

**CAPITAL SECURITIES CORPORATION****Financial Statements****With Independent Auditors' Report  
For The Years Ended December 31, 2021 and 2020**

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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.

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## 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, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and cash flows for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, and its financial performance and its cash flows for the years ended December 31, 2021 and 2020 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 for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. 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 valuation methods and significantly underlying parameters applied by management.

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 internal control, certifying the assumptions of management by related available external information, making professional assessment on main parameters of predictable growth rate, discount rate, etc. adopted by management, and performing the retrospective analysis for testing the precision of previous years' forecasts including sensitivity analyses on the key assumptions related to Goodwill impairment tests.

**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 0.85% and 1.11% of total assets as of December 31, 2021 and 2020, respectively, and the recognized profit of loss under using equity method constituted 2.91% and 3.87% of net income before income tax for the years ended December 31, 2021 and 2020, 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 WU, CHENG YEN and CHUNG, TAN TAN.

KPMG

Taipei, Taiwan (Republic of China)

March 14, 2022

#### **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 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, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2021		December 31, 2020		
	Amount	%	Amount	%	
<b>Assets</b>					
<b>Current assets:</b>					
110000					
111100	Cash and cash equivalents (note 6(a))	\$ 2,933,772	2	1,598,193	1
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	44,804,134	28	34,556,643	29
113200	Financial assets at fair value through other comprehensive income - current (note 6(b))	14,878,453	9	18,397,898	15
114030	Receivable for securities provided as collateral	20,911,386	13	14,520,591	12
114040	Refinancing margin	43,827	-	97,714	-
114050	Refinancing collateral receivable	36,519	-	85,261	-
114060	Receivable of securities business money lending	2,349,669	1	2,310,230	2
114090	Collateral for securities borrowed	109,340	-	796,262	1
114100	Security borrowing margin	5,528,410	3	760,815	1
114110	Notes receivable	15,969	-	22,779	-
114130	Accounts receivable (note 6(c))	11,193,577	7	10,595,102	9
114150	Prepayments	20,559	-	27,347	-
114170	Other receivables	105,753	-	70,610	-
114600	Current income tax assets	-	-	22,037	-
119095	Amounts held for each customer in the account (note 6(m))	26,706,922	17	13,063,932	11
119990	Other current assets-others	9,259,342	6	1,747,335	1
		<u>138,897,632</u>	<u>86</u>	<u>98,672,749</u>	<u>82</u>
<b>Non-current assets:</b>					
120000					
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	180,596	-	180,929	-
123200	Financial assets at fair value through other comprehensive income - non-current (note 6(b))	3,040,586	2	2,070,040	2
124100	Investments accounted for under equity method (note 6(d))	7,710,943	5	7,805,609	6
125000	Property and equipment (notes 6(e) and 8)	2,388,771	1	2,417,207	2
125800	Right-of-use assets (notes 6(f))	709,440	-	784,960	1
126000	Investment property (notes 6(g) and 8)	4,201,808	3	4,179,792	3
127000	Intangible assets (note 6(h))	3,544,599	2	3,538,857	3
128000	Deferred income tax assets (note 6(q))	33,568	-	77,710	-
129000	Other non-current assets	1,209,001	1	1,209,519	1
		<u>23,019,312</u>	<u>14</u>	<u>22,264,623</u>	<u>18</u>
<b>Total assets</b>		<u>\$ 161,916,944</u>	<u>100</u>	<u>120,937,372</u>	<u>100</u>

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

Balance Sheets

December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2021		December 31, 2020	
	Amount	%	Amount	%
<b>Liabilities and Equity</b>				
<b>Current liabilities:</b>				
210000 Short-term borrowings (note 6(i))	\$ 2,978,036	2	3,561,089	3
211200 Commercial paper payable (note 6(j))	8,397,806	5	2,299,692	2
212000 Financial liabilities at fair value through profit or loss - current (note 6(k))	4,931,221	3	3,569,517	3
214010 Bonds sold under repurchase agreements (note 6(l))	37,407,572	23	35,482,996	29
214040 Guarantee deposited for short sales	2,848,834	2	2,631,763	2
214050 Proceeds payable from short sales	3,246,792	2	3,021,249	2
214070 Securities lending refundable deposits	8,149,786	5	1,033,425	1
214090 Equity for each customer in the account (note 6(m))	26,706,922	17	13,063,932	11
214110 Notes payable	152	-	152	-
214130 Accounts payable (note 6(n))	10,597,540	7	10,388,095	9
214150 Advance receipts	30,476	-	31,415	-
214160 Receipts under custody	8,802,836	5	1,631,028	1
214170 Other payables	1,192,514	1	929,072	1
214200 Other financial liabilities - current (note 6(v))	4,470,183	3	4,235,829	4
214600 Current income tax liabilities	574,218	-	518,241	-
215100 Provisions - current (note 6(p))	42,652	-	42,695	-
216000 Current lease liabilities (note 6(o))	144,423	-	150,214	-
219000 Other current liabilities	5,021	-	4,381	-
	<u>120,526,984</u>	<u>75</u>	<u>82,594,785</u>	<u>68</u>
<b>Non-Current liabilities:</b>				
220000 Other financial liabilities - non-current (note 6(v))	575,697	-	515,261	-
224200 Non-current lease liabilities (note 6(o))	620,853	-	691,314	1
228000 Deferred income tax liabilities(note 6(q))	480,030	-	412,315	-
229000 Other non-current liabilities (note 6(p))	978,570	1	837,628	1
	<u>2,655,150</u>	<u>1</u>	<u>2,456,518</u>	<u>2</u>
	<u>123,182,134</u>	<u>76</u>	<u>85,051,303</u>	<u>70</u>
<b>Total liabilities</b>				
<b>Equity:</b>				
301010 Common stock (note 6(r))	21,709,081	14	21,709,081	18
302000 Capital surplus (note 6(r))	2,743,465	2	2,743,430	2
304000 Retained earnings:				
304010 Legal reserve	2,267,833	1	1,922,939	2
304020 Special reserve	4,806,142	3	4,116,356	3
304040 Unappropriated earnings (note 6(s))	5,081,597	3	3,600,038	3
305120 Exchange differences on translation of foreign operations	(403,037)	-	(293,175)	-
305140 Unrealized gains (losses) on financial assets at fair value through other comprehensive income	2,530,934	1	2,087,400	2
305170 Equity related to non-current assets classified as held for sale	(1,205)	-	-	-
	<u>38,734,810</u>	<u>24</u>	<u>35,886,069</u>	<u>30</u>
<b>Total equity</b>				
<b>Total liabilities and equity</b>	<u>\$ 161,916,944</u>	<u>100</u>	<u>120,937,372</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, 2021 and 2020

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

	2021		2020	
	Amount	%	Amount	%
<b>Income:</b>				
401000	\$ 6,128,754	56	3,513,703	48
402000	292	-	118	-
403000	350,411	3	197,207	3
404000	151,211	1	214,290	3
406000	76,085	-	75,597	1
410000	3,906,747	36	1,308,526	18
421100	152,456	1	150,311	2
421200	1,672,243	15	1,381,690	19
421300	280,962	3	179,244	2
421500	(23,876)	-	210,821	3
421600	145,822	1	105,698	1
421610	(35,969)	-	(34,176)	-
421750	39,636	-	435,082	6
422000	37	-	(296)	-
422100	10	-	8	-
422200	(925,885)	(8)	219,278	3
424100	170,416	2	183,659	2
424400	(490,138)	(4)	(48,510)	(1)
424500	(814,373)	(8)	(855,917)	(12)
425300	(16,630)	-	(33,690)	-
428000	171,087	2	165,091	2
	<u>10,939,298</u>	<u>100</u>	<u>7,367,734</u>	<u>100</u>
<b>Expenses:</b>				
501000	522,775	5	266,816	4
502000	21,070	-	13,327	-
503000	3,537	-	3,696	-
504000	1,414	-	2,151	-
507000	438	-	62	-
521200	184,375	2	348,446	5
521640	5,872	-	1,804	-
524200	27,152	-	9,738	-
528000	24,069	-	12,551	-
531000	3,192,785	29	2,288,215	31
532000	385,314	4	359,977	5
533000	1,694,523	15	1,214,671	16
	<u>6,063,324</u>	<u>55</u>	<u>4,521,454</u>	<u>61</u>
<b>Other income (expenses):</b>				
601100	477,982	4	510,634	7
602000	549,627	5	592,474	8
	<u>1,027,609</u>	<u>9</u>	<u>1,103,108</u>	<u>15</u>
902001	5,903,583	54	3,949,388	54
701000	653,993	6	379,859	5
	<u>5,249,590</u>	<u>48</u>	<u>3,569,529</u>	<u>49</u>
<b>Other comprehensive income:</b>				
805500	<b>Components that may not be reclassified to profit or loss in subsequent periods:</b>			
805510	(378,781)	(3)	(216,510)	(3)
805540	960,321	8	152,710	2
805560	(6,639)	-	84,638	1
805599	-	-	-	-
	<u>574,901</u>	<u>5</u>	<u>20,838</u>	<u>-</u>
805600	<b>Components that may be reclassified to profit or loss in subsequent periods:</b>			
805610	(103,313)	(1)	(165,741)	(2)
805615	(476,719)	(4)	249,289	3
805660	(16,975)	-	(24,514)	-
805699	(9,221)	-	(15,623)	-
	<u>(587,786)</u>	<u>(5)</u>	<u>74,657</u>	<u>1</u>
805000	(12,885)	-	95,495	1
902006	<u>5,236,705</u>	<u>48</u>	<u>3,665,024</u>	<u>50</u>
975000		<u>2.42</u>		<u>1.64</u>
985000		<u>2.41</u>		<u>1.64</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, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	Stock		Retained earnings			Total other equity interest					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	Equity related to non-current assets classified as held for sale	Treasury shares		
<b>Balance at January 1, 2020</b>	\$ 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	
Net income for the year ended December 31, 2021	-	-	-	-	5,249,590	-	-	-	-	5,249,590	
Other comprehensive income	-	-	-	-	(378,003)	(109,862)	476,185	(1,205)	-	(12,885)	
Total comprehensive income	-	-	-	-	4,871,587	(109,862)	476,185	(1,205)	-	5,236,705	
Appropriation and distribution of retained earnings: (note 6(r))											
Legal reserve	-	-	344,894	-	(344,894)	-	-	-	-	-	
Special reserve	-	-	-	689,786	(689,786)	-	-	-	-	-	
Cash dividends of common stocks	-	-	-	-	(2,387,999)	-	-	-	-	(2,387,999)	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	32,651	-	(32,651)	-	-	-	
Capital surplus changes in ownership interests in subsidiaries	-	35	-	-	-	-	-	-	-	35	
<b>Balance at December 31, 2021</b>	\$ <b>21,709,081</b>	<b>2,743,465</b>	<b>2,267,833</b>	<b>4,806,142</b>	<b>5,081,597</b>	<b>(403,037)</b>	<b>2,530,934</b>	<b>(1,205)</b>	<b>-</b>	<b>38,734,810</b>	

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, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	2021	2020
<b>Cash flows from operating activities:</b>		
Net income before tax	\$ 5,903,583	3,949,388
<b>Adjustments:</b>		
<b>Income and expenses items:</b>		
Depreciation expense	359,960	334,791
Amortization expense	25,354	25,186
Impairment loss	16,630	33,690
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	59,845	(176,645)
Financial cost	184,375	348,446
Interest revenue (including financial revenue)	(1,684,018)	(1,386,687)
Dividend revenue	(356,958)	(261,961)
Cash dividend received from investments under equity method	502,964	399,047
Share of loss (profit) of subsidiaries, associates and joint ventures accounted for using equity method	(477,982)	(510,634)
Gains on disposal and retirement of property and equipment	-	(11,317)
Net losses (gains) on non-operating financial instruments at fair value through profit or loss	13,373	(591)
Net losses (gains) on lease modifications	24	(24)
<b>Subtotal of income of non-cash activities</b>	<u>(1,356,433)</u>	<u>(1,206,699)</u>
<b>Changes in operating assets and liabilities:</b>		
Increase in financial assets at fair value through profit or loss	(10,320,376)	(4,124,051)
Decrease (increase) in financial assets at fair value through other comprehensive income	3,125,532	(2,125,746)
Increase in receivable for securities provided as collateral	(6,390,795)	(2,585,691)
Decrease (increase) in refinancing margin	53,887	(6,561)
Decrease in receivable on refinancing collateral	48,742	52,078
Increase in receivable of securities business money lending	(39,439)	(314,026)
Decrease (increase) in collateral for securities borrowed	686,922	(451,739)
Increase in security borrowing margin	(4,767,595)	(448,731)
Decrease (increase) in notes receivable	6,810	(378)
Increase in accounts receivable	(469,314)	(4,294,342)
Decrease (increase) in prepayments	6,788	(5,287)
Increase in other receivables	(54,290)	(12,449)
Increase in other current assets	(7,512,007)	(1,047,805)
Increase in guarantee deposited for business operations	(25,879)	-
Increase in settlement fund	(13,249)	(513)
Decrease (increase) in other non-current assets	39,913	(18,493)
Increase in financial liabilities at fair value through profit or loss	1,361,704	2,133,259
Increase in bonds sold under repurchase agreements	1,924,576	3,589,465
Increase in guarantee deposited for short sales	217,071	241,299
Increase in proceeds payable from short sales	225,543	265,844
Increase in securities lending refundable deposits	7,116,361	696,712
Increase in notes payable	-	152
Increase in accounts payable	216,717	4,293,821
Decrease in advance receipts	(939)	(26,728)
Increase in receipts under custody	7,171,808	1,521,162
Increase in other payable	263,487	418,053
Increase in other financial liabilities - current	234,354	655,878
Decrease in provision - current	(43)	(1,915)
Increase in other current liabilities	640	1,334
Increase in other financial liabilities - non-current	60,436	165,743
Decrease in other non-current liabilities	(237,839)	(9,843)
<b>Total changes in assets and liabilities from operating activities</b>	<u>(7,070,474)</u>	<u>(1,439,498)</u>
<b>Total adjustments</b>	<u>(8,426,907)</u>	<u>(2,646,197)</u>

(English Translation of Financial Statements Originally Issued in Chinese)

**CAPITAL SECURITIES CORPORATION****Statements of Cash Flows****For the years ended December 31, 2021 and 2020****(Expressed in Thousands of New Taiwan Dollars)**

	<b>2021</b>	<b>2020</b>
Cash generated from operating activities	\$ (2,523,324)	1,303,191
Interest received	1,557,210	1,483,923
Dividends received	354,510	262,449
Interest paid	(191,692)	(378,766)
Income taxes paid	(454,901)	(42,145)
<b>Net Cash flows (used in) provided by operating activities</b>	<b>(1,258,197)</b>	<b>2,628,652</b>
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(95,001)	(20,000)
Proceeds from disposal of financial assets at fair value through other comprehensive income	660	21,400
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	3,921	207,270
Increase in deferred debits	(747)	(221)
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	(187,696)	(86,099)
Proceeds from disposal of property and equipment	-	20,287
Acquisition of intangible assets	(30,616)	(35,972)
<b>Net cash flows used in investing activities</b>	<b>(309,479)</b>	<b>(894,678)</b>
<b>Cash flows from financing activities:</b>		
Decrease in short-term borrowings	(583,053)	(3,069,913)
Increase in commercial papers payable	6,098,114	2,299,692
Payment of lease liabilities	(166,599)	(167,021)
Cash dividends paid	(2,387,999)	(1,736,726)
Purchase of treasury shares	-	(30,387)
<b>Net cash flows provided by (used in) financing activities</b>	<b>2,960,463</b>	<b>(2,704,355)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(57,208)</b>	<b>(87,627)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,335,579</b>	<b>(1,058,008)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,598,193</b>	<b>2,656,201</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,933,772</b>	<b>1,598,193</b>

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, 2021 and 2020**

**(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, 2021, 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) Proprietary trading of securities-related futures;
- (l) Securities business money lending;
- (m) Managing the unexpended balance of clients’ securities accounts within their authorization;
- (n) Trust business;
- (o) Offshore securities business;
- (p) Other relevant services as approved by the authority in charge.

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

The financial statements were authorized for issuance by the board of directors on March 14, 2022.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

**(3) New standards, amendments and interpretations adopted:**

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

The Company has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2021:

- 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”
- Amendments to IFRS 16 “Covid-19-Related Rent Concessions beyond June 30, 2021”

- (b) The impact of IFRS issued by the FSC but not yet effective

The Company assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2022, would not have a significant impact on its financial statements:

- 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”

- (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:

<b>Standards or Interpretations</b>	<b>Content of amendment</b>	<b>Effective date per IASB</b>
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	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. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.	January 1, 2023

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

<u>Standards or Interpretations</u>	<u>Content of amendment</u>	<u>Effective date per IASB</u>
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	The amendments narrowed the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	January 1, 2023

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

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

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- 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”.

(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 and liabilities 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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(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 amounts have been rounded to the nearest thousand, unless otherwise indicated.

(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.

(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.

(Continued)



**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(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.

(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 equivalent 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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(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.

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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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
- 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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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).

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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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.

7) Interest rate benchmark reform-phase 2 (policy applicable from January 1, 2021)

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changes as a result of interest rate benchmark reform, then the Company updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes made to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Company first updates the effective interest rate of the financial asset or financial liability to reflect the changes that are required by interest rate benchmark reform. Subsequently, the Company applies the policies on accounting for modifications set out above to the additional changes.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(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.

(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 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. 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 Company's ownership percentage of the associate, the Company 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 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.

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. |            |

(Continued)



**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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.

(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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(o) Leases

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.

(i) Lease

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

(Continued)

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

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the 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.

(ii) 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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
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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.

(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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(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.

(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 transaction margins are recognized as cost and valued at daily fair value. The gains or losses arising from reverse trading or execution of the futures and options recognized as Net Profit or Loss for the period.

(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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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.

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

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Cash	\$ <u>2,590</u>	<u>2,590</u>
Bank deposits		
Checking accounts	25,007	34,481
Demand deposits	<u>481,847</u>	<u>176,238</u>
Subtotal	<u>506,854</u>	<u>210,719</u>
Cash equivalents		
Time deposits	1,491,700	773,975
Futures margin - excess margin	<u>932,628</u>	<u>610,909</u>
Subtotal	<u>2,424,328</u>	<u>1,384,884</u>
Total	<u>\$ <u>2,933,772</u></u>	<u><u>1,598,193</u></u>

(b) Financial assets

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

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Open-ended funds and money-market instruments</b>		
Open-ended funds and money-market instruments	\$ 164,074	157,049
Valuation adjustment	<u>1,079</u>	<u>14,452</u>
Subtotal	<u>165,153</u>	<u>171,501</u>
<b>Trading securities - proprietary trading</b>		
Listed stocks	1,980,608	854,887
Listed funds	2,221,337	666,617
OTC stocks	373,248	219,099
OTC funds	220,838	149,083
Emerging market stocks	466,424	617,219
Convertible bonds	677,306	921,050
Government bonds	2,826,231	3,328,813
Corporate bonds	11,013,683	8,266,818
International bonds	5,601,278	5,149,292
Financial debentures	1,757,778	957,778
Foreign stocks	104,531	40,611
Others	<u>1,980</u>	<u>7,500</u>
	27,245,242	21,178,767
Valuation adjustment	<u>177,258</u>	<u>201,296</u>
Subtotal	<u>27,422,500</u>	<u>21,380,063</u>

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
<b>Trading securities - underwriting:</b>		
Listed stocks	\$ 34,488	203,906
OTC stocks	-	700
Convertible bonds	<u>58,498</u>	<u>39,845</u>
	92,986	244,451
Valuation adjustment	<u>5,175</u>	<u>4,393</u>
Subtotal	<u>98,161</u>	<u>248,844</u>
<b>Trading securities - hedging</b>		
Listed stocks	4,294,213	2,371,659
OTC stocks	1,052,623	751,136
Convertible bonds	9,224,117	6,864,305
Others	<u>1,007,075</u>	<u>1,826,385</u>
	15,578,028	11,813,485
Valuation adjustment	<u>469,008</u>	<u>468,042</u>
Subtotal	<u>16,047,036</u>	<u>12,281,527</u>
<b>Derivatives</b>		
Buy options	2,419	51
Futures margin - proprietary fund	495,277	296,313
IRS asset swaps	13,301	13,100
Asset swap options - long position	555,469	157,459
Structured notes	4,183	7,785
Currency swaps	<u>635</u>	<u>-</u>
Subtotal	<u>1,071,284</u>	<u>474,708</u>
Total	<u>\$ 44,804,134</u>	<u>34,556,643</u>

As of December 31, 2021 and 2020, 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.

