

**CAPITAL SECURITIES CORPORATION AND
SUBSIDIARIES**

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Capital Securities Corporation as of and for the year ended December 31, 2021 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Capital Securities Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Capital Securities Corporation
Chairman: Jiunn-Chih Wang
Date: March 14, 2022



安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of
Capital Securities Corporation:

Opinion

We have audited the consolidated financial statements of Capital Securities Corporation and its subsidiaries (“the Group”), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the years ended December 31, 2021 and 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021 and 2020, and its consolidated financial performance and its consolidated 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 and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Group's financial statements are stated as follows:

1. Valuation of financial instruments

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

Risk and descriptions of the key audit matter:

The Group's valuation of financial instruments is one of audit processes refer to important judgements. Financial 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(r) 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(j)(i). for details about measurement of goodwill impairment.

Risk and descriptions of the key audit matter:

Assessment of the Group's goodwill impairment is one of our significant audit processes, because it mainly depends on the prediction of future operation and there is a high uncertainty on assessing recoverable amounts by discounted future cash flows. Therefore, the measurement of goodwill impairment is 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 and Enno Cap Venture Inc., associates of Capital Securities Corporation. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our conclusion, insofar as it relates to the amounts included for Capital Investment Trust Corporation and Enno Cap Venture Inc., are based solely on the reports of other auditors. The recognized investment amount of Capital Investment Trust Corporation and Enno Cap Venture Inc. under equity method constituted 0.68% and 0.82% of consolidated total assets as of December 31, 2021 and 2020, respectively, and the recognized profit of loss under using equity method constituted 2.76% and 3.48% of consolidated net income before income tax for the years ended December 31, 2021 and 2020, respectively.

The Group has prepared its parent-company-only financial statements as of and for the years ended December 31, 2021 and 2020, on which we have issued an unqualified opinion with other matters paragraph.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements 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 consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

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

Consolidated Balance Sheets

December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2021		December 31, 2020		
	Amount	%	Amount	%	
Assets					
Current assets:					
110000					
111100	Cash and cash equivalents (note 6(a))	\$ 9,807,123	5	8,497,082	5
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	45,427,215	22	35,198,904	22
113200	Financial assets at fair value through other comprehensive income - current (note 6(b))	15,033,143	7	18,663,479	11
114030	Receivable for securities provided as collateral	21,115,979	10	15,000,045	9
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	1
114070	Customers' margin account (note 6(d))	37,848,190	19	38,349,832	24
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))	11,406,287	6	11,039,256	7
114150	Prepayments	32,492	-	37,313	-
114170	Other receivables	523,722	-	145,404	-
114300	Leverage contract trading - customers' margin account	624,232	-	352,962	-
114600	Current income tax assets	230	-	23,599	-
114710	Non-current assets classified as held for sale (note 6(e))	50,112	-	-	-
119095	Amounts held for each customer in the account(note 6(o))	26,706,922	13	13,063,932	8
119990	Other current assets-others	9,323,657	5	1,813,868	1
		<u>185,983,038</u>	<u>91</u>	<u>146,258,737</u>	<u>90</u>
Non-current assets:					
120000	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))	3,319,193	2	2,287,085	1
124100	Investments accounted for under equity method (note 6(f))	1,478,918	1	1,481,286	1
125000	Property and equipment (notes 6(g) and 8)	3,052,798	1	3,111,323	2
125800	Right-of-use assets (notes 6(h))	791,630	-	850,210	1
126000	Investment property (notes 6(i) and 8)	3,651,720	2	3,611,107	2
127000	Intangible assets (note 6(j))	3,615,760	2	3,619,563	2
128000	Deferred income tax assets (note 6(s))	33,568	-	78,124	-
129000	Other non-current assets	1,586,718	1	1,584,270	1
		<u>17,710,901</u>	<u>9</u>	<u>16,803,897</u>	<u>10</u>
Total assets					
		<u>\$ 203,693,939</u>	<u>100</u>	<u>163,062,634</u>	<u>100</u>

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

Consolidated Balance Sheets

December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2021		December 31, 2020	
	Amount	%	Amount	%
Liabilities and Equity				
Current liabilities:				
210000				
211100 Short-term borrowings (note 6(k))	\$ 3,087,820	2	3,671,111	2
211200 Commercial paper payable (note 6(l))	8,397,806	4	2,299,692	1
212000 Financial liabilities at fair value through profit or loss - current (note 6(m))	4,999,027	3	3,630,866	2
214010 Bonds sold under repurchase agreements (note 6(n))	37,345,935	18	35,265,582	22
214040 Guarantee deposited for short sales	2,848,834	1	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	4	1,033,425	1
214080 Futures traders' equity (note 6(d))	37,798,393	19	38,316,621	23
214090 Equity for each customer in the account (note 6(o))	26,706,922	13	13,063,932	8
214100 Leverage contract trading - customers' equity	630,830	-	352,056	-
214110 Notes payable	152	-	152	-
214130 Accounts payable (note 6(p))	10,760,098	5	10,746,724	7
214150 Advance receipts	34,143	-	35,477	-
214160 Receipts under custody	8,808,150	5	1,636,517	1
214170 Other payables	1,358,467	1	1,100,126	1
214200 Other financial liabilities - current (note 6(x))	4,470,183	2	4,235,829	3
214600 Current income tax liabilities	613,128	-	579,999	-
215100 Provisions - current (note 6(r))	49,604	-	50,169	-
216000 Current lease liabilities (note 6(q))	164,321	-	173,381	-
219000 Other current liabilities	14,798	-	19,629	-
	<u>159,485,189</u>	<u>79</u>	<u>121,864,300</u>	<u>75</u>
Non-Current liabilities:				
220000				
224200 Other financial liabilities - non-current (note 6(x))	575,697	-	515,261	-
226000 Non-current lease liabilities (note 6(q))	685,850	-	736,969	-
228000 Deferred income tax liabilities (note 6(s))	496,354	-	427,566	-
229000 Other non-current liabilities (note 6(r))	977,265	1	843,808	1
	<u>2,735,166</u>	<u>1</u>	<u>2,523,604</u>	<u>1</u>
	<u>162,220,355</u>	<u>80</u>	<u>124,387,904</u>	<u>76</u>
Total liabilities				
Equity attributable to shareholders of the parent:				
301010 Common stock (note 6(t))	21,709,081	11	21,709,081	13
302000 Capital surplus (note 6(t))	2,743,465	1	2,743,430	2
304000 Retained earnings:				
304010 Legal reserve	2,267,833	1	1,922,939	1
304020 Special reserve	4,806,142	2	4,116,356	3
304040 Unappropriated earnings (note 6(t))	5,081,597	3	3,600,038	2
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	1
305170 Equity related to non-current assets classified as held for sale	(1,205)	-	-	-
	<u>38,734,810</u>	<u>19</u>	<u>35,886,069</u>	<u>22</u>
306000 Non-controlling interests	<u>2,738,774</u>	<u>1</u>	<u>2,788,661</u>	<u>2</u>
Total equity	<u>41,473,584</u>	<u>20</u>	<u>38,674,730</u>	<u>24</u>
Total liabilities and equity	<u>\$ 203,693,939</u>	<u>100</u>	<u>163,062,634</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

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

Consolidated 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	%	
Income:					
401000	Brokerage commissions (note 6(v))	\$ 7,945,138	60	5,455,310	56
402000	Revenues from securities business money lending	292	-	118	-
403000	Revenue from securities lending	350,411	3	197,207	2
404000	Underwriting commissions (note 6(v))	151,211	1	214,290	2
406000	Commissions on wealth management business	76,085	-	75,597	1
410000	Net gains (losses) on sale of trading securities (note 6(v))	3,964,813	30	1,432,840	15
421100	Securities management, distribution, and management fees	151,854	1	149,809	2
421200	Interest revenue (note 6(v))	1,704,793	13	1,433,190	15
421300	Dividend revenue	297,090	2	185,089	2
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(v))	(42,019)	-	214,415	2
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	152,353	1	104,395	1
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(35,969)	-	(33,068)	-
421750	Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	39,636	-	435,082	4
422000	Net gains (losses) from exchange traded notes (note 6(x))	37	-	(296)	-
422100	Management and commissions revenue from exchange traded notes (note 6(x))	10	-	8	-
422200	Net gains (losses) on stock warrants issued (note 6(v) and (x))	(925,885)	(7)	219,278	2
424100	Futures commission revenues (note 6(v))	327,803	3	322,130	3
424400	Net gains (losses) on derivative instruments - futures (note 6(x))	(380,019)	(3)	(71,282)	(1)
424500	Net gains (losses) on derivative instruments - OTC (note 6(x))	(722,553)	(6)	(793,315)	(8)
424800	Management fee revenues	2,349	-	732	-
424900	Consultancy fee revenue	24,600	-	12,465	-
425300	Impairment losses and reversal gains (note 6(w))	(16,676)	-	(33,677)	-
428000	Other operating revenues	216,399	2	203,778	2
		\$ 13,281,753	100	9,724,095	100
Expenses:					
501000	Brokerage fees	897,179	7	661,845	7
502000	Brokerage and clearing fees - proprietary trading	23,244	-	16,474	-
503000	Clearing and exchange fees - refinancing	3,537	-	3,696	-
504000	Clearing and exchange fees - underwriting	1,414	-	2,151	-
507000	Issuance and management fees on exchange traded notes (note 6(x))	438	-	62	-
521200	Financial costs	195,527	1	374,311	4
521640	Loss from securities borrowing transactions	5,872	-	1,874	-
524100	Futures commission expense (note 6(v))	319,135	3	341,860	3
524300	Cleaning and settlement expenses	193,739	1	180,753	2
528000	Other operating expenditure	24,158	-	14,539	-
531000	Employee benefits expenses (note 6(v))	3,807,047	29	2,901,750	30
532000	Depreciation and amortization expense (note 6(v))	469,975	4	447,303	5
533000	Other operating expenses (note 6(v))	2,020,161	15	1,525,282	16
		7,961,426	60	6,471,900	67
Other income (expenses):					
601000	Share of profits of associates and joint ventures accounted for using equity method (note 6(f))	206,656	2	180,924	2
602000	Other gains and losses (note 6(v))	700,526	5	949,581	10
		907,182	7	1,130,505	12
902001	Net income before income tax	6,227,509	47	4,382,700	45
701000	Less: Income tax expenses (note 6(s))	765,860	6	542,021	6
	Net income	5,461,649	41	3,840,679	39
805000	Other comprehensive income:				
805500	Components that may not be reclassified to profit or loss in subsequent periods:				
805510	Gains (losses) on remeasurements of defined benefit plans	(377,622)	(3)	(217,219)	(2)
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	967,513	7	235,976	2
805550	Share of other comprehensive income of associates and joint ventures accounted for using equity method	(855)	-	2,494	-
805599	Less: Income tax related to components of other comprehensive income	-	-	-	-
	Subtotal of components that may not be subsequently reclassified into profit or loss	589,036	4	21,251	-
805600	Components that may be reclassified to profit or loss in subsequent periods:				
805610	Exchange differences on translation of foreign operations	(131,617)	-	(210,366)	(2)
805615	Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	(476,719)	(4)	249,289	3
805690	Equity related to non-current assets classified as held for sale	(2,129)	-	-	-
805699	Less: Income tax related to components of other comprehensive income (note 6(s))	(8,807)	-	(15,801)	-
	Subtotal of items that may be subsequently reclassified into profit or loss	(601,658)	(4)	54,724	1
805000	Other comprehensive income, net	(12,622)	-	75,975	1
902006	Total comprehensive income	\$ 5,449,027	41	3,916,654	40
Net income attributable to:					
913100	Shareholders of the parent	\$ 5,249,590	39	3,569,529	36
913200	Non-controlling interests	212,059	2	271,150	3
		\$ 5,461,649	41	3,840,679	39
Total comprehensive income attributable to:					
914100	Shareholders of the parent	\$ 5,236,705	39	3,665,024	38
914200	Non-controlling interests	212,322	2	251,630	2
		\$ 5,449,027	41	3,916,654	40
975000	Basic earnings per share (note 6(u))	\$ 2.42		1.64	
985000	Diluted earnings per share (note 6(u))	\$ 2.41		1.64	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to the parent company											Total Equity
	Stock	Retained earnings				Total other equity interest						
	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	Total equity attributable to the parent company	Non-controlling interests	
Balance at January 1, 2020	\$ 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	2,223,489	36,216,129
Net income for the year ended December 31, 2020	-	-	-	-	3,569,529	-	-	-	-	3,569,529	271,150	3,840,679
Other comprehensive income	-	-	-	-	(216,868)	(174,632)	486,995	-	-	95,495	(19,520)	75,975
Total comprehensive income	-	-	-	-	3,352,661	(174,632)	486,995	-	-	3,665,024	251,630	3,916,654
Appropriation and distribution of retained earnings: (note 6(t))												
Legal reserve	-	-	264,579	-	(264,579)	-	-	-	-	-	-	-
Special reserve	-	-	-	529,159	(529,159)	-	-	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(1,736,726)	-	-	-	-	(1,736,726)	-	(1,736,726)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(30,387)	(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)	-	(4,482)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	313,542	313,542
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	2,788,661	38,674,730
Net income for the year ended December 31, 2021	-	-	-	-	5,249,590	-	-	-	-	5,249,590	212,059	5,461,649
Other comprehensive income	-	-	-	-	(378,003)	(109,862)	476,185	(1,205)	-	(12,885)	263	(12,622)
Total comprehensive income	-	-	-	-	4,871,587	(109,862)	476,185	(1,205)	-	5,236,705	212,322	5,449,027
Appropriation and distribution of retained earnings: (note 6(t))												
Legal reserve	-	-	344,894	-	(344,894)	-	-	-	-	-	-	-
Special reserve	-	-	-	689,786	(689,786)	-	-	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(2,387,999)	-	-	-	-	(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	-	35
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(262,209)	(262,209)
Balance at December 31, 2021	\$ 21,709,081	2,743,465	2,267,833	4,806,142	5,081,597	(403,037)	2,530,934	(1,205)	-	38,734,810	2,738,774	41,473,584

