Stock Code:6005

CAPITAL SECURITIES CORPORATION

Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017

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

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Independent Auditors' Report

To the Board of Directors of Capital Securities Corporation:

Opinion

We have audited the financial statements of Capital Securities Corporation("the Company"), which comprise the statement of financial position as of December 31, 2018 and 2017, the statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis for Opinion

We conducted our audits 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 Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of another auditor, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

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

1. Valuation of financial instruments

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

Risk and descriptions of the key audit matter:

The Company' s valuation of financial instruments is one of audit processes refer to important judgements. Financial products on balance sheets mainly belong to first or secondary level in fair value hierarchy, and can being 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 ways and assumptions. Therefore, the valuation of financial instruments is included as our key audit matter.

Procedures performed:

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

2. Goodwill impairment

Please refer to Note 4(o) 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(g)(i). for details about measurement of goodwill impairment.

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

Other Matter

We did not audit the financial statements of Capital Investment Trust Corporation, an associate of Capital Securities Corporation. Those financial statements were audited by another auditor, whose report has been furnished to us, and our conclusion, insofar as it relates to the amounts included for Capital Investment Trust Corporation, is based solely on the report of another auditor. The recognized investment amount of Capital Investment Trust Corporation under equity method constituted 1.55% and 0.00% of total assets as of December 31, 2018 and 2017, respectively, and the recognized profit of loss under equity method constituted 4.74% and 0.00% of net income before income tax for the years ended December 31, 2018 and 2017, respectively.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
March 29, 2019

Notes to Readers

The accompanying financial statements are intended only to present the statement of financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
110000	**Current assets:**				
111100	Cash and cash equivalents (note 6(a))	$ 2,554,322	3	2,113,161	2
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	30,265,614	37	33,660,442	30
113200	Financial assets at fair value through other comprehensive income - current (note 6(b))	10,850,674	13	-	-
113400	Financial assets available for sale - current (note 6(b))	-	-	32,776,783	29
114030	Receivable for securities provided as collateral	9,756,590	12	14,395,393	13
114040	Refinancing margin	39,614	-	46,095	-
114050	Refinancing collateral receivable	34,419	-	38,888	-
114060	Receivable of securities business money lending	1,949,105	2	1,532,231	1
114090	Collateral for securities borrowed	454,200	1	914,343	1
114100	Security borrowing margin	412,148	1	931,868	1
114110	Notes receivable	17,181	-	21,811	-
114130	Accounts receivable(note 6(c))	4,251,551	5	6,337,088	6
114150	Prepayments	18,084	-	18,304	-
114170	Other receivables	22,368	-	10,511	-
114600	Current income tax assets	26,358	-	26,358	-
119000	Other current assets	817,533	1	776,556	1
		61,469,761	75	93,599,832	84
120000	**Non-current assets:**				
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	185,109	-	186,015	-
123100	Financial assets measured at cost - non-current (note 6(b))	-	-	332,473	-
123200	Financial assets at fair value through other comprehensive income-non-current (note 6(b))	1,627,616	2	-	-
124100	Investments accounted for under equity method(note 6(d))	6,827,001	9	5,451,321	5
125000	Property and equipment (notes 6(e) and 8)	4,577,214	6	4,231,972	4
126000	Investment property (notes 6(f) and 8)	2,021,203	3	2,412,176	2
127000	Intangible assets (note 6(g))	3,543,038	4	3,544,235	4
128000	Deferred income tax assets (note 6(p))	115,600	-	164,844	-
129000	Other non-current assets	1,061,874	1	1,220,535	1
		19,958,655	25	17,543,571	16
	Total assets	**$ 81,428,416**	**100**	**111,143,403**	**100**

	Liabilities and Equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
210000	**Current liabilities:**				
211100	Short-term borrowings (note 6(h))	$ 3,873,506	5	7,081,698	6
211200	Commercial paper payable (note 6(i))	-	-	4,099,184	4
212000	Financial liabilities at fair value through profit or loss - current (note 6(j))	1,177,315	1	2,771,741	3
214010	Bonds sold under repurchase agreements (note 6(k))	28,230,524	35	47,067,813	43
214040	Guarantee deposited for short sales	2,316,744	3	2,226,264	2
214050	Proceeds payable from short sales	2,603,315	3	2,500,853	2
214070	Securities lending refundable deposits	644,843	1	1,190,277	1
214090	Customer equity of separate account ledger in settlement account (note 6(l))	26,969	-	13,479	-
214110	Notes payable	481	-	879	-
214130	Accounts payable (note 6(m))	3,583,940	4	5,524,759	5
214150	Advance receipts	26,386	-	29,781	-
214160	Receipts under custody	115,918	-	341,174	-
214170	Other payables	623,162	1	791,239	1
214200	Other financial liabilities - current (note 6(u))	3,357,887	4	4,509,983	4
214600	Current income tax liabilities	398,160	-	173,823	-
215100	Provisions - current (note 6(o))	43,530	-	42,205	-
219000	Other current liabilities	3,164	-	3,022	-
		47,025,844	57	78,368,174	71
220000	**Non-Current liabilities:**				
224200	Other financial liabilities - non-current (note 6(u))	310,032	-	266,037	-
228000	Deferred income tax liabilities (note 6(p))	468,479	1	474,832	-
229000	Other non-current liabilities	652,069	1	612,730	1
		1,430,580	2	1,353,599	1
	Total liabilities	48,456,424	59	79,721,773	72
	Equity:				
301010	Common stock (note 6(q))	23,209,081	28	21,690,730	20
302000	Capital surplus:				
302010	Premium from stock issuance	1,776,413	2	1,776,413	1
302020	Treasury stock transactions	437,096	1	437,096	-
302070	Paid-in capital from merger	602,665	1	602,665	1
302095	Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,338	-
302096	Changes in ownership interests in subsidiaries	34,787	-	34,787	-
304000	Retained earnings:				
304010	Legal reserve	1,519,635	2	1,230,275	1
304020	Special reserve	3,302,811	4	2,709,623	2
304040	Unappropriated earnings (note 6(q))	1,387,250	2	2,850,553	3
305120	Exchange differences on translation of foreign operations	(41,068)	-	(103,566)	-
305140	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	741,984	1	-	-
305150	Unrealized gains (losses) on financial assets available for sale	-	-	191,716	-
	Total equity	32,971,992	41	31,421,630	28
	Total liabilities and equity	**$ 81,428,416**	**100**	**111,143,403**	**100**

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		2018 Amount	2018 %	2017 Amount	2017 %
	Income:				
401000	Brokerage commissions (note 6(s))	$ 2,573,772	52	2,379,147	36
402000	Revenues from securities business money lending	264	-	620	-
403000	Revenue from securities lending	137,401	3	112,681	2
404000	Underwriting commissions (note 6(s))	92,602	2	121,517	2
406000	Commissions on wealth management business	107,619	2	103,629	2
410000	Net gains (losses) on sale of trading securities (note 6(s))	(1,406,516)	(29)	1,465,874	22
421100	Securities management, distribution, and management fees	140,914	3	137,851	2
421200	Interest revenue (note 6(s))	1,929,231	39	1,986,559	30
421300	Dividend revenue	238,150	5	221,918	3
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(s))	(595,797)	(12)	85,241	1
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	177,866	4	(6,357)	-
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	45,706	1	27,654	-
421750	Net gains (losses) on measurement of debt instruments at fair value through other comprehensive income	(386,551)	(8)	-	-
422200	Net gains (losses) on stock warrants issued (note 6(s))	1,683,041	34	691,161	11
424100	Futures commission revenues	166,348	3	150,998	2
424400	Net gains (losses) on derivative instruments - futures (note 6(u))	10,268	-	(565,770)	(9)
424500	Net gains (losses) on derivative instruments - OTC (note 6(u))	40,109	1	(396,701)	(6)
425300	Impairment gain and reversal of impairment loss (note 6(t))	(10,514)	-	-	-
428000	Other operating revenues	(21,253)	-	105,210	2
		4,922,660	100	6,621,232	100
	Expenses:				
501000	Brokerage fees	190,239	4	161,502	2
502000	Brokerage and clearing fees - proprietary trading	14,697	-	11,647	-
503000	Clearing and exchange fees - refinancing	2,127	-	2,192	-
504000	Clearing and exchange fees - underwriting	1,093	-	1,413	-
521200	Financial costs	699,996	14	625,035	10
524200	Securities commission expense	4,721	-	5,147	-
528000	Other operating expenditure	6,649	-	6,693	-
531000	Employee benefits expenses (note 6(s))	1,974,377	40	2,107,451	32
532000	Depreciation and amortization expense (note 6(s))	171,347	4	184,758	3
533000	Other operating expenses (note 6(s)	1,238,245	25	1,250,760	19
		4,303,491	87	4,356,598	66
	Other income (expenses):				
601000	Share of profits of associates and joint venture(note 6(d))	790,995	16	476,853	8
602000	Other gains and losses (note 6(s))	428,281	9	341,867	5
		1,219,276	25	818,720	13
902001	**Net income before income tax**	1,838,445	38	3,083,354	47
701000	**Income tax expense (note 6(p))**	(429,580)	(9)	(189,754)	(3)
	Net income	1,408,865	29	2,893,600	44
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	(43,049)	(1)	(27,965)	-
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	(28,936)	(1)	-	-
805560	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(219,278)	(4)	(436)	-
805599	Income tax related to components of other comprehensive income	-	-	-	-
	Subtotal of components that may not be subsequently reclassified into profit or loss	(291,263)	(6)	(28,401)	-
805600	**Components that may be reclassified to profit or loss in subsequent periods:**				
805610	Exchange differences on translation of foreign operations	61,868	1	(183,972)	(3)
805615	Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	(222,349)	(4)	-	-
805620	Unrealized gains (losses) on financial assets available for sale, net	-	-	168,074	2
805660	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	10,642	-	(45,107)	-
805699	Income tax related to components of other comprehensive income (note 6(p))	(10,012)	-	23,513	-
	Subtotal of items that may be subsequently reclassified into profit or loss	(159,851)	(3)	(37,492)	(1)
805000	**Other comprehensive income, net**	(451,114)	(9)	(65,893)	(1)
902006	**Total comprehensive income**	**$ 957,751**	**20**	**2,827,707**	**43**
975000	**Basic earnings per share (note 6(r))**	**$**	**0.61**		**1.25**
985000	**Diluted earnings per share (note 6(r))**	**$**	**0.61**		**1.25**

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

			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 at fair value through other comprehensive income	Unrealized gains (losses) on financial assets available for sale	Treasury stocks	Total Equity
Balance at January 1, 2017	$ 22,690,730	2,750,972	1,110,600	2,464,288	1,188,633	97,158	-	53,215	(835,048)	29,520,548
Net income for the year ended December 31, 2017	-	-	-	-	2,893,600	-	-	-	-	2,893,600
Other comprehensive income	-	-	-	-	(28,401)	(200,724)	-	163,232	-	(65,893)
Total comprehensive income	-	-	-	-	2,865,199	(200,724)	-	163,232	-	2,827,707
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	119,675	-	(119,675)	-	-	-	-	-
Special reserve	-	-	-	245,335	(245,335)	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(802,558)	-	-	-	-	(802,558)
Purchase of treasury stocks	-	-	-	-	-	-	-	-	(91,539)	(91,539)
Retirement of treasury stocks	(1,000,000)	73,413	-	-	-	-	-	-	926,587	-
Capital surplus changes in ownership interests in subsidiaries	-	27,914	-	-	-	-	-	(24,731)	-	3,183
Indemnification to stockholders due to merger	-	-	-	-	(35,711)	-	-	-	-	(35,711)
Balance at December 31, 2017	21,690,730	2,852,299	1,230,275	2,709,623	2,850,553	(103,566)	-	191,716	-	31,421,630
Effects of retrospective application	-	-	-	-	12,367	-	1,205,775	(191,716)	-	1,026,426
Balance at January 1, 2018 after adjustments	21,690,730	2,852,299	1,230,275	2,709,623	2,862,920	(103,566)	1,205,775	-	-	32,448,056
Net income for the year ended December 31, 2018	-	-	-	-	1,408,865	-	-	-	-	1,408,865
Other comprehensive income	-	-	-	-	(43,183)	62,498	(470,429)	-	-	(451,114)
Total comprehensive income	-	-	-	-	1,365,682	62,498	(470,429)	-	-	957,751
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	289,360	-	(289,360)	-	-	-	-	-
Special reserve	-	-	-	593,188	(593,188)	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(433,815)	-	-	-	-	(433,815)
Stock dividends of common stocks	1,518,351	-	-	-	(1,518,351)	-	-	-	-	-
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(6,638)	-	6,638	-	-	-
Balance at December 31, 2018	**$ 23,209,081**	**2,852,299**	**1,519,635**	**3,302,811**	**1,387,250**	**(41,068)**	**741,984**	**-**	**-**	**32,971,992**

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		2018	2017
Cash flows from (used in) operating activities:			
Net income before tax	$	1,838,445	3,083,354
Adjustments:			
Income and expenses items with no effect on cash flows:			
Depreciation expense		145,380	154,790
Amortization expense		25,967	29,968
Impairment loss / Provision for bad debt expense		10,514	100,827
Net losses (gains) on financial assets or liabilities at fair value through profit or loss		550,091	(85,241)
Interest expense		699,996	625,035
Interest revenue (including financial revenue)		(1,932,206)	(1,988,576)
Dividend revenue		(287,653)	(240,687)
Cash dividend received from investments under equity method		435,766	301,149
Share of profit of subsidiaries, associates and joint ventures		(790,995)	(476,853)
Losses on disposal and retirement of property and equipment		122	3,012
Gains on disposal of investments under equity method		(69,631)	-
Net losses (gains) on non-operating financial instruments at fair value through profit or loss		24,859	(16,606)
Total adjustments to reconcile profit (loss)		(1,187,790)	(1,593,182)
Changes in assets and liabilities from operating activities:			
Decrease (increase) in financial assets at fair value through profit or loss		2,814,346	(6,435,683)
Increase in financial assets available for sale		-	(13,311,245)
Decrease in financial assets at fair value through other comprehensive income - current		21,631,372	-
Decrease (increase) in receivable for securities provided as collateral		4,638,803	(2,932,501)
Decrease in refinancing margin		6,481	47,258
Decrease in refinancing collateral receivable		4,469	40,401
Increase in receivable of securities business money lending		(416,874)	(1,387,679)
Decrease (increase) in collateral for securities borrowed		460,143	(111,606)
Decrease (increase) in security borrowing margin		519,720	(156,617)
Decrease (increase) in notes receivable		4,630	(4,880)
Decrease (increase) in accounts receivable		2,005,340	(2,334,589)
Decrease in prepayments		220	5,906
Decrease (increase) in other receivable		(30,649)	6,210
Increase in other current assets		(40,977)	(152,186)
Decrease (increase) in guarantee deposited for business operations		51,100	(3,100)
Decrease in settlement fund		4,695	5,499
Decrease in current income tax assets		-	18,057
Decrease in other non-current assets		101,755	31,292
Increase (decrease) in financial liabilities at fair value through profit or loss		(1,594,426)	1,361,598
Increase (decrease) in bonds sold under repurchase agreements		(18,837,289)	11,962,368
Increase in guarantee deposited for short sales		90,480	503,424
Increase in proceeds payable from short sales		102,462	553,749
Increase (decrease) in securities lending refundable deposits		(545,434)	311,411
Increase in customers' equity of separate account ledger in settlement account		13,490	8,942
Decrease in notes payable		(398)	-
Increase (decrease) in accounts payable		(1,922,273)	2,181,439
Increase (decrease) in advance receipts		(3,395)	414
Increase (decrease) in receipts under custody		(225,256)	197,544
Increase (decrease) in other payable		(166,836)	267,490
Increase in other current liabilities		142	3,019
Increase (decrease) in other financial liabilities-current		(1,152,096)	2,082,522
Increase (decrease) in provision-current		1,325	(15,577)
Increase in other financial liabilities-non-current		43,995	26,403
Increase (decrease) in other non-current liabilities		(3,710)	464
Total changes in assets and liabilities from operating activities		7,555,355	(7,230,253)
Total cash generated from adjustment items		6,367,565	(8,823,435)

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash generated from operating activities	$ 8,206,010	(5,740,081)
Interest received	2,012,400	1,855,035
Dividends received	287,656	240,687
Interest paid	(719,783)	(601,820)
Income taxes paid	(172,364)	(129,019)
Net Cash flows provided by (used in) operating activities	9,613,919	(4,375,198)
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income - non-current	(270,470)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income - non-current	9,767	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	1,085	-
Proceeds from capital reduction of financial assets measured at cost	-	9,368
Increase in deferred debits	(798)	(693)
Acquisition of investments accounted for using equity method	(1,272,505)	(562,929)
Proceeds from liquidation of investments accounted for using equity method	212,179	-
Acquisition of property and equipment	(99,771)	(64,931)
Acquisition of intangible assets	(22,861)	(39,251)
Net cash flows provided by (used in) investing activities	(1,443,374)	(658,436)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	(3,208,192)	2,845,296
Increase (decrease) in commercial papers payable	(4,099,184)	4,099,184
Cash dividends paid	(433,815)	(802,558)
Payments to acquire treasury shares	-	(91,539)
Net cash flows provided by (used in) financing activities	(7,741,191)	6,050,383
Effect of exchange rate changes on cash and cash equivalents	11,807	(45,660)
Increase in cash and cash equivalents	441,161	971,089
Cash and cash equivalents at beginning of period	2,113,161	1,142,072
Cash and cash equivalents at end of period	**$ 2,554,322**	**2,113,161**

(1) Overview:

Capital Securities Corporation (the "Company") was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988. The address of the Company's registered office is 4th Fl. No. 101, Song-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2018, the Company has 53 branches nationwide.

The Company is authorized to conduct the following businesses:

(a) Underwriting of marketable securities;

(b) Trading of marketable securities on a proprietary basis on stock exchange;

(c) Brokerage of marketable securities on stock exchange;

(d) Trading of marketable securities at the Company's branches;

(e) Brokerage of marketable securities at the Company's branches;

(f) Margin loan, short sale and refinancing;

(g) Securities registration agency services;

(h) Dealership of foreign marketable securities;

(i) Short-term bills service;

(j) Accessory services of futures trading;

(k) Futures trading on a proprietary basis;

(l) Securities business money lending;

(m) Managing the unexpended balance of clients' securities accounts within their authorization;

(n) Trust business;

(o) Offshore securities business;

(p) Other relevant services as approved by the authority in charge.

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

The financial statements were authorized for issuance by the board of directors on March 29, 2019.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(3) New standards, amendments and interpretations adopted:

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

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

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

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

(i) IFRS 9 "Financial Instruments"

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

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

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

1) Classification of financial assets and financial liabilities

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

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

2) Impairment of financial assets

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

3) Transition

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

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity items as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  —The determination of the business model within which a financial asset is held.

  —The designation of certain investments in equity instruments not held for trading as at FVOCI.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

- If an investment on debt instruments had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on those asset increase insignificantly since its initial recognition.

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

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

	IAS39		IFRS9	
Financial Assets	**Measurement categories**	**Carrying Amount**	**Measurement categories**	**Carrying Amount**
Cash and equivalents	Amortized cost	$ 2,113,161	Amortized cost	2,113,161
Financial assets at fair value through profit or loss	FVTPL	33,846,457	FVTPL	33,840,019
		-	FVOCI (Note 2)	12,360
Financial assets available for sale	Available-for-sale	32,776,783	FVOCI (Note 1)	32,761,630
Accounts receivable	Amortized cost	24,254,586	Amortized cost	24,254,586
Financial assets measured at cost	Measured at cost	332,473	FVOCI (Note 2)	935,882
Other assets	Amortized cost	1,646,287	Amortized cost	1,646,287

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Note2: These equity instruments (including financial assets measured at cost) represent investments that the Company intends to hold for the long term for strategic purposes or not for the trading purposes. In accordance with IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI. Accordingly, an increase of $609,331 in those assets recognized, and an increase of $581,811 and $27,520 in other equity items and retained earnings on January 1, 2018.(An increase of $417,095 in other equity items for the influences to reinvestment business.)

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

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings effect	2018.1.1 Other equity effect
Financial assets at fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	$ 33,846,457	-	-		-	-
Subtraction – equity instruments:						
To FVOCI	-	(6,438)	-		-	-
Total	$ 33,846,457	(6,438)	-	33,840,019	-	-
Financial assets at fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	$ 33,109,256	-	603,409		-	603,409
Addition – equity instruments:						
From FVTPL	-	6,438	5,922		27,520	(21,598)
Subtractions – debt instruments:						
Cumulative impairment adjustment	-	-	(15,153)		(15,153)	15,153
Total	$ 33,109,256	6,438	594,178	33,709,872	12,367	596,964

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(i) IFRS 16"Leases"

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

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard, and the lessors will continue to classify leases as either a finance or an operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Company plans to apply the practical expedient to exempt the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019.

2) Transition

As a lessee, the Company can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

On January 1, 2019, the Company plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company chooses to elect the following practical expedients:

(Continued)

- apply a single discount rate to a portfolio of leases with similar characteristics.

- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.

- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.

- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.

- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for the operating leases of its offices. As of January 1, 2019, the Company estimated that the right-of-use assets and the lease liabilities to increase by $939,469 and $939,469 respectively.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Company estimated that the application of the amendments would not have any material impact on its financial statements.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(Continued)

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

As of the date, the following IFRSs that have been issued by the IASB, but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies have been applied consistently to all periods presented in the financial report.

(a) Statement of compliance

The separate financial report is prepared in accordance with the " Regulations Governing the Preparation of Financial Reports by Securities Firms".