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Debt instruments at fair value through other comprehensive income		
Government bonds	\$ 2,216,205	2,220,744
International bonds	442,880	797,101
Foreign bonds	<u>11,805,725</u>	<u>14,607,024</u>
	14,464,810	17,624,869
Valuation adjustment	<u>112,543</u>	<u>593,315</u>
Subtotal	<u>14,577,353</u>	<u>18,218,184</u>
Equity instrument at fair value through other comprehensive income		
Listed stocks	247,034	156,852
OTC stocks	<u>44,743</u>	<u>30,226</u>
	291,777	187,078
Valuation adjustment	<u>9,323</u>	<u>(7,364)</u>
Subtotal	<u>301,100</u>	<u>179,714</u>
Total	<u>\$ 14,878,453</u>	<u>18,397,898</u>

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, 2021 and 2020, 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 \$21,509 and \$16,480, respectively.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Company sold equity instrument at fair value through other comprehensive income (FVOCI) - current at a fair value \$631,460 and \$380,907, respectively, cumulative dispose gains (losses) for the years ended December 31, 2021 and 2020, amounted to \$63,507 and \$57,675, 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).

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

- 4) For the years ended December 31, 2021 and 2020, impairment test has 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, 2021</u>	<u>December 31, 2020</u>
Mandatorily measured at fair value through profit or loss:		
Government bonds	\$ 181,457	180,329
Valuation adjustment	<u>(861)</u>	<u>600</u>
Total	<u>\$ 180,596</u>	<u>180,929</u>

As of December 31, 2021 and 2020, the Company took advantage of government bonds as guaranty deposited of bills, interest rate swaps, structured notes, settlement fund and compensation reserve for trust business (for details please refer to note 8).

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Equity instruments at fair value through other comprehensive income		
Non-listed or non-over-the-counter stocks	\$ 556,506	496,464
Valuation adjustment	<u>2,484,080</u>	<u>1,573,576</u>
Total	<u>\$ 3,040,586</u>	<u>2,070,040</u>

For the years ended December 31, 2021 and 2020, 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 \$75,996 and \$82,717, respectively.

For the years ended December 31, 2021 and 2020, the Company did not sell equities recognized in FVOCI -non-current. Furthermore, the Company acquired proceeds from capital reduction of the investees amounted to \$3,921 and \$207,270 and the distribution of residual property from liquidation amounted to \$660 and \$21,400 for the years ended December 31, 2021 and 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, 2021 and 2020 VaR (99%, per 10-day) of equity stocks are as follows:

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

Type of market risk	December 31, 2021	December 31, 2020	For the years ended December 31,					
			2021			2020		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,761,408	1,351,429	1,680,057	1,883,240	1,527,654	1,237,326	1,378,457	1,066,520

(c) Accounts Receivable

	December 31, 2021	December 31, 2020
Receivable on securities purchased by customers	\$ 132,534	40,983
Settlement	995,267	1,426,058
Interests receivable	560,798	434,085
Receivables on securities sold	9,375,305	8,609,466
Others	<u>129,723</u>	<u>84,751</u>
Subtotal	11,193,627	10,595,343
Less: allowance for doubtful accounts	<u>(50)</u>	<u>(241)</u>
Total	<u><u>\$ 11,193,577</u></u>	<u><u>10,595,102</u></u>

(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, 2021 and 2020, impairment test has been applied by the Company, the variation of loss allowance in receivables, please refer to note 6(u).

(d) Investments accounted for under equity method

Investments under equity method consisted of the following:

	December 31, 2021	December 31, 2020
Subsidiaries		
Capital Investment Management Corp.	\$ 79,368	75,880
CSC International Holdings Ltd.	1,477,776	1,528,445
Capital Futures Corp.	3,535,529	3,598,396
Capital Insurance Advisory Corp.	60,571	51,986
Capital Insurance Agency Corp.	38,364	39,190
CSC Venture Capital Corp.	791,454	841,121
Taiwan International Securities (B.V.I) Corp.	15	20
CSC Capital Management Co.	<u>348,207</u>	<u>329,742</u>
Subtotal	<u>6,331,284</u>	<u>6,464,780</u>
Associates		
Capital Investment Trust Corp.	<u>1,379,659</u>	<u>1,340,829</u>
Total	<u><u>\$ 7,710,943</u></u>	<u><u>7,805,609</u></u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

## (i) Subsidiaries:

Please refer to the consolidated financial statements as of and for the year ended December 31, 2021 for further information.

For the years ended December 31, 2021 and 2020, the Company's share of gains or losses of the subsidiaries were as follows:

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Based on the audited financial statements	<b>\$ 306,028</b>	<b>357,922</b>

## (ii) Associates

<b>Name of associate</b>	<b>Nature between the Company</b>	<b>Primary business area and registered country</b>	<b>Proportion of Ownership and Voting Rights</b>	
			<b>December 31, 2021</b>	<b>December 31, 2020</b>
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	20.00 %

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 outstanding in 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 has determined that it has significant influence on it.

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

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Total carrying amount of the associates	<b>\$ 1,379,659</b>	<b>1,340,829</b>
	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Based on the financial statement attributed to the company:		
Net gains from continuing operations	\$ 171,954	152,712
Other comprehensive income (losses)	(855)	2,494
Total comprehensive income (losses)	<b>\$ 171,099</b>	<b>155,206</b>

## (iii) Collateral

As of December 31, 2021 and 2020, none of the investment accounted for under equity method of the Company was pledged for collateral.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(e) Property and equipment

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

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost or deemed cost					
Balance at January 1, 2021	\$ 1,595,251	1,002,404	397,967	225,860	3,221,482
Additions	-	-	153,235	34,461	187,696
Transferred from investment property	358,419	206,350	-	-	564,769
Reclassified to investment property	(416,242)	(292,079)	-	-	(708,321)
Disposals and retirements	-	-	(44,955)	(27,500)	(72,455)
Balance at December 31, 2021	<u>\$ 1,537,428</u>	<u>916,675</u>	<u>506,247</u>	<u>232,821</u>	<u>3,193,171</u>
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	<u>\$ 1,595,251</u>	<u>1,002,404</u>	<u>397,967</u>	<u>225,860</u>	<u>3,221,482</u>
Depreciation and impairment loss					
Balance at January 1, 2021	\$ -	490,772	193,282	120,221	804,275
Depreciation	-	19,599	101,034	46,461	167,094
Transferred from investment property	-	42,102	-	-	42,102
Reclassified to investment property	-	(136,616)	-	-	(136,616)
Disposals and retirements	-	-	(44,955)	(27,500)	(72,455)
Balance at December 31, 2021	<u>\$ -</u>	<u>415,857</u>	<u>249,361</u>	<u>139,182</u>	<u>804,400</u>
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	<u>\$ -</u>	<u>490,772</u>	<u>193,282</u>	<u>120,221</u>	<u>804,275</u>
Carrying amount:					
December 31, 2021	<u>\$ 1,537,428</u>	<u>500,818</u>	<u>256,886</u>	<u>93,639</u>	<u>2,388,771</u>
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>

As of December 31, 2021 and 2020, the property and equipment which were provided as collateral or pledge, please refer to note 8 for details.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(f) Right-of-use assets

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

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2021	\$ 1,045,168	13,326	1,058,494
Additions	87,699	8,930	96,629
Reductions	<u>(65,604)</u>	<u>(2,867)</u>	<u>(68,471)</u>
Balance at December 31, 2021	<u>\$ 1,067,263</u>	<u>19,389</u>	<u>1,086,652</u>
Balance at January 1, 2020	\$ 993,910	14,711	1,008,621
Additions	101,925	2,329	104,254
Reductions	<u>(50,667)</u>	<u>(3,714)</u>	<u>(54,381)</u>
Balance at December 31, 2020	<u>\$ 1,045,168</u>	<u>13,326</u>	<u>1,058,494</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2021	\$ 266,412	7,122	273,534
Depreciation	162,239	3,605	165,844
Reductions	<u>(60,175)</u>	<u>(1,991)</u>	<u>(62,166)</u>
Balance at December 31, 2021	<u>\$ 368,476</u>	<u>8,736</u>	<u>377,212</u>
Balance at January 1, 2020	\$ 151,405	5,109	156,514
Depreciation	162,751	5,579	168,330
Reductions	<u>(47,744)</u>	<u>(3,566)</u>	<u>(51,310)</u>
Balance at December 31, 2020	<u>\$ 266,412</u>	<u>7,122</u>	<u>273,534</u>
Carrying amount:			
At December 31, 2021	<u>\$ 698,787</u>	<u>10,653</u>	<u>709,440</u>
At December 31, 2020	<u>\$ 778,756</u>	<u>6,204</u>	<u>784,960</u>

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**CAPITAL SECURITIES CORPORATION**  
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## (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, 2021	\$ 3,360,456	1,313,175	4,673,631
Transferred from property and equipment	416,242	292,079	708,321
Reclassified to property and equipment	(358,419)	(206,350)	(564,769)
Disposals and retirements	-	(260)	(260)
Balance at December 31, 2021	<u>\$ 3,418,279</u>	<u>1,398,644</u>	<u>4,816,923</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	(8,970)	(263)	(9,233)
Balance at December 31, 2020	<u>\$ 3,360,456</u>	<u>1,313,175</u>	<u>4,673,631</u>
<u>Depreciation and impairment loss</u>			
Balance at January 1, 2021	\$ -	493,839	493,839
Depreciation	-	27,022	27,022
Transferred from property and equipment	-	136,616	136,616
Reclassified to property and equipment	-	(42,102)	(42,102)
Disposals and retirements	-	(260)	(260)
Balance at December 31, 2021	<u>\$ -</u>	<u>615,115</u>	<u>615,115</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	-	(263)	(263)
Balance at December 31, 2020	<u>\$ -</u>	<u>493,839</u>	<u>493,839</u>
<u>Carrying Amount:</u>			
December 31, 2021	<u>\$ 3,418,279</u>	<u>783,529</u>	<u>4,201,808</u>
December 31, 2020	<u>\$ 3,360,456</u>	<u>819,336</u>	<u>4,179,792</u>
<u>Fair Value:</u>			
December 31, 2021			<u>8,212,496</u>
December 31, 2020			<u>8,022,826</u>

(Continued)



**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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

As of December 31, 2021 and 2020, the investment properties which are provided as collateral or pledged, 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 negotiable 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:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Within 1 year	\$ 170,697	160,153
1-5 years	491,861	480,086
Over 5 years	<u>217,936</u>	<u>301,791</u>
	<b><u>\$ 880,494</u></b>	<b><u>942,030</u></b>

The rental revenue from investment property for the years ended December 31, 2021 and 2020 amounted to \$175,359 and \$177,569, respectively.

(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, 2021 and 2020, the book value was both \$3,126,698.

Goodwill is allocated to the operating segments as follows:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
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	<b><u>\$ 3,126,698</u></b>	<b><u>3,126,698</u></b>

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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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 3.69% and 2.77% in year 2021 and 2020 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 2021 and 2020 exceeded the carrying amount, no impairment occurred for both years.

(ii) Other intangible assets - Operation franchise

The Company acquired the operation franchise of securities corporation channel 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, 2021 and 2020, the carrying amounts of the operation franchise were 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, 2021 and 2020, the amortized book value were \$27,902 and \$22,160, respectively.

(i) Short-term borrowings

<u>Nature of borrowings</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Collateralized loan	\$ 1,336,944	1,449,632
Credit loan	1,641,092	2,111,457
Total	<u>\$ 2,978,036</u>	<u>3,561,089</u>
Interest rate range	<u>0.6%~1.15%</u>	<u>0.44%~0.95%</u>

As of December 31, 2021 and 2020, 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, 2021</u>	<u>December 31, 2020</u>
Commercial paper payable	\$ 8,400,000	2,300,000
Less: Unamortized discount	(2,194)	(308)
Net amount	<u>\$ 8,397,806</u>	<u>2,299,692</u>
Interest rate range	<u>0.448%~0.588%</u>	<u>0.358%~0.418%</u>

All commercial papers were issued by bills of finance companies or banks.

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Liabilities on sale of borrowed securities	\$ 1,036,721	947,588
Valuation adjustment	<u>18,741</u>	<u>(17,227)</u>
Subtotal	<u>1,055,462</u>	<u>930,361</u>
Liabilities for issuance of Exchange Traded Notes	781	868
Valuation adjustment	<u>162</u>	<u>260</u>
Subtotal	<u>943</u>	<u>1,128</u>
Stock warrants issued	18,396,778	9,668,055
Stock warrants repurchased	<u>(17,130,305)</u>	<u>(8,941,544)</u>
Subtotal	<u>1,266,473</u>	<u>726,511</u>
Sale options	158	-
IRS asset swaps	42,823	10,968
Asset swap options - short position	2,270,540	1,267,802
Structured notes	286,362	619,483
Currency swaps	7,417	12,759
Interest rate swaps	397	505
Equity derivatives	<u>646</u>	<u>-</u>
Subtotal	<u>2,608,343</u>	<u>1,911,517</u>
Total	<u>\$ 4,931,221</u>	<u>3,569,517</u>

(l) Bonds sold under repurchase agreements

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Bonds sold under repurchase agreements	\$ <u>37,407,572</u>	<u>35,482,996</u>
Agreed-upon repurchase amounts	<u>37,437,587</u>	<u>35,533,047</u>
Interest rates	<u>0.00%~0.42%</u>	<u>0.10%~2.60%</u>
Date of repurchase	<u>2022.1.3~2022.12.22</u>	<u>2021.1.4~2021.12.16</u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(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.

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Equity for each customer in the account	<u><u>\$ 26,706,922</u></u>	<u><u>13,063,932</u></u>

(n) Accounts payable

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Payable of securities sold by customers	\$ 106,032	65,929
Payable of settlements	10,390,629	10,241,587
Others	<u>100,879</u>	<u>80,579</u>
Total	<u><u>\$ 10,597,540</u></u>	<u><u>10,388,095</u></u>

(o) Lease liabilities

The Company’s lease liabilities are as follow:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Current	<u><u>\$ 144,423</u></u>	<u><u>150,214</u></u>
Non-current	<u><u>\$ 620,853</u></u>	<u><u>691,314</u></u>

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

The amounts recognized in profit or loss were as follows:

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Interest on lease liabilities	<u><u>\$ 10,397</u></u>	<u><u>11,398</u></u>
Expenses relating to short-term leases	<u><u>\$ 5,131</u></u>	<u><u>3,430</u></u>
Expenses relating to leases of low-value assets, excluding low-value assets of short-term leases	<u><u>\$ 7,439</u></u>	<u><u>18,184</u></u>
Covid-19-related rent concessions	<u><u>\$ 864</u></u>	<u><u>-</u></u>

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

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Total cash outflow for leases	<u><u>\$ 189,566</u></u>	<u><u>200,033</u></u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(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:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Present value of defined benefit obligations	\$ (1,195,594)	(1,022,188)
Fair value of plan assets	<u>316,997</u>	<u>286,220</u>
Recognized liabilities for defined benefit obligations	<u>\$ (878,597)</u>	<u>(735,968)</u>

The Company's employee benefits liabilities are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Compensated absences	<u>\$ 42,652</u>	<u>42,695</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.

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to \$316,561 and \$284,438 as of December 31, 2021 and 2020, 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 \$436 and \$1,782 as of December 31, 2021 and 2020, respectively.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company in 2021 and 2020 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Defined benefit obligation on January 1	\$ 1,022,188	852,588
Current service costs and interest	8,383	9,583
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in demographical assumptions	(13,216)	-
-Actuarial loss (gain) arising from changes in financial assumptions	(2,086)	29,578
-Experience adjustments	398,729	196,009
Benefits paid by the plan	(218,404)	(65,570)
Defined benefit obligation on December 31	<b><u>\$ 1,195,594</u></b>	<b><u>1,022,188</u></b>

3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Company in 2021 and 2020 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Fair value of plan assets on January 1	\$ 286,220	325,737
Interest revenue	1,200	2,178
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	4,646	9,077
Contributions from the employer	243,335	14,798
Benefits paid from plan assets	(218,404)	(65,570)
Fair value of plan assets on December 31	<b><u>\$ 316,997</u></b>	<b><u>286,220</u></b>

4) Expense recognized in profit or loss

The expenses recognized by the Company in 2021 and 2020 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Current service cost	\$ 4,117	3,914
Net interest of net defined benefit liabilities (assets)	3,066	3,491
Current pension cost	<b><u>\$ 7,183</u></b>	<b><u>7,405</u></b>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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

For the years ended December 31, 2021 and 2020, 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>2021</u>	<u>2020</u>
Balance at January 1	\$ (319,148)	(102,638)
Recognized amount during the period	(378,781)	(216,510)
Balance at December 31	<u>\$ (697,929)</u>	<u>(319,148)</u>

- 6) Actuarial assumptions

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

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Discount rate	0.46 %	0.42 %
Future salary growth rate	2.50 %	2.50 %

The expected contribution to the defined benefit plan for the next year is \$2,942. The weighted average duration of the defined benefit obligation is 1 years.

- 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, 2021 and 2020, 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, 2021		
Discount rate	(29,437)	28,137
Future salary growth rate	23,945	(23,313)
December 31, 2020		
Discount rate	(25,592)	22,317
Future salary growth rate	20,925	(20,354)

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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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 \$90,224 and \$73,516 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2021 and 2020, respectively.

