-
NT\$50,000,000(included)~ NT\$100,000,000(excluded)	-	-
Over NT\$100,000,000	-	-
Total	14	14

- (iv) Remuneration to the five highest-paid supervisors of the listed or OTC securities firms : Not applicable
- (v) Chairmen of the board and presidents rehired as consultants of securities firms after retirement: None

(Continued)

- (c) Number of employees of non supervisors positions, annual average employee benefit expenses, and differences from the previous year

	(In Thousands of New Taiwan Dollars)		
	2020	2019	Difference
Number of non-supervisor employees	1,652	1,559	93
Non-supervisor employees' annual average employee benefit expenses	1,039	882	157

- (d) Labor-management relations

- (i) Details regarding agreements made between employers and employees and the implementation

- 1) Employee welfare

In 1990, the Company registered the establishment of Employee Welfare Committee with the authority in order to provide benefits such as wedding/funeral subsidies, group trips, hospitalization condolences, and emergency loans. Overall, the Employee Welfare Committee operates with adequate budget and has been able to carry out its plans.

- 2) Employee education and training

In an attempt to build a strong talent base and improve management performance, the Company has been organizing a broad variety of training including: orientation, specialization training, management reserve training, management growth training, and seminars hosted by renowned experts and scholars on the topic of finance. The Company trained its sales force intensively using nation-wide video conferencing and broadcast to help them develop professional qualities and skills. Besides, in order to strengthen learning effect, the Company made several e-learning courses and used e-systems to let employees can learn and grow anytime, anywhere.

- 3) Pension system

The Company established its Employee Pension Fund Supervisory Committee in November 1994 for the security of employees' lifestyle after retirement, and thereby maintain a sustainable and harmonic relationship between employees and the employer; Since the enactment of Labor Standards Act in April 1998, the Company has been making pension fund contributions into a dedicated account held with Bank of Taiwan under the committee's name. All employees who meet the criteria specified in the pension policy are eligible to participate. Following the enactment of Labor Pension Act in July 2005, employees are given the choice to opt for the new pension system or stay with the old plan. For those who opted for the new system, the Company has been contributing an amount equal to 6% of employees' monthly salaries into their personal pension fund accounts.

- 4) Other major agreements: None.

- (ii) Losses arising as a result of employment disputes in the last year: None

- (iii) Violation against Labor Standards Act: None

(Continued)

(e) Internal control system

- (i) Statement of the internal control system: Please see the attachment.
- (ii) If the internal control system was reviewed by an external CPA, the result of such review must be disclosed: The Company did not engage an external CPA to review its internal control system this year.

(2) Financial Summary

(a) Summary balance sheet and comprehensive income statement

(i) Summary balance sheet

(In Thousands of New Taiwan Dollars)

Item	Year	Financial information for the last 5 years (Note1)				
		2020	2019	2018	2017	2016
Current assets		98,672,749	73,984,497	61,469,761	93,599,832	65,616,894
Property and equipment		2,417,207	2,339,571	4,577,214	4,231,972	4,389,956
Other non-current assets		19,847,416	19,094,562	15,381,441	13,311,599	13,000,064
Current liabilities	Before dividend	82,594,785	59,239,075	47,025,844	78,368,174	51,991,187
	After dividend	Note 2	60,975,801	47,954,207	78,801,989	52,793,745
Non-current liabilities		2,456,518	2,186,915	1,430,580	1,353,599	1,495,179
Capital stock		21,709,081	23,209,081	23,209,081	21,690,730	22,690,730
Retained earnings	Before dividend	9,639,333	7,927,126	6,209,696	6,790,451	4,763,521
	After dividend	Note 2	6,190,400	5,281,333	4,838,285	3,960,963
Total assets		120,937,372	95,418,630	81,428,416	111,143,403	83,006,914
Total liabilities	Before dividend	85,051,303	61,425,990	48,456,424	79,721,773	53,486,366
	After dividend	Note 2	63,162,716	49,384,787	80,155,588	54,288,924
Total equity	Before dividend	35,886,069	33,992,640	32,971,992	31,421,630	29,520,548
	After dividend	Note 2	32,255,914	32,043,629	30,987,815	28,717,990

Note 1: All financial information for the last 5 years has been audited.