(b) Basis of preparation

(i) Basis of measurement

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

1) Financial instruments measured at fair value through profit or loss (including derivative instruments);

2) Financial assets at fair value through other comprehensive income; and

3) The defined benefit asset is recognized as plan assets, plus unrecognized actuarial loss, less unrecognized actuarial gain and the present value of the defined benefit obligation.

(ii) Functional and presentation currency

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

(c) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

1) Fair value through other comprehensive income (Available-for-sale)equity investment;

2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

3) Qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional 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 Company' s functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

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

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

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

(i) Assets arising from operating activities that are expected to be realized, or are intend to be sold or consumed within the normal operating cycle;

(ii) Assets held for the trading purposes;

(iii) Assets that are expected to be realized within twelve months from the balance sheet date;

(iv) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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 paid off within the normal operating cycle;

(ii) Liabilities incurred for the trading purposes;

(iii) Liabilities that are to be settled within twelve months from the balance sheet date;

(iv) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(e) Cash and cash equivalents

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

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

(f) Financial instruments

(i) Financial assets (policy applicable from January 1, 2018)

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

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

1) Financial assets measured at amortized cost

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

· it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

· its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost plus or minus the cumulative amortization using the effective interest method and adjusted for any loss allowance for impairment. Interest income, foreign exchange gains and losses, and impairment loss, 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 investment is measured at FVOCI if it meets both of the following criteria and is not designated as at FVTPL：

· it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

· its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

(Continued)

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

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

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

4) Impairment of financial assets

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

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

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

Loss allowance for accounts 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.

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

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

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

CAPITAL SECURITIES CORPORATION
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The Company considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or within 30 days but breached the contract. The Company considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

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

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower' s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter into bankruptcy or other financial reorganization; or
- the disappearance of an active market for a financial asset because of financial difficulties.

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

5) Derecognition of financial assets

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

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

On derecognition of a debt instruments not in its entirety, the previous carrying amount and the cumulative gains or loss that had been recognized in other comprehensive income of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received from the part derecognized, and any cumulative gains or losses allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(ii) Financial assets (policy applicable before January 1, 2018)

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, financial assets available for sale, held-to-maturity financial assets, loans and receivables.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of disposal or repurchasing in the short term. This type of financial asset is measured at fair value at the time of initial recognition, and transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value subsequently and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss. A regular way of purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss, and are included in financial assets measured at cost.

2) Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Financial assets available for sale are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available for sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss. A regular transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment losses, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

3) Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. A regular transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

4) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable and other receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables.

5) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

(Continued)

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Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by Companying together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for accounts receivable, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on financial assets available for sale is recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment loss recognized on an available for sale equity security is not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(Continued)

6) Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity- unrealized gain or loss on financial assets available for sale is recognized in profit or loss.

The Company separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(iii) Financial liabilities

1) Financial liabilities measured at fair value through profit or loss

A financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and transaction costs are recognized in profit or loss as incurred. Financial liabilities measured at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss.

2) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as measured at fair value through profit or loss, which comprise accounts payable and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

3) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(Continued)

4) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when the Company has the legally enforceable right to offset, and intends to settle such financial assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously.

(iv) Derivative financial instruments

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

1) Interest rate swaps

Since there is no physical transfer of principal, only memo entries of notional principals are made of interest rate swaps. For non-trading swaps, differences in interest are included in current earnings. Trading swaps are recognized on the balance sheet in their fair value. Realized and unrealized changes in their fair value are included in current earnings at the time of occurrence.

2) Convertible bond asset- backed swaps

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The contract amount for the counter-parties receiving the convertible bond is the notional principal. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counter-parties. The Company also receives the right to call the convertible bond prior to the expiration of the contract.

The rights to call the convertible bond can be sold to third parties and counter-parties, are reflected under asset-backed options.

3) Structured instruments

The portfolio of structured instruments contract contains fixed income products and financial derivatives instruments, as well as main-contract of non-derivatives and embedded derivatives, which shall be recognized separately. The principal value of structured instruments is the present value of fixed income products, measured at amortized cost, and recognized imputed interest with effective interest rate over the duration of contracts. Embedded derivatives are measured at fair value, and the changes in fair value are recognized through profit or loss.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost. The difference between fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities since January 1, 2018. Before that, the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are securities held for trading (including stocks, bonds and warrants) or options contracts, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are futures contracts, the accounting policy is referred to futures hedging transactions.

4) Interest options

On the contract date, the premium received from the counterparty is recognized and gain or loss on interest options is valued using the fair value method.

5) Bond options

Over the duration of contracts, the notional principal can be executed is recorded as memo entry. Option contracts are valued at fair market value on the balance sheet date and current gain or loss is recorded. If the options are exercised and underlying bonds are been acquired or delivered, bond selling revenue or purchase costs are recorded at their fair market value. The exercise prices calculated in accordance with interest rate are recorded as receivables or payables.

6) Equity options

The buyer and seller of equity options recognized equity derivatives assets and liabilities at trading date according to fair value. Equity options are valued at fair value and the difference between book value and fair value are recognized through profit or loss over the duration of contracts.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost. The difference between fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities since January 1, 2018. Before that, the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are stocks, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are stock index options or stock options, the accounting policy is referred to those hedging transactions.

7) Forward rate agreement

As there is no principal is transferred, forward rate agreement is only recorded as memo entry on the contract date. Forward rate agreement contract is valued at fair value and recognized the gain or loss on forward rate agreement.

8) Futures contracts and options

Margins are required when trading futures or options. Changes in the margin balance of futures and options due to daily valuation are reflected under “futures margin-proprietary trading” and “ call options” or “ put options.” When offsetting a futures or options position, the settlement difference is included in current earnings, and the difference between the settlement prices and average prices of open positions at the reporting date is also included in current earnings.

(Continued)

9) Stock warrants

Issuance of stock warrants should be recognized as a liability according to amounts actually received, and amounts paid in the repurchase of stock warrants previously issued should be listed as a deduction from liabilities.

(g) Margin loan, short sale and refinancing

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

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

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

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

(h) Bonds and Bills 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 interest expense. 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.

When bonds purchased under resell agreements are resold, the amounts are recognized under “bonds purchased under resell agreements - short sales”. Unrealized gain or loss arising from the valuation at the balance sheet date is recognized under “gain or loss on valuation of borrowed securities and bonds with resell agreements”. Gain or loss arising from covering at maturity is recognized under “gain or loss on covering of borrowed securities and bonds with resell agreements”.

(Continued)

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Notes to the Financial Statements

(i) Securities borrowing transactions

To engage in securities borrowing transactions, the amount of the sale of securities borrowed is recognized as liability, and hedging and non-hedging purposes are distinguished, in accordance with stocks and bonds. When an amount is paid in cash to redeem refundable shares or bonds, the refundable deposit is recorded in a designated account, and the collateral paid in cash is recorded as security borrowing margin. Short sales delivered for securities market financing are recorded as security borrowing collateral prices.

(j) Investments in subsidiaries

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

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

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from disposal property and equipment shall be determined from the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other income and expenses.

(ii) Reclassification to investment property

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

(iii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will return to the Company. The carrying amount of those parts that are replaced is unrecognized. Ongoing repairs and maintenance are expensed as incurred.

(iv) Depreciation

The depreciable amount of an asset is determined after deducting its residual values, and it shall be allocated on a systematic basis over its useful life. Items of property and equipment with the same useful life may be companied in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use, consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

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

1)	Buildings	3~55 years
2)	Transportation equipment	5 years
3)	Office equipment and computer facilities	3~5 years
4)	Miscellaneous equipment	5~10 years

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

(l) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, supply of services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost as well, the depreciation method, useful life and residual values are as same as the regulations of “property and equipment”. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(m) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

2) Subsequent measurement

Goodwill is measured in accordance with cost less accumulated impairment loss. Investments under Equity Method, the carrying amount of goodwill included in the carrying amount of investments and impairment loss of such investments are not allocated to goodwill and any assets, Equity Method as part of the carrying amount of the investment.

(ii) Other intangible assets

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

(iii) Amortization

The amortizable amount is the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, 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

The residual value, the amortization method and the amortization period should be evaluated at least at each financial year-end. The changes of the amortization method and the period shall be accounted for as changes in accounting estimation.

(n) Lessee

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

(ii) Lessee

Operating leases are not recognized in the Company’ s statement of balance sheet. Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in expenses on a straight-line basis over the term of the lease. Lease incentives received are recognized as deductions of the total lease expense, over the term of the lease. Lease payments under operating lease shall be recognized in rent expenses and disclosed in financial report.

(o) Non-financial assets impairment

The Company assesses whether there is any objective evidence of impairment for non-financial assets on each reporting date except for deferred tax assets and assets arising from employee benefits and estimates the recoverable amounts for any impaired assets. If it is not possible to determine the recoverable amount for an individual asset, then the Company will have to determine the recoverable amount for the asset’s cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount and recognized as impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset’ s recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior period.

The intangible assets with indefinite useful lives required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

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(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets should be deducted. The discount rate is the yield at the reporting date market yields of government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. The recognized asset is limited to the total of any unrecognized past service costs and 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. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Re-measurement is comprised of 1) actuarial gains and losses; 2) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and 3) changes in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). Re-measurement arising on defined benefit plans is recognized in other comprehensive income in the period in which they arise and are recorded as retain earning.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, and any change in the present value of the defined benefit obligation.

(iii) Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminating the employment of employees before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefit is expensed at the earlier of the date when the entity can no longer withdraw the offer of the termination benefits and the date when the entity recognizes related restructuring costs. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(Continued)

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(q) Revenue recognition

(i) Brokerage commissions

Handling fee revenue from trade brokerage, security financing or securities lending is recognized on an accrual basis.

(ii) Underwriting commissions

Revenue from underwriting business 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
Interest revenue arising from security financing, margin loans and other operation related interest is recognized on an accrual basis.

(r) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive 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.

(s) Income tax

Income tax expenses include both current income taxes and deferred income taxes. Except for business combination, expenses recognized directly in equity or other comprehensive income, all current and deferred income taxes shall be recognized in profit or loss.

Current income taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

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Deferred income taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income taxes shall not be recognized for the exceptions below:

(i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.

(ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(iii) Initial recognition of goodwill.

Deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities may be offset against each other if the following criteria are met:

(i) The entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

1) levied by the same taxing authority; or

2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred income tax asset should be recognized for an unused tax loss carry-forward or unused tax credit if, and only if, it is considered probable that there will be sufficient future taxable profit against which the loss or credit carry-forwards can be utilized. The carrying amount of deferred income tax assets should be reviewed and adjusted at the end of each reporting period.

The Company’s 10% surtax on unappropriated earnings is recorded as current expense after the date of the resolution of stockholders’ meeting for declaring the distribution of earnings.

(t) Business combinations

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

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(u) Earnings per share (EPS)

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

(v) Segment information

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

(w) Treasury stocks

The Company acquires its outstanding shares is stated at cost and shown as a deduction in stockholders' equity. Upon disposal, the excess of sales price over carrying value is recognized as capital surplus – treasury stock transaction. Should sales price be lower than the carrying value, the difference is charged against capital surplus from treasury stocks in the same category, and any deficit is debited to retained earnings. The carrying value of treasury stocks is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Company's treasury stock is retired, the treasury stock account should be credited, and 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.

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

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

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

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

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash	$ 2,590	2,590
Bank deposits		
Checking accounts	31,152	48,546
Demand deposits	61,122	457,923
Foreign currency deposits	412,303	623,694
Subtotal	504,577	1,130,163
Cash equivalents		
Time deposits	566,510	606,610
Futures margin - excess margin	1,480,645	373,798
Subtotal	2,047,155	980,408
Total	**$ 2,554,322**	**2,113,161**

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Notes to the Financial Statements

(b) Financial assets

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

		December 31, 2018	December 31, 2017
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	$	118,052	162,856
Valuation adjustment		(6,965)	17,894
Subtotal		111,087	180,750
Trading securities - proprietary trading			
Listed stocks		1,309,582	1,406,294
Listed funds		847,254	1,066,981
OTC stocks		303,916	558,763
OTC funds		83,480	40,000
Emerging market stocks		498,304	455,025
Emerging market funds		12,414	9,848
Convertible corporate bonds		496,130	767,352
Government bonds		6,511,541	6,695,553
Corporate bonds		9,652,271	9,403,722
International bonds		4,079,947	2,838,568
Financial debentures		300,000	300,000
Foreign stocks		126,052	454,786
Overseas bonds		-	59,353
Other		257	34,858
		24,221,148	24,091,103
Valuation adjustment		(244,685)	138,033
Subtotal		23,976,463	24,229,136
Trading securities - underwriting:			
Listed stocks		107,320	81,823
OTC stocks		55,690	48,763
Convertible corporate bonds		141,011	129,277
		304,021	259,863
Valuation adjustment		(8,312)	11,400
Subtotal		295,709	271,263

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	December 31, 2018	December 31, 2017
Trading securities - hedging		
Listed stocks	$ 1,746,810	4,022,877
OTC stocks	397,140	1,191,800
Convertible corporate bonds	3,799,450	3,456,957
Foreign stocks	-	999
	5,943,400	8,672,633
Valuation adjustment	(231,510)	(65,965)
Subtotal	5,711,890	8,606,668
Derivatives		
Call options	-	1,884
Futures margin - proprietary fund	147,773	344,355
IRS asset swaps	13,855	16,479
Asset swap options - long position	4,072	2,572
Structured notes	3,075	1,343
Currency swaps	1,690	4,072
Interest rate swaps	-	1,920
Subtotal	170,465	372,625
Total	**$ 30,265,614**	**33,660,442**

As of December 31, 2018 and 2017, trading securities, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreement of the Company were $29,343,321 and $49,018,159, respectively, please refer to note 6(k) and note 8 for details.

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

	December 31, 2018
Debt instruments at fair value through other comprehensive income	
International bonds	$ 1,226,189
Overseas bonds	9,205,561
	10,431,750
Valuation adjustment	(50,161)
Subtotal	10,381,589

CAPITAL SECURITIES CORPORATION
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Equity instrument at fair value through other comprehensive income	December 31, 2018
Listed stocks	$ 237,755
OTC stocks	40,353
Foreign stocks	279,832
	557,940
Valuation adjustment	(88,855)
Subtotal	469,085
Total	$ 10,850,674

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

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

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

For the year ended December 31, 2018, the dividends was recognized from the Company designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – current amounted to $25,717.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Company sold shares of stocks for a fair value $489,535 and cumulative dispose losses for the year ended December 31, 2018 amounted $6,818 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(t).

4) For the year ended December 31, 2018, impairment test have been applied by the Company, the variation of loss allowance in the debt instrument at fair value through other comprehensive income of the Company please refer to note 6(t).

(iii) Financial assets available for sale - current:

	December 31, 2017
Listed stocks	$ 101,209
OTC stocks	77,668
International bonds	1,532,767
Foreign stocks	104,055
Overseas bonds	30,797,054
Subtotal	32,612,753
Valuation adjustment	164,030
Total	$ 32,776,783

(Continued)

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

	December 31, 2018	December 31, 2017
Mandatorily measured at fair value through profit or loss:		
Government bonds	$ 185,952	-
Valuation adjustment	(843)	-
Subtotal	185,109	-
Financial assets held for trading:		
Government bonds	-	185,953
Valuation adjustment	-	62
Subtotal	-	186,015
Total	**$ 185,109**	**186,015**

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

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

	December 31, 2017	
Non-listed (or non-over-the-counter)	**Ownership ratio**	**Amount**
Taiwan Depository & Clearing Corp.	1.29 %	$ 18,661
Taiwan Futures Exchange Corp.	1.33 %	27,498
Taiwan Stock Exchange Corporation	0.06 %	12,242
Global Securities Finance Corporation	6.05 %	202,681
Chou Chin Industrial Co., Ltd.	0.05 %	-
Jong-Yih Industrial Development Co., Ltd.	0.68 %	1,369
Reliance Securities Investment Trust Co., Ltd	3.02 %	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00 %	32,858
Prudence Venture Investment Corp.	1.50 %	27,397
Total		**$ 332,473**

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

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

		December 31, 2018
Equity instruments at fair value through other comprehensive income		
Non-listed or non-over-the-counter stocks	$	655,534
Valuation adjustment		972,082
Total	$	**1,627,616**

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

For the year ended December 31, 2018, the dividends was recognized from the Company designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to $49,442.

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

(vii) The Company uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the years ended December 31, 2018 and 2017 VaR (99%, per 10-day) of equity stocks are as follows:

			For the years ended December 31,					
			2018			2017		
Type of market risk	December 31, 2018	December 31, 2017	Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	997,970	1,446,742	1,263,629	1,615,221	947,949	992,682	1,446,742	666,504

(c) Accounts Receivable

		December 31, 2018	December 31, 2017
Receivable on securities purchased by customers	$	8,642	27,055
Settlement		712,274	1,000,019
Interests receivable		547,595	627,789
Receivables on securities sold		2,899,035	4,619,158
Others		85,718	64,780
Subtotal		4,253,264	6,338,801
Less: allowance for doubtful accounts		(1,713)	(1,713)
Total	$	**4,251,551**	**6,337,088**

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(i) For credit risk (include the impairment of debt instrument investments) and market risk; please refor to note 6(t).

(ii) For the year ended December 31, 2018, impairment test have been applied by the Company, the variation of loss allowance in receivables, please refer to note 6(t).

(d) Investments under equity method

	December 31, 2018	December 31, 2017
Subsidiaries		
Capital Investment Management Corp.	$ 106,690	107,158
CSC International Holdings Ltd	1,636,902	1,593,416
Capital Futures Corp.	2,828,539	2,606,869
Capital Insurance Adivisory Corp.	84,732	90,506
Capital Insurance Agency Corp.	40,757	41,547
CSC Venture Capital Corp.	854,906	997,913
Taiwan International Securities (B.V.I) Corp.	347	881
Taiwan International Securities Investment Consulting Corp.	12,799	13,031
Subtotal	5,565,672	5,451,321
Associates		
Capital Investment Trust Corp.	1,261,329	-
Total	**$ 6,827,001**	**5,451,321**

(i) Subsidiaries:

Please refer to the consolidated financial statements as of and for the year ended December 31, 2018 for further informaiton.

For the years ended December 31, 2018 and 2017, the Company's share of gains or losses of the subsidiaries were as follows:

	For the years ended December 31, 2018	2017
Based on the audited financial statements	**$ 703,840**	**476,853**

(ii) Associates

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

Name of associate	Nature between the Company	Primary business area and registered country	% of Ownership and Voting Rights: December 31, 2018	December 31, 2017
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	- %

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The financial information of associates accounted for under equity method was as follows, and these informaiton were included in the Company's standalone financial report:

	December 31, 2018	December 31, 2017
Total carrying amount of the associates	$ 1,261,329	-

	For the years ended December 31, 2018	2017
Based on the financial statements attributable to the Company:		
Net gains from continuing operations	$ 87,155	-
Other comprehensive income (losses)	872	-
Total comprehensive income (losses)	$ 88,027	-

(e) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at January 1, 2018	$ 3,211,518	1,311,002	442,687	112,241	5,077,448
Additions	-	1,034	71,603	27,134	99,771
Transferred from investment property	278,253	163,463	-	-	441,716
Transferred to investment property	(25,548)	(13,983)	-	-	(39,531)
Disposals and retirements	-	(325)	(111,800)	(13,484)	(125,609)
Balance at December 31, 2018	$ 3,464,223	1,461,191	402,490	125,891	5,453,795
Balance at January 1, 2017	$ 3,266,986	1,368,605	442,023	115,090	5,192,704
Additions	-	-	51,962	12,969	64,931
Reclassified to investment property	(55,468)	(57,484)	-	-	(112,952)
Disposals and retirements	-	(119)	(51,298)	(15,818)	(67,235)
Balance at December 31, 2017	$ 3,211,518	1,311,002	442,687	112,241	5,077,448
Depreciation and impairment loss					
Balance at January 1, 2018	$ -	499,429	292,047	54,000	845,476
Depreciation	-	27,682	75,184	23,414	126,280
Transferred from investment property	-	32,231	-	-	32,231
Transferred to investment property	-	(1,919)	-	-	(1,919)
Disposals and retirements	-	(325)	(111,800)	(13,362)	(125,487)
Balance at December 31, 2018	$ -	557,098	255,431	64,052	876,581
Balance at January 1, 2017	$ -	500,470	257,401	44,877	802,748
Depreciation	-	27,236	85,671	22,202	135,109
Transferred to investment property	-	(28,158)	-	-	(28,158)
Disposals and retirements	-	(119)	(51,025)	(13,079)	(64,223)
Balance at December 31, 2017	$ -	499,429	292,047	54,000	845,476
Carrying amount:					
December 31, 2018	$ 3,464,223	904,093	147,059	61,839	4,577,214
December 31, 2017	$ 3,211,518	811,573	150,640	58,241	4,231,972

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

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(f) Investment property

		Land and improvements	Buildings	Total
Cost or deemed cost				
Balance at January 1, 2018	$	1,753,624	1,004,386	2,758,010
Transferred from property and equipment		25,548	13,983	39,531
Transferred to property and equipment		(278,253)	(163,463)	(441,716)
Balance at December 31, 2018	$	**1,500,919**	**854,906**	**2,355,825**
Balance at January 1, 2017	$	1,698,156	947,022	2,645,178
Transferred from property and equipment		55,468	57,484	112,952
Disposals and retirements		-	(120)	(120)
Balance at December 31, 2017	$	**1,753,624**	**1,004,386**	**2,758,010**
Depreciation and impairment loss				
Balance at January 1, 2018	$	-	345,834	345,834
Depreciation		-	19,100	19,100
Transferred from property and equipment		-	1,919	1,919
Transferred to property and equipment		-	(32,231)	(32,231)
Balance at December 31, 2018	$	**-**	**334,622**	**334,622**
Balance at January 1, 2017	$	-	298,115	298,115
Depreciation		-	19,681	19,681
Transferred from property and equipment		-	28,158	28,158
Disposals and retirements		-	(120)	(120)
Balance at December 31, 2017	$	**-**	**345,834**	**345,834**
Carrying Amount:				
December 31, 2018	$	**1,500,919**	**520,284**	**2,021,203**
December 31, 2017	$	**1,753,624**	**658,552**	**2,412,176**
Fair Value:				
December 31, 2018				**3,164,414**
December 31, 2017				**3,692,022**

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

As of December 31, 2018 and 2017, the investment property was provided as collateral or pledge, please refer to Note 8 for details.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(g) Intangible assets

(i) Goodwill

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

Goodwill is allocated to the operating segments as follows:

	December 31, 2018	December 31, 2017
Brokerage segment	$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	1,557,096	1,557,096
Total	**$ 3,126,698**	**3,126,698**

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 4.06% and 2.26% in year 2018 and 2017 respectively. The cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of year 2018 and 2017 exceeded the carrying amount, no impairment occurred for the both years.

