Stock Code:6005

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Capital Securities Corporation as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Capital Securities Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Capital Securities Corporation
Chairman: Jiunn-Chih Wang
Date: March 29, 2019

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Independent Auditors' Report

To the Board of Directors of
Capital Securities Corporation:

Opinion

We have audited the consolidated financial statements of Capital Securities Corporation and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated 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 and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of 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 consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Group's financial statements are stated as follows:

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1. Valuation of financial instruments

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

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

2. Goodwill impairment

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

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

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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 1.07% and 0.00% of consolidated total assets as of December 31, 2018 and 2017, respectively, and the recognized profit of loss under equity method constituted 3.75% and 0.00% of consolidated net income before income tax for the years ended December 31, 2018 and 2017, respectively.

The Group has prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion with other matters paragraph.

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

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

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

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

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

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

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

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

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

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.We remain solely responsible for our audit opinion.

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

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

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

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

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

Notes to Readers

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

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

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017	
	Assets	**Amount**	**%**	**Amount**	**%**
110000	**Current assets:**				
111100	Cash and cash equivalents (note 6(a))	$ 7,993,419	7	7,104,077	5
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	31,060,874	26	34,737,268	24
113200	Financial assets at fair value through other comprehensive income - current (note 6(b))	10,865,929	9	-	-
113400	Financial assets available for sale - current (notes 6(b) and 8)	-	-	32,807,779	23
114030	Receivable for securities provided as collateral	9,994,568	9	14,886,813	11
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
114070	Customers'margin account (note 6(d))	33,275,630	29	27,302,712	19
114080	Receivable - futures margin	1	-	1	-
114090	Collateral for securities borrowed	454,200	-	914,343	1
114100	Security borrowing margin	412,148	-	931,868	1
114110	Notes receivable	17,181	-	21,811	-
114130	Accounts receivable (note 6(c))	4,607,173	4	6,726,055	5
114150	Prepayments	37,751	-	33,940	-
114170	Other receivables	95,994	-	70,107	-
114300	Leverage contract trading - customers' margin account	228,564	-	151,540	-
114600	Current income tax assets	26,609	-	26,763	-
119000	Other current assets	876,441	1	888,582	1
		101,969,620	87	128,220,873	91
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))	-	-	754,545	1
123200	Financial assets at fair value through other comprehensive income - non-current (note 6(b))	1,911,577	2	-	-
124100	Investments accounted for under equity method (note 6(e))	1,432,537	1	173,588	-
125000	Property and equipment (notes 6(f) and 8)	5,340,960	5	4,966,752	3
126000	Investment property (notes 6(g) and 8)	1,374,014	1	1,796,541	1
127000	Intangible assets (note 6(h))	3,621,070	3	3,628,174	3
128000	Deferred income tax assets (note 6(q))	115,770	-	174,236	-
129000	Other non-current assets	1,439,250	1	1,585,594	1
		15,420,287	13	13,265,445	9
	Total assets	$ 117,389,907	100	141,486,318	100

		December 31, 2018		December 31, 2017	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
210000	**Current liabilities:**				
211100	Short-term borrowings (note 6(i))	$ 3,873,506	3	7,081,698	5
211200	Commercial paper payable (note 6(j))	-	-	4,099,184	3
212000	Financial liabilities at fair value through profit or loss - current (note 6(k))	1,202,215	1	2,903,193	2
214010	Bonds sold under repurchase agreements (note 6(l))	28,032,524	24	47,056,312	33
214040	Guarantee deposited for short sales	2,316,744	2	2,226,264	2
214050	Proceeds payable from short sales	2,603,315	2	2,500,853	2
214070	Securities lending refundable deposits	644,843	1	1,190,277	1
214080	Futures traders'equity (note 6(d))	33,158,826	28	27,268,226	19
214090	Customer equity of separate account ledger in settlement account (note 6(m))	26,969	-	13,479	-
214100	Leverage contract trading - customers' equity	225,899	-	152,840	-
214110	Notes payable	481	-	879	-
214130	Accounts payable (note 6(n))	3,857,893	4	5,778,758	4
214150	Advance receipts	37,089	-	55,544	-
214160	Receipts under custody	120,325	-	346,023	-
214170	Other payables	765,572	1	995,443	1
214200	Other financial liabilities - current (note 6(v))	3,357,887	3	4,509,983	3
214600	Current income tax liabilities	452,432	-	228,401	-
215100	Provisions - current (note 6(p))	50,666	-	49,066	-
219000	Other current liabilities	11,652	-	6,726	-
		80,738,838	69	106,463,149	75
220000	**Non-Current liabilities:**				
224200	Other financial liabilities - non-current (note 6(v))	310,032	-	266,037	-
228000	Deferred income tax liabilities (note 6(q))	478,035	-	479,193	-
229000	Other non-current liabilities	658,266	1	799,939	1
		1,446,333	1	1,545,169	1
	Total liabilities	82,185,171	70	108,008,318	76
	Equity attributable to shareholders of the parent:				
301010	Common stock (note 6(r))	23,209,081	20	21,690,730	15
302000	Capital surplus:				
302010	Premium from stock issuance	1,776,413	1	1,776,413	1
302020	Treasury stock transactions	437,096	-	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	1	1,230,275	1
304020	Special reserve	3,302,811	3	2,709,623	2
304040	Unappropriated earnings (note 6(r))	1,387,250	1	2,850,553	2
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 attributable to the parent company	32,971,992	28	31,421,630	22
306000	**Non-controlling interests**	2,232,744	2	2,056,370	2
	Total equity	35,204,736	30	33,478,000	24
	Total liabilities and equity	$ 117,389,907	100	141,486,318	100

See accompanying notes to consolidated financial statements.

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		2018		2017	
		Amount	%	Amount	%
	Income:				
401000	Brokerage commissions (note 6(t))	$ 4,460,877	58	3,932,846	43
402000	Revenues from securities business money lending	264	-	620	-
403000	Revenue from securities lending	137,401	2	112,679	1
404000	Underwriting commissions (note 6(t))	92,602	1	121,517	1
406000	Commissions on wealth management business	107,619	2	103,629	1
410000	Net gains (losses) on sale of trading securities (note 6(t))	(1,473,896)	(19)	1,592,039	17
421100	Securities management, distribution, and management fees	140,394	2	137,373	1
421200	Interest revenue (note 6(t))	1,978,434	26	2,029,921	22
421300	Dividend revenue	247,080	3	227,475	3
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(t))	(601,871)	(8)	72,955	1
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	177,866	2	(2,549)	-
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	45,706	1	27,654	-
421750	Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	(386,551)	(5)	-	-
422200	Net gains (losses) on stock warrants issued (note 6(t))	1,683,041	22	691,161	8
424100	Futures commission revenues (note 6(t))	453,195	6	770,614	8
424400	Net gains (losses) on derivative instruments - futures (note 6(v))	476,053	6	(421,005)	(5)
424500	Net gains (losses) on derivative instruments - OTC (note 6(v))	112,452	2	(323,820)	(3)
424800	Management fee revenues	323	-	37	-
424900	Consultancy fee revenue	29,695	-	18,009	-
425300	Impairment gain and reversal of impairment loss (note 6(u))	(64,837)	(1)	-	-
428000	Other operating revenues	22,798	-	153,742	2
		7,638,645	100	9,244,897	100
	Expenses:				
501000	Brokerage fees	557,399	7	546,603	6
502000	Brokerage and clearing fees - proprietary trading	19,616	-	20,227	-
503000	Clearing and exchange fees - refinancing	2,127	-	2,192	-
504000	Clearing and exchange fees - underwriting	1,093	-	1,413	-
521200	Financial costs	714,798	10	638,730	7
524100	Futures commission expense (note 6(t))	468,227	6	646,399	7
524300	Cleaning and settlement expenses	173,218	2	147,313	2
528000	Other operating expenditure	6,726	-	4,634	-
531000	Employee benefits expenses (note 6(t))	2,581,484	34	2,682,982	29
532000	Depreciation and amortization expense (note 6(t))	207,465	3	215,975	2
533000	Other operating expenses (note 6(t))	1,733,324	23	1,586,888	17
		6,465,477	85	6,493,356	70
	Other income (expenses):				
601000	Share of profits of associates and joint venture (note 6(e))	151,205	2	67,844	1
602000	Other gains and losses (note 6(t))	1,002,157	13	684,252	7
		1,153,362	15	752,096	8
902001	**Net income before income tax**	2,326,530	30	3,503,637	38
701000	**Income tax expense (note 6(q))**	(549,020)	(7)	(288,242)	(3)
	Net income	1,777,510	23	3,215,395	35
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	(43,421)	(1)	(28,741)	-
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	(248,859)	(3)	-	-
805550	Share of other comprehensive income of associates and joint ventures accounted for using equity method	872	-	-	-
805599	Income tax related to components of other comprehensive income	-	-	-	-
	Subtotal of components that may not be subsequently reclassified into profit or loss	(291,408)	(4)	(28,741)	-
805600	**Components that may be reclassified to profit or loss in subsequent periods:**				
805610	Exchange differences on translation of foreign operations	90,803	1	(271,032)	(3)
805615	Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	(222,349)	(3)	-	-
805620	Unrealized gains (losses) on financial assets available for sale, net	-	-	122,771	1
805699	Income tax related to components of other comprehensive income (note 6(q))	(19,234)	-	37,769	1
	Subtotal of items that may be subsequently reclassified into profit or loss	(150,780)	(2)	(110,492)	(1)
805000	**Other comprehensive income, net**	(442,188)	(6)	(139,233)	(1)
902006	**Total comprehensive income**	**$ 1,335,322**	**17**	**3,076,162**	**34**
	Net income attributable to:				
913100	Shareholders of the parent	$ 1,408,865	18	2,893,600	31
913200	Non-controlling interests	368,645	5	321,795	4
		$ 1,777,510	**23**	**3,215,395**	**35**
	Total comprehensive income attributable to:				
914100	Shareholders of the parent	$ 957,751	12	2,827,707	31
914200	Non-controlling interests	377,571	5	248,455	3
		$ 1,335,322	**17**	**3,076,162**	**34**
975000	**Basic earnings per share (note 6(s))**	**$**	**0.61**		**1.25**
985000	**Diluted earnings per share (note 6(s))**	**$**	**0.61**		**1.25**

See accompanying notes to consolidated financial statements.