(q) Income tax

(i) Income tax expense (benefit)

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

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Current tax expense		
Current year	\$ 544,665	388,290
Adjustment to the prior years' income tax	(11,750)	(11,073)
	<u>532,915</u>	<u>377,217</u>
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	121,992	13,804
Unrealized gains (losses) on foreign investments under Equity Method	(914)	242
Amortization of operation franchise	-	(42,881)
Adjustments of temporary differences for prior years	-	31,477
	<u>121,078</u>	<u>2,642</u>
Income tax expense from continuing operations	<u>\$ 653,993</u>	<u>379,859</u>

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

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (9,221)</u>	<u>(15,623)</u>

(Continued)



**CAPITAL SECURITIES CORPORATION**  
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Reconciliation of income tax expense (benefit) and income before tax were as follows:

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Net income before tax	\$ 5,903,583	3,949,388
Income tax using the Company's domestic tax rate	\$ 1,180,716	789,878
Tax exempt income	(516,286)	(425,141)
Alternative minimum tax	-	31,833
Additional surtax on undistributed retained earnings	1,313	5,766
Amortization of operating franchise	-	(42,881)
Adjustments to prior years' income tax	(11,750)	(11,073)
Adjustments of temporary differences for prior years	-	31,477
Total	<u>\$ 653,993</u>	<u>379,859</u>

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Unrealized losses on foreign investments under Equity Method	6,335	5,421
Foreign exchange difference from translating financial statements of foreign operations	27,233	18,012
Unrecognized loss in derivative financial instruments	-	54,277
Total	<u>\$ 33,568</u>	<u>77,710</u>

2) Recognized deferred income tax liabilities

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Unrealized gains on derivative financial instruments	\$ 67,715	-
Losses on intercompany transactions	1,928	1,928
Amortization of goodwill	362,697	362,697
Land value incremental tax	47,690	47,690
Total	<u>\$ 480,030</u>	<u>412,315</u>

(iii) Income tax assessment status

The Company's income tax returns through 2019 were assessed by the Tax Authority.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iv) Income tax administrative relief

Since the tax losses 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, 2021 and 2020, the Company had authorized capital of \$30,000,000 and issued common stock were all 2,170,908 thousand shares, 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:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Premium from stock issuance	\$ 1,661,604	1,661,604
Treasury stock transactions	486,556	486,556
Paid-in capital from merger	563,715	563,715
Difference between consideration transferred and carrying amount of subsidiaries acquired and disposed	1,251	1,251
Changes in ownership interests in subsidiaries	<u>30,339</u>	<u>30,304</u>
	<b><u>\$ 2,743,465</u></b>	<b><u>2,743,430</u></b>

(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 fiscal year 2020 earnings distribution has reached the statutory resolution threshold by electronic voting on June 25, 2021, and the Company held the resolution of the shareholder’s meeting on July 14, 2021. Besides, fiscal year 2019 earnings distribution resolved by the shareholders' meeting on June 22, 2020, were as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>Dividends per share (dollar)</u>	<u>Amount</u>	<u>Dividends per share (dollar)</u>
Cash dividends	<u>\$ 2,387,999</u>	1.1	<u>1,736,726</u>	0.8

(Continued)

**CAPITAL SECURITIES CORPORATION**  
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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, in which basis of calculation was in accordance with 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:

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Net income attributable to common shareholders of the Company	\$ <u>5,249,590</u>	<u>3,569,529</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,170,908</u>	<u>2,170,916</u>
Basic earnings per share (dollar)	\$ <u>2.42</u>	<u>1.64</u>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<u>4,307</u>	<u>3,363</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,175,215</u>	<u>2,174,279</u>
Dilutive earnings per share (dollar)	\$ <u>2.41</u>	<u>1.64</u>

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

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(t) Items of the statements of comprehensive income

(i) Brokerage commissions

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Brokerage commission from TSE market	\$ 4,681,084	2,523,123
Brokerage commission from OTC market	1,253,910	847,544
Handling fee from security financing	45,441	34,006
Others	148,319	109,030
	<b><u>\$ 6,128,754</u></b>	<b><u>3,513,703</u></b>

(ii) Underwriting commissions

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Revenue from underwriting securities on a firm commitment basis	\$ 87,868	86,283
Handling fee revenues from underwriting securities on consignment	584	531
Processing fee revenues from underwriting operations	51,381	117,575
Revenue from underwriting consultation	6,270	8,290
Others	5,108	1,611
	<b><u>\$ 151,211</u></b>	<b><u>214,290</u></b>

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

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Gains (losses) on securities sold - proprietary trading	\$ 1,154,489	571,868
Gains (losses) on securities sold - underwriting	26,374	78,546
Gains (losses) on securities sold - hedging	2,725,884	658,112
	<b><u>\$ 3,906,747</u></b>	<b><u>1,308,526</u></b>

(iv) Interest revenue

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Interest revenue - margin loans	\$ 987,213	613,935
Interest revenue - bonds	515,433	646,278
Others	169,597	121,477
	<b><u>\$ 1,672,243</u></b>	<b><u>1,381,690</u></b>

(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

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Trading securities - proprietary	\$ (25,624)	43,744
Trading securities - underwriting	782	(21,660)
Trading securities - hedging	966	188,737
	<b>\$ (23,876)</b>	<b>210,821</b>

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

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Gains on changes in fair value of stock warrants	\$ 5,039,396	10,507,461
Gains on exercise of stock warrants before maturity	43,893,835	42,355,800
Losses on changes in fair value of stock warrants repurchased	(49,640,754)	(52,489,556)
Gains on expiration of stock warrants	46,545	43,514
Stock warrants issuance expenses	(264,907)	(197,941)
	<b>\$ (925,885)</b>	<b>219,278</b>

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

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Employee benefit expenses		
Salary expense	\$ 2,854,918	2,019,464
Health and labor insurance expense	181,052	137,941
Pension expense	97,407	80,921
Others	59,408	49,889
Depreciation expense	359,960	334,791
Amortization expense	25,354	25,186
	<b>\$ 3,578,099</b>	<b>2,648,192</b>

- (viii) Other operating expenses

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Rental expense	\$ 12,570	21,614
Taxes	559,967	349,310
Information technology expense	131,134	113,816
Postage expense	164,559	149,431
Professional service fee	76,531	72,749
Other expenses	749,762	507,751
	<b>\$ 1,694,523</b>	<b>1,214,671</b>

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

## (ix) Other gains and losses

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Financial revenue	\$ 11,775	4,997
Net gains (losses) on disposal of investment	3,076	41,033
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	(13,373)	591
Revenue from bank's allocation fee	196,413	173,191
Revenue from information technology service	47,986	50,943
Net gains (losses) on disposal of property and equipment	-	11,317
Dividend revenue	75,996	82,717
Gains on reversal of prior year's liabilities	12,689	21,856
Rental income	175,359	177,569
Others	39,706	28,260
	<b>\$ 549,627</b>	<b>592,474</b>

## (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, 2021 and 2020, the estimated amounts of remuneration to employees were \$82,129 and \$45,574, respectively, and to directors were \$100,380 and \$76,446, 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.

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**CAPITAL SECURITIES CORPORATION**  
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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 by the Company. The difference between actual employee remuneration of \$47,228 and \$27,027 and actual remuneration to directors of \$71,657 and \$45,335 were \$3,135 and \$14,988 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2021 and 2020. The information about the appropriations of remuneration to employees and to directors approved by the Board of Directors 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, 2021 and 2020, the maximum credit exposure amounted to \$105,014,695 and \$80,732,835, 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 (accounted for 83.15%); secondly, is in America (accounted for 6.74%); then, is in Asia (accounted for 6.13%, exclusion of Taiwan). 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, 2021</u>	<u>December 31, 2020</u>
Taiwan	\$ 87,323,320	59,869,221
Asia (Taiwan is excluded)	6,439,512	8,340,313
Europe	4,171,338	3,671,081
America	7,080,525	7,963,866
Other	-	888,354
Total	<u>\$ 105,014,695</u>	<u>80,732,835</u>

2) Impairment loss

The Company's aging analysis of receivables at reporting date was as follows:

	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	<u>Gross carrying amount</u>	<u>Allowance</u>	<u>Gross carrying amount</u>	<u>Allowance</u>
Not past due	\$ 34,583,498	23,112	27,525,783	29,250
Past due 0~30 days	-	-	182	182
Past due 31~120 days	906	906	399	399
Past due 121~360 days	18,148	18,148	297	297
Past due more than 360 days	219,180	219,180	212,496	212,496
	<u>\$ 34,821,732</u>	<u>261,346</u>	<u>27,739,157</u>	<u>242,624</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. When a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2021 and 2020, the impairment losses of receivables were \$261,346 and \$242,624, respectively.

3) Credit risk of 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, 2021 and 2020 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, 2021	\$ -	9,391	-	-	242,624	-	252,015
Provision or reversal of Impairment loss	-	(2,612)	-	-	19,242	-	16,630
Amounts written off	-	-	-	-	(520)	-	(520)
Balance on December 31, 2021	<u>\$ -</u>	<u>6,779</u>	<u>-</u>	<u>-</u>	<u>261,346</u>	<u>-</u>	<u>268,125</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, 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>

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**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 does not expect that the cash flow included in the maturity analysis could occur significantly earlier or at significantly different amounts.

December 31, 2021	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,055,462	1,055,462	1,055,462	-	-	-	-
Stock warrants issued	1,266,473	1,266,473	1,137,294	129,179	-	-	-
Put options	158	158	158	-	-	-	-
Exchange traded notes	943	943	943	-	-	-	-
Equity derivatives	646	646	646	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	50,637	50,637	517	9,637	14,568	25,915	-
Asset swap option - short position	2,270,540	2,270,540	163,941	259,226	770,553	1,076,820	-
Structured notes	286,362	286,362	11,936	-	232,119	42,307	-
Short-term borrowings	2,978,036	2,978,036	2,978,036	-	-	-	-
Commercial paper payable	8,397,806	8,400,000	8,400,000	-	-	-	-
Bonds sold under repurchase agreements	37,407,572	37,437,587	30,311,716	7,125,871	-	-	-
Guarantee deposited for short sales	2,848,834	2,848,834	2,848,834	-	-	-	-
Proceeds payable from short sales	3,246,792	3,246,792	3,246,792	-	-	-	-
Securities lending refundable deposits	8,149,786	8,149,786	8,149,786	-	-	-	-
Equity for each customer in the account	26,706,922	26,706,922	26,706,922	-	-	-	-
Notes payable and accounts payable	101,031	101,031	101,031	-	-	-	-
Receipts under custody	8,802,836	8,802,836	8,802,836	-	-	-	-
Other payables	1,192,514	1,192,514	1,192,514	-	-	-	-
Other financial liabilities	5,045,880	5,045,880	4,355,627	114,556	470,764	104,933	-
Lease liabilities	765,276	794,365	83,685	69,411	141,113	349,567	150,589
	<u>\$ 110,574,506</u>	<u>110,635,804</u>	<u>99,548,676</u>	<u>7,707,880</u>	<u>1,629,117</u>	<u>1,599,542</u>	<u>150,589</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, 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	-
Asset swap option - short position	1,267,802	1,267,802	280,120	137,993	399,655	450,034	-
Structured notes	619,483	619,483	10,768	359	-	608,356	-
Short-term borrowings	3,561,089	3,561,089	3,561,089	-	-	-	-
Commercial papers 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	-	-	-	-
Other financial liabilities	4,751,090	4,751,090	3,969,342	266,487	171,945	343,316	-
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>

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**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, 2021		
	Foreign Currency (thousands)	Exchange Rate	Amount
<b><u>Financial assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 209,592	27.6800	5,801,507
AUD	1,722	20.0800	34,578
CAD	1	21.6200	22
EUR	509	31.3200	15,942
GBP	1	37.3000	37
HKD	24,205	3.5490	85,904
JPY	26,547	0.2405	6,385
SGD	2	20.4600	41
CNY	78,121	4.3440	339,358
VND	6,782,896	0.0012	8,139
<b><u>Non-Monetary Item</u></b>			
USD	548,314	27.6800	15,177,332
AUD	122,718	20.0800	2,464,177
EUR	9,313	31.3200	291,683
HKD	7,691	3.5490	27,295
JPY	18,726	0.2405	4,504
CNY	10,261	4.3440	44,574
<b><u>Investments under equity method</u></b>			
USD	53,485	27.6300	1,477,791
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 851,410	27.6800	23,567,029
AUD	117,858	20.0800	2,366,589
EUR	8,669	31.3200	271,513
HKD	87,068	3.5490	309,004
JPY	210	0.2405	51
SGD	1	20.4600	20
CNY	208	4.3440	904

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

		December 31, 2020		
		Foreign Currency (thousands)	Exchange Rate	Amount
<b><u>Financial assets</u></b>				
<b><u>Monetary Item</u></b>				
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
<b><u>Non-Monetary Item</u></b>				
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
<b><u>Investments under equity method</u></b>				
USD		53,763	28.4300	1,528,465
<b><u>Financial liabilities</u></b>				
<b><u>Monetary Item</u></b>				
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

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, 2021 and 2020, the realized and unrealized currency exchange gains (losses) amounted to \$64,825 and \$98,722, respectively.

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**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, 2021 and 2020, given other factors remain constantly, if the relevant foreign currencies, when compared with the NTD, had appreciates or depreciates by 5%, the net income and other comprehensive income will change as follows:

	For the years ended December 31, 2021		For the years ended December 31, 2020	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
	Net income	(582,516)	582,516	(620,603)
Other comprehensive income	553,084	(553,084)	699,513	(699,513)

(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, 2021	December 31, 2020	For the years ended December 31,					
			2021			2020		
			Average	Maximum	Minimum	Average	Maximum	Minimum
Interest risk	1,598,692	1,560,150	1,549,226	1,731,621	1,373,366	1,574,731	1,758,733	1,378,218

(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.

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2) Not measured at fair value

As of December 31, 2021 and 2020, the fair value information of the financial assets and financial liabilities of the Company was as follows:

a) Fair value information

	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets:				
Cash and cash equivalents	\$ 2,933,772	2,933,772	1,598,193	1,598,193
Accrued receivable	67,001,372	67,001,372	42,345,333	42,345,333
Restricted assets - current	220,823	220,823	20,829	20,829
Other non-current assets	1,136,716	1,136,716	1,098,324	1,098,324
Financial liabilities:				
Short-term borrowings	2,978,036	2,978,036	3,561,089	3,561,089
Commercial paper payable	8,397,806	8,397,806	2,299,692	2,299,692
Bonds sold under repurchase agreements	37,407,572	37,407,572	35,482,996	35,482,996
Accrued payable	62,119,594	62,119,594	33,216,957	33,216,957
Other financial liabilities - current	4,470,183	4,470,183	4,235,829	4,235,829
Other financial liabilities - non-current	575,697	575,697	515,261	515,261
Other non-current liabilities	99,973	99,973	101,660	101,660

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, 2021	<u>\$ -</u>	<u>-</u>	<u>8,212,496</u>	<u>8,212,496</u>
December 31, 2020	<u>\$ -</u>	<u>-</u>	<u>8,022,826</u>	<u>8,022,826</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. Their carrying amounts is a reasonable approximation of the fair value. 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 by using Market Method based on the market evidence of transaction price of similar properties in the locations.

(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>
<b>December 31, 2021</b>				
Financial assets at fair value through profit or loss	\$ 15,274,621	28,638,824	-	43,913,445
Financial assets at fair value through other comprehensive income	2,529,265	12,349,188	3,040,586	17,919,039
Derivative financial assets	<u>497,696</u>	<u>573,588</u>	<u>-</u>	<u>1,071,284</u>
	<u>\$ 18,301,582</u>	<u>41,561,600</u>	<u>3,040,586</u>	<u>62,903,768</u>
Financial liabilities at fair value through profit or loss	\$ 2,322,878	-	-	2,322,878
Derivative financial liabilities	<u>274,584</u>	<u>2,333,759</u>	<u>-</u>	<u>2,608,343</u>
	<u>\$ 2,597,462</u>	<u>2,333,759</u>	<u>-</u>	<u>4,931,221</u>
<b>December 31, 2020</b>				
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>

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, 2021 and 2020, 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, 2021								
	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	\$ 2,070,040	-	880,126	95,001	-	660	3,921	-	3,040,586

  

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

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	<ul style="list-style-type: none"> <li>· Price-to-Book Ratio</li> <li>· Discount for lack of marketability</li> </ul>	<ul style="list-style-type: none"> <li>· The higher the multiple, the higher fair value.</li> <li>· The higher the discount for lack of marketability, the lower the fair value.</li> </ul>
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**  
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- 8) Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value

The fair value measurement that the 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:

	<b>Change in fair value recognized in other comprehensive income</b>	
	<b>Favorable change</b>	<b>Unfavorable change</b>
<b>December 31, 2021</b>		
Financial assets fair value through other comprehensive income	\$ <b>30,406</b>	<b>(30,406)</b>
<b>December 31, 2020</b>		
Financial assets fair value through other comprehensive income	\$ <b>20,700</b>	<b>(20,700)</b>

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 repurchase 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, 2021				
	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	\$ <b>39,243,260</b>	<b>37,407,572</b>	-	-	-

(Continued)

**CAPITAL SECURITIES CORPORATION**  
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December 31, 2020					
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	\$ 37,581,050	35,482,996	-	-	-

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 of the above instruments shall 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, 2021						
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	\$ 573,588	-	573,588	-	-	573,588
December 31, 2021						
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	\$ 2,608,185	-	2,608,185	-	-	2,608,185
Under repurchase agreements	37,407,572	-	37,407,572	37,407,572	-	-
Total	\$ 40,015,757	-	40,015,757	37,407,572	-	2,608,185
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

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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	-	-
<b>Total</b>	<b>\$ 37,394,513</b>	<b>-</b>	<b>37,394,513</b>	<b>35,482,996</b>	<b>-</b>	<b>1,911,517</b>

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.

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**CAPITAL SECURITIES CORPORATION**  
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- 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.

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**CAPITAL SECURITIES CORPORATION**  
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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 utilize 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.

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**CAPITAL SECURITIES CORPORATION**  
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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, 2021 and 2020, the related financial risk and the presentation of the Company's financial 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, 2021		December 31, 2020	
		Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:					
	Stock warrants issued	\$ 22,242,386	-	14,988,329	-

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 and hedging instruments.

(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.

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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, 2021 and 2020:

a) Gains (losses) on valuation

	<u>For the years ended December 31,</u>		<u>Account</u>
	<u>2021</u>	<u>2020</u>	
Stock warrants issued	\$ 17,315,545	17,825,096	Gains (losses) on stock warrants issued
Stock warrants repurchased	(17,452,496)	(17,761,848)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the years ended December 31,</u>		<u>Account</u>
	<u>2021</u>	<u>2020</u>	
Security borrowing	\$ 137,627	48,780	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	1,673,217	61,457	Gains (losses) on sale of trading securities
Futures transaction	(201,373)	(132,451)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the years ended December 31,</u>		<u>Account</u>
	<u>2021</u>	<u>2020</u>	
Stock warrants issued	\$ 31,664,231	35,081,679	Gains (losses) on stock warrants issued
Stock warrants repurchased	(32,188,258)	(34,727,708)	Gains (losses) on stock warrants issued

(Continued)

**CAPITAL SECURITIES CORPORATION**  
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Exchange traded notes

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

Financial Instruments	December 31, 2021		December 31, 2020	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Exchange traded notes issued	\$ 943	-	1,128	-

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.