(ii) Other intangible assets - Operation franchise

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

(iii) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2018 and 2017, the amortized book value was $26,341 and $27,538 respectively.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(h) Short-term borrowings

Nature of borrowings	December 31, 2018	December 31, 2017
Collateralized loan	$ 1,635,394	380,000
Credit loans	2,238,112	6,701,698
Total	**$ 3,873,506**	**7,081,698**
Interest rate range	**0.65%~4.40%**	**0.60%~2.56%**

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

(i) Commercial paper payable

	December 31, 2018	December 31, 2017
Commercial paper payable	$ -	4,100,000
Less: Unamortized discount	-	(816)
Net amount	**$ -**	**4,099,184**
Interest rate range	**-%**	**0.53%~0.56%**

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Notes to the Financial Statements

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

	December 31, 2018	December 31, 2017
Liabilities on sale of borrowed securities	$ 668,469	1,130,377
Redeem liabilities on sale of borrowed securities	(62,095)	(6,714)
Valuation adjustment	(139,826)	(94,120)
Subtotal	466,548	1,029,543
Settlement coverage bonds payable of short sale	-	49,983
Valuation adjustment	-	(29)
Subtotal	-	49,954
Stock warrants issued	13,077,314	14,405,116
Stock warrants repurchased	(12,617,507)	(13,098,267)
Subtotal	459,807	1,306,849
Put options	237	3,031
IRS asset swaps	763	239
Asset swap options - short position	208,927	364,910
Structured notes	8,914	9,234
Currency swaps	31,575	7,920
Equity derivatives	-	61
Interest rate swaps	544	-
Subtotal	250,960	385,395
Total	$ 1,177,315	2,771,741

(k) Bonds sold under repurchase agreements

	December 31, 2018	December 31, 2017
Bonds sold under repurchase agreements	$ 28,230,524	47,067,813
Agreed-upon repurchase amounts	28,411,414	47,185,708
Interest rates	0.35%~4.40%	0.20%~4.30%
Date of repurchase	2019.1.2~2019.12.20	2018.1.2~2018.12.27

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

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

		December 31, 2018	December 31, 2017
Customer equity of separate account ledger in settlement	$	**26,969**	**13,479**

(m) Accounts payable

		December 31, 2018	December 31, 2017
Payable of securities sold by customers	$	10,731	44,575
Payable on securities purchased		3,476,398	5,386,422
Others		96,811	93,762
Total	$	**3,583,940**	**5,524,759**

(n) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

		December 31, 2018	December 31, 2017
Within 1 year	$	108,877	95,177
1-5 years		442,201	133,888
Over 5 years		428,795	11,859
	$	**979,873**	**240,924**

The Company rents several offices under operating lease, the lease terms are within 1 to 5 years and the Company has the preferential renewal options when the lease term expires. The rentals are adjusted yearly to reflect market condition. Some lease terms bear the additional rental payments depends on the fluctuations of a local price index.

For the years ended December 31, 2018 and 2017, the operating lease expenses recognized in profit or loss were $123,124 and $121,070 respectively.

(ii) Lessor

The Company leases investment property to other under operating lease agreements, please refer to Note 6(f) for details. The future lease receivables under non-cancellable leases are as follows:

	December 31, 2018	December 31, 2017
Within 1 year	$ 127,527	53,485
1-5 years	481,386	71,880
Over 5 years	534,251	40,366
	$ 1,143,164	**165,731**

The rental revenue from investment property for the year 2018 and 2017 amounted to $72,048 and $77,855 respectively.

(o) 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, 2018	December 31, 2017
Present value of defined benefit obligations	$ (946,285)	(979,722)
Fair value of plan assets	364,814	441,227
Recognized liabilities for defined benefit obligations	**$ (581,471)**	**(538,495)**

The Company's employee benefits liabilities are as follows:

	December 31, 2018	December 31, 2017
Compensated absences	**$ 43,530**	**42,205**

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

1) Composition of plan assets

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

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to $230,395 and $255,785 as of December 31, 2018 and 2017 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 under Bureau of Labor Funds, Ministry of Labor.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

The balance of pension fund under employee retirement fund management committee was $134,419 and $185,442 as of December 31, 2018 and 2017, respectively.

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company in 2018 and 2017 were as follows:

	For the years ended December 31, 2018	2017
Defined benefit obligation on January 1	$ 979,722	1,010,725
Current service costs and interest	17,958	19,303
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in demographic assumptions	-	4,203
-Actuarial loss (gain) arising from changes in financial assumptions	9,496	(1,171)
-Experience adjustments	41,871	24,607
Benefits paid by the plan	(102,762)	(77,945)
Defined benefit obligation on December 31	**$ 946,285**	**979,722**

3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Company in 2018 and 2017 were as follows:

	For the years ended December 31, 2018	2017
Fair value of plan assets on January 1	$ 441,227	500,033
Interest revenue	4,652	5,122
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	8,318	(326)
Contributions from the employer	13,379	14,343
Benefits paid from plan assets	(102,762)	(77,945)
Fair value of plan assets on December 31	**$ 364,814**	**441,227**

4) Expense recognized in profit or loss

The expenses recognized by the Company in 2018 and 2017 were as follows:

	For the years ended December 31, 2018	2017
Current service cost	$ 7,734	8,930
Net interest of net defined benefit liabilities (asset)	5,572	5,251
Current pension cost	**$ 13,306**	**14,181**

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

For the years ended December 31, 2018 and 2017, the re-measurement of net defined benefit plan recognized accumulatively in other comprehensive income was as follows:

	For the years ended December 31, 2018	2017
Balance at January 1	$ (114,010)	(86,045)
Recognized amount during the period	(43,049)	(27,965)
Balance at December 31	**$ (157,059)**	**(114,010)**

6) Actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate	0.93%	1.05%
Future salary growth rate	2.00%	2.00%

The expected contribution to the defined benefit plan for the next year is $13,281. The weighted average duration of the defined benefit obligation is 2 years.

7) Sensitivity Analysis

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

As of December 31, 2018 and 2017, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	Effects to Defined Benefit Obligations	
	Increase 0.5%	Decrease 0.5%
December 31, 2018		
Discount rate	(24,875)	25,956
Future salary growth rate	20,843	(20,233)
December 31, 2017		
Discount rate	(26,640)	27,836
Future salary growth rate	22,555	(21,864)

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

(ii) Defined contribution plan

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

The Company contributed $72,349 and $67,839 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2018 and 2017, respectively.

(p) Income tax

On February 7, 2018, the Office of the President of ROC promulgated the amendment of Income Tax Act. The corporate income tax rate was adjusted from 17% to 20% and effective in January 1, 2018.

(i) Income tax expense (benefit)

The amount of income tax expense (benefit) for the year 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	**2017**
Current tax expense		
Current year	$ 353,459	149,061
Adjustment to the prior years' income tax	43,244	(29,094)
	396,703	119,967
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	(100,056)	46,130
Unrealized gains (losses) on foreign investments under Equity Method	(1,422)	(1,674)
Decrease in tax loss carried forward	92,455	117,021
Adjustments of deferred income tax assets and liabilities	(12,803)	(91,690)
Adjustment in tax rate	54,703	-
	32,877	69,787
Income tax expense from continuing operations	**$ 429,580**	**189,754**

The amount of income tax expense or benefit recognized in other comprehensive income in year 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	**2017**
Foreign exchange difference from translating financial statements of foreign operations	**$ 10,012**	**(23,513)**

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Reconciliation of income tax expense (benefit) and income before tax in year 2018 and 2017 were as follows:

	For the years ended December 31, 2018	2017
Net income before tax	$ 1,838,445	3,083,354
Income tax using the Company's domestic tax rate	$ 367,689	524,170
Adjustment in tax rate	54,703	-
Tax exempt income	(25,590)	(362,693)
Alternative minimum tax	-	148,030
Additional surtax on undistributed retained earnings	2,897	1,071
Amounts used in investment tax credit	(527)	-
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(33)	(40)
Adjustments to prior years' income tax	43,244	(29,094)
Unrecognized temporary differences for prior years	(12,803)	(91,690)
Total	**$ 429,580**	**189,754**

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	December 31, 2018	December 31, 2017
Tax loss carried forward	$ 104,015	156,117
Unrealized losses on foreign investments under Equity Method	6,542	4,352
Foreign exchange difference from translating financial statements of foreign operations	-	4,375
Unrealized losses on derivative financial instruments	5,043	-
Deferred income tax assets	**$ 115,600**	**164,844**

2) Recognized deferred income tax liabilities

	December 31, 2018	December 31, 2017
Unrealized gains on derivative financial instruments	$ -	80,762
Foreign exchange difference from translating financial statements of foreign operations	4,866	-
Losses on intercompany transactions	1,928	1,639
Amortization of operation franchise	42,881	36,448
Amortization of goodwill	362,697	308,292
Land value incremental tax	56,107	47,691
Deferred income tax liabilities	**$ 468,479**	**474,832**

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(iii) Income tax assessment status

The Company's income tax returns through 2016, except for 2015, were assessed by the Tax Authority.

(iv) Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2010 to 2014 and 2016 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.

(q) Capital and other equity

(i) Capital stock

As of December 31, 2018 and 2017, the Company had authorized capital of $30,000,000 thousand and issued common stock of 2,320,908 thousand shares and 2,169,073 thousand shares with $10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for the fiscal year 2017, please refer to (iv). "Treasury stocks" for more details.

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

(ii) Capital surplus

In accordance with the ROC Company Act amended in January 2012, realized capital surplus can only be used to cover accumulated deficit or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the " Regulations Governing the Offering and Issuance of Securities by Securities Issuers", the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

The followings are the capital surplus of the Company:

	December 31, 2018	December 31, 2017
Premium from stock issuance	$ 1,776,413	1,776,413
Treasury stock transactions	437,096	437,096
Paid-in capital from merger	602,665	602,665
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,338
Changes in ownership interests in subsidiaries	34,787	34,787
	$ 2,852,299	**2,852,299**

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Retained earnings

1) Legal reserve

In accordance with Company Act amended in January 2012, 10 percent of the current year's earnings after tax should be set aside as legal reserve, until the cumulative balance equals to the total amount of paid-in capital. If the company incurs no loss for the year, the distribution of the legal reserve, either by issuing new shares or by cash, shall be decided at the shareholders' meeting, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

2) Special reserve

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

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

3) Undistributed earnings

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

The Company's earnings distribution was proposed by board of directors and is subject to the resolution of the shareholders' meeting. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the capital budget of the Company, the payout of stock dividend is for retaining necessary capital and the remainder can be paid as cash dividend. Cash dividend shall not fall below 10% of the total dividend.

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

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The Company's 2017 earnings distribution for cash dividends $433,815 and stock dividends $1,518,351 had been resolved by the shareholders' meeting on June 27, 2018.

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

(iv) Treasury stocks

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

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

(r) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2018 and 2017 were calculated as follows:

	For the years ended December 31,	
	2018	2017
Net income attributable to common shareholders of the Company	$ 1,408,865	2,893,600
Weighted-average number of common stock shares outstanding (thousands of shares)	2,320,908	2,321,037
Basic earnings per share (dollar)	$ 0.61	1.25
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	2,343	2,877
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	2,323,251	2,323,914
Dilutive earnings per share (dollar)	$ 0.61	1.25

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

(s) Items of the comprehensive income statement

(i) Brokerage commissions

	For the years ended December 31,	
	2018	2017
Brokerage commission from TSE market	$ 1,828,059	1,620,196
Brokerage commission from OTC market	637,115	656,041
Handling fee from security financing	35,585	30,903
Others	73,013	72,007
	$ 2,573,772	2,379,147

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(ii) Underwriting commissions

	For the years ended December 31, 2018	2017
Revenue from underwriting securities on a firm commitment basis	$ 61,900	63,450
Handling fee revenues from underwriting securities on best efforts basis	1,350	1,440
Processing fee revenues from underwriting operations	7,954	25,023
Revenue from underwriting consultation	9,953	5,180
Others	11,445	26,424
	$ 92,602	**121,517**

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

	For the years ended December 31, 2018	2017
Gains (losses) on securities sold - proprietary trading	(281,328)	1,003,950
Gains (losses) on securities sold - underwriting	30,003	7,807
Gains (losses) on securities sold - hedging	(1,155,191)	454,117
Total	**$ (1,406,516)**	**1,465,874**

(iv) Interest revenue

	For the years ended December 31, 2018	2017
Interest revenue - margin loans	$ 767,184	771,449
Interest revenue - bonds	1,100,550	1,167,972
Others	61,497	47,138
	$ 1,929,231	**1,986,559**

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

	For the years ended December 31, 2018	2017
Trading securities - proprietary	$ (410,512)	103,311
Trading securities - underwriting	(19,711)	9,259
Trading securities - hedging	(165,545)	(27,358)
Settlement coverage bonds payable of short sale	(29)	29
	$ (595,797)	**85,241**

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

	For the years ended December 31, 2018	2017
Gains on changes in fair value of stock warrants	$ 30,322,653	14,246,241
Gains on exercise of stock warrants before maturity	24,075,007	27,191,658
Losses on changes in fair value of stock warrants repurchased	(52,645,565)	(40,578,100)
Gains on expiration of stock warrants	112,965	19,515
Stock warrants issuance expenses	(182,019)	(188,153)
	$ 1,683,041	**691,161**

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(vii) Employee benefits, depreciation, and amortization expenses

		For the years ended December 31,	
		2018	**2017**
Employee benefit expenses			
Salary expense	$	1,704,360	1,844,667
Health and labor insurance expense		137,448	132,942
Pension expense		85,655	82,020
Others		46,914	47,822
Depreciation expense		145,380	154,790
Amortization expense		25,967	29,968
	$	**2,145,724**	**2,292,209**

(viii) Other operating expenses

		For the years ended December 31,	
		2018	**2017**
Rental expense	$	123,124	121,070
Taxes		342,447	301,239
Information technology expense		102,604	96,697
Postage expense		107,026	100,886
Professional service fee		108,120	99,001
Other expenses		454,924	531,867
	$	**1,238,245**	**1,250,760**

(ix) Other gains and losses

		For the years ended December 31,	
		2018	**2017**
Financial revenue	$	2,975	2,017
Net gains (losses) on disposal of investment		68,505	23,190
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss		(24,859)	16,606
Revenue from bank's allocation fee		133,107	139,255
Revenue from information technology service		44,108	27,291
Net gains (losses) on disposal of property and equipment		(122)	(3,012)
Dividend revenue		49,503	18,769
Gains on reversal of prior year's liabilities		25,700	25,875
Rental income		72,048	77,855
Others		57,316	14,021
	$	**428,281**	**341,867**

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(x) Remuneration to employees, directors and supervisors

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

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

For the years ended December 31, 2018 and 2017, the estimated amounts of remuneration to employee were $20,971 and $33,369, and to directors were $34,951 and $61,971, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and directors multiple the earnings allocation percentage as stated under the Company's Articles of Incorporation and were recognized as operating expense. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

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

(t) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2018 and 2017, the maximum credit exposure amounted to $52,518,387 and $77,800,088, respectively.

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The regional distribution of financial assets' credit risk exposure amount which owned by the Company is as the list below. The region of exposure is mostly in Taiwan (72.74%); secondly, is in America (10.44%); then, is in Asia (8.50%, exclusion of Taiwan). Compare to the same period of last year, there is no significant change in proportion of region of investments.

Region	December 31, 2018	December 31, 2017
Taiwan	$ 38,199,540	42,403,693
Asia (Taiwan is excluded)	4,466,342	14,679,191
Europe	4,367,262	8,370,951
America	5,485,243	12,195,122
Other	-	151,131
Total	**$ 52,518,387**	**77,800,088**

2) Impairment loss

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

	December 31, 2018		December 31, 2017	
	Total amount	Impairment	Total amount	Impairment
Not past due	$ 16,001,621	15,146	22,276,774	1,551
Past due 0~30 days	272	272	2,115	2,115
Past due 31~120 days	914	914	31	31
Past due 121~360 days	377	377	85,694	85,694
Past due more than one year	221,259	221,259	135,899	128,771
	$ 16,224,443	**237,968**	**22,500,513**	**218,162**

Allowance for doubtful debts under receivables and overdue receivables are recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2018 and 2017, the impairment losses of accrued receivables were recognized $237,968 and $218,162, respectively.

3) Credit risk of accrued receivables and debt securities

Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f). Debt securities held by the Company including government bonds, listed and unlisted debt securities (previously classified as financial assets available for sale on December 31, 2017) are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses.

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

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The loss allowance provision for the year ended December 31, 2018 was as follows:

	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		
	Accrued receivables	**Debt securities at FVOCI**	**Accrued receivables**	**Debt securities at FVOCI**	**Accrued receivables**	**Debt securities at FVOCI**	**Total**
Balance on January 1 per IAS39	$ -	-	-	-	218,162	-	218,162
Adjustment on initial application of IFRS 9	-	15,153	-	-	-	-	15,153
Balance on January 1 per IFRS 9	-	15,153	-	-	218,162	-	233,315
Provision or reversal of Impairment loss	-	(9,292)	-	-	19,806	-	10,514
Balance on December 31	**$ -**	**5,861**	**-**	**-**	**237,968**	**-**	**243,829**

(ii) Liquidity risk

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

	Carrying amount	**Contractual cash flows**	**Within 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
December 31, 2018							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	$ 466,548	466,548	466,548	-	-	-	-
Stock warrants issued	459,807	459,807	442,191	17,616	-	-	-
Put options - futures	237	237	237	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	32,882	32,882	33,869	(2,727)	814	926	-
Put options	208,927	208,927	8,925	19,064	125,073	55,865	-
Short-term borrowings	3,873,506	3,873,506	3,714,303	159,203	-	-	-
Bonds sold under repurchase agreements	28,230,524	28,411,414	28,411,414	-	-	-	-
Guarantee deposited for short sales	2,316,744	2,316,744	2,316,744	-	-	-	-
Proceeds payable from short sales	2,603,315	2,603,315	2,603,315	-	-	-	-
Securities lending refundable deposits	644,843	644,843	644,843	-	-	-	-
Notes payable and accounts payable	107,201	107,201	107,201	-	-	-	-
Receipts under custody	115,918	115,918	115,918	-	-	-	-
Other payables	623,162	623,162	623,162	-	-	-	-
Structured notes	3,676,833	3,676,833	3,175,382	191,419	237,377	72,655	-
	$ 43,360,447	**43,541,337**	**42,664,052**	**384,575**	**363,264**	**129,446**	**-**

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December 31, 2017	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	$ 1,029,543	1,029,543	1,029,543	-	-	-	-
Settlement coverage bonds payable of short sale	49,954	49,954	49,954	-	-	-	-
Stock warrants issued	1,306,849	1,306,849	1,265,875	40,974	-	-	-
Put options - futures	3,031	3,031	3,031	-	-	-	-
Equity derivatives	61	61	61	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,159	8,159	7,770	155	234	-	-
Put options	364,910	364,910	44,131	51,385	106,359	163,035	-
Short-term borrowings	7,081,698	7,081,698	7,081,698	-	-	-	-
Commercial paper payable	4,099,184	4,100,000	4,100,000	-	-	-	-
Bonds sold under repurchase agreements	47,067,813	47,185,708	47,185,708	-	-	-	-
Guarantee deposited for short saless	2,226,264	2,226,264	2,226,264	-	-	-	-
Proceeds payable from short sales	2,500,853	2,500,853	2,500,853	-	-	-	-
Securities lending refundable deposits	1,190,277	1,190,277	1,190,277	-	-	-	-
Notes payable and accounts payable	97,008	97,008	97,008	-	-	-	-
Receipts under custody	341,174	341,174	341,174	-	-	-	-
Other payables	791,239	791,239	791,239	-	-	-	-
Structured notes	4,785,254	4,785,254	4,380,929	138,288	151,580	114,457	-
	$ 72,943,271	**73,061,982**	**72,295,515**	**230,802**	**258,173**	**277,492**	**-**

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(iii) Currency risk

1) Currency risk exposure

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

	December 31, 2018		
	Foreign Currency (thousands)	Exchange Rate	Amount
Financial assets			
Monetary Item			
USD	$ 20,628	30.7150	633,589
AUD	3,679	21.6650	79,706
EUR	16	35.2000	563
HKD	29,322	3.9210	114,972
JPY	653,961	0.2782	181,932
SGD	692	22.4800	15,556
CNY	26,225	4.4720	117,278
ZAR	5	2.1200	11
KRW	55	0.0278	2
SEK	4	3.4200	14
Non-Monetary Item			
USD	300,713	30.7150	9,236,400
AUD	167,642	21.6650	3,631,964
EUR	44	35.2000	1,549
HKD	26,297	3.9210	103,111
JPY	2,200	0.2782	612
CNY	416,174	4.4720	1,861,130
Investments under equity method			
USD	53,392	30.6650	1,637,266
Financial liabilities			
Monetary Item			
USD	$ 322,270	30.7150	9,898,523
AUD	166,591	21.6650	3,609,194
EUR	9	35.2000	317
HKD	115,571	3.9210	453,154
JPY	621,026	0.2782	172,769
SGD	680	22.4800	15,286
CNY	287,318	4.4720	1,284,886
SEK	4	3.4200	14