Note 2: Appropriation of 2020 earnings has not yet been resolved in a shareholder meeting.

(ii) Summary comprehensive income statement

(In Thousands of New Taiwan Dollars)

Item	Year	Financial information for the last 5 years				
		2020	2019	2018	2017	2016
Income		7,367,734	5,885,962	4,922,660	6,621,232	4,241,538
Expenses		4,521,454	4,105,770	4,303,491	4,356,598	3,538,615
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method		510,634	524,510	790,995	476,853	369,739
Other gains and losses		592,474	514,046	428,281	341,867	295,432
Income before tax		3,949,388	2,818,748	1,838,445	3,083,354	1,368,094
Net income (Loss)		3,569,529	2,566,823	1,408,865	2,893,600	1,196,756
Earnings per share (in New Taiwan dollars)		1.64	1.11	0.61	1.25	0.49

Note: All financial information in the last 5 years has been audited.

(Continued)

(iii) Name of financial statement auditors and audit opinions in the last 5 years

Year	Name of the CPAs	Auditor's opinion
2020	LEE, FENG HUI	Unqualified
	CHUNG TAN TAN	
2019	LEE, FENG HUI	Unqualified
	CHUNG, TAN TAN	
2018	LEE, FENG HUI	Unqualified
	CHUNG, TAN TAN	
2017	LEE, FENG HUI	Unqualified
	CHUNG, TAN TAN	
2016	LEE, FENG HUI	Unqualified
	CHUNG, TAN TAN	

(b) Financial analysis

Item	Year	Financial ratios analysis for the most recent five years				
		2020	2019	2018	2017	2016
Capital structure analysis (%)	Debit ratio	70.33	64.38	59.51	71.73	64.44
	Long-term capital to property, plant and equipment ratio	1,586.24	1,546.42	751.61	774.47	706.52
Liquidity analysis (%)	Current ratio	119.47	124.89	130.71	119.44	126.21
	Quick ratio	119.43	124.85	130.68	119.41	126.16
Profitability analysis(%)	Return on total assets (%)	3.30	2.90	1.46	2.98	1.51
	Return on equity (%)	10.22	7.67	4.38	9.50	4.00
	Operating income to paid-in capital ratio	13.11	7.67	2.67	10.44	3.10
	Pre-tax income to paid-in capital ratio	18.19	12.15	7.92	14.22	6.03
	Net Margin (%)	48.45	43.61	28.62	43.70	28.22
	Earnings per share (NT\$)	1.64	1.11	0.61	1.25	0.49
Cash Flow (%)	Cash flow ratio	3.18	0.45	20.44	-	-
	Cash flow adequacy ratio	132.40	198.78	190.52	91.81	118.20
	Cash flow reinvestment ratio	2.28	-	26.02	-	-
Special Purpose Ration(%)	Debt to net worth ratio	237.00	180.70	146.96	253.72	181.18
	Fixed assets to total assets ratio	2.66	3.21	6.70	4.57	6.26
	Underwriting securities to quick assets ratio	1.52	1.09	2.10	1.71	0.83
	Margin trading to equity ratio	40.52	35.12	29.60	45.81	39.17
	Short-sale balance to equity ratio	15.75	15.14	14.92	15.04	12.43

Note: Financial summary for the most recent five years has been audited.