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

	December 31, 2021	December 31, 2020	Account
	Margin - exchange traded notes	\$ 25	25
Outstanding liabilities - exchange traded notes	943	1,128	Financial liabilities at fair value through profit or loss - current
	<b>For the years ended December 31,</b>		
	2021	2020	Account
Gains (losses) on exchange traded notes	37	(296)	Net gains (losses) from exchange traded notes
Management and commissions revenue on exchange traded notes	10	8	Management and commissions revenue from exchange traded notes
Management and commissions expense on exchange traded notes	(438)	(62)	Management and commissions expense on exchange traded notes

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Futures

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

Financial Instruments	December 31, 2021		December 31, 2020	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taixex Futures	\$ 274,980	-	-	-
Electronic Sector Index Futures	83,370	-	-	-
Single Stock Futures	655,292	-	-	-
Mini Electronic Futures	164,284	-	-	-
US Dollar Index Futures	47,926	-	25,557	-
Gold Futures	9,939	-	53,681	-
Wheat Futures	1,115	-	2,732	-
Soybean Futures	-	-	7,499	-
10 Years U.S. T-Note Futures	3,611	-	109,920	-
Long-term Euro-BTP Futures	-	-	292,916	-
Euro-Bond Futures	-	-	62,338	-
5 Years U.S. T-Note Futures	134,187	-	-	-
Brent Crude Oil Futures	1,007,004	-	-	-
Crude Futures	80,317	-	-	-
FTSE China A50 Index Futures	30,821	-	-	-
HHI Futures	17,297	-	-	-
Micro E-mini - S&P 500 Futures	4,634	-	-	-
E-Mini - Nasdaq Futures	54,364	-	-	-
Silver Futures	3,178	-	-	-
2 Years U.S. T-Note Futures	6,049	-	-	-
Ultra U.S. Treasury Bond	32,969	-	-	-
30 Years U.S. Treasury Bond	22,418	-	-	-
For non-trading purpose:				
Taixex Futures	812,218	-	339,185	-
Electronic Sector Index Futures	45,128	-	-	-
Single Stock Futures	672,423	-	550,140	-
E-mini - S&P 500 Futures	-	-	52,133	-
E-mini - Nasdaq Futures	136,583	-	7,129	-
HSI Futures	28,603	-	44,464	-
U.S.dollar Index Futures	-	-	12,941	-
Soybean Futures	-	-	10,636	-
Gold Futures	35,369	-	240,756	-
Mini-HSI Futures	22,147	-	-	-
Crude Oil Futures	33,838	-	-	-
FTSE China A50 Index Futures	121,582	-	300,197	-
VIX Futures	-	-	281,920	-
SGX Nikkei 225 Index Futures	37,653	-	18,423	-
TOPIX Futures	42,932	-	34,977	-
Japanese Yen Futures	-	-	3,429	-
Brent Crude Oil Futures	576,218	-	4,316	-
FTSE Vietnam 30 Index Futures	8,184	-	-	-
HHI Futures	2,875	-	-	-
Mini-TOPIX Futures	27,228	-	-	-
Micro E-Mini-Nasdaq Futures	883	-	-	-
Micro Gold Futures	25,549	-	-	-
Stock Options	16	-	62	-
TAIEX Options	3,946	-	-	-
TAIEX Weekly Options	295	-	-	-

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.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
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(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.

(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:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>Account</u>
Futures margin - proprietary fund	\$ 495,277	296,313	Financial assets at fair value through profit or loss - current
Excess futures margin	932,628	610,909	Cash and cash equivalent
Buy options	2,419	51	Financial assets at fair value through profit or loss - current
Sale options	158	-	Financial liabilities at fair value through profit or loss - current
	<u>For the years ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>Account</u>
Gains (losses) on futures transactions	(490,138)	(48,510)	Gains (losses) on derivatives - futures

(Continued)

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Derivative instruments - OTC

(i) Interest rate financial derivatives

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

Financial Instruments	December 31, 2021		December 31, 2020	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
NT dollar interest swaps	\$ 9,900,000	-	10,900,000	-

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.

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.

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**CAPITAL SECURITIES CORPORATION**  
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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.

(ii) Structured notes

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

Financial Instruments	December 31, 2021		December 31, 2020	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 883,000	-	1,311,000	-
Principal guaranteed notes	3,729,644	-	3,264,693	-
Credit-linked notes	769,300	-	783,100	-
Principal guaranteed notes (in USD thousands)	USD -	-	USD 100	-

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, 2021		December 31, 2020	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset swaps	\$ 2,478,500	-	1,109,900	-
Convertible bond options	10,283,100	-	7,035,300	-

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**  
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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-backed 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:

Financial Instruments	December 31, 2021		December 31, 2020	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:				
Equity options	\$ 25,363	-	839	-

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.

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.

(Continued)



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(v) Presentation of derivative instruments in financial statement

As of December 31, 2021 and 2020, 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,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 13,301	13,100
Asset swap options-long position	555,469	157,459
Structured notes	4,183	7,785
Currency swaps	<u>635</u>	<u>-</u>
Total	<u>\$ 573,588</u>	<u>178,344</u>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 42,823	10,968
Asset swap options-short position	2,270,540	1,267,802
Structured notes	286,362	619,483
Currency swaps	7,417	12,759
Interest rate swaps	397	505
Equity derivatives	<u>646</u>	<u>-</u>
Total	<u>\$ 2,608,185</u>	<u>1,911,517</u>
Other financial liabilities - current		
Structured notes principal value	<u>\$ 4,470,183</u>	<u>4,235,829</u>
Other financial liabilities - non-current		
Structured notes principal value	<u>\$ 575,697</u>	<u>515,261</u>

For the years ended December 31, 2021 and 2020, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset swaps, currency swaps and interest rate swaps are presented on statements of income as follows:

	<u>For the year ended December 31, 2021</u>		<u>For the year ended December 31, 2020</u>	
	<u>Gains (losses) on</u> <u>derivative instruments -</u> <u>OTC</u>	<u>Unrealized Gains</u> <u>(losses)</u>	<u>Gains (losses) on</u> <u>derivative instruments -</u> <u>OTC</u>	<u>Unrealized Gains</u> <u>(losses)</u>
Interest rate swaps	\$ (154)	(397)	(1,065)	(505)
Equity derivatives	192	637	(21)	38
Structured notes	31,839	49,970	(27,345)	(8,650)
IRS asset swaps	(245)	(55)	86	2,131
Asset swap options	(828,422)	144,330	(803,808)	(251,220)
Currency swaps	<u>(17,583)</u>	<u>(6,782)</u>	<u>(23,764)</u>	<u>(12,759)</u>
Total	<u>\$ (814,373)</u>	<u>187,703</u>	<u>(855,917)</u>	<u>(270,965)</u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(vi) Managing interest rate benchmark reform and associated risks

1) Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates. The Company has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. The Company's main IBOR exposure on December 31, 2021 was indexed to US dollar LIBOR. The alternative reference rate for US dollar LIBOR it is the Secured Overnight Financing Rate (SOFR). As of December 31, 2021, it is still unclear when the announcement that will set a date for the termination of the publication of US dollar LIBOR will take place. Nevertheless, the Company had finished the process of implementing appropriate fallback provisions for all US dollar LIBOR indexed exposures by the end of 2021.

2) Non-derivative financial assets

The Company's IBOR exposures to non-derivative financial assets as of December 31, 2021 were Corporate bonds indexed to US dollar LIBOR. In respect of US dollar LIBOR exposures, the Company has been a party to agreements that introduce fallback clauses into all such instruments. These clauses automatically switch the instrument from US dollar LIBOR to SOFR as and when US dollar LIBOR ceases. It is unclear when the announcement that will set a date for the termination of the publication of US dollar LIBOR will take place.

3) Non-derivative financial liabilities

The Company has no non-derivative financial liabilities exposed to IBOR on December 31, 2021.

4) Total amounts of unreformed contracts, including those with an appropriate fallback clause

The Company monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Company considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an 'unreformed contract').

The following table shows the total amounts of unreformed contracts and those with appropriate fallback language on January 1, 2021 and December 31, 2021. The amounts of financial assets and financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

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**CAPITAL SECURITIES CORPORATION**  
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<u>December 31, 2021</u>	<u>USD LIBOR</u>		<u>EUR LIBOR</u>	
	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause
<b>Financial assets</b>				
Corporate bonds	USD 163,500	USD 158,500	-	-
<b>January 1, 2021</b>				
<b>Financial assets</b>				
Corporate bonds	USD 208,000	USD 203,000	-	-
<b>Financial liabilities</b>				
Secured bank loans	USD 50,900	USD 50,900	-	-
Credit loan	USD 46,500	USD 46,500	EUR 1,200	EUR 1,200
<b>Derivatives</b>				
Structured notes	USD 100	USD 100	-	-

(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:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Capital adequacy ratio	358 %	369 %

(x) Financing activities not affecting current cash flow

The Company's financing activities which did not affect the current cash flow in the years ended December 31, 2021 and 2020, were as follows:

For Right-of-use assets, please refer to note 6(f).

	<u>January 1, 2021</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>December 31, 2021</u>
			<u>Other</u>	<u>Foreign exchange movement</u>	<u>Fair value changes</u>	
Lease liabilities	\$ 841,528	(176,996)	100,744	-	-	765,276
	<u>January 1, 2020</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>December 31, 2020</u>
			<u>Other</u>	<u>Foreign exchange movement</u>	<u>Fair value changes</u>	
Lease liabilities	\$ 907,390	(178,419)	112,557	-	-	841,528

(Continued)

**CAPITAL SECURITIES CORPORATION**  
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**(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) Parent company and ultimate controlling party

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

<u>Names of related parties</u>	<u>Relationships</u>
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp.	Subsidiary
Capital Futures Corp.	Subsidiary
Capital Investment Management Corp.	Subsidiary
CSC Venture Capital Corp.	Subsidiary
CSC Capital Management Co.	Subsidiary
CSC Securities (HK) Ltd.	Second-level subsidiary
Capital International Technology Corp.	Second-level subsidiary
Capital Investment Trust Corp.	Associates
Funds issued by Capital Investment Trust Corp.	Funds issued by associate
Other related parties	Key management personnel and others

- (d) Key management personnel transactions

- (i) Key management personnel compensation

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Short-term employee benefits	\$ 271,728	174,327
Post-employment benefits	1,385	1,344
Total	<u>\$ 273,113</u>	<u>175,671</u>

- (ii) Bonds sold under repurchase agreements

	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	\$ 8,036	8,128	8,262	8,267

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Total financial expenses	<u>\$ 18</u>	<u>120</u>

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iii) Structured notes transactions - remaining balance

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Key management personnel	<u>\$ 49,300</u>	<u>106,800</u>

(e) Significant transactions with related parties

(i) Bonds sold under repurchase agreements

	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Funds issued by associate	\$ -	-	31,178	30,871
Subsidiaries	<u>111,000</u>	<u>111,013</u>	<u>271,500</u>	<u>271,530</u>
Total	<u>\$ 111,000</u>	<u>111,013</u>	<u>302,678</u>	<u>302,401</u>

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
<b>Total financial expenses</b>		
Funds issued by associate	\$ 244	135
Subsidiaries	<u>316</u>	<u>338</u>
Total	<u>\$ 560</u>	<u>473</u>

Transaction terms are the same as the general clients.

(ii) Futures commission revenue

The Company provided futures trading assistance for subsidiary.

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Commission receivable	<u>\$ 11,448</u>	<u>14,679</u>
Other Payable (Default loss)	<u>\$ 3,771</u>	<u>3,832</u>

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Futures commission revenue	<u>\$ 170,416</u>	<u>183,659</u>

(iii) Futures transactions

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

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Futures margin-proprietary fund	<u>\$ 1,406,887</u>	<u>824,368</u>

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

		<u>For the years ended December 31,</u>	
		<u>2021</u>	<u>2020</u>
	Interest revenue of futures margin	\$ <u>80</u>	<u>169</u>
	Handling fees charge	\$ <u>10,625</u>	<u>4,881</u>
 (iv) Lease agreements			
		<u>For the years ended December 31,</u>	
		<u>2021</u>	<u>2020</u>
	<b>Lease revenue</b>		
	Subsidiaries	\$ 17,935	18,144
	Second-level Subsidiaries	734	-
	Associates	<u>17,237</u>	<u>17,247</u>
	Total	\$ <u>35,906</u>	<u>35,391</u>
		<u>December 31,</u>	<u>December 31,</u>
		<u>2021</u>	<u>2020</u>
	<b>Guarantee deposits received</b>		
	Subsidiaries	\$ 4,450	4,450
	Second-level Subsidiaries	183	183
	Associates	<u>3,811</u>	<u>3,811</u>
	Total	\$ <u>8,444</u>	<u>8,444</u>

Lease period and rent collection method is based on lease agreements. Transaction terms are the same as the general clients.

(v) Information Technology Service

		<u>For the years ended December 31,</u>	
		<u>2021</u>	<u>2020</u>
	Subsidiaries	\$ <u>47,986</u>	<u>50,943</u>

(vi) Insurance commission revenues

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

		<u>For the years ended December 31,</u>	
		<u>2021</u>	<u>2020</u>
	<b>Commission revenues</b>		
	Subsidiaries	\$ <u>9,685</u>	<u>8,158</u>
		<u>December 31,</u>	<u>December 31,</u>
		<u>2021</u>	<u>2020</u>
	<b>Accounts receivable</b>		
	Subsidiaries	\$ <u>3,667</u>	<u>811</u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

## (vii) Brokerage and sub-brokerage

<b>Brokerage commissions</b>	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Subsidiaries	\$ 131	22
Second-level Subsidiaries	6	-
Funds issued by associate	42,957	45,083
Other related parties	4,244	2,517
Total	\$ 47,338	47,622

  

<b>Re-consigned handling commissions</b>	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Second-level Subsidiaries	\$ -	9
Funds issued by associate	13,733	6,703
Other related parties	313	559
Total	\$ 14,046	7,271

  

<b>Re-consigned handling costs</b>	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Second-level Subsidiaries	\$ 5,359	2,547

## (viii) Fund services business

<b>Fund services revenue</b>	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Associates	\$ 4,657	2,108

  

<b>Channel services revenue</b>	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Associates	\$ 4,657	2,108

  

<b>Account receivable</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2021</b>	<b>2020</b>
Associates	\$ 509	870

## (ix) Wealth management business

<b>Trust account commissions revenue</b>	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Associates	\$ 9,728	5,708

  

<b>Trust account management fee revenue</b>	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Associates	\$ 1,035	605

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## (x) Underwriting business

<u>Stock service income</u>	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Subsidiaries	\$ 582	502
Second-level subsidiaries	20	-
Associates	<u>121</u>	<u>122</u>
Total	<u>\$ 723</u>	<u>624</u>

<u>Handling fee revenues from underwriting securities on consignment</u>	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Funds issued by associates	<u>\$ -</u>	<u>1</u>

<u>Revenue from underwriting securities on a firm commitment basis</u>	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Subsidiaries	<u>\$ -</u>	<u>138</u>

<u>Accounts receivable</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2021</u>	<u>2020</u>
Associates	<u>\$ 10</u>	<u>10</u>

## (xi) Other revenues

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Subsidiaries	\$ 445	679
Associates	<u>3</u>	<u>3</u>
Total	<u>\$ 448</u>	<u>682</u>

## (xii) Custody account business

<u>Custody account business revenue</u>	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Second-level subsidiaries	<u>\$ 7,514</u>	<u>6,600</u>

  

<u>Accounts receivable</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2021</u>	<u>2020</u>
Second-level subsidiaries	<u>\$ 571</u>	<u>680</u>

## (xiii) Consulting business

<u>Consulting fee expense</u>	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Subsidiaries	<u>\$ 69,000</u>	<u>63,000</u>

(Continued)



**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(xiv) Stock commission expense

<b>Accounts payable</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Subsidiaries	<b>\$ 3,011</b>	<b>2,679</b>
	<b>For the years ended December 31,</b>	
<b>Stock commission expense</b>	<b>2021</b>	<b>2020</b>
Subsidiaries	<b>\$ 27,152</b>	<b>9,738</b>

(xv) Information technology fees

<b>Information technology fees</b>	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Subsidiaries	<b>\$ 2,813</b>	<b>1,989</b>

(xvi) Accrued receivables

<b>Other receivable</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Subsidiaries	\$ 618	5,111
Second-level subsidiaries	26	55
Total	<b>\$ 644</b>	<b>5,166</b>
	<b>December 31,</b>	<b>December 31,</b>
<b>Other payable</b>	<b>2021</b>	<b>2020</b>
Subsidiaries	\$ 148	-
Second-level subsidiaries	15	16
Total	<b>\$ 163</b>	<b>16</b>
	<b>December 31,</b>	<b>December 31,</b>
<b>Receipts under custody</b>	<b>2021</b>	<b>2020</b>
Second-level subsidiaries	<b>\$ 5</b>	<b>58</b>

(xvii) Receipts in advance

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Subsidiaries	<b>\$ 24</b>	<b>-</b>

(xviii) 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:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>The collateral use</u>
Restricted assets - current	\$ 220,823	20,829	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	38,137,431	35,773,131	Repurchase agreement
Property (cost)	1,528,788	1,369,767	Bank borrowings
Financial assets at fair value through profit or loss - non - current	180,596	180,929	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property (cost)	3,725,707	3,177,104	Bank borrowings
Total	<u>\$ 43,793,345</u>	<u>40,521,760</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, 2021</u>		<u>December 31, 2020</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities procured through margin purchase	612,683	\$ 6,126,830	595,559	5,955,590
Collateral for margin purchase	11,332	113,321	10,578	105,780
Lending securities to customers through short sales	41,166	411,660	67,810	678,100
Collateral for short sales	7,659	76,588	13,284	132,840

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

	<u>December 31, 2021</u>		<u>December 31, 2020</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	491	\$ 4,910	2,117	21,170
Collateral for refinancing margin	-	-	83	830

- (c) Information of issuing promissory notes in connection with bank loans and issuance of commercial paper are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Promissory notes	<u>\$ 24,660,000</u>	<u>21,980,000</u>
Promissory notes (in USD thousands)	<u>USD 85,000</u>	<u>USD 65,000</u>

- (d) As of December 31, 2021 and 2020, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$7,342,642 and \$7,031,255, respectively.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

- (e) Securities and Futures Investors Protection Center claims against the Company for compensation of \$1,545; due to the fact that the Company, being the underwriter of Universal ABIT'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, but plaintiff appealed against the judgement. The case is under the trial of Taiwan High Court. The Company assesses that it is not liable for compensation, thus the Company unrecognized this amount.
- (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. The Company assesses that it is not liable for compensation, thus the Company unrecognized this amount.
- (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 first instance ruled that the Company should jointly and severally compensate the plaintiff \$41 and interest. The plaintiff refused to accept and field an appeal, and the Company also field a side appeal. The case is under the trial of Taiwan High Court. The Company assesses that it is not liable for compensation, thus the Company unrecognized this amount.
- (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 remaining balance was \$48,034 as of December 31, 2021.
- (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, 2021 and 2020**

<b>Trust Assets</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>	<b>Trust Liabilities</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Bank deposits	\$ 1,316,300	1,459,272	Accounts payable	\$ 97	72
Short-term investment			Trust capital	11,104,225	12,097,468
Funds	9,195,789	9,959,655	Net income	(53,638)	401,500
Stocks	276,944	252,364	Accumulated earnings or deficit	90,269	(102,859)
Bonds	58,590	57,995			
Structured notes	277,623	610,954			
Accounts receivable	<u>15,707</u>	<u>55,941</u>			
<b>Total Assets</b>	<b><u>\$ 11,140,953</u></b>	<b><u>12,396,181</u></b>	<b>Total Liabilities</b>	<b><u>\$ 11,140,953</u></b>	<b><u>12,396,181</u></b>

(ii) Income statement of trust accounts

**Income Statement of Trust Accounts**

**For the years ended December 31, 2021 and 2020**

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Trust revenue		
Interest revenue	\$ 79,809	35,710
Cash dividends revenue	354,505	405,516
Rental revenue	6,037	7,319
Investment gains - realized	-	823
Investment gains - unrealized	52,524	104,218
Subtotal	<u>492,875</u>	<u>553,586</u>
Trust expense		
Management fee	427	371
Service fee	34,562	39,599
Investment losses - realized	83,746	109,835
Investment losses - unrealized	427,654	2,060
Other fees	44	31
Subtotal	<u>546,433</u>	<u>151,896</u>
Gain (loss) before income tax	(53,558)	401,690
Less: Income tax expense	<u>80</u>	<u>190</u>
Net gain (loss)	<b><u>\$ (53,638)</u></b>	<b><u>401,500</u></b>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iii) Property list of trust accounts

**Property list of trust accounts**

**December 31, 2021 and 2020**

<b>Investment items</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Bank deposits	\$ 1,316,300	1,459,272
Short-term investment		
Funds	9,195,789	9,959,655
Stocks	276,944	252,364
Bonds	58,590	57,995
Structured Notes	277,623	610,954
Other assets	<u>15,707</u>	<u>55,941</u>
Total	<u><u>\$ 11,140,953</u></u>	<u><u>12,396,181</u></u>

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

**(11) Significant Subsequent Events:**

On November 11, 2021, the Board of Directors of the subsidiary Capital Futures Corp. approved to sell True Partner Advisor Hong Kong Ltd. the associate of the Company. All shares would be transferred on February 15, 2022.

**(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	\$ 810,160	\$ 810,160	\$ 782,530	- %	2	-	Working capital	-	-	-	\$ 1,477,776	\$ 1,477,776
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited.	Other receivables - Related party	Yes	93,389	93,389	93,389	- %	2	-	Working capital & repayment of financing	-	-	-	93,389	93,389
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	5,148	5,148	5,148	- %	2	-	Repayment of financing	-	-	-	5,148	5,148
4	CSC Futures (HK) Ltd.	F190402	Account receivables - Customer	No	38,425	38,425	-	5 %	1	12,950		-	-	-	170,380	851,899
5	CSC Futures (HK) Ltd.	F611702	Account receivables - Customer	No	384,245	384,245	384,245	1.38%~2.63%	1	194,973		-	-	-	384,245	851,899
6	CSC Futures (HK) Ltd.	F613059	Account receivables - Customer	No	82,338	82,338	-	1.13%~3.13%	1	37,634		-	-	-	170,380	851,899
7	CSC Futures (HK) Ltd.	F612688	Account receivables - Customer	No	76,849	13,723	6,862	3.13 %	1	2,934		-	-	-	170,380	851,899
8	CSC Futures (HK) Ltd.	F612687	Account receivables - Customer	No	76,849	-	-	3.13 %	1	475		-	-	-	170,380	851,899
9	CSC Futures (HK) Ltd.	F612851	Account receivables - Customer	No	82,338	54,892	-	3.13 %	1	7,802		-	-	-	170,380	851,899
10	CSC Futures(HK) Ltd.	F613091	Account receivables - Customer	No	41,169	41,169	9,112	3.13 %	1	1,048		-	-	-	170,380	851,899

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

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

## (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, 2021	Balance on December 31, 2020	Shares	Ratio	Book value					
0	Capital-Investment Management Corp.	Taipei, Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations, organize seminars and publish materials on securities investments.	72,515	72,515	7,000,000	100.00 %	79,368	75,125	3,488	3,488	-	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	1,896,520	119,066,014	56.58 %	3,535,529	2,201,851	490,039	277,373	341,719	-
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 %	1,477,776	17,248	(4,000)	(4,000)	-	-
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 %	60,571	132,918	34,710	34,710	26,125	-
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 %	38,364	52,016	(826)	(826)	-	-
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 %	15	(568)	(569)	(569)	-	-
0	CSC Venture Capital Corp.	Taipei, Taiwan, R.O.C.	January 12, 2016	No. FSC-1040034071 dated September 8, 2015	Long-term equity investment business.	1,000,000	1,000,000	100,000,000	100.00 %	791,454	4,425	(642)	(642)	2,850	-
0	CSC Capital Management Co.	Taipei, Taiwan, R.O.C.	December 3, 2020	No. FSC-1090349163 dated September 7, 2020	Investment and management consulting, venture capital and general investing.	330,000	330,000	33,000,000	100.00 %	348,207	(416)	(3,506)	(3,506)	-	-
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 %	1,379,659	2,249,375	859,776	171,954	132,270	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 177,604 thousands	HK 30,772 thousands	HK 4,776 thousands	Note 5	-	Second-level subsidiary
2	TIS Securities(HK) Limited.(Note 4)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousands	HK 265,000 thousands	265,000,000	100.00 %	HK (26,209) thousands	HK - thousands	HK (157) thousands	Note 5	-	-
3	Taiwan International Capital (HK)Ltd. (Note 4)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,108)	HK - thousands	HK (88) thousands	Note 5	-	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 %	828,642	360,895	(26,253)	Note 5	-	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 %	33,816	3,072	(7,112)	Note 5	-	-
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 %	50,112	132,349	3,776	Note 6	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	2	100.00 %	HK -	HK -	HK -	Note 5	-	Third-level subsidiary
6	Capital Private Equity Fund I Co.	Taipei, Taiwan, R.O.C.	April 20, 2021	No. FSC-1090380058 dated January 26, 2021	General investment and venture capital business.	300,000	-	30,000,000	100.00 %	318,697	(186)	(3,274)	Note 5	-	Second-level subsidiary
7	EnnoCap Venture Inc.	Taipei, Taiwan, R.O.C.	July 30, 2021		Investment and management consulting, venture capital and general investing.	400	-	40,000	40.00 %	324	-	(190)	Note 5	-	Associates

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

Note 1: (0) Capital Securities Corp. (1) CSC International Holdings Ltd. (2) Taiwan International Securities (B.V.I) Corp. (3) TIS Securities (HK) Limited. (4) Capital Futures Corp. (5) CSC Securities (HK) Ltd. (6) CSC Capital Management Co. (7) CSC Venture Capital Corp.

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 board of directors of the Company resolved to dissolve the investee company on December 30, 2011. The representative office of China dissolved in 2014 as well. According to the laws of Hong Kong, it can't be liquidated voluntarily because the total assets of TIS Securities (HK) Limited, and Taiwan International Capital (HK) Ltd. can't cover the liabilities. The company has briefed it to the accountant in Hong Kong to plan the solutions.

Note 5: The investment gains and losses is recognized with equity method.

Note 6: On November 11, 2021, the Board of Directors of the subsidiary Capital Futures Corp. approved to sell the True Partner Advisor Hong Kong Ltd. the associate of the Company. All shares would be transferred on February 15, 2022.

(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, 2021	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2021	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, 2021
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	2	28.86%	B(2)	10,474	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	(4,051)	56.58%	(2,292) B(2)	6,582	-

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:

(In Thousands of New Taiwan Dollars)

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.

(Continued)



**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

## (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.

## (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, 2021 are as follows:

## (i) Balance sheet and income statement:

## 1) Balance sheet

Unit: US \$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	December 31, 2021	December 31, 2021
Current assets	9,593	1
Long-term investments	22,774	-
Property and premises	1,852	-
Other assets	19,395	3,380
Total assets	53,614	3,381
Current liabilities	87	19
Other liabilities	43	3,361
Total liabilities	130	3,380
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,637	(9,451)
Cumulative translation adjustments	(153)	(64)
Total stockholders' equity	53,484	1
Total liabilities and stockholders' equity	53,614	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, 2021	For the years ended December 31, 2021
Operating revenue	614	(20)
Operating expense	(816)	-
Non-operating revenue	61	-
Non-operating expense	(2)	-
Income (loss) before tax	(143)	(20)
Net income (loss)	(143)	(20)

## (ii) Securities held as of December 31, 2021

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2021	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities(HK) Ltd.	Long-term investments	128,000,000	\$ <u>22,774</u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u>(3,361)</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 years ended December 31, 2021.

**Capital Securities Corporation**  
**Statement of cash and cash equivalents**  
**December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Cash	Petty cash	\$ 2,590
Bank deposits		
Checking accounts		25,007
Demand deposits		193,200
Foreign currency deposits	HKD6,582 Thousands @ 3.549	288,647
	USD8,569 Thousands @ 27.68	
	CNY2,316 Thousands @ 4.344	
	EUR67 Thousands @ 31.32	
	JPY255 Thousands @ 0.2405	
	AUD791 Thousands @ 20.08	
	CAD1 Thousands @ 21.62	
	SGD1 Thousands @ 20.46	
Cash equivalents		
Time deposits	Maturity dates are 2022.1.3 to 2022.12.5 and the interest rates are 0.75%~0.815%	1,165,900
Foreign time deposits	CNY75,000 Thousands @ 4.344	325,800
	Maturity dates are 2022.1.12 to 2022.3.27 and the interest rates are 2.50%~2.70%	
Futures margin – excess margin (NTD)		702,475
Futures margin – excess margin (Foreign currency)	HKD11,548 Thousands @ 3.549	230,153
	EUR346 Thousands @ 31.32	
	JPY25,617 Thousands @ 0.2405	
	USD5,922 Thousands @ 27.68	
	VND6,782,896 Thousands @ 0.0012	
Total		<u>\$ 2,933,772</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, 2021

(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		61,860	-	-	-	\$ 11,074	180.22	11,148	-	
Franklin Templeton SinoAm China Consumption Fund		1,792,639	-	-	-	20,000	12.16	21,798	-	
Fuh Hwa Money Market Fund		3,116,924	-	-	-	45,000	14.56	45,398	-	
Franklin Templeton SinoAm Preferred Securities Income Fund		488,758	-	-	-	5,000	11.48	5,611	-	
Prudential Financial India Opportunity Bond Fund		272,786	-	-	-	3,000	10.15	2,770	-	
JPMorgan (Taiwan) Global Dividend Fund		1,244,813	-	-	-	15,000	14.32	17,826	-	
Franklin Templeton SinoAm AI Hi-Tech Fund		1,000,000	-	-	-	10,000	11.14	11,140	-	
Cathy China Domestic Demand Growth Fund		1,458,671	-	-	-	45,000	28.28	41,251	-	
JPMorgan(Taiwan) Asia Fund		116,265	-	-	-	10,000	70.62	8,211	-	
Total						164,074		<u>165,153</u>		
Valuation adjustment						1,079				
Net amount						<u>\$ 165,153</u>				

**Capital Securities Corporation**  
**Statement of financial assets at fair value through profit or loss - current—trading securities**  
**(Proprietary trading)**  
**December 31, 2021**  
**(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		
<b>Listed stocks</b>										
China Steel Corp.		3,310,000	\$ 10	33,100		117,045	35.35	117,009	-	
EVA Airways Corp.		3,777,000	10	37,770		103,649	27.95	105,567	-	
Others		19,245,128	10	192,451		1,759,914		1,755,302	-	Note
Subtotal						1,980,608		1,977,878		
<b>Listed funds</b>										
Yuanta S&P GSCI Crude Oil ER Futures ETF		9,392,000	10	93,920		123,870	13.56	127,355	-	
Yuanta Taiwan High Dividend Low Volatility ETF		3,076,000	10	30,760		135,447	42.77	131,561	-	
JKO S&P GSCI Brent Crude 2x Leveraged ER Futures ETF		77,942,000	10	779,420		742,410	10.50	818,391	-	
Others		57,433,000	10	574,330		1,219,610		1,238,698	-	Note
Subtotal						2,221,337		2,316,005		
<b>OTC stocks</b>										
Dynapack International Technology Corp.		721,000	10	7,210		76,655	102.50	73,902	-	
Taiwan Semiconductor Co., Ltd.		696,000	10	6,960		55,744	78.60	54,706	-	
Taiwan Union Technology Corp.		294,000	10	2,940		31,064	102.00	29,988	-	
Keystone Microtech Co.		130,000	10	1,300		43,374	320.00	41,600	-	
Phison Electronics Corp.		73,969	10	740		36,222	512.00	37,872	-	
Others		1,377,319	10	13,773		130,189		132,933	-	Note
Subtotal						373,248		371,001		
<b>OTC funds</b>										
Fubon 1-3 Years US Treasury Bond ETF		362,000	10	3,620		13,886	36.63	13,260	-	
Fubon China Policy Bank Bond 0-1 ETF		750,000	10	7,500		30,000	41.05	30,788	-	
Fubon FTSE Asian Broad Bond Index-China Investment-Grade ETF		597,000	10	5,970		23,880	36.37	21,713	-	
Fubon FTSE World Broad Investment-Grade USD Bank Bond 10+ Years Index ETF		650,000	10	6,500		27,880	42.40	27,560	-	
Fubon Emerging Market USD Investment Grade Bond ETF		525,000	10	5,250		20,774	36.17	18,989	-	
Fubon 7-15 Years Europe Banking ETF		665,000	10	6,650		26,350	36.27	24,119	-	
Others		2,011,000	10	20,110		78,068		77,351	-	Note
Subtotal						220,838		213,780		
<b>Emerging market stocks</b>										
Century Wind Power Co., Ltd.		428,044	10	4,280		75,480	177.92	76,158	-	
AMIDA Technology, Inc.		332,917	10	3,329		40,665	143.90	47,907	-	
Tigerair Taiwan Co., Ltd.		805,491	10	8,055		24,534	31.15	25,091	-	
AMIDA Technology, Inc.		85,119	10	851		24,092	329.06	28,009	-	
Others		6,207,488	10	62,075		301,653		313,710	-	Note
Subtotal						466,424		490,875		
<b>Convertible bonds</b>										
Laster Tech Co., Ltd. (33463)		340	100,000	34,000		36,458	110.00	37,400	-	
Jentech Precision Industrial Co.,Ltd (36533)		376	100,000	37,600		44,351	127.50	47,940	-	
Center Laboratories, Inc. (41235)		331	100,000	33,100		33,955	102.10	33,795	-	
Ennoconn Corp. (64143)		694	100,000	69,400		74,294	116.00	80,504	-	
Century Iron And Steel Industrial Co.,Lt (99584)		449	100,000	44,900		48,996	133.50	59,942	-	
Others		3,873	100,000	387,300		439,252		448,870	-	Note
Subtotal						677,306		708,451		

**Capital Securities Corporation**  
**Statement of financial assets at fair value through profit or loss - current—trading securities**  
**(Proprietary trading)**  
**December 31, 2021**  
**(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		
<b><u>Government bonds</u></b>										
A01105	2012/03/07~2022/03/07	Repayment of principal at maturity.		200,000	1.25%	204,229	100.17	200,346	-	Interest payment every year
A07107	2018/07/20~2023/07/20	"		199,400	0.63%	198,569	100.49	200,394	-	"
A07111	2018/11/23~2023/11/23	"		250,000	0.75%	249,487	100.84	252,116	-	"
A08101	2019/01/14~2024/01/14	"		250,000	0.63%	249,049	100.52	251,321	-	"
A08109	2019/10/14~2029/10/14	"		300,000	0.63%	301,608	100.22	300,660	-	"
A09101	2020/01/10~2025/01/10	"		400,000	0.50%	401,131	100.12	400,519	-	"
A10106	2021/06/18~2023/06/18	"		300,000	0.13%	298,790	99.57	298,717	-	"
A10109	2021/08/26~2023/08/26	"		750,000	0.25%	749,257	99.73	747,985	-	"
Others				170,000		174,111		172,577	-	Note
Subtotal						<u>2,826,231</u>		<u>2,824,635</u>		
<b><u>Corporate bonds</u></b>										
Others						11,013,683		11,012,587	-	Note
Subtotal						<u>11,013,683</u>		<u>11,012,587</u>		
<b><u>International bonds</u></b>										
F00225	2020/06/17~2025/06/17	Repayment of principal at maturity.	USD	30,000	1.67%	830,400	USD 103.38	858,484	-	Interest payment every season
F02642	2021/06/16~2031/06/16	One time Repayment of principal at maturity.	USD	15,000	2.30%	415,200	USD 100.50	417,269	-	Interest payment every year
F05435	2021/02/08~2031/02/08	"	USD	15,000	1.80%	415,200	USD 100.55	417,475	-	"
F06704	2018/07/26~2023/07/26	Repayment of principal at maturity.	USD	15,000	0.92%	415,200	USD 100.74	418,281	-	Interest payment every season
F11202	2017/10/26~2022/10/26	One time Repayment of principal at maturity.	USD	11,000	1.22%	304,480	USD 100.24	305,223	-	"
F11307	2019/07/08~2024/07/08	Repayment of principal at maturity.	USD	20,000	1.02%	553,600	USD 100.79	557,951	-	"
F15304	2021/02/24~2031/02/24	One time Repayment of principal at maturity.	USD	15,000	1.90%	415,200	USD 98.62	409,474	-	Interest payment every year
F15601	2019/11/19~2026/11/19	"	TWD	300,000	0.92%	300,000	TWD 101.59	304,772	-	"
F17001	2020/10/16~2025/10/16	"	USD	15,000	1.12%	415,200	USD 101.25	420,386	-	Interest payment every season
F17002	2021/03/23~2026/03/23	"	USD	14,951	1.75%	413,838	USD 98.90	410,649	-	Interest payment every half year
Others						1,122,960		1,126,996	-	Note
Subtotal						<u>5,601,278</u>		<u>5,646,960</u>		

**Capital Securities Corporation**  
**Statement of financial assets at fair value through profit or loss - current—trading securities**  
**(Proprietary trading)**  
**December 31, 2021**  
**(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		
<b>Financial debentures</b>										
G10162	2019/09/25~2022/09/25			200,000	0.65%	200,000	100.13	200,250	-	Interest payment every year
G12441	2021/10/29~2026/10/29		"	250,000	0.42%	250,000	100.00	250,000	-	"
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	100.03	300,088	-	"
G13802	2021/01/29~2028/01/29		"	200,000	0.43%	200,000	100.00	200,000	-	"
G14003	2021/05/10~2028/05/10		"	300,000	0.52%	300,000	99.69	299,065	-	"
G189AE	2012/11/06~2022/11/06		"	200,000	1.55%	204,684	100.90	201,805	-	"
Others						50,000		50,000	-	Note
Subtotal						<u>1,757,778</u>		<u>1,751,208</u>		
<b>Foreign stocks</b>										
CSOP Hang Seng TECH Index ETF		1,070,000				23,700	HKD 5.61	21,304	-	
Vanguard Real Estate ETF(VNQ)		27,100				80,831	USD 116.01	87,022	-	
Subtotal						<u>104,531</u>		<u>108,326</u>		
<b>Other</b>										
Others		82,474		934		1,980		794	-	Note
Subtotal						<u>1,980</u>		<u>794</u>		
Total						<u>27,245,242</u>		<u>\$ 27,422,500</u>		
Valuation adjustment						177,258				
Net amount						<u>\$ 27,422,500</u>				

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, 2021**

**(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		
<b><u>Listed stocks</u></b>										
De Licacy Industrial Co., Ltd.		454,000	\$ 10	4,540		9,988	15.70	7,128	-	
TYC Brother Industrial Co., Ltd.		490,000	10	4,900		24,500	44.05	21,585	-	
Subtotal						34,488		28,713		
<b><u>Convertible bonds</u></b>										
Zenitron Corp. (30284)		223	100,000	22,300		24,347	126.20	28,142	-	
CviLux Corp. (81034)		230	100,000	23,000		24,334	128.50	29,555	-	
Phison Electronics Corp. (82991)		71	100,000	7,100		7,136	123.25	8,751	-	
Others		24	100,000	2,400		2,681	-	3,000	-	Note
Subtotal						58,498		69,448		
Total						92,986		98,161		
Valuation adjustment						5,175				
Net amount						\$ 98,161				

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, 2021

(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		
<b>Listed stocks</b>										
Taiwan Semiconductor Manufacturing Co., Ltd.		702,399	\$ 10	7,024		426,202	615.00	431,975	-	Warrants
Evergreen Marine Corp. (Taiwan) Ltd.		5,825,796	10	58,258		669,223	142.50	830,176	-	"
Others		108,337,298	10	1,083,373		3,198,788		3,300,309	-	Warrants/Note
Subtotal						4,294,213		4,562,460		
<b>OTC stocks</b>										
RDC Semiconductor Co.,Ltd		144,000	10	1,440		67,708	474.00	68,256	-	Warrants
Sino American Silicon Products Inc.		312,718	10	3,127		64,479	236.00	73,801	-	"
Globalwafers. Co.,Ltd		84,017	10	840		70,560	888.00	74,607	-	"
Phison Electronics Corp.		223,000	10	2,230		106,496	512.00	114,176	-	"
Others		13,832,347	10	138,323		743,380		745,146	-	Warrants/Note
Subtotal						1,052,623		1,075,986		
<b>Convertible bonds</b>										
Others		79,304	100,000	7,930,400		9,224,117		9,450,170	-	Asset swaps/Note
Subtotal						9,224,117		9,450,170		
<b>Others</b>										
Capital Global Financial Bond Fund		104,173,890	10	1,041,739		1,004,075	9.17	955,473	-	ELN
Others		359,070	10	3,591	-	3,000		2,947	-	Note
Subtotal						1,007,075		958,420		
Total						15,578,028		16,047,036		
Valuation adjustment						469,008				
Net amount						\$ 16,047,036				

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, 2021**  
**(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	Accumulated impairment	Fair Value		Note
								Unit price (Dollars)	Total amount	
<b>Debt instruments</b>										
<b><u>Government bonds</u></b>										
A04112	2015/9/11~2025/9/11			800,000	1.13%	\$ 815,098	-	102.51	820,145	Interest payment every year
A05111	2016/9/7 ~2026/9/7			600,000	"	600,245	-	100.64	603,854	"
A07107	2018/7/20~2023/7/20			200,000	"	200,173	-	100.49	200,997	"
A08101	2019/1/14~2024/1/14			600,000	"	600,689	-	100.52	603,169	"
Subtotal						2,216,205			2,228,165	
<b><u>International bonds</u></b>										
F05418	2018/3/8 ~2048/3/8			USD 10,000	-	276,800	-	USD 111.44	308,474	Interest payment every year
F11612	2020/2/12~2025/2/12			USD 6,000	1.34%	166,080	-	USD 100.57	167,022	Interest payment every season
Subtotal						442,880			475,496	
<b><u>Foreign bonds</u></b>										
Others						11,805,725			11,873,692	Note
Subtotal						11,805,725			11,873,692	
Total						14,464,810			14,577,353	
Valuation adjustment						112,543				
Net amount						14,577,353				
<b>Equity instrument</b>										
<b><u>Listed stocks</u></b>										
Standard Foods Corp.		700,000	10	7,000		39,430	-	52.90	37,030	
Chung-Hsin Electric & Machinery MFG. Corp.		1,080,000	10	10,800		49,883	-	45.25	48,870	
Lite-On Technology Corporation		320,000	10	3,200		19,727	-	63.80	20,416	
Qisda Corp.		1,100,000	10	11,000		31,682	-	30.45	33,495	
Winmate Inc.		375,000	10	3,750		29,119	-	78.40	29,400	
WPG holdings Ltd.		250,000	10	2,500		12,238	-	52.60	13,150	
CHLITINA Holding Ltd.		100,000	10	1,000		19,800	-	227.00	22,700	
Radiant Opto-Electronics Corp.		231,000	10	2,310		24,990	-	101.00	23,331	
Powertech Technology Inc.		173,000	10	1,730		16,952	-	97.70	16,902	
Others		66,000	10	660		3,213	-		3,163	Note
Subtotal						247,034			248,457	
<b><u>OTC stocks</u></b>										
Dynapack International Technology Corp.		219,000	10	2,190		13,743	-	102.50	22,447	
Senao Networks Inc.		280,000	10	2,800		29,912	-	102.50	28,700	
Others		12,000	10	120		1,088	-		1,496	Note
Subtotal						44,743			52,643	
Total						291,777			301,100	
Valuation adjustment						9,323			14,878,453	
Net amount						301,100				
Grand Total						\$ 14,878,453				

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, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Name of security</u>	<u>Shares or units</u>	<u>Amount</u>	<u>Note</u>
Evergreen Marine Corp.	15,155,000	\$ 1,105,403	
Others	597,528,000	19,805,983	The amount of single security is under 5% of the subject.
Less: allowance for doubtful accounts		-	
Total		<u>\$ 20,911,386</u>	

**Capital Securities Corporation**  
**Statement of derivative instruments and others**  
**approved by the authority**  
**December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Name of derivative instrument</u>	<u>Description</u>	<u>Fair Value</u>	<u>Note</u>
<b>Derivative financial asset</b>	Buy options	\$ 2,419	
	Futures margin - proprietary fund	495,277	
	IRS asset swaps	13,301	
	Asset swap options - long position	555,469	
	Structured notes	4,183	
	Currency swaps	<u>635</u>	
	Total		<u><u>\$ 1,071,284</u></u>
<b>Other liabilities approved by the authority</b>	Liabilities for issuance of exchange Traded Notes	\$ 781	
	Valuation Adjustment	<u>162</u>	
	Total	<u><u>\$ 943</u></u>	
<b>Derivative financial liability</b>	Stock warrants issued	18,396,778	
	Stock warrants repurchased	(17,130,305)	
	Sale options	158	
	IRS assets swaps	42,823	
	Asset swap options - short position	2,270,540	
	Structured notes	286,362	
	Currency swaps	7,417	
	Interest rate swaps	397	
	Equity derivatives	<u>646</u>	
	Total		<u><u>\$ 3,874,816</u></u>

**Capital Securities Corporation**  
**Statement of accounts receivable**  
**December 31, 2021**  
**(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	\$ 9,375,305	
"	Settlement	995,267	
Subsidiaries and Associates	Commission receivable	15,624	
Customers of the Brokerage	Receivable on securities purchased by customers	132,534	The amount of single client is under 5% of the subject.
"	Interests receivable - financing	310,199	"
Others	Interests receivable - others	250,599	"
"	Others	<u>114,099</u>	"
	Subtotal	11,193,627	
	Less: allowance for doubtful accounts	<u>(50)</u>	
	Total	<u>\$ 11,193,577</u>	

**Capital Securities Corporation**  
**Statement of prepayments**  
**December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Taishin International Bank	Prepaid securities borrowing fees	\$ 1,028	
Cathay Century Insurance Co., Ltd.	Prepaid other insurance	1,399	
Yuanta Securities Investment Trust Co., Ltd.	Prepaid ETF subscription fees	1,508	
Others	Prepaid other insurance	1,665	The amount of single item is under 5% of the subject.
"	Prepaid repairs and maintenance	2,643	"
"	Prepaid informaiton fees	3,211	"
"	Others	<u>9,105</u>	"
Total		<u>\$ <b>20,559</b></u>	

**Capital Securities Corporation**  
**Statement of other receivables**  
**December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Other receivable	Default receivable	\$ 23,498	The amount of single item is under 5% of the subject.
	Rental receivable	29,174	
	Others	95,270	
	Subtotal	<u>147,942</u>	
Less: allowance for doubtful accounts		(42,189)	
	Total	<u><u>\$ 105,753</u></u>	

**Statement of other current assets**

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Receipts under custody from customer's security subscription		\$ 8,659,210	
Others		600,132	The amount of single item is under 5% of the subject.
Total		<u><u>\$ 9,259,342</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, 2021**

**(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	130,584	-	-	130,000	130,584	-	-	Yes	Interest payment every year
A06102	50,000	50,345	-	-	50,000	50,345	-	-	"	"
A08107	-	-	130,000	130,292	-	-	130,000	130,292	"	"
A01109	-	-	50,000	50,304	-	-	50,000	50,304	"	"
Total		<u><b>180,929</b></u>		<u><b>180,596</b></u>		<u><b>180,929</b></u>		<u><b>180,596</b></u>		



**Capital Securities Corporation**  
**Statement of financial assets measured at fair value through other**  
**comprehensive income – non-current**  
**For the year ended December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Name</u>	<u>Beginning Balance</u>		<u>Addition</u>		<u>Decrease</u>		<u>Ending Balance</u>		<u>Accumulated impairment</u>	<u>Collateral</u>	<u>Note</u>
	<u>Shares or units</u>	<u>Fair value</u>	<u>Shares or units</u>	<u>Amount</u>	<u>Shares or units</u>	<u>Amount</u>	<u>Shares or units</u>	<u>Fair value</u>			
Taiwan Depository & Clearing Corporation	5,028,534	\$ 531,919	603,424	462,966	-	-	5,631,958	994,885	Not applicable	No	
Taiwan Futures Exchange Corporation	10,498,442	915,044	1,469,781	157,309	-	-	11,968,223	1,072,353	"	"	
Taiwan Stock Exchange Corporation	4,315,295	563,577	517,897	287,838	-	-	4,833,192	851,415	"	"	
Others	8,234,772	59,500	4,501,877	97,513	805,113	35,080	11,931,536	121,933	"	"	Note
<b>Total</b>		<b><u>\$ 2,070,040</u></b>		<b><u>1,005,626</u></b>		<b><u>35,080</u></b>		<b><u>3,040,586</u></b>			

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, 2021**

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

Name of investee	Beginning Balance		Addition		Decrease		Ending Balance			Market Value or Net Assets Value		Collateral	Note
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Percentage of ownership	Amount	Unit price	Total amount		
Capital Investment Management Corp.	7,000,000	\$ 75,880	-	3,488	-	-	7,000,000	100.00 %	79,368	11.34	79,368	No	Note1
CSC International Holdings Ltd.	45,000,000	1,528,445	-	-	-	50,669	45,000,000	100.00 %	1,477,776	32.84	1,477,776	"	Note2
Capital Futures Corp.	119,066,014	3,598,396	-	295,827	-	358,694	119,066,014	56.58 %	3,535,529	38.95	4,637,621	"	Note3
Capital Insurance Advisory Corp.	500,000	51,986	-	34,710	-	26,125	500,000	100.00 %	60,571	121.14	60,571	"	Note4
Capital Insurance Agency Corp.	740,000	39,190	-	-	-	826	740,000	100.00 %	38,364	51.84	38,364	"	Note5
CSC Venture Capital Corp.	100,000,000	841,121	-	-	-	49,667	100,000,000	100.00 %	791,454	7.91	791,454	"	Note6
Taiwan International Securities (B.V.I) Corp.	300	20	-	564	-	569	300	100.00 %	15	50.00	15	"	Note7
CSC Capital Management Co.	33,000,000	329,742	-	21,971	-	3,506	33,000,000	100.00 %	348,207	10.55	348,207	"	Note8
Capital Investment Trust Corp.	33,067,507	1,340,829	-	172,076	-	133,246	33,067,507	20.00 %	1,379,659	26.08	862,405	"	Note9
<b>Total</b>		<b>\$ 7,805,609</b>		<b>528,636</b>		<b>623,302</b>			<b>7,710,943</b>		<b>8,295,781</b>		

Note 1: The Increase of Capital Investment Management Corp. is due to gains on investment amounted to \$3,488.

Note 2: The decrease of CSC International Holdings Ltd. is due to allocation of exchange differences on translation of foreign operations amounted to \$46,669 and losses on investment amounted to \$4,000.

Note 3: The addition of Capital Futures Corp. is due to investment profits amounted to \$277,373, unrealized gains from investments in equity instruments measured at fair value through other comprehensive income amounted to \$17,763, the actuarial gains on capital surplus changes in ownership interests in subsidiaries amounted to \$35 and actuarial gain from define benefit plans amounted to \$656 ; the decrease is due to allocation of exchange differences on translation of foreign operations amounted to \$15,770, non-current assets classified as held-for-sale that may be reclassified to profit or loss amounted to \$1,205, and the declaration for cash dividends distributed by the investee amounted to \$341,719.

Note 4: The addition of Capital Insurance Advisory Corp. is due to investment profits amounted to \$34,710; the decrease is due to the declaration for cash dividends distributed by the investee amounted to \$26,125.

Note 5: The decrease of Capital Insurance Agency Corp. is due to investment loss amounted to \$826.

Note 6: The decrease of CSC Venture Capital Corp. is due to investment loss amounted to \$642, unrealized losses from investments in equity instruments measured at fair value through other comprehensive income amounted to \$46,175, and the declaration for cash dividends distributed by the investee amounted to \$2,850.

Note 7: The addition of Taiwan International Securities (B.V. I) Corp. is due to allocation of exchange differences on translation of foreign operations amounted to \$564; the decrease is due to loss on investment amounted to \$569.

Note 8: The addition of CSC Capital Management Corp. is due to unrealized gains from investments in equity instruments measured at fair value through other comprehensive income amounted to \$21,971, and the decrease is due to investment loss amounted to \$3,506.

Note 9: The addition of Capital Investment Trust Corp. is due to investment profits amounted to \$171,954, and actuarial gain from define benefit plans amounted to \$122; the decrease is due to unrealized losses from investments in equity instruments measured at fair value through other comprehensive income amounted to the \$976, and the declaration for cash dividends distributed by the investee amounted to \$132,270.

**Capital Securities Corporation**  
**Statement of changes in property and equipment**  
**For the year ended December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Beginning Balance</b>	<b>Addition</b>	<b>Decrease</b>	<b>Ending Balance</b>	<b>Collateral</b>	<b>Note</b>
Land	\$ 1,595,251	358,419	416,242	1,537,428	Note 1, Note 2	
Buildings	1,002,404	206,350	292,079	916,675	"	
Equipment						
Transportation	-	1,060	-	1,060	Note 1	
Office	28,483	6,216	817	33,882	"	
Computer facilities	234,841	123,436	31,498	326,779	"	
Miscellaneous	134,643	22,523	12,640	144,526	"	
Leasehold improvements	225,860	34,461	27,500	232,821	"	
<b>Total</b>	<b>\$ 3,221,482</b>	<b>752,465</b>	<b>780,776</b>	<b>3,193,171</b>		

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

Note 2: Please refer to Note(8) for collateral of property and equipment.

**Capital Securities Corporation**  
**Statement of changes in accumulated depreciation of**  
**property and equipment**  
**For the year ended December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Beginning Balance</b>	<b>Addition</b>	<b>Decrease</b>	<b>Ending Balance</b>	<b>Note</b>
Buildings	\$ 490,772	61,701	136,616	415,857	Note 1, Note 2
Equipment					
Transportation	-	44	-	44	"
Office	10,769	4,914	817	14,866	"
Computer facilities	109,429	73,979	31,498	151,910	"
Miscellaneous	73,084	22,097	12,640	82,541	"
Leasehold improvements	120,221	46,461	27,500	139,182	"
<b>Total</b>	<b>\$ <u>804,275</u></b>	<b><u>209,196</u></b>	<b><u>209,071</u></b>	<b><u>804,400</u></b>	

Note 1: The addition includes purchases and transferred-in, and the decrease includes disposals, retirements 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, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Beginning Balance</b>	<b>Addition</b>	<b>Decrease</b>	<b>Ending Balance</b>	<b>Note</b>
Buildings	\$ 1,045,168	87,699	65,604	1,067,263	
Equipment	13,326	8,930	2,867	19,389	
<b>Total</b>	<b>\$ 1,058,494</b>	<b>96,629</b>	<b>68,471</b>	<b>1,086,652</b>	

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

<b>Item</b>	<b>Beginning Balance</b>	<b>Addition</b>	<b>Decrease</b>	<b>Ending Balance</b>	<b>Note</b>
Buildings	\$ 266,412	162,239	60,175	368,476	
Equipment	7,122	3,605	1,991	8,736	
<b>Total</b>	<b>\$ 273,534</b>	<b>165,844</b>	<b>62,166</b>	<b>377,212</b>	

**Capital Securities Corporation**  
**Statement of changes in investment property**  
**For the year ended December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Beginning Balance</b>	<b>Addition</b>	<b>Decrease</b>	<b>Ending Balance</b>	<b>Note</b>
Land	\$ 3,360,456	416,242	358,419	3,418,279	Note1, Note2, Note3
Buildings	1,313,175	292,079	206,610	1,398,644	Note1, Note2, Note3, Note4
<b>Total</b>	<b>\$ <u>4,673,631</u></b>	<b><u>708,321</u></b>	<b><u>565,029</u></b>	<b><u>4,816,923</u></b>	

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

Note 2: The property is subsequently measured at cost method.

Note 3: Please refer to Note(8) for collateral of investment property.

Note 4: the depreciation is recognized on a straight-line basis, and the useful life is estimated 3~55 years.

**Statement of changes in accumulated depreciation of  
investment property**

<b>Item</b>	<b>Beginning Balance</b>	<b>Addition</b>	<b>Decrease</b>	<b>Ending Balance</b>	<b>Note</b>
Buildings	\$ <u>493,839</u>	<u>163,638</u>	<u>42,362</u>	<u>615,115</u>	Note

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

**Capital Securities Corporation**  
**Statement of deferred income tax assets**  
**December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Unrealized losses on foreign investments under equity method		\$ 6,335	
Exchange differences on translation of foreign financial statements		27,233	
		<u>\$ 33,568</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	\$ 895,879	
Settlement fund	Deposited at Taiwan Stock Exchange, Taipei Exchange and Taiwan Futures Exchange	156,766	
Refundable deposits		84,046	
Deferred fee		10,712	
Overdue receivables		219,107	
Prepayments for business facilities		61,573	
Others		<u>25</u>	
Subtotal		1,428,108	
Less: allowance for doubtful accounts		(219,107)	
Total		<u>\$ 1,209,001</u>	

**Capital Securities Corporation**

**Statement of short-term borrowings**

**December 31, 2021**

**(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	\$ 1,336,944	due within one year	0.6%	1,937,600	Property	
Credit loan	"	<u>1,641,092</u>	"	0.62%~1.15%	11,503,600		
		<u><u>\$ 2,978,036</u></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, 2021**  
**(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		
<b>Hedged</b>									
HTC Corp.		215,000	10	\$ 17,135		84.80	18,232	-	Warrants-hedged
Wan Hai Lines, Ltd.		105,000	10	17,650		198.50	20,843	-	"
Adata Technology Co., Ltd.		218,000	10	19,268		92.30	20,121	-	"
Innolux Corp.		700,000	10	13,385		19.60	13,720	-	"
Ruentex Development Co.,Ltd.		205,000	10	11,576		63.80	13,079	-	"
Others		547,000	10	36,452			36,090	-	"/Note
Subtotal				<u>115,466</u>			<u>122,085</u>		
<b>Non-hedged</b>									
Taiwan Semiconductor Manufacturing Co., Ltd.		96,000	10	57,552		615.00	59,040	-	
HTC Corp.		873,000	10	67,887		84.80	74,030	-	
EVA Airways Corp.		2,509,000	10	66,677		27.95	70,127	-	
Jentech Precision Industrial Co., Ltd.		190,000	10	83,906		408.00	77,520	-	
Yuanta Daily Taiwan 50 Bear -1X ETF		19,082,000	10	103,729		5.10	97,318	-	
Subtotal		11,404,000		<u>541,504</u>			<u>555,342</u>	-	Note
				<u>921,255</u>			<u>933,377</u>		
Total				1,036,721					
Valuation adjustment				18,741			<u>\$ 1,055,462</u>		
Net amount				<u>\$ 1,055,462</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, 2021**  
**(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	2021.01.05	2022.01.03	0.00%~0.42%		\$ <u>38,137,542</u>	<u>37,407,572</u>	
	~2021.12.30	~2022.12.22					

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
YAGEO Corp.	483,000	\$ 156,538	
Yang Ming Marine Transport Corp.	1,406,000	153,246	
Others	39,277,000	2,539,050	The amount of single security is under 5% of the subject.
	<u>41,166,000</u>	<u>\$ 2,848,834</u>	

**Capital Securities Corporation**  
**Statement of proceeds payable from short sales**  
**December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Name of security</u>	<u>Shares</u>	<u>Amount</u>	<u>Note</u>
YAGEO Corp.	483,000	\$ 223,176	
Yang Ming Marine Transport Corp.	1,406,000	169,331	
Others	39,277,000	2,854,285	The amount of single security is under 5% of the subject.
	<u>41,166,000</u>	<u>\$ 3,246,792</u>	

**Statement of accounts payable**

<u>Client name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Taiwan Stock Exchange	Payable on securities purchased	\$ 379,411	
Customers of the brokerage	"	9,865,893	
"	Payable of securities sold by customers	106,032	
Subsidiaries	Commission payable	3,011	The amount of single client is under 5% of the subject.
Others	Payable on securities purchased	145,325	"
"	Others	97,868	"
		<u>\$ 10,597,540</u>	

**Capital Securities Corporation**

**Statement of other payables**

**December 31, 2021**

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

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Salary and bonus payable		\$ 613,929	
Service charge discounts payable		187,103	
Employee bonus payable		182,509	
Others		208,973	The amount of single item is under 5% of the subject.
Total		<u>\$ 1,192,514</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	0.75%~1.35%	\$ 754,878	Note
Equipment		2019.12.24~2026.11.12	0.99%~1.35%	10,398	"
				<u>\$ 765,276</u>	

Note: Lease liabilities due within one year have been accounted for under current liabilities.

**Statement of provisions - current**

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Employee benefits	Compensated absences	<u>\$ 42,652</u>	

**Capital Securities Corporation**  
**Statement of deferred income tax liabilities**  
**December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Unrealized gains on derivative financial instruments		\$ 67,715	
Amortization of goodwill		362,697	
Land value incremental tax		47,690	
Others		<u>1,928</u>	
		<u>\$ 480,030</u>	

**Statement of other non-current liabilities**

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Guarantee deposits received		\$ 51,939	
Pension liability payable		878,597	
Others	Contingent liability	<u>48,034</u>	
Total		<u>\$ 978,570</u>	

**Capital Securities Corporation**  
**Statement of brokerage commissions**  
**For the year ended December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<b>Month</b>	<b>Brokerage commission</b>		<b>Securities</b>	<b>Other brokerage commission</b>	<b>Total</b>	<b>Note</b>
	<b>TSE market</b>	<b>OTC market</b>	<b>Lending Fees Income</b>			
January	\$ 367,588	96,682	3,112	15,442	482,824	
February	214,002	57,261	1,664	13,605	286,532	
March	341,829	101,797	2,569	15,736	461,931	
April	458,468	117,896	3,080	11,010	590,454	
May	526,573	88,913	4,535	12,089	632,110	
June	521,497	97,750	4,461	11,731	635,439	
July	634,666	144,509	5,297	11,825	796,297	
August	380,689	106,161	5,361	11,927	504,138	
September	276,838	90,418	4,602	8,847	380,705	
October	263,083	91,767	4,374	10,929	370,153	
November	378,592	137,393	3,649	13,610	533,244	
December	317,259	123,363	2,737	11,568	454,927	
<b>Total</b>	<b>\$ 4,681,084</b>	<b>1,253,910</b>	<b>45,441</b>	<b>148,319</b>	<b>6,128,754</b>	

**Capital Securities Corporation**  
**Statement of underwriting commissions**  
**For the year ended December 31, 2021**  
**(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	\$ 6,686	41	1,686	360	475	9,248	
February	3,975	42	88	360	-	4,465	
March	6,295	37	2,435	360	141	9,268	
April	9,101	42	784	310	150	10,387	
May	7,350	41	699	300	250	8,640	
June	4,265	40	119	360	-	4,784	
July	5,389	78	3,334	330	445	9,576	
August	10,187	45	966	330	1,025	12,553	
September	11,910	54	1,921	1,910	125	15,920	
October	7,067	51	3,034	300	245	10,697	
November	3,806	51	1,694	1,080	2,236	8,867	
December	11,837	62	34,621	270	16	46,806	
<b>Total</b>	<b>\$ 87,868</b>	<b>584</b>	<b>51,381</b>	<b>6,270</b>	<b>5,108</b>	<b>151,211</b>	

**Capital Securities Corporation**  
**Statement of gains (losses) on sale of trading**  
**securities**  
**For the year ended December 31, 2021**  
**(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	\$ 48,216,013	47,687,654	528,359	
OTC market:				
Stocks	22,539,888	22,141,311	398,577	
Bonds	73,012,249	73,019,734	(7,485)	
Convertible bonds	1,366,980	1,231,125	135,855	
foreign market:				
Stocks	3,137,361	3,039,163	98,198	
Bonds	<u>255,099</u>	<u>254,114</u>	<u>985</u>	
Total	<u>\$ 148,527,590</u>	<u>147,373,101</u>	<u>1,154,489</u>	
<u>Underwriting</u>				
TSE market:				
Stocks	\$ 209,200	205,164	4,036	
OTC market:				
Stocks	1,074	1,095	(21)	
Convertible bonds	<u>259,924</u>	<u>237,565</u>	<u>22,359</u>	
Total	<u>\$ 470,198</u>	<u>443,824</u>	<u>26,374</u>	
<u>Hedging</u>				
TSE market:				
Stocks	\$ 46,767,727	45,193,464	1,574,263	
OTC market:				
Stocks	14,095,008	14,007,677	87,331	
Convertible bonds	21,222,228	20,129,345	1,092,883	
Fund	<u>949,717</u>	<u>978,310</u>	<u>(28,593)</u>	
Total	<u>\$ 83,034,680</u>	<u>80,308,796</u>	<u>2,725,884</u>	



**Capital Securities Corporation**  
**Statement of interest revenue**  
**For the year ended December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Interest revenue - margin loans		\$ 987,213	
Interest revenue - bonds		515,433	
Others		<u>169,597</u>	
Total		<u>\$ <b>1,672,243</b></u>	

**Statement of financial costs**

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Interest expense - bonds with repurchase agreements		\$ 102,285	
Interest expense - bank borrowings		41,650	
Interest expense - separate account ledger		12,800	
Interest expense - lease liabilities		10,397	
Interest expense - short sales		10,428	
Others		6,815	The amount of single item is under 5% of the subject.
Total		<u>\$ <b>184,375</b></u>	

**Capital Securities Corporation**  
**Statement of employee benefits, depreciation,**  
**amortization, and other operating expenses**  
**For the year ended December 31, 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>2021</b>	<b>2020</b>	<b>Note</b>
Employee benefit expenses			
Salary expense	\$ 2,717,587	1,924,128	
Labor and national health insurance expense	181,052	137,941	
Pension expense	97,407	80,921	
Remuneration of directors	137,331	95,336	
Others	59,408	49,889	
Depreciation expense	359,960	334,791	
Amortization expense	25,354	25,186	
Others	<u>1,694,523</u>	<u>1,214,671</u>	
	<u><b>\$ 5,272,622</b></u>	<u><b>3,862,863</b></u>	

The number of employees hired by the company as of the years ended December 31, 2021 and 2020 are as follows:

	<b>2021</b>	<b>2020</b>
Employee Count	<u><u>1,989</u></u>	<u><u>1,883</u></u>
Unemployed trustee count	<u><u>9</u></u>	<u><u>9</u></u>
Average employee benefit expense	<u><u>\$ 1,543</u></u>	<u><u>1,170</u></u>
Average employee salary expense	<u><u>\$ 1,373</u></u>	<u><u>1,027</u></u>
Average employee salary adjustments	<u><u>33.69 %</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, 2021**

**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, 2021. 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 14, 2022. 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, 2021 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 WU, CHENG YEN and CHUNG, TAN TAN.

KPMG

Taipei, Taiwan (Republic of China)  
March 14, 2022

**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, 2021**

**(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	2021		2020		2019		2018		2017	
	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares
Capital Investment Management Corp.	79,368	7,000,000	75,880	7,000,000	92,445	7,000,000	106,690	7,000,000	107,158	7,000,000
CSC International Holdings Ltd.	1,477,776	45,000,000	1,528,445	45,000,000	1,605,349	45,000,000	1,636,902	45,000,000	1,593,416	45,000,000
Capital Futures Corp.	3,535,529	119,066,014	3,598,396	119,066,014	2,817,870	99,182,845	2,828,539	99,182,845	2,606,869	90,166,223
Capital Insurance Advisory Corp.	60,571	500,000	51,986	500,000	78,906	500,000	84,732	500,000	90,506	500,000
Capital Insurance Agency Corp.	38,364	740,000	39,190	740,000	43,447	740,000	40,757	740,000	41,547	740,000
Taiwan International Futures Corp.	-	-	-	-	-	-	-	-	-	11,999,721
Taiwan International Securities (B.V. L.) Corporation	15	300	20	300	18	300	347	300	881	300
Taiwan International Securities Investment Consulting Corp.	-	-	-	-	12,644	999,200	12,799	999,200	13,031	999,200
CSC Venture Capital Corp.	791,454	100,000,000	841,121	100,000,000	763,112	100,000,000	854,906	100,000,000	997,913	100,000,000
CSC Capital Management Co.	348,207	33,000,000	329,742	33,000,000	-	-	-	-	-	-
Capital Investment Trust Corporation	1,379,659	33,067,507	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		
										Total	Ratio	Total	Ratio					Cash	Stock	Cash	Stock				Total	Ratio
Chairmen	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	29,880	29,880	-	-	22,607	22,607	1,136	1,176	53,623	1.02 %	53,663	1.02 %	-	-	-	-	679	-	679	-	54,302	1.03 %	54,342	1.04 %	None
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	-	-	-	-	7,536	7,536	160	320	7,696	0.15 %	7,856	0.15 %	-	-	-	-	-	-	-	-	7,696	0.15 %	7,856	0.15 %	None
Vice Chairmen	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHH-MING	1,392	1,392	33	33	9,951	9,951	1,220	1,220	12,596	0.24 %	12,596	0.24 %	-	-	-	-	679	-	679	-	13,275	0.25 %	13,275	0.25 %	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: NT\$0.

(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	
										Total	Ratio	Total	Ratio					Total	Ratio	Total	Ratio		Total	Ratio	Total	Ratio
Director	Kwang Hsing Industrial Co., Ltd Representative:TING, HSUEH-WEN																									
Director	Hong Long Enterprise Co., Ltd. Representative: KUO, YUIH-CHYI																									
Director	Hong Long Enterprise Co., Ltd. Representative: TSAL I-CHING	-	-	-	-	37,679	37,679	720	720	38,399	0.73 %	38,399	0.73 %	17,294	17,294	108	108	679	-	679	-	56,480	1.08 %	56,480	1.08 %	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	1,800	-	-	22,607	22,607	610	645	25,017	0.48 %	25,052	0.48 %	-	-	-	-	-	-	-	-	25,017	0.48 %	25,052	0.48 %	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\$997 thousands for the year ended December 31, 2021.

(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  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  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  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 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  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 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)	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING
NT\$15,000,000(included)~ NT\$30,000,000(excluded)	-	-	Hong Long Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO	Hong Long Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO
NT\$30,000,000(included)~ NT\$50,000,000(excluded)	-	-	-	-
NT\$50,000,000(included)~ NT\$100,000,000(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
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	Total	Ratio	Total	Ratio	
Chief strategy officer	WANG, JUUN-CHIH															
Chief of staff	CHANG, CHIH-MING (Note 2)															
President	CHIA, CHUNG-TAO															
Vice president	CHEN, MING-HSI															
Vice president	HUANG, CHIH-MING															
Vice president	FANG, CHIH-HONG															
Vice president	ZHANG, PEI-WEN															
Vice president	CHIU, CHIEN-HUA	33,601	33,601	1,352	1,352	90,647	90,647	10,182	-	10,182	-	135,782	2.59 %	135,782	2.59 %	-
Vice president	TAN, DE-CHENG															
Executive vice president	CHOU, XIAN-YANG (Note 3)															
Senior vice president	YANG, JIE-BIN															
Vice president	ZHANG, JIA-WEN															
Vice president	LAI, JUN-FU															
Vice president	LIN, YAN-FEN															
Vice president	WANG, CHUAN-HUI															
Vice president	MA, JIA-HUAN															

Note1: The compensation paid to drivers amounted to NT\$709 thousands for the year ended December 31, 2021.

Note2: On board on 2021.09.06.

Note3: On board on 2021.12.06.

(Continued)

Remuneration bracket table

Range of remuneration paid to presidents	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, CHANG, CHIH-MING, CHOU, XIAN-YANG	WANG, JIUNN-CHIH, CHANG, CHIH-MING, CHOU, XIAN-YANG
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)	LAI, JUN-FU	LAI, JUN-FU
NT\$5,000,000(included)~ NT\$10,000,000(excluded)	CHEN, MIN-HSI, HUANG, CHI-MING, FANG, CHIH-HONG, ZHANG, PEI-WEN, CHIU, CHIEN-HUA, TAN, DE-CHENG, YANG, JIE-BIN, WANG, CHUAN-HUI	CHEN, MIN-HSI, HUANG, CHI-MING, FANG, CHIH-HONG, ZHANG, PEI-WEN, CHIU, CHIEN-HUA, TAN, DE-CHEN, YANG, JIE-BIN, WANG, CHUAN-HUI
NT\$10,000,000(included)~ NT\$15,000,000(excluded)	ZHANG, JIA-WEN	ZHANG, JIA-WEN
NT\$15,000,000(included)~ NT\$30,000,000(excluded)	CHIA, CHUNG-TAO, MA, JIA-HUAN	CHIA, CHUNG-TAO, MA, JIA-HUAN
NT\$30,000,000(included)~ NT\$50,000,000(excluded)	LIN, YAN-FEN	LIN, YAN-FEN
NT\$50,000,000(included)~ NT\$100,000,000(excluded)	-	-
Over NT\$100,000,000	-	-
Total	16	16

- (iv) The remuneration of the top five executives of listed 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)		
	<u>2021</u>	<u>2020</u>	<u>Difference</u>
Number of non-supervisor employees	1,730	1,652	78
Non-supervisor employees' annual average employee benefit expenses	1,420	1,039	381

- (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.
- (f) Information Security Management

- (i) Information Security Implementation

- 1) Information Security Risk Management Framework

- a) Information Security Governance Organization

In 2018, Capital Securities Corporation established a Strategic Development Division under the Information Technology Department. Strategic Development Section II of the division is responsible for formulating and implementing policies related to information security, and operational continuity management, risk management and compliance auditing. This team reports to the Operation Continuity and Information Service Management Review Committee every six months regarding its management effectiveness and future direction.

To implement information security measures and ensure internal compliance with information security-related standards, procedures and regulations, the Information Security Advisory Group was established in 2021, with the President serving as the convener. The head of the Information Tec. Department, the Information Security Director and the head of Legal Compliance serve as members of the group. In addition, a dedicated head of information security was appointed as the executive secretary. The head of the Auditing Department, the head of the Administration Department and the head of the Planning Office attend the Group's meeting as non-voting delegates as needed. The Group convenes a meeting every six months to review and decide on information security and information protection strategies and policies, ensuring the effectiveness of information security management measures.

- 2) Information Security Policy

- a) Information Security Management Strategy and Framework

To protect information assets from internal threats or external attacks and secure the Company's sustainable development, the Company's management determined to provide information security and a basis for related personnel to follow accordingly by formulating information security policies. In addition to reducing potential impacts caused by information security incidents, the Company continues to improve our information security system and protect the rights and interests of the Company and our clients.

- b) Enterprise Information Security Risk Management and Continuous Improvement Framework

The Company has adopted the principle of the "Plan-Do-Check-Act" (PDCA) for our information security management system based on ISO standards. We continue to maintain its operation and make improvements as required.

c) Concrete Management Plans

In addition to following Taiwanese government's laws and regulations, the Company also adheres to its internal control requirements, the latest technology and ICT knowledge. We conduct regular information security risk assessments and inspections. This focuses on continual improvements (annually or more frequently) and ensures the validity of our ISO certification. We have also developed the following plans to investigate the implementation and effectiveness of our policies:

- i) Monitor and analyze network traffic, system performance and unusual incidents.
- ii) Complete detections and tests, remove loopholes and assess potential risks and loopholes and compensatory measures before a system goes online every time it undergoes changes.
- iii) Conduct regular e-mail social engineering drills to raise the awareness of employees.
- iv) Take countermeasures and preventive measures based on the notice from F-ISAC, SF-CERT and other information security organizations or information security service vendors.
- v) Regularly perform detection and inspection of phishing websites and fake mobile applications.
- vi) Regularly hold drills for information system backup

d) Resources Invested in Information Security Management

- i) The Company has been certified to ISO/IEC 27001 (Information Security Management Systems), ISO/IEC 22301 (Business Continuity Management Systems) and BS10012 (Personal Information Management Systems).
- ii) Every quarter, information security trainings will be carried out for the whole Group. After new employees take offices, courses will be arranged and introduce the Company's three major systems to them to enhance their understanding of the Company's systems. In addition, in order to ensure the proficiency level of the provided training, the Company may purchase information security-related courses from time to time to update our employees' knowledge.

iii) Mechanisms to Strengthen System Security

1. Import anti-virus software comprehensively with regular security updates
2. Import firewalls as controlling measures to ensure network security.
3. Import the Intrusion Prevention System (IPS) for information protection.
4. Import the anti-tampering system for webpage protection.
5. Import DLP for e-mail transmission security.
6. Import DDOS traffic cleaning mechanism to prevent DDOS attacks.

(Continued)

7. Import the program source code detection system, and complete detections and tests, remove loopholes, and assess potential ones before a system goes online every time it undergoes changes.
8. Inspects and tests mobile apps regularly to ensure the security of mentioned apps.
9. Conduct vulnerability scanning and penetration tests regularly to ensure the security of the host system.

(ii) Damages caused by major IT incidents in recent years: None.

## (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)				
		2021	2020	2019	2018	2017
Current assets		138,897,632	98,672,749	73,984,497	61,469,761	93,599,832
Property and equipment		2,388,771	2,417,207	2,339,571	4,577,214	4,231,972
Other non-current assets		20,630,541	19,847,416	19,094,562	15,381,441	13,311,599
Current liabilities	Before dividend	120,526,984	82,594,785	59,239,075	47,025,844	78,368,174
	After dividend	Note 2	84,982,784	60,975,801	47,954,207	78,801,989
Non-current liabilities		2,655,150	2,456,518	2,186,915	1,430,580	1,353,599
Capital stock		21,709,081	21,709,081	23,209,081	23,209,081	21,690,730
Retained earnings	Before dividend	12,155,572	9,639,333	7,927,126	6,209,696	6,790,451
	After dividend	Note 2	7,251,334	6,190,400	5,281,333	4,838,285
Total assets		161,916,944	120,937,372	95,418,630	81,428,416	111,143,403
Total liabilities	Before dividend	123,182,134	85,051,303	61,425,990	48,456,424	79,721,773
	After dividend	Note 2	87,439,302	63,162,716	49,384,787	80,155,588
Total equity	Before dividend	38,734,810	35,886,069	33,992,640	32,971,992	31,421,630
	After dividend	Note 2	33,498,070	32,255,914	32,043,629	30,987,815

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

Note 2: Appropriation of 2021 earnings has not yet been resolved in a shareholder meeting.

(Continued)

## (ii) Summary comprehensive income statement

(In Thousands of New Taiwan Dollars)

Item	Year	Financial information for the last 5 years				
		2021	2020	2019	2018	2017
Income		10,939,298	7,367,734	5,885,962	4,922,660	6,621,232
Expenses		6,063,324	4,521,454	4,105,770	4,303,491	4,356,598
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method		477,982	510,634	524,510	790,995	476,853
Other gains and losses		549,627	592,474	514,046	428,281	341,867
Income before tax		5,903,583	3,949,388	2,818,748	1,838,445	3,083,354
Net income (Loss)		5,249,590	3,569,529	2,566,823	1,408,865	2,893,600
Earnings per share (in New Taiwan dollars)		2.42	1.64	1.11	0.61	1.25

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

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

Year	Name of the CPAs	Auditor's opinion
2021	WU, CHENG YEN	Unqualified
	CHUNG, TAN TAN	
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	

(Continued)

## (b) Financial analysis

Item	Year	Financial ratios analysis for the most recent five years				
		2021	2020	2019	2018	2017
Capital structure analysis (%)	Debit ratio	76.08	70.33	64.38	59.51	71.73
	Long-term capital to property, plant and equipment ratio	1,732.69	1,586.24	1,546.42	751.61	774.47
Liquidity analysis (%)	Current ratio	115.24	119.47	124.89	130.71	119.44
	Quick ratio	115.22	119.43	124.85	130.68	119.41
Profitability analysis (%)	Return on total assets (%)	3.71	3.30	2.90	1.46	2.98
	Return on equity (%)	14.07	10.22	7.67	4.38	9.50
	Operating income to paid-in capital ratio	22.46	13.11	7.67	2.67	10.44
	Pre-tax income to paid-in capital ratio	27.19	18.19	12.15	7.92	14.22
	Net Margin (%)	47.99	48.45	43.61	28.62	43.70
	Earnings per share (NT\$)	2.42	1.64	1.11	0.61	1.25
Cash Flow (%)	Cash flow ratio	-	3.18	0.45	20.44	-
	Cash flow adequacy ratio	127.37	132.40	198.78	190.52	91.81
	Cash flow reinvestment ratio	-	2.28	-	26.02	-
Special Purpose Ration (%)	Debt to net worth ratio	318.01	237.00	180.70	146.96	253.72
	Fixed assets to total assets ratio	1.97	2.66	3.21	6.70	4.57
	Underwriting securities to quick assets ratio	0.51	1.52	1.09	2.10	1.71
	Margin trading to equity ratio	53.99	40.52	35.12	29.60	45.81
	Short-sale balance to equity ratio	15.74	15.75	15.14	14.92	15.04

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

Variations in the last 2 years:

- (i) The increase of 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 decrease of fixed assets to total assets ratio was mainly due to increased total assets.
- (v) The decrease of underwriting securities to quick assets ratio was due to the decrease of underwriting securities.
- (vi) The increase of margin trading to equity ratio was mainly due to increased margin trading amount.

(Continued)



- (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	2021	2020	Difference	
				Amount	%
Current assets		138,897,632	98,672,749	40,224,883	40.77
Property and equipment		2,388,771	2,417,207	(28,436)	(1.18)
Other non-current assets		20,630,541	19,847,416	783,125	3.95
Current liabilities		120,526,984	82,594,785	37,932,199	45.93
Non-current liabilities		2,655,150	2,456,518	198,632	8.09
Capital stock		21,709,081	21,709,081	-	-
Retained earnings		12,155,572	9,639,333	2,516,239	26.10
Total assets		161,916,944	120,937,372	40,979,572	33.88
Total liabilities		123,182,134	85,051,303	38,130,831	44.83
Total equity		38,734,810	35,886,069	2,848,741	7.94

Explanation to major variations:

- (i) Current assets: Current assets increased mainly because of higher receivable for securities provided as collateral, 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, and equity for each customer in the account compared to the previous year.
- (iii) Retained earnings: Retained earnings increased mainly because of higher net income compared to the previous year.
- (e) Financial performance analysis

(In Thousands of New Taiwan Dollars)

Item	Year	2021	2020	Difference	
				Amount	%
Income		10,939,298	7,367,734	3,571,564	48.48
Expenses		6,063,324	4,521,454	1,541,870	34.10
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method		477,982	510,634	(32,652)	(6.39)
Other gains and losses		549,627	592,474	(42,847)	(7.23)
Income before tax		5,903,583	3,949,388	1,954,195	49.48
Net income (Loss)		5,249,590	3,569,529	1,680,061	47.07

(Continued)

Explanation to major variations:

- (i) Income, pre-tax income and net income: Income, pre-tax income and net income increased mainly due to increased brokerage fee revenue.
  - (ii) Expenses: Expenses increased mainly due to increased brokerage fee and employee benefits expenses.
- (f) Case flow analysis
- (i) Cash flow analysis for the last 2 year

Item	Year		Change percentage
	2021	2020	
Cash flow ratio	Note 1	3.18	Note 1
Cash flow adequacy ratio	127.37	132.40	(3.80)
Cash reinvestment ratio	Note 1	2.28	Note 1

Note1: Due to cash outflow of operating activities, cash flow ratio wasn't calculated.

Analysis of deviation proportion:

Decrease in cash flow adequacy ratio was mainly due to increased cash outflow of operating activities caused by increased investments such as bonds, stocks and funds.

- (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
2,933,772	3,796,694	4,581,998	2,148,468	-	-

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

(Continued)

- (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 2021 was between NT\$1,373,366 and NT\$1,731,621, and averaged NT\$1,549,226; exchange rate risk exposure in equivalent terms was between NT\$80,785 and NT\$129,122, and averaged NT\$99,256 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.
- (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. Malicious hacker may try to insert virus, damaging softwares, or ransomware into the Company's network system in order to affect operation, blackmail, acquire control, or to steal confidential information. Neither development outsourcing nor cooperating with third-party service providers can guarantee the internal and external network system from cyber attack.

(Continued)

- 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.
  - d) In order to decrease and prevent damages from such risks and attacks, the Company implement related measures and keep it up-to-date. For instance, place restriction of possible connections and approaches to information on contracted firm; require certification or declaration on safety of corresponding tests; fully implement antivirus softwares and ensure security update; implement firewalls to secure internet safety; implement intrusion prevention system (IPS); regularly uncover illegal softwares; regularly execute detection on phishing site and counterfeit to ensure the Company's name and trademark aren't fraudulently used; regularly conduct vulnerability scans and penetration tests to ensure safety of host computer; implement anti-tampering system; implement pipe cleaning mechanism to prevent DDOS attacks...etc., are all executed in order to remove and reduce risks to controllable range to protect the Company's information security.
- (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
- (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	1,545
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 first instance ruled that the Company should jointly and severally compensate the plaintiff \$41 and interest. The plaintiff refused to accept and field an appeal, and the Company also field a side appeal. The case is under the trial of Taiwan High Court.	2020.04.16	16,375

- (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.

(Continued)

- 2) Business continuity management team: The team comprises 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 by command.
  - 3) Resources offering team: The team comprises planning office, human resources office, general affairs office from Capital and Futures, and information technology office. The team coordinate and offer essential resources when in emergency.
- (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

**(3) CPA information**

## (a) Information on Accountants' Fees

## (i) Information of Certified Accountants fees

Accountant firm	Name of accountant	Inspection period	Audit fee	Non-audit fee	Total	Note
KPMG	WU, CHENG YEN CHUNG, TAN TAN	2021.1~2021.12	3,810	670	4,480	Personnel arrangement of accountant firm.

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

(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

## (i) About the Former CPA

Date of change	2021.03.25		
Reasons and explanation of changes	Personnel arrangement of KPMG		
State whether the appointment is terminated or rejected by the consignor or CPAs	Status	CPA	Consignor
	Appointment terminated automatically	✓	
	Appointment rejected (discontinued)		
Other issues (except for unqualified issues) in the audit reports within the last two years	None		
Is there any disagreement in opinion with the issuer	Yes		Accounting principles or practices
			Disclosure of financial statements
			Audit scope or steps
			Other
	No	✓	
Explanation			
Other revealed matters (According to article 31, subparagraph 2, item 1-4 to item 1-7 of Regulations Governing the Preparation of Financial Reports by Securities Firms)	None		

## (ii) About successor CPA

Name of the accounting firm	KPMG
Name of CPA	WU, CHENG YEN, CHUNG, TAN TAN
Date of appointment	2021.03.25
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement	None
Successor CPA's written opinion of disagreement toward the former 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: Xian-Yang Chou



# **Capital Securities Corporation**

## **Statement of Internal Control System**

Date: March 14, 2022

The following declaration has been made based on the 2021 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. Taiwan Depository & Clearing Corporation ("TDCC") examined the shareholder services handled by the Company for an extraordinary shareholders' meeting of XX Co., Ltd. (hereinafter referred to as "XX Company") on April 9, 2021, and found that, when handling the shareholder services, the Company issued a certificate of shareholding with calculation error to the shareholder of XX Company for solicitation of proxy, giving rise to disputes at the extraordinary shareholders' meeting of the company. Thus, the Financial Supervisory Commission ("FSC") imposed a fine of NTD 720,000 on the Company. The aforesaid deficiency has been corrected, and has no impact on the Company's achievement of overall internal control system objectives.
6. Based on the assessment result in item 4, the Company holds that the design and implementation of the Company's internal control system (including the supervision and management of subsidiaries and the overall implementation of information security) as of December 31, 2021 can provide reasonable assurance regarding the following (except for matters set forth in the appendix): (1) the management understands the degree of achievement of operational effectiveness and efficiency objectives; (2) the reporting is reliable, timely, and transparent and complies with applicable rules; and (3) applicable laws, regulations, and bylaws have been complied with.
7. 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.

8. This declaration was passed unanimously without objection by all 11 Directors present at the board meeting dated March 14, 2022.

Capital Securities Corporation

Chairman: Jiunn- Chih Wang

President: Chia, Chung-Tao

Chief internal auditor : Huang, Chi-Ming

Chief information security officer : Chiu, Jan-Hwa

**Capital Securities Corporation**  
**Enhancement Items and Improvement Plan for Internal Control System**  
**(Base Date: December 31, 2021)**

Enhancement Items	Improvement Measures	Expected Completion Date of Improvement
<p>The Financial Examination Bureau performed a general business examination on the Company during October 21 and November 12, 2020, and found the following deficiencies: The Company did not implement the internal control system when opening accounts for insiders (directors, supervisors, employees, and their spouse and minor children) for securities brokerage trading, when reviewing the credit standing of customers who apply for an amount of brokerage trading, when screening the conflict of interest of business personnel of the brokerage trading, and when handling the public subscription in an underwriting case for an initial listing on a stock exchange or an OTC market or an underwriting case for a cash capital increase, which violated the provisions of Paragraph 2 of Article 2 of the Regulations Governing Securities Firms. The FSC imposed on fine of NTD 240,000 on the Company in accordance with Subparagraph 4 of Paragraph 1 of Article 178-1 of the Securities and Exchange Act. (Jin-Guan-Zheng-Quan-Fa-Zi No. 1100335294, dated May 7, 2021)</p>	<ol style="list-style-type: none"> <li>1. The Company has advocated the implementation of and compliance with securities laws and the “Regulations for the Management of Accounts Opened by Insiders for Trading of Securities and Futures” established by the Company. The Company has established a system checking and early warning notification system, under which the system will generate and send early warnings on a monthly basis.</li> <li>2. The Company requires strengthening the review of the credit standing of customers who apply for a cross-branch amount of brokerage trading, and those with limited capacity for civil conduct.</li> <li>3. The Company has developed a system which can effectively provide data related to the screening of the conflict of interest, to improve the correctness of the screening data and confirmation efficiency.</li> <li>4. The Company has updated the operating procedures for the verification of customers who electronically order for subscription under the same IP address, and notified the branches to cooperate.</li> </ol>	<p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p>
<p>The Financial Examination Bureau performed an examination on the Company during November 3 and 12, 2020 in respect of anti-money laundering and counteracting</p>	<ol style="list-style-type: none"> <li>1. The Company has notified relevant personnel to adjust anti-money laundering risk attributes of customers and create database files in accordance with the Company's regulations.</li> </ol>	<p>Completed</p>

<p>financing of terrorism ("AML/CFT"), as well as non-proliferation, and found the following deficiencies: The Company did not follow its regulations when adjusting the anti-money laundering risk attributes of customers and creating database files; the Company did not collect data sufficient to identify the actual beneficiary when performing the customer due diligence ("CDD") on foreign institutional investors (FINI), or did not review the existing business relationships when opening additional accounts for existing customers; the Company did not perform the CDD on high-risk customers according to the specified time interval, or did not immediately perform enhanced CDD on corporate customers who were upgraded to high-risk customers; and the Company did not include the monitoring types issued by the associations of financial services industry in the monitoring to suspicious money laundering or terrorism financing transactions, which violated the provisions of Paragraphs 5 and 7 of Article 3, Paragraphs 1 and 3 of Article 5, and Paragraph 5 of Article 9 of the Regulations Governing Anti-Money Laundering of Financial Institutions. The FSC, in accordance with Paragraph 5 of Article 7 of the Regulations Governing Anti-Money Laundering of Financial Institutions, imposed a fine of NTD 500,000 on the Company for its violation of the Regulations Governing Anti-</p>	<p>2. The Company has required that relevant business personnel collect data sufficient to identify the actual beneficiary from customers when opening FINI accounts.</p>	Completed
	<p>3. The Company has advocated that when performing CDD on new customers and the ongoing CDD, the business personnel should obtain relevant certification documents from domestic and overseas general corporate customers, to identify all substantial beneficiaries.</p>	Completed
	<p>4. The system will automatically screen the list of customers on whom CDD shall be performed again, and notify the relevant personnel by email to perform the CDD on a periodic basis.</p>	Completed
	<p>5. The Company has revised its AML/CFT policies and the screening criteria for monitoring type parameters by reference to the monitoring types issued by the associations of financial services industry and considering the trading practices of the securities market.</p>	Completed

<p>Money Laundering of Financial Institutions. (Jin-Guan-Zheng-Quan-Fa-Zi No. 1100341888, dated October 19, 2021)</p>		
<p>TDCC examined the shareholder services handled by the Company for an extraordinary shareholders' meeting of XX Co., Ltd. (hereinafter referred to as the "XX Company") held on April 9, 2021, and found the following deficiency: When handling the shareholder services, the Company issued a certificate of shareholding with calculation error to the shareholder of XX Company for solicitation of proxy, giving rise to disputes at the extraordinary shareholders' meeting of XX Company, which violated the provisions of Paragraph 3 of Article 3 and Paragraph 2 of Article 6 of the Regulations Governing the Administration of Shareholder Services of Public Companies and Paragraph 2 of Article 2 of the Regulations Governing Securities Firms. The FSC imposed on fine of NTD 720,000 on the Company in accordance with Subparagraph 4 of Paragraph 1 of Article 178-1 of the Securities and Exchange Act. (Jin-Guan-Zheng-Quan-Zi No. 1100364002, dated January 5, 2022)</p>	<p>1. The Company has restated that, when a certificate of shareholding is issued for solicitation of proxy, shares of a shareholder that are deposited into a TDCC account shall be verified according to the securities passbook presented by the shareholder or the balance statement issued by the TDCC, calculated in writing, and then reviewed by others; and the personnel education and training shall be strengthened.</p>	<p>Completed</p>
<p>The Financial Examination Bureau examined the Company's information operations during May 10 and 12, 2021 and during June 15 and 24, 2021, and found the following deficiencies:</p> <p>1. Deficiencies in vulnerability scanning:</p> <p>(1) The Company failed to</p>	<p>1. The Company will complete the fixing of high-risk vulnerabilities prior to March 31, 2022.</p>	<p>It is predicted that the Company will complete rectifications prior to March 31, 2022.</p>

<p>implement its regulations. For example, the standard operating procedures stipulate that high-risk vulnerabilities shall be fixed within one month. However, these vulnerabilities had not been fixed during the examination period, and the vulnerability tracking was not effectively implemented, giving rise to a high system risk.</p> <p>2. Deficiencies in information security monitoring, which were not conducive to network security defense:</p> <p>(1) The official external service website is deployed in a demilitarized zone (DMZ). Although the Company has deployed firewalls, intrusion detection and warning systems and webpage anti-tampering systems for monitoring purpose, it did not establish other defense mechanisms.</p> <p>(2) The company had no information security incident detection management platform to manage operating systems and information security equipment, and it did not set and regularly review and revise alarm indicators, and analyze abnormal records, which was not conducive to monitoring adverse network security events in a timely manner.</p>	<p>1. The Company will establish a web application firewall (WAF) according to the examination opinions.</p> <p>2. The Company will establish an information security incident detection management platform according to the examination opinions.</p>	<p>It is predicted that the Company will sign contracts and make purchases prior to June 30, 2022 and complete the system implementation prior to December 31, 2022.</p> <p>It is predicted that the Company will sign contracts and make purchases prior to June 30, 2022 and complete the system implementation prior to December 31, 2022.</p>
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<p>3. Deficiencies in the management of IoT devices:</p> <p>(1) The Company has made an inventory of IoT devices and created a register for management, but the inventory register did not set forth the IP address, storage location, manager, and other related information.</p> <p>(2) As of the date of completion of the examination, the Company had not performed vulnerability scanning on IoT devices.</p>	<p>1. The Company will make an inventory of IoT devices again.</p> <p>2. The Company will perform vulnerability scanning on IoT devices.</p>	<p>It is predicted that the Company will complete rectifications prior to March 31, 2022.</p> <p>It is predicted that the Company will complete rectifications prior to June 30, 2022.</p>
<p>4. Deficiencies in the management of mobile application (app):</p> <p>(1) The mobile app did not alert the user of the corresponding risk when the app detected that the mobile device on which it run was insecure (the device was rooted, jailbroken, or had the USB debugging feature enabled).</p> <p>(2) Upon testing, the mobile app can be installed and executed on an emulator, which exposed the mobile app to the risk of being cracked, and thus was detrimental to the security of the mobile app.</p>	<p>1. The Company will, according to the examination opinions, require the outsourced vendor to develop a feature to detect the security of the mobile device on which the mobile app runs, and give the relevant warnings.</p> <p>2. The Company will, according to the examination opinions, require the outsourced vendor to develop a feature to judge whether the mobile app is installed on an emulator, and give the relevant warnings.</p>	<p>It is predicted that the Company will complete rectifications prior to March 31, 2022.</p> <p>It is predicted that the Company will complete rectifications prior to September 30, 2022.</p>
<p>5. The Company could not obtain the source code of the outsourced vendor. Though the outsourcing contract required that the vendor's program shall comply with security requirements, it did not require</p>	<p>1. The Company will, according to the examination opinions, require the outsourced vendor to provide documents establishing compliance with security requirements.</p>	<p>It is predicted that the Company will complete rectifications prior to March 31, 2022.</p>

<p>the vendor to provide documents establishing compliance with the security requirements, including avoiding information security vulnerabilities such as malicious program, adopting an integrity verification mechanism, preparing the corresponding update version when the program's reference library is updated, and performing security check and establishing an injection attack protection mechanism for character strings entered by users, which was not conducive to verifying the Company's implementation of 9(10)e of the Establishing Information Security Inspection Mechanisms for Securities Firms.</p>		
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Note: Please list in detail the punishments of warnings or above or fines of NTD 240,000 or above which were imposed by the competent authorities. In addition, please list in detail the improvements for information security deficiencies found by the competent authorities, TWSE, TPEX, or TAIFEX during examination.