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to the parent company											
	Stock		Retained earnings			Total other equity interest						
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gains (losses) on financial assets available for sale	Treasury stocks	Total equity attributable to the parent company	Non-controlling interests	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	1,323,730	30,844,278
Net income for the year ended December 31,2017	-	-	-	-	2,893,600	-	-	-	-	2,893,600	321,795	3,215,395
Other comprehensive income	-	-	-	-	(28,401)	(200,724)	-	163,232	-	(65,893)	(73,340)	(139,233)
Total comprehensive income	-	-	-	-	2,865,199	(200,724)	-	163,232	-	2,827,707	248,455	3,076,162
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)	(155,227)	(957,785)
Purchase of treasury stocks	-	-	-	-	-	-	-	-	(91,539)	(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	639,412	642,595
Indemnification to stockholders due to merger	-	-	-	-	(35,711)	-	-	-	-	(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	2,056,370	33,478,000
Effects of retrospective application	-	-	-	-	12,367	-	1,205,775	(191,716)	-	1,026,426	400	1,026,826
Balance at January 1, 2018 after adjustments	21,690,730	2,852,299	1,230,275	2,709,623	2,862,920	(103,566)	1,205,775	-	-	32,448,056	2,056,770	34,504,826
Net income for the year ended December 31,2018	-	-	-	-	1,408,865	-	-	-	-	1,408,865	368,645	1,777,510
Other comprehensive income	-	-	-	-	(43,183)	62,498	(470,429)	-	-	(451,114)	8,926	(442,188)
Total comprehensive income	-	-	-	-	1,365,682	62,498	(470,429)	-	-	957,751	377,571	1,335,322
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)	(201,584)	(635,399)
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	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(13)	(13)
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**	**2,232,744**	**35,204,736**

See accompanying notes to consolidated financial statements.

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		2018	2017
Cash flows from (used in) operating activities:			
Net income before tax	$	2,326,530	3,503,637
Adjustments:			
Income and expenses items with no effect on cash flows:			
Depreciation expense		173,545	179,486
Amortization expense		33,920	36,489
Impairment loss / Provision for bad debt expense		64,837	138,530
Net loss (gain) on financial assets or liabilities at fair value through profit or loss		556,165	(72,955)
Interest expense		714,798	638,730
Interest revenue (including financial revenue)		(2,368,257)	(2,289,092)
Dividend revenue		(296,631)	(258,256)
Share-based payment compensation cost		-	17,530
Cash dividend received from investments under equity method		165,999	91,452
Share of profit of associates and joint ventures		(151,205)	(67,844)
Loss on disposal and retirement of property and equipment		122	3,034
Gain on disposal of investments under equity method		(69,645)	(40,386)
Net loss (gain) on non-operating financial instruments at fair value through profit or loss		13,052	(23,198)
Net changes of income and expense items with no effect on cash flows		(1,163,300)	(1,646,480)
Changes in assets and liabilities from operating activities:			
Decrease (increase) in financial assets at fair value through profit or loss		3,101,586	(6,911,031)
Increase in financial assets available for sale - current		-	(13,305,842)
Decrease in financial assets at fair value through other comprehensive income		21,632,321	-
Decrease (increase) in receivable for securities provided as collateral		4,873,250	(3,108,222)
Decrease in refinancing margin		6,481	47,258
Decrease in receivable on refinancing collateral		4,469	40,401
Increase in receivable of securities business money lending		(416,874)	(1,387,679)
Increase in customers'margin account		(5,972,918)	(4,132,870)
Decrease (increase) in margin receivable of futures trading		(33,370)	893
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		2,036,879	(2,478,807)
Decrease (increase) in prepayments		(6,110)	18,090
Decrease (increase) in other receivables		(38,630)	34,752
Increase in leverage contract trading - customers' margin account		(77,024)	(151,468)
Decrease (increase) in other current assets		84,071	(255,111)
Decrease (increase) in guarantee deposited for business operations		50,763	(2,106)
Decrease in settlement fund		5,589	5,614
Decrease (increase) in refundable deposits		(2,650)	54,698
Decrease in current income tax assets		-	17,896
Decrease in other non-current assets		91,681	135,247
Increase (decrease) in financial liabilities at fair value through profit or loss		(1,700,978)	1,427,429
Increase (decrease) in bonds sold under repurchase agreements		(19,023,788)	12,099,670
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 futures traders'equity		5,890,600	4,135,995
Increase in customers'equity of separate account ledger in settlement account		13,490	8,942
Increase in leverage contract trading - customers' equity		73,059	152,770
Decrease in notes payable		(398)	-
Increase (decrease) in accounts payable		(1,902,319)	2,300,634
Increase (decrease) in advance receipts		(18,455)	21,975
Increase (decrease) in receipts under custody		(225,698)	198,695
Increase (decrease) in other payable		(228,608)	308,458
Increase in other current liabilities		4,926	12,250
Increase (decrease) in other financial liabilities - current		(1,152,096)	2,082,522
Increase in provision - current		1,540	26,403
Increase (decrease) in other financial liabilities - non-current		43,995	(16,299)
Decrease in other non-current liabilities		(185,129)	(113,130)
Total changes in assets and liabilities from operating activities		7,561,656	(7,636,492)
Total cash generated from adjustment items		6,398,356	(9,282,972)

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash generated from operating activities	$ 8,724,886	(5,779,335)
Interest received	2,443,078	2,151,528
Dividends received	296,636	258,256
Interest paid	(735,367)	(616,098)
Income taxes paid	(286,767)	(211,577)
Net Cash flows provided by (used in) operating activities	10,442,466	(4,197,226)
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(288,030)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	9,767	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	1,085	-
Proceeds from disposal of financial assets available for sale	-	71,827
Acquisition of financial assets measured at cost	-	(315,453)
Proceeds from capital reduction of financial assets measured at cost	-	9,368
Acquisition of investments accounted for using equity method	(1,272,505)	-
Increase in deferred debits	(912)	(343)
Acquisition of property and equipment	(123,026)	(95,061)
Acquisition of intangible assets	(26,773)	(50,454)
Proceeds from disposal of intangible assets	1,932	-
Net cash flows provided by (used in) investing activities	(1,698,462)	(380,116)
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
Payments to acquire treasury shares	-	(91,539)
Cash dividends paid	(635,399)	(957,785)
Issuance of common stock for cash	-	626,096
Net cash flows provided by (used in) financing activities	(7,942,775)	6,521,252
Effect of exchange rate changes on cash and cash equivalents	88,113	(263,248)
Increase in cash and cash equivalents	889,342	1,680,662
Cash and cash equivalents, beginning of the year	7,104,077	5,423,415
Cash and cash equivalents, end of this period	**$ 7,993,419**	**7,104,077**

See accompanying notes to consolidated financial statements.

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Overview:

Capital Securities Corporation (the "Company") was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988. The address of the Company's registered office is 4th Fl. No. 101, Song-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2018, the composition of the consolidated financial statements includes the Company and the subsidiaries (the "Group"). 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 consolidated financial statements:

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 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 Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 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 Group 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 Group’s approach was to include the impairment of account receivables in operating expenses. Additionally, the Group 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 AND SUBSIDIARIES
Notes to the Consolidated 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 Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please refer to note 4(g).

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.

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

(Continued)

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 Group'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	
	Measurement Categories	Carrying Amount	Measurement Categories	Carrying Amount
Financial Assets				
Cash and equivalents	Amortized cost	$ 7,104,077	Amortized cost	7,104,077
Financial assets at fair value through profit or loss	FVTPL	34,923,283	FVTPL	34,916,845
		-	FVOCI (Note 2)	12,360
Financial assets available for sale	Available-for-sale	32,807,779	FVOCI (Note 1)	32,792,626
Accounts receivable	Amortized cost	25,194,975	Amortized cost	25,194,975
Customers' margin account	Amortized cost	27,302,712	Amortized cost	27,302,712
Leverage contract trading - customers' margin account	Amortized cost	151,540	Amortized cost	151,540
Financial assets measured at cost	Measured at cost	754,545	FVOCI (Note 2)	1,775,449
Other assets	Amortized cost	2,119,569	Amortized cost	2,119,569

Note1: The debt instrument investments were previously classified as financial asset available for sale under IAS 39, are held by the Group 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.

Note2: These equity instruments (including financial assets measured at cost) represent investments that the Group intends to hold for the long term strategic purposes or not for the trading purposes. In accordance with IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, an increase of $1,026,826 in those assets recognized, and an increase of $998,906, $27,520 and $400 were recognized in other equity items, retained earnings and non-controlling interests on January 1, 2018.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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)	$ 34,923,283	-	-		-	-
Subtraction – equity instruments:						
To FVOCI	-	(6,438)	-		-	-
Total	$ 34,923,283	(6,438)	-	34,916,845	-	-
Financial assets at fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	$ 33,562,324	-	1,020,904		-	1,020,504
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	$ 33,562,324	6,438	1,011,673	34,580,435	12,367	1,014,059

(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 Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 “Leases”

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

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 a lease as either a finance or an operating lease.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group 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 Group 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 Group can apply the standard using either of the following:

· retrospective approach; or

· modified retrospective approach with optional practical expedients.

On January 1, 2019, the Group 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. Comparative information will not be restated.

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 Group chooses to elect the following practical expedients:

· 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.

(Continued)

- 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 Group will have to recognize the new assets and liabilities for the operating leases of its offices. As of January 1, 2019, the Group estimated that the right-of-use assets and the lease liabilities to increase by $1,071,347 and $1,071,347, 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 Group 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.

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

As of the date, the following IFRSs 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 Group assessed that the above IFRSs may not be relevant to the Group.

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

(b) Basis of preparation

(i) Basis of measurement

The 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 deravitive instruments);

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

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

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

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

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

			Ratio of Equity Ownership		
Name of the investor	**Subsidiaries**	**Business type**	**December 31, 2018**	**December 31, 2017**	**Note**
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00 %	100.00 %	The corporation established in February, 1990. As of December 31, 2018, the paid-in capitals amounted to $70,000.
〃	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %	The corporation established in March, 1996. As of December 31, 2018, the paid-in capitals amounted to US$45,000 thousands.
〃	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.21 %	56.21 %	The corporation established in February, 1997, and increased capital on February, 2017. The ownership portion has decreased from 59.01% to 56.21%. As of December 31, 2018, the paid-in capitals amounted to $1,764,376.
〃	Taiwan International Futures Corp.	Management consultancy	- %	99.99 %	Completion of liquidation.
〃	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %	The corporation established in December, 1996. As of December 31, 2018, the paid-in capitals amounted to US$9,516 thousands.
〃	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92 %	99.92 %	Liquidation in progress.
〃	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	The corporation established in January, 2016. As of December 31, 2018, the paid-in capitals amounted to $1,000,000.
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %	The corporation established in December, 1998. As of December 31, 2018, the paid-in capitals amounted to HK$220,000 thousands.
〃	Capital International Technology Corp.	Management, consulting and information service business	100.00 %	100.00 %	The corporation established in December, 2014. As of December 31, 2018, the paid-in capitals amounted to $50,000.
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management, consulting and information service business.	51.00 %	51.00 %	The corporation established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of December 31, 2018, the paid-in capitals amounted to CNY$1,000 thousands.
〃	Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	100.00 %	100.00 %	The corporation established in October, 2016. As of December 31, 2018, the paid-in capitals amounted to CNY$4,000 thousands.
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	100.00 %	100.00 %	The corporation established in May, 1994.
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00 %	100.00 %	The corporation established in April, 1995.
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Long-term equity investment business.	100.00 %	100.00 %	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00 %	100.00 %	〃

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership December 31, 2018	Ratio of Equity Ownership December 31, 2017	Note
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to $7,400. As of December 31, 2018, and 2017, the total assets constituted 0.04% and 0.03% of the Group' s total assets. For the years ended December 31, 2018 and 2017, the operation revenue were merely 0.88% and 0.79% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.
The Company	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	100.00 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to $5,000. As of December 31, 2018 and 2017, the total assets constituted 0.09% and 0.07% of the Group' s total assets. For the years ended December 31, 2018 and 2017, the operation revenue were merely 2.36% and 2.06% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(d) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. 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 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 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.