Variations in the last 2 years:

(Continued)

- (i) The increase of return on total assets, return on equity, operating income to paid-in capital ratio, pre-tax income to paid-in capital ratio, and earnings per share was mainly due to the increase in brokerage fee revenue, resulting in increase of operating income, pre-tax income and net income.
 - (ii) Please refer to Note (f)(i) Cash flow analysis for the last 2 years for cash flow ratio.
 - (iii) The increase of debt to net worth ratio was mainly due to increase of commercial paper payables, bonds sold under repurchase agreements, equity for each customer in the account, and account payables.
 - (iv) The increase of underwriting securities to quick assets ratio was due to the increase of underwriting securities.
- (c) Financial difficulties that the company and affiliated enterprises have encountered in the most recent fiscal year, and the impact on the company's financial condition: None
- (d) Financial position analysis

(In Thousands of New Taiwan Dollars)

Item	Year	2020	2019	Difference	
				Amount	%
Current assets		98,672,749	73,984,497	24,688,252	33.37
Property and equipment		2,417,207	2,339,571	77,636	3.32
Other non-current assets		19,847,416	19,094,562	752,854	3.94
Current liabilities		82,594,785	59,239,075	23,355,710	39.43
Non-current liabilities		2,456,518	2,186,915	269,603	12.33
Capital stock		21,709,081	23,209,081	(1,500,000)	(6.46)
Retained earnings		9,639,333	7,927,126	1,712,207	21.60
Total assets		120,937,372	95,418,630	25,518,742	26.74
Total liabilities		85,051,303	61,425,990	23,625,313	38.46
Total equity		35,886,069	33,992,640	1,893,429	5.57

Explanation to major variations:

- (i) Current assets: Current assets increased mainly because of higher receivable for securities provided as collateral, accounts receivables, and amounts held for each customer in the account compared to the previous year.
- (ii) Current liabilities: Current liabilities increased mainly because of higher commercial paper payables, bonds sold under repurchase agreements, equity for each customer in the account, and accounts payable compared to the previous year.
- (iii) Retained earnings: Retained earnings increased mainly because of higher net income compared to the previous year.

(Continued)

(e) Financial performance analysis

(In Thousands of New Taiwan Dollars)

Item	Year	2020	2019	Difference	
				Amount	%
Income		7,367,734	5,885,962	1,481,772	25.17
Expenses		4,521,454	4,105,770	415,684	10.12
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method		510,634	524,510	(13,876)	(2.65)
Other gains and losses		592,474	514,046	78,428	15.26
Income before tax		3,949,388	2,818,748	1,130,640	40.11
Net income (Loss)		3,569,529	2,566,823	1,002,706	39.06

Explanation to major variations:

- (i) Pre-tax income and net income: Pre-tax profit and net income increased mainly due to increased brokerage fee revenue.

(f) Case flow analysis

- (i) Cash flow analysis for the last 2 year

Item	Year	2020	2019	Change percentage
Cash flow adequacy ratio		132.40	198.78	(33.40)
Cash reinvestment ratio		2.28	-	100.00

Analysis of deviation proportion:

- 1) Substantial increase in net income, caused increased cash inflow from operating activities. As a result, cash flow adequacy ratio and cash reinvestment ratio increased compared to the previous year.
 - 2) Increase in capital expenditure this period has caused the cash flow adequacy ratio to decrease compared to the previous year.
- (ii) Liquidity analysis for the next year

(In Thousands of New Taiwan Dollars)

Cash beginning balance	Net cash flow provided by operating activities	Projected annual Cash outflow	Expected cash surplus (deficit)	Leverage of cash deficits	
				Investment plans	Financing plans
1,598,193	3,184,716	3,388,000	1,394,909	-	-

- (g) Impacts of major capital expenditures in the last year to financial performance: None

(Continued)

(h) Review and analysis of investment

(i) Investments planned for the next year

Capital Financial Group's investment strategies are consistent with the government's financial deregulations, and have been focused toward futures, brokerage, proprietary trading, underwriting, insurance agency, venture capital, and private equity funds. The Company follows the government's free economy and financial globalization policies. It places great emphasis on research and strives to become an all-round security and financial service provider. The Company's current plans include: expanding the scope of wealth management service, development of high value-adding financial instruments, exploring fundraising and distribution channels local and abroad, establishment of overseas offices, building strategic/marketing alliance, and offering cross-border investment services. All the above plans have been devised to maximize group profitability.