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

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

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income before tax	\$ 6,227,509	4,382,700
Adjustments:		
Income and expenses items:		
Depreciation expense	434,960	411,796
Amortization expense	35,015	35,507
Impairment loss	16,676	33,677
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	77,988	(181,347)
Financial cost	195,527	374,311
Interest revenue (including financial revenue)	(1,897,064)	(1,816,908)
Dividend revenue	(375,628)	(267,845)
Cash dividend received from investments under equity method	158,395	172,822
Share of profit of associates and joint ventures accounted for using equity method	(206,656)	(180,924)
Losses (gains) on disposal and retirement of property and equipment	136	(11,317)
Net losses (gains) on non-operating financial instruments at fair value through profit or loss	18,679	(4,504)
Net losses (gains) on lease modifications	258	(24)
Impairment loss on non-financial assets	4,951	1,204
Subtotal of income of non-cash activities	<u>(1,536,763)</u>	<u>(1,433,552)</u>
Changes in operating assets and liabilities:		
Increase in financial assets at fair value through profit or loss	(10,324,269)	(4,011,311)
Decrease (increase) in financial assets at fair value through other comprehensive income	3,059,953	(2,177,680)
Increase in receivable for securities provided as collateral	(6,116,216)	(2,833,425)
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 customers' margin account	501,642	(3,546,113)
Decrease (increase) in margin receivable of futures trading	236	(411)
Decrease (increase) in collateral for securities borrowed	686,922	(451,739)
Increase in security borrowing margin	(4,767,595)	(444,857)
Decrease (increase) in notes receivable	6,810	(378)
Increase in accounts receivable	(237,870)	(4,645,365)
Decrease (increase) in prepayments	4,821	(3,704)
Increase in other receivables	(400,647)	(10,623)
Increase in leverage contract trading - customers' margin account	(271,270)	(44,419)
Increase in other current assets	(7,509,789)	(1,056,337)
Increase in guarantee deposited for business operations	(24,868)	(507)
Increase in settlement fund	(25,527)	(17,257)
Decrease in refundable deposits	-	15,196
Decrease (increase) in other non-current assets	48,891	(26,711)
Increase in financial liabilities at fair value through profit or loss	1,368,161	2,172,881
Increase in bonds sold under repurchase agreements	2,080,353	3,418,051
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 (decrease) in futures traders' equity	(518,228)	3,569,090
Increase in leverage contract trading - customers' equity	278,774	43,466
Increase in notes payable	-	152
Increase in accounts payable	20,646	4,539,546
Decrease in advance receipts	(1,334)	(25,390)
Increase in receipts under custody	7,171,633	1,522,075
Increase in other payable	258,269	440,026
Increase in other financial liabilities - current	234,354	655,878
Decrease in provision - current	(565)	(2,397)
Increase(decrease) in other current liabilities	(4,831)	5,912
Increase in other financial liabilities - non-current	60,436	165,743
Decrease in other non-current liabilities	(246,713)	(10,533)
Total changes in assets and liabilities from operating activities	<u>(7,045,656)</u>	<u>(1,825,795)</u>
Total adjustments	<u>(8,582,419)</u>	<u>(3,259,347)</u>

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	2021	2020
Cash generated from (used in) operating activities	\$ (2,354,910)	1,123,353
Interest received	1,773,553	1,923,310
Dividends received	373,066	268,363
Interest paid	(202,837)	(405,951)
Income taxes paid	(587,218)	(222,647)
Net Cash flows provided by (used in) operating activities	(998,346)	2,686,428
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(411,996)	(97,880)
Proceeds from disposal of financial assets at fair value through other comprehensive income	439,755	48,822
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	3,921	207,270
Increase in deferred debits	(623)	(45)
Acquisition of investments using equity method	(400)	-
Acquisition of property and equipment	(215,085)	(116,387)
Proceeds from disposal of property and equipment	9	20,287
Acquisition of intangible assets	(35,752)	(46,035)
Net cash flows (used in) provided by investing activities	(220,171)	16,032
Cash flows from financing activities:		
Decrease in short-term borrowings	(583,291)	(2,959,891)
Increase in commercial papers payable	6,098,114	2,299,692
Payment of lease liabilities	(203,872)	(204,206)
Cash dividends paid	(2,650,236)	(1,910,332)
Proceed from issue of share capital	-	482,278
Purchase of treasury shares	-	(30,387)
Change in non-controlling interests	-	(10)
Proceed from right of inclusion options exercised	62	398
Net cash flows (used in) provided by financing activities	2,660,777	(2,322,458)
Effect of exchange rate changes on cash and cash equivalents	(132,219)	(206,556)
Increase in cash and cash equivalents	1,310,041	173,446
Cash and cash equivalents, beginning of period	8,497,082	8,323,636
Cash and cash equivalents, end of period	\$ 9,807,123	8,497,082

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated 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, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). 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 consolidated financial statements:

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(3) New standards, amendments and interpretations adopted:

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

The Group 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 Group 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 consolidated 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 Group, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to 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 AND SUBSIDIARIES
Notes to the Consolidated 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 Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

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

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Firms” (hereinafter referred to as “the Regulations”), and the IFRSs, IAS, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

The consolidated financial statements has 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 AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

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

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

(ii) List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership	
			December 31, 2021	December 31, 2020
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and discretionary investment services.	100.00 %	100.00 %
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.58 %	56.58 %
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %
"	CSC Venture Capital Corp.	Management, consulting, venture and general investment business	100.00 %	100.00 %
"	CSC Capital Management Co.	Consulting business and venture capital	100.00 %	100.00 %
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %
"	Capital International Technology Corp.	Management, consulting and information service business	100.00 %	100.00 %
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management, consulting and information service business.	51.00 %	51.00 %
"	Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	100.00 %	100.00 %
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	100.00 %	100.00 %
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00 %	100.00 %
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Liquidation in progress	100.00 %	100.00 %
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Liquidation in progress	100.00 %	100.00 %
CSC Capital Management Co.	CSC Private Equity Fund I Co.	General investment and venture capital business	100.00 %	- %

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			December 31, 2021	December 31, 2020	
The Company	Capital Insurance Agency Corp.	Engaged in personal insurance agent business.	100.00 %	100.00 %	The corporation established in November 2000. The paid-in capitals amounted to \$7,400. As of December 31, 2021 and 2020, the total assets constituted 0.02% and 0.03% of the Group's total assets, respectively. For the year ended December 31, 2021 and 2020, the operation revenue constituted 0.39% and 0.51% of the consolidated revenue, respectively. Thus it was excluded from the consolidated financial statement due to immaterial.
"	Capital Insurance Advisory Corp.	Engaged in personal insurance and property insurance agent business.	100.00 %	100.00 %	The corporation established in November 2000. The paid-in capitals amounted to \$5,000. As of December 31, 2021 and 2020, the total assets constituted 0.05% and 0.05% of the Group's total assets, respectively. For the year ended December 31, 2021 and 2020, the operation revenue constituted 1.00% and 1.12% of the consolidated revenue, respectively. Thus it was excluded from the consolidated financial statement due to immaterial.

(d) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated to 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 at the reporting date are retranslated to the functional currency at 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 in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of transaction.

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Foreign operations

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

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

(e) 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 from 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 from 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.

(f) Cash and cash equivalents

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) 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 Group 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. A account receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

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

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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 Group 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 Group 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

5) Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group 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 Group 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 AND SUBSIDIARIES
Notes to the Consolidated 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 Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group 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 Group 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 Group 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 Group 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 Group applies the policies on accounting for modifications set out above to the additional changes.

(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.

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

Refinancing short sale means the Group operates short sale business, if securities are insufficient, the Group can borrow securities from securities finance companies. For securities refinancing, the 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.

(i) 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 costs. 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Customers' margin accounts and futures customers' equity

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

(k) 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.

(l) Non-current assets held-for-sale

Investments in associate accounted for using equity method that are highly probable to be recovered primarily through sale rather than through continuing use, are reclassified as held for sale. Immediately before classification as held for sale, these investments are remeasured in accordance with the Group's accounting policies. Thereafter, generally, these investments are measured at the lower of their carrying amount and fair value less costs to sell.

Once classified as held for sale, any equity-accounted investee is no longer equity accounted.

(m) Investment in associates

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

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The Group 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 Group 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 Group is accounted for using the equity method consistently and does not remeasure the retained equity.

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

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any 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 Group.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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. | |

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.

(o) 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

(p) 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 Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(q) Leases

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

(i) Lessee

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

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

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

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

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

(ii) Lessor

When the Group 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 Group 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 Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Non-financial assets impairment

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

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

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

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

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

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

(s) 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 Group'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 Group, 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(iv) Short-term employee benefits

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

(t) Revenue recognition

The recognition of the Group'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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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 costs 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.

(u) Provisions

A provision is recognized if, as a result of a past event, the Group 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.

(v) Income tax

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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.

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

(w) Business combinations

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

(x) Earnings per share (EPS)

The Group presents its basic and dilutive earnings per share attributable to the Company's ordinary equity holders. The basic earnings per share of the Group 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 Group include the estimation of employee remuneration.

(y) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's CEO who allocates resources and assesses segment performance. Each operating segment consists of standalone financial information.

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

The preparation of the consolidated financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Firms and the IFRSs endorsed by the FSC 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The preparation of the consolidated 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(x).

(b) The impairment evaluation of goodwill:

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash	\$ <u>3,021</u>	<u>2,723</u>
Bank deposits		
Checking accounts	25,007	34,481
Demand deposits	<u>2,334,466</u>	<u>1,761,846</u>
Subtotal	<u>2,359,473</u>	<u>1,796,327</u>
Cash equivalents		
Time deposits	5,757,638	5,238,883
Futures margin - excess margin	1,676,997	1,365,163
Commercial papers	<u>9,994</u>	<u>93,986</u>
Subtotal	<u>7,444,629</u>	<u>6,698,032</u>
Total	<u>\$ 9,807,123</u>	<u>8,497,082</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Financial assets

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

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Open-ended funds and money-market instruments		
Open-ended funds and money-market instruments	\$ 184,074	187,563
Valuation adjustment	<u>1,645</u>	<u>14,275</u>
Subtotal	<u>185,719</u>	<u>201,838</u>
Securities invested by securities broker		
Securities invested by securities broker	37,931	48,166
Valuation adjustment	<u>(2,531)</u>	<u>934</u>
Subtotal	<u>35,400</u>	<u>49,100</u>
Trading securities - proprietary trading		
Listed stocks	2,075,807	907,307
Listed funds	2,221,337	666,617
OTC stocks	377,385	252,856
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	117,593	159,732
Foreign bonds	249,209	191,652
Others	<u>1,980</u>	<u>7,500</u>
	27,606,849	21,575,717
Valuation adjustment	<u>170,316</u>	<u>211,927</u>
Subtotal	<u>27,777,165</u>	<u>21,787,644</u>
Trading securities - underwriting:		
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>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Trading securities - hedging		
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>
Derivatives		
Buy options	61,687	40,215
Futures margin - proprietary fund	564,132	348,012
IRS asset swaps	13,301	13,100
Asset swap options - long position	555,469	157,459
Leverage derivatives - non-hedging	81,844	63,380
Structured notes	4,183	7,785
Currency swaps	635	-
Equity derivatives	<u>2,483</u>	<u>-</u>
Subtotal	<u>1,283,734</u>	<u>629,951</u>
Total	<u>\$ 45,427,215</u>	<u>35,198,904</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 Group, please refer to note 8 for details.