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

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

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

(ii) Assets held for the trading purposes;

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

(iv) Cash and cash equivalent, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the 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 settled in the normal operating cycle;

(ii) Liabilities incurred for the trading purposes;

(iii) Liabilities that are to be settled within twelve months from the 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.

(Continued)

(f) Cash and cash equivalents

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

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

(g) 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 Group 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 instrument is measured at FVOCI if it meets both of the following criteria and is not designated as at FVTPL：

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

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

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

(Continued)

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.

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

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

On initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss as incurred. The Group 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 Group 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 Group 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.

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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 Group 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 Group 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 Group's historical experience and informed credit assessment as well as forward-looking information.

The Group 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 Group 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 Group 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 Group 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 Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group 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 assets 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.

(Continued)

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 Group 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 Group 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 Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

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

On derecognition of a debt instrument in its entirety, the Group 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 Group 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, and 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 measured at fair value through profit or loss is measured at fair value, and changes therein 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, and dividend income, 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 Group’ 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 Group 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.

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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 accounted 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 grouping together assets with similar risk characteristics. In assessing collective impairment, the Group 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 assets carried at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

If, in a subsequent period, the amount of the impairment loss of a financial assets measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

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.

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6) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group 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 Group 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 and equity instruments

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 Group 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.

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4) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group 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.

(Continued)

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 gains or losses 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 balance sheet date is also included in current earnings.

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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.

(h) Margin loan, short sale and refinancing

Margin loan represents loans extended to customers and is accounted for as receivables for securities provided as collateral. Such loans are secured by the securities purchased by customers. These securities are 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 Group 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 Group operates margin loan business, if capital is insufficient, the Group can refinance from securities finance companies, recorded as borrowed funds refinanced, and securities from margin loan are regarded pledged.

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

(i) Bonds with resell and repurchase agreements

When bonds are repurchased, they are reflected under “bonds sold under repurchase agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as 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”.

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

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

(k) Securities borrowing transactions

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

(l) Investment in associates

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

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

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

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group’s interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

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

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

If the investments in associates become the investment in joint ventures, or vice versa, the Group is accounted for using the equity method consistently and does no remeasure the retained equity.

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

(m) 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 as 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 owner-occupied 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 flow to the Group. The carrying amount of those parts that are replaced is derecognized. 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 on a systematic basis 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.

(n) 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.

(Continued)

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.

(o) 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 Group 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.

(p) 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 Group'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.

(q) Non-financial assets impairment

The Group 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 Group 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 Group 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 recoverable amounts of intangible assets with indefinite useful lives shall be evaluated periodically. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

(r) 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.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group' 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 are should be deducted. The discount rate is the yield on the reporting date of government bonds that have maturity dates approximating the terms of the Group's obligations and 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 Group. An economic benefit is available to the Group 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.

Remeasurement comprises (a) actuarial gains and losses; (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) changes in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). Remeasurement 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 Group 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 Group 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.

(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.

(Continued)

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

(s) Provisions

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

(t) 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.

(u) 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.

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.

(Continued)

(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 Group’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.

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

(v) Business combinations

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

(Continued)

(w) Earnings per share (EPS)

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

(x) Segment information

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

(y) Treasury stocks

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

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

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash	$ 2,796	2,767
Bank deposits		
Checking accounts	31,226	53,094
Demand deposits	735,856	956,250
Foreign currency deposits	1,080,614	1,875,088
Subtotal	1,847,696	2,884,432
Cash equivalents		
Time deposits	4,122,157	2,971,870
Futures margin - excess margin	1,998,273	1,098,046
Commercial papers	22,497	146,962
Subtotal	6,142,927	4,216,878
Total	**$ 7,993,419**	**7,104,077**

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Financial assets

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

	December 31, 2018	December 31, 2017
Open-ended funds and money-market instruments		
Open-ended funds and money-market instruments	$ 305,950	323,962
Valuation adjustment	(8,129)	(1,886)
Subtotal	297,821	322,076
Securities invested by securities broker		
Securities invested by securities broker	74,553	-
Valuation adjustment	(7,283)	-
Subtotal	67,270	-
Trading securities - proprietary trading		
Listed stocks	1,324,802	1,495,906
Listed funds	852,293	1,122,398
OTC stocks	306,931	742,663
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	219,070	646,649
Overseas bonds	302,675	59,353
Other	257	34,858
	24,640,115	24,611,895
Valuation adjustment	(256,660)	132,192
Subtotal	24,383,455	24,744,087

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	December 31, 2018	December 31, 2017
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
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	11,580	132,472
Futures margin - proprietary fund	223,490	611,870
IRS asset swaps	13,855	16,479
Asset swap options - long position	4,072	2,572
Currency derivatives	46,967	22,446
Structured notes	3,075	1,343
Currency swaps	1,690	4,072
Interest rate swaps	-	1,920
Subtotal	304,729	793,174
Total	**$ 31,060,874**	**34,737,268**

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 agreements of the Group were $29,145,321 and $49,006,659, respectively, please refer to note 6(l) and note 8 for details.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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
Equity instrument at fair value through other comprehensive income	
Listed stocks	237,755
OTC stocks	40,353
Emerging market stocks	24,130
Foreign stocks	279,832
	582,070
Valuation adjustment	(97,730)
Subtotal	484,340
Total	**$ 10,865,929**

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

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

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

   For the year ended December 31, 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments measured at fair value through other comprehensive income – current amounted to $25,757.

   Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold shares of stocks for a fair value $490,485 and cumulative dispose losses for the year ended December 31, 2018 amounted $6,645 were transferred from other equity items to retained earnings.

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Financial assets available for sale - current:

	December 31, 2017
Listed stocks	$ 101,209
OTC stocks	77,668
Emerging market stocks	24,907
International bonds	1,532,767
Foreign stocks	104,055
Overseas bonds	30,797,054
Subtotal	32,637,660
Valuation adjustment	170,119
Total	**$ 32,807,779**

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

(v) Financial assets available for sale - non-current:

The purpose for obtaining the stock of CME Group Inc. is to acquire the membership of foreign futures exchange. Due to membership requirements on shareholding being changed to paying the subscription fee by CME Group Inc., the Group disposed of 20,000 shares of stock of CME Group Inc. on April 2017, which generated a gain on disposal of this investment of $38,920. For the year ended December 31, 2017, due to changes in fair value, the Group had recognized $(41,494) in other comprehensive income and reclassified $(41,494) from equity to profit or loss.

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

Non-listed (or non-over-the-counter)	December 31, 2017 Ownership ratio	Amount
Taiwan Depository & Clearing Corp.	1.29 %	$ 18,661
Taiwan Futures Exchange Corp.	2.86 %	58,117
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
Chanyee Hotelday Co., Ltd.	7.33 %	33,000
Miho International Co., Ltd.	2.37 %	49,962
LIPS Corp.	18.77 %	149,625
Xianlife Limited	2.36 %	46,140
FlexUP Technologies Corp.	15.31 %	30,000
Han Biomedical Inc.	9.20 %	23,000
Yonggu Group Co., Ltd.	1.66 %	59,726
Total		**$ 754,545**

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.

The Group acquired shares of LIPS Corp., Xianlife Limited, FlexUP Technologies Corp., Han Biomedical Inc. and Yonggu Group Co., Ltd. in March, April, June and December 2017, respectively.

(vii) 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	$ 1,064,667
Valuation adjustment	846,910
Total	**$ 1,911,577**

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

For the year ended December 31, 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to $52,529.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(viii) The Group uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the years ended 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	3,261,956	5,015,345
Others	78,419	57,560
Subtotal	4,608,886	6,727,768
Less: allowance for doubtful accounts	(1,713)	(1,713)
Total	**$ 4,607,173**	**6,726,055**

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

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

As of December 31, 2018 and 2017, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	December 31, 2018	December 31, 2017
Customers' margin account		
Cash in banks	$ 24,386,388	20,131,841
Customers' margin account - futures clearing house	2,579,464	3,485,434
Customers' margin account - other futures commission merchants	6,309,528	3,683,324
Marketable securities	250	2,113
Total customers' margin account	33,275,630	27,302,712
Add:		
Commission expense	5,035	1,651
Other	52	33
Less:		
Commission revenue	(17,259)	(11,431)
Futures transaction tax	(1,426)	(1,356)
Interest revenues	(3,726)	(2,326)
Temporary receipts	(669)	(590)
Remittance amount of the customers after the market closed	(7,179)	(2,424)
Other receivables	(91,632)	(18,043)
Futures traders' equity	**$ 33,158,826**	**27,268,226**

(e) Investments under equity method

As of December 31, 2018 and 2017, investments under equity method consisted of the following:

	December 31, 2018	December 31, 2017
Subsidiaries		
Capital Insurance Advisory Corp.	$ 84,732	90,506
Capital Insurance Agency Corp.	40,757	41,547
Subtotal	125,489	132,053
Associates		
True Partner Advisor Hong Kong Ltd.	45,719	41,535
Capital Investment Trust Corp.	1,261,329	-
Subtotal	1,307,048	41,535
Total	**$ 1,432,537**	**173,588**

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Subsidiaries:

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

	For the years ended December 31, 2018	2017
The Group's share of gains based on the subsidiaries' financial statements	$ 60,232	66,816

	December 31, 2018	December 31, 2017
Total assets	$ 151,345	151,103
Total liabilities	$ 25,856	19,050

	For the years ended December 31, 2018	2017
Revenue	$ 247,494	263,492
Net income	$ 60,232	66,816

(ii) Associates

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

Name of associate	Nature between the Company	Primary business area and registered country	% of Ownership and Voting Rights December 31, 2018	December 31, 2017
True Partner Advisor Hong Kong Ltd.	Engaged in asset management. The Subsidiary's strategic alliance in expansion of asset management.	Hong Kong	49.00 %	49.00 %
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	- %

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

	December 31, 2018	December 31, 2017
Total carrying amount of the associates that were not individually material	$ 1,307,048	41,535

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the years ended December 31, 2018	2017
The Group's share of gains based on the associates' financial statements:		
Net gains from continuing operations	$ 90,973	1,028
Other comprehensive income (losses)	1,238	(1,009)
Total comprehensive income (losses)	**$ 92,211**	**19**

(iii) Collateral

As of December 31, 2018 and 2017, none of the investment accounted for under equity method of the Group were pledged for collateral.