(ii) Causes of profit or loss incurred on investments in the current year

There was no special event affecting profit or loss of investments.

(iii) Investment plans for the coming year

The Company plans to invest in CSC Capital Management Co. and CSC PE Fund No.1. Besides helping manage private equity funds. The Company can support enterprises with potential, and help them go public after they develop well, which can facilitate the development of industry and direct finance.

(i) Risk analysis

(i) Impact of interest rate, exchange rate, and inflation on the Company's earnings, and responsive measures:

- 1) Interest rate changes affect the Company's earnings mainly in the margin trading and bond trading segments (including government bonds, corporate bonds and repurchase agreements). The Company's interest rate risk exposure, in risk-equivalent terms, in 2020 was between NT\$1,378,218 thousands and NT\$1,758,733 thousands, and averaged NT\$1,574,731 thousands; exchange rate risk exposure in equivalent terms was between NT\$67,306 thousands and NT\$155,183 thousands, and averaged NT\$126,122 thousands in risk-equivalent terms.
- 2) Future responsive measures: The Company manages interest rate risk on bond positions by following its risk management policy and operating processes. The Company also engages other financial institutions in interest rate swap agreements and utilizes futures and derivatives to hedge against risks. In order to mitigate adverse effects of interest rate and exchange rate variations, the Company will be exercising position control and applying dynamic hedge among other market practices.
- 3) Impacts of inflation on the Company's revenues and profitability are indirect and immaterial.

(Continued)

- (ii) Policies on high-risk and highly leveraged investments, loans to third parties, endorsements/guarantees, and trading of derivatives; describe the main causes of any profits or losses incurred and future responsive measures
 - 1) The Company did not lend capital or offer endorsement or guarantee to any external party in the current year.
 - 2) The Company trades derivatives only within the scope permitted by the authority and the board of directors. It uses stop-losses and limited investments as a means of risk control for proprietary trading of index futures and options. The Company undertakes Delta hedge using stocks or derivatives, and hedges Gamma risk using warrants or options when issuing new warrants and structured instruments, and thereby keeping risk appetite within the safety range.
 - 3) Future responsive measures: The Company will revise its derivative trading rules at times deemed appropriate, and adopt a market-neutral strategy to hedge exposures and manage deviations arising from the trade of derivatives.
- (iii) Financial impacts and responsive measures in the event of changes in local and foreign policies regulations: None
- (iv) Financial impacts and responsive measures in the event of technological or industrial changes
 - 1) Impacts: Advancement of Internet technology has changed the ways transactions are made and how services are delivered. This development has prompted securities firms to hire specialized IT talents and upgrade IT equipment to support the growth of electronic trading, and develop software that offers more value-adding services to customers over the Internet.
 - 2) Responsive measures:
 - a) Hire additional IT personnel and focus on the development of professional knowledge.
 - b) Constantly evaluate upgrade or purchase of related IT equipment in response to change of science technology.
 - c) Constantly renew and develop new service software for customers.
- (v) Crisis management, impacts, and response measures in the event of a change in corporate image: None
- (vi) Expected benefits, risks and responsible measures in relation to mergers and acquisitions
 - 1) The Company engages in mergers and acquisitions mainly for the purpose of expanding the branch network. Doing so may bring higher market share and profitability to the Company's brokerage/margin trading service.
 - 2) Responsive measures: All mergers and acquisitions will be subjected to due diligence assessment by relevant departments. Once merger/acquisition is completed, the Company will ensure proper integration of database by the IT Department and compliance of internal control policy by relevant departments to minimize risks.
- (vii) Expected benefits, risks and response measures associated with plant expansions: None

(Continued)

(viii) Risks and response measures associated with concentrated business operations:

No specific client rose the risk associated with any concentrated of business operations of the Company.