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

	<u>December 31, 2021</u>	<u>December 31, 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>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Equity instrument at fair value through other comprehensive income		
Listed stocks	288,563	272,065
OTC stocks	44,743	48,478
Emerging market stocks	<u>86,868</u>	<u>59,622</u>
	420,174	380,165
Valuation adjustment	<u>35,616</u>	<u>65,130</u>
Subtotal	<u>455,790</u>	<u>445,295</u>
Total	<u>\$ 15,033,143</u>	<u>18,663,479</u>

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

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

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

For the year ended December 31, 2021 and 2020, the dividends were recognized from the Group designated the aforementioned equity instrument investments measured at fair value through other comprehensive income – current amounted to \$32,425 and \$18,855, respectively.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold equity instrument at fair value through other comprehensive income (FVOCI) - current at a fair value \$1,092,073 and \$447,158, respectively, cumulative dispose gains (losses) for the year ended December 31, 2021 and 2020, amounted to \$105,406 and \$69,951, 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(w).

4) For the years ended December 31, 2021 and 2020, impairment test has been applied by the Group, the variation of loss allowance in the debt instrument measured at fair value through other comprehensive income of the Group please refer to note 6(w).

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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 Group took advantage of government bonds as guaranty deposited of bills, interest rate swaps business, structured notes business, 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	\$ 1,051,825	945,135
Valuation adjustment	<u>2,267,368</u>	<u>1,341,950</u>
Total	<u>\$ 3,319,193</u>	<u>2,287,085</u>

For the years ended December 31, 2021 and 2020, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income— non-current amounted to \$76,046 and \$82,756, respectively.

For the years ended December 31, 2021 and 2020, under the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold equities recognized in FVOCI -non-current for a fair value \$720 and \$27,422, generated cumulative dispose (losses) gains \$(29,280) and \$4,921, and the gains were transferred from other equity items to retained earnings. Furthermore, the Group 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 year ended December 31, 2021 and 2020.

- (v) The Group uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the years ended December 31, 2021 and 2020 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	For the years ended December 31,							
	2021			2020				
	December 31, 2021	December 31, 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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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	9,598,623	9,066,249
Others	<u>119,115</u>	<u>72,122</u>
Subtotal	11,406,337	11,039,497
Less: allowance for doubtful accounts	<u>(50)</u>	<u>(241)</u>
Total	<u>\$ 11,406,287</u>	<u>11,039,256</u>

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

(ii) For the year ended December 31, 2021 and 2020, impairment test has been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(w).

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

As of December 31, 2021 and 2020, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	December 31, 2021	December 31, 2020
Customers' margin account		
Cash in banks	\$ 26,264,654	28,320,264
Customers' margin account - futures clearing house	7,926,606	6,038,034
Customers' margin account - other futures commission merchants	3,652,626	3,990,936
Marketable securities	<u>4,304</u>	<u>598</u>
Total customers' margin account	<u>37,848,190</u>	<u>38,349,832</u>
Add:		
Commission expense	3,439	2,352
Other	364	26
Less:		
Brokerage fee revenue	(12,674)	(11,746)
Futures transaction tax	(1,652)	(2,289)
Interest revenues	(523)	(789)
Temporary receipts	(3,122)	(3,034)
Remittance amount of the customers after the market closed	(7,535)	(11,879)
Other receivable	(28,094)	(5,848)
Other	<u>-</u>	<u>(4)</u>
Futures traders' equity	<u>\$ 37,798,393</u>	<u>38,316,621</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Non-current assets held-for-sale

On November 11, 2021, the Board of Directors of the Group approved to sell True Partner Advisor Hong Kong Ltd., the associate of the Group, at the disposal amount of USD\$1,123 thousands and HK\$5,520 thousands. All shares would be transferred on February 15, 2022. Thus, the investments accounted for using equity method were reclassified as assets to held-for-sale. On December 31, 2021, the assets classified as held-for-sale and the other related comprehensive income amounted to \$50,112 and \$2,129, respectively.

(f) Investments accounted for under equity method

As of December 31, 2021 and 2020, investments under equity method consisted of the following:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Subsidiaries		
Capital Insurance Advisory Corp.	\$ 60,571	51,986
Capital Insurance Agency Corp.	<u>38,364</u>	<u>39,190</u>
Subtotal	<u>98,935</u>	<u>91,176</u>
Associates		
True Partner Advisor Hong Kong Ltd.	-	49,281
Capital Investment Trust Corp.	1,379,659	1,340,829
EnnoCap Venture Inc.	<u>324</u>	<u>-</u>
Subtotal	<u>1,379,983</u>	<u>1,390,110</u>
Total	<u>\$ 1,478,918</u>	<u>1,481,286</u>

(i) Subsidiaries:

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

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
The Group's share of gains based on the subsidiaries' financial statements	<u>33,884</u>	<u>25,908</u>
	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Total assets	<u>\$ 144,295</u>	<u>120,492</u>
Total liabilities	<u>\$ 45,360</u>	<u>29,316</u>
	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Revenue	<u>\$ 184,934</u>	<u>158,956</u>
Net income	<u>\$ 33,884</u>	<u>25,908</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Associates

Name of associate	Nature between the Company	Primary business area and registered country	Proportion of Ownership and Voting Rights	
			December 31, 2021	December 31, 2020
True Partner Advisor Hong Kong Ltd.	Engaged in asset management. The Subsidiary's strategic alliance in expansion of asset management.	Hong Kong	49.00 %	49.00 %
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	20.00 %
EnnoCap Venture Inc.	Engaged in asset management. The Subsidiary's strategic alliance in expansion of asset management.	Taiwan	40.00 %	- %

The Group 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 Group 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 Group has determined that it has significant influence on it.

Summarized financial information of associates accounted for under equity method that was individually immaterial to the Group was shown in aggregate as follows:

	December 31, 2021	December 31, 2020
Total carrying amount of interests in associates that were individually immaterial	<u>\$ 1,379,983</u>	<u>1,390,110</u>
	For the years ended December 31,	
	2021	2020
The Group's share of gains based on the associates' financial statements:		
Net gains from continuing operations	\$ 172,772	155,016
Other comprehensive income (losses)	(855)	1,789
Total comprehensive income (losses)	<u>\$ 171,917</u>	<u>156,805</u>

(iii) Collateral

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Property and equipment

Movements in property and equipment of the Group 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	\$ 1,990,853	1,315,804	607,709	268,310	4,182,676
Additions	-	-	170,646	44,439	215,085
Transferred from investment property	358,419	206,350	-	-	564,769
Reclassified to investment property	(416,242)	(320,559)	-	-	(736,801)
Disposals and retirements	-	-	(131,304)	(47,630)	(178,934)
Effect of exchange rate changes	-	(2,353)	(2,592)	(396)	(5,341)
Balance at December 31, 2021	<u>\$ 1,933,030</u>	<u>1,199,242</u>	<u>644,459</u>	<u>264,723</u>	<u>4,041,454</u>
Balance at January 1, 2020	\$ 1,881,232	1,182,520	667,875	265,792	3,997,419
Additions	-	-	93,880	22,507	116,387
Transferred from investment property	449,616	294,230	-	-	743,846
Reclassified to investment property	(339,995)	(155,423)	-	-	(495,418)
Disposals and retirements	-	(255)	(149,614)	(19,369)	(169,238)
Effect of exchange rate changes	-	(5,268)	(4,432)	(620)	(10,320)
Balance at December 31, 2020	<u>\$ 1,990,853</u>	<u>1,315,804</u>	<u>607,709</u>	<u>268,310</u>	<u>4,182,676</u>
Depreciation and impairment loss					
Balance at January 1, 2021	\$ -	577,627	344,866	148,860	1,071,353
Depreciation	-	25,534	129,541	52,571	207,646
Transferred from investment property	-	42,102	-	-	42,102
Reclassified to investment property	-	(150,184)	-	-	(150,184)
Disposals and retirements	-	-	(131,166)	(47,623)	(178,789)
Effect of exchange rate changes	-	(1,117)	(2,164)	(191)	(3,472)
Balance at December 31, 2021	<u>\$ -</u>	<u>493,962</u>	<u>341,077</u>	<u>153,617</u>	<u>988,656</u>
Balance at January 1, 2020	\$ -	460,046	394,091	117,677	971,814
Depreciation	-	26,695	104,244	51,100	182,039
Transferred from investment property	-	129,155	-	-	129,155
Reclassified to investment property	-	(35,618)	-	-	(35,618)
Disposals and retirements	-	(255)	(149,614)	(19,369)	(169,238)
Effect of exchange rate changes	-	(2,396)	(3,855)	(548)	(6,799)
Balance at December 31, 2020	<u>\$ -</u>	<u>577,627</u>	<u>344,866</u>	<u>148,860</u>	<u>1,071,353</u>
Carrying amount:					
At December 31, 2021	<u>\$ 1,933,030</u>	<u>705,280</u>	<u>303,382</u>	<u>111,106</u>	<u>3,052,798</u>
At December 31, 2020	<u>\$ 1,990,853</u>	<u>738,177</u>	<u>262,843</u>	<u>119,450</u>	<u>3,111,323</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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Right-of-use assets

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

	<u>Buildings</u>	<u>Others</u>	<u>Total</u>
Cost:			
Balance at January 1, 2021	\$ 1,165,635	23,566	1,189,201
Additions	145,292	12,829	158,121
Reductions	(138,444)	(10,975)	(149,419)
Effect of changes in foreign exchange rates	(1,823)	-	(1,823)
Balance at December 31, 2021	<u>\$ 1,170,660</u>	<u>25,420</u>	<u>1,196,080</u>
Balance at January 1, 2020	\$ 1,116,803	22,336	1,139,139
Additions	101,925	4,944	106,869
Reductions	(50,667)	(3,714)	(54,381)
Effect of changes in foreign exchange rates	(2,426)	-	(2,426)
Balance at December 31, 2020	<u>\$ 1,165,635</u>	<u>23,566</u>	<u>1,189,201</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2021	\$ 327,134	11,857	338,991
Depreciation	197,631	6,581	204,212
Reductions	(130,204)	(7,703)	(137,907)
Effect of changes in foreign exchange rates	(846)	-	(846)
Balance at December 31, 2021	<u>\$ 393,715</u>	<u>10,735</u>	<u>404,450</u>
Balance at January 1, 2020	\$ 176,718	7,171	183,889
Depreciation	199,483	8,252	207,735
Reductions	(47,745)	(3,566)	(51,311)
Effect of changes in foreign exchange rates	(1,322)	-	(1,322)
Balance at December 31, 2020	<u>\$ 327,134</u>	<u>11,857</u>	<u>338,991</u>
Carrying amount:			
At December 31, 2021	<u>\$ 776,945</u>	<u>14,685</u>	<u>791,630</u>
At December 31, 2020	<u>\$ 838,501</u>	<u>11,709</u>	<u>850,210</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Investment property

Movements in investment property of the Group are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Cost or deemed cost</u>			
Balance at January 1, 2021	\$ 2,964,854	1,099,613	4,064,467
Transferred from property and equipment	416,242	320,559	736,801
Reclassified to Property and equipment	(358,419)	(206,350)	(564,769)
Disposals and retirements	-	(260)	(260)
Effect of changes in foreign exchange rates	-	(456)	(456)
Balance at December 31, 2021	<u>\$ 3,022,677</u>	<u>1,213,106</u>	<u>4,235,783</u>
Balance at January 1, 2020	\$ 3,083,445	1,238,683	4,322,128
Transferred from property and equipment	339,995	155,423	495,418
Reclassified to Property and equipment	(449,616)	(294,230)	(743,846)
Disposals and retirements	(8,970)	(263)	(9,233)
Balance at December 31, 2020	<u>\$ 2,964,854</u>	<u>1,099,613</u>	<u>4,064,467</u>
<u>Depreciation and impairment loss</u>			
Balance at January 1, 2021	\$ -	453,360	453,360
Depreciation	-	23,102	23,102
Transferred from property and equipment	-	150,184	150,184
Reclassified to Property and equipment	-	(42,102)	(42,102)
Disposals and retirements	-	(260)	(260)
Effect of changes in foreign exchange rates	-	(221)	(221)
Balance at December 31, 2021	<u>\$ -</u>	<u>584,063</u>	<u>584,063</u>
Balance at January 1, 2020	\$ -	525,138	525,138
Depreciation	-	22,022	22,022
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>453,360</u>	<u>453,360</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
At December 31, 2021	\$ <u>3,022,677</u>	<u>629,043</u>	<u>3,651,720</u>
At December 31, 2020	\$ <u>2,964,854</u>	<u>646,253</u>	<u>3,611,107</u>
<u>Fair Value:</u>			
At December 31, 2021			<u>7,520,041</u>
At December 31, 2020			<u>7,295,403</u>

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

As of December 31, 2021 and 2020, the investment properties were provided as collateral or pledged, for details please refer to note 8.

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(v).

Lessor

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Within 1 year	\$ 156,076	141,942
1-5 years	484,702	452,023
Over 5 years	<u>217,936</u>	<u>301,791</u>
	<u>\$ 858,714</u>	<u>895,756</u>

The rental revenue from investment property for the year ended December 31, 2021 and 2020 amounted to \$158,044 and \$159,425, respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized goodwill. As of December 31, 2021 and 2020, the carrying amounts were all \$3,126,698.

Goodwill is allocated to the operating segments as follows:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	<u>1,557,096</u>	<u>1,557,096</u>
Total	<u>\$ 3,126,698</u>	<u>3,126,698</u>

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

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 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.

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Technology Co., Ltd on February 9, 2015 in order to expand operations. The Group recognized the differences between consideration transferred and fair value of identifiable net assets as goodwill. As of December 31, 2021 and 2020, the carrying amounts of goodwill were \$15,933 and \$20,884, respectively. Furthermore, the Group recognized an impairment loss of \$4,951 and \$1,204 for the years ended December 31, 2021 and 2020 respectively, by using discount rate of 4.65% to be used to estimate the future recoverable amount of Capital True Partner Technology Co.

(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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX and CME for business development. In accordance with IAS 38 “Intangible Assets” endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of December 31, 2021 and 2020, the carrying amounts of intangible assets were \$46,084 and \$46,146, respectively.

(iv) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2021 and 2020, the amortized book value were \$37,046 and \$35,836, respectively.

(k) 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	1,750,876	2,221,479
Total	<u>\$ 3,087,820</u>	<u>3,671,111</u>
Interest rate range	<u>0.60%~1.46%</u>	<u>0.44%~1.45%</u>

As of December 31, 2021 and 2020, the Group had provided land, buildings, and certificates of time deposits as collateral, for details please refer to note 8.

(l) 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 AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	December 31, 2021	December 31, 2020
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	51,288	59,577
IRS asset swaps	42,823	10,968
Asset swap options - short position	2,270,540	1,267,802
Structured notes	286,362	619,483
Leverage derivatives - non-hedging	16,671	1,772
Currency swaps	7,417	12,759
Interest rate swaps	397	505
Equity derivatives	<u>651</u>	<u>-</u>
Subtotal	<u>2,676,149</u>	<u>1,972,866</u>
Total	<u><u>\$ 4,999,027</u></u>	<u><u>3,630,866</u></u>

(n) Bonds sold under repurchase agreements

	December 31, 2021	December 31, 2020
Bonds sold under repurchase agreements	<u>\$ 37,345,935</u>	<u>35,265,582</u>
Agreed-upon repurchase amounts	<u>37,375,943</u>	<u>35,315,617</u>
Interest rates	<u>0.00%~0.55%</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>

(o) Equity for each customer in the account

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

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(p) Accounts payable

	December 31, 2021	December 31, 2020
Payable of securities sold by customers	\$ 106,032	65,929
Payable of settlements	10,514,342	10,333,791
Others	<u>139,724</u>	<u>347,004</u>
Total	<u><u>\$ 10,760,098</u></u>	<u><u>10,746,724</u></u>

(q) Lease liabilities

The Group's lease liabilities are as follow:

	December 31, 2021	December 31, 2020
Current	<u>\$ 164,321</u>	<u>173,381</u>
Non-current	<u>\$ 685,850</u>	<u>736,969</u>

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

The amounts recognized in profit or loss were as follows:

	For the years ended December 31,	
	2021	2020
Interest on lease liabilities	<u>12,150</u>	<u>13,052</u>
Expenses relating to short-term leases	<u>7,613</u>	<u>6,293</u>
Expenses relating to leases of low-value assets, excluding low-value assets of short-term leases	<u>8,183</u>	<u>19,011</u>
Covid-19-related rent concessions	<u>864</u>	<u>-</u>

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

	For the years ended December 31,	
	2021	2020
Total cash outflow for leases	<u>\$ 231,818</u>	<u>242,562</u>

(r) Employee benefit

(i) Defined benefit plans

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

	December 31, 2021	December 31, 2020
Present value of defined benefit obligations	\$ (1,212,469)	(1,046,957)
Fair value of plan assets	<u>334,271</u>	<u>303,061</u>
Recognized liabilities for defined benefit obligations	<u><u>\$ (878,198)</u></u>	<u><u>(743,896)</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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The Group's employee benefits liabilities are as follows:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Compensated absences	\$ <u>49,604</u>	<u>50,169</u>

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

1) Composition of plan assets

The Group 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 Group's labor pension preparatory special account in Bank of Taiwan amounted to \$336,599 and \$307,229 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.

2) Movements in present value of the defined benefit obligations

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

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Defined benefit obligation on January 1	\$ 1,046,957	877,621
Current service costs and interest	9,612	10,079
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in demographical assumptions	(13,008)	-
-Actuarial loss (gain) arising from changes in financial assumptions	(2,139)	30,369
-Experience adjustments	397,667	196,531
Benefits paid by the plan	<u>(226,620)</u>	<u>(67,643)</u>
Defined benefit obligation on December 31	<u>\$ 1,212,469</u>	<u>1,046,957</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movements in fair value of defined benefit plan assets

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

	For the years ended December 31,	
	2021	2020
Fair value of plan assets on January 1	\$ 303,061	343,634
Interest revenue	1,269	2,300
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	4,898	9,681
Contributions from the employer	243,447	15,089
Benefits paid from plan assets	(218,404)	(67,643)
Fair value of plan assets on December 31	\$ 334,271	303,061

4) Expense recognized in profit or loss

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

	For the years ended December 31,	
	2021	2020
Current service cost	\$ 5,246	4,245
Net interest of net defined benefit liabilities (assets)	3,097	3,534
Current pension cost	\$ 8,343	7,779

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:

	For the years ended December 31,	
	2021	2020
Balance at January 1	\$ (331,988)	(114,769)
Recognized amount during the period	(377,622)	(217,219)
Balance at December 31	\$ (709,610)	(331,988)

6) Actuarial assumptions

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

	December 31, 2021	December 31, 2020
Discount rate	0.46 %	0.41%~0.42%
Future salary growth rate	2.50%~3.00%	2.50%~3.00%

The expected contribution to the defined benefit plan for the next year is \$3,054. The weighted average duration of the defined benefit obligation is 1 years.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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7) Sensitivity Analysis

When calculating the present value of the defined benefit obligations, the Group 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	(29,763)	28,451
Future salary growth rate	24,218	(23,577)
	<u>Effects to Defined Benefit Obligations</u>	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2020		
Discount rate	(26,117)	22,763
Future salary growth rate	21,334	(20,752)

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

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

(ii) Defined contribution plan

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

The Group contributed \$106,194 and \$89,431 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2021 and 2020, respectively.

(iii) For the years ended December 31, 2021 and 2020, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$4,391 and \$3,259, respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Income tax

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

The Company and its subsidiaries including Capital Investment Management Corp., Capital Futures Corp., Taiwan International Securities Investment Consulting Corp., CSC Venture Capital Corp. and CSC Capital Management Co. are founded in Taiwan. The corporate income tax rates are both 20% for the years ended December 31, 2021 and 2020.

The subsidiaries CSC International Holdings Ltd. and Taiwan International Securities (B.V.I) Corp is founded in British Virgin Islands, and it has a tax exemption for the years ended December 31, 2021 and 2020.

The tax rates of reinvestment business of subsidiaries which founded in Hong Kong are all 16.5% for the years ended December 31, 2021 and 2020.

The tax rates of reinvestment business of subsidiaries founded in Mainland China are all 25% for the years ended December 31, 2021 and 2020.

(ii) Income tax expense (benefit)

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

	For the years ended December 31,	
	2021	2020
Current tax expense		
Current year	\$ 658,861	543,968
Adjustment to the prior years' income tax	<u>(15,152)</u>	<u>(11,073)</u>
	<u>643,709</u>	<u>532,895</u>
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	123,201	19,827
Unrealized gains (losses) on foreign investments under Equity Method	(3,844)	703
Unrealized gains (losses) on non-current assets held-for-sale	2,794	-
Amortization of operation franchise	-	(42,881)
Adjustments of temporary differences for prior years	<u>-</u>	<u>31,477</u>
	<u>122,151</u>	<u>9,126</u>
Income tax expense from continuing operations	<u>\$ 765,860</u>	<u>542,021</u>

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

	For the years ended December 31,	
	2021	2020
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (8,807)</u>	<u>(15,801)</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the years ended December 31,	
	2021	2020
Net income before tax	\$ 6,227,509	4,382,700
Income tax using the domestic tax rate of each Group entity	\$ 1,298,888	941,886
Tax exempt income	(534,470)	(434,764)
Alternative minimum tax	696	31,833
Unrecognized deferred tax assets for current-year losses	5,468	3,533
Changes in unrecognized temporary differences	5,107	2,607
Additional surtax on undistributed retained earnings	1,313	5,815
Amortization of operation franchise	-	(42,881)
Adjustments to prior years' income tax	(15,152)	(3,780)
Adjustments of temporary differences for prior years	-	31,477
Others	4,010	6,295
Total	<u>\$ 765,860</u>	<u>542,021</u>

(iii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	December 31, 2021	December 31, 2020
Unrealized losses on foreign investments under Equity Method	\$ 6,335	5,421
Foreign exchange difference from translating financial statements of foreign operations	27,233	18,426
Unrecognized loss in derivative financial instruments	-	54,277
Total	<u>\$ 33,568</u>	<u>78,124</u>

2) Unrecognized deferred tax assets

	December 31, 2021	December 31, 2020
Aggregate amount of temporary differences related to investments in subsidiaries	\$ 8,896	620
Tax loss carried forward	10,870	5,851
Total	<u>\$ 19,766</u>	<u>6,471</u>

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

As of December 31, 2021, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

<u>Year or loss</u>	<u>Amount</u>	<u>Expiry date</u>
2016 (Declared)	\$ 1,431	2026
2017 (Declared)	2,480	2027
2018 (Declared)	816	2028
2019 (Declared)	1,717	2029
2020 (Reported)	18,399	2030
2021 (Estimated)	<u>29,507</u>	2031
Total	<u>\$ 54,350</u>	

3) Recognized deferred income tax liabilities

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Unrealized gains on derivative financial instruments	\$ 81,245	12,321
Unrealized gains on foreign investments under Equity Method	-	2,930
Losses on intercompany transactions	1,928	1,928
Amortization of goodwill	362,697	362,697
Land value incremental tax	47,690	47,690
Unrealized gains on non-current asset held-for-sale	<u>2,794</u>	<u>-</u>
Total	<u>\$ 496,354</u>	<u>427,566</u>

4) Unrecognized deferred tax liabilities

As of December 31, 2021 and 2020, the Group's temporary differences are not recognized under deferred tax liabilities. Details are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Aggregate amount of temporary differences related to investments in subsidiaries	<u>\$ 59</u>	<u>3,605</u>

The dividend policies of the Group's second level subsidiaries, Capital True Partner Technology Co., Ltd, was prescribed not to appropriate the retained earnings until December 31, 2021. Also, the Group does not plan to dispose of the investees in foreseeable future. Thus, the temporary differences related to investments in subsidiaries for the portion of not to intend to dispose or to appropriate are not recognized under deferred tax liabilities.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Income tax assessment status

- 1) The Company's income tax returns through 2019 were assessed by the Tax Authority.
- 2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2020 were assessed by the Tax Authority.
- 3) Subsidiary - Capital Futures Corp.'s income tax returns through 2019 were assessed by the Tax Authority.
- 4) Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 and the period of liquidation from July 1, 2012 to September 16, 2019 were assessed by the Tax Authority. On June 15, 2020, the entity was been admitted the completion of liquidation by the court.
- 5) Second level Subsidiary - Capital International Technology Corp.'s income tax returns through 2019 were assessed by the Tax Authority.
- 6) Subsidiary - CSC Venture Capital Corp.'s income tax returns through 2019 were assessed by the Tax Authority.
- 7) Subsidiary - CSC Capital Management Co. was approved and established on December 3, 2020 and has not had a case of profit-seeking income tax reporting assessed by the Tax Authority.
- 8) Second level Subsidiary - CSC Private Equity Fund I Co. was established on April 30, 2021, and has not had a case of profit-seeking enterprise income tax.