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	December 31, 2017		
	Foreign Currency (thousands)	Exchange Rate	Amount
Financial assets			
Monetary Item			
USD	$ 26,981	29.7600	802,955
AUD	5,547	23.1850	128,607
CAD	23	23.7100	545
EUR	269	35.5700	9,568
HKD	30,981	3.8070	117,945
JPY	23,645	0.2642	6,247
SGD	25	22.2600	557
CNY	24,265	4.5650	110,770
ZAR	8	2.4100	19
IDR	4,403	0.0022	10
Non-Monetary Item			
USD	907,431	29.7600	27,005,147
AUD	351,673	23.1850	8,153,539
HKD	36,089	3.8070	137,391
JPY	2,052	0.2642	542
CNY	163,599	4.5650	746,829
Investments under equity method			
USD	53,662	29.7100	1,594,297
Financial liabilities			
Monetary Item			
USD	935,426	29.7600	27,838,278
AUD	348,400	23.1850	8,077,654
CAD	20	23.7100	474
HKD	77,397	3.8070	294,650
JPY	39	0.2642	10
SGD	16	22.2600	356
CNY	89,922	4.5650	410,494
KRW	47	0.0281	1

Because there are a variety of currencies, the Company discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains (losses) amounted to $(75,010) and $46,670 for years ended December 31, 2018 and 2017, respectively.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

2) Sensitivity analysis

The currency risk of The Company arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, 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, 2018 and 2017, given other factors remain the same, if the relevant foreign currencies, when compared with the NTD, had appreciates or depreciates by 5%, the net income and other comprehensive income will changes as follows:

	For the year ended December 31, 2018		**For the year ended December 31, 2017**	
	Appreciated 5%	**Depreciated 5%**	**Appreciated 5%**	**Depreciated 5%**
Net income	(402,922)	402,922	(1,328,502)	1,328,502
Other comprehensive income	490,182	(490,182)	1,419,515	(1,419,515)

(iv) Sensitivity analysis of interest rate risk

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

			For the years ended December 31,					
			2018			**2017**		
Market risk type	**December 31, 2018**	**December 31, 2017**	**Mean**	**Maximum**	**Minimum**	**Mean**	**Maximum**	**Minimum**
Interest risk	1,384,626	2,165,047	1,722,466	2,076,354	1,384,626	1,996,174	2,165,047	1,746,721

(v) Fair value information and hierarchy

1) Fair value information

a) General description

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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Initially, financial instruments should be measured at fair value, which mostly refers to transaction price. Except for those measured at amortized cost, financial instruments are subsequently measured at fair value. A quoted market in an active market provides the most reliable evidence of fair value. If the market is not active, the Company determines the fair value of financial instruments in accordance with (a) the calculation of valuation techniques, (b) valuation provided by the professional electronic information company and commonly used by market participants, or (c) quoted prices of the counter party.

b) Definition of fair value hierarchy

i) Level 1

The input of Level 1 is the public quote of the same financial instrument in an active market. An active market is a market that meets all the conditions listed below: Products traded in the market is of homogeneity; it is able to reach buyer and seller anytime in the market and the price information can be accessed by the public. Taiwan central government bonds, equity instruments, debt instruments and derivative instruments with public quote in an active market possessed by the Company belong to Level 1.

ii) Level 2

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

iii) Level 3

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

2) Not based on fair value measurement

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

a) Fair value information

	December 31, 2018		December 31, 2017	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets :				
Cash and cash equivalents	$ 2,554,322	2,554,322	2,113,161	2,113,161
Accrued receivable	16,963,534	16,963,534	24,254,586	24,254,586
Restricted assets - current	671,822	671,822	442,190	442,190
Financial assets measured at cost - non-current	-	-	332,473	332,473
Other non-current assets	1,043,086	1,043,086	1,204,097	1,204,097

(Continued)

	December 31, 2018		December 31, 2017	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial liabilities :				
Short-term borrowings	$ 3,873,506	3,873,506	7,081,698	7,081,698
Commercial paper payable	-	-	4,099,184	4,099,184
Bonds sold under repurchase agreements	28,230,524	28,230,524	47,067,813	47,067,813
Accrued payable	10,313,532	10,313,532	12,762,747	12,762,747
Other financial liabilities - current	3,357,887	3,357,887	4,509,983	4,509,983
Other financial liabilities - non-current	310,032	310,032	266,037	266,037
Other non-current liabilities	70,598	70,598	74,235	74,235

b) Hierarchy information of fair value

	Level 1	**Level 2**	**Level 3**	**Total**
Investment property				
December 31, 2018	$ -	-	**3,164,414**	**3,164,414**
December 31, 2017	$ -	-	**3,692,022**	**3,692,022**

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

i) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.

ii) Financial assets measured at cost in unlisted stocks before year 2017 do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Company considers the book value as a reasonable approximation of fair value.

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

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3) Based on fair value measurement

a) Hierarchy information of fair value

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

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial assets at fair value through profit or loss	$ 11,905,284	18,374,974	-	30,280,258
Financial assets at fair value through other comprehensive income	469,085	10,381,589	1,627,616	12,478,290
Derivative financial assets	147,773	22,692	-	170,465
	$ 12,522,142	**28,779,255**	1,627,616	**42,929,013**
Financial liabilities at fair value through profit or loss	$ 926,355	-	-	926,355
Derivative financial liabilities	237	250,723	-	250,960
	$ 926,592	**250,723**	**-**	**1,177,315**

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Financial assets at fair value through profit or loss	$ 16,326,335	17,147,497	-	33,473,832
Financial assets available for sale	269,717	32,507,066	-	32,776,783
Derivative financial assets	346,239	26,386	-	372,625
	$ 16,942,291	**49,680,949**	-	**66,623,240**
Financial liabilities at fair value through profit or loss	$ 2,386,346	-	-	2,386,346
Derivative financial liabilities	3,031	382,364	-	385,395
	$ 2,389,377	**382,364**	**-**	**2,771,741**

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b) Valuation techniques

i) Non-derivative financial instruments

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

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

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

ii) Derivative financial instruments

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

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4) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

5) Fair value adjustments

Financial valuation techniques do not necessarily completely reflect all relevant elements of financial or non-financial instruments held by the Company. Thus, the outputs of financial valuation models may need necessary adjustments in line with important relevant elements. The valuation models and adjustment parameters were verified to ensure valuation procedures and results are in accordance with the requirements, so the valuation adjustments are pertinent and appropriate. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market condition.

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

(In Thousands Dollars)

	For the years ended December 31, 2018							
		Gains and losses on valuation		Addition		Reduction		
Item	Beginning Balance	Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	Ending Balance
Financial assets at fair value through other comprehensive income	$ 948,242	-	52,744	638,503	-	11,873	-	1,627,616

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

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

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

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Item	Valuation technique	Significant unobservable inputs	Correlation between inputs and fair value
Financial assets at fair value through other comprehensive income - equity instruments without an active market	Market approach	· Price-to-Book Ratio · Discount for lack of marketability	· The higher price-to-book ratio is, the higher fair value is. · The higher discount for lack of marketability is, the lower the fair value is.
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 Company made for the financial instruments is deemed reasonable; however, different valuation models or inputs could result in different valuation results. Specifically, if the valuation input of financial instruments classified in the Level 3 changes by 1%, the effects on other comprehensive income are as follows:

	Change in fair value recognized in other comprehensive income	
	Favorable	**Unfavorable**
December 31, 2018		
Financial assets fair value through other comprehensive income	$ 16,276	(16,276)

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

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(vi) Transfer of financial assets

The transferred financial assets of the Company that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchased agreements or equity securities under securities lending agreement. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, the Company cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Company still bears the interest rate risk and credit risk, so transferred financial assets are not fully derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

	December 31, 2018				
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	$ 28,557,226	28,230,524	-	-	-

	December 31, 2017				
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	$ 47,116,029	47,067,813	-	-	-

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

(vii) Offsetting financial assets and financial liabilities

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

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

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

	December 31, 2018					
	Financial assets under offsetting or general agreement of net amount settlement or similar norms					
				Related amount not offset in the balance sheet (d)		
	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)	Financial instruments (Note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial assets	$ 22,692	-	22,692	-	-	22,692

(Continued)

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December 31, 2018

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms

	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d): Financial instruments (Note)	Related amount not offset in the balance sheet (d): Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 250,723	-	250,723	-	-	250,723
Under repurchase agreements	28,230,524	-	28,230,524	28,230,524	-	-
Total	$ 28,481,247	-	28,481,247	28,230,524	-	250,723

December 31, 2017

Financial assets under offsetting or general agreement of net amount settlement or similar norms

	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d): Financial instruments (Note)	Related amount not offset in the balance sheet (d): Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial assets	$ 26,386	-	26,386	-	-	26,386

December 31, 2017

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms

	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d): Financial instruments (Note)	Related amount not offset in the balance sheet (d): Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 382,364	-	382,364	-	-	382,364
Under repurchase agreements	47,067,813	-	47,067,813	47,067,813	-	-
Total	$ 47,450,177	-	47,450,177	47,067,813	-	382,364

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

(u) Financial risk management

(i) Brief

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

1) Credit risk

2) Liquidity risk

3) Market risk

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

(ii) Risk management framework

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

(iii) Credit risk

Policy applicable from January 1, 2018

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

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

b) Low Credit Risk: A financial instrument has low credit risk at the reporting date, assumed to have no significant increase in credit risk since initial recognition. The determination criteria are the financial instrument' s external credit rating is 'investment grade' or above.

2) Measurement of Expected Credit Losses (ECL)

a) Methods adopted and assumptions

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

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

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

(Continued)

Policy applicable before January 1, 2018

Credit risk refers to the risk of financial losses to the Company arising from default by the clients or counterparties of financial instruments on the contract obligation.

The Company sets up the credit limits for issuers and counterparties according to the credit information requirements of the authorities and the credit rating information release by credit rating agencies. The credit limit of securities margin transactions is subject to the requirements of the competent authority. The derivatives' credit exposure of counterparty shall be measured on a daily basis. If the limits are exceeded, to increase of collateral or lower transaction position is required. The bonds can be invested only its credit rating is above a prescribed level. And monitor the material information disclosed, information on capital raising activities and operation status of counterparty as a reference for measuring the possibility of credit default. The bond position should be disposed if the credit rating is lower than required.

(iv) Liquidity risk

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

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

(v) Market risk

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

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

1) Equity securities: calculate by variance-covariance method and to conduct back testing to estimate the VaR of one day at 99% of confidence interval.

2) Bond: use the base point (0.01%) value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.

3) Financial derivatives: use the Delta and Gamma value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.

4) Margin trading: use the maintenance ratio ruled by the competent authority as the standard for disposal.

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

(vi) Hedging strategies (financial hedging)

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

1) Equity securities:

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

2) Fixed income instruments:

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

3) Stock warrants:

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

4) Structured notes:

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

5) Asset swap:

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

(vii) Financial risk information of derivative financial instruments

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

Stock warrants

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

	December 31, 2018		December 31, 2017	
Financial Instruments	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Stock warrants issued	$ 17,901,620	-	73,019,951	-

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

(ii) Market risk:

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

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

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

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

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

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

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(v) Presentation of financial derivatives

Relevant transaction pertaining to issuance of stock warrants, its presentation and valuation, and gains or losses on sale and expiration and settlement prior to maturity date, were reflected as follows:

1) For the years ended December 31, 2018 and 2017:

a) Gains (losses) on valuation

	For the year ended December 31, 2018	For the year ended December 31, 2017	Account
Stock warrants issued	$ 15,625,056	13,281,013	Gains (losses) on stock warrants issued
Stock warrants repurchased	(15,308,436)	(12,653,445)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	For the year ended December 31, 2018	For the year ended December 31, 2017	Account
Security borrowing	$ 171,070	(4,673)	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(1,331,899)	254,048	Gains (losses) on sale of trading securities
Futures transaction	(180,945)	(258,393)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	For the year ended December 31, 2018	For the year ended December 31, 2017	Account
Stock warrants issued	$ 38,885,569	28,176,401	Gains (losses) on stock warrants issued
Stock warrants repurchased	(37,337,129)	(27,924,655)	Gains (losses) on stock warrants issued

Futures

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

Financial Instruments	December 31, 2018 Notional principal / Nominal amount	December 31, 2018 Credit Risk	December 31, 2017 Notional principal / Nominal amount	December 31, 2017 Credit Risk
For trading purpose:				
Taiex Futures	$ 1,029,517	-	1,380,298	-
Mini Taiex Futures	-	-	1,581	-
Mini-S&P 500 Futures	-	-	71,866	-
U.S. 5-Year T-Note Futures	-	-	328,692	-
U.S. 10-Year T-Note Futures	372,827	-	982,781	-
Euro-Bund Futures	132,141	-	-	-
Taiex Options	-	-	3,779	-
Taiex Weekly Options	173	-	507	-
Mini-S&P 500 Options	-	-	653	-
For non-trading purpose:				
Taiex Futures	87,429	-	474,601	-
Stock Futures	743,429	-	1,613,239	-
Electronic Sector Index Futures	-	-	79,631	-
Finance Sector Index Futures	-	-	18,999	-
HSI Futures	25,340	-	-	-
Soybean Futures	16,964	-	-	-
Gold Futures	-	-	53,447	-
Crude Oil Futures	-	-	121,435	-
FTSE China A50 Index Futures	136,494	-	595,089	-
SGX Nikki 225 Index Futures	12,002	-	6,025	-
Osaka Nikki 225 Index Futures	-	-	11,799	-
JPY dollar Futures	10,249	-	6,698	-
Real-Estate Index Futures	-	-	4,836	-
Taiex Options	41	-	-	-
Stock Options	1	-	3,451	-
Crude Oil Options	-	-	1	-
JPY dollar Options	6	-	-	-
Gold Options	-	-	4	-

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

(ii) Market risk:

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

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

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

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

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

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

(iv) Presentation of financial derivatives:

For the years ended December 31, 2018 and 2017, gains (losses) on futures and options transactions amounted to $10,268 and $(565,770), respectively, and were reflected as gains (losses) on derivatives - futures. As of December 31, 2018 and 2017, futures margin - proprietary fund amounted to $147,773 and $344,355, respectively, and were reflected as financial assets at fair value through profit or loss - current; excess future margin which recognized as cash and cash equivalent amounted to $1,480,645 and $373,798, respectively.

As of December 31, 2018 and 2017, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to $0 and $1,884, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to $237 and $3,031, respectively.

<u>Derivative financial instruments - OTC</u>

(i) Interest rate financial derivatives

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

	December 31, 2018		December 31, 2017	
Financial Instruments	**Notional principal / Nominal amount**	**Credit Risk**	**Notional principal / Nominal amount**	**Credit Risk**
For trading purpose:				
NT dollar interest swaps	$ 29,800,000	-	43,100,000	-

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

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2) Market risk:

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

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

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

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

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

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Structured notes

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

Financial Instruments		December 31, 2018 Notional principal / Nominal amount	December 31, 2018 Credit Risk	December 31, 2017 Notional principal / Nominal amount	December 31, 2017 Credit Risk
For trading purpose:					
Equity-linked notes	$	49,225	-	40,461	-
Principal guaranteed notes		2,730,772	-	3,949,038	-
Credit-linked notes		562,300	-	490,600	-
Principle guaranteed notes		USD10,597 thousands	-	USD9,962 thousands	-

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

2) Market risk

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

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

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

(iii) Convertible bond asset-backed swaps

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

Financial Instruments		December 31, 2018 Notional principal / Nominal amount	December 31, 2018 Credit Risk	December 31, 2017 Notional principal / Nominal amount	December 31, 2017 Credit Risk
For trading purpose:					
Convertible bond asset-backed swaps	$	694,900	-	943,700	-
Convertible bond options		3,012,400	-	2,437,300	-

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

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

(Continued)

2) Market risk:

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

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

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

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

(iv) Options

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

	December 31, 2018		December 31, 2017	
Financial Instruments	**Notional principal/ Nominal amount**	**Credit Risk**	**Notional principal/ Nominal amount**	**Credit Risk**
For trading purpose:				
Equity options	$ -	-	1,000	-

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

2) Market risk:

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

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

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

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(v) Presentation of derivative financial instruments - OTC

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

	December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss - current		
IRS asset swaps	$ 13,855	16,479
Asset swap options - long position	4,072	2,572
Structured notes	3,075	1,343
Currency swaps	1,690	4,072
Interest rate swaps	-	1,920
Total	**$ 22,692**	**26,386**
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	$ 763	239
Asset swap options - short position	208,927	364,910
Structured notes	8,914	9,234
Currency swaps	31,575	7,920
Equity derivatives	-	61
Interest rate swaps	544	-
Total	**$ 250,723**	**382,364**
Other financial liabilities - current		
Structured notes principal value	**$ 3,357,887**	**4,509,983**
Other financial liabilities - non-current		
Structured notes principal value	**$ 310,032**	**266,037**

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset-backed swaps and currency swaps are presented on statements of income as follows:

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)
Interest rate swaps	$ (4,016)	(544)	(8,832)	1,920
Equity derivatives	873	-	(3,969)	(41)
Structured notes	(36,093)	(6,466)	(38,864)	(7,924)
IRS asset swaps	259	13,092	301	16,240
Asset swap options	64,786	130,058	(281,311)	(98,208)
Currency swaps	14,300	(29,885)	(64,026)	(3,848)
Total	**$ 40,109**	**106,255**	**(396,701)**	**(91,861)**

(v) Capital management

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

As of December 31, 2018, the Company maintains no change of its capital management.

The Company's capital adequacy ratio on December 31, 2018 was 435%.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(7) Related party transactions:

(a) Relationships between parents and subsidiaries

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

(b) Parent company and ultimate controlling party

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

(c) Names of related parties and relationships

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

Names of related parties	Relationships
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp.	Subsidiary
Capital Futures Corp.	Subsidiary
Capital Investment Management Corp.	Subsidiary
CSC Venture Capital Corp.	Subsidiary
Taiwan International Securities Investment Consulting Corp.	Subsidiary
Taiwan International Futures Corp.	Subsidiary
CSC Securities (HK) Ltd.	Second-level subsidiary
Capital International Technology Corp.	Second-level subsidiary
Capital Invetment Trust Corp. (Note)	Associate
Funds issued by Capital Investment Trust Corp. (Note)	Funds issued by associate
San Ho Enterprise Co., Ltd.	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Tai Chun Enterprise Co., Ltd	Juristic-person director
Others	Key management personnel and others

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

(d) Key management personnel transactions

(i) Key management personnel compensation:

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	$ 150,210	136,974
Post-employment benefits	1,121	866
Total	$ **151,331**	**137,840**

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Bond transactions - bonds sold under repurchase agreements

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

	December 31, 2018		December 31, 2017	
	Par value	Purchase price	Par value	Purchase price
Key management personnel	$ 43,000	43,060	43,600	43,941

	For the years ended December 31,	
Total financial expenses	2018	2017
Key management personnel	152	209

(iii) Structured notes transactions

As of December 31, 2018 and 2017, the balances of structured notes transactions with key management personnel were $55,612 and $45,971, respectively.

(e) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

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

	December 31, 2018		December 31, 2017	
	Par value	Purchase price	Par value	Purchase price
Funds issued by associate	$ 50,000	50,044	-	-
Subsidiaries	198,000	198,000	11,500	11,501
Juristic-person directors	20,300	20,315	10,700	10,700
Total	$ 268,300	268,359	22,200	22,201

	For the years ended December 31,	
Total financial expenses	2018	2017
Funds issued by associate	$ 161	-
Subsidiaries	321	411
Juristic-person directors	81	78
Total	$ 563	489

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction

As of December 31, 2018 and 2017, the balances of structured notes transactions with juristic-person directors and others of the Company were $17,082 and $4,995, respectively.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Futures commission revenue

The Company provided futures trading assistance for subsidiary.

	December 31, 2018	December 31, 2017
Commission receivable	$ 10,922	14,688
Other Receivable (Default loss)	$ 19,806	-

	For the years ended December 31,	
	2018	2017
Futures commission revenue	$ 166,348	150,998

(iv) Futures trading

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

	December 31, 2018	December 31, 2017
Futures margin - proprietary fund	$ 1,628,418	718,153

	For the years ended December 31,	
	2018	2017
Interest revenue of futures margin	$ 424	156
Handling fees charge	$ 21,567	19,526
Management fees expense	$ 1,056	1,636

(v) Lease agreements

	For the years ended December 31,	
Lease revenue	2018	2017
Subsidiaries	$ 20,171	20,191
Associate	15,810	-
Total	$ 35,981	20,191

Guarantee deposits received	December 31, 2018	December 31, 2017
Subsidiaries	$ 4,246	4,106
Associate	3,811	-
Total	$ 8,057	4,106

(vi) Information technology service

The Company provided information technology service to subsidiaries, and the revenue of information technology service for the years ended December 31, 2018 and 2017 amounted to $44,108 and $27,291 respectively.

(vii) Securities management, distribution, and management fees

The Company provided securities management service to subsidiaries and associate. The revenue from subsidiaries for the years ended December 31, 2018 and 2017 amounted to $520 and $478 and from associate amounted to $122 and $0, respectively.