(f) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at January 1, 2018	$ 3,652,474	1,623,654	596,119	137,431	6,009,678
Additions	-	1,034	88,598	33,394	123,026
Transferred from investment property	276,798	163,015	-	-	439,813
Disposals and retirements	-	(325)	(112,018)	(13,754)	(126,097)
Effect of exchange rate changes	-	3,352	2,113	391	5,856
Balance at December 31, 2018	**$ 3,929,272**	**1,790,730**	**574,812**	**157,462**	**6,452,276**
Balance at January 1, 2017	$ 3,707,942	1,690,000	587,821	133,832	6,119,595
Additions	-	-	74,113	20,701	94,814
Reclassified to investment property	(55,468)	(57,484)	-	-	(112,952)
Disposals and retirements	-	(119)	(59,001)	(16,028)	(75,148)
Effect of exchange rate changes	-	(8,743)	(6,814)	(1,074)	(16,631)
Balance at December 31, 2017	**$ 3,652,474**	**1,623,654**	**596,119**	**137,431**	**6,009,678**
Depreciation and impairment loss					
Balance at January 1, 2018	$ -	575,137	400,425	67,364	1,042,926
Depreciation	-	34,122	95,956	28,637	158,715
Transferred from investment property	-	32,116	-	-	32,116
Disposals and retirements	-	(325)	(112,018)	(13,632)	(125,975)
Effect of exchange rate changes	-	1,382	1,856	296	3,534
Balance at December 31, 2018	**$ -**	**642,432**	**386,219**	**82,665**	**1,111,316**
Balance at January 1, 2017	$ -	573,289	360,524	55,959	989,772
Depreciation	-	29,461	104,816	25,528	159,805
Reclassified to investment property	-	(24,054)	-	-	(24,054)
Disposals and retirements	-	(119)	(58,706)	(13,289)	(72,114)
Effect of exchange rate changes	-	(3,440)	(6,209)	(834)	(10,483)
Balance at December 31, 2017	**$ -**	**575,137**	**400,425**	**67,364**	**1,042,926**
Carrying amount:					
December 31, 2018	**$ 3,929,272**	**1,148,298**	**188,593**	**74,797**	**5,340,960**
December 31, 2017	**$ 3,652,474**	**1,048,517**	**195,694**	**70,067**	**4,966,752**

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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.

(g) Investment property

	Land and improvements	Buildings	Total
Cost or deemed cost			
Balance at January 1, 2018	$ 1,312,668	796,069	2,108,737
Reclassified to Property and equipment	(276,798)	(163,015)	(439,813)
Balance at December 31, 2018	**$ 1,035,870**	**633,054**	**1,668,924**
Balance at January 1, 2017	$ 1,257,200	738,705	1,995,905
Transferred from property and equipment	55,468	57,484	112,952
Disposals and retirements	-	(120)	(120)
Balance at December 31, 2017	**$ 1,312,668**	**796,069**	**2,108,737**
Depreciation and impairment loss			
Balance at January 1, 2018	$ -	312,196	312,196
Depreciation	-	14,830	14,830
Reclassified to Property and equipment	-	(32,116)	(32,116)
Balance at December 31, 2018	**$ -**	**294,910**	**294,910**
Balance at January 1, 2017	$ -	268,581	268,581
Depreciation	-	19,681	19,681
Transferred from property and equipment	-	24,054	24,054
Disposals and retirements	-	(120)	(120)
Balance at December 31, 2017	**$ -**	**312,196**	**312,196**
Carrying Amount:			
December 31, 2018	**$ 1,035,870**	**338,144**	**1,374,014**
December 31, 2017	**$ 1,312,668**	**483,873**	**1,796,541**
Fair Value:			
December 31, 2018			**2,237,610**
December 31, 2017			**2,809,179**

The Group 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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As of December 31, 2018 and 2017, the investment properties were provided as collateral or pledged, please refer to note 8 for details.

(h) Intangible assets

(i) Goodwill

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

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. But the cash flow projections for periods after five years will be estimated with no growth conservatively.

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

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Technology Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. As of December 31, 2018 and 2017, the book value of goodwill was $22,088 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" endorsed by the FSC, 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.

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

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX and CME for business development. In accordance with IAS 38 "Intangible Assets" endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of December 31, 2018 and 2017, the book values of intangible assets were $46,270 and $48,102 respectively.

(iv) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2018 and 2017, the amortized book value was $36,015 and $41,287 respectively.

(i) 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 Group had provided the land, buildings, and certificates of time deposits as collateral; please refer to note 8 for details.

(j) 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%**

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(k) 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	16,074	131,636
Equity derivatives	-	61
IRS asset swaps	763	239
Asset swap options - short position	208,927	364,910
Structured notes	8,914	9,234
Currency derivatives	9,063	2,847
Currency swaps	31,575	7,920
Interest rate swaps	544	-
Subtotal	275,860	516,847
Total	**$ 1,202,215**	**2,903,193**

(l) Bonds sold under repurchase agreements

	December 31, 2018	December 31, 2017
Bonds sold under repurchase agreements	**$ 28,032,524**	**47,056,312**
Agreed-upon repurchase amounts	**28,213,380**	**47,174,205**
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 AND SUBSIDIARIES
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(m) Customer equity of separate account ledger in settlement accounting

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

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

(n) Accounts payable

	December 31, 2018	December 31, 2017
Payable of securities sold by customers	$ 10,731	44,575
Payable of settlements	3,476,398	5,440,461
Others	370,764	293,722
Total	$ **3,857,893**	**5,778,758**

(o) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	December 31, 2018	December 31, 2017
Within 1 year	$ 129,299	97,864
1-5 years	483,674	142,113
Over 5 years	455,396	11,859
	$ **1,068,369**	**251,836**

The Group rents several offices under operating lease, the lease terms are within 1 to 5 years and the Group 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 $159,977 and $157,805 respectively.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(ii) Lessor

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

	December 31, 2018	December 31, 2017
Within 1 year	$ 111,834	34,856
1-5 years	471,665	46,799
Over 5 years	534,251	40,366
	$ 1,117,750	**122,021**

The rental revenue from investment property for the years ended 2018 and 2017 amounted to $62,318 and $69,409 respectively.

(p) Employee benefit

(i) Defined benefit plans

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	$ (972,838)	(1,009,545)
Fair value of plan assets	383,030	458,883
Recognized liabilities for defined benefit obligations	**$ (589,808)**	**(550,662)**

The Group's employee benefits liabilities are as follows:

	December 31, 2018	December 31, 2017
Compensated absences	**$ 50,666**	**49,066**

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

1) Composition of plan assets

The Group set aside the pension funds in accordance with Labor Standards Act, are put under the management of the 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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The balance of the Group’s labor pension preparatory special account in Bank of Taiwan amounted to $253,883 and $276,467 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 Bureau of Labor Funds, Ministry of Labor.

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 Group in 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Defined benefit obligation on January 1	$ 1,009,545	1,039,300
Current service costs and interest	18,740	20,005
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in demographical assumptions	-	4,203
-Actuarial loss (gain) arising from changes in financial assumptions	9,688	(1,089)
-Experience adjustments	42,570	25,279
Benefits paid by the plan	(107,705)	(78,153)
Defined benefit obligation on December 31	**$ 972,838**	**1,009,545**

3) Movements in fair value of defined benefit plan assets

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

	For the years ended December 31,	
	2018	2017
Fair value of plan assets on January 1	$ 458,883	517,011
Contributions from the employer	13,862	14,854
Benefits paid from plan assets	(103,392)	(77,945)
Interest revenue	4,840	5,311
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	8,837	(348)
Fair value of plan assets on December 31	**$ 383,030**	**458,883**

4) Expense recognized in profit or loss

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

	For the years ended December 31,	
	2018	**2017**
Current service cost	$ 8,206	9,324
Net interest of net defined benefit liabilities (assets)	5,694	5,370
Current pension cost	**$ 13,900**	**14,694**

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	$ (125,105)	(96,364)
Recognized amount during the period	(43,421)	(28,741)
Balance at December 31	**$ (168,526)**	**(125,105)**

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%~2.50%	2.00%~2.50%

The expected contribution to the defined benefit plan for the next year is $13,762. The weighted average duration of the defined benefit obligation is 2~3 years.

7) Sensitivity Analysis

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

As of December 31, 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	(25,549)	26,659
Future salary growth rate	21,402	(20,776)

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	Effects to Defined Benefit Obligations	
	Increase 0.5%	**Decrease 0.5%**
December 31, 2017		
Discount rate	(27,419)	28,649
Future salary growth rate	23,205	(22,495)

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

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

(ii) Defined contribution plan

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

The Group contributed $87,093and $82,937 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2018 and 2017, respectively.

(iii) For the years ended December 31, 2018 and 2017, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were $4,291 and $4,226, respectively.

(q) Income tax

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

The Company and its subsidiaries including Capital Investment Management Corp., Capital Futures Corp., Taiwan International Securities Investment Consulting Corp, Taiwan International Futures Corp., and CSC Venture Capital Corp. are founded in Taiwan. 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 January 1, 2018.

The subsidiaries CSC International Holdings Ltd. and Taiwan International Securities (B.V.I) Corp is founded in British Virgin Islands, and it has a tax exemption for the years ended December 31, 2018 and 2017.

The tax rate of reinvestment business of subsidiaries which founded in Hong Kong are all 16.5% for the years ended December 31, 2018 and 2017.

The tax rate of reinvestment business of subsidiaries which founded in Mainland are all 25% for the years ended 2018. Except for the third level Capital Futures Technology (Shanghai) Co., Ltd., which applys for Small Low-Profit Enterprises Income Tax, the tax rate is 20% for the years ended December 31, 2018 and 2017.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(ii) Income tax expense (benefit)

The amount of income tax expense (benefit) for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31, 2018	2017
Current tax expense		
Current year	$ 470,599	250,718
Adjustment to the prior years' income tax	40,349	(36,624)
	510,948	214,094
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	(96,395)	49,461
Unrealized gains (losses) on foreign investments under Equity Method	(658)	(1,499)
Decrease in tax loss carried forward	92,455	117,021
Adjustments of deferred income tax assets and liabilities	(12,803)	(90,835)
Adjustment in tax rate	55,473	-
	38,072	74,148
Income tax expense from continuing operations	**$ 549,020**	**288,242**

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	**$ 19,234**	**(37,769)**

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	$ 2,326,530	3,503,637
Income tax using the Company's domestic tax rate	$ 560,885	667,856
Effect of tax rates in foreign jurisdiction (not applicable for separate financial statements)	978	(194)
Adjustment in tax rate	55,473	-
Tax exempt income	(104,036)	(392,119)
Alternative minimum tax	6,510	148,030
Unrecognized deferred tax assets for current-year losses	128	333
Unrecognized temporary differences for current years	(256)	(7)
Additional surtax on undistributed retained earnings	2,943	1,076
Amounts use 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	40,349	(36,624)
Unrecognized temporary differences for prior years	(12,803)	(90,835)
Others	(591)	(9,234)
Total	**$ 549,020**	**288,242**

(Continued)

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(iii) 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	170	13,767
Unrecognized loss in derivative financial instruments	5,043	-
Deferred income tax assets	**$ 115,770**	**174,236**

2) Unrecognized deferred tax assets

	December 31, 2018	December 31, 2017
Unrealized losses on foreign investments under Equity Method	$ 269	419
Tax loss carried forward	1,711	481
Unrecognized deferred tax assets	**$ 1,980**	**900**

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

As of December 31, 2018, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

Year or loss	Amount	Expiry date
2016 (Declared)	$ 3,777	2026
2017 (Declared)	3,419	2027
2018 (Estimated)	1,361	2028
Total	**$ 8,557**	

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3) Recognized deferred income tax liabilities

	December 31, 2018	December 31, 2017
Foreign exchange difference from translating financial statements of foreign operations	$ 4,866	-
Unrealized gains on derivative financial instruments	7,581	84,093
Unrealized gains on foreign investments under Equity Method	1,975	1,030
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	**$ 478,035**	**479,193**

4) Unrecognized deferred tax liabilities

As of December 31, 2018 and 2017, the Group’ s temporary differences are not recognized under deferred tax liabilities. Details are as follows:

	December 31, 2018	December 31, 2017
Aggregate amount of temporary differences related to investments in subsidiaries	**$ 29,063**	**19,292**

The dividend policies of the Group’ s subsidiaries, CSC Futures (HK) Ltd. and Capital Futures Technology (Shanghai) Co., Ltd, were prescribed not to appropriate the retain earning until December 31, 2018. Also, the Group does not plan to dispose of the investees in foreseeable future. Thus, the temporary differences related to investments in subsidiaries for the portion of not to intend to dispose or to appropriate are not recognized under deferred tax liabilities.

(iv) Income tax assessment status

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

2) Subsidiary - Capital Investment Management Corp.’s income tax returns through 2017 were assessed by the Tax Authority.

3) Subsidiary - Capital Futures Corp.’s income tax returns through 2016 were assessed by the Tax Authority.

4) Subsidiary - Taiwan International Securities Investment Consulting Corp.’s income tax returns for the liquidation date as of June 30, 2012 were assessed by the Tax Authority.

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5) Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation period from September 19, 2008 to February 28, 2018 were assessed by the Tax Authority. And on February 12, 2019, the entiry was been admitted the completion of liquidationby the court.

6) Subsidiary - Capital International Technology Corp.'s income tax returns through 2017 were assessed by the Tax Authority.

7) Subsidiary - CSC Venture Capital Corp.'s income tax returns through 2017 were assessed by the Tax Authority.

(v) 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.

(r) Capital and other equity

(i) Capital stock

As of December 31, 2018 and 2017, the Company had authorized capital of $30,000,000 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 and 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.

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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**

(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.

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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.

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.

(s) 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 was calculated based on the closing price at the reporting date.

(Continued)

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(t) Items of the statements of comprehensive income

(i) Brokerage commissions

	For the years ended December 31, 2018	2017
Brokerage commission from TSE market	$ 1,827,623	1,620,114
Brokerage commission from OTC market	637,115	656,041
Handling fee from security financing	35,585	30,903
Futures commission income - brokerage	1,836,830	1,490,999
Overseas subsidiaries	50,711	62,782
Others	73,013	72,007
	$ 4,460,877	**3,932,846**

(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	$ (348,708)	1,130,115
Gains (losses) on securities sold - underwriting	30,003	7,807
Gains (losses) on securities sold - hedging	(1,155,191)	454,117
Total	**$ (1,473,896)**	**1,592,039**

(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
Overseas subsidiaries	49,628	43,518
Others	61,072	46,982
	$ 1,978,434	**2,029,921**

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(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	$ (416,586)	91,025
Trading securities - underwriting	(19,711)	9,259
Trading securities - hedging	(165,545)	(27,358)
Settlement coverage bonds payable of short sale	(29)	29
	$ (601,871)	72,955

(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

(vii) Futures commission revenues

	For the years ended December 31, 2018	2017
Futures commission revenues - CSC Futures (HK) Ltd.	$ 453,195	770,614

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

(viii) Commission expenses - future

	For the years ended December 31, 2018	2017
Future trading - reconsignment	$ 273,044	236,881
Future trading - introducing brokers	2,279	3,166
Commission expenses - CSC Futures (HK) Ltd.	192,904	406,352
	$ 468,227	646,399

(ix) Employee benefits, depreciation, and amortization expenses

	For the years ended December 31, 2018	2017
Employee benefit expenses		
Salary expense	$ 2,250,144	2,361,609
Health and labor insurance expense	165,668	157,994
Pension expense	105,284	101,857
Others	60,388	61,522
Depreciation expense	173,545	179,486
Amortization expense	33,920	36,489
	$ 2,788,949	2,898,957

(Continued)

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(x) Other operating expenses

	For the years ended December 31,	
	2018	2017
Rental expense	$ 159,977	157,805
Taxes	421,528	371,401
Information technology expense	209,881	194,003
Postage expense	153,246	136,181
Professional service fee	258,861	87,467
Other expenses	529,831	640,031
	$ 1,733,324	1,586,888

(xi) Other gains and losses

	For the years ended December 31,	
	2018	2017
Financial revenue	$ 389,823	259,171
Currency exchange gains (losses)	19,072	(11,725)
Net gains (losses) on disposal of investment	68,664	72,760
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	(13,052)	23,198
Revenue from bank's allocation fee	133,107	139,255
Net gains (losses) on disposal of property and equipment	(122)	(3,034)
Dividend revenue	49,551	30,781
Gains on reversal of prior year's liabilities	202,491	25,875
Rental income	62,318	69,409
Others	90,305	78,562
	$ 1,002,157	684,252

(xii) 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 director multiple the earnings allocation percentage as stated under the Company's Articles of Incorporation and were recognized as operating expense. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

For the years ended December 31, 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 recognized as profit or loss in 2018 and 2017. The information about the appropriations is available at the Market Observation Post System website.

For the years ended December 31, 2018 and 2017, the estimated amounts of remuneration to employee were $12,369 and $11,027 and to directors and supervisors were $12,274 and $11,238 by the domestic subsidiaries of the Group, respectively.

(u) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2018 and 2017, the maximum credit exposure amounted to $92,766,076 and $111,905,084, respectively.

The regional distribution of financial assets' credit risk exposure amount which owned by the Group is as the list below. The region of exposure is mostly in Taiwan (73.75%); secondly, is in Asia (15.10%, exclusion of Taiwan); then, is in America (6.19%). Compare to the same period of last year, there is no significant change in proportion of region of investments. The subsidiary Capital Futures Corp. only reveals the regional distribution in cash and cash equivalent and customers' margin account.

Region	**December 31, 2018**	**December 31, 2017**
Taiwan	$ 68,026,272	68,514,346
Asia (Taiwan is excluded)	13,929,523	20,531,390
Europe	4,495,750	8,375,096
America	5,709,464	12,370,332
Other	82,619	1,317,645
Total	**$ 92,243,628**	**111,108,809**

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2) Impairment loss

The Group'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	$ 16,677,224	23,522	23,216,757	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	25,523	25,523	85,694	85,694
Past due more than 360 days	288,286	288,286	135,899	128,771
	$ 16,992,219	338,517	23,440,496	218,162

Allowance for doubtful debts under receivables and overdue receivalbes are recorded for the bad 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 $338,517 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(g). Debt securities held by the Group 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 Group regards a financial asset as a default when the client of brokerage business is unable to fulfill the settlement obligation, which the counterparty is unable to pay the Group. Thus, the Group will recognize the impairment losses.

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	$ -	-	-	-	260,851	-	260,851
Adjustment on initial application of IFRS 9	-	15,153	-	-	-	-	15,153
Balance on January 1 per IFRS 9	-	15,153	-	-	260,851	-	276,004
Provision or reversal of Impairment loss	-	(9,292)	-	-	74,129	-	64,837
Amounts written off	-	-	-	-	(1,806)	-	(1,806)
Effect of exchange rate	-	-	-	-	5,343	-	5,343
Balance on December 31	$ -	5,861	-	-	338,517	-	344,378

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(ii) Liquidity risk

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

December 31, 2018	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	$ 466,548	466,548	466,548	-	-	-	-
Stock warrants issued	459,807	459,807	442,191	17,616	-	-	-
Put options - futures	16,074	16,074	16,074	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	32,882	32,882	33,869	(2,727)	814	926	-
Put options	208,927	208,927	8,925	19,064	125,073	55,865	-
Currency derivatives	9,063	9,063	9,063	-	-	-	-
Short-term borrowings	3,873,506	3,873,506	3,714,303	159,203	-	-	-
Bonds sold under repurchase agreements	28,032,524	28,213,380	28,213,380	-	-	-	-
Guarantee deposited for short sales	2,316,744	2,316,744	2,316,744	-	-	-	-
Proceeds payable from short sales	2,603,315	2,603,315	2,603,315	-	-	-	-
Securities lending refundable deposits	644,843	644,843	644,843	-	-	-	-
Futures traders' equity	33,158,826	33,158,826	33,158,826	-	-	-	-
Leverage contract trading customers' equity	225,899	225,899	225,899	-	-	-	-
Notes payable and accounts payable	381,154	381,154	381,154	-	-	-	-
Receipts under custody	120,325	120,325	120,325	-	-	-	-
Other payables	765,572	765,572	763,523	2,049	-	-	-
Structured notes	3,676,833	3,676,833	3,175,382	191,419	237,377	72,655	-
	$ 76,992,842	**77,173,698**	**76,294,364**	**386,624**	**363,264**	**129,446**	**-**

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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	131,636	131,636	131,636	-	-	-	-
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	-
Currency derivatives	2,847	2,847	2,847	-	-	-	-
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	47,056,312	47,174,205	47,174,205	-	-	-	-
Guarantee deposited for short sales	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	-	-	-	-
Futures traders' equity	27,268,226	27,268,226	27,268,226	-	-	-	-
Leverage contract trading customers' equity	152,840	152,840	152,840	-	-	-	-
Notes payable and accounts payable	296,967	296,967	296,967	-	-	-	-
Receipts under custody	346,023	346,023	346,023	-	-	-	-
Other payables	995,443	995,443	994,660	783	-	-	-
Structured notes	4,785,254	4,785,254	4,380,929	138,288	151,580	114,457	-
	$ 100,893,300	101,012,009	100,244,759	231,585	258,173	277,492	-

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(iii) Currency risk

1) Currency risk exposure

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

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

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

(Continued)

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	December 31, 2017			
		Foreign Currency (thousands)	Exchange Rate	Amount
Financial assets				
Monetary Item				
USD	$	502,643	29.7600	14,958,656
AUD		6,898	23.1850	159,930
CAD		13	23.7100	308
CHF		18	30.4550	548
EUR		7,470	35.5700	265,708
GBP		1,764	40.1100	70,754
HKD		96,636	3.8070	367,893
JPY		1,031,092	0.2642	272,415
SGD		751	22.2600	16,717
CNY		85,660	4.5650	391,038
ZAR		8	2.4100	19
KRW		226,616	0.0281	6,368
NZD		234	21.1400	4,947
THB		121	0.9176	111
IDR		4,402	0.0022	10
Non-Monetary Item				
USD	$	919,907	29.7600	27,376,432
AUD		351,673	23.1850	8,153,539
GBP		4	40.1100	160
HKD		46,999	3.8070	178,925
JPY		4,392	0.2642	1,160
CNY		163,599	4.5650	746,829
NZD		1	21.1400	21
Investments under equity method				
HKD		10,910	3.8070	41,535

(Continued)

	December 31, 2017		
	Foreign Currency (thousands)	**Exchange Rate**	**Amount**
Financial liabilities			
Monetary Item			
USD	1,381,491	29.7600	41,113,172
AUD	349,769	23.1850	8,109,394
CAD	20	23.7100	474
CHF	18	30.4550	548
EUR	6,981	35.5700	248,314
GBP	1,686	40.1100	67,625
HKD	163,657	3.8070	623,042
JPY	959,895	0.2642	253,604
SGD	744	22.2600	16,561
CNY	148,453	4.5650	677,688
KRW	28,139	0.0281	791
Non-Monetary Item			
USD	49	29.7600	1,458
CAD	18	23.7100	427
JPY	3,635	0.2642	960

Because there are a variety of functional currencies, the Group discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains (losses) amounted to $(52,501) and $31,396 for the years ended December 31, 2018 and 2017, respectively.

2) Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, customers' margin account, futures traders' equity, and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the year 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 years ended December 31, 2018		For the years ended December 31, 2017	
	Appreciated 5%	**Depreciated 5%**	**Appreciated 5%**	**Depreciated 5%**
Net income	(366,625)	366,625	(1,277,950)	1,277,950
Other comprehensive income	426,520	(426,520)	1,355,076	(1,355,076)

(Continued)

(iv) Sensitivity analysis of interest rate risk

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

			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.

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

b) Definition of fair value hierarchy

i) Level 1

The input of Level 1 is the public quote of the same financial instrument in an active market. An active market 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 Group belong to Level 1.

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ii) Level 2

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

iii) Level 3

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

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 Group 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	$ 7,993,419	7,993,419	7,104,077	7,104,077
Accrued receivable	17,631,012	17,631,012	25,194,975	25,194,975
Customers' margin account	33,275,630	33,275,630	27,302,712	27,302,712
Leverage contract trading - customers' margin account	228,564	228,564	151,540	151,540
Restricted assets - current	730,728	730,728	554,215	554,215
Financial assets measured at cost - non-current	-	-	754,545	754,545
Other non-current assets	1,416,547	1,416,547	1,565,354	1,565,354
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	28,032,524	28,032,524	47,056,312	47,056,312
Accrued payable	10,788,574	10,788,574	13,280,377	13,280,377
Futures traders' equity	33,158,826	33,158,826	27,268,226	27,268,226
Leverage contract trading - customers' equity	225,899	225,899	152,840	152,840
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	68,458	68,458	249,277	249,277

b) Hierarchy information of fair value

	Level 1	**Level 2**	**Level 3**	**Total**
Investment property				
December 31, 2018	$ -	-	**2,237,610**	**2,237,610**
December 31, 2017	$ -	-	**2,809,179**	**2,809,179**

(Continued)

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, customers' margin account, leverage contract trading - customers' margin account, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, futures traders' equity, leverage contract trading - customers' equity, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.

ii) 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 Group 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.

3) Based on fair value measurement

a) Hierarchy information of fair value

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

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial assets at fair value through profit or loss	$ 12,267,176	18,674,078	-	30,941,254
Financial assets at fair value through other comprehensive income	484,340	10,381,589	1,911,577	12,777,506
Derivative financial assets	235,070	69,659	-	304,729
	$ 12,986,586	**29,125,326**	**1,911,577**	**44,023,489**
Financial liabilities at fair value through profit or loss	$ 926,355	-	-	926,355
Derivative financial liabilities	16,074	259,786	-	275,860
	$ 942,429	**259,786**	**-**	**1,202,215**

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	$ 20,578,355	13,551,754	-	34,130,109
Financial assets available for sale	27,670,817	5,136,962	-	32,807,779
Derivative financial assets	744,342	48,832	-	793,174
	$ 48,993,514	18,737,548	-	67,731,062
Financial liabilities at fair value through profit or loss	$ 2,386,346	-	-	2,386,346
Derivative financial liabilities	131,636	385,211	-	516,847
	$ 2,517,982	385,211	-	2,903,193

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).

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ii) Derivative financial instruments

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

4) Transfer between Level 1 and Level 2

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

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

(In Thousands Dollars)

	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	$ 1,787,809	-	(152,389)	288,030	-	11,873	-	1,911,577

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

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

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

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

	Change in fair value recognized in other comprehensive income	
	Favorable	**Unfavorable**
December 31, 2018		
Financial assets fair value through other comprehensive income	$ 19,116	(19,116)

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

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(vi) Transfer of financial assets

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

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	$ 28,357,997	28,032,524	-	-	-

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	$ 47,104,528	47,056,312	-	-	-

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

(vii) Offsetting financial assets and financial liabilities

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

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

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

	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	$ 69,659	-	69,659	-	-	69,659

(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	$ 259,786	-	259,786	-	-	259,786
Under repurchase agreements	28,032,524	-	28,032,524	28,032,524	-	-
Total	$ **28,292,310**	**-**	**28,292,310**	**28,032,524**	**-**	**259,786**

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	$ **48,832**	**-**	**48,832**	**-**	**-**	**48,832**

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	$ 385,211	-	385,211	-	-	385,211
Under repurchase agreements	47,056,312	-	47,056,312	47,056,312	-	-
Total	$ **47,441,523**	**-**	**47,441,523**	**47,056,312**	**-**	**385,211**

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

(v) Financial risk management

(i) Brief

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

1) credit risk

2) liquidity risk

3) market risk

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

(ii) Risk management framework

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

(iii) Credit risk

Policy applicable from January 1, 2018

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

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

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

2) Measurement of Expected Credit Losses (ECL)

a) Methods adopted and assumptions

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

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

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

(Continued)

Policy applicable before January 1, 2018

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

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

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

(v) Market risk

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

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

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

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

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

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

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

1) Equity securities:

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

2) Fixed income instruments:

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

3) Stock warrants:

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

4) Structured notes:

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

5) Asset swap:

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

(vii) Financial risk information of derivative financial statements

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

Stock warrants

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

Financial Instruments	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:				
Stock warrants issued	$ 17,901,620	-	73,019,951	-

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

(ii) Market risk:

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

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

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

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

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

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

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(v) Presentation of financial derivatives

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

1) For the 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:

Please refer to note 12(a) for the notional principal and nominal amount as of December 31, 2018 and 2017.

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

(ii) Market risk:

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

(Continued)

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

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

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

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

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

(iv) Presentation of financial derivatives:

For the years ended December 31, 2018 and 2017, gains (losses) on futures and options transactions amounted to $476,053 and $(421,005), respectively, and were reflected as gains (losses) on derivatives - futures. As of December 31, 2018 and 2017, futures margin - proprietary fund amounted to $223,490 and $611,870, 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 $1,998,273 and $1,098,046, 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 $11,580 and $132,472, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to $16,074 and $131,636, 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 Group pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

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

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

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

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

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

(ii) Structured notes

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

Financial Instruments	December 31, 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 (in USD thousands)	USD 10,597	-	USD 9,962	-

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

2) Market risk

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

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

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

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

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

2) Market risk:

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

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

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

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

(iv) Options

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 options	$ -	-	1,000	-

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

2) Market risk:

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

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

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

(v) 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 asset-backed 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
Currency derivatives		46,967	22,446
Structured notes		3,075	1,343
Currency swaps		1,690	4,072
Interest rate swaps		-	1,920
Total	$	**69,659**	**48,832**
Financial liabilities at fair value through profit or loss - current			
Equity derivatives	$	-	61
IRS asset swaps		763	239
Asset swap options-short position		208,927	364,910
Structured notes		8,914	9,234
Currency derivatives		9,063	2,847
Currency swaps		31,575	7,920
Interest rate swaps		544	-
Total	$	**259,786**	**385,211**
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**

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)
Currency derivatives		72,343	18,304	72,881	19,598
Total	$	**112,452**	**124,559**	**(323,820)**	**(72,263)**

(Continued)

(w) Capital management

The Board' s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital base includes shares capital, capital surplus and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to make sure the Group 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%.

(7) Related party transactions:

(a) Parent company and ultimate controlling party

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

(b) Names of related parties and relationships

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

Names of related parties	Relationships
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp	Subsidiary
Capital Investment Trust Corp. (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.

(c) Key management personnel transactions

(i) Key management personnel compensation:

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	$ 255,870	224,585
Post-employment benefits	2,564	2,282
Share-based Payment	-	5,960
Total	$ 258,434	232,827

(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

Total financial expenses	For the years ended December 31, 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.

(d) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

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

	December 31, 2018		December 31, 2017	
	Par value	Purchase price	Par value	Purchase price
Juristic-person directors	$ 20,300	20,315	10,700	10,700
Funds issued by associate	50,000	50,044	-	-
Total	$ 70,300	70,359	10,700	10,700

Total financial expenses	For the years ended December 31, 2018	2017
Funds issued by associate	$ 161	-
Subsidiaries	-	42
Juristic-person directors	81	78
Total	$ 242	120

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction and future transactions

As of December 31, 2018 and 2017 the balances of structured notes transactions with juristic-person directors and others of the Group were $17,082 and $4,995, respectively. The balance of future transactions with the associate were $287,357.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Lease agreements

1) Lease revenue

	For the years ended December 31,	
	2018	2017
Subsidiaries	$ 1,038	1,036
Associates	15,810	-
Total	**$ 16,848**	**1,036**

2) Guarantee deposits received

	December 31, 2018	December 31, 2017
Subsidiaries	$ 200	200
Associates	3,811	-
Total	**$ 4,011**	**200**

(iv) Insurance commission revenues

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

1) Commission revenues

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

2) Accounts receivable

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

(v) Commissions

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

	For the years ended December 31,	
Brokerage commissions	2018	2017
Juristic-person directors	$ 288	340
Funds issued by associate	15,969	-
Other related parties	10,270	13,209
Total	**$ 26,527**	**13,549**

	For the years ended December 31,	
Re-consigned handling commissions	2018	2017
Funds issued by associate	$ 4,879	-
Other related parties	235	148
Total	**$ 5,114**	**148**

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(vi) Management service income and stock service income:

The Group provided management service and stock service for associate, and the service income amounted to $259 and $0 in years for the December 31, 2018 and 2017, respectively.

(vii) Accrued receivables

The accrued receivables between the associate and the Group primarily were securities management service receivable. As of December 31, 2018 and 2017, the accrued receivables amounted to $10.

(viii) Disposals of financial assets

On January 16, 2018, the Group 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.

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

(8) Pledged assets:

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

	December 31, 2018	December 31, 2017	The collateral use
Restricted assets - current	$ 730,728	554,215	Bank borrowings, commercial paper, accounts settled, repurchase agreement.
Restricted assets - non-current	-	94,875	Trust to an impartial third party (Note)
Trading securities and bonds purchased under resale agreements (par value)	29,145,321	49,006,659	Repurchase agreement
Property and equipment	3,968,485	3,938,041	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 property	895,814	955,695	Bank borrowings
Total	$ 34,925,457	54,735,500	

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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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 (in USD thousands)	USD 60,000	80,000

(d) As of December 31, 2018 and 2017, the market values 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 for 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 AND SUBSIDIARIES
Notes to the Consolidated 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) The subsidiary, Capital Futures Corp., acquired hardware and software system for the development of future operation, which cost $18,990 for contract price. As of December 31, 2018, the remaining payable balance was $8,903.

(j) 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 AND SUBSIDIARIES
Notes to the Consolidated 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 currency exchange gains		882,532	18,453
Currency exchange gains		12,587,351	483,754
Other revenue		709	-
Subtotal		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
Subtotal		16,106,182	1,361,510
Net income (losses) before tax		(1,848,501)	(271,096)
Income tax expense		(327)	(271)
Net income (losses) after income tax	**$**	**(1,848,828)**	**(271,367)**

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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
Account receivables	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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(12) Other:

(a) As of December 31, 2018 and 2017, the open positions of futures and option contracts were as follows:

(i) December 31, 2018

Item	Trading category	Open positions Long/ Short	Open positions Number of contracts	Contract size or paid for (received from) premium	Fair value	Note
Futures contract：						
	TAIEX Futures	Long	219	$ 419,425	423,418	
	TAIEX Futures	Short	674	(1,300,015)	(1,303,020)	
	Mini-TAIEX Futures	Short	264	(126,317)	(127,524)	
	Electronic Sector Index Futures	Long	23	35,333	35,397	
	Finance Sector Index Futures	Short	30	(35,369)	(35,358)	
	Stock Futures	Long	1,938	347,884	344,406	
	Stock Futures	Short	3,226	(395,545)	(380,106)	
	H Stocks Index Futures	Long	7	13,704	13,757	
	HSI Futures	Short	5	(25,340)	(25,343)	
	Mini-HSI Futures	Long	4	4,067	4,055	
	SGX Nifty 50 Index Futures	Short	36	(24,058)	(24,155)	
	Dow Futures	Short	58	(26,931)	(26,880)	
	Mini-Dow Futures	Long	5	17,770	17,867	
	Mini-Dow Futures	Short	2	(7,113)	(7,151)	
	Soybean Futures	Short	12	(16,964)	(16,494)	
	FTSE China A50 Index Futures	Short	466	(149,721)	(148,929)	
	MSCI Taiwan Index Futures	Short	70	(76,977)	(76,654)	
	S&P 500 Futures	Long	42	98,471	100,602	
	S&P 500 Futures	Short	12	(6,009)	(5,993)	
	Mini-S&P 500 Futures	Long	16	60,226	61,558	
	Mini-S&P 500 Futures	Short	6	(22,746)	(23,115)	
	SGX Nikkei 225 Index Futures	Short	4	(12,002)	(11,092)	
	U.S. 2-Year T-Note Futures	Short	1	(6,495)	(6,521)	
	U.S. 10-Year T-Note Futures	Short	100	(372,827)	(374,771)	
	Euro-Bund Futures	Short	23	(132,141)	(132,402)	
	Nifty 50 Index Futures	Long	48	26,045	26,189	
	Nifty 50 Index Futures	Short	4	(2,193)	(2,192)	
	USD/JPY FX Futures	Long	53	32,509	32,120	
	USD/JPY FX Futures	Short	213	(130,851)	(130,068)	
	EUR/USD FX Futures	Long	113	79,609	80,110	
	Dollar Index Futures	Short	1	(2,946)	(2,940)	
	Japanese Yen Futures	Long	3	10,249	10,563	
	Japanese Yen Futures	Short	28	(97,593)	(98,591)	
	Euro Futures	Short	18	(79,280)	(79,631)	
	Subtotal			(1,904,141)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions: Long/ Short	Open positions: Number of contracts	Contract size or paid for (received from) premium	Fair value	Note
Options contract：						
	TAIEX Options (Call)	Long	572	$ 1,584	1,183	
	TAIEX Options (Put)	Long	1,475	8,648	9,788	
	TAIEX Options (Call)	Short	538	(4,898)	(3,805)	
	TAIEX Options (Put)	Short	403	(3,794)	(3,187)	
	Stock Options (Call)	Long	1	98	30	
	Stock Options (Put)	Long	54	184	127	
	Stock Options (Call)	Short	1,153	(3,777)	(2,063)	
	Stock Options (Put)	Short	172	(2,263)	(2,749)	
	TAIEX Weekly Options (Put)	Long	240	72	25	
	TAIEX Weekly Options (Call)	Short	90	(173)	(208)	
	S&P 500 Options (Put)	Long	24	654	427	
	S&P 500 Options (Call)	Short	24	(1,684)	(4,059)	
	Japanese Yen Options (Put)	Short	3	(6)	(3)	
	Subtotal			(5,355)		
Total				**$ (1,909,496)**		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) December 31, 2017

Item	Trading category	Open positions Long/ Short	Number of contracts	Contract size or paid for (received from) premium	Fair value	Note
Futures contract：						
	TAIEX Futures	Long	166	$ 341,696	351,721	
	TAIEX Futures	Short	2,305	(4,866,095)	(4,899,355)	
	Mini-TAIEX Futures	Short	113	(59,538)	(59,835)	
	Electronic Sector Index Futures	Short	118	(206,165)	(208,247)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	24	29,054	29,801	
	Stock Futures	Long	2,755	365,398	367,120	
	Stock Futures	Short	8,226	(1,524,440)	(1,517,181)	
	Finance Sector Index Futures	Long	17	20,196	20,190	
	Finance Sector Index Futures	Short	1	(1,177)	(1,189)	
	H stocks Index Futures	Long	5	11,037	11,076	
	SGX Nifty 50 Index Futures	Long	83	52,124	52,161	
	MSCI Taiwan Index Futures	Long	140	163,256	163,740	
	Real Estate Index Futures	Short	5	(4,836)	(4,782)	
	VIX Futures	Long	40	13,313	13,550	
	Japanese Yen Futures	Long	2	6,698	6,632	
	Japanese Yen Futures	Short	3	(9,942)	(9,948)	
	Dow Futures	Long	92	45,670	45,711	
	Dow Futures	Short	97	(48,132)	(48,174)	
	Mini-Dow Futures	Long	6	22,185	22,083	
	Mini-Dow Futures	Short	2	(7,362)	(7,366)	
	Gold Futures	Long	1	3,866	3,896	
	Gold Futures	Short	13	(49,580)	(50,654)	
	NT dollar Gold Futures	Long	3	1,399	1,399	
	USD/CNY FX Futures	Long	7	22,476	20,937	
	USD/CNY FX Futures	Short	17	(54,697)	(51,083)	
	Nifty 50 Index Futures	Short	99	(52,266)	(52,272)	
	Mini-USD/CNY FX Futures	Long	81	52,641	48,696	
	USD/JPY FX Futures	Long	76	45,094	45,066	
	USD/JPY FX Futures	Short	90	(53,137)	(53,082)	
	EUR/USD FX Futures	Long	134	95,766	96,370	
	EUR/USD FX Futures	Short	188	(133,994)	(134,423)	
	Euro Futures	Long	9	40,182	40,428	
	Crude Oil Futures	Long	2	3,446	3,595	
	Crude Oil Futures	Short	69	(117,989)	(124,070)	
	S&P 500 Futures	Long	63	33,766	33,875	
	S&P 500 Futures	Short	3	(1,616)	(1,614)	
	Mini-S&P 500 Futures	Long	11	43,562	43,479	
	Mini-S&P 500 Futures	Short	27	(107,897)	(107,538)	
	FTSE China A50 Index Futures	Long	570	227,493	224,470	
	FTSE China A50 Index Futures	Short	1,030	(408,178)	(405,920)	
	Nikkei 225 Index Futures	Short	2	(11,799)	(12,021)	
	SGX Nikkei 225 Index Futures	Short	2	(6,025)	(6,012)	
	U.S. 5-Year T-Note Futures	Short	95	(328,692)	(328,419)	
	U.S. 10-Year T-Note Futures	Short	267	(982,781)	(985,667)	
	Sugar Futures	Long	43	41,196	40,977	
	Soybeen Meal Futures	Long	32	3,557	3,534	
	Subtotal			(7,351,267)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract：						
	TAIEX Options (Call)	Long	22,356	$ 40,998	61,369	
	TAIEX Options (Put)	Long	26,265	59,047	33,040	
	TAIEX Options (Call)	Short	4,712	(30,079)	(40,087)	
	TAIEX Options (Put)	Short	27,994	(80,955)	(50,405)	
	Stock Options (Call)	Long	1,724	6,916	4,070	
	Stock Options (Put)	Long	2,277	8,629	9,133	
	Stock Options (Call)	Short	1,181	(4,230)	(4,026)	
	Stock Options (Put)	Short	940	(3,472)	(2,621)	
	TAIEX Weekly Options (Call)	Long	3,328	2,811	3,250	
	TAIEX Weekly Options (Put)	Long	22,035	2,720	1,137	
	TAIEX Weekly Options (Call)	Short	3,236	(10,161)	(24,567)	
	TAIEX Weekly Options (Put)	Short	4,941	(6,726)	(4,168)	
	Electronic Sector Index Options (Call)	Long	2,221	4,656	4,830	
	Electronic Sector Index Options (Put)	Long	473	2,066	1,116	
	Electronic Sector Index Options (Call)	Short	40	-	-	
	Electronic Sector Index Options (Put)	Short	130	(559)	(275)	
	Finance Sector Index Options (Call)	Long	826	1,025	853	
	Finance Sector Index Options (Put)	Long	598	1,537	847	
	Finance Sector Index Options (Call)	Short	39	(330)	(294)	
	Finance Sector Index Options (Put)	Short	42	(10)	-	
	S&P 500 Options (Call)	Long	145	926	640	
	S&P 500 Options (Put)	Long	5	111	87	
	S&P 500 Options (Put)	Short	4	(38)	(48)	
	Mini-S&P 500 Options (Call)	Short	55	(653)	(134)	
	Gold Option (Call)	Long	1	1	1	
	Gold Option (Put)	Long	33	143	128	
	Gold Option (Call)	Short	5	(26)	(26)	
	Gold Option (Put)	Short	4	(5)	(3)	
	Sugar Options (Call)	Long	473	1,352	671	
	Sugar Options (Put)	Long	1,068	2,993	4,588	
	Sugar Options (Call)	Short	6	-	-	
	Sugar Options (Put)	Short	150	(678)	(724)	
	Soybean Meal Options (Call)	Short	381	(617)	(447)	
	Soybean Meal Options (Put)	Short	84	(397)	(418)	
	Mini-USD/CNY FX Options (Call)	Long	2	12	-	
	Mini-USD/CNY FX Options (Put)	Long	78	1,424	3,734	
	Mini-USD/CNY FX Options (Call)	Short	1	(7)	-	
	USD/CNY FX Options (Put)	Long	12	1,155	2,978	
	USD/CNY FX Options (Put)	Short	22	(463)	(3,393)	
	Crude Oil Options (Put)	Short	1	(1)	-	
	Subtotal			(885)		
Total				$ (7,352,152)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Subsidiary - Capital Futures Corp.' s the restrictions and enforcement of each financial ratio was calculated in accordance with "Regulations Governing Futures Commission Merchants" as follow:

Art.	Calculation formula	Current Period Calculation	Current Period Ratio	Last Period Calculation	Last Period Ratio	Standard	Enforcement
17	Stockholders' equity / (Total liabilities - futures traders' equity)	5,032,092 / 486,790	10.34	4,637,732 / 607,202	7.64	≧1	Satisfactory to requirement
17	Current Assets / Current Liabilities	38,113,857 / 34,567,504	1.10	30,719,057 / 27,485,827	1.12	≧1	〃
22	Stockholders' equity / Minimum paid-in capital	5,032,092 / 1,115,000	451.31 %	4,637,732 / 1,115,000	415.94 %	≧60% ≧40%	〃
22	Post-adjustment net capital / Total customers' margin deposits required for open positions of customers	3,659,697 / 6,318,099	57.92 %	3,183,040 / 5,524,491	57.62 %	≧20% ≧15%	〃

(c) Unique risks to specific futures commission merchant services

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

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

(i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on Loans to a Single Business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd	Account receivables - Related party	Yes	US 29,322 thousands	US 29,322 thousands	US 29,322 thousands	- %	2	-	Operations	-		-	US 53,380 thousands	US 53,380 thousands
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited.	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 thousands	US 3,380 thousands
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463 thousands	HK 1,463 thousands	HK 1,463 thousands	- %	2	-	Repayment of financing	-		-	HK 1,463 thousands	HK 1,463 thousands
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 AND SUBSIDIARIES
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(vii) Business relationships and significant intercompany transactions for the year ended December 31, 2018:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details: General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	248		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	10,922		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	278		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	198,000		0.17 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payables	19,806		0.02 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,819		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	166,348	General transaction	2.18 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	16,455	General transaction	0.22 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	406	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	359	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	19	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	4,721	General transaction	0.06 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	424	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	22,618	General transaction	0.30 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	42,717	General transaction	0.56 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions revenue	436	General transaction	0.01 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivables	147		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	82,000	General transaction	1.07 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	1,200	General transaction	0.02 %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Guarantee deposits received	30		- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Lease revenue	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Non-operating revenues	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Revenue from securities management, distribution, and management fees	24	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	249	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Revenue from securities management, distribution, and management fees	90	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	278		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	3		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expense	5,887	General transaction	0.08 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Other receivables	93		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	962	General transaction	0.01 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	2	General transaction	- %

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	Capital International Technology Corp.	1	Lease revenue	146	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Professional service received	60	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantec deposits received	37		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	1,628,417		1.39 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,628,417		1.39 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	454,731		0.39 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	2,987,172		2.55 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payables	1,951		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	10,289	General transaction	0.13 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	68,377	General transaction	0.90 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	2,482	General transaction	0.03 %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Professional service fees	1,400	General transaction	0.02 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	2,714,273		2.31 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	256,258		0.22 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Accounts receivable	74,427		0.06 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expenses	2,006	General transaction	0.03 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	1,200		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Depreciation expense	233	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Prepayments	241		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Other payables	1,730		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professinal service fees	14,968	General transaction	0.20 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Membership fee	114	General transaction	- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 21		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 4,320	General transaction	0.22 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 616	General transaction	0.03 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 228,306		0.75 %
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK)Limited	3	Other receivables	HK 26,248		0.09 %

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

(1) 0 stands for the parent company.

(2) Subsidiaries are coded from No. 1 per respective companies.

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

(1) Parent company to subsidiaries.

(2) Subsidiaries to parent company.

(3) Subsidiaries to subsidiaries.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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: Balance on December 31, 2018	Original investment amount: Balance on December 31, 2017	Highest: Percentage of ownership	Equity Ownership by company (note 3): Shares	Equity Ownership by company (note 3): Ratio	Equity Ownership by company (note 3): Book value	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
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	100.00 %	7,000,000	100.00 %	106,690	82,000	10,522	10,522	10,990	The transaction has been written off in the consolidated financial statements
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,539	1,212,539	56.21 %	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	100.00 %	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	100.00 %	500,000	100.00 %	84,732	180,643	58,876	58,876	64,650	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	100.00 %	740,000	100.00 %	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	99.99 %	-	- %	-	-	-	173,048	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Long-term equity investment business.	1,394,817	1,394,817	100.00 %	300	100.00 %	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	99.92 %	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	100.00 %	100,000,000	100.00 %	854,906	3,716	(2,109)	(2,109)	-	〃
0	Capital Investment Trust Corp.	Taipei ,Taiwan, R.O.C.	October 10, 1995		Engaged in security investment and discretionary investment services.	1,272,505	-	20.00 %	33,067,507	20.00 %	1,261,329	1,319,160	491,726	87,155	99,203	Associates
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 128,000 thousands	HK 128,000 thousands	100.00 %	128,000,000	100.00 %	HK 160,384 thousands	HK 26,807 thousands	HK 2,332 thousands	-	-	The transaction has been written off in the consolidated financial statements
2	TIS Securities (HK) Limited. (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	100.00 %	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	100.00 %	2	100.00 %	HK (66,157) thousands	-	HK (57) thousands	-	-	〃
4	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Future brokerage and other businesses permitted by local law of Hong Kong.	862,631	862,631	97.27 %	214,000,000	97.27 %	1,007,474	551,086	57,246	-	-	The transaction has been written off in the consolidated financial statements

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Highest	Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2018	Balance on December 31, 2017	Percentage of ownership	Shares	Ratio	Book value					
4	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	100.00 %	5,000,000	100.00 %	46,283	1,400	552	-	-	The transaction has been written off in the consolidated financial statements
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	49.00 %	245,000	49.00 %	45,719	133,223	7,791	-	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	100.00 %	2	100.00 %	HK -	HK -	HK -	-	-	The transaction has been written off in the consolidated financial statements

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

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

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

Note 4: The stockholders' special meeting 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) Limited. and Taiwan International Capital (HK) Ltd. can't cover the liabilities. The company has briefed it to the accountant in Hong Kong to plan the solutions.

(c) Information on 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	-	-	-	-	-	-	-	

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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	Highest Percentage of ownership	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of December 31, 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%	28.67 %	785 B(3)	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%	56.21 %	1,334 B(3)	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.

(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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Income statement

Unit: US $ thousands

Nature \ Company	CSC International Holdings Ltd. For the years ended December 31, 2018	Taiwan International Securities (B.V.I) Corp. For the years ended December 31, 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)

(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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

(a) Operating segment information

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

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

(i) Brokerage segment: Engaged in brokerage trading, margin trading, and securities lending business.

(ii) Underwriting segment: Engaged in providing advisory on initial public offering or to register on the emerging or listed market, securities underwriting and sales, corporate finance, mergers and acquisitions.

(iii) Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.

(iv) Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.

(v) Capital Futures Corporation: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(b) Measurement of segmental information

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

(c) Information about segments' gains or losses, assets and liabilities

	For the year ended December 31, 2018							
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	$ 3,828,016	283,678	312,051	498,916	203,870	2,814,164	(302,050)	7,638,645
Income	$ 1,723,648	130,042	(498,734)	240,223	419,963	954,976	(643,588)	2,326,530

	For the year ended December 31, 2017							
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	$ 3,584,085	307,546	2,085,337	644,265	231,401	2,676,371	(284,108)	9,244,897
Income	$ 1,412,636	139,995	1,439,568	445,399	(344,877)	829,527	(418,611)	3,503,637

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 1: Internal segment revenues are eliminated on consolidation.

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

(d) Information about products and services

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

(e) Information about geographical areas

The Group received revenue from any single foreign customer is insignificant and there is no need to disclose the information.

(f) Information about major customers

The Group does not receive revenue from any single customer which exceeds 10% or more of operating income and there is no need to disclose the information.