(v) Income tax administrative relief

Since the tax losses carried forward in 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.

(t) 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.

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

	December 31, 2021	December 31, 2020
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>
	<u>\$ 2,743,465</u>	<u>2,743,430</u>

(iii) Retained earnings

1) Legal reserve

If the company incurs no loss for the year, the distribution of the legal reserve, either by issuing new shares or by cash, shall be decided at the shareholders' meeting, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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:

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

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(u) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2021 and 2020 were calculated as follows:

	For the years ended December 31,	
	2021	2020
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.

(v) Items of the statements of comprehensive income

(i) Brokerage commissions

	For the years ended December 31,	
	2021	2020
Brokerage commission from TSE market	\$ 4,680,964	2,523,123
Brokerage commission from OTC market	1,253,910	847,544
Handling fee from security financing	45,441	34,006
Futures commission income - brokerage	1,769,866	1,891,408
Overseas subsidiaries	46,638	50,199
Others	<u>148,319</u>	<u>109,030</u>
	<u>\$ 7,945,138</u>	<u>5,455,310</u>

(ii) Underwriting commissions

	For the years ended December 31,	
	2021	2020
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	<u>5,108</u>	<u>1,611</u>
	<u>\$ 151,211</u>	<u>214,290</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(iii) Net gains (losses) on sale of trading securities

	For the years ended December 31,	
	2021	2020
Gains (losses) on securities sold - proprietary trading	\$ 1,212,555	696,182
Gains (losses) on securities sold - underwriting	26,374	78,546
Gains (losses) on securities sold - hedging	<u>2,725,884</u>	<u>658,112</u>
	<u>\$ 3,964,813</u>	<u>1,432,840</u>

(iv) Interest revenue

	For the years ended December 31,	
	2021	2020
Interest revenue - margin loans	\$ 987,213	613,935
Interest revenue - bonds	515,433	646,278
Overseas subsidiaries	32,627	51,658
Others	<u>169,520</u>	<u>121,319</u>
	<u>\$ 1,704,793</u>	<u>1,433,190</u>

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

	For the years ended December 31,	
	2021	2020
Trading securities - proprietary	\$ (43,767)	47,338
Trading securities - underwriting	782	(21,660)
Trading securities - hedging	<u>966</u>	<u>188,737</u>
	<u>\$ (42,019)</u>	<u>214,415</u>

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

	For the years ended December 31,	
	2021	2020
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	<u>(264,907)</u>	<u>(197,941)</u>
	<u>\$ (925,885)</u>	<u>219,278</u>

(vii) Futures commission revenues

	For the years ended December 31,	
	2021	2020
Futures commission revenues - CSC Futures (HK) Ltd.	<u>\$ 327,803</u>	<u>322,130</u>

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

(viii) Commission expenses - future

	For the years ended December 31,	
	2021	2020
Future trading - reassignment	\$ 215,936	266,087
Future trading - introducing brokers	1,193	1,530
Commission expenses - CSC Futures (HK) Ltd.	<u>102,006</u>	<u>74,243</u>
	<u>\$ 319,135</u>	<u>341,860</u>

(ix) Employee benefits, depreciation, and amortization expenses

	For the years ended December 31,	
	2021	2020
Employee benefit expenses		
Salary expense	\$ 3,396,513	2,571,187
Health and labor insurance expense	213,825	167,792
Pension expense	118,928	100,469
Others	77,781	62,302
Depreciation expense	434,960	411,796
Amortization expense	<u>35,015</u>	<u>35,507</u>
	<u>\$ 4,277,022</u>	<u>3,349,053</u>

(x) Other operating expenses

	For the years ended December 31,	
	2021	2020
Rental expense	\$ 15,821	25,278
Taxes	640,149	421,345
Information technology expense	260,604	235,734
Postage expense	227,770	212,178
Professional service fee	25,827	24,462
Other expenses	<u>849,990</u>	<u>606,285</u>
	<u>\$ 2,020,161</u>	<u>1,525,282</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(xi) Other gains and losses

	For the years ended December 31,	
	2021	2020
Financial revenue	\$ 192,271	383,718
Currency exchange gains (losses)	(14,279)	(5,751)
Net gains (losses) on disposal of investment	17,905	73,800
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	(18,679)	4,504
Revenue from bank's allocation fee	196,413	173,071
Net gains (losses) on disposal of property and equipment	(136)	11,317
Dividend revenue	78,538	82,756
Gains on reversal of prior year's liabilities	12,689	21,856
Rental income	158,044	159,425
Others	<u>77,760</u>	<u>44,885</u>
	<u>\$ 700,526</u>	<u>949,581</u>

(xii) Remuneration to employees and directors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2.0% of its earnings, if applicable, as remuneration to employees. The Board of Directors shall determine if the employees' remuneration distributed, in the form of shares or in cash. The targets of remuneration shall include the employees of subsidiaries meeting certain specific requirement that shall be determined by the Company's Board of Directors. The Company shall also appropriate no more than 3% of the aforementioned amount of earnings as remuneration to the Directors. The proposal for the remuneration to employees and directors shall be reported to the shareholders' meeting.

If there is accumulated deficit, specific amount shall be retained to cover, and appropriate the remainder in the aforementioned percentage as remuneration to employees and directors.

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 AND SUBSIDIARIES
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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.

For the years ended December 31, 2021 and 2020, the estimated amounts of remuneration to employees were \$7,196 and \$9,071 and to directors were \$7,196 and \$9,071 by the domestic subsidiaries of the Group, respectively.

(w) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2021 and 2020, the maximum credit exposure amounted to \$152,088,665 and \$127,764,174, respectively.

The regional distribution of financial assets' credit risk exposure amount which owned by the Group is as the list below. The region of exposure is mostly in Taiwan (accounted for 83.29%); secondly, is in Asia (accounted for 8.68%, exclusion of Taiwan); then, is in America (accounted for 5.03%). 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	\$ 126,675,667	99,319,538
Asia (Taiwan is excluded)	13,198,006	15,927,212
Europe	4,515,220	3,761,898
America	7,649,360	8,348,552
Other	<u>50,412</u>	<u>903,821</u>
Total	<u>\$ 152,088,665</u>	<u>128,261,021</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Impairment loss

The Group'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	\$ 35,425,789	30,132	28,531,443	36,508
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	841	841
Past due more than 360 days	<u>240,988</u>	<u>240,988</u>	<u>276,004</u>	<u>276,004</u>
	<u>\$ 35,685,831</u>	<u>290,174</u>	<u>28,808,869</u>	<u>313,934</u>

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 \$290,174 and \$313,934, respectively.

3) Credit risk of receivables and debt securities

Debt securities held by the Group including government bonds, listed and unlisted debt securities are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g).

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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	-	-	313,934	-	323,325
Provision or reversal of Impairment loss	-	(2,612)	-	-	19,288	-	16,676
Amounts written off	-	-	-	-	(40,887)	-	(40,887)
Effect of exchange rate	-	-	-	-	(2,161)	-	(2,161)
Balance on December 31, 2021	<u>\$ -</u>	<u>6,779</u>	<u>-</u>	<u>-</u>	<u>290,174</u>	<u>-</u>	<u>296,953</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	-	-	315,554	-	323,121
Provision or reversal of Impairment loss	-	1,824	-	-	31,853	-	33,677
Amounts written off	-	-	-	-	(30,415)	-	(30,415)
Effect of exchange rate	-	-	-	-	(3,058)	-	(3,058)
Balance on December 31, 2020	<u>\$ -</u>	<u>9,391</u>	<u>-</u>	<u>-</u>	<u>313,934</u>	<u>-</u>	<u>323,325</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

The following table shows the effect of contract maturity on financial liabilities. The Group 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	51,288	51,288	51,288	-	-	-	-
Exchange traded notes	943	943	943	-	-	-	-
Equity derivatives	651	651	651	-	-	-	-
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	-
Leverage derivatives - non-hedging	16,671	16,671	16,671	-	-	-	-
Structured notes	286,362	286,362	11,936	-	232,119	42,307	-
Short-term borrowings	3,087,820	3,087,820	3,087,820	-	-	-	-
Commercial paper payable	8,397,806	8,400,000	8,400,000	-	-	-	-
Bonds sold under repurchase agreements	37,345,935	37,375,943	30,250,072	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	-	-	-	-
Futures traders' equity	37,798,393	37,798,393	37,798,393	-	-	-	-
Equity for each customer in the account	26,706,922	26,706,922	26,706,922	-	-	-	-
Leverage contract trading customers' equity	630,830	630,830	630,830	-	-	-	-
Notes payable and accounts payable	139,876	139,876	139,876	-	-	-	-
Receipts under custody	8,808,150	8,808,150	8,808,150	-	-	-	-
Other payables	1,358,477	1,358,477	1,357,251	1,226	-	-	-
Other financial liabilities	5,045,880	5,045,880	4,355,627	114,556	470,764	104,933	-
Lease liabilities	850,171	882,864	94,709	79,610	161,493	385,136	161,916
	<u>\$ 149,414,699</u>	<u>149,479,594</u>	<u>138,313,765</u>	<u>7,719,305</u>	<u>1,649,497</u>	<u>1,635,111</u>	<u>161,916</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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December 31, 2020	<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	\$ 930,361	930,361	930,361	-	-	-	-
Stock warrants issued	726,511	726,511	644,819	81,692	-	-	-
Put options	59,577	59,577	59,577	-	-	-	-
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	-
Leverage derivatives - non-hedging	1,772	1,772	1,772	-	-	-	-
Structured notes	619,483	619,483	10,768	359	-	608,356	-
Short-term borrowings	3,671,111	3,671,111	3,671,111	-	-	-	-
Commercial papers payable	2,299,692	2,300,000	2,300,000	-	-	-	-
Bonds sold under repurchase agreements	35,265,582	35,315,617	26,903,159	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	-	-	-	-
Futures traders' equity	38,316,621	38,316,621	38,316,621	-	-	-	-
Equity for each customer in the account	13,063,932	13,063,932	13,063,932	-	-	-	-
Leverage contract trading customers' equity	352,056	352,056	352,056	-	-	-	-
Notes payable and accounts payable	384,516	384,516	384,516	-	-	-	-
Receipts under custody	1,636,517	1,636,517	1,636,517	-	-	-	-
Other payables	1,100,126	1,100,126	1,096,990	3,136	-	-	-
Other financial liabilities	4,751,090	4,751,090	3,969,342	266,487	171,945	343,316	-
Lease liabilities	910,350	950,943	104,433	79,719	143,812	361,069	261,910
	<u>\$ 112,068,896</u>	<u>112,159,832</u>	<u>100,426,957</u>	<u>8,980,035</u>	<u>720,241</u>	<u>1,770,689</u>	<u>261,910</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

	December 31, 2021		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 897,199	27.6800	24,834,468
AUD	2,998	20.0800	60,200
CAD	211	21.6200	4,562
CHF	96	30.1750	2,897
EUR	8,008	31.3200	250,811
GBP	2,867	37.3000	106,939
HKD	121,089	3.5490	429,745
JPY	946,873	0.2405	227,723
SGD	1,038	20.4600	21,237
CNY	142,878	4.3440	620,662
ZAR	80	1.7330	139
KRW	508,738	0.0235	11,955
NZD	121	18.8900	2,286
THB	3,095	0.8347	2,583
MYR	29	6.3550	184
VND	6,782,896	0.0012	8,139
<u>Non-Monetary Item</u>			
USD	554,313	27.6800	15,343,384
AUD	122,719	20.0800	2,464,198
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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2021		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	\$ 1,502,490	27.6800	41,588,923
AUD	119,062	20.0800	2,390,765
CAD	4	21.6200	86
CHF	40	30.1750	1,207
EUR	16,092	31.3200	504,001
GBP	2,728	37.3000	101,754
HKD	214,521	3.5490	761,335
JPY	902,639	0.2405	217,085
SGD	635	20.4600	12,992
CNY	56,112	4.3440	243,751
ZAR	12	1.7330	21
KRW	476,241	0.0235	11,192
THB	1,503	0.8347	1,255
MYR	14	6.3550	89
<u>Non-Monetary Item</u>			
USD	327	27.6800	9,051
CAD	66	21.6200	1,427
CHF	12	30.1750	362
GBP	2	37.3000	75
JPY	1,407	0.2405	338
CNY	1,196	4.3440	5,195
ZAR	69	1.7330	120
NZD	5	18.8900	94