(viii) Securities commission expense - introducing brokers

The Company delegated subsidiaries for introducing brokers. As of December 31, 2018 and 2017, securities commission expense payable amounted to $228 and $522 respectively. For the years ended December 31, 2018 and 2017, securities commission expenses amounted to $4,721 and $5,147 respectively.

(ix) Consulting fee

Subsidiaries agreed to provide investment information, training courses, and services of publishing non-periodicals. For the years ended December 31, 2018 and 2017, consulting fee expense amounted to $86,100 for both years.

(x) Re-consigned handling fee

The Company delegated the second level subsidiaries for introducing brokers on foreign securities transactions. For the years ended December 31, 2018 and 2017, re-consigned handling fee are $5,887 and $6,120 respectively.

(xi) Insurance commission revenues

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

	For the years ended December 31,	
Commission revenues	**2018**	**2017**
Subsidiaries	$ 11,905	13,626

Accounts receivable	**December 31, 2018**	**December 31, 2017**
Subsidiaries	$ 2,020	1,169

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(xii) Brokerage commissions

The brokerage commission received from the Juristic-person directors, funds issued by associates of the Company and other related parties engaging in securities and futures trading for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
Brokerage commissions	**2018**	**2017**
Juristic-person directors	$ 288	340
Subsidiaries	53	12
Funds issued by associate	15,969	-
Others	10,270	13,209
Total	**$ 26,580**	**13,561**

	For the years ended December 31,	
Re consigned handling commissions	**2018**	**2017**
Subsidiaries	$ -	100
Funds issued by associate	4,879	-
Others	235	148
Total	**$ 5,114**	**248**

	For the years ended December 31,	
Other commissions	**2018**	**2017**
Funds issued by associate	**$ 639**	**-**

(xiii) Human resources, legal service income, trust service and other management service income:

The Company provided human resources , legal service, trust service and management service for subsidiaries and associate, service income amounted to $636 and $630 in years 2018 and 2017, respectively.

(xiv) Accrued receivables

The accrued receivables between the associates and the Company primarily were securities management service receivable. As of December 31, 2018, the accrued receivables amounted to $10.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(xv) Information technology service expense

Subsidiaries prepay the information technology maintenance fee for The Company, and for the years ended December 31, 2018 and 2017, the informaiton technology service expense amounted to $780. As of December 31, 2018 and 2017, information technology service expense payable amounted to $0 and $195, respectively.

(xvi) Disposal of financial assets

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

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

(8) Pledged assets:

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

	December 31, 2018	December 31, 2017	The collateral use
Restricted assets - current	$ 671,822	442,190	Bank borrowings, commercial paper, accounts settled, repurchase agreement
Restricted assets - non-current	-	94,875	Trust to a impartial third party (Note)
Trading securities and bonds purchased under resale agreements (par value)	29,343,321	49,018,159	Repurchase agreement
Property and equipment	3,506,196	3,510,390	Bank borrowings
Financial assets at fair value through profit or loss - non-current	185,109	186,015	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment
Investment property	1,358,103	1,383,346	Bank borrowings
Total	**$ 35,064,551**	**54,634,975**	

Note: Taiwan International Securities Corp. (hereinafter known as “TISC”), the Company’s merged entity, entrusted $182,000 to an impartial third party on the merging date with First Securities Co., Ltd. and Far East Securities Co., Ltd. In relations to the agreement of indemnification to the stockholders with aforementioned companies arising from the fraud matter of Taiwan International Futures Corporation (hereinafter known as “ TIFC”).As of December 31, 2017, the accumulated compensation expense was $87,125 and the trust amount of the impartial third party was $94,875.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(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, 2018		December 31, 2017	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	528,296	$ 5,282,960	715,087	7,150,870
Collateral for margin purchase	34,550	345,500	4,429	44,290
Collateral for short sales	6,150	61,500	5,063	50,630
Lending securities to customers through short sales	50,957	509,570	48,278	482,780

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

	December 31, 2018		December 31, 2017	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	1,074	$ 10,740	1,005	10,050
Collateral for refinancing margin	53	530	15	150

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

	December 31, 2018	December 31, 2017
Promissory notes	$ 26,440,000	24,890,000
Promissory notes (USD in thousands)	USD 60,000	80,000

(d) As of December 31, 2018 and 2017, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were $3,848,765 and $3,146,425 respectively.

(e) Securities and Futures Investors Protection Center claims against the Company for compensation of $2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.

(f) The client, Mr. Wu, declared that a resigned employee of Da-Sing branch conducted transactions with Mr. Chen without his consent. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of $2,192. According to the final judgment made by the Supreme Court in January, 2019, the Company shall not be held liable to the damages.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(g) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as "TISC") is suspected to violate the "Regulations Governing Securities Firms" due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US$15 million. Some investors instituted proceedings towards TISC and claimed damages amounting to US$7,956,873 dollars (including claim amount US$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). The damages claimed for amounted to US$6,355,536, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of December 31, 2018, there is still one case that currently under the review of the Taiwan High court. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is $173,000, thus the Company recognized this amount as other liabilities and the balance was $48,034 as of December 31, 2018.

(h) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.

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

(i) Balance sheet of trust accounts

Balance Sheet of Trust Accounts

December 31, 2018 and 2017

Trust Assets	**December 31, 2018**	**December 31, 2017**	**Trust Liabilities**	**December 31, 2018**	**December 31, 2017**
Bank deposits	$ 863,717	951,429	Accounts payable	$ 230	328
Short-term investment			Trust capital	12,864,910	12,050,890
Funds	10,355,060	10,576,044	Accumulated Earnings or deficit	(1,066,242)	42,146
Stocks	351,841	283,224			
Securities lent	90,222	181,899			
Bonds	12,003	10,143			
Structured notes	12,224	10,027			
Accounts receivable	113,831	80,598			
Total Assets	**$ 11,798,898**	**12,093,364**	**Total Liabilities**	**$ 11,798,898**	**12,093,364**

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Income statement of trust accounts

Income Statement of Trust Accounts

For the years ended December 31, 2018 and 2017

		2018	**2017**
Revenue			
Interest revenue	$	5,686	4,988
Cash dividends revenue		480,749	-
Rental revenue		10,547	8,201
Realized investment gains		262,417	324,642
Unrealized investment gains		27,690	250,376
Unrealized currecny exchange gains		882,532	18,453
Currency exchange gains		12,587,351	483,754
Other revenue		709	-
Subotal		14,257,681	1,090,414
Expense			
Administrative fee		1,115	1,075
Commission expenses		75,544	83,923
Realized investment losses		266,352	84,223
Unrealized investment losses		1,808,804	321,081
Unrealized currcncy exchange losses		2,194,098	772,661
Supplementary insurance premium		76	-
Currency exchange losses		11,760,193	98,547
Subotal		16,106,182	1,361,510
Net losses before tax		(1,848,501)	(271,096)
Income tax expense		(327)	(271)
Net losses after income tax	**$**	**(1,848,828)**	**(271,367)**

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) List of trust properties

List of Trust Properties

December 31, 2018 and 2017

Investment items	December 31, 2018	December 31, 2017
Bank deposits	$ 863,717	951,429
Short-term investment		
Stocks	351,841	283,224
Securities lent	90,222	181,899
Structured Notes	12,224	10,027
Bonds	12,003	10,143
Funds	10,355,060	10,576,044
Accounts Receivable	113,831	80,598
Total	**$ 11,798,898**	**12,093,364**

(10) Significant Catastrophic Loss:None

(11) Significant Subsequent Events:

The Company will change the business addresses to 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei in 2019.

(12) Other:None

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Firms" for the Company:

(i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on loans to a single business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd	Account receivables - Related party	Yes	US 29,322 thousands	US 29,322 thousands	US 29,322 thousands	- %	2	-	Operations	-		-	US 53,380 thousand	US 53,380 thousand
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Other receivables - Related party	Yes	US 3,380 thousands	US 3,380 thousands	US 3,380 thousands	- %	2	-	Operations & repayment of financing	-		-	US 3,380 thousand	US 3,380 thousand
3	TIS Securities (HK) Ltd.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	US 1,463 thousands	US 1,463 thousands	US 1,463 thousands	- %	2	-	Repayment of financing	-		-	US 1,463 thousand	US 1,463 thousand
4	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	27,422	42,656	14,320	5 %	2	-	Tradings	-		-	103,575	414,300
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	60,938	85,313	-	5.4 %	2	-	Tradings	-		-	103,575	414,300
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	85,313	85,313	-	3.5 %	2	-	Tradings	-		-	103,575	414,300
7	CSC Futures (HK) Ltd.	Tetrion Capital Limited	Account receivables - Customer	No	-	6,671	-	- %	2	-	Tradings	-		-	103,575	414,300
8	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	5,864	85,313	-	5.4 %	2	-	Tradings	-		-	103,575	414,300
9	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte. Ltd.	Account receivables - Customer	No	3,047	-	-	4 %	2	-	Tradings	-		-	103,575	414,300

Note: Type of Loans

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

(ii) Guarantees and endorsements for other parties:None

(iii) Acquisition of individual real estate with amount over $300 million or 20% of paid-in capital:None

(iv) Disposal of individual real estate over $300 million or 20% of paid-in capital:None

(v) Service charge discounts on transactions with related parties over NT$5 million:None

(vi) Receivables from related parties over $100 million or 20% of paid-in capital:None

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(b) Information on reinvestment business:

(In Thousands of New Taiwan Dollars)

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2018	Balance on December 31, 2017	Shares	Ratio	Book value					
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	7,000,000	100.00 %	106,690	82,000	10,522	10,522	10,990	Subsidiary
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,539	1,212,539	99,182,845	56.21 %	2,828,539	2,373,305	835,205	469,488	258,777	〃
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment business.	1,339,555	1,339,555	45,000,000	100.00 %	1,636,902	9,012	(6,343)	(6,343)	-	〃
0	Capital Insurance Advisory Corp.	Taipei ,Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	500,000	100.00 %	84,732	180,643	58,876	58,876	64,650	〃
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	740,000	100.00 %	40,757	66,851	1,356	1,356	2,146	〃
0	Taiwan International Futures Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	November 25, 1993		Completion of liquidation.	-	429,990	-	- %	-	-	-	173,048	-	〃
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Holding company for international securities business.	1,394,817	1,394,817	300	100.00 %	347	413	(766)	(766)	-	〃
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei ,Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92 %	12,799	-	(232)	(232)	-	〃
0	CSC Venture Capital Corp.	Taipei ,Taiwan, R.O.C.	January 12, 2016	No. FSC-1040034071 dated September 8, 2015	Venture Capital and consulting business	1,000,000	1,000,000	100,000,000	100.00 %	854,906	3,716	(2,109)	(2,109)	-	〃
0	Capital Investment Trust Corp.	Taipei ,Taiwan, R.O.C.	October 16, 1995		Engaged in security investment and discretionary investment services.	1,272,505	-	33,067,507	20.00 %	1,261,329	1,319,160	491,726	87,155	99,203	Associate
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 128,000 thousands	HK 128,000 thousands	128,000,000	100.00 %	HK 160,384 thousands	HK 26,807 thousands	HK 2,332 thousands	-	-	Second-level subsidiary
2	TIS Securities (HK) Ltd. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousands	HK 265,000 thousands	265,000,000	100.00 %	HK (26,248) thousands	HK -	HK 107 thousands	-	-	〃
3	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,157) thousands	HK -	HK (57) thousands	-	-	Third-level subsidiary
4	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Futures dealing business.	862,631	862,631	214,000,000	97.27 %	1,007,474	551,086	57,246	-	-	Second-level subsidiary
4	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	5,000,000	100.00 %	46,283	1,400	552	-	-	〃
4	True Partner Advisor Hong Kong Ltd	Hong Kong	May 31, 2010	No. FSC-1040027513 dated July 16, 2015	Asset Management	36,701	36,701	245,000	49.00 %	45,719	133,223	7,791	-	-	Associates

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2018	Balance on December 31, 2017	Shares	Ratio	Book value					
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	2	100.00 %	HK -	HK -	HK -	-	-	Third-level subsidiary

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

Note 2: Includes the Company's investment in overseas business and its reinvestments in other businesses, etc.

Note 3: Book value is the investment balance according to equity method, including investment income (loss), cash dividends, and cumulative translation adjustment, etc.

Note 4: The stockholders' special meeting of Taiwan International Securities Corp. resolved to dissolve the investee company on September 18, 2008, and acknowledged its documents for completion of liquidation on December 17, 2018. The entity was been permitted from the court approval of its completion of liquidation on February 12, 2019.

Note 5: The stockholders' special meeting resolved to dissolve on June 27, 2012.

Note 6: The board of directors of the Company resolved to dissolve the investee company on December 30, 2011. The representative office of China dissolved in 2014 as well. According to the laws of Hong Kong, it can't be liquidated voluntarily because the total assets of TIS Securities (HK) Ltd. and Taiwan International Capital (HK) Ltd. can't cover the liabilities. The company has briefed it to the accountant in Hong Kong to plan the solutions.

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

(In Thousands of New Taiwan Dollars)

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

(d) Information on investments in China:

(i) Investment in Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2018	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2018	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the Company	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of December 31, 2018
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	2,506	28.67%	785 B(2)	12,945	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	2,374	56.21%	1,334 B(2)	12,702	-

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.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Limitation on investment in Mainland China:

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

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

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

According to article 4, no. 5 of the letter no. 10400414001 issued by Financial Supervisory Commission on November 19, 2015, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2018 are as follows:

(i) Balance sheet and income statement:

1) Balance sheet

Unit: US$ thousands

Company / Nature	CSC International Holdings Ltd. December 31, 2018	Taiwan International Securities (B.V.I) Corp. December 31, 2018
Current assets	11,546	10
Long-term investments	20,478	-
Property and premises	2,080	-
Other assets	19,395	3,380
Total assets	53,499	3,390
Current liabilities	57	28
Other liabilities	62	3,351
Total liabilities	119	3,379
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,617	(9,455)
Cumulative translation adjustments	(237)	(50)
Total stockholders' equity	53,380	11
Total liabilities and stockholders' equity	53,499	3,390

2) Income statement

Unit: US$ thousands

Company / Nature	CSC International Holdings Ltd. 2018	Taiwan International Securities (B.V.I) Corp. 2018
Operating revenue	298	14
Operating expense	(859)	(39)
Non-operating revenue	351	-
Non-operating expense	-	-
Income (Loss) before tax	(210)	(25)
Net income (loss)	(210)	(25)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Marketable securities held as of December 31, 2018

Unit: shares / US$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2018	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	$ 20,478
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	$ (3,351)

(iii) Transactions of financial derivatives: None.

(iv) Revenue on advisory and consulting service and related lawsuit: None.

(14) Segment information:

Please refer to the consolidated financial statements of the Company as of and for the year ended December 31, 2018.

Capital Securities Corporation

Statement of cash and cash equivalents

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Cash	Petty cash	$ 2,590	
Bank deposits	Checking accounts	31,152	
	Demand deposits	61,122	
	Foreign currency deposits	412,303	USD3,758 Thousands@ 30.715 HKD1,887 Thousands@ 3.921 EUR6 Thousands @ 35.20 JPY636,352 Thousands @ 0.2782 SGD6 Thousands @ 22.48 CNY15,845 Thousands@ 4.472 ZAR5 Thousands@2.12 AUD1,903 Thousands@21.665
Cash equivalents	Time deposits	566,510	Maturity dates are 2019.6.11 to 2019.12.20 and the interest rates are 1.00%~1.35%
	Futures margin - excess margin (NTD)	1,275,717	
	Futures margin - excess margin (Foreign currency)	204,928	HKD2,035 Thousands @3.921 EUR(9) Thousands @35.20 JPY12,288 Thousands @0.2782 USD6,311 Thousands @30.715
Total		**$ 2,554,322**	

Capital Securities Corporation

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

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value: Unit price (Dollars)	Fair value: Total amount	Fair value changes is attributable to the changes in credit risk	Note
FSITC Money Market Fund		28,433	-	-	-	$ 5,049	178.13	5,065	-	
Fuh Hwa Money Market Fund		1,948,015	-	-	-	28,000	14.42	28,087	-	
JPMorgan(Taiwan) TEMIS Fund		1,500,000	-	-	-	15,000	9.50	14,247	-	
Prudential Financial China Brands Fund		464,252	-	-	-	5,000	8.23	3,821	-	
PineBridge Asia High Dividend Fund		857,553	-	-	-	9,990	11.84	10,153	-	
Cathay China Emerging Industries Fund		1,868,460	-	-	-	30,013	15.93	29,765	-	
Franklin Templeton SinoAm China Consumption Fund		1,024,590	-	-	-	10,000	7.61	7,797	-	
Franklin Templeton SinoAm Preferred Securities Income Fund A		488,758	-	-	-	5,000	9.78	4,780	-	
JPMorgan(Taiwan) China A Share Fund		655,308	-	-	-	10,000	11.25	7,372	-	
Total						118,052		111,087		
Valuation adjustment						(6,965)				
Net amount						$ 111,087				

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current－trading securities
(Proprietary trading)
December 31, 2018
(Expressed in Thousands of New Taiwan Dollars; Foreign currencies)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value Unit price (Dollars)	Fair value Total amount	Fair value changes is attributable to the changes in credit risk	Note
Listed stocks										
Hsin Kuang Steel Co., Ltd.		2,940,000	$ 10	29,400		100,093	31.10	91,434	-	
Sincere Navigation Co.		3,825,000	10	38,250		67,843	15.95	61,009	-	
Largan Precision Co., Ltd.		22,000	10	220		87,718	3215.00	70,730	-	
Others		28,435,100	10	284,351		1,053,928		991,588	-	Note
Subtotal						1,309,582		1,214,761		
Listed funds										
Yuanta Taiwan Top 50 ETF		1,283,000	10	12,830		100,605	75.50	96,867	-	
Fubon SSE 180 Index ETF		4,463,000	10	44,630		121,011	25.23	112,602	-	
Fuh Hwa CSI 300 A Shares ETF		2,054,000	10	20,540		42,581	18.35	37,691	-	
Yuanta Daily Taiwan 50 Bear -1X ETF		5,000,000	10	50,000		64,905	13.20	66,000	-	
Cathay FTSE China A50 ETF		9,388,000	10	93,880		179,516	16.55	155,371	-	
Yuanta MSCI China A ETF		7,512,000	10	75,120		150,240	16.51	124,023	-	
Others		10,724,000	10	107,240		188,396		177,949	-	Note
Subtotal						847,254		770,503		
OTC stocks										
TaiMed Biologics Inc.		192,000	10	1,920		30,001	165.50	31,776	-	
FineTek Co.,Ltd.		379,000	10	3,790		37,133	76.80	29,107	-	
Asia Tech Image Inc.		405,000	10	4,050		19,328	38.00	15,390	-	
Lungyen Life Service Co.		845,000	10	8,450		57,909	56.20	47,489	-	
Kingpak Technology Inc.		95,000	10	950		14,778	162.00	15,390	-	
PharmaEssentia Corp.		422,000	10	4,220		67,558	174.50	73,639	-	
Chief Telecom Inc.		212,000	10	2,120		43,590	150.50	31,906	-	
Others		342,351	10	3,424		33,619		35,962	-	Note
Subtotal						303,916		280,659		
OTC funds										
Fubon China Policy Bank Bond ETF.		1,194,000	10	11,940		23,880	20.75	24,776	-	
Fubon China Policy Bank Bond 0-1 ETF		1,490,000	10	14,900		59,600	39.76	59,242	-	
Subtotal						83,480		84,018		
Emerging market stocks										
Pan German Universal Motors Ltd.		1,232,745	10	12,327		264,240	194.50	239,775	-	
Others		6,776,593	10	67,766		234,064		224,380	-	Note
Subtotal						498,304		464,155		

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current－trading securities
(Proprietary trading)
December 31, 2018
(Expressed in Thousands of New Taiwan Dollars; Foreign currencies)

Name of financial instrument	Description		Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value Unit price (Dollars)	Fair value Total amount	Fair value changes is attributable to the changes in credit risk	Note
Emerging market funds											
Capital Marathon Fund			54,389	$ 10	544		5,211	102.94	5,599	-	
Capital OTC Fund			74,762	10	748		6,075	78.65	5,880	-	
Capital High-Tech Fund			38,000	10	380		1,128	28.63	1,088	-	
Subtotal							12,414		12,567		
Convertible corporate bonds											
Yuen Chang Stainless Steel Co., Ltd. (20693)			236	100,000	23,600		22,826	96.80	22,845	-	
Cayman Engley Industrial Co., Ltd. (22391)			242	100,000	24,200		26,358	99.95	24,188	-	
Integrated Service Technology Inc. (32894)			226	100,000	22,600		25,440	95.60	21,606	-	
Integrated Service Technology Inc. (32895)			535	100,000	53,500		55,622	86.55	46,304	-	
C-Tech United Co. (36252)			225	100,000	22,500		24,609	97.80	22,005	-	
Global Pmx Co., Ltd. (45511)			344	100,000	34,400		35,791	96.50	33,196	-	
Posiflex Technology, Inc. (81142)			1,000	100,000	100,000		100,000	97.45	97,450	-	
Others			1,920	100,000	192,000		205,484		200,468	-	Note
Subtotal							496,130		468,062		
Government bonds											
A03113	2014/09/26~2024/09/26	Repayment of principal at maturity.			500,000	1.000%	523,714	104.76	523,833	-	Interest payment every year
A05105	2016/03/30~2021/03/30	"			800,000	1.125%	797,444	99.85	798,837	-	"
A05111	2016/09/07~2026/09/07	"			600,000	0.500%	588,577	98.57	591,436	-	"
A06101	2017/01/11~2019/01/11	"			700,000	0.500%	698,743	100.00	700,036	-	"
A06107	2017/07/27~2019/07/27	"			300,000	0.750%	299,988	100.05	300,157	-	"
A07109	2018/10/17~2028/10/17	"			900,000	0.500%	899,107	100.09	900,852	-	"
A07111	2018/11/23~2023/11/23	"			450,000	1.000%	449,077	100.23	451,076	-	"
A90201	2001/09/11~2021/09/11	"			300,000	3.000%	341,243	108.76	326,297	-	"
A94103	2005/02/25~2025/02/25	"			400,000	4.000%	436,931	109.51	438,069	-	"
Others					1,467,400		1,476,717		1,476,380	-	Note
Subtotal							6,511,541		6,506,973		
Corporate bonds											
Winbond Electronics Co. (B61424)	2018/07/17~2025/07/17	Repayment of principal at maturity.			500,000	1.45%	500,036	99.89	499,475	-	
Shanyuan Co., Ltd (B87001)	2017/05/31~2022/05/31	"			500,000	1.43%	500,000	100.97	504,893	-	"
EVA Air (B93866)	2016/12/29~2021/12/29	Repayment of principal in installments.			500,000	1.38%	500,000	100.58	502,921	-	"
Others					8,130,000		8,152,234		8,170,126	-	Note
Subtotal							9,652,271		9,677,415		