(ix) Impacts, risks and response measures following a major transfer of shareholding by directors, supervisors, or shareholders with more than 10% ownership interest: None

(x) Impacts, risks and response measures associated with a change of management: None

(xi) Major litigation and non-contentious cases that significantly impacted shareholders' equity or security prices

Event	Brief of Facts	Litigants	Current progress	Litigation Start date	Value of Claim (Unit: Thousand Dollars)
Civil	The Plaintiff claims that the prospectus prepared by ABIT Computer Corporation for the 2002 cash issue contained false information that misled investors and caused them to suffer losses. The Company, being the underwriter of that cash issue, was being held jointly responsible under Article 32 of the Securities and Exchange Act.	Plaintiff: Securities and Futures Investors Protection Center Defendant: ABIT Computer Corporation, the Company	According to the judgement of the first instance, the court pronounced judgment in favor of the Company. The Company, being the underwriter of that cash issue, had no joint responsibilities. The case is being reviewed by the High Court.	2006.11.23	2,004
Criminal	Following an inquisition for trade documents by ○ - Ping, Yu, a customer of Xisong Branch, the Company discovered that Xisong Branch sales representative ○ - Ping, Chiang had forged documents for a non-existent PGN in the Company's name and used them to scam a total of 15 Xisong Branch customers including ○ - Ping, Yu.	Plaintiff: the Company Defendant: ○ - Ping Chiang	The Company has filed the criminal lawsuit including forgery, fraud etc., and the case is under investigation by Taiwan Taipei District Prosecutor's Office now.	2018.12.18	-
Civil	Wanhua Branch sales representative ○ - Ling, Chan scammed clients by secretly recommending investments, which damaged the client ○ - Yen, Fan. Therefore, that client filed a lawsuit and requested the Company and resigned employee ○ - Ling, Chan for joint compensation of \$2,798.	Plaintiff: ○ - Yen, Fan Defendant: the Company, ○ - Ling, Chan	The case is being reviewed by Taiwan Taipei District Court.	2019.04.08	2,798
Civil	Xisong Branch of the Company resigned sales representative scammed clients by providing a disinformation PGN. The client admitted the sales representative had stolen stocks and stolen money, so the company and the former sales representative should be jointly and severally compensated \$16,375.	Plaintiff: ○ - Sui, Chen Defendant: the Company, ○ - Ping, Chiang	The case is being reviewed by Taiwan Taipei District Court.	2020.04.16	16,375

(Continued)

Event	Brief of Facts	Litigants	Current progress	Litigation Start date	Value of Claim (Unit: Thousand Dollars)
Civil	Xisong Branch of the Company resigned sales representative scammed clients by unreal PGN in 2018. After the Company compensated some of the victims, the resigned sale representative was sued for \$14,193.	Plaintiff: the Company Defendant: o -Ping, Chiang	The case is being reviewed by Taiwan Shilin District Court.	2020.09.23	14,193

- (xii) Other significant risks and response: None
- (j) Crisis management mechanisms
- (i) The Company establishes relative teams to organize events and continuously operate in order to ensure that the employee can be promptly rescue and the Company can operate effectively when the Company is facing an emergency crisis.
- 1) Crisis management team: Conduct functional groupings with different positions and abilities. When the crisis occurs, the team will grasp the situation, confirm the damage of personnel and assets, and respond promptly to minimize the damage.
 - 2) Business continuity management team: The team compromises personnel from Information tech, department and representative of each department. When a massive crisis occurs and critical business is unable to function, the team will operate the remote backup system and remove to backup office.
- (ii) In November 2008, Capital Securities Corporation passed BS25999 Business Continuity Management System, in September 2013, transferred into International standard certification ISO22301 and been recognized by International Organization for Standardization. To ensure effectiveness of Business Continuity Management System, the Company establishes the committee of Business Continuity Management System and Information service, every half - year holds supervised management meeting which participants are general managers and managers of each department. They discuss and conclude major issues of the Company's Business Continuity Management, communicate and negotiate related topics on management system with every department, and review flaws in current management system to strengthen operation efficiency and effectiveness.
- (iii) To ensure the correctness, effectiveness, and usefulness for implementation and system of the Business Continuity Management System planning by the Company, regular drill and training are conducted as follow:
- 1) Holding employees' emergency evacuation drill every half- year: The Company simulate the scenario when emergency havoc happening and influence employees' lives, notification measures can be proceed and employees can be evacuate rapidly to ensure employees' safety.
 - 2) Conducting remote backup drill every half- year: The Company simulate the scenario when business is interrupted by emergency havoc, starting up remote backup transaction system and office, and conducting service recovery drill by each department to minimize corporation operation risk.
 - 3) Holding employees' training for emergency medical and fire extinguishment every year: To ensure employee have professional knowledge and skills for CPR and fire extinguishment operation to minimize damages when the disaster happened.
- (k) Other important matters: None

(Continued)

(3) CPA information**(a) Information on Accountants' Fees**

Accountant firm	Name of accountant		Inspection period	Note
KPMG	Lee, Feng Hui	Chung, Tan Tan	January 2016 till now	

(In Thousands of New Taiwan Dollars)

Range of amount	Fee items	Audit fee	Non-audit fee	Total
1	Below 2 million		✓	
2	2 million(inclusive) ~ 4 million			
3	4 million(inclusive) ~ 6 million	✓		✓
4	6 million(inclusive) ~8 million			
5	8 million(inclusive) ~ 10 million			
6	10 million and above			

Note: Non audit remuneration belongs to review of salary checklist of non-supervisory full-time employees.

- (i) Non-audit remuneration to external auditors, accounting firms and related businesses that amount to one-quarter or higher of audit remuneration: None
 - (ii) Any replacement of accounting firm that resulted in the reduction of audit remuneration paid, as compared to the previous year: None
 - (iii) Any reduction in audit remuneration by more than 10% compared to the previous year: None
- (b) Alternation of CPA: None
- (c) the Company's Chairman, President, or managers responsible for financial or accounting affairs being employed by the auditor's firm or any of its affiliated company in the last year: None

Capital Securities Corporation

Chairman: Jiunn-Chih Wang

Manager: Chung-Tao Chia

Chief accountant: De-Cheng Tan

Capital Securities Corporation
Statement of Internal Control System

Date: March 25, 2021

The following declaration has been made based on the 2020 self-assessment of the Company's internal control system:

1. The Company is aware that creation, implementation, and maintenance of internal control system are the responsibilities of its board of directors and management, and has duly established such a system. The purpose of internal control system is to provide reasonable assurances concerning the outcome and efficiency of the Company's operations (including profitability, business performance, and asset security), the reliability, timeliness, and transparency of reported information, and compliance and accomplishment of relevant regulations and goals.
2. There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably assure the achievement of the three goals mentioned above. Furthermore, changes in the environment and circumstances may all affect the effectiveness of the internal control system. However, the internal control system of the Company features a self-monitoring mechanism that rectifies any deficiencies immediately upon discovery.
3. The Company evaluates the effectiveness of its internal control system design and execution using the criteria outlined in "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" (hereinafter referred to as the "Regulations"). The criteria introduced by the "Regulations" consists of five major elements, each representing a different stage of internal control: 1. Control environment, 2. Risk assessment, 3. Control activities, 4. Information and communication, and 5. Monitoring activities. Each major element is further broken down into several subelements. Please refer to the "Regulations" for more details.
4. The Company has adopted the abovementioned criteria to validate the effectiveness of its internal control system design and execution.
5. Based on the assessments described above, the Company considers the design and execution of its internal control system to be effective as at December 31, 2020. This system (including the supervision and management of subsidiaries) has provided assurance with regards to: (1) the Company's business results and target accomplishments; (2) reliability, timeliness and transparency of reported financial information; and (3) compliance with relevant laws.
6. This statement constitutes part of the Company's annual report and prospectus, and shall be disclosed to the public. Any illegal misrepresentation or concealment in the public statement above are subject to the legal consequences described in Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This declaration was passed unanimously without objection by all 11 Directors present at the board meeting dated March 25, 2021.

Capital Securities Corporation
Chairman: Wang, Jiunn-Chih
President: Chia, Chung-Tao