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2020		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 706,900	28.4800	20,132,512
AUD	3,532	21.9500	77,527
CAD	74	22.3500	1,654
CHF	52	32.3050	1,680
EUR	7,745	35.0200	271,230
GBP	2,569	38.9000	99,934
HKD	112,234	3.6730	412,235
JPY	888,657	0.2763	245,536
SGD	544	21.5600	11,729
CNY	94,309	4.3770	412,790
ZAR	66	1.9490	129
KRW	384,841	0.0264	10,160
NZD	43	20.5800	885
THB	3,468	0.9556	3,314
MYR	180	6.7895	1,222
<u>Non-Monetary Item</u>			
USD	585,631	28.4800	16,678,771
AUD	105,749	21.9500	2,321,191
EUR	33,014	35.0200	1,156,150
GBP	2	38.9000	78
HKD	1,031	3.6730	3,787
JPY	10,105	0.2763	2,792
CNY	238,236	4.3770	1,042,759
NZD	1	20.5800	21
<u>Investments under equity method</u>			
HKD	13,417	3.6730	49,281

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

				December 31, 2020		
				Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>						
<u>Monetary Item</u>						
USD	\$	1,259,306		28.4800		35,865,035
AUD		98,768		21.9500		2,167,958
CAD		67		22.3500		1,497
CHF		53		32.3050		1,712
EUR		39,104		35.0200		1,369,422
GBP		2,460		38.9000		95,694
HKD		221,137		3.6730		812,236
JPY		894,512		0.2763		247,154
SGD		631		21.5600		13,604
CNY		168,410		4.3770		737,131
KRW		381,095		0.0264		10,061
THB		2,572		0.9556		2,458
MYR		166		6.7895		1,127
<u>Non-Monetary Item</u>						
USD		12		28.4800		342
CAD		4		22.3500		89
JPY		1,023		0.2763		283
CNY		240		4.3770		1,050
ZAR		1		1.9490		2

Because there are a variety of functional currencies, the Group 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 \$46,636 and \$89,023, respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, customers' margin account, short-term borrowings, futures traders' equity, and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the 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	(537,609)	537,609	(575,927)
Other comprehensive income	493,972	(493,972)	640,346	(640,346)

(iv) Sensitivity analysis of interest rate risk

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For floating rate instruments, the sensitivity analysis assumes the liabilities are outstanding for the whole year at the reporting date. The variable rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. This is mainly attributable to the Group's exposure to floating rates on its bond position.

Market risk type	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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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 Group determines the fair value of financial instruments in accordance with (a) the calculation of valuation techniques, (b) valuation provided by the professional electronic information company and commonly used by market participants, or (c) quoted prices of the counter party.

b) Definition of fair value hierarchy

i) Level 1

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

ii) Level 2

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

iii) Level 3

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 Group 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	\$ 9,807,123	9,807,123	8,497,082	8,497,082
Accrued receivable	67,836,874	67,836,874	43,345,297	43,345,297
Customers' margin account	37,848,190	37,848,190	38,349,832	38,349,832
Leverage contract trading - customers' margin account	624,232	624,232	352,962	352,962
Restricted assets - current	285,135	285,135	87,357	87,357
Other non-current assets	1,510,089	1,510,089	1,469,407	1,469,407
Financial liabilities:				
Short-term borrowings	3,087,820	3,087,820	3,671,111	3,671,111
Commercial paper payable	8,397,806	8,397,806	2,299,692	2,299,692
Bonds sold under repurchase agreements	37,345,935	37,345,935	35,265,582	35,265,582
Accrued payable	62,492,329	62,492,329	33,813,887	33,813,887
Futures traders' equity	37,798,393	37,798,393	38,316,621	38,316,621
Leverage contract trading - customers' equity	630,830	630,830	352,056	352,056
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	98,265	98,265	99,911	99,911

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>7,520,041</u>	<u>7,520,041</u>
December 31, 2020	\$ -	-	<u>7,295,403</u>	<u>7,295,403</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- c) Valuation techniques used in estimating the fair values of financial instruments
- i) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. Their carrying amounts is a reasonable approximation of the fair value. The method is applied to cash and cash equivalents, accrued receivable, customers' margin account, leverage contract trading - customers' margin account, other current assets, other non-current assets, short-term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, futures traders' equity, leverage contract trading-customers' equity, other financial liabilities-current, other financial liabilities-non-current, and other non-current liabilities.
- ii) The investment properties were evaluated and estimated by using Market Method based on the market evidence of transaction price of similar properties in the locations.

3) Measured at fair value

a) Hierarchy information of fair value

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2021				
Financial assets at fair value through profit or loss	\$ 15,442,463	28,881,614	-	44,324,077
Financial assets at fair value through other comprehensive income	2,683,955	12,349,188	3,319,193	18,352,336
Derivative financial assets	<u>625,819</u>	<u>657,915</u>	<u>-</u>	<u>1,283,734</u>
	<u>\$ 18,752,237</u>	<u>41,888,717</u>	<u>3,319,193</u>	<u>63,960,147</u>
Financial liabilities at fair value through profit or loss	\$ 2,322,878	-	-	2,322,878
Derivative financial liabilities	<u>325,714</u>	<u>2,350,435</u>	<u>-</u>	<u>2,676,149</u>
	<u>\$ 2,648,592</u>	<u>2,350,435</u>	<u>-</u>	<u>4,999,027</u>
December 31, 2020				
Financial assets at fair value through profit or loss	\$ 11,862,682	22,887,200	-	34,749,882
Financial assets at fair value through other comprehensive income	2,704,200	15,959,279	2,287,085	20,950,564
Derivative financial assets	<u>388,227</u>	<u>241,724</u>	<u>-</u>	<u>629,951</u>
	<u>\$ 14,955,109</u>	<u>39,088,203</u>	<u>2,287,085</u>	<u>56,330,397</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities at fair value through profit or loss	\$ 1,658,000	-	-	1,658,000
Derivative financial liabilities	<u>667,933</u>	<u>1,304,933</u>	<u>-</u>	<u>1,972,866</u>
	<u>\$ 2,325,933</u>	<u>1,304,933</u>	<u>-</u>	<u>3,630,866</u>

b) Valuation techniques of financial instruments measured at fair value

i) Non-derivative financial instruments

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

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

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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 Group. Thus, the outputs of financial valuation models may need necessary adjustments in line with important relevant elements. The valuation models and adjustment parameters were verified to ensure valuation procedures and results are in accordance with the requirements, so the valuation adjustments are pertinent and appropriate. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market condition.

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

(In Thousands Dollars)

Item	For the year ended December 31, 2021								Ending Balance
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		Transferred from Level 3	
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Capital reduction		
Financial assets at fair value through other comprehensive income	\$ 2,287,085	-	891,620	153,621	-	1,212	3,921	8,000	3,319,193

Item	For the year ended December 31, 2020								Ending Balance
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		Transferred from Level 3	
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Capital reduction		
Financial assets at fair value through other comprehensive income	\$ 2,464,932	-	103,023	97,880	-	48,822	207,270	122,658	2,287,085

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

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

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Correlation between inputs and fair value</u>
Financial assets at fair value through other comprehensive income - equity instruments without an active market	Market approach	· Price-to-Book Ratio · Discount for lack of marketability	· The higher the multiple, the higher fair value. · The higher the discount for lack of marketability, the lower the fair value.
Financial assets at fair value through other comprehensive income - equity instruments without an active market - venture capital corporation	Net Asset Value Method	· Net Asset Value	Not applicable

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

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

	<u>Change in fair value recognized in other comprehensive income</u>	
	<u>Favorable change</u>	<u>Unfavorable change</u>
December 31, 2021		
Financial assets fair value through other comprehensive income	\$ <u><u>33,192</u></u>	<u><u>(33,192)</u></u>
December 31, 2020		
Financial assets fair value through other comprehensive income	\$ <u><u>22,871</u></u>	<u><u>(22,871)</u></u>

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(vi) Transfer of financial assets

The transferred financial assets of the Group which are not qualified for de-recognition in the daily operation are mainly debt securities under 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 Group cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Group still bears the interest rate risk and credit risk, so transferred financial assets are not fully derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

December 31, 2021					
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	\$ 39,185,058	37,345,935	-	-	-

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	\$ 37,366,476	35,265,582	-	-	-

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

(vii) Offsetting financial assets and financial liabilities

The Group did not hold any financial instruments contracts which meet Section 42 of IAS 32 endorsed by the FSC therefore, the financial assets and financial liabilities of the above instruments shall be offset on the balance sheet.

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

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

December 31, 2021						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash received as collaterals	(e)=(c)-(d)
Derivative financial assets	\$ 657,915	-	657,915	-	-	657,915

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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	\$ 2,624,861	-	2,624,861	-	-	2,624,861
Under repurchase agreements	37,345,935	-	37,345,935	37,345,935	-	-
Total	\$ 39,970,796	-	39,970,796	37,345,935	-	2,624,861

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	\$ 241,724	-	241,724	-	-	241,724

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	\$ 1,913,289	-	1,913,289	-	-	1,913,289
Under repurchase agreements	35,265,582	-	35,265,582	35,265,582	-	-
Total	\$ 37,178,871	-	37,178,871	35,265,582	-	1,913,289

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

(x) Financial risk management

(i) Brief

The Group 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 Group also established an operating strategy, capital structure, risk management policy and executive procedure by risk and operating activities. Furthermore, the Group set up a risk management information system to assist whole risk management execute effectively.

(iii) Credit risk

1) Determining whether credit risk has increased significantly since initial recognition

- a) The Group measures each financial instrument that applies under IFRS9 if the credit risk of financial asset at the reporting date has increased significantly since initial recognition. The Group considers reasonable and supportable information that is relevant and available, including forward-looking information, since initial recognition for assessment. Main factors taking into consideration include credit risk rating and information of past due condition.
- 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 Group applies 12-month ECLs to measure the impairment loss of financial instruments, which have not increased significantly since initial recognition. For those financial instruments have increased significantly after initial recognition or with credit loss, the Group adopts lifetime ECLs to measure.

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

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(iv) Liquidity risk

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

(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 Group's revenue or the value of its holdings of financial instruments.

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

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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1) Equity securities:

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

2) Fixed income instruments:

Risk of fixed income instruments is mainly affected by the fluctuations of market rate. The Group will suffer losses when unfavorable variation of market rate is incurred. The Group uses financial derivatives such as interest rate swap, government bond futures and bond options whose variation in fair value and cash flow are negative correlated 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 Group will acquire stock warrants of the same underlying securities issued by others whose theoretical price was underestimated to hedge against the fluctuations. Furthermore, the Group will also adjust the hedged position such as the underlying securities, convertible corporate bonds and stock warrants based on the dynamic hedging strategies with the variation of Delta.

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 Group uses the interest which it generates from investing to repay the principal due. In the asset option aspect, the Group establishes related hedged position to hedge the stock price and the volatility risk.

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 Group manages its risk through selling of the interest rate swap and options with third parties and verifies its counterparty's credit limit to lower the above risk.

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

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As of December 31, 2021 and 2020, the related financial risk and the presentation of the Group'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 Group collects premium from investors prior to issuing stock warrants, and therefore, does not assume any credit risk.

(ii) Market risk:

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

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

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

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

(iv) Type, purpose, and strategy of financial derivatives held:

The Group's strategy is to avoid most of the market risk. Non-trading marketable securities hedging positions are used to hedge against risk from investors' exercising of stock warrants. These underlying securities used as hedging instruments exhibit highly positive correlation with the fair values of stock warrants issued, and positions held are evaluated and adjusted periodically.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 years ended December 31, 2021 and 2020:

a) Gains (losses) on valuation

	For the years ended December 31,		Account
	2021	2020	
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

	For the years ended December 31,		Account
	2021	2020	
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

	For the years ended December 31,		Account
	2021	2020	
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

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 Group determines those with international credit rating BBB-(inclusive) or above, and therefore, no default is expected and credit risk is accordingly remote.

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(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 Group's strategy is to avoid most of the market risk. Non trading marketable securities are used to hedge against risk from investors. These underlying securities used as hedging instruments exhibit highly positive correlation with the fair values of exchange traded notes, and positions held are evaluated and adjusted periodically.

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

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>Account</u>	
Margin - exchange traded notes	\$ 25	25	Other non-current assets	
Outstanding liabilities - exchange traded notes	943	1,128	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 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

Futures

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

Please refer to note 12(a) for the notional principal and nominal amount as of December 31, 2021 and 2020.

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

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(ii) Market risk:

Market risk resulted from the purchase and sale of futures and options. Since the fair values of futures and options are available, and stop-loss points are established in order to manage risk, the Group can confine losses to a predictable range. Therefore, there is no significant market risk.