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current－trading securities
(Proprietary trading)
December 31, 2018
(Expressed in Thousands of New Taiwan Dollars; Foreign currencies)

Name of financial instrument	Description		Shares or units	Par value (Dollars)	Total amount		Interest rate	Acquisition cost	Fair value: Unit price (Dollars)		Fair value: Total amount	Fair value changes is attributable to the changes in credit risk	Note
International bonds													
Deutsche Bank Singapore branch	2015/08/20~2020/08/20	Repayment of principal at maturity.			CNY	15,000	4.50%	223,600	CNY	100.52	224,769	-	Interest payment every year
Korea Development Bank	2018/07/03~2021/07/03	"			CNY	100,000	4.60%	223,600	CNY	101.40	226,719	-	"
QNB Finance Ltd.	2018/06/21~2021/06/21	"			CNY	10,000	5.25%	447,200	CNY	101.77	455,098	-	"
Societe Generale	2016/04/19~2022/04/19	"			USD	30,000	2.30%	307,150	CNY	96.44	296,223	-	Interest payment every season
Crédit Agricole Corporate and Investment Bank	2016/06/16~2021/06/16	"			USD	30,000	2.60%	276,435	CNY	98.25	271,591	-	"
Crédit Agricole Corporate and Investment Bank	2017/07/12~2022/07/12	"			USD	10,000	2.64%	215,005	CNY	97.03	208,609	-	Interest payment every year
KEB Hana Bank	2018/07/26~2023/07/26	"			USD	30,000	3.31%	460,725	CNY	99.96	460,538	-	Interest payment every season
QNB Finance Ltd.	2018/05/31~2021/05/31	"			USD	50,000	4.06%	614,300	CNY	100.56	617,768	-	"
Arab Petroleum Investments Corporation	2017/10/26~2022/10/26	"			USD	25,000	3.61%	337,865	CNY	98.52	332,851	-	"
Others								974,067			979,215	-	Note
Subtotal								4,079,947			4,073,381		
Financial debentures													
The Export-Import Bank of the Republic of China	2016/10/27~2019/10/27	Repayment of principal at maturity.				300,000	0.65%	300,000		100.05	300,173	-	Interest payment every year
Subtotal								300,000			300,173		
Foreign stocks													
Baoshan Iron & Steel Co., Ltd.			400,000					12,179	CNY	6.50	11,627	-	Shanghai Stock Exchange
Shengyi Technology Co., Ltd.			630,000					28,721	CNY	10.06	28,343	-	"
Beijing E-hualu Information Technology Co.,Ltd.			115,000					12,434	CNY	20.72	10,656	-	Shenzhen Stock Exchange
Chaozhou Three-Circle (Group) Co., Ltd.			217,200					22,536	CNY	16.92	16,435	-	"
Tencent Holdings Ltd.			12,200					6,140	HKD	314.00	15,020	-	Hong Kong Exchanges and
BYD Company Ltd.			59,500					12,554	HKD	49.95	11,653	-	"
Zijin Mining Group Co., Ltd.			1,230,000					12,980	HKD	2.97	14,324	-	"
BISUS			10,000					9,335	USD	23.10	7,095	-	American Stock Exchange
Others			87,300					9,173			8,643	-	Note
Subtotal								126,052			123,796		
Other													
Pihsiang Machinery Manufacturing Co., Ltd.			14,880	10		149		257		-	-	-	
Subtotal								257			-		
Total								24,221,148			$ 23,976,463		
Valuation adjustment								(244,685)					
Net amount								$ 23,976,463					

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

Capital Securities Corporation

Statement of financial assets at fair value through profit or loss - current－trading securities
(Underwriting business)

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value Unit price (Dollars)	Fair value Total amount	Fair value changes is attributable to the changes in credit risk	Note
Listed stocks										
Ching Feng Home Fashions Co., Ltd.		4,210,000	$ 10	42,100		71,570	17.65	74,306	-	
O-Bank Co., Ltd. Preferred Stock A		3,575,000	10	35,750		35,750	10.00	35,750	-	
Subtotal						107,320		110,056		
OTC stocks										
OFCO Industrial Corporation		321,000	10	3,210		6,420	16.50	5,296	-	
Ate Energy International Co., Ltd.		775,569	10	7,756		34,900	34.70	26,912	-	
Nyquest Technology Co., Ltd.		399,165	10	3,992		14,370	27.95	11,157	-	
Subtotal						55,690		43,365		
Convertible corporate bonds										
Chilisin Electronics Co.(24565)		103	100,000	10,300		10,300	103.00	10,609	-	
China Airlines (26106)		744	100,000	74,400		74,549	101.60	75,590	-	
Hy Eletronic (Cayman) Ltd. (65731)		90	100,000	9,000		9,000	78.00	7,020	-	
Posiflex Technology, Inc.(81142)		86	100,000	8,600		8,600	97.45	8,381	-	
Fulgent Sun International (Holding) Co., Ltd. (98024)		120	100,000	12,000		12,072	107.90	12,948	-	
Century Iron And Steel Industrial Co.,Ltd. (99582)		233	100,000	23,300		23,475	106.50	24,815	-	
Others		30	100,000	3,000		3,015	97.50	2,925	-	Note
Subtotal						141,011		142,288		
Total						304,021		**295,709**		
Valuation adjustment						(8,312)				
Net amount						$ **295,709**				

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

Capital Securities Corporation

Statement of financial assets at fair value through profit or loss - current－trading securities
(Hedging business)

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value(Dollars)	Total amount	Interest rate	Acquisition cost	Fair value Unit price(Dollars)	Fair value Total amount	Fair value changes is attributable to the changes in credit risk	Note
Listed stocks										
Fubon SSE 180 Leveraged 2X Index ETF		3,351,000	$ 10	33,510		111,191	28.35	95,001	-	Warrants
Yuanta Daily CSI300 Bull 2X ETF		7,248,000	10	72,480		112,153	10.74	77,843	-	〃
Cathay FTSE China A50 Daily Leveraged 2X ETF		3,321,000	10	33,210		83,639	20.46	67,948	-	〃
Others		222,870,248	10	2,228,702		1,439,827		1,372,318	-	Warrants/Note
Subtotal						1,746,810		1,613,110		
OTC stocks										
St. Shine Optical Co., Ltd.		34,000	10	340		18,964	538.00	18,292	-	Warrants
TaiMed Biologics Inc.		111,000	10	1,110		17,989	165.50	18,370	-	〃
Simplo Tchnology Co., Ltd.		93,800	10	938		18,384	208.00	19,510	-	〃
Egis Technology Inc.		125,182	10	1,252		24,781	201.00	25,162	-	〃
Globalwafers. Co., Ltd.		90,392	10	904		28,652	280.50	25,355	-	〃
TCI Co., Ltd.		35,833	10	358		18,208	519.00	18,597	-	〃
Others		36,533,615	10	365,336		270,162		259,832	-	Warrants/Note
Subtotal						397,140		385,118		
Convertible corporate bonds										
China Airlines (26106)		3,830	100,000	383,000		386,343	101.60	389,128	-	Asset swaps
EVA Airways Co. (26183)		4,035	100,000	403,500		416,113	108.10	436,183	-	〃
Others		28,124	100,000	2,812,400		2,996,994		2,888,351	-	Asset swaps/Note
Subtotal						3,799,450		3,713,662		
Total						5,943,400		**5,711,890**		
Valuation adjustment						(231,510)				
Net amount						$ **5,711,890**				

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

Capital Securities Corporation
Statement of financial assets at fair value through other comprehensive income - current
December 31, 2018
(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Accumulated impairment	Fair Value: Unit price (Dollars)	Fair Value: Total amount	Note
Debt instruments										
International bonds										
Natixis	2017/1/23 ~ 2047/1/23 Repayment of principal at maturity.			USD 15,000	-	$ 460,725	-	USD 100.142	461,377	Interest payment every year
Natixis	2018/3/8 ~ 2048/3/8 "			USD 10,000	-	307,150	-	USD 105.887	325,233	"
National Bank of Canada	2017/1/23 ~ 2047/1/23 "			USD 5,000	-	153,575	-	USD 100.129	153,773	"
QNB Finance Ltd.	2016/7/18 ~ 2021/7/18 "			USD 10,000	4.015%	304,739	-	USD 100.658	309,170	"
Subtotal						1,226,189			1,249,553	
Overseas bonds										
Cosl Finance BVI Ltd.	2012/9/6 ~ 2022/9/6 Repayment of principal at maturity.			USD 14,000	3.250%	425,368	-	USD 97.572	419,569	Interest payment every half a year
Gulf International Bank	2017/1/25 ~ 2022/1/25 "			USD 15,000	3.500%	459,021	-	USD 96.631	445,201	"
ICBCIL Finance Co.	2017/4/5 ~ 2022/4/5 "			USD 15,000	3.375%	460,147	-	USD 98.605	454,296	"
Others						7,861,025	-		7,812,970	Note
Subtotal						9,205,561			9,132,036	
Total						10,431,750			**10,381,589**	
Valuation adjustment						(50,161)				
Net amount						**10,381,589**				
Equity instrument										
Listed stocks										
Chicony Electronics Co., Ltd.		603,530	10			$ 42,281	-	62.60	37,781	
Transcend Information, Inc.		533,000	10			44,698	-	66.80	35,604	
Quang Viet Enterprise Co., Ltd.		200,000	10			29,802	-	105.00	21,000	
Powertech Technology Inc.		496,000	10			39,533	-	66.10	32,786	
Tong Hsing Electronic Industries, Ltd.		417,000	10			49,408	-	107.50	44,828	
Others		638,000	10			32,033	-		27,496	Note
Subtotal						237,755			199,495	
OTC stocks										
La Kaffa International Co., Ltd.		352,557	10			29,597	-	67.00	23,621	
FineTek Co., Ltd.		130,895	10			10,756	-	76.80	10,053	
Subtotal						40,353			33,674	
Foreign stocks										
Sany Heavy Industry Co., Ltd.		730,000				28,120	-	CNY 8.34	27,226	
Zhejiang Longsheng Group Co., Ltd.		600,000				28,446	-	CNY 9.65	25,893	
Inner Mongolia Yili Industrial Group Co., Ltd.		260,000				29,611	-	CNY 22.88	26,603	
Dong-E-E-Jiao Co., Ltd.		66,600				18,275	-	CNY 39.55	11,779	
Focus Media Information Technology Co., Ltd.		800,000				25,313	-	CNY 5.24	18,747	
Guoxuan High-Tech Co.,		153,378				12,756	-	CNY 11.56	7,929	
Shenzhen Investment Ltd.		1,250,000				16,339	-	HKD 2.59	12,694	
Shenzhou International Group Holdings, Ltd.		37,000				13,592	-	HKD 88.75	12,876	
Others		2,722,400				107,380	-		92,169	Note
Subtotal						279,832			235,916	
Total						557,940			**469,085**	
Valuation adjustment						(88,855)				
Net amount						**469,085**				
Grand Total						**$ 10,850,674**				

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

Capital Securities Corporation

Statement of receivable for securities provided as collateral

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Name of security	Shares or units	Amount	Note
Others	528,296,000	$ 9,758,665	Note: The amount of single security is under 5% of the subject.
Less: allowance for doubtful accounts		(2,075)	
Total		**$ 9,756,590**	

Statement of derivative instruments

Name of derivative instrument	Description	Fair Value	Note
Derivative financial asset	Futures margin - proprietary fund	$ 147,773	
	IRS asset swaps	13,855	
	Asset swap options - long position	4,072	
	Structured notes	3,075	
	Currency swaps	1,690	
	Total	**$ 170,465**	
Derivative financial liability	Stock warrants issued	$ 13,077,314	
	Stock warrants repurchased	(12,617,507)	
	Structured notes	8,914	
	Asset swap options - short position	208,927	
	Put options	237	
	IRS asset swaps	763	
	Interest rate swaps	544	
	Currency swaps	31,575	
	Total	**$ 710,767**	

Capital Securities Corporation

Statement of accounts receivable

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Client name	Description	Amount	Note
TWSE&TPEx, etc.	Receivables on securities sold	$ 2,899,035	
〃	Settlement	712,274	
Subsidiaries	Commission receivable	12,942	
Customers of the Brokerage	Receivable on securities purchased by customers	8,642	Note: The amount of single client is under 5% of the subject.
〃	Interests receivable - financing	231,389	〃
Others	Interests receivable - others	316,206	〃
〃	Others	72,776	〃
	Subtotal	4,253,264	
	Less: allowance for doubtful accounts	(1,713)	
	Total	**$ 4,251,551**	

Statement of prepayments

Item	Description	Amount	Note
TWSE	Warrants listing fees	$ 2,100	
Hua Nan Commercial Bank	Securities lending guarantee fees	1,360	
Others	Prepaid other insurance	3,194	Note: The amount of single item is under 5% of the subject.
〃	Prepaid repairs and maintenance	1,897	〃
〃	Prepaid informaiton fees	2,115	〃
〃	Prepaid rentals	1,799	〃
〃	Others	5,619	〃
Total		**$ 18,084**	

Capital Securities Corporation

Statement of other receivables

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Other receivable	Default receivable	$ 30,500	
	Interest receivable-others	1,245	
	Service prepayment receivable	3,635	
	Bank allocation fees receivable	2,668	
	Others	4,126	Note: The amount of single item is under 5% of the subject.
	Subtotal	42,174	
Less: allowance for doubtful accounts		(19,806)	
	Total	$ 22,368	

Statement of other current assets

Item	Description	Amount	Note
Temporary debits		$ 22,278	
Restricted assets - current		671,822	
Amounts held for settlement		81,748	
Receipts under custody from customers' security subscription		14,704	
Amounts held for each customer of separate account ledger in settlement account		26,969	
Others		12	Note: The amount of single item is under 5% of the subject.
Total		$ 817,533	

Capital Securities Corporation

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

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Beginning Balance		Addition		Decrease		Ending Balance		Collateral	Note
	Par value	Fair value	Par value	Amount	Par value	Amount	Par value	Fair value		
A03104	$ 135,000	135,958	-	-	-	856	135,000	135,102	Yes	Interest payment every year
A05113	50,000	50,057	-	-	-	50	50,000	50,007	〃	〃
Total		$ **186,015**		**-**		**906**		**185,109**		

Capital Securities Corporation

Statement of financial assets measured at amortized cost - non-current

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

	Beginning Balance		Addition		Decrease		Ending Balance				
Name	Shares or units	Fair value	Shares or units	Amount	Shares or units	Amount	Shares or units	Fair value	Accumulated impairment	Collateral	Note
Taiwan Depository & Clearing Corporation	4,669,495	$ 339,145	116,737	-	-	22,009	4,786,232	317,136	Not applicable	No	
Taiwan Futures Exchange Corporation	4,177,710	319,887	5,345,551	395,691	-	-	9,523,261	715,578	〃	〃	
Taiwan Stock Exchange Corporation	390,102	32,203	3,600,000	348,453	-	-	3,990,102	380,656	〃	〃	
Global Securities Finance Corporation	24,186,568	226,386	-	-	-	29,024	24,186,568	197,362	〃	〃	
Others	4,372,491	30,621	904	-	1,640,707	13,737	2,732,688	16,884	〃	〃	Note
Total		**$ 948,242**		**744,144**		**64,770**		**1,627,616**			

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

Capital Securities Corporation

Statement of changes in investments accounted for using the equity method

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

	Beginning Balance		Addition		Decrease		Ending Balance			Market Value or Net Assets Value		
Name of investee	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Percentage of ownership	Amount	Unit price	Total amount	Collateral
Capital Investment Management Corp.	7,000,000	$ 107,158	-	10,522	-	10,990	7,000,000	100.00 %	106,690	15.24	106,690	No
CSC International Holdings Ltd.	45,000,000	1,593,416	-	49,829	-	6,343	45,000,000	100.00 %	1,636,902	36.38	1,636,902	"
Capital Futures Corp.	90,166,223	2,606,869	9,016,622	480,656	-	258,986	99,182,845	56.21 %	2,828,539	45.15	4,478,105	"
Capital Insurance Advisory Corp.	500,000	90,506	-	58,876	-	64,650	500,000	100.00 %	84,732	169.46	84,732	"
Capital Insurance Agency Corp.	740,000	41,547	-	1,356	-	2,146	740,000	100.00 %	40,757	55.08	40,757	"
CSC Venture Capital Corp.	100,000,000	997,913	-	173	-	143,180	100,000,000	100.00 %	854,906	8.55	854,906	"
Taiwan International Securities (B.V.I) Corp.	300	881	-	232	-	766	300	100.00 %	347	1,156.67	347	"
Taiwan International Futures Corp.	11,999,721	-	-	242,679	11,999,721	242,679	-	- %	-	-	-	"
Taiwan International Securities Investment Consulting Corp.	999,200	13,031	-	-	-	232	999,200	99.92 %	12,799	12.81	12,799	"
Capital Investment Trust Corp.	-	-	33,067,507	1,360,532	-	99,203	33,067,507	20.00 %	1,261,329	22.50	744,019	"
Total		$ 5,451,321		2,204,855		829,175			6,827,001		7,959,257	

Note 1: The addition of Capital Investment Management Corp. is due to gains on investment amounted to $10,522; the decrease is due to the declared for cash diviends distribution by the investee amounted to $10,990.

Note 2: The addition of CSC International Holdings Ltd. is due to allocation of exchange differences on translation of foreign operations amounted to $49,829; the decrease is due to recognize investment losses amounted to $6,343.

Note 3: The addition of Capital Futures Corp. is due to recognize exchange differences on translation of foreign operation amounted to $10,642, investment profits amounted to $469,488, and unrealised gains from investments in equity instruments measured at fair value through other comprehensive income amounted to $526; the decrease is due to the declared for cash diviends distribution by the investee amounted to $258,777, and the actuarial losses on defined benefit plans amounted to $209.

Note 4: The addition of Capital Insurance Advisory Corp. is due to recognize investment profits amounted to $58,876; the decrease is due to the declared for cash diviends distribution by the investee amounted to $64,650.

Note 5: The addition of Capital Insurance Agency Corp. is due to recognize investment profits amounted to $1,356; the decrease is due to the declared for cash diviends distribution by the investee amounted to $2,146.

Note 6: The addition of CSC Venture Capital Corp. is due to recognize gain on disposal of investments in equity instruments measured at fair value through other comprehensive income amounted to $173; the decrease is due to recognize investment losses amounted to $2,109, and unrealised losses from investments in equity instruments measured at fair value through other comprehensive income amounted to $141,071.

Note 7: The addition of Taiwan International Securities (B.V. I) Corp. is due to recognize exchange differences on translation of foreign operations amounted to $232; the decrease is due to recognize investment losses amounted to $766.

Note 8: The addition of Taiwan International Futures Corp. is due to recognize investment profits amounted to $173,048, and recognize liquidation benefit amounted to $69,631; the decrease is due to residual property distribution in liquidation amounted to $242,679.

Note 9: The decrease of Taiwan International Securities Investment Consulting Corp. is due to recognize investment losses amounted $232.

Note 10: The addition of Capital Investment Trust Corp. is due to increase investment amounted to $1,272,505, and recognize investment profits amounted to $87,155, unrealised gains from investments in equity instruments measured at fair value through other comprehensive income amounted to $797, and actuarial gains on defined benefit plans amounted to $75; the decrease is due to the declared for cash diviends distribution by the investee amounted to $99,203.

Capital Securities Corporation

Statement of changes in property and equipment

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Beginning Balance	Addition	Decrease	Ending Balance	Note
Land	$ 3,211,518	278,253	(25,548)	3,464,223	Land provides as collateral amounted to $2,839,508.
Buildings	1,311,002	164,497	(14,308)	1,461,191	Undepreciated Buildings provides as collateral amounted to $666,688.
Equipment					
Office	13,467	2,886	(5,929)	10,424	
Computer facilities	303,041	41,246	(64,006)	280,281	
Miscellaneous	126,179	27,471	(41,865)	111,785	
Leasehold improvements	112,241	27,134	(13,484)	125,891	
Total	**$ 5,077,448**	**541,487**	**(165,140)**	**5,453,795**	

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

Capital Securities Corporation

Statement of changes in accumulated depreciation of property and equipment

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Beginning Balance	Addition	Decrease	Ending Balance	Note
Buildings	$ 499,429	59,913	(2,244)	557,098	
Equipment					
Office	8,393	1,503	(5,929)	3,967	
Computer facilities	214,691	58,745	(64,006)	209,430	
Miscellaneous	68,963	14,936	(41,865)	42,034	
Leasehold improvements	54,000	23,414	(13,362)	64,052	
Total	**$ 845,476**	**158,511**	**(127,406)**	**876,581**	

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

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

(1) Buildings : 3~55 years

(2) Transportation equipment : 5 years

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

(4) Miscellaneous equipment : 5~10 years

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

Capital Securities Corporation

Statement of changes in investment property

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Beginning Balance	Addition	Decrease	Ending Balance	Note
Land	$ 1,753,624	25,548	(278,253)	1,500,919	The property is subsequantly measured at cost method, the depreciation is recognized on a straight-line basis, and the useful life is estimated 3~50 years.
Buildings	1,004,386	13,983	(163,463)	854,906	
Total	**$ 2,758,010**	**39,531**	**(441,716)**	**2,355,825**	

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

Note 2: Land provides as collateral amounted to $1,025,912, and undepreciated buildings provides as collateral amounted to $332,191.