For non-trading futures or options contracts, gain or loss from the fluctuations of index tends to offset gain and loss of the hedged items. Hence, there is no significant market risk.

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

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

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

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

(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	\$ 564,132	348,012	Financial assets at fair value through profit or loss - current
Excess futures margin	1,676,997	1,365,163	Cash and cash equivalent
Buy options	61,687	40,215	Financial assets at fair value through profit or loss - current
Sale options	51,288	59,577	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	\$ (380,019)	(71,282)	Gains (losses) on derivatives - futures

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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 Group pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

2) Market risk:

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

In order to manage risk, stop loss points are established in accordance to the changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, and therefore there is no significant market risk.

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

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

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

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

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

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

(ii) Structured notes

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

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

2) Market risk

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

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

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

(iii) Convertible bond asset 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 Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the Group maintains good credit risk control over counterparties, the credit risks is minimal.

(Continued)

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

2) Market risk:

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

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

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

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

(iv) Options

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	\$ 287,577	-	839	-

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

2) Market risk:

Market risk of trading equity options results from the purchase and sale of options. Since the fair values of options are available, and stop-loss points are established in order to manage risk, the Group can confine losses to a predictable range. Therefore, there is no significant market risk.

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Leverage derivatives

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

<u>Financial Instruments</u>	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:				
Leverage derivatives-long position	\$ 3,800,382	-	1,321,887	-
Leverage derivatives-short position	3,787,547	-	1,282,847	-

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

2) Market risk:

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(vi) 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
Leverage derivatives - non-hedging	81,844	63,380
Structured notes	4,183	7,785
Currency swaps	635	-
Equity derivatives	<u>2,483</u>	<u>-</u>
Total	<u>\$ 657,915</u>	<u>241,724</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
Leverage derivatives - non-hedging	16,671	1,772
Structured notes	286,362	619,483
Currency swaps	7,417	12,759
Interest rate swaps	397	505
Equity derivatives	<u>651</u>	<u>-</u>
Total	<u>\$ 2,624,861</u>	<u>1,913,289</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>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the year 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:

	For the year ended December 31, 2021		For the year ended December 31, 2020	
	Gains (losses) on derivative instruments - OTC	Unrealized Gains (losses)	Gains (losses) on derivative instruments - OTC	Unrealized Gains (losses)
Interest rate swaps	\$ (154)	(397)	(1,065)	(505)
Equity derivatives	2,206	3,116	(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	(17,583)	(6,782)	(23,764)	(12,759)
Leverage derivatives - non-hedging	89,806	3,565	62,602	30,158
Total	\$ (722,553)	193,747	(793,315)	(240,807)

(vii) 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 Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. The Group's main IBOR exposure on December 31, 2021 was indexed to US dollar LIBOR. The alternative reference rate for US dollar LIBOR 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 Group 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 Group'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 Group 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 Group has modified all of its floating-rate liabilities indexed to US dollar LIBOR to reference HIBOR during the year ended December 31, 2021.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The Group 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 Group 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.

	USD LIBOR				EUR LIBOR			
	Total amount of unreformed contracts		Amount with appropriate fallback clause		Total amount of unreformed contracts		Amount with appropriate fallback clause	
December 31, 2021								
Financial assets								
Corporate bonds	USD	163,500	USD	158,500	-		-	
Financial liabilities								
Credit loan	USD	4,000	USD	4,000	-		-	
January 1, 2021								
Financial assets								
Corporate bonds	USD	208,000	USD	203,000	-		-	
Financial liabilities								
Secured bank loans	USD	50,900	USD	50,900	-		-	
Credit loan	USD	46,500	USD	46,500	EUR	1,200	EUR	1,200
Derivatives								
Structured notes	USD	100	USD	100	-		-	

- (y) Capital management

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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The Group maintains no change of its capital management. The Group's capital adequacy ratio is as below:

	December 31, 2021	December 31, 2020
Capital adequacy ratio	358 %	369 %

(z) Financing activities not affecting current cash flow

The Group'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(h).

	January 1, 2021	Cash flows	Other	Non-cash changes Foreign exchange movement	Fair value changes	December 31, 2021
Lease liabilities	\$ 910,350	(216,022)	156,588	(745)	-	850,171

	January 1, 2020	Cash flows	Other	Non-cash changes Foreign exchange movement	Fair value changes	December 31, 2020
Lease liabilities	\$ 1,012,605	(217,258)	116,715	(1,712)	-	910,350

(7) Related-party transactions:

(a) Parent company and ultimate controlling party

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

(b) Names of related parties and relationships

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

Names of related parties	Relationships
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp.	Subsidiary
Capital Investment Trust Corp.	Associate
Funds issued by Capital Investment Trust Corp.	Funds issued by associate
Other related parties	Key management personnel

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(c) 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	\$ 348,294	256,544
Post-employment benefits	7,282	2,760
Total	<u>\$ 355,576</u>	<u>259,304</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
 For the years ended December 31,				
Total financial expenses				
Key management personnel	<u>\$ 18</u>		<u>120</u>	

(iii) Structured notes transactions - remaining balance

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

(d) 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>
Subsidiaries	\$ 27,000	27,000	27,000	27,000
Funds issued by associate	-	-	31,178	30,871
Total	<u>\$ 27,000</u>	<u>27,000</u>	<u>58,178</u>	<u>57,871</u>
 For the years ended December 31,				
Total financial expenses				
Subsidiaries	\$ 104		9	
Funds issued by associate	244		135	
Total	<u>\$ 348</u>		<u>144</u>	

Transaction terms are the same as the general clients.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Futures transactions

Futures traders' equity	December 31, 2021	December 31, 2020
Associates	\$ 269,049	335,742
Other related parties	763	182
Total	<u>\$ 269,812</u>	<u>335,924</u>
	For the years ended December 31,	
Total financial expenses	2021	2020
Funds issued by associate	<u>\$ 27</u>	<u>149</u>

Transaction terms are the same as the general clients.

(iii) Lease agreements

Lease revenue	For the years ended December 31,	
	2021	2020
Associates	<u>\$ 17,237</u>	<u>17,247</u>
	December 31, 2021	December 31, 2020
Guarantee deposits received		
Associates	<u>\$ 3,811</u>	<u>3,811</u>

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

(iv) Insurance commission revenues

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

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

(v) Brokerage and sub-brokerage

Brokerage commissions	For the years ended December 31,	
	2021	2020
Funds issued by associate	\$ 43,080	45,629
Other related parties	4,521	3,429
Total	<u>\$ 47,601</u>	<u>49,058</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the years ended December 31,	
Re-consigned handling commissions	2021	2020
Funds issued by associate	\$ 13,733	6,703
Other related parties	313	559
Total	\$ 14,046	7,262
(vi) Fund services business		
	For the years ended December 31,	
Fund services revenue	2021	2020
Associates	\$ 4,657	2,108
	For the years ended December 31,	
Channel services revenue	2021	2020
Associates	\$ 4,657	2,108
	December 31,	December 31,
Account receivable	2021	2020
Associates	\$ 509	870
(vii) Wealth management business		
	For the years ended December 31,	
Trust account commissions revenue	2021	2020
Associates	\$ 9,728	5,708
	For the years ended December 31,	
Trust account management fee revenue	2021	2020
Associates	\$ 1,035	605
(viii) Underwriting business		
	For the years ended December 31,	
Stock service income	2021	2020
Associates	\$ 121	122
	For the years ended December 31,	
Handling fee revenues from underwriting securities on consignment	2021	2020
Funds issued by associate	\$ -	1
	December 31,	December 31,
Accounts receivable	2021	2020
Associates	\$ 10	10

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ix) Other revenue

Other revenue	For the years ended December 31,	
	2021	2020
Associates	\$ 3	3
Other related parties	42	-
Total	<u>\$ 45</u>	<u>3</u>
	December 31,	December 31,
	2021	2020
Receipts in advance		
Associates	\$ <u>2</u>	<u>-</u>

(x) Custody account business

Custody account business revenue	For the years ended December 31,	
	2021	2020
Second-level subsidiaries (note)	\$ <u>7,514</u>	<u>6,600</u>
	December 31,	December 31,
	2021	2020
Accounts receivable		
Second-level subsidiaries (note)	\$ <u>571</u>	<u>680</u>

(xi) Accrued receivable

Accounts receivable/ Other receivable	December 31,	December 31,
	2021	2020
Subsidiaries	\$ 84	114
Other related parties	-	3
Total	<u>\$ 84</u>	<u>117</u>

Note: The Company provides custody account business for customers of the second-level subsidiary CSC Securities (HK) Ltd. The custody account is for the customers of the second-level subsidiary to trade and custody the relevant funds and securities as FINI. The second-level subsidiary recorded custody account business on a net basis, recognizing net income and net accrued receivable. Therefore, there are no custodian costs and payables to the Company on the book of the second-level subsidiary that need to be eliminated in the consolidated financial statements.

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged assets:

The following assets were pledged as collateral or restricted in use:

	December 31, 2021	December 31, 2020	The collateral use
Restricted assets - current	\$ 285,135	87,357	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	38,081,111	35,557,111	Repurchase agreement
Property (cost)	2,071,440	1,758,898	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)	<u>3,183,055</u>	<u>2,787,973</u>	Bank borrowings
Total	<u>\$ 43,801,337</u>	<u>40,372,268</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:

	December 31, 2021		December 31, 2020	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
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:

	December 31, 2021		December 31, 2020	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
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:

	December 31, 2021	December 31, 2020
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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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 filed an appeal, and the Company also filed 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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

	December 31, 2021	December 31, 2020		December 31, 2021	December 31, 2020
Trust Assets			Trust Liabilities		
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	15,707	55,941			
Total Assets	<u>\$ 11,140,953</u>	<u>12,396,181</u>	Total Liabilities	<u>\$ 11,140,953</u>	<u>12,396,181</u>

(ii) Income statement of trust accounts

Income Statement of Trust Accounts

For the years ended December 31, 2021 and 2020

	For the years ended December 31,	
	2021	2020
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	80	190
Net gain (loss)	<u>\$ (53,638)</u>	<u>401,500</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Property list of trust accounts

Property list of trust accounts

December 31, 2021 and 2020

Investment items	December 31, 2021	December 31, 2020
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 Group. All shares would be transferred on February 15, 2022.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(12) Other:

(a) As of December 31, 2021 and 2020, the open positions of futures and option contracts were as follows:

(i) December 31, 2021

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	131	\$ 463,863	475,472	
	TAIEX Futures	Short	249	(896,578)	(906,678)	
	Mini-TAIEX Futures	Short	292	(263,581)	(265,111)	
	Electronic Sector Index Futures	Long	24	83,370	84,072	
	Electronic Sector Index Futures	Short	38	(131,759)	(133,114)	
	Finance Sector Index Futures	Long	33	55,909	56,540	
	Mini-Finance Sector Futures	Short	98	(41,516)	(41,983)	
	Single Stock Futures	Long	4,486	479,591	484,127	
	Single Stock Futures	Short	4,063	(848,134)	(870,892)	
	HHI Futures	Short	14	(20,172)	(20,538)	
	HSI Futures	Short	7	(28,603)	(29,130)	
	Mini-HSI Futures	Long	17	13,949	14,149	
	Mini-HSI Futures	Short	10	(8,199)	(8,323)	
	E-Mini-Nasdaq Futures	Short	21	(190,948)	(189,739)	
	Micro E-Mini-Nasdaq Futures	Long	1	883	904	
	Wheat Futures	Long	1	1,115	1,067	
	Gold Futures	Short	9	(45,308)	(45,554)	
	Micro Gold Futures	Short	50	(25,549)	(25,308)	
	Silver Futures	Short	1	(3,178)	(3,232)	
	FTSE China A50 Index Futures	Long	151	65,580	65,471	
	FTSE China A50 Index Futures	Short	238	(104,235)	(103,423)	
	Micro E-mini S&P 500 Futures	Short	7	(4,634)	(4,610)	
	FTSE Vietnam 30 Index Futures	Short	21	(8,184)	(8,243)	
	TOPIX Futures	Short	9	(42,932)	(43,117)	
	Crude Oil Futures	Short	54	(114,155)	(112,418)	
	Brent Crude Oil Futures	Short	752	(1,583,222)	(1,619,019)	
	SGX Nikkei 225 Index Futures	Short	11	(37,653)	(38,042)	
	Mini-TOPIX Futures	Short	57	(27,228)	(27,307)	
	5 Year U.S. T-Note Futures	Short	40	(134,187)	(133,945)	
	2 Year U.S. T-Note Futures	Short	1	(6,049)	(6,039)	
	10 Year U.S. T-Note Futures	Short	1	(3,611)	(3,611)	
	30 Year U.S. Treasury Bond	Short	5	(22,418)	(22,205)	
	Ultra U.S. Treasury Bond	Short	6	(32,969)	(32,739)	
	US Dollar Index Futures	Short	18	(47,926)	(47,628)	
	Mini Electronic Futures	Long	155	66,410	67,871	
	Mini Electronic Futures	Short	383	(165,124)	(167,704)	
	Subtotal			(3,607,382)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Options contract :						
	TAIEX Options (Call)	Long	2,337	30,615	39,560	
	TAIEX Options (Put)	Long	3,429	31,784	16,237	
	TAIEX Options (Call)	Short	2,154	(24,743)	(30,982)	
	TAIEX Options (Put)	Short	2,753	(29,808)	(16,231)	
	Stock Options (Call)	Long	1	16	28	
	TAIEX Weekly Options (Call)	Long	375	1,979	1,614	
	TAIEX Weekly Options (Put)	Long	352	816	719	
	TAIEX Weekly Options (Call)	Short	442	(1,733)	(1,136)	
	TAIEX Weekly Options (Put)	Short	226	(1,082)	(1,135)	
	Finance Insurance Index Options (Call)	Long	127	475	732	
	Finance Insurance Index Options (Put)	Long	196	1,446	778	
	Finance Insurance Index Options (Call)	Short	88	(169)	(253)	
	Finance Insurance Index Options (Put)	Short	50	(95)	(7)	
	Electronic Sector Index Options (Call)	Long	107	851	1,457	
	Electronic Sector Index Options (Put)	Long	124	917	562	
	Electronic Sector Index Options (Call)	Short	68	(572)	(766)	
	Electronic Sector Index Options (Put)	Short	176	(1,610)	(778)	
	Subtotal			<u>9,087</u>		
Total				<u>\$ (3,598,295)</u>		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) December 31, 2020

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	53	\$ 152,446	154,812	
	TAIEX Futures	Short	127	(363,477)	(371,538)	
	Mini-TAIEX Futures	Long	354	254,049	259,165	
	Mini-TAIEX Futures	Short	10	(6,770)	(7,040)	
	Single Stock Futures	Long	1,721	314,059	336,332	
	Single Stock Futures	Short	1,496	(236,471)	(239,651)	
	HSI Futures	Short	9	(44,464)	(44,989)	
	E-Mini-Nasdaq Futures	Short	1	(7,129)	(7,340)	
	Wheat Futures	Long	3	2,732	2,736	
	Soybean Futures	Long	4	7,499	7,467	
	Soybean Futures	Short	6	(10,636)	(11,201)	
	Gold Futures	Long	10	53,681	53,972	
	Gold Futures	Short	45	(240,756)	(242,876)	
	FTSE China A50 Index Futures	Long	66	32,370	33,293	
	FTSE China A50 Index Futures	Short	546	(267,827)	(275,423)	
	E-Mini-S&P 500 Futures	Short	10	(52,133)	(53,383)	
	SGX Nikkei 225 Index Futures	Short	5	(18,423)	(18,989)	
	10 Year U.S. T-Note Futures	Short	28	(109,920)	(110,109)	
	TOPIX Futures	Short	7	(34,977)	(34,901)	
	Dollar Index Futures	Short	15	(38,497)	(38,403)	
	Japanese Yen Futures	Short	1	(3,429)	(3,449)	
	Long-term Euro-BTP Futures	Long	55	292,916	292,786	
	Euro-Bond Futures	Short	10	(62,338)	(62,210)	
	VIX Futures	Long	391	281,920	273,810	
	Brent Crude Oil Futures	Long	3	4,316	4,426	
	Subtotal			(101,259)		
Options contract :						
	TAIEX Options (Call)	Long	858	9,293	27,885	
	TAIEX Options (Put)	Long	1,376	12,285	6,320	
	TAIEX Options (Call)	Short	1,494	(23,968)	(51,486)	
	TAIEX Options (Put)	Short	748	(11,981)	(7,066)	
	Stock Options (Put)	Long	15	62	51	
	TAIEX Weekly Options (Call)	Long	144	1,007	1,836	
	TAIEX Weekly Options (Put)	Long	222	1,085	923	
	TAIEX Weekly Options (Call)	Short	231	(688)	(753)	
	TAIEX Weekly Options (Put)	Short	98	(274)	(195)	
	CSI 300 Index Call Options (Call)	Long	30	2,803	3,194	
	CSI 300 Index Call Options (Put)	Long	18	11	6	
	CSI 300 Index Call Options (Put)	Short	18	(122)	(77)	
	Subtotal			(10,487)		
Total				\$ (111,746)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Subsidiary - Capital Futures Corp.'s financial ratio in the table below is prepared according to "Regulations Governing Futures Commission Merchants":

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	Stockholders' equity	6,248,364	6.27	6,359,664	7.32	≥ 1	Satisfactory to requirement
	(Total liabilities - futures traders' equity)	996,339		869,294			
17	Current Assets	43,681,868	1.13	43,978,617	1.13	≥ 1	"
	Current Liabilities	38,702,447		39,018,015			
22	Stockholders' equity	6,248,364	560.39 %	6,359,664	570.37 %	≥ 60%	"
	Minimum paid-in capital	1,115,000		1,115,000		≥ 40%	
22	Adjusted net capital	4,910,332	54.88 %	4,868,930	66.09 %	≥ 20%	"
	Total amount of customers' margin required for open positions of futures trader	8,947,102		7,366,955		≥ 15%	

- (c) Unique risk for futures trading

Transactions in futures and options carry a high degree of risk because of the amount of initial margin is small relative to the value of the futures contract, meaning that transactions are heavily leveraged, the fluctuation of underlying markets is unpredictable, and the variance risk of the exchange rate is high. Futures industry thus bears higher operation risk than other industries. If the customers can't exercise the contract or maintain the proper margin, in order to dealing with such abrupt condition, the futures business needs sufficient liquidity to cover the transactions and suffer the loss may occur.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures:**(a) Information on significant transactions:**

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

(i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on Loans to a Single Business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd	Account receivables - Related party	Yes	\$ 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 AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Significant transactions between parent company and subsidiaries for the year ended December 31, 2021:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	3,016		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	11,448		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	341		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	84,013		0.04 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payable	3,841		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	4,450		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	170,416	General transaction	1.28 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	17,935	General transaction	0.14 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	562	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	248	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	145	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	27,152	General transaction	0.20 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	78	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expense	10,612	General transaction	0.08 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenue	48,286	General transaction	0.36 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions revenue	114	General transaction	- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivables	134		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	69,000	General transaction	0.52 %
0	Capital Securities Corp.	CSC Capital Management Co.	1	Revenue from securities management, distribution, and management fees	20	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	26		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other payable	15		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	5		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expense	5,359	General transaction	0.04 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Other receivables	59		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Brokerage commissions revenue	17	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Financial costs	1	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantee deposits received	183		- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Lease revenue	734	General transaction	0.01 %

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
0	Capital Securities Corp.	Capital Private Equity Fund I Co.	1	Revenue from securities management, distribution, and management fees	20	General transaction	- %
0	Capital Securities Corp.	Capital Private Equity Fund I Co.	1	Brokerage commissions revenue	6	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities (B.V.I) Corp.	1	Prepayments	24		- %
0	Capital Securities Corp.	CSC Futures (HK) Ltd.	1	Miscellaneous expense	6	General transaction	- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	1,406,887		0.69 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,406,887		0.69 %
1	Capital Futures Corp.	Capital True Partner Technology Co.,Ltd.	3	Other payable	1,836		- %
1	Capital Futures Corp.	Capital True Partner Technology Co.,Ltd.	3	Professional service fees	20,969	General transaction	0.16 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	487,391		0.24 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	4,994,128		2.45 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payable	6,562		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	6,105	General transaction	0.05 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	117,469	General transaction	0.88 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	1,534	General transaction	0.01 %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Repair cost	3,072	General transaction	0.02 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	4,779,596		2.35 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	272,859		0.13 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expense	1,187	General transaction	0.01 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	1,200		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 269		0.47 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 866	General transaction	23.56 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage commissions expense	HK 171	General transaction	4.66 %
4	CSC Venture Capital Corp.	CSC Capital Management Co.	3	Lease revenue	66	General transaction	- %
4	CSC International Holdings Ltd.	Capital Futures Technology (Shanghai) Co. Ltd.	3	Lease revenue	320	General transaction	- %
5	CSC Capital Management Co.	Capital Private Equity Fund I Co.	3	Management fee revenue	2,857	General transaction	0.02 %

Note 1: The numbers in the Ref No. column represent as follows:

- (1) 0 stands for the parent company.
- (2) Subsidiaries are coded from No. 1 per respective companies.

Note 2: Transaction relationship with the counterparties are as follows:

- (1) Parent company to subsidiaries.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(2) Subsidiaries to parent company.

(3) Subsidiaries to subsidiaries.

(b) Related information of investee companies:

(In Thousands of New Taiwan Dollars)

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Highest Percentage of ownership	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	100.00 %	7,000,000	100.00 %	79,368	75,125	3,488	3,488	-	The transaction has been eliminated in the consolidated financial statements
0	Capital Futures Corp.	Taipei, Taiwan, R.O.C.	February 26, 1997	No. FSC-105004467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,896,520	1,896,520	56.58 %	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	100.00 %	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	100.00 %	500,000	100.00 %	60,571	132,918	34,710	34,710	26,125	Subsidiary
0	Capital Insurance Agency Corp.	Taipei, Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	100.00 %	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	100.00 %	300	100.00 %	15	(568)	(569)	(569)	-	The transaction has been eliminated in the consolidated financial statements
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	100.00 %	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	100.00 %	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	20.00 %	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	100.00 %	128,000,000	100.00 %	HK 177,604 thousands	HK 30,772 thousands	HK 4,776 thousands	-	-	The transaction has been eliminated in the consolidated financial statements
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	100.00 %	265,000,000	100.00 %	HK (26,209) thousands	HK - thousands	HK (157) thousands	-	-	*
3	Taiwan International Capital (HK)Ltd. (Note 4)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	100.00 %	2	100.00 %	HK (66,108) thousands	HK - thousands	HK (88) thousands	-	-	*
4	CSC Futures(HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Future brokerage and other businesses permitted by local law of Hong Kong.	862,631	862,631	97.27 %	214,000,000	97.27 %	828,642	360,895	(26,253)	-	-	*
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	100 %	5,000,000	100.00 %	33,816	3,072	(7,112)	-	-	*
4	True Partner Advisor Hong Kong Ltd.(Note 5)	Hong Kong	May 31, 2010	No. FSC-1040027513 date July 16, 2015	Asset Management.	36,701	36,701	49.00 %	245,000	49.00 %	50,112	132,349	3,776	-	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	100.00 %	2	100.00 %	HK -	HK -	HK -	-	-	The transaction has been eliminated in the consolidated financial statements
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	-	100.00 %	30,000,000	100.00 %	318,697	(186)	(3,274)	-	-	*

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Highest	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	Percentage of ownership	Shares	Ratio	Book value					
7	EnnoCap Venture Inc.	Taipei, Taiwan, R.O.C.	July 30, 2021		Investment and management consulting, venture capital and general investing.	400	-	40.00 %	40,000	40.00 %	324	-	(190)	-	-	Associates

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: 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 Group. 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	Highest Percentage of ownership	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%	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%	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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(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.

(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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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- (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. December 31, 2021	Taiwan International Securities (B.V.I) Corp. December 31, 2021
Nature		
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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

(a) General information

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

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

- (i) Brokerage segment: Engaged in brokerage trading, margin trading, and securities lending business.
- (ii) Corporate financing segment: Engaged in providing advisory on initial public offering or to register on the emerging or listed market, securities underwriting and sales, corporate finance, mergers and acquisitions.
- (iii) Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.
- (iv) Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.
- (v) Futures: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(b) Measurement of segmental information

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

(c) Profits or losses, assets and liabilities of segments information

For the year ended December 31, 2021								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 7,824,703	382,153	1,898,293	834,149	193,350	2,439,197	(290,092)	13,281,753
Segment profit or loss	\$ 4,406,296	187,851	1,539,717	512,033	(749,528)	599,901	(268,761)	6,227,509

For the year ended December 31, 2020								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 4,665,261	461,664	2,033,609	207,200	211,875	2,425,823	(281,337)	9,724,095
Segment profit or loss	\$ 2,287,685	295,051	1,665,221	(11,572)	(306,210)	784,506	(331,981)	4,382,700

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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Note 1: Internal segment revenues are eliminated on consolidation.

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

(d) Information about products and services

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

(e) Information about regions

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

(f) Information about major customers

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