Statement of changes in accumulated depreciation of investment property

Item	Beginning Balance	Addition	Decrease	Ending Balance
Buildings	**$ 345,834**	**21,019**	**(32,231)**	**334,622**

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

Capital Securities Corporation

Statement of deferred income tax assets

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Tax loss carried forward		$ 104,015	
Unrealized losses on foreign investments under equity method		6,542	
Others		5,043	Note: The amount of single item is under 5% of the subject.
		$ 115,600	

Statement of other non-current assets

Item	Description	Amount	Note
Guarantee deposited for business operations	Time deposits within one year and government bonds	$ 802,100	
Settlement fund	Deposited at Taiwan Stock Exchange, Taipei Exchange and Taiwan Futures Exchange	155,126	
Refundable deposits	Buildings rental deposits	30,913	
	Phone rental deposits	421	
	Membership deposits	31,700	
	Others	15,965	
	Subtotal	78,999	
Deferred fee	Others	10,783	
Prepayments for business facilities		8,005	
Others	Overdue receivables	221,235	
	Less: allowance for doubtful accounts	(214,374)	
	Net amount	6,861	
Total		**$ 1,061,874**	

Capital Securities Corporation
Statement of financial liabilities at fair value through profit or loss(excluding derivatives) - current
(Liabilities on sale of borrowed securities)
December 31, 2018
(Expressed in Thousands of New Taiwan Dollars)

						Fair Value			
Name of financial instrument	**Description**	**Shares or units**	**Par value (Dollars)**	**Total amount**	**Interest rate**	**Unit price (Dollars)**	**Total amount**	**Fair value changes is attributable to the changes in credit risk**	**Note**
Hedged									
Fubon SSE 180 Leveraged 2X Index ETF		1,011,000		$ 53,121		28.35	28,662	-	Warrants-hedged
Cathay FTSE China A50 Daily Leveraged 2X ETF		2,438,000		93,082		20.46	49,881	-	"
Yuanta Daily CSI300 Bull 2X ETF		2,000,000		44,681		10.74	21,480	-	"
Others		5,289,661		393,913			368,050	-	Note 2
Subtotal				584,797			468,073		
Redeem liabilities on sale of borrowed securities-hedged									
Redeem liabilities on sale of borrowed securities-Yuanta Daily CSI300 Bull 2X ETF		142,000		(2,230)		10.74	(1,525)		
Subtotal				(2,230)			(1,525)		
Non-hedged									
Cathay FTSE China A50 Daily Leveraged 2X ETF		2,097,000		82,954		20.46	42,905	-	
Others		105,000		718			975	-	Note 2
Subtotal				83,672			43,880		
Redeem liabilities on sale of borrowed securities-non-hedged									
Redeem liabilities on sale of borrowed securities-Cathay FTSE China A50 Daily Leveraged 2X ETF		2,097,000		(59,151)		20.46	(42,905)		
Others		105,000		(714)			(975)		
Subtotal				(59,865)			(43,880)		
Total				606,374			**$ 466,548**		
Valuation adjustment				(139,826)					
Net amount				**$ 466,548**					

Note 1: The term of sale of securities is half a year, and would be extended once in accordance with the agreement.
Note 2: The amount of single security is under 5% of the subject.

Capital Securities Corporation

Statement of short-term borrowings

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Type	Description	Ending balance	Contract term	Range of interest rate	Loan Commitment	Collateral	Note
Collateralized loan	First Commercial Bank	$ 1,255,394	2018/11/16~2020/11/16	3.22%~4.40%	2,100,000	Property	
Collateralized loan	Cathay United Bank	380,000	2018/05/04~2019/05/04	0.65%	380,000	Certificate of deposits	
Credit loan	Cathay United Bank	124,000	2018/05/04~2019/05/04	0.65%	2,300,000		
Credit loan	Hua Nan Commercial Bank	2,114,112	2018/01/12~2019/01/12	2.54%~3.53%	5,350,000		
		$ 3,873,506					

Capital Securities Corporation

Statement of bonds sold under repurchase agreements

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

	Contract terms			Amount			
Name of security	Start Date	Maturity date	Range of interest rate	Type	Par value (Dollars)	Turnover	Note
Others	2018/05/30 ~ 2018/12/28	2019/01/02 ~ 2019/12/20	0.35%~4.40%		$ 29,343,321	28,230,524	Note

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

Statement of guarantee deposited for short sales

Name of security	Shares	Amount	Note
YAGEO Corporation	447,000	$ 142,593	
LARGAN Precision Co., Ltd.	44,000	141,460	
Others	50,466,000	2,032,691	Note: The amount of single security is under 5% of the subject.
	50,957,000	**$ 2,316,744**	

Statement of proceeds payable from short sales

Name of security	Shares	Amount	Note
YAGEO Corporation	447,000	$ 148,542	
LARGAN Precision Co., Ltd.	44,000	143,137	
Others	50,466,000	2,311,636	Note: The amount of single security is under 5% of the subject.
	50,957,000	**$ 2,603,315**	

Capital Securities Corporation

Statement of accounts payable

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Client name	Description	Amount	Note
Taipei Exchange	Payable on securities purchased	$ 61,009	
Customers of the brokerage	〃	3,405,480	Note: The amount of single client is under 5% of the subject.
〃	Payable of securities sold by customers	10,731	〃
Subsidiaries	Commission payable	228	
Others	Payable on securities purchased	9,909	Note: The amount of single client is under 5% of the subject.
〃	Others	96,583	〃
	Total	**$ 3,583,940**	

Statement of other payables

Item	Description	Amount	Note
Salary and bonus payable		$ 330,306	
Service charge discounts payable		70,160	
Employees and directors' remuneration		55,922	
Others		166,774	Note: The amount of single item is under 5% of the subject.
Total		**$ 623,162**	

Statement of provisions - current

Item	Description	Amount	Note
Employee benefits liabilities provisions	Compensated absences	**$ 43,530**	

Capital Securities Corporation

Statement of deferred income tax liabilities

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Amortization of operation franchise		$ 42,881	
Amortization of goodwill		362,697	
Land value incremental tax		56,107	
Others		6,794	Note: The amount of single item is under 5% of the subject.
		$ 468,479	

Statement of other non-current liabilities

Item	Description	Amount	Note
Guarantee deposits received	Rental deposits	$ 14,481	
	Others	8,083	
	Subtotal	22,564	
Pension liability payable		581,471	
Others	Contingent liability	48,034	
Total		**$ 652,069**	

Capital Securities Corporation

Statement of brokerage commissions

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

	Brokerage commission				
Month	**TSE market**	**OTC market**	**Securities Lending Fees Income**	**Other brokerage commission**	**Total**
January	$ 184,708	73,444	3,198	11,498	272,848
February	99,569	33,710	1,718	5,732	140,729
March	165,820	63,939	2,466	9,171	241,396
April	144,096	53,870	2,916	3,264	204,146
May	189,833	75,240	3,006	4,980	273,059
June	195,993	70,072	2,290	5,477	273,832
July	179,165	57,806	3,087	6,747	246,805
August	163,822	50,619	3,516	4,846	222,803
September	127,502	36,466	3,298	4,484	171,750
October	135,193	34,862	4,316	6,327	180,698
November	128,913	41,303	3,056	5,838	179,110
December	113,445	45,784	2,718	4,649	166,596
Total	**$ 1,828,059**	**637,115**	**35,585**	**73,013**	**2,573,772**

Capital Securities Corporation

Statement of underwriting commissions

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Month	Remuneration	Revenues from underwriting securities on a best efforts basis	Revenues from underwriting processing fee	Revenue from underwriting advisory fees	Other	Total	Note
January	$ 11,556	48	871	1,290	639	14,404	
February	4,257	39	177	1,264	1,350	7,087	
March	3,130	38	556	1,491	470	5,685	
April	1,700	88	361	712	-	2,861	
May	12,131	403	333	1,157	2,700	16,724	
June	3,877	46	506	469	3,700	8,598	
July	14,954	106	2,869	570	550	19,049	
August	3,826	68	424	370	100	4,788	
September	3,361	68	376	385	16	4,206	
October	447	70	298	1,664	1,200	3,679	
November	2,352	62	487	290	520	3,711	
December	309	314	696	291	200	1,810	
Total	**$ 61,900**	**1,350**	**7,954**	**9,953**	**11,445**	**92,602**	

Capital Securities Corporation

Statement of gains (losses) on sale of trading securities

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Revenue from sale of securities	Cost from sale of securities	Net gains (losses) from sale of securities	Note
Dealing				
TSE market:				
Stocks	$ 8,428,778	8,638,544	(209,766)	
OTC market:				
Stocks	6,144,947	6,165,998	(21,051)	
Bonds	119,538,007	119,525,715	12,292	
Convertible bonds	1,145,250	1,118,577	26,673	
Others	4,918	3,486	1,432	
foreign market:				
Stocks	710,342	802,160	(91,818)	
Bonds	1,522,798	1,521,888	910	
Total	**$ 137,495,040**	**137,776,368**	**(281,328)**	
Underwriting				
TSE market:				
Stocks	$ 150,178	140,785	9,393	
OTC market:				
Stocks	11,182	12,864	(1,682)	
Convertible bonds	355,455	333,163	22,292	
Total	**$ 516,815**	**486,812**	**30,003**	
Hedging				
TSE market:				
Stocks	$ 40,979,099	42,091,300	(1,112,201)	
OTC market:				
Stocks	12,956,379	13,200,916	(244,537)	
Convertible bonds	3,827,043	3,625,336	201,707	
foreign market:				
Stocks	954	1,114	(160)	
Total	**$ 57,763,475**	**58,918,666**	**(1,155,191)**	

Capital Securities Corporation

Statement of interest revenue

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Interest revenue - margin purchase		$ 767,184	
Interest revenue - bonds		1,100,550	
Others		61,497	
Total		**$ 1,929,231**	

Statement of financial costs

Item	Description	Amount	Note
Interest expense - bonds with repurchase agreements		$ 578,535	
Interest expense - short selling		7,251	
Interest expense - asset swaps		9,004	
Interest expense - bank borrowings		104,741	
Others		465	Note: The amount of single item is under 5% of the subject.
Total		**$ 699,996**	

Capital Securities Corporation

Statement of employee benefits, depreciation, amortization, and other operating expenses

For the year ended December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	2018	2017	Note
Employee benefit expenses			
Salary expense	$ 1,666,122	1,779,466	
Labor and national health insurance expense	137,448	132,942	
Pension expense	85,655	82,020	
Remuneration of directors	38,238	65,201	
Others	46,914	47,822	
Depreciation expense	145,380	154,790	
Amortization expense	25,967	29,968	
Others	1,238,245	1,250,760	
	$ 3,383,969	**3,542,969**	

For the year ended December 31, 2018 and 2017, the total employees in the Company are 1,827 peoples and 1,863 peoples, respectively, and the number of directors which are non-employees are 9 peoples and 10 peoples.

CAPITAL SECURITIES CORPORATION

Other Disclosures in Financial Reports

For the Year Ended December 31, 2018

Capital Securities Corporation

Review Report of Other Disclosures in Financial Reports

To the Board of Directors
Capital Securities Corporation:

We have audited the financial statements of Capital Securities Corporation for the year ended December 31, 2018. Our audit was made in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and Republic of China generally accepted auditing standards, and we issued the audit report thereon on March 29, 2019. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The attached "Other Disclosures in Financial Reports" (Other Disclosures) is prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms. We have reviewed the information included in the Other Disclosures in accordance with article 32 paragraph 2 of Regulations Governing the Preparation of Financial Reports by Securities Firms.

Based on our review, the Other Disclosures in Financial Reports of Capital Securities Corporation for the year ended December 31, 2018 are in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms. The financial information disclosed is consistent with the basic financial statements and does not need any modification.

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

KPMG

Taipei, Taiwan (Republic of China)
March 29, 2019

Notes to Readers

The accompanying other disclosures in financial reports are intended only to present the statement of financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such other disclosures in financial reports are those generally accepted and applied in the Republic of China.

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

CAPITAL SECURITIES CORPORATION
Other Disclosures in Financial Reports
For the year ended December 31, 2018

(1) Information on business conditions

(a) Significant business matters for the last 5 years

(i) Acquisition or merger: None

(ii) Demerger: None

(iii) Investments in affiliated enterprises

(In Thousands of New Taiwan Dollars)

Year	2018		2017		2016		2015		2014	
Name of investee	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares
Capital Investment Management Corp	106,690	7,000,000	107,158	7,000,000	105,330	7,000,000	105,094	7,000,000	104,867	7,000,000
CSC International Holdings Ltd.	1,636,902	45,000,000	1,593,416	45,000,000	1,742,614	45,000,000	1,814,659	45,000,000	1,776,294	45,000,000
Capital Futures Corp.	2,828,539	99,182,845	2,606,869	90,166,223	1,869,075	72,227,136	1,741,933	72,227,136	1,588,805	70,810,918
Capital Insurance Advisory Corp.	84,732	500,000	90,506	500,000	104,489	500,000	72,720	389,000	45,245	389,000
Capital Insurance Agency Corp.	40,757	740,000	41,547	740,000	52,200	740,000	48,274	740,000	58,021	740,000
Taiwan International Futures Corp.	-	-	-	11,999,721	-	11,999,721	-	11,999,721	-	11,999,721
Taiwan International Securities (B.V. I.) Corporation	347	300	881	300	(157)	300	641	300	1,514	300
Taiwan International Securities Investment Consulting Corp.	12,799	999,200	13,031	999,200	13,298	999,200	13,550	999,200	13,769	999,200
CSC Venture Capital Corp.	854,906	100,000,000	997,913	100,000,000	1,006,512	100,000,000	-	-	-	-
Capital Investment Trust Corporation	1,261,329	33,067,507	-	-	-	-	-	-	-	-

(iv) Reorganization: None

(v) Acquisition or disposal of major assets: None

(vi) Significant changes in operation method (including sales system) or business activity: None

(Continued)

(b) Remuneration to directors, supervisors, the president, vice presidents, and Chairmen of the board and presidents rehired as consultants after retiring from the securities firms or its affiliated enterprises and related information: None

(i) Remuneration to Directors (including Independent Directors) (individual disclosure of names and remuneration)

(In Thousands of New Taiwan Dollars)

Title	Name	Director's remuneration								Ratio of total remuneration (A+B+C+D) to net income(%)		Relevant remuneration received by Directors who are also employees								Ratio of total remuneration (A+B+C+D+E+F+G) to net income(%)		Paid to Directors from Non-consolidated affiliates
		Compensation(A)		Severance pay and Pension(B)		Compensation to Directors (C)		Allowances (D)				Salaries, bonuses, special allowances etc (E)		Severance pay and Pension (F)		Profit Sharing-Employee Bounes (G)						
																The Company		All companies included in the consolidated statements				
		The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	Cash	Stock	Cash	Stock	The Company	All companies included in the consolidated statements	
Chairmen	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	20,548	20,548	-	-	8,066	8,066	876	916	2.09 %	2.10 %	-	-	-	-	-	-	-	-	2.09 %	2.10 %	None
Director	Yin Feng Enterprise Co., Ltd. Representative:LIU, CHING-TSUN	-	-	-	-	2,689	2,689	150	310	0.20 %	0.21 %	-	-	-	-	-	-	-	-	0.20 %	0.21 %	None
Compensation received by director for providing service to any Company included in the consolidated financial statements (e.g. consultancy service without the title of an employee) in the most recent year, except those disclosed in the above table: NT$ 0.																						

Note: The above-mentioned figures include expenses for Company cars, but do not include compensation paid to Company drivers(totaled NT$974 thousands).

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

(In Thousands of New Taiwan Dollars)

Title	Name	Director's remuneration								Ratio of total remuneration (A+B+C+D) to net income(%)		Relevant remuneration received by Directors who are also employees								Ratio of total remuneration (A+B+C+D+E+F+G) to net income(%)		Paid to Directors from Non-consolidated affiliates
		Compensation (A)		Severance pay and Pension (B)		Compensation to Directors (C)		Allowances (D)				Salaries, bonuses, special allowances etc (E)		Severance pay and Pension (F)		Profit Sharing-Employee Bounes (G)						
																The Company		All companies in the consolidated financial statements				
		The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	Cash	Stock	Cash	Stock	The Company	All companies included in the consolidated statements	
Director	Kwang Hsing Industrial Co.,Ltd. Representative: YANG, CHE-HUNG (Note2), TING,HSUEH-WEN (Note3)	2,733	3,213	22	22	24,196	25,296	1,510	1,610	2.02 %	2.14 %	-	-	-	-	-	-	-	-	2.02 %	2.14 %	None
Director	San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING																					
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIHMING																					
Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING																					
Director/ Vice Chairman	Tai Chun Enterprise Co., Ltd. Representative: KUO, GUAN-CHYUN (Note4), CHAO,YONG-FEI (Note5)																					
Director	Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI																					
Independenct Director	HWANG, JYH-DEAN																					
Independenct Director	LIN, HSIN-HUI																					
Independenct Director	SHEA, JIA-DONG																					
Compensation received by director for providing service to any Company included in the consolidated financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: NT$ 0.																						

Note1: The above-mentioned figures include expenses for Company cars, but do not include compensation paid to Company drivers(totaled NT$136 thousands).

Note2: Resigned on 2018/03/07.

Note3: Elected and on board on2018/03/08.

Note4: Resigned on 2018/10/10.

Note5: Elected and on board on 2018/10/11.

(Continued)

Remuneration bracket table

<table>
<tr><th rowspan="3">Range of remuneration paid to directors</th><th colspan="4">Name of directors</th></tr>
<tr><th colspan="2">Sum of the First 4 items (A+B+C+D)</th><th colspan="2">Sum of the First 7 items (A+B+C+D+E+F+G)</th></tr>
<tr><th>The Company</th><th>All companies included in the consolidated statements (H)</th><th>The Company</th><th>All companies included in the consolidated statements (I)</th></tr>
<tr><td>Under NT$ 2,000,000</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NT$2,000,000(included)～ NT$5,000,000(excluded)</td><td>Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG, TING, HSUEH-WEN
San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING
Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN
Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING
Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING
Tai Chun Enterprise Co., Ltd. Representative: KUO, GUAN-CHYUN, CHAO, YONG-FEI
Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI
HWANG, JYH-DEAN, SHEA, JIA-DONG, LIN, HSIN-HUI</td><td>Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG, TING, HSUEH-WEN
San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING
Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN
Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING
Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING
Tai Chun Enterprise Co., Ltd. Representative: KUO, GUAN-CHYUN, CHAO, YONG-FEI
Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI
HWANG, JYH-DEAN, LIN, HSIN-HUI</td><td>Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG, TING, HSUEH-WEN
San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING
Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN
Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING
Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING
Tai Chun Enterprise Co., Ltd. Representative: KUO, GUAN-CHYUN, CHAO, YONG-FEI
Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI
HWANG, JYH-DEAN, SHEA, JIA-DONG, LIN, HSIN-HUI</td><td>Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG, TING, HSUEH-WEN
San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING
Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN
Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING
Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING
Tai Chun Enterprise Co., Ltd. Representative: KUO, GUAN-CHYUN, CHAO, YONG-FEI
Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI
HWANG, JYH-DEAN, LIN, HSIN-HUI</td></tr>
<tr><td>NT$5,000,000(included)～ NT$10,000,000(excluded)</td><td>-</td><td>HSU, CHIA TUNG</td><td>-</td><td>HSU, CHIA TUNG</td></tr>
<tr><td>NT$10,000,000(included)～ NT$15,000,000(excluded)</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NT$15,000,000(included)～ NT$30,000,000(excluded)</td><td>Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH</td><td>Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH</td><td>Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH</td><td>Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH</td></tr>
<tr><td>NT$30,000,000(included)～ NT$50,000,000(excluded)</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NT$50,000,000(included)～ NT$100,000,000(excluded)</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Over NT$100,000,000</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>11</td><td>11</td><td>11</td><td>11 persons</td></tr>
</table>

(Continued)

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

(In Thousands of New Taiwan Dollars)

Title	Name	Salary (A)		Severance pay and Pension (B)		Bonus and special allowances (C)		Profit-sharing-Employee bonuses (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation rceeived from non-consolidated affiliates
		The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company		All companies included in the consolidated statements		The Company	All companies included in the consolidated statements	
								Cash	Stock	Cash	Stock			
Chief Strategy Officer	WANG, JIUNN-CHIH	29,687	32,180 (Note 5)	7,557 (Note 4)	10,197 (Note 4 and 5)	57,420	61,826 (Note 5)	2,336	-	2,336 (Note 5)	-	6.88 %	7.56 %	None
President / Chief Informaiton Offiicer	CHAO, YONG-FEI (Note 2)													
President	CHIA, CHUNG-TAO													
Executive Vice President	CHEN, MIN-HSI													
Executive Vice President	HUANG, CHI-MING													
Executive Vice President	FANG, CHIH-HONG													
Executive Vice President	ZHANG, PEI-WEN													
Executive Vice President	GUO, MEI-LING (Note3)													
Executive Vice President	TAN, DE-CHENG													
Senior Executive Vice President	YANG, JIE-BIN													
Executive Vice President	ZHANG, JIA-WEN													
Executive Vice President	LAI, JUN-FU													
Executive Vice President	LIN, YAN-FEN													
Executive Vice President	MA, JIA-HUAN													
Executive Vice President	WENG,CHIN-NENG													

Note1: The above-mentioned figures include expenses for Company cars, but do not include compensation paid to Company drivers(totaled NT$584 thousands).

Note2: Transferred as vice president and chief information officer on 2018/10/17.

Note3: Retired on 2018/12/17.

Note4: Including a sum of NT$6,494 thousands paid as actual payment of retirement pension and a sum of NT$1,063 thousands paid as separation pay in the year .

Note5: Including the remuneration received from the Company's general manager CHIIA, CHUNG TAO during his tenure (2018/1~2018/10) in the subsidiary Capital Future Corporation.

(Continued)

Remuneration bracket table

Range of remuneration	Name of the president and vice presidents	
	The Company	All companies included in the consolidated statements (E)
Under NT$ 2,000,000	WANG, JIUNN-CHIH, CHIA, CHUNG-TAO, CHEN, MIN-HSI, ZHANG, JIA-WEN, LAI, JUN-FU	WANG, JIUNN-CHIH, CHEN, MIN-HSI, ZHANG, JIA-WEN, LAI, JUN-FU
NT$2,000,000(included)～ NT$5,000,000(excluded)	HUANG, CHI-MING, FANG, CHIH-HONG, ZHANG, PEI-WEN, WENG, CHIN-NENG	HUANG, CHI-MING, FANG, CHIH-HONG, ZHANG, PEI-WEN, WENG, CHIN-NENG
NT$5,000,000(included)～ NT$10,000,000(excluded)	TAN, DE-CHENG, MA, JIA-HUAN	TAN, DE-CHENG, MA, JIA-HUAN
NT$10,000,000(included)～ NT$15,000,000(excluded)	CHAO, YONG-FEI, GUO, MEI-LING, LIN, YAN-FEN	CHAO, YONG-FEI, CHIA, CHUNG-TAO, GUO, MEI-LING, LIN, YAN-FEN
NT$15,000,000(included)～ NT$30,000,000(excluded)	YANG, JIE-BIN	YANG, JIE-BIN
NT$30,000,000(included)～ NT$50,000,000(excluded)	-	-
NT$50,000,000(included)～ NT$100,000,000(excluded)	-	-
Over NT$100,000,000	-	-
Total	15	15

(iv) Chairmen of the board and presidents rehired as consultants after retirement: None

(Continued)

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

(In Thousands of New Taiwan Dollars)

	2018	2017	Difference
Number of non-supervisor employees	1,538	1,579	(41)
Non-supervisor employees' annual average employee benefit expenses	958	988	(30)

(d) Labor-management relations

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

1) Employee welfare

In 1990, the Company registered the establishment of Employee Welfare Committee with the authority in order to provide benefits such as wedding/funeral subsidies, club activity subsidies, and group trips. The budget comes from the Welfare fund and its interests, 0.5% of employee salaries, 0.1% of company's revenue and 1% of the paid-in capital. Overall, the Employee Welfare Committee operates with adequate budget and has been able to carry out its plans.

2) Employee education and training

In an attempt to build a strong talent base and improve management performance, the Company has been organizing a broad variety of training including: orientation, specialization training, management reserve training, management growth training, and seminars hosted by renowned experts and scholars on the topic of finance. The Company trained its sales force intensively using nation-wide video conferencing and broadcast to help them develop professional qualities and skills.

3) Pension system

The Company reported the established its Employee Pension Fund Supervisory Committee in November 1994 for the security of employees' lifestyle after retirement, and thereby maintain a sustainable and harmonic relationship between employees and the employer; the committee's responsibilities are to implement pension guidelines established in 1989, which stated the pension reserve will be contributed within 4% of the total salaries approved by Revenue Service Office monthly. Since the enactment of Labor Standards Act in April 1998, the Company has been making pension fund contributions into a dedicated account held with Bank of Taiwan under the committee's name. All employees who meet the criteria specified in the pension policy are eligible to participate. Following the enactment of Labor Pension Act in July 2005, employees are given the choice to opt for the new pension system or stay with the old plan. For those who opted for the new system, the Company has been contributing an amount equal to 6% of employees' monthly salaries into their personal pension fund accounts.

4) Other major agreements: None.

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

(iii) Violation against Labor Standards Act: None

(Continued)

(e) Internal control system

(i) Statement of the internal control system: Please see the attachment.

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

(2) Financial Summary

(a) Summary balance sheet and s comprehensive income statement

(i) Summary balance sheet

(In Thousands of New Taiwan Dollars)

Item	Year	Financial informationfor the last 5 years (Note1)				
		2018	2017	2016	2015	2014
Current assets		61,469,761	93,599,832	65,616,894	58,594,636	52,867,228
Property and equipment		4,577,214	4,231,972	4,389,956	4,535,525	4,770,367
Other assets		15,381,441	13,311,599	13,000,064	12,061,158	12,073,701
Current liabilities	Before dividend	47,025,844	78,368,174	51,991,187	43,403,662	37,422,576
	After dividend	Note 2	78,801,989	52,793,745	44,515,507	38,844,020
Non-current liabilities		1,430,580	1,353,599	1,495,179	1,497,057	1,190,240
Capital stock		23,209,081	21,690,730	22,690,730	23,190,730	23,690,730
Retained earnings	Before dividend	6,209,696	6,790,451	4,763,521	4,697,083	4,598,641
	After dividend	Note 2	4,838,285	3,960,963	3,585,238	3,177,197
Total assets		81,428,416	111,143,403	83,006,914	75,191,319	69,711,296
Total liabilities	Before dividend	48,456,424	79,721,773	53,486,366	44,900,719	38,612,816
	After dividend	Note 2	80,155,588	54,288,924	46,012,564	40,034,260
Total equity	Before dividend	32,971,992	31,421,630	29,520,548	30,290,600	31,098,480
	After dividend	Note 2	30,987,815	28,717,990	29,178,755	29,677,036

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

Note 2: Appropriation of 2018 earnings had yet to be resolved in a shareholder meeting.

(ii) Summary comprehensiv income statement

(In Thousands of New Taiwan Dollars)

Item / Year	Financial information for the last 5 years				
	2018	2017	2016	2015	2014
Income	4,922,660	6,621,232	4,241,538	5,003,528	5,718,477
Expenses	4,303,491	4,356,598	3,538,615	3,824,405	4,004,729
Share of the profit or loss of associates and joint ventures accounted for using the equity method	790,995	476,853	369,739	314,198	261,631
Other gains and losses	428,281	341,867	295,432	291,025	289,924
Income before tax	1,838,445	3,083,354	1,368,094	1,784,346	2,265,303
Net income (Loss)	1,408,865	2,893,600	1,196,756	1,549,327	2,025,305
Earnings per share (in New Taiwan dollars)	0.61	1.25	0.49	0.61	0.80

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

(Continued)

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

Year	Name of the CPAs	Auditor's opinion
2018	LEE, FENG HUI CHUNG, TAN TAN	Unqualified
2017	LEE, FENG HUI CHUNG, TAN TAN	Unqualified
2016	LEE, FENG HUI CHUNG, TAN TAN	Unqualified
2015	LEE, FENG HUI CHEN, FU-WEI	Unqualified
2014	LEE, FENG HUI CHEN, FU-WEI	Unqualified

(b) Financial analysis

Item	Year	Financial ratios analysis for the most recent five years				
		2018	**2017**	**2016**	**2015**	**2014**
Capital structure analysis (%)	Debit ratio	59.51	71.73	64.44	59.72	55.39
	Long-term capital to property, plant and equipment	751.61	774.47	706.52	700.86	676.86
Liquidity analysis (%)	Current ratio	130.71	119.44	126.21	135.00	141.27
	Quick ratio	130.68	119.41	126.16	134.96	141.21
Profitability analysis(%)	Return on total assets (%)	1.46	2.98	1.51	2.14	2.95
	Return on equity (%)	4.38	9.50	4.00	5.05	6.62
	Operating income to paid-in capital Ratio	2.67	10.44	3.10	5.08	7.23
	Pre-tax income to paid-in capital ratio	7.92	14.22	6.03	7.69	9.56
	Net Margin (%)	28.62	43.70	28.22	30.96	35.42
	Earnings per share (NT$)	0.61	1.25	0.49	0.61	0.80
Cash Flow (%)	Cash flow ratio	20.44	-	-	14.83	-
	Cash flow adequacy ratio	190.52	91.81	118.20	538.41	126.55
	Cash flow reinvestment ratio	26.02	-	-	15.28	-
Special Purpose Ration(%)	Debt to net worth ratio	146.96	253.72	181.18	148.23	124.16
	Fixed assets to total assets ratio	6.70	4.57	6.26	7.42	8.64
	Underwriting securities to quick assets ratio	2.10	1.71	0.83	0.62	0.76
	Margin trading to equity ratio	29.60	45.81	39.17	47.20	62.52
	Short-sale balance to equity ratio	14.92	15.04	12.43	14.09	15.52

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

Variations in the last 2 years:

(i) The decrease of return on total assets, return on equity, operating profit as a percentage of paid-in capital, pre-tax income as a percentage of paid-in capital and net margin was mainly due to the net losses on sale of trading securities, resulting in economic recession.

(ii) Please refer to Note (f)(i) Liquidity analysis for the last 2 years for cash flow adequacy ratio.

(Continued)

(iii) The decrease of total liabilities to equity was mainly due to a decrease of bonds sold under repurchase agreements; the decrease of margin trading balance to net worth ratio was mainly due to a decrease of receivable for securities provided as collateral, resulting in declining demand for securities financing.

(iv) The increase of fixed assets to total assets and underwritten securities to quick asset ratio was mainly due to a decrease in total assets, resulting in overseas bond investment declining.

(c) Financial difficulties that the company and affiliated enterprises have encountered in the most recent fiscal year, and the impact on the company's financial condition: None

(d) Financial position

(In Thousands of New Taiwan Dollars)

Year / Item	2018	2017	Difference Amount	Difference %
Current assets	61,469,761	93,599,832	(32,130,071)	(34.33)
Property and equipment	4,577,214	4,231,972	345,242	8.16
Other assets	15,381,441	13,311,599	2,069,842	15.55
Current liabilities	47,025,844	78,368,174	(31,342,330)	(39.99)
Non-current liabilities	1,430,580	1,353,599	76,981	5.69
Capital stock	23,209,081	21,690,730	1,518,351	7.00
Retained earnings	6,209,696	6,790,451	(580,755)	(8.55)
Total assets	81,428,416	111,143,403	(29,714,987)	(26.74)
Total liabilities	48,456,424	79,721,773	(31,265,349)	(39.22)
Total equity	32,971,992	31,421,630	1,550,362	4.93

Explanation to major variations:

(i) Current assets: Current assets reduced mainly because of lower investment in offshore bonds compared to the previous year.

(ii) Current liabilities: Current liabilities reduced mainly because of fewer repurchase agreements undertaken compared to the previous year.

(e) Financial performance analysis

(In Thousands of New Taiwan Dollars)

Year / Item	2018	2017	Difference Amount	Difference %
Income	4,922,660	6,621,232	(1,698,572)	(25.65)
Expenses	4,303,491	4,356,598	(53,107)	(1.22)
Proportionate share of gains from associates or joint ventures under equity method	790,995	476,853	314,142	65.88
Other gains and losses	428,281	341,867	86,414	25.28
Income before tax	1,838,445	3,083,354	(1,244,909)	(40.38)
Net income (Loss)	1,408,865	2,893,600	(1,484,735)	(51.31)

(Continued)

Explanation to major variations:

(i) Income: Current year' s income had decreased from the previous year mainly due to increased net loss from sale of securities.

(ii) Share of the profit or loss of associates and joint ventures accounted for using the equity method: Increased from the previous year due to investment gains from newly added associated company - Capital Investment Trust Corp. and gains on liquidation of subsidiary – Taiwan International Futures Corporation.

(iii) Other gains and losses: The increase over the previous year was mainly attributed to gains from disposal of investment and shares held as collateral on security-backed lending that defaulted.

(iv) Pre tax income and net income: Pre-tax profit and net income reduced mainly due to increased net loss from sale of securities.

(f) Case flow analysis

(i) Liquidity analysis for the last 2 year

Item / Year	2018	2017	Change percentage
Cash flow ratio	20.44	-	100.00
Cash flow adequacy ratio	190.52	91.81	107.52
Cash reinvestment ratio	26.02	-	100.00

Analysis of deviation proportion:

Substantial reduction in bond investment position and securities-backed loan receivables caused net cash from operating activities to turn from outflow to an inflow. As a result, cash flow adequacy ratio increased from the previous year.

(ii) Liquidity analysis for the next year

(In Thousands of New Taiwan Dollars)

Cash beginning balance	Net cash flow provided by operating activities	Projected annual Cash outflow	Expected cash surplus (deficit)	Leverage of cash deficits	
				Investment plans	Financing plans
2,554,322	2,764,399	2,228,000	3,090,721	-	-

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

(h) Review and analysis of investment

(i) Investments planned for the next year

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

(Continued)

(ii) Causes of profit or loss incurred on investments in the current year, and any improvements: None

(iii) Investment plans for the coming year

The Company plans to invest in AppWorks Fund III Co., Ltd. and maintain a shareholding percentage of less than 5%. The Company aims to improve overall financial performance through this investment.

(i) Risk analysis

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

1) Interest rate changes affect the Company's earnings mainly in the margin trading and bond trading segments (including government bonds, corporate bonds and repurchase agreements). The Company' s interest rate risk exposure, in risk-equivalent terms, in 2018 was between NT$1,384,626 thousands and NT$2,076,354 thousands, and averaged NT$1,722,245 thousands; exchange rate risk exposure in equivalent terms was between NT$52,172 thousands and NT$101,788 thousands, and averaged NT$65,844 thousands in risk-equivalent terms.

2) Future responsive measures: The Company manages interest rate risk on bond positions by following its risk management policy and operating processes. The Company also engages other financial institutions in interest rate swap agreements and utilizes futures and derivatives to hedge against risks. Following the commencement of international securities and foreign currency derivative services, exchange rate variation now has a larger impact on the Company' s earnings than it used to. In order to mitigate adverse effects of interest rate and exchange rate variations, the Company will be exercising position control and applying dynamic hedge among other market practices.

3) Impacts of inflation on the Company' s revenues and profitability are indirect and immaterial.

(ii) Policies on high-risk and highly leveraged investments, loans to third parties, endorsements/guarantees, and trading of derivatives; describe the main causes of any profits or losses incurred and future responsive measures

1) The Company did not lend capital or offer endorsement or guarantee to any external party in the current year.

2) The Company trades derivatives only within the scope permitted by the authority and the board of directors. It uses stop-losses as a means of risk control for proprietary trading of index futures and options. The Company undertakes Delta hedge using stocks or derivatives, and hedges Gamma risk using warrants or options when issuing new warrants and structured instruments, and thereby keeping risk appetite within the safety range.

3) Future responsive measures: The Company will revise its derivative trading rules at times deemed appropriate, and adopt a market-neutral strategy to hedge exposures and manage deviations arising from the trade of derivatives.

(iii) Financial impacts and responsive measures in the event of changes in local and foreign policies regulations: None

(Continued)

(iv) Financial impacts and responsive measures in the event of technological or industrial changes

1) Impacts: Advancement of Internet technology has changed the ways transactions are made and how services are delivered. This development has prompted securities firms to hire specialized IT talents and upgrade IT equipment to support the growth of electronic trading, and develop software that offers more value-adding services to customers over the Internet.

2) Responsive measures:

a) Hire additional IT personnel and focus on the development of professional knowledge.

b) Acquire new IT equipment.

c) Constantly renew and develop new service software for customers.

d) Conduct regular information security risk assessments and devise appropriate response measures.

(v) Crisis management, impacts, and response measures in the event of a change in corporate image: None

(vi) Expected benefits, risks and responsible measures in relation to mergers and acquisitions

1) The Company engages in mergers and acquisitions mainly for the purpose of expanding the branch network. Doing so may bring higher market share and profitability to the Company's brokerage/margin trading service.

2) Responsive measures: All mergers and acquisitions will be subjected to due diligence assessment by relevant departments. Once merger/acquisition is completed, the Company will ensure proper integration of database by the IT Department and compliance of internal control policy by relevant departments to minimize risks.

(vii) Expected benefits, risks and response measures associated with plant expansions:: None

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

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

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

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

(Continued)

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

Event	Brief of Facts	Litigants	Current progrss	Litigation Start sate	Value of Claim (Unit: Thousand Dollars)
Civil	The Plaintiff claims that the prospectus prepared by ABIT Computer Corporation for the 2002 cash issue contained false information that misled investors and caused them to suffer losses. The Company, being the underwriter of that cash issue, was being held jointly responsible under Article 32 of the Securities and Exchange Act.	Plaintiff: Securities and Futures Investors Protection Center Defendant: ABIT Computer Corporation, Capital Securities Corp. and et al	The case is being reviewed by Taiwan Shilin District Court.	2006.11.23	2,004
Civil	16 customers of Taiwan International Securities Corp. including ○-Hua Lai accused Taiwan International Securities Corp. for illegal sale of GVEC products that caused them US$1,930 thousands in losses (the amount claimed during appeal of the third instance has been reduced to US$704 thousands), and held Taiwan International Securities Corp. liable for compensation. Given the fact that Taiwan International Securities Corp. was dissolved after being merged by the Company, the litigation has since been assumed by the Company.	Plaintiff: 16 customers including ○-Hua Lai (currently only 9 remain, including ○-Rong Huang) Defendant: Capital Securities Corp., Taiwan International Securities Investment Consulting Corp ., Ltd.	According the judgement of the first instance and the second instance, the court enter a judgement the Company did not liable for compensation. It has been confirmed that the Company is not liable to compensate for the losses of 7 customers including ○-Hua Lai. 9 other customers including ○-Rong Huang raised an appeal. The Supreme Court remands the case to the High Court. The High Court enter a judgement the Company and Taiwan International Securities Investment Consulting Corp., Ltd. shall compensate 8 customers including Er-Rong Huang for a total of US$508 thousands. Appeals were raised by the Company Taiwan International Securities Investment Consulting Corp., Ltd. and Ling-Hua Cheng. The Supreme Court remands the case to the High Court again. The case is being reviewed by the High Court.	2010.03.02	USD 704
Criminal	Sales representative Chiang, ○-Ping (dismissed) of the Company's Xisong Branch was found to have scammed customers by forging documents from the Company.	Plaintiff: Capital Securities Corp. Defendant: ○- Ping Chiang	Following an inquisition for trade documents by Yu ○○, a customer of Xisong Branch, the Company discovered that Xisong Branch sales representative ○-Ping,Chiang had forged documents for a non-existent PGN in the Company's name and used them to scam a total of 15 Xisong Branch customers including Yu ○○.	2018.12.18	-

(xii) Other significant risksand response: None

(j) Crisis management mechanisms

(i) The Company establishes relative teams to organize events and continuously operate in order to ensure that the employee can be promptly rescue and the Company can operate effectively when the Company is facing an emergency crisis.

(Continued)

1) Crisis management team: Conduct functional groupings with different positions and abilities. When the crisis occurs, the team will grasp the situation, confirm the damage of personnel and assets, and respond promptly to minimize the damage.

2) Business continuity management team: The team compromises personnel from Information tech, department and representative of each department. When a massive crisis occurs and critical business is unable to function, the team will operate the remote backup system and remove to backup office.

(ii) In November 2008, Capital Securities Corporation passed BS25999 Business Continuity Management System, in September 2013, transferred into International standard certification ISO22301 and been recognized by International Organization for Standardization. To ensure effectiveness of Business Continuity Management System, the Company establishes the committee of Business Continuity Management System and Information service, every half - year holds supervised management meeting which participants are general managers and managers of each department. They discuss and conclude major issues of the Company's Business Continuity Management, communicate and negotiate related topics on management system with every department, and review flaws in current management system to strengthen operation efficiency and effectiveness.

(iii) To ensure the correctness, effectiveness, and usefulness for implementation and system of the Business Continuity Management System planning by the Company, regular drill and training are conducted as follow:

1) Holding employees' emergency evacuation drill every half- year: The Company simulate the scenario when emergency havoc happening and influence employees' lives, notification measures can be proceed and employees can be evacuate rapidly to ensure employees' safety.

2) Conducting remote backup drill every half- year: The Company simulate the scenario when business is interrupted by emergency havoc, starting up remote backup transaction system and office, and conducting service recovery drill by each department to minimize corporation operation risk.

3) Holding employees' training for emergency medical and fire extinguishment every year: To ensure employee have professional knowledge and skills for CPR and fire extinguishment operation to minimize damages when the disaster happened.

(k) Other important matters: None

(Continued)

(3) CPA information

(a) Information on Accountants' Fees

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

(In Thousands of New Taiwan Dollars)

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

Note: Non audit remuneration belongs to capitalization of earnings in 2017.

(i) Non-audit remuneration to external auditors, accounting firms and related businesses that amount to one-quarter or higher of audit remuneration: None

(ii) Any replacement of accounting firm that resulted in the reduction of audit remuneration paid, as compared to the previous year: None

(iii) Any reduction in audit remuneration by more than 15% compared to the previous year: None

(b) Alternation of CPA: None

(c) the Company's Chairman, President, or managers responsible for financial or accounting affairs being employed by the auditor's firm or any of its affiliated company in the last year: None

Capital Securities Corporation

Chairman:

Manager:

Chief accountant: