

**CAPITAL SECURITIES CORPORATION AND
SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For The Three Months Ended March 31, 2020 and 2019**

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The independent auditors' review 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' review report and consolidated financial statements, the Chinese version shall prevail.

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Independent Auditors' Review Report

To the Board of Directors of
Capital Securities Corporation:

Introduction

We have reviewed the accompanying consolidated balance sheets of Capital Securities Corporation and its subsidiaries as of March 31, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standard 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(c), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$2,776,631 thousands and \$2,923,737 thousands, constituting 1.93% and 2.27% of consolidated total assets as of March 31, 2020 and 2019, respectively, total liabilities amounting to \$272,208 thousands and \$294,202 thousands, constituting 0.25% and 0.32% of consolidated total liabilities as of March 31, 2020 and 2019, respectively, and total comprehensive income (loss) amounting to \$(48,569) thousands and \$(57,240) thousands, constituting 3.13% and (4.90)% of consolidated total comprehensive income (loss) for the three months ended March 31, 2020 and 2019, respectively.

Furthermore, as stated in Note 6(e), the other equity accounted investments of Capital Securities Corporation and its subsidiaries in its investee companies of \$1,521,674 thousands and \$1,484,754 thousands as of March 31, 2020 and 2019, respectively, and its equity in net earnings on these investee companies of \$49,877 thousands and \$52,200 thousands for the three months ended March 31, 2020 and 2019, respectively, and its equity in other comprehensive income (loss) on these investee companies of \$178 thousands and \$16 thousands for the three months ended March 31, 2020 and 2019, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Capital Securities Corporation and its subsidiaries as of March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)
May 14, 2020

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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors’ review 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’ review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE GENERALLY ACCEPTED AUDITING
STANDARDS AS OF MARCH 31, 2020 AND 2019

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2020, December 31, 2019, and March 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2020		December 31, 2019		March 31, 2019	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
110000 Cash and cash equivalents (note 6(a))	\$ 14,395,846	10	8,323,636	6	7,984,738	6
112000 Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	27,864,254	19	31,003,268	24	32,064,287	25
113200 Financial assets at fair value through other comprehensive income - current (note 6(b))	16,131,724	11	15,982,702	12	13,585,956	11
114030 Receivable for securities provided as collateral	7,190,933	5	12,166,194	9	10,649,020	8
114040 Refinancing margin	26,494	-	91,153	-	19,686	-
114050 Refinancing collateral receivable	22,423	-	137,339	-	16,187	-
114060 Receivable of securities business money lending	2,199,439	2	1,996,204	2	1,938,608	2
114070 Customers' margin account (note 6(d))	42,466,489	30	34,803,719	26	34,392,217	27
114080 Receivable - futures margin	17	-	2	-	-	-
114090 Collateral for securities borrowed	222,152	-	344,523	-	259,273	-
114100 Security borrowing margin	1,117,555	1	315,958	-	513,336	-
114110 Notes receivable	51,299	-	22,401	-	10,433	-
114130 Accounts receivable (note 6(c))	8,072,892	6	6,488,246	5	8,973,746	7
114150 Prepayments	58,142	-	33,609	-	23,764	-
114170 Other receivables	191,059	-	178,684	-	78,810	-
114300 Leverage contract trading - customers' margin account	296,843	-	308,543	-	216,597	-
114600 Current income tax assets	27,907	-	27,957	-	26,601	-
119095 Amounts held for each customer in the account (note 6(n))	5,413,618	4	3,025,153	2	269,907	-
119990 Other current assets-others	1,408,118	1	753,210	1	913,151	1
	127,157,204	89	116,002,501	87	111,936,317	87
Non-current assets:						
120000 Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	180,880	-	180,467	-	180,519	-
123200 Financial assets at fair value through other comprehensive income - non-current (note 6(b))	1,892,474	1	2,464,932	2	2,094,170	2
124100 Investments accounted for under equity method (note 6(e))	1,521,674	1	1,471,573	1	1,484,754	1
125000 Property and equipment (notes 6(f) and 8)	2,921,465	2	3,025,605	2	4,973,892	4
125800 Right-of-use assets (notes 6(g))	913,227	-	955,250	1	1,042,071	1
126000 Investment property (notes 6(h) and 8)	3,856,056	3	3,796,990	3	1,720,136	1
127000 Intangible assets (note 6(i))	3,619,465	3	3,609,740	3	3,619,091	3
128000 Deferred income tax assets	8,264	-	107,846	-	162,403	-
129000 Other non-current assets	1,588,877	1	1,555,509	1	1,561,626	1
	16,502,382	11	17,167,912	13	16,838,662	13
Total assets	\$ 143,659,586	100	133,170,413	100	128,774,979	100

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2020, December 31, 2019, and March 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2020		December 31, 2019		March 31, 2019	
	Amount	%	Amount	%	Amount	%
Liabilities and Equity						
Current liabilities:						
210000 Short-term borrowings (note 6(j))	\$ 8,928,704	6	6,631,002	5	4,057,799	3
211200 Commercial paper payable (note 6(k))	899,889	1	-	-	-	-
212000 Financial liabilities at fair value through profit or loss - current (note 6(l))	1,300,144	1	1,459,094	1	1,183,694	1
214010 Bonds sold under repurchase agreements (note 6(m))	30,822,422	22	31,847,531	24	33,175,387	26
214040 Guarantee deposited for short sales	1,226,654	1	2,390,464	2	1,252,730	1
214050 Proceeds payable from short sales	1,358,405	1	2,755,405	2	1,408,399	1
214070 Securities lending refundable deposits	548,028	-	336,713	-	582,634	1
214080 Futures traders' equity (note 6(d))	42,178,992	29	34,747,531	26	34,325,003	27
214090 Equity for each customer in the account (note 6(n))	5,413,618	4	3,025,153	2	269,907	-
214100 Leverage contract trading - customers' equity	270,231	-	308,590	-	217,355	-
214110 Notes payable	-	-	-	-	6,518	-
214130 Accounts payable (note 6(o))	8,132,866	6	6,236,058	5	8,791,706	7
214150 Advance receipts	69,024	-	60,867	-	22,655	-
214160 Receipts under custody	111,571	-	114,442	-	230,773	-
214170 Other payables	592,778	-	662,217	1	570,740	-
214200 Other financial liabilities - current (note 6(w))	3,881,302	3	3,579,951	3	3,087,769	2
214600 Current income tax liabilities	326,487	-	269,795	-	594,727	1
215100 Provisions - current (note 6(q))	56,258	-	52,566	-	48,486	-
216000 Current lease liabilities (note 6(p))	194,503	-	193,565	-	159,558	-
219000 Other current liabilities	23,266	-	13,717	-	12,235	-
	106,335,142	74	94,684,661	71	89,998,075	70
Non-Current liabilities:						
224200 Other financial liabilities - non-current (note 6(w))	374,322	-	349,518	-	350,522	-
226000 Non-current lease liabilities (note 6(p))	775,660	1	819,040	1	899,250	1
228000 Deferred income tax liabilities	424,279	-	463,963	-	467,397	-
229000 Other non-current liabilities	630,820	1	637,102	1	687,149	1
	2,205,081	2	2,269,623	2	2,404,318	2
Total liabilities	108,540,223	76	96,954,284	73	92,402,393	72
Equity attributable to shareholders of the parent:						
301010 Common stock (note 6(s))	21,709,081	15	23,209,081	17	23,209,081	18
302000 Capital surplus (note 6(s))	2,745,094	2	2,852,299	2	2,852,299	2
304000 Retained earnings:						
304010 Legal reserve	1,658,360	1	1,658,360	1	1,519,635	1
304020 Special reserve	3,587,197	2	3,587,197	3	3,302,811	3
304040 Unappropriated earnings (note 6(s))	1,830,077	1	2,681,569	2	1,974,350	1
305120 Exchange differences on translation of foreign operations	(87,364)	-	(118,543)	-	(33,993)	-
305140 Unrealized gains (losses) on financial assets at fair value through other comprehensive income	887,041	1	1,696,677	1	1,243,478	1
305500 Treasury shares (note 6(s))	-	-	(1,574,000)	(1)	-	-
Total equity attributable to the parent company	32,329,486	22	33,992,640	25	34,067,661	26
306000 Non-controlling interests	2,789,877	2	2,223,489	2	2,304,925	2
Total equity	35,119,363	24	36,216,129	27	36,372,586	28
Total liabilities and equity	\$ 143,659,586	100	133,170,413	100	128,774,979	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2020 and 2019

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

	For the three months ended March 31			
	2020		2019	
	Amount	%	Amount	%
Income:				
401000 Brokerage commissions (note 6(u))	\$ 1,236,841	228	842,161	47
402000 Revenues from securities business money lending	17	-	65	-
403000 Revenue from securities lending	44,234	8	37,464	2
404000 Underwriting commissions (note 6(u))	26,665	5	21,888	1
406000 Commissions on wealth management business	22,846	4	21,847	1
410000 Net gains (losses) on sale of trading securities (note 6(u))	(781,673)	(144)	217,121	12
421100 Securities management, distribution, and management fees	37,227	7	34,237	2
421200 Interest revenue (note 6(u))	352,589	65	369,398	20
421300 Dividend revenue	9,006	2	11,187	1
421500 Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(u))	(1,206,672)	(223)	669,739	37
421600 Net gains (losses) on covering of borrowed securities and bonds with resale agreements	92,437	17	27,980	2
421610 Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(13,271)	(2)	(127,131)	(7)
421750 Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	48,103	9	36,328	2
422000 Net gains (losses) from exchange traded notes (note 6(w))	74	-	-	-
422200 Net gains (losses) on stock warrants issued (note 6(u) and (w))	42,926	8	(21,361)	(1)
424100 Futures commission revenues (note 6(u))	60,778	11	58,133	3
424400 Net gains (losses) on derivative instruments - futures (note 6(w))	248,411	46	(343,292)	(19)
424500 Net gains (losses) on derivative instruments - OTC (note 6(w))	331,214	61	(91,519)	(5)
424800 Management fee revenues	206	-	22	-
424900 Consultancy fee revenue	2,788	-	2,964	-
425300 Impairment losses and reversal gains (note 6(v))	(304)	-	(1,508)	-
428000 Other operating revenues	(12,307)	(2)	36,997	2
	<u>542,135</u>	<u>100</u>	<u>1,802,720</u>	<u>100</u>
Expenses:				
501000 Brokerage fees	129,126	24	98,422	6
502000 Brokerage and clearing fees - proprietary trading	4,649	1	3,818	-
503000 Clearing and exchange fees - refinancing	673	-	858	-
504000 Clearing and exchange fees - underwriting	366	-	482	-
521200 Financial costs	136,878	25	146,289	8
524100 Futures commission expense (note 6(u))	103,114	19	79,189	4
524300 Cleaning and settlement expenses	46,039	8	33,507	2
528000 Other operating expenditure	2,814	1	830	-
531000 Employee benefits expenses (note 6(u))	600,765	111	543,372	30
532000 Depreciation and amortization expense (note 6(u))	111,608	21	105,768	6
533000 Other operating expenses (note 6(u))	342,014	63	326,578	18
	<u>1,478,046</u>	<u>273</u>	<u>1,339,113</u>	<u>74</u>
Other income (expenses):				
601000 Share of profits of associates and joint ventures accounted for using equity method (note 6(e))	49,877	9	52,200	3
602000 Other gains and losses (note 6(u))	233,991	43	256,612	14
	<u>283,868</u>	<u>52</u>	<u>308,812</u>	<u>17</u>
902001 Net income (loss) before income tax	(652,043)	(121)	772,419	43
701000 Less: Income tax expenses (note 6(r))	125,449	23	98,205	5
Net income (loss)	<u>(777,492)</u>	<u>(144)</u>	<u>674,214</u>	<u>38</u>
805000 Other comprehensive income:				
805500 Components that may not be reclassified to profit or loss in subsequent periods:				
805540 Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	(397,383)	(73)	241,220	13
805599 Less: Income tax related to components of other comprehensive income	-	-	-	-
Subtotal of components that may not be subsequently reclassified into profit or loss	<u>(397,383)</u>	<u>(73)</u>	<u>241,220</u>	<u>13</u>
805600 Components that may be reclassified to profit or loss in subsequent periods:				
805610 Exchange differences on translation of foreign operations	39,878	7	8,859	-
805615 Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	(413,857)	(76)	244,439	14
805699 Less: Income tax related to components of other comprehensive income (note 6(r))	3,143	1	882	-
Subtotal of items that may be subsequently reclassified into profit or loss	<u>(377,122)</u>	<u>(70)</u>	<u>252,416</u>	<u>14</u>
805000 Other comprehensive income, net	<u>(774,505)</u>	<u>(143)</u>	<u>493,636</u>	<u>27</u>
902006 Total comprehensive income	<u>\$ (1,551,997)</u>	<u>(287)</u>	<u>1,167,850</u>	<u>65</u>
Net income attributable to:				
913100 Shareholders of the parent	\$ (850,018)	(157)	603,033	34
913200 Non-controlling interests	72,526	13	71,181	4
	<u>\$ (777,492)</u>	<u>(144)</u>	<u>674,214</u>	<u>38</u>
Total comprehensive income attributable to:				
914100 Shareholders of the parent	\$ (1,629,949)	(301)	1,095,669	61
914200 Non-controlling interests	77,952	14	72,181	4
	<u>\$ (1,551,997)</u>	<u>(287)</u>	<u>1,167,850</u>	<u>65</u>
975000 Basic earnings per share (note 6(t))	<u>\$ (0.39)</u>		<u>0.26</u>	
985000 Diluted earnings per share (note 6(t))	<u>\$ (0.39)</u>		<u>0.26</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the three months ended March 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to the parent company										Non-controlling interests	Total Equity
	Stock					Total other equity interest						
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Treasury shares	Total equity attributable to the parent company			
Balance at January 1, 2019	\$ 23,209,081	2,852,299	1,519,635	3,302,811	1,387,250	(41,068)	741,984	-	32,971,992	2,232,744	35,204,736	
Net income for the three months ended March 31, 2019	-	-	-	-	603,033	-	-	-	603,033	71,181	674,214	
Other comprehensive income	-	-	-	-	-	7,075	485,561	-	492,636	1,000	493,636	
Total comprehensive income	-	-	-	-	603,033	7,075	485,561	-	1,095,669	72,181	1,167,850	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(15,933)	-	15,933	-	-	-	-	
Balance at March 31, 2019	\$ 23,209,081	2,852,299	1,519,635	3,302,811	1,974,350	(33,993)	1,243,478	-	34,067,661	2,304,925	36,372,586	
Balance at January 1, 2020	\$ 23,209,081	2,852,299	1,658,360	3,587,197	2,681,569	(118,543)	1,696,677	(1,574,000)	33,992,640	2,223,489	36,216,129	
Net income for the three months ended March 31, 2020	-	-	-	-	(850,018)	-	-	-	(850,018)	72,526	(777,492)	
Other comprehensive income	-	-	-	-	-	31,179	(811,110)	-	(779,931)	5,426	(774,505)	
Total comprehensive income	-	-	-	-	(850,018)	31,179	(811,110)	-	(1,629,949)	77,952	(1,551,997)	
Purchase of treasury shares	-	-	-	-	-	-	-	(30,387)	(30,387)	-	(30,387)	
Retirement of treasury shares	(1,500,000)	(104,387)	-	-	-	-	-	1,604,387	-	-	-	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(1,474)	-	1,474	-	-	-	-	
Capital surplus changes in ownership interests in subsidiaries	-	(2,818)	-	-	-	-	-	-	(2,818)	488,436	485,618	
Balance at March 31, 2020	\$ 21,709,081	2,745,094	1,658,360	3,587,197	1,830,077	(87,364)	887,041	-	32,329,486	2,789,877	35,119,363	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2020	2019
Cash flows from operating activities:		
Net income (loss) before tax	\$ (652,043)	772,419
Adjustments:		
Income and expenses items:		
Depreciation expense	102,764	97,574
Amortization expense	8,844	8,194
Impairment loss	304	1,508
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	1,219,943	(542,608)
Interest expense	136,878	146,289
Interest revenue (including financial revenue)	(478,356)	(512,927)
Dividend revenue	(36,927)	(11,187)
Share of profit of associates and joint ventures accounted for using equity method	(49,877)	(52,200)
Gains on disposal and retirement of property and equipment	(11,317)	-
Net losses (gains) on non-operating financial instruments at fair value through profit or loss	12,097	(21,303)
Subtotal of income of non-cash activities	904,353	(886,660)
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	1,905,466	(434,917)
Increase in financial assets at fair value through other comprehensive income	(590,893)	(2,388,449)
Decrease (increase) in receivable for securities provided as collateral	4,975,281	(654,713)
Decrease in refinancing margin	64,659	19,928
Decrease in receivable on refinancing collateral	114,916	18,232
Decrease (increase) in receivable of securities business money lending	(203,235)	10,497
Increase in customers' margin account	(7,662,770)	(1,116,587)
Decrease in margin receivable of futures trading	68	103
Decrease in collateral for securities borrowed	122,371	194,927
Increase in security borrowing margin	(801,597)	(101,188)
Decrease (increase) in notes receivable	(28,898)	6,748
Increase in accounts receivable	(1,755,504)	(4,334,798)
Decrease (increase) in prepayments	(24,705)	13,987
Decrease (increase) in other receivables	(17,901)	22,153
Decrease in leverage contract trading - customers' margin account	11,700	11,967
Increase in pledged assets - current	(732)	(67)
Increase in other current assets	(654,176)	(63,612)
Increase in guarantee deposited for business operations	(339)	(67,933)
Decrease (increase) in settlement fund	(8,969)	7,893
Decrease in refundable deposits	4,311	12,466
Increase in other non-current assets	(26,803)	(74,238)
Decrease in financial liabilities at fair value through profit or loss	(157,842)	(18,521)
Increase (decrease) in bonds sold under repurchase agreements	(1,025,109)	5,142,863
Decrease in guarantee deposited for short sales	(1,163,810)	(1,064,014)
Decrease in proceeds payable from short sales	(1,397,000)	(1,194,916)
Increase (decrease) in securities lending refundable deposits	211,315	(62,209)
Increase in futures traders' equity	7,431,461	1,166,177
Decrease in leverage contract trading - customers' equity	(38,359)	(8,544)
Increase in notes payable	-	6,037
Increase in accounts payable	1,930,739	4,937,317
Increase (decrease) in advance receipts	8,157	(14,434)
Increase (decrease) in receipts under custody	(2,871)	110,448
Decrease in other payable	(75,254)	(201,305)
Increase (decrease) in other financial liabilities - current	301,351	(270,118)
Increase in provision - current	3,692	3,010
Increase in other current liabilities	9,549	583
Increase in other financial liabilities - non-current	24,804	40,490
Increase (decrease) in other non-current liabilities	(6,282)	28,198
Total changes in assets and liabilities from operating activities	1,476,791	(316,539)
Total cash generated from operation	2,381,144	(1,203,199)

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2020	2019
Cash generated from operating activities	\$ 1,729,101	(430,780)
Interest received	655,791	477,151
Dividends received	36,011	10,406
Interest paid	(165,550)	(148,694)
Income taxes paid	(12,012)	(14,049)
Net Cash flows provided by (used in) operating activities	2,243,341	(105,966)
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	-	(29,864)
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	202,681	-
Increase in deferred debits	(130)	(139)
Acquisition of property and equipment	(13,568)	(24,743)
Proceeds from disposal of property and equipment	20,287	-
Acquisition of intangible assets	(19,996)	(5,911)
Net cash flows provided by (used in) investing activities	189,274	(60,657)
Cash flows from financing activities:		
Increase in short-term borrowings	2,297,702	184,293
Increase in commercial papers payable	899,889	-
Payment of lease liabilities	(52,635)	(34,630)
Issuance of common stock for cash	485,618	-
Purchase of treasury shares	(30,387)	-
Net cash flows provided by financing activities	3,600,187	149,663
Effect of exchange rate changes on cash and cash equivalents	39,408	8,279
Increase (decrease) in cash and cash equivalents	6,072,210	(8,681)
Cash and cash equivalents, beginning of period	8,323,636	7,993,419
Cash and cash equivalents, end of period	\$ 14,395,846	7,984,738

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

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

(1) Company history:

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 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei, Taiwan, R.O.C. As of March 31, 2020, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of March 31, 2020, except for the Head Office, the Company has established an Offshore Securities Unit branch and 51 branches nationwide.

The Company is authorized to conduct the following businesses:

- (a) Underwriting of marketable securities;
- (b) Trading of marketable securities on a proprietary basis on stock exchange;
- (c) Brokerage of marketable securities on stock exchange;
- (d) Trading of marketable securities at the Company’s branches;
- (e) Brokerage of marketable securities at the Company’s branches;
- (f) Margin loan, short sale and refinancing;
- (g) Securities registration agency services;
- (h) Dealership of foreign marketable securities;
- (i) Short-term bills service;
- (j) Accessory services of futures trading;
- (k) Securities business money lending;
- (l) Managing the unexpended balance of clients’ securities accounts within their authorization;
- (m) Securities lending business (except book-entry central government securities) ;
- (n) Trust business;
- (o) Offshore securities business;
- (p) Other relevant services as approved by the authority in charge.

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

The consolidated financial statements were authorized for issue by the board of directors on May 14, 2020.

(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, 2020.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 “Classification of Liabilities as Current or Non-current”	January 1, 2022

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Those which may be relevant to the Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	<p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>
January 23, 2020	Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	<p>The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.</p>

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(4) Summary of significant accounting policies:

(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 IAS 34 “ Interim Financial Reporting” endorsed and issued into effect by the FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC for a complete set of the annual consolidated financial statements.

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2019. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2019 for the detail disclosures of significant accounting policies.

(b) Basis of preparation

(i) Basis of measurement

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

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

(ii) Functional and presentation currency

The functional currency of each 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.

(Continued)

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:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			March 31, 2020	December 31, 2019	March 31, 2019	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment, securities investment consultancy and discretionary investment	100.00 %	100.00 %	100.00 %	The corporation established in February, 1990. As of March 31, 2020, the paid-in capitals amounted to \$70,000. (note 1)
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %	100.00 %	The corporation established in March, 1996. As of March 31, 2020, the paid-in capitals amounted to US\$45,000 thousands. (note 2)
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.58 %	56.21 %	56.21 %	The corporation established in February, 1997 and conducted a cash capital increase on March, 2020. The Company's ratio of equity ownership increased from 56.21% to 56.58%. As of March 31, 2020, the paid-in capitals amounted to \$2,104,376.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %	100.00 %	The corporation established in December, 1996. As of March 31, 2020, the paid-in capitals amounted to US\$9,516 thousands. (note 3)
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92 %	99.92 %	99.92 %	Liquidation in progress. (note 4)
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	100.00 %	The corporation established in January, 2016. As of March 31, 2020, the paid-in capitals amounted to \$1,000,000. (note 5)
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %	97.27 %	The corporation established in December, 1998. As of March 31, 2020, the paid-in capitals amounted to HK\$220,000 thousands.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00 %	100.00 %	100.00 %	The corporation established in December, 2014. As of March 31, 2020, the paid-in capitals amounted to \$50,000. (note 6)
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management, consulting and information service business.	51.00 %	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 March 31, 2020, the paid-in capitals amounted to CNY\$1,000 thousands. (note 7)
"	Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	100.00 %	100.00 %	100.00 %	The corporation established in October, 2016. As of March 31, 2020, the paid-in capitals amounted to CNY\$4,000 thousands. (note 8)
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	100.00 %	100.00 %	100.00 %	The corporation established in May, 1994. (note 2)

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			March 31, 2020	December 31, 2019	March 31, 2019	
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00 %	100.00 %	100.00 %	The corporation established in April, 1995. (note 2)
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Liquidation in progress	100.00 %	100.00 %	100.00 %	Liquidation in progress (note 3)
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Liquidation in progress	100.00 %	100.00 %	100.00 %	"

Note 1: Capital Investment Management Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2020 and 2019, the total assets amounted to \$138,269 and \$157,839, and the total liabilities amounted to \$49,806 and \$52,326, respectively. The total comprehensive income (loss) for the three months ended March 31, 2020 and 2019 were \$(3,982) and \$(1,177).

Note 2: CSC International Holdings Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2020 and 2019, the total consolidated assets amounted to \$1,788,473 and \$1,868,168, and the total consolidated liabilities amounted to \$179,661 and \$223,016, respectively. The total consolidated comprehensive income (loss) for the three months ended March 31, 2020 and 2019 were \$(12,474) and \$4,092.

Note 3: Taiwan International Securities (B.V.I) Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2020 and 2019, the total consolidated assets amounted to \$27 and \$170, and the total consolidated liabilities amounted to \$22 and \$0, respectively. The total consolidated comprehensive income (loss) for the three months ended March 31, 2020 and 2019 were \$431 and \$(414).

Note 4: Taiwan International Securities Investment Consulting Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2020 and 2019, the total assets amounted to \$12,648 and \$13,016, and the total liabilities amounted to \$0 and \$272, respectively. The total comprehensive income (loss) for the three months ended March 31, 2020 and 2019 were \$(6) and \$(65).

Note 5: CSC Venture Capital Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2020 and 2019, the total assets amounted to \$766,849 and \$807,258, and the total liabilities amounted to \$38,276 and \$11,770, respectively. The total comprehensive income (loss) for the three months ended March 31, 2020 and 2019 were \$(34,538) and \$(59,419).

Note 6: Capital International Technology Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2020 and 2019, the total assets amounted to \$43,005 and \$46,343, and the total liabilities amounted to \$127 and \$305, respectively. The total comprehensive income (loss) for the three months ended March 31, 2020 and 2019 were \$630 and \$(245).

Note 7: Capital True Partner Technology Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2020 and 2019, the total assets amounted to \$8,622 and \$8,173, and the total liabilities amounted to \$3,298 and \$6,007, respectively. The total comprehensive income (loss) for the three months ended March 31, 2020 and 2019 were \$1,442 and \$321.

Note 8: Capital Futures Technology (Shanghai) Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2020 and 2019, the total assets amounted to \$18,738 and \$22,770, and the total liabilities amounted to \$1,018 and \$506, respectively. The total comprehensive income (loss) for the three months ended March 31, 2020 and 2019 were \$(72) and \$(333).

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			March 31, 2020	December 31, 2019	March 31, 2019	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00 %	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 March 31, 2020, December 31, 2019 and March 31, 2019, the total assets all constituted 0.04% of the Group's total assets. For the three months ended March 31, 2020 and 2019, the operation revenue were merely 3.71% and 1.39% 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 %	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 March 31, 2020, December 31, 2019 and March 31, 2019, the total assets constituted 0.09%、0.09% and 0.11% of the Group's total assets. For the three months ended March 31, 2020 and 2019, the operation revenue were merely 8.77% and 2.86% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(d) Employee benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(e) Income tax

The Group estimated and disclosed interim income tax under IAS 34 "Interim Financial Reporting" Appendix B12.

Income tax expense is best estimated by multiplying pretax income for the interim reporting period with the effective annual tax rate as forecasted by the management, and is recognized as current tax expense.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled and recognized directly in equity or other comprehensive income as tax expense.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Firms and IAS 34 “Interim Financial Reporting” 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.

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 5 of the consolidated financial statements as of and for the year ended December 31, 2019.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Cash	\$ 3,102	2,781	2,911
Bank deposits			
Checking accounts	46,310	38,143	30,503
Demand deposits	1,512,551	581,921	677,200
Foreign currency deposits	<u>4,010,327</u>	<u>1,219,527</u>	<u>1,081,411</u>
Subtotal	<u>5,569,188</u>	<u>1,839,591</u>	<u>1,789,114</u>
Cash equivalents			
Time deposits	6,633,605	5,286,174	4,509,461
Futures margin - excess margin	2,181,952	1,184,098	1,663,258
Commercial papers	<u>7,999</u>	<u>10,992</u>	<u>19,994</u>
Subtotal	<u>8,823,556</u>	<u>6,481,264</u>	<u>6,192,713</u>
Total	<u>\$ 14,395,846</u>	<u>8,323,636</u>	<u>7,984,738</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Financial assets

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 398,731	251,541	351,524
Valuation adjustment	<u>394</u>	<u>15,091</u>	<u>5,915</u>
Subtotal	<u>399,125</u>	<u>266,632</u>	<u>357,439</u>
Securities invested by securities broker			
Securities invested by securities broker	-	146,849	20,000
Valuation adjustment	<u>-</u>	<u>(1,589)</u>	<u>(15)</u>
Subtotal	<u>-</u>	<u>145,260</u>	<u>19,985</u>
Trading securities - proprietary trading			
Listed stocks	1,330,524	1,810,032	1,099,858
Listed funds	729,724	796,400	790,571
OTC stocks	270,289	387,666	442,214
OTC funds	199,500	200,580	163,900
Emerging market stocks	545,434	532,189	474,400
Convertible corporate bonds	580,068	889,088	697,143
Government bonds	4,930,034	3,317,485	8,086,429
Corporate bonds	6,288,998	7,641,557	8,601,659
International bonds	4,550,580	4,536,910	3,943,700
Financial debentures	200,000	200,000	500,283
Foreign stocks	631,627	519,279	192,023
Overseas bonds	180,405	233,297	15,498
Other	<u>50,300</u>	<u>300</u>	<u>1,462</u>
	20,487,483	21,064,783	25,009,140
Valuation adjustment	<u>(390,966)</u>	<u>165,577</u>	<u>106,897</u>
Subtotal	<u>20,096,517</u>	<u>21,230,360</u>	<u>25,116,037</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Trading securities - underwriting:			
Listed stocks	\$ 29,993	37,424	82,839
OTC stocks	37,796	38,716	49,702
Convertible corporate bonds	<u>143,803</u>	<u>85,097</u>	<u>128,535</u>
	211,592	161,237	261,076
Valuation adjustment	<u>(15,764)</u>	<u>26,053</u>	<u>28,705</u>
Subtotal	<u>195,828</u>	<u>187,290</u>	<u>289,781</u>
Trading securities - hedging			
Listed stocks	914,380	2,816,447	1,386,296
OTC stocks	226,770	773,913	351,265
Convertible corporate bonds	<u>5,971,840</u>	<u>4,948,227</u>	<u>4,194,183</u>
	7,112,990	8,538,587	5,931,744
Valuation adjustment	<u>(328,377)</u>	<u>279,305</u>	<u>36,661</u>
Subtotal	<u>6,784,613</u>	<u>8,817,892</u>	<u>5,968,405</u>
Derivatives			
Call options	29,544	3,482	5,686
Futures margin - proprietary fund	272,355	233,624	255,819
IRS asset swaps	18,678	16,053	15,435
Asset swap options - long position	31,609	37,684	7,641
Currency derivatives	20,092	39,066	26,420
Structured notes	13,529	25,925	643
Currency swaps	2,364	-	-
Interest rate swaps	<u>-</u>	<u>-</u>	<u>996</u>
Subtotal	<u>388,171</u>	<u>355,834</u>	<u>312,640</u>
Total	<u><u>\$ 27,864,254</u></u>	<u><u>31,003,268</u></u>	<u><u>32,064,287</u></u>

As of March 31, 2020, December 31, 2019 and March 31, 2019, trading securities-bonds (including financial assets at fair value through other comprehensive income) undertaken for repurchase agreements of the Group, please refer to note 6(m) and note 8 for details.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Debt instruments at fair value through other comprehensive income			
Government bonds	\$ 2,221,912	2,225,249	-
International bonds	845,411	1,198,147	1,230,610
Overseas bonds	<u>12,782,398</u>	<u>12,054,824</u>	<u>11,689,071</u>
	15,849,721	15,478,220	12,919,681
Valuation adjustment	<u>(43,331)</u>	<u>366,972</u>	<u>193,261</u>
Subtotal	<u>15,806,390</u>	<u>15,845,192</u>	<u>13,112,942</u>
Equity instrument at fair value through other comprehensive income			
Listed stocks	270,840	118,428	182,551
OTC stocks	76,295	10,756	40,353
Emerging market stocks	20,136	24,130	24,130
Foreign stocks	<u>-</u>	<u>-</u>	<u>219,240</u>
	367,271	153,314	466,274
Valuation adjustment	<u>(41,937)</u>	<u>(15,804)</u>	<u>6,740</u>
Subtotal	<u>325,334</u>	<u>137,510</u>	<u>473,014</u>
Total	<u>\$ 16,131,724</u>	<u>15,982,702</u>	<u>13,585,956</u>

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

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

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

For the three months ended March 31, 2020 and 2019, 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 \$0 and \$284, respectively.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold shares of stocks for a fair value \$2,519 and \$138,600, respectively, cumulative dispose losses for the three months ended March 31, 2020 and 2019, amounted to \$1,474 and \$15,933, respectively, were transferred from other equity items to retained earnings.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(v).
- 4) For the three months ended March 31, 2020 and 2019, 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(v).
- (iii) Financial assets at fair value through profit or loss - non-current:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Mandatorily measured at fair value through profit or loss:			
Government bonds	\$ 180,329	180,329	180,329
Valuation adjustment	<u>551</u>	<u>138</u>	<u>190</u>
Total	<u>\$ 180,880</u>	<u>180,467</u>	<u>180,519</u>

As of March 31, 2020, December 31, 2019 and March 31, 2019, 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 (for details please refer to note 8).

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Equity instruments at fair value through other comprehensive income			
Non-listed or non-over-the-counter stocks	\$ 979,071	1,181,752	1,094,531
Valuation adjustment	<u>913,403</u>	<u>1,283,180</u>	<u>999,639</u>
Total	<u>\$ 1,892,474</u>	<u>2,464,932</u>	<u>2,094,170</u>

For the three months ended March 31, 2020 and 2019, 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 \$27,921 and \$0, respectively.

For the three months ended March 31, 2020 and 2019, the Group did not sell equities recognized in FVOCI -non-current. Furthermore, the Group acquired proceeds from capital reduction amounted to \$202,681 for the three months ended March 31, 2020.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (v) The Group uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the three months ended March 31, 2020 and 2019 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	March 31, 2020	December 31, 2019	March 31, 2019	For the three months ended March 31,					
				2020			2019		
				Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,066,520	1,364,147	1,021,437	1,225,786	1,330,276	1,066,520	981,339	1,021,437	932,006

- (c) Accounts Receivable

	March 31, 2020	December 31, 2019	March 31, 2019
Receivable on securities purchased by customers	\$ 14,434	21,368	13,968
Settlement	-	-	2,432,492
Interests receivable	356,222	527,952	578,587
Receivables on securities sold	7,635,327	5,859,407	5,880,614
Others	<u>68,615</u>	<u>81,225</u>	<u>69,792</u>
Subtotal	8,074,598	6,489,952	8,975,453
Less: allowance for doubtful accounts	<u>(1,706)</u>	<u>(1,706)</u>	<u>(1,707)</u>
Total	<u><u>\$ 8,072,892</u></u>	<u><u>6,488,246</u></u>	<u><u>8,973,746</u></u>

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(v).
- (ii) For the three months ended March 31, 2020 and 2019, impairment test have been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(v).

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

As of March 31, 2020, December 31, 2019 and March 31, 2019, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Customers' margin account			
Cash in banks	\$ 29,375,789	26,292,763	24,073,553
Customers' margin account - futures clearing house	7,002,803	4,874,988	3,827,407
Customers' margin account - other futures commission merchants	6,087,714	3,635,783	6,491,069
Marketable securities	<u>183</u>	<u>185</u>	<u>188</u>
Total customers' margin account	<u>42,466,489</u>	<u>34,803,719</u>	<u>34,392,217</u>
Add:			
Commission expense	9,076	1,248	5,552
Other	20	(66)	-
Less:			
Commission revenue	(35,805)	(7,426)	(19,902)
Futures transaction tax	(1,927)	(1,342)	(1,974)
Interest revenues	(5,157)	(5,699)	(5,223)
Temporary receipts	(1,828)	(1,817)	(16,628)
Remittance amount of the customers after the market closed	(15,597)	(9,235)	(4,809)
Other receivables	(236,279)	(31,851)	(24,185)
Other	<u>-</u>	<u>-</u>	<u>(45)</u>
Futures traders' equity	<u><u>\$ 42,178,992</u></u>	<u><u>34,747,531</u></u>	<u><u>34,325,003</u></u>

(e) Investments accounted for under equity method

As of March 31, 2020, December 31, 2019 and March 31, 2019, investments under equity method consisted of the following:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 92,612	78,906	100,815
Capital Insurance Agency Corp.	<u>44,232</u>	<u>43,447</u>	<u>43,123</u>
Subtotal	<u>136,844</u>	<u>122,353</u>	<u>143,938</u>
Associates			
True Partner Advisor Hong Kong Ltd.	49,088	47,860	46,251
Capital Investment Trust Corp.	<u>1,335,742</u>	<u>1,301,360</u>	<u>1,294,565</u>
Subtotal	<u>1,384,830</u>	<u>1,349,220</u>	<u>1,340,816</u>
Total	<u><u>\$ 1,521,674</u></u>	<u><u>1,471,573</u></u>	<u><u>1,484,754</u></u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Subsidiaries:

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

	<u>For the three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
The Group's share of gains based on the subsidiaries' financial statements	<u>\$ 14,490</u>	<u>18,450</u>
	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Total assets	<u>\$ 185,046</u>	<u>167,994</u>
Total liabilities	<u>\$ 48,202</u>	<u>45,641</u>
	<u>For the three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Revenue	<u>\$ 67,677</u>	<u>76,685</u>
Net income	<u>\$ 14,490</u>	<u>18,450</u>

(ii) Associates

<u>Name of associate</u>	<u>Nature between the Company</u>	<u>Primary business area and registered country</u>	<u>Proportion of Ownership and Voting Rights</u>		
			<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
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 %	49.00 %
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	20.00 %	20.00 %

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Total carrying amount of the associates that were not individually material	<u>\$ 1,384,830</u>	<u>1,349,220</u>	<u>1,340,816</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>For the three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
The Group's share of gains based on the associates' financial statements:		
Net gains from continuing operations	\$ 35,387	33,750
Other comprehensive income (losses)	<u>178</u>	<u>16</u>
Total comprehensive income (losses)	<u>\$ 35,565</u>	<u>33,766</u>

(iii) Collateral

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

(iv) The unreviewed financial statements of investments accounted for using equity method

Investments were accounted for by the equity method, and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

(f) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Carrying amount:					
March 31, 2020	\$ <u>1,814,113</u>	<u>709,840</u>	<u>261,122</u>	<u>136,390</u>	<u>2,921,465</u>
January 1, 2020	\$ <u>1,881,232</u>	<u>722,474</u>	<u>273,784</u>	<u>148,115</u>	<u>3,025,605</u>
March 31, 2019	\$ <u>3,692,753</u>	<u>1,026,651</u>	<u>187,117</u>	<u>67,371</u>	<u>4,973,892</u>

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

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods for the three months ended March 31, 2020 and 2019. For the three months ended March 31, 2020 and 2019, \$421,088 and \$349,624 of property and equipment were transferred to investment property, and \$346,794 and \$18,434 of investment property were transferred to property and equipment. Please refer to note 6(u) for details of the depreciation expense occurring in this period and note 6(f) of the consolidated financial statements as of and for the year ended December 31, 2019 for other relevant information.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Right-of-use assets

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

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2020	\$ 1,116,803	22,336	1,139,139
Additions	7,394	2,614	10,008
Reductions	(5,491)	-	(5,491)
Effect of changes in foreign exchange rates	647	-	647
Balance at March 31, 2020	<u>\$ 1,119,353</u>	<u>24,950</u>	<u>1,144,303</u>
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	1,062,820	8,049	1,070,869
Additions	14,052	7,488	21,540
Effect of changes in foreign exchange rates	(6)	-	(6)
Balance at March 31, 2019	<u>\$ 1,076,866</u>	<u>15,537</u>	<u>1,092,403</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2020	\$ 176,718	7,171	183,889
Depreciation	50,359	2,118	52,477
Reductions	(5,491)	-	(5,491)
Effect of changes in foreign exchange rates	201	-	201
Balance at March 31, 2020	<u>\$ 221,787</u>	<u>9,289</u>	<u>231,076</u>
Balance at January 1, 2019	\$ -	-	-
Depreciation	49,093	1,263	50,356
Effect of changes in foreign exchange rates	(24)	-	(24)
Balance at March 31, 2019	<u>\$ 49,069</u>	<u>1,263</u>	<u>50,332</u>
Carrying amount:			
March 31, 2020	<u>\$ 897,566</u>	<u>15,661</u>	<u>913,227</u>
January 1, 2020	<u>\$ 940,085</u>	<u>15,165</u>	<u>955,250</u>
March 31, 2019	<u>\$ 1,027,797</u>	<u>14,274</u>	<u>1,042,071</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(h) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
March 31, 2020	\$ <u>3,141,594</u>	<u>714,462</u>	<u>3,856,056</u>
January 1, 2020	\$ <u>3,083,445</u>	<u>713,545</u>	<u>3,796,990</u>
March 31, 2019	\$ <u>1,272,389</u>	<u>447,747</u>	<u>1,720,136</u>
<u>Fair Value:</u>			
March 31, 2020			<u>7,710,573</u>
January 1, 2020			<u>7,577,872</u>
March 31, 2019			<u>2,686,130</u>

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

As of March 31, 2020, December 31, 2019 and March 31, 2019, the investment properties were provided as collateral or pledged, for details please refer to note 8.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods for the three months ended March 31, 2020 and 2019. For the three months ended March 31, 2020 and 2019, \$421,088 and \$349,624 of property and equipment which were out of use land and buildings were transferred to investment property, and \$346,794 and \$18,434 of investment property were transferred to property and equipment. Please refer to note 6(u) for details of the depreciation expense occurring in this period and note 6(h) of the consolidated financial statements as of and for the year ended December 31, 2019 for other relevant information.

Investment property include several commercial buildings for lease. Each lease contract contains original non-cancellable lease period of 1 to 12 years, which the subsequent lease period is consulted with lessee, and no contingent rent payment. Related information (including rental revenue and direct operation expense), please refer to note 6(u). Further, for the three months ended March 31, 2020, there was no significant addition of lease contract of the Group. Please refer to note 6(o) of the consolidated financial statements as of and for the year ended December 31, 2019 for relevant information.

(i) Intangible assets

(i) Goodwill

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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 March 31, 2020, December 31, 2019 and March 31, 2019, the book value of goodwill was all \$22,088.

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

(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 March 31, 2020, December 31, 2019 and March 31, 2019, the book values of intangible assets were \$46,259, \$46,235 and \$46,273, 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 March 31, 2020, December 31, 2019 and March 31, 2019, the amortized book value were \$34,421, \$24,720 and \$34,033, respectively.

(j) Short-term borrowings

<u>Nature of borrowings</u>	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Collateralized loan	\$ 1,178,775	709,780	1,642,531
Credit loan	7,749,929	5,921,222	2,415,268
Total	<u>\$ 8,928,704</u>	<u>6,631,002</u>	<u>4,057,799</u>
Interest rate range	<u>0.47%~3.20%</u>	<u>0.95%~3.37%</u>	<u>0.65%~3.37%</u>

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

(k) Commercial paper payable

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Commercial paper payable	\$ 900,000	-	-
Less: Unamortized discount	(111)	-	-
Net amount	<u>\$ 899,889</u>	<u>-</u>	<u>-</u>
Interest rate range	<u>0.598%~0.608%</u>	<u>-</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	March 31, 2020	December 31, 2019	March 31, 2019
Liabilities on sale of borrowed securities	\$ 357,972	386,818	376,485
Redeem liabilities on sale of borrowed securities	(7,199)	-	(25,369)
Valuation adjustment	<u>(37,024)</u>	<u>(50,296)</u>	<u>(12,695)</u>
Subtotal	<u>313,749</u>	<u>336,522</u>	<u>338,421</u>
Settlement coverage bonds payable of short sale	149,398	-	50,021
Valuation adjustment	<u>1,004</u>	<u>-</u>	<u>(27)</u>
Subtotal	<u>150,402</u>	<u>-</u>	<u>49,994</u>
Exchange Traded Notes	677	699	-
Valuation adjustment	<u>(67)</u>	<u>30</u>	<u>-</u>
Subtotal	<u>610</u>	<u>729</u>	<u>-</u>
Stock warrants issued	11,993,719	14,997,622	14,982,697
Stock warrants repurchased	<u>(11,534,604)</u>	<u>(14,444,316)</u>	<u>(14,516,970)</u>
Subtotal	<u>459,115</u>	<u>553,306</u>	<u>465,727</u>
Put options	69,955	11,902	10,598
IRS asset swaps	3,974	2,436	1,631
Asset swap options - short position	289,775	529,328	304,708
Structured notes	7,567	11,583	7,850
Currency derivatives	859	7,574	4,531
Currency swaps	1,796	4,745	234
Interest rate swaps	<u>2,342</u>	<u>969</u>	<u>-</u>
Subtotal	<u>376,268</u>	<u>568,537</u>	<u>329,552</u>
Total	<u>\$ 1,300,144</u>	<u>1,459,094</u>	<u>1,183,694</u>

(m) Bonds sold under repurchase agreements

	March 31, 2020	December 31, 2019	March 31, 2019
Bonds sold under repurchase agreements	<u>\$ 30,822,422</u>	<u>31,847,531</u>	<u>33,175,387</u>
Agreed-upon repurchase amounts	<u>30,916,788</u>	<u>32,022,184</u>	<u>33,449,730</u>
Interest rates	<u>0.32%~3.30%</u>	<u>0.20%~3.20%</u>	<u>0.37%~4.10%</u>
Date of repurchase	<u>2020.4.1~2021.3.22</u>	<u>2020.1.2~2020.12.30</u>	<u>2019.4.1~2020.3.27</u>

(n) Equity for each customer in the account

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

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	March 31, 2020	December 31, 2019	March 31, 2019
Equity for each customer in the account	<u>\$ 5,413,618</u>	<u>3,025,153</u>	<u>269,907</u>
 (o) Accounts payable			
	March 31, 2020	December 31, 2019	March 31, 2019
Payable of securities sold by customers	\$ 19,937	11,136	18,027
Settlement	1,589,997	248,937	-
Payable of settlements	6,269,206	5,072,389	8,497,407
Others	<u>253,726</u>	<u>903,596</u>	<u>276,272</u>
Total	<u>\$ 8,132,866</u>	<u>6,236,058</u>	<u>8,791,706</u>

(p) Lease liabilities

The Group's lease liabilities are as follow:

	March 31, 2020	December 31, 2019	March 31, 2019
Current	<u>\$ 194,503</u>	<u>193,565</u>	<u>159,558</u>
Non-current	<u>\$ 775,660</u>	<u>819,040</u>	<u>899,250</u>

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

The amounts recognized in profit or loss were as follows:

	For the three months ended March 31,	
	2020	2019
Interest on lease liabilities	<u>\$ 3,505</u>	<u>3,585</u>
Expenses relating to short-term leases	<u>\$ 1,446</u>	<u>2,378</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 5,352</u>	<u>6,471</u>

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

	For the three months ended March 31,	
	2020	2019
Total cash outflow for leases	<u>\$ 62,909</u>	<u>47,669</u>

(q) Employee benefit

(i) Defined benefit plans

In the prior fiscal year, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the interim consolidated financial statements is measured and disclosed according to the respective actuarial report as of December 31, 2019 and 2018.

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For the three months ended March 31, 2020 and 2019, the Group's pension expenses recognized in profit or loss were \$1,956 and \$2,856, respectively.

(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 \$21,316 and \$20,922 under defined contribution plan to the Bureau of the Labor Insurance for the three months ended March 31, 2020 and 2019, respectively.

(iii) For the three months ended March 31, 2020 and 2019, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$1,007 and \$1,234, respectively.

(iv) Provision for employee benefits liabilities

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Compensated absences	<u>\$ 56,258</u>	<u>52,566</u>	<u>48,486</u>

(r) 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. and CSC Venture Capital Corp. are founded in Taiwan. The corporate income tax rate are both 20% for the years ended December 31, 2020 and 2019.

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, 2020 and 2019.

The tax rate of reinvestment business of subsidiaries which founded in Hong Kong are all 16.5% for the years ended December 31, 2020 and 2019.

The tax rate of reinvestment business of subsidiaries which founded in Mainland are all 25% for the years ended December 31, 2020 and 2019.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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- (ii) The detail of income tax expense or benefit for the three months ended March 31, 2020 and 2019 were as follows:

	For the three months ended March 31,	
	2020	2019
Current tax expense	\$ 68,694	156,355
Deferred income tax expense (benefit)	56,755	(58,150)
Total	\$ 125,449	98,205

- (iii) The amount of income tax expense or benefit recognized in other comprehensive income for the three months ended March 31, 2020 and 2019 were as follows:

	For the three months ended March 31,	
	2020	2019
Foreign exchange difference from translating financial statement of foreign operations	\$ 3,143	882

- (iv) Income tax assessment status

- 1) The Company's income tax returns through 2017, except for 2015, were assessed by the Tax Authority.
- 2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2018 were assessed by the Tax Authority.
- 3) Subsidiary - Capital Futures Corp.'s income tax returns through 2017 were assessed by the Tax Authority.
- 4) Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 and July 1, 2012 to September 16, 2019 were assessed by the Tax Authority.
- 5) Subsidiary - Capital International Technology Corp.'s income tax returns through 2018 were assessed by the Tax Authority.
- 6) Subsidiary - CSC Venture Capital Corp.'s income tax returns through 2018 were assessed by the Tax Authority.

- (v) Income tax administrative relief

Since tax loss carried forward from year 2017 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Capital and other equity

(i) Capital stock

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

(ii) Capital surplus

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

The followings are the capital surplus of the Company:

	March 31, 2020	December 31, 2019	March 31, 2019
Premium from stock issuance	\$ 1,661,603	1,776,413	1,776,413
Treasury stock transactions	486,556	437,096	437,096
Paid-in capital from merger	563,715	602,665	602,665
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,251	1,338	1,338
Changes in ownership interests in subsidiaries	<u>31,969</u>	<u>34,787</u>	<u>34,787</u>
	<u>\$ 2,745,094</u>	<u>2,852,299</u>	<u>2,852,299</u>

(iii) Retained earnings

1) Legal reserve

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Special reserve

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

Originally in accordance with Ruling No. 10500278285 issued by the Financial Supervisory Commission on August 5, 2016, 0.5% to 1.0% of the current year’s earnings after tax should be set aside as special reserve for year 2016 to 2018. From year 2017, the aforementioned special reserve can be reversed within an amount equal to the expenditures stemming from employee re-training, re-assignments, or relocations made necessary by the introduction of financial technology; However, in accordance with Ruling No. 1080321644 issued by the Financial Supervisory Commission on July 10, 2019, from year 2019, a special reserve can not to be set aside. From year 2019, the special reserve can be reversed within an amount equal to special reserve for prior year when the aforementioned fees being expended.

3) Undistributed earnings

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

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

The Company’s 2019 earnings distribution resolved by the board meeting on March 26, 2020 and 2018 earnings distribution resolved by the shareholders’ meeting on June 24, 2019, were as follows:

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(iv) Treasury stocks

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

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

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

(t) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months ended March 31, 2020 and 2019 were calculated as follows:

	<u>For the three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Net income (loss) attributable to common shareholders of the Company	<u>\$ (850,018)</u>	<u>603,033</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,170,939</u>	<u>2,320,908</u>
Basic earnings per share (dollar)	<u>\$ (0.39)</u>	<u>0.26</u>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<u>-</u>	<u>799</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,170,939</u>	<u>2,321,707</u>
Dilutive earnings per share (dollar)	<u>\$ (0.39)</u>	<u>0.26</u>

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Items of the statements of comprehensive income

(i) Brokerage commissions

	For the three months ended March 31,	
	2020	2019
Brokerage commission from TSE market	\$ 481,908	310,781
Brokerage commission from OTC market	145,074	129,215
Handling fee from security financing	7,160	4,865
Futures commission income - brokerage	567,376	368,797
Overseas subsidiaries	10,870	9,653
Others	24,453	18,850
	\$ 1,236,841	842,161

(ii) Underwriting commissions

	For the three months ended March 31,	
	2020	2019
Revenue from underwriting securities on a firm commitment basis	\$ 18,833	7,784
Handling fee revenues from underwriting securities on best efforts basis	132	453
Processing fee revenues from underwriting operations	3,740	10,429
Revenue from underwriting consultation	3,560	2,140
Others	400	1,082
	\$ 26,665	21,888

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

	For the three months ended March 31,	
	2020	2019
Gains (losses) on securities sold - proprietary trading	\$ (565,549)	126,627
Gains (losses) on securities sold - underwriting	24,147	3,300
Gains (losses) on securities sold - hedging	(240,271)	87,194
Total	\$ (781,673)	217,121

(iv) Interest revenue

	For the three months ended March 31,	
	2020	2019
Interest revenue - margin loans	\$ 149,091	138,496
Interest revenue - bonds	162,826	204,894
Overseas subsidiaries	11,785	8,823
Others	28,887	17,185
	\$ 352,589	369,398

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the three months ended March 31,	
	2020	2019
Trading securities - proprietary	\$ (556,169)	364,523
Trading securities - underwriting	(41,817)	37,017
Trading securities - hedging	(607,682)	268,172
Settlement coverage bonds payable of short sale	(1,004)	27
	\$ (1,206,672)	669,739

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

	For the three months ended March 31,	
	2020	2019
Gains on changes in fair value of stock warrants	\$ 4,310,911	3,786,203
Gains on exercise of stock warrants before maturity	8,695,759	3,848,053
Losses on changes in fair value of stock warrants repurchased	(12,942,028)	(7,621,506)
Gains on expiration of stock warrants	17,273	3,889
Stock warrants issuance expenses	(38,989)	(38,000)
	\$ 42,926	(21,361)

- (vii) Futures commission revenues

	For the three months ended March 31,	
	2020	2019
Futures commission revenues - CSC Futures (HK) Ltd.	\$ 60,778	58,133

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 three months ended March 31,	
	2020	2019
Future trading - reconsignment	\$ 85,206	60,281
Future trading - introducing brokers	558	168
Commission expenses - CSC Futures (HK) Ltd.	17,350	18,740
	\$ 103,114	79,189

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ix) Employee benefits, depreciation, and amortization expenses

	For the three months ended March 31,	
	2020	2019
Employee benefit expenses		
Salary expense	\$ 518,883	462,201
Health and labor insurance expense	43,425	42,478
Pension expense	24,279	25,012
Others	14,178	13,681
Depreciation expense	102,764	97,574
Amortization expense	8,844	8,194
	<u>\$ 712,373</u>	<u>649,140</u>

(x) Other operating expenses

	For the three months ended March 31,	
	2020	2019
Rental expense	\$ 6,792	8,849
Taxes	98,132	89,458
Information technology expense	55,047	52,898
Postage expense	49,465	41,038
Professional service fee	5,565	5,387
Other expenses	127,013	128,948
	<u>\$ 342,014</u>	<u>326,578</u>

(xi) Other gains and losses

	For the three months ended March 31,	
	2020	2019
Financial revenue	\$ 125,767	143,529
Currency exchange gains (losses)	(5,356)	4,886
Net gains (losses) on disposal of investment	(7,502)	7,801
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	(12,097)	21,303
Revenue from bank's allocation fee	37,977	33,560
Net gains (losses) on disposal of property and equipment	11,317	-
Dividend revenue	27,921	-
Gains on reversal of prior year's liabilities	4,924	13,191
Rental income	42,416	12,917
Others	8,624	19,425
	<u>\$ 233,991</u>	<u>256,612</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(xii) Remuneration to employees and directors

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

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

For the three months ended March 31, 2020 and 2019, the estimated amounts of remuneration to employee were \$0 and \$7,671, and to directors were \$0 and \$12,785, 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, 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 by the Company. The difference between actual employee remuneration of \$14,587 and \$30,515 and actual remuneration to directors of \$24,248 and \$50,859 were \$17,087 and \$13,966 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2019 and 2018. The information about the appropriations is available at the website of the Market Observation Post System.

For the three months ended March 31, 2020 and 2019, the estimated amounts of remuneration to employees were \$2,500 and \$2,450 and to directors were \$2,500 and \$2,450 by the domestic subsidiaries of the Group, respectively.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of March 31, 2020, December 31, 2019 and March 31, 2019, the maximum credit exposure amounted to \$117,078,368, \$100,461,622 and \$100,002,402, 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 (76.32%); secondly, is in Asia (12.69%, exclusion of Taiwan); then, is in America (7.97%). 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.

<u>Region</u>	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Taiwan	\$ 88,948,957	74,762,540	72,478,465
Asia (Taiwan is excluded)	14,788,537	13,582,675	15,682,308
Europe	3,494,928	4,010,808	4,637,218
America	9,294,059	7,523,511	6,711,727
Other	22,274	77,525	27,704
Total	<u>\$ 116,548,755</u>	<u>99,957,059</u>	<u>99,537,422</u>

2) Impairment loss

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

	<u>March 31, 2020</u>		<u>December 31, 2019</u>		<u>March 31, 2019</u>	
	<u>Total amount</u>	<u>Allowance</u>	<u>Total amount</u>	<u>Allowance</u>	<u>Total amount</u>	<u>Allowance</u>
Not past due	\$ 17,670,476	9,275	20,845,564	9,373	21,671,675	24,630
Past due 0~30 days	275	275	275	275	264	264
Past due 31~120 days	127	127	127	127	282	282
Past due 121~360 days	8	8	8	8	1,491	1,491
Past due more than 360 days	306,425	306,425	305,771	305,771	313,541	313,541
	<u>\$ 17,977,311</u>	<u>316,110</u>	<u>21,151,745</u>	<u>315,554</u>	<u>21,987,253</u>	<u>340,208</u>

Allowance for doubtful debts under receivables and overdue receivables are recorded for the impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of March 31, 2020, December 31, 2019 and March 31, 2019, the impairment losses of accrued receivables were recognized \$316,110, \$315,554 and \$340,208, respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Credit risk of accrued receivables and debt securities

Debt securities held by the Group including government bonds, listed and unlisted debt securities are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g) of the consolidated financial statements as of and for the year ended December 31, 2019.

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 three months ended March 31, 2020 and 2019 was as follows:

	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		Total
	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	
Balance on January 1, 2020	\$ -	7,567	-	-	315,554	-	323,121
Provision or reversal of Impairment loss	-	408	-	-	(104)	-	304
Amounts written off	-	-	-	-	(186)	-	(186)
Effect of exchange rate	-	-	-	-	846	-	846
Balance on March 31, 2020	<u>\$ -</u>	<u>7,975</u>	<u>-</u>	<u>-</u>	<u>316,110</u>	<u>-</u>	<u>324,085</u>
	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, 2019	-	5,861	-	-	338,517	-	344,378
Provision or reversal of Impairment loss	-	1,348	-	-	160	-	1,508
Amounts written off	-	-	-	-	(20)	-	(20)
Effect of exchange rate	-	-	-	-	1,551	-	1,551
Balance on March 31, 2019	<u>\$ -</u>	<u>7,209</u>	<u>-</u>	<u>-</u>	<u>340,208</u>	<u>-</u>	<u>347,417</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

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

March 31, 2020	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 313,749	313,749	313,749	-	-	-	-
Settlement coverage bonds payable of short sale	150,402	150,402	150,402	-	-	-	-
Stock warrants issued	459,115	459,115	375,934	83,181	-	-	-
Put options - futures	69,955	69,955	69,955	-	-	-	-
Exchange traded notes	610	610	610	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,112	8,112	2,106	1,468	2,061	2,477	-
Put options	289,775	289,775	18,449	35,033	77,416	158,877	-
Currency derivatives	859	859	859	-	-	-	-
Short-term borrowings	8,928,704	8,928,704	8,928,704	-	-	-	-
Commercial paper payable	899,889	899,889	899,889	-	-	-	-
Bonds sold under repurchase agreements	30,822,422	30,916,788	26,665,144	4,251,644	-	-	-
Guarantee deposited for short sales	1,226,654	1,226,654	1,226,654	-	-	-	-
Proceeds payable from short sales	1,358,405	1,358,405	1,358,405	-	-	-	-
Securities lending refundable deposits	548,028	548,028	548,028	-	-	-	-
Futures traders' equity	42,178,992	42,178,992	42,178,992	-	-	-	-
Leverage contract trading customers' equity	270,231	270,231	270,231	-	-	-	-
Notes payable and accounts payable	256,422	256,422	256,422	-	-	-	-
Receipts under custody	111,571	111,571	111,571	-	-	-	-
Other payables	592,778	592,778	590,398	2,380	-	-	-
Structured notes	4,263,191	4,263,191	3,678,533	210,336	295,225	79,097	-
Lease liabilities	970,163	1,018,126	104,062	102,532	151,081	326,797	333,654
	<u>\$ 93,720,027</u>	<u>93,862,356</u>	<u>87,749,097</u>	<u>4,686,574</u>	<u>525,783</u>	<u>567,248</u>	<u>333,654</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2019							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 336,522	336,522	336,522	-	-	-	-
Stock warrants issued	553,306	553,306	465,459	87,847	-	-	-
Put options - futures	11,902	11,902	11,902	-	-	-	-
Exchange traded notes	729	729	-	-	-	729	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,150	8,150	4,592	822	(711)	3,447	-
Put options	529,328	529,328	41,762	67,521	208,340	211,705	-
Currency derivatives	7,574	7,574	7,574	-	-	-	-
Short-term borrowings	6,631,002	6,631,002	6,631,002	-	-	-	-
Bonds sold under repurchase agreements	31,847,531	32,022,184	24,531,050	7,491,134	-	-	-
Guarantee deposited for short sales	2,390,464	2,390,464	2,390,464	-	-	-	-
Proceeds payable from short sales	2,755,405	2,755,405	2,755,405	-	-	-	-
Securities lending refundable deposits	336,713	336,713	336,713	-	-	-	-
Futures traders' equity	34,747,531	34,747,531	34,747,531	-	-	-	-
Leverage contract trading customers' equity	308,590	308,590	308,590	-	-	-	-
Notes payable and accounts payable	948,074	948,074	948,074	-	-	-	-
Receipts under custody	114,442	114,442	114,442	-	-	-	-
Other payables	662,217	662,217	662,208	9	-	-	-
Structured notes	3,941,052	3,941,052	3,296,957	294,709	241,782	107,604	-
Lease liabilities	1,012,605	1,063,979	109,793	96,531	162,309	335,250	360,096
	<u>\$ 87,143,137</u>	<u>87,369,164</u>	<u>77,700,040</u>	<u>8,038,573</u>	<u>611,720</u>	<u>658,735</u>	<u>360,096</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
March 31, 2019							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 338,421	338,421	338,421	-	-	-	-
Settlement coverage bonds payable of short sale	49,994	49,994	49,994	-	-	-	-
Stock warrants issued	465,727	465,727	391,709	74,018	-	-	-
Put options - futures	10,598	10,598	10,598	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	1,865	1,865	241	(77)	531	1,170	-
Put options	304,708	304,708	28,017	31,282	128,747	116,662	-
Currency derivatives	4,531	4,531	4,531	-	-	-	-
Short-term borrowings	4,057,799	4,057,799	4,057,799	-	-	-	-
Bonds sold under repurchase agreements	33,175,387	33,449,730	23,927,443	9,522,287	-	-	-
Guarantee deposited for short sales	1,252,730	1,252,730	1,252,730	-	-	-	-
Proceeds payable from short sales	1,408,399	1,408,399	1,408,399	-	-	-	-
Securities lending refundable deposits	582,634	582,634	582,634	-	-	-	-
Futures traders' equity	34,325,003	34,325,003	34,325,003	-	-	-	-
Leverage contract trading customers' equity	217,355	217,355	217,355	-	-	-	-
Notes payable and accounts payable	478,678	478,678	478,678	-	-	-	-
Receipts under custody	230,773	230,773	230,773	-	-	-	-
Other payables	570,740	570,740	569,019	1,721	-	-	-
Structured notes	3,446,141	3,446,141	2,840,744	254,875	241,763	108,759	-
Lease liabilities	1,058,808	1,118,227	66,742	106,146	181,296	334,475	429,568
	<u>\$ 81,980,291</u>	<u>82,314,053</u>	<u>70,780,830</u>	<u>9,990,252</u>	<u>552,337</u>	<u>561,066</u>	<u>429,568</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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:

	March 31, 2020		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 845,046	30.2250	25,541,515
AUD	4,178	18.6350	77,857
CAD	(72)	21.3100	(1,534)
CHF	59	31.3750	1,851
EUR	13,794	33.2400	458,513
GBP	2,891	37.2500	107,690
HKD	117,161	3.8980	456,694
JPY	1,153,408	0.2788	321,570
SGD	485	21.2300	10,297
CNY	78,558	4.2550	334,264
ZAR	12	1.6830	20
KRW	548,202	0.0250	13,705
NZD	60	18.1100	1,087
THB	17,415	0.9270	16,144
MYR	420	6.7175	2,821
<u>Non-Monetary Item</u>			
USD	502,034	30.2250	15,173,978
AUD	114,724	18.6350	2,137,882
CAD	13	21.3100	277
EUR	2,941	33.2400	97,759
HKD	402	3.8980	1,567
JPY	759	0.2788	212
CNY	250,267	4.2550	1,064,886
<u>Investments under equity method</u>			
HKD	12,593	3.8980	49,088

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	March 31, 2020		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	\$ 1,297,495	30.2250	39,216,786
AUD	108,864	18.6350	2,028,681
CAD	5	21.3100	107
CHF	59	31.3750	1,851
EUR	16,777	33.2400	557,667
GBP	2,817	37.2500	104,933
HKD	203,270	3.8980	792,346
JPY	1,188,370	0.2788	331,318
SGD	582	21.2300	12,356
CNY	196,488	4.2550	836,056
KRW	390,699	0.0250	9,767
THB	15,333	0.9270	14,214
MYR	416	6.7175	2,794
<u>Non-Monetary Item</u>			
USD	5	30.2250	151
JPY	1,082	0.2788	302
CNY	39	4.2550	166
NZD	13	18.1100	235

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	December 31, 2019		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 643,458	29.9800	19,290,871
AUD	3,907	21.0050	82,067
CAD	79	22.9900	1,816
CHF	62	30.9250	1,917
EUR	8,250	33.5900	277,118
GBP	3,724	39.3600	146,577
HKD	121,561	3.8490	467,888
JPY	791,762	0.2760	218,526
SGD	262	22.2800	5,837
CNY	76,826	4.3050	330,736
ZAR	6	2.1200	13
KRW	327,087	0.0262	8,570
NZD	63	20.1900	1,272
THB	3,514	1.0098	3,548
MYR	27	7.0330	190
<u>Non-Monetary Item</u>			
USD	480,419	29.9800	14,402,962
AUD	143,304	21.0050	3,010,101
EUR	1,185	33.5900	39,804
HKD	338	3.8490	1,301
JPY	3,884	0.2760	1,072
CNY	256,294	4.3050	1,103,346
NZD	8	20.1900	162
<u>Investments under equity method</u>			
HKD	12,434	3.8490	47,860

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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				December 31, 2019
				Foreign Currency
				(thousands)
				Exchange Rate
				Amount
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
USD	\$	1,093,707	29.9800	32,789,336
AUD		134,397	21.0050	2,823,009
CHF		62	30.9250	1,917
EUR		9,096	33.5900	305,535
GBP		3,655	39.3600	143,861
HKD		219,471	3.8490	844,744
JPY		846,953	0.2760	233,759
SGD		281	22.2800	6,261
CNY		195,801	4.3050	842,923
KRW		172,660	0.0262	4,524
THB		1,766	1.0098	1,783
MYR		26	7.0330	183
<u>Non-Monetary Item</u>				
USD		175	29.9800	5,247
CNY		539	4.3050	2,320

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	March 31, 2019		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 653,960	30.8200	20,155,047
AUD	5,807	21.8550	126,912
CAD	305	22.9500	7,000
CHF	64	30.9350	1,980
EUR	8,890	34.6100	307,683
GBP	2,995	40.1100	120,129
HKD	71,957	3.9260	282,503
JPY	2,488,206	0.2783	692,468
SGD	293	22.7500	6,666
CNY	77,858	4.5800	356,590
ZAR	30	2.1000	63
KRW	234,999	0.0274	6,439
NZD	53	20.9500	1,110
THB	322	0.9740	314
<u>Non-Monetary Item</u>			
USD	413,521	30.8200	12,744,717
AUD	142,762	21.8550	3,120,064
EUR	11	34.6100	381
HKD	35,826	3.9260	140,653
JPY	13,661	0.2783	3,802
CNY	382,852	4.5800	1,753,462
<u>Investments under equity method</u>			
HKD	11,781	3.9260	46,251

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	March 31, 2019		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	\$ 1,045,091	30.8200	32,209,705
AUD	140,106	21.8550	3,062,017
CHF	63	30.9350	1,949
EUR	8,424	34.6100	291,555
GBP	2,880	40.1100	115,517
HKD	186,078	3.9260	730,542
JPY	2,458,801	0.2783	684,284
SGD	356	22.7500	8,099
CNY	305,512	4.5800	1,399,245
KRW	211,214	0.0274	5,787
THB	(510)	0.9740	(497)
<u>Non-Monetary Item</u>			
USD	147	30.8200	4,531

Because there are a variety of functional currencies, the Group discloses a summary of currency exchange variation on the monetary items. For the three months ended March 31, 2020 and 2019, the realized and unrealized currency exchange gains (losses) amounted to \$(41,478) and \$19,303, 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, short-term borrowings, futures traders' equity, and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the three months ended March 31, 2020 and 2019, given other factors remain the same, if the relevant foreign currencies, when compared with the NTD, had appreciates or depreciates by 5%, the net income and other comprehensive income will changes as follows:

	For the three months ended March 31, 2020		For the three months ended March 31, 2019	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
Net income	(466,228)	466,228	(481,866)	481,866
Other comprehensive income	544,562	(544,562)	536,325	(536,325)

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(iv) Sensitivity analysis of interest rate risk

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

Market risk type	March 31, 2020	December 31, 2019	March 31, 2019	For the three months ended March 31,					
				2020			2019		
				Average	Maximum	Minimum	Average	Maximum	Minimum
Interest risk	1,435,563	1,409,781	1,502,186	1,411,284	1,435,563	1,378,218	1,501,171	1,502,186	1,499,648

(v) Fair value information and hierarchy

1) Fair value information

a) General description

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

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

b) Definition of fair value hierarchy

i) Level 1

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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 measured at fair value

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

a) Fair value information

	<u>March 31, 2020</u>		<u>December 31, 2019</u>		<u>March 31, 2019</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets :						
Cash and cash equivalents	\$ 14,395,846	14,395,846	8,323,636	8,323,636	7,984,738	7,984,738
Accrued receivable	24,535,788	24,535,788	24,793,814	24,793,814	22,485,700	22,485,700
Customers' margin account	42,466,489	42,466,489	34,803,719	34,803,719	34,392,217	34,392,217
Leverage contract trading - customers' margin account	296,843	296,843	308,543	308,543	216,597	216,597
Restricted assets - current	1,316,732	1,316,732	673,926	673,926	731,071	731,071
Other non-current assets	1,477,700	1,477,700	1,473,700	1,473,700	1,484,641	1,484,641
Financial liabilities :						
Short-term borrowings	8,928,704	8,928,704	6,631,002	6,631,002	4,057,799	4,057,799
Commercial paper payable	899,889	899,889	-	-	-	-
Bonds sold under repurchase agreements	30,822,422	30,822,422	31,847,531	31,847,531	33,175,387	33,175,387
Accrued payable	17,710,407	17,710,407	15,790,247	15,790,247	13,708,134	13,708,134
Futures traders' equity	42,178,992	42,178,992	34,747,531	34,747,531	34,325,003	34,325,003
Leverage contract trading - customers' equity	270,231	270,231	308,590	308,590	217,355	217,355
Other financial liabilities - current	3,881,302	3,881,302	3,579,951	3,579,951	3,087,769	3,087,769
Other financial liabilities - non- current	374,322	374,322	349,518	349,518	350,522	350,522
Other non-current liabilities	100,628	100,628	103,115	103,115	98,169	98,169

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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b) Hierarchy information of non-financial instruments not measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property				
March 31, 2020	\$ <u>-</u>	<u>-</u>	<u>7,710,573</u>	<u>7,710,573</u>
December 31, 2019	\$ <u>-</u>	<u>-</u>	<u>7,577,872</u>	<u>7,577,872</u>
March 31, 2019	\$ <u>-</u>	<u>-</u>	<u>2,686,130</u>	<u>2,686,130</u>

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

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

3) Measured at fair value

a) Hierarchy information of fair value

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
March 31, 2020				
Financial assets at fair value through profit or loss	\$ 9,958,119	17,698,844	-	27,656,963
Financial assets at fair value through other comprehensive income	2,566,901	13,564,823	1,892,474	18,024,198
Derivative financial assets	<u>301,899</u>	<u>86,272</u>	<u>-</u>	<u>388,171</u>
	<u>\$ 12,826,919</u>	<u>31,349,939</u>	<u>1,892,474</u>	<u>46,069,332</u>
Financial liabilities at fair value through profit or loss	\$ 923,876	-	-	923,876
Derivative financial liabilities	<u>69,955</u>	<u>306,313</u>	<u>-</u>	<u>376,268</u>
	<u>\$ 993,831</u>	<u>306,313</u>	<u>-</u>	<u>1,300,144</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2019				
Financial assets at fair value through profit or loss	\$ 12,128,552	18,699,349	-	30,827,901
Financial assets at fair value through other comprehensive income	2,362,801	13,619,901	2,464,932	18,447,634
Derivative financial assets	<u>237,106</u>	<u>118,728</u>	<u>-</u>	<u>355,834</u>
	<u>\$ 14,728,459</u>	<u>32,437,978</u>	<u>2,464,932</u>	<u>49,631,369</u>
Financial liabilities at fair value through profit or loss	\$ 890,557	-	-	890,557
Derivative financial liabilities	<u>11,902</u>	<u>556,635</u>	<u>-</u>	<u>568,537</u>
	<u>\$ 902,459</u>	<u>556,635</u>	<u>-</u>	<u>1,459,094</u>
March 31, 2019				
Financial assets at fair value through profit or loss	\$ 13,813,138	18,119,028	-	31,932,166
Financial assets at fair value through other comprehensive income	473,014	13,112,942	2,094,170	15,680,126
Derivative financial assets	<u>261,505</u>	<u>51,135</u>	<u>-</u>	<u>312,640</u>
	<u>\$ 14,547,657</u>	<u>31,283,105</u>	<u>2,094,170</u>	<u>47,924,932</u>
Financial liabilities at fair value through profit or loss	\$ 854,142	-	-	854,142
Derivative financial liabilities	<u>10,598</u>	<u>318,954</u>	<u>-</u>	<u>329,552</u>
	<u>\$ 864,740</u>	<u>318,954</u>	<u>-</u>	<u>1,183,694</u>

b) Valuation techniques of financial instruments measured at fair value

i) Non-derivative financial instruments

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

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

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

ii) Derivative financial instruments

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

4) Transfer between Level 1 and Level 2

For the three months ended March 31, 2020 and 2019, there is no transfer of financial instruments between Level 1 and Level 2.

5) Fair value adjustments

Financial valuation techniques do not necessarily completely reflect all relevant elements of financial or non-financial instruments held by the 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.

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

(In Thousands Dollars)

Item	For the three months ended March 31, 2020								
	Beginning Balance	Gains and losses on valuation		Addition			Reduction		
			Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Capital reduction	Transferred from Level 3
Financial assets at fair value through other comprehensive income	\$ 2,464,932	-	(369,777)	-	-	-	202,681	-	1,892,474

Item	For the three months ended March 31, 2019								
	Beginning Balance	Gains and losses on valuation		Addition			Reduction		
			Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Capital reduction	Transferred from Level 3
Financial assets at fair value through other comprehensive income	\$ 1,911,577	-	152,729	29,864	-	-	-	-	2,094,170

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 the multiple, the higher fair value. · The higher the discount for lack of marketability, the lower the fair value.
Financial assets at fair value through other comprehensive income - equity instruments without an active market - venture capital corporation	Net Asset Value Method	· Net Asset Value	Not applicable

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

The fair value measurement that the 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 change	Unfavorable change
March 31, 2020		
Financial assets fair value through other comprehensive income	\$ <u>18,925</u>	<u>(18,925)</u>
December 31, 2019		
Financial assets fair value through other comprehensive income	\$ <u>24,649</u>	<u>(24,649)</u>
March 31, 2019		
Financial assets fair value through other comprehensive income	\$ <u>20,942</u>	<u>(20,942)</u>

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

- (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:

Types of financial assets	March 31, 2020				
	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ <u>32,629,839</u>	<u>30,822,422</u>	<u>-</u>	<u>-</u>	<u>-</u>

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December 31, 2019					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ <u>33,447,074</u>	<u>31,847,531</u>	<u>-</u>	<u>-</u>	<u>-</u>
March 31, 2019					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ <u>32,753,252</u>	<u>33,175,387</u>	<u>-</u>	<u>-</u>	<u>-</u>

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:

March 31, 2020						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ <u>86,272</u>	<u>-</u>	<u>86,272</u>	<u>-</u>	<u>-</u>	<u>86,272</u>
March 31, 2020						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 306,313	-	306,313	-	-	306,313
Under repurchase agreements	30,822,422	-	30,822,422	30,822,422	-	-
Total	\$ <u>31,128,735</u>	<u>-</u>	<u>31,128,735</u>	<u>30,822,422</u>	<u>-</u>	<u>306,313</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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December 31, 2019						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ 118,728	-	118,728	-	-	118,728
December 31, 2019						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 556,635	-	556,635	-	-	556,635
Under repurchase agreements	31,847,531	-	31,847,531	31,847,531	-	-
Total	\$ 32,404,166	-	32,404,166	31,847,531	-	556,635
March 31, 2019						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ 51,135	-	51,135	-	-	51,135
March 31, 2019						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 318,954	-	318,954	-	-	318,954
Under repurchase agreements	33,175,387	-	33,175,387	33,175,387	-	-
Total	\$ 33,494,341	-	33,494,341	33,175,387	-	318,954

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(w) Financial risk management

Except the following mentioned, there were no material changes in the Group's financial risk management and policies as disclosed in note 6(w) of the consolidated financial statements as of and for the year ended December 31, 2019.

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

Stock warrants

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

Financial Instruments	March 31, 2020		December 31, 2019		March 31, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Stock warrants issued	\$ 38,478,531	-	18,302,776	-	7,640,087	-

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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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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 three months ended March 31, 2020 and 2019:

a) Gains (losses) on valuation

	<u>For the three months ended March 31, 2020</u>	<u>For the three months ended March 31, 2019</u>	<u>Account</u>
Stock warrants issued	\$ 8,631,616	4,199,874	Gains (losses) on stock warrants issued
Stock warrants repurchased	(8,580,406)	(4,202,495)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the three months ended March 31, 2020</u>	<u>For the three months ended March 31, 2019</u>	<u>Account</u>
Security borrowing	\$ 35,589	14,924	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(244,459)	63,261	Gains (losses) on sale of trading securities
Futures transaction	125,791	(62,549)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended March 31, 2020</u>	<u>For the three months ended March 31, 2019</u>	<u>Account</u>
Stock warrants issued	\$ 4,392,327	3,438,271	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,361,622)	(3,419,011)	Gains (losses) on stock warrants issued

Exchange traded notes

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

<u>Financial Instruments</u>	<u>March 31, 2020</u>		<u>December 31, 2019</u>		<u>March 31, 2019</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:						
Exchange traded notes issued	\$ 610	-	729	-	-	-

Index-related products trading (futures or other derivative products) will take certain credit risk from counterparties. The Group determines those with international credit rating BBB (inclusive) or above, and therefore, no default is expected and credit risk is accordingly remote.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Market risk:

There is no tracking error on exchange traded notes (ETN). Issuers hedge and manage the position via stocks or other products (futures or other derivative products) which are related to the index.

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

Stocks with small market cap or transaction volume will be replaced by other stocks in case the liquidity risk affects the index performance.

The duration of exchange traded notes issued is three years from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

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

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

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>	<u>Account</u>
Margin - exchange traded notes	\$ 25	25	-	Other non-current assets
Outstanding liabilities - exchange traded notes	610	729	-	Financial liabilities at fair value through profit or loss - current
		<u>For the three months ended March 31,</u>		
		<u>2020</u>	<u>2019</u>	<u>Account</u>
Gains (losses) on exchange traded notes	\$	74	-	Net gains (losses) from exchange traded notes

Futures

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

Please refer to note 12(a) for the notional principal and nominal amount as of March 31, 2020, December 31, 2019 and March 31, 2019.

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.

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

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

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

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

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

- (iv) Presentation of financial derivatives:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>	<u>Account</u>
	Futures margin - proprietary fund	\$ 272,355	233,624	255,819
Excess futures margin	2,181,952	1,184,098	1,663,258	Cash and cash equivalent
Call options	29,544	3,482	5,686	Financial assets at fair value through profit or loss - current
Put options	69,955	11,902	10,598	Financial liabilities at fair value through profit or loss - current
For the three months ended March 31,				
	<u>2020</u>	<u>2019</u>	<u>2019</u>	<u>Account</u>
Gains (losses) on futures transactions	\$ 248,411	(343,292)		Gains (losses) on derivatives - futures

Derivative instruments - OTC

- (i) Interest rate financial derivatives

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

<u>Financial Instruments</u>	<u>March 31, 2020</u>		<u>December 31, 2019</u>		<u>March 31, 2019</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:						
NT dollar interest swaps	\$ 19,800,000	-	21,300,000	-	27,000,000	-

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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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Market risk:

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

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

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

The 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	March 31, 2020		December 31, 2019		March 31, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Equity-linked notes	\$ 117,778	-	215,789	-	60,453	-
Principal guaranteed notes	3,416,732	-	2,935,907	-	2,554,513	-
Credit-linked notes	693,800	-	669,900	-	597,800	-
Principle guaranteed notes (in USD thousands)	USD 1,000	-	USD 3,690	-	USD 7,376	-

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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	March 31, 2020		December 31, 2019		March 31, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Convertible bond asset-backed swaps	\$ 1,104,300	-	886,900	-	670,500	-
Convertible bond options	5,617,900	-	4,452,000	-	3,492,500	-

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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- 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	March 31, 2020		December 31, 2019		March 31, 2019	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:						
Equity options	\$ -	-	200,000	-	-	-

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) Currency derivatives

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

Financial Instruments	March 31, 2020		December 31, 2019		March 31, 2019	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:						
Currency derivatives-long position	\$ 824,860	-	2,700,301	-	860,529	-
Currency derivatives-short position	824,860	-	2,448,322	-	987,883	-

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

2) Market risk:

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

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

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

(vi) Presentation of derivative instruments in financial statement

As of March 31, 2020, December 31, 2019 and March 31, 2019, 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:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 18,678	16,053	15,435
Asset swap options-long position	31,609	37,684	7,641
Currency derivatives	20,092	39,066	26,420
Structured notes	13,529	25,925	643
Currency swaps	2,364	-	-
Interest rate swaps	-	-	996
Total	<u>\$ 86,272</u>	<u>118,728</u>	<u>51,135</u>
Financial liabilities at fair value through profit or loss - current			
IRS asset swaps	\$ 3,974	2,436	1,631
Asset swap options-short position	289,775	529,328	304,708
Structured notes	7,567	11,583	7,850
Currency derivatives	859	7,574	4,531
Currency swaps	1,796	4,745	234
Interest rate swaps	2,342	969	-
Total	<u>\$ 306,313</u>	<u>556,635</u>	<u>318,954</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Other financial liabilities - current			
Structured notes principal value	\$ <u>3,881,302</u>	<u>3,579,951</u>	<u>3,087,769</u>
Other financial liabilities - non-current			
Structured notes principal value	\$ <u>374,322</u>	<u>349,518</u>	<u>350,522</u>

For the three months ended March 31, 2020 and 2019, 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:

	<u>For the three months ended March 31, 2020</u>		<u>For the three months ended March 31, 2019</u>	
	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (1,480)	(2,342)	(571)	996
Equity derivatives	(61)	-	-	-
Structured notes	49,467	7,695	(13,801)	(6,309)
IRS asset swaps	59	14,703	64	13,805
Asset swap options	265,831	324,675	(77,427)	70,395
Currency swaps	3,392	568	(5,353)	(234)
Currency derivatives	14,006	(12,260)	5,569	(16,015)
Total	\$ <u>331,214</u>	<u>333,039</u>	<u>(91,519)</u>	<u>62,638</u>

(x) 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.

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Capital adequacy ratio	401 %	390 %	431 %

(y) Financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the three months ended March 31, 2020 and 2019, were as follows:

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

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	January 1, 2020	Cash flows	Non-cash changes			March 31, 2020
			Other	Foreign exchange movement	Fair value changes	
Short-term borrowings	\$ 6,631,002	2,297,702	-	-	-	8,928,704
Commercial papers payable	-	899,889	-	-	-	899,889
Lease liabilities	1,012,605	(56,111)	13,210	459	-	970,163
Total liabilities from financing activities	<u>\$ 7,643,607</u>	<u>3,141,480</u>	<u>13,210</u>	<u>459</u>	<u>-</u>	<u>10,798,756</u>

	January 1, 2019	Cash flows	Non-cash changes			March 31, 2019
			Other	Foreign exchange movement	Fair value changes	
Short-term borrowings	\$ 3,873,506	184,293	-	-	-	4,057,799
Lease liabilities	1,070,869	(34,630)	22,575	(6)	-	1,058,808
Total liabilities from financing activities	<u>\$ 4,944,375</u>	<u>149,663</u>	<u>22,575</u>	<u>(6)</u>	<u>-</u>	<u>5,116,607</u>

(7) Related-party transactions:

(a) Parent company and ultimate controlling party

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

(b) Names of related parties and relationships

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

Names of related parties	Relationships
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp	Subsidiary
Capital Investment Trust Corp.	Associate
Funds issued by Capital Investment Trust Corp.	Funds issued by associate
San Ho Enterprise Co., Ltd. (Note)	Juristic-person director
Other related parties	Key management personnel

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

(c) Key management personnel transactions

(i) Key management personnel compensation

	For the three months ended March 31,	
	2020	2019
Short-term employee benefits	\$ 76,891	66,600
Post-employment benefits	690	699
Total	<u>\$ 77,581</u>	<u>67,299</u>

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(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of March 31, 2020, December 31, 2019 and March 31, 2019 were as follows:

	March 31, 2020		December 31, 2019		March 31, 2019	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Key management personnel	\$ <u>22,500</u>	<u>22,691</u>	<u>22,500</u>	<u>22,670</u>	<u>33,000</u>	<u>33,092</u>
Total financial expenses				For the three months ended March 31,		
				2020	2019	
Key management personnel			\$ <u>31</u>			<u>54</u>

(iii) Structured notes transactions

Structured notes	March 31, 2020	December 31, 2019	March 31, 2019
Key management personnel	\$ <u>73,437</u>	<u>71,393</u>	<u>65,544</u>

(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 March 31, 2020, December 31, 2019 and March 31, 2019 were as follows:

	March 31, 2020		December 31, 2019		March 31, 2019	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Funds issued by associate	\$ -	-	-	-	140,000	140,120
Juristic-person directors	-	-	-	-	20,300	20,300
Total	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>160,300</u>	<u>160,420</u>
Total financial expenses				For the three months ended March 31,		
				2020	2019	
Funds issued by associate			\$ -			184
Juristic-person directors			-			28
Total			\$ <u>-</u>			<u>212</u>

Transaction terms are the same as the general clients.

(ii) Structured notes transaction

Structured notes	March 31, 2020	December 31, 2019	March 31, 2019
Juristic-person directors	\$ <u>-</u>	<u>-</u>	<u>4,950</u>

(iii) Futures transactions

Futures traders' equity	March 31, 2020	December 31, 2019	March 31, 2019
Associates	\$ <u>193,877</u>	<u>142,376</u>	<u>160,296</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Lease agreements

1) Lease revenue

	<u>For the three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Subsidiaries	\$ -	260
Associates	4,312	4,312
Total	<u>\$ 4,312</u>	<u>4,572</u>

2) Guarantee deposits received

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Subsidiaries	\$ -	-	200
Associates	3,811	3,811	3,811
Total	<u>\$ 3,811</u>	<u>3,811</u>	<u>4,011</u>

(v) Insurance commission revenues

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

1) Commission revenues

	<u>For the three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Subsidiaries	<u>\$ 4,082</u>	<u>3,665</u>

2) Accounts receivable

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Subsidiaries	<u>\$ 2,215</u>	<u>1,877</u>	<u>2,621</u>

(vi) Commissions

	<u>For the three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Brokerage commissions		
Associates	\$ 199	216
Funds issued by associate	6,692	3,015
Other related parties	254	289
Total	<u>\$ 7,145</u>	<u>3,520</u>

	<u>For the three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Re-consigned handling commissions		
Funds issued by associate	\$ 2,776	2,003
Other related parties	66	31
Total	<u>\$ 2,842</u>	<u>2,034</u>

	<u>For the three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Underwriting commissions		
Associates	\$ -	340

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Wealth management business revenue

	For the three months ended March 31,	
	2020	2019
Trust account commissions revenue		
Associates	\$ <u>1,671</u>	<u>-</u>
Trust account management fee revenue		
Associates	\$ <u>451</u>	<u>65</u>

(viii) Stock service income

	For the three months ended March 31,	
	2020	2019
Stock service income		
Associates	\$ <u>30</u>	<u>30</u>

(ix) Accrued receivables

	March 31, 2020	December 31, 2019	March 31, 2019
Account receivable			
Associates	\$ <u>11</u>	<u>10</u>	<u>10</u>
Other receivable			
Subsidiaries	\$ <u>74</u>	<u>154</u>	<u>76</u>

(x) 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 March 31, 2020, December 31, 2019 and March 31, 2019:

	March 31, 2020	December 31, 2019	March 31, 2019	The collateral use
Restricted assets - current	\$ 1,316,732	673,926	731,071	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	31,817,339	32,506,236	34,179,080	Repurchase agreement
Property and equipment	1,754,438	1,832,513	3,962,275	Bank borrowings
Financial assets at fair value through profit or loss - non - current	180,880	180,467	180,519	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	<u>3,044,267</u>	<u>2,974,772</u>	<u>893,351</u>	Bank borrowings
Total	<u>\$ 38,113,656</u>	<u>38,167,914</u>	<u>39,946,296</u>	

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(9) Significant commitments and contingencies:

- (a) Information of handling margin purchase and short sale lending operations in securities trading are as follows:

	March 31, 2020		December 31, 2019		March 31, 2019	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	354,858	\$ 3,548,580	520,214	5,202,140	540,329	5,403,290
Collateral for margin purchase	30,719	307,189	8,868	88,680	25,432	254,320
Collateral for short sales	1,182	11,820	6,900	69,000	4,581	45,810
Lending securities to customers through short sales	40,897	408,970	57,750	577,500	39,365	393,650

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

	March 31, 2020		December 31, 2019		March 31, 2019	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	1,486	\$ 14,860	3,594	35,940	572	5,720
Collateral for refinancing margin	8	80	969	9,690	1	10

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

	March 31, 2020	December 31, 2019	March 31, 2019
Promissory notes	\$ <u>24,910,000</u>	<u>25,510,000</u>	<u>26,460,000</u>
Promissory notes (in USD thousands)	USD <u>60,000</u>	USD <u>60,000</u>	USD <u>240,000</u>

- (d) As of March 31, 2020, December 31, 2019 and March 31, 2019, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$5,088,128, \$5,687,926 and \$4,514,691, 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. On December 2019, Taiwan Shilin District Court decided the case in favor of the Company. The plaintiff filed an appeal and the case is under the trial of High Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (f) A resigned employee of Wan-Hua branch was accused of privately soliciting investment to scam. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$2,798. The case is under the trial of Taiwan Taipei District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.

(Continued)

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 dollars, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is \$173,000, thus the Company recognized this amount as other liabilities and the balance was \$48,034 as of March 31, 2020.
- (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 \$1,200 for contract price. As of March 31, 2020, the unpaid balance was amounted to \$562.

(10) Losses Due To Major Disasters:None

(11) Subsequent Events:None

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(12) Other:

(a) As of March 31, 2020, December 31, 2019 and March 31, 2019, the open positions of futures and option contracts were as follows:

(i) March 31, 2020

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	38	\$ 72,701	72,866	
	TAIEX Futures	Short	10	(18,906)	(19,150)	
	Electronic Sector Index Futures	Long	6	9,888	10,210	
	Finance Sector Index Futures	Long	5	5,516	5,557	
	Finance Sector Index Futures	Short	3	(3,224)	(3,292)	
	Single Stock Futures	Long	650	143,436	137,504	
	Single Stock Futures	Short	3,481	(447,234)	(419,712)	
	HSI Futures	Short	1	(4,533)	(4,623)	
	Mini-HSI Futures	Short	8	(7,236)	(7,397)	
	Mini-Dow Futures	Long	11	36,788	36,158	
	MSCI Taiwan Index Futures	Short	59	(66,177)	(66,160)	
	FTSE China A50 Index Futures	Long	81	29,607	30,846	
	FTSE China A50 Index Futures	Short	260	(99,852)	(99,017)	
	VIX Futures	Short	85	(128,505)	(111,684)	
	SGX Nikkei 225 Index Futures	Long	1	2,400	2,621	
	10 Year U.S. T-Note Futures	Short	9	(41,988)	(42,444)	
	Crude Oil Futures	Long	126	92,107	78,787	
	Crude Oil Futures	Short	4	(2,693)	(2,476)	
	Japanese Yen Futures	Long	4	14,653	14,084	
	NT dollar Gold Futures	Long	1	586	586	
	NT dollar Gold Futures	Short	3	(1,768)	(1,774)	
	FTSE TWSE Taiwan 50 Index Futures	Long	16	12,041	12,018	
	Brent Crude Oil Futures	Long	31	26,555	24,689	
	Subtotal			<u>(375,838)</u>		
Options contract :						
	TaieX Options (Call)	Long	69	461	662	
	TaieX Options (Put)	Long	114	2,804	2,412	
	TaieX Options (Call)	Short	1,241	(19,355)	(35,296)	
	TaieX Options (Put)	Short	843	(18,250)	(7,892)	
	Stock Options (Call)	Long	294	5,457	7,008	
	Stock Options (Put)	Long	336	10,129	17,539	
	Stock Options (Call)	Short	308	(5,899)	(7,297)	
	Stock Options (Put)	Short	404	(11,126)	(18,257)	
	TAIEX Weekly Options (Call)	Long	30	191	223	
	Electronic Sector Index Options (Put)	Long	20	318	470	
	Finance Sector Index Options (Call)	Long	29	327	508	
	Finance Sector Index Options (Put)	Long	44	237	154	
	Finance Sector Index Options (Call)	Short	22	(519)	(507)	
	Gold Option (Call)	Long	87	207	351	
	Gold Option (Put)	Long	223	223	217	
	Gold Option (Call)	Short	2	(41)	(83)	
	CSI 300 Index Call Options	Short	150	(1,219)	(623)	
	Subtotal			<u>(36,055)</u>		
Total				<u>\$ (411,893)</u>		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) December 31, 2019

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	10	\$ 24,105	23,988	
	TAIEX Futures	Short	206	(495,233)	(494,153)	
	Mini-TAIEX Futures	Long	7	4,198	4,194	
	Mini-TAIEX Futures	Short	10	(5,998)	(5,997)	
	Electronic Sector Index Futures	Short	2	(4,258)	(4,218)	
	Finance Sector Index Futures	Long	100	135,817	135,840	
	Single Stock Futures	Long	400	80,919	85,272	
	Single Stock Futures	Short	5,763	(964,987)	(990,418)	
	HSI Futures	Short	1	(5,379)	(5,441)	
	Mini-HSI Futures	Short	11	(11,921)	(11,969)	
	FTSE China A50 Index Futures	Long	2	862	864	
	FTSE China A50 Index Futures	Short	558	(237,783)	(241,063)	
	VIX Futures	Long	46	21,568	21,308	
	VIX Futures	Short	4	(1,775)	(1,754)	
	SGX Nikkei 225 Index Futures	Short	5	(16,488)	(16,129)	
	10 Year U.S. T-Note Futures	Short	5	(19,421)	(19,250)	
	Ultra U.S. Treasury Bond Futures	Short	3	(16,889)	(16,338)	
	Crude Oil Futures	Short	17	(30,513)	(31,120)	
	Japanese Yen Futures	Long	3	10,326	10,394	
	Japanese Yen Futures	Short	5	(17,355)	(17,324)	
	Long-term Euro-BTP Futures	Long	7	33,538	33,497	
	Euro-Bund Futures	Long	3	17,265	17,180	
	Subtotal			<u>(1,499,402)</u>		
Options contract :						
	TAIEX Options (Call)	Long	377	\$ 454	357	
	TAIEX Options (Put)	Long	160	284	332	
	TAIEX Options (Call)	Short	588	(2,298)	(1,728)	
	TAIEX Options (Put)	Short	556	(2,332)	(2,779)	
	Stock Options (Call)	Long	10	1	1	
	Stock Options (Put)	Long	14	1	1	
	Stock Options (Call)	Short	10	(96)	(127)	
	Stock Options (Put)	Short	1	(3)	(1)	
	TAIEX Weekly Options (Call)	Long	2,487	621	221	
	TAIEX Weekly Options (Put)	Long	2,494	1,943	2,548	
	TAIEX Weekly Options (Call)	Short	1,148	(1,109)	(680)	
	TAIEX Weekly Options (Put)	Short	2,714	(3,813)	(6,527)	
	Electronic Sector Index Options (Call)	Long	10	51	22	
	Electronic Sector Index Options (Put)	Short	20	(76)	(33)	
	Finance Sector Index Options (Call)	Short	20	(10)	(3)	
	Crude Oil Options (Put)	Short	1	(4)	(5)	
	Gold Option (Put)	Long	2	3	-	
	Gold Option (Call)	Short	10	(20)	(19)	
	Subtotal			<u>(6,403)</u>		
Total				<u>\$ (1,505,805)</u>		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) March 31, 2019

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	3	\$ 6,289	6,350	
	TAIEX Futures	Short	897	(1,877,216)	(1,901,276)	
	Mini-TAIEX Futures	Long	36	18,917	19,071	
	Mini-TAIEX Futures	Short	9	(4,719)	(4,760)	
	Electronic Sector Index Futures	Short	2	(3,390)	(3,429)	
	Single Stock Futures	Long	689	80,589	81,573	
	Single Stock Futures	Short	4,602	(664,844)	(681,483)	
	H Stocks Index Futures	Long	4	8,814	8,863	
	H Stocks Index Futures	Short	5	(11,044)	(11,164)	
	HSI Futures	Short	7	(39,412)	(39,824)	
	Mini-HSI Futures	Long	13	14,828	14,840	
	Dow Futures	Long	84	43,109	43,340	
	Mini-Dow Futures	Long	14	55,220	55,972	
	Mini-Dow Futures	Short	28	(110,397)	(111,896)	
	Soybean Futures	Short	12	(17,040)	(16,352)	
	FTSE China A50 Index Futures	Long	709	280,263	286,799	
	FTSE China A50 Index Futures	Short	518	(201,579)	(209,460)	
	S&P 500 Futures	Long	74	128,156	128,637	
	S&P 500 Futures	Short	50	(28,178)	(28,303)	
	Mini-S&P 500 Futures	Long	9	39,006	39,357	
	Mini-S&P 500 Futures	Short	8	(34,704)	(35,042)	
	SGX Nikkei 225 Index Futures	Short	1	(3,009)	(2,951)	
	U.S. 10-Year T-Note Futures	Short	42	(161,047)	(160,794)	
	Ultra 10-Year U.S. T-Note Futures	Short	8	(32,831)	(32,739)	
	Euro-Bond Futures	Short	5	(28,776)	(28,785)	
	China Free NTR Index Futures	Short	6	(8,070)	(8,123)	
	USD/JPY FX Futures	Short	273	(166,186)	(166,236)	
	EUR/USD FX Futures	Long	156	109,757	109,534	
	EUR/USD FX Futures	Short	182	(126,993)	(126,847)	
	Dollar Index Futures	Short	8	(23,762)	(23,878)	
	Japanese Yen Futures	Long	2	6,987	6,995	
	Japanese Yen Futures	Short	48	(168,822)	(168,675)	
	CAD dollar Futures	Short	3	(6,904)	(6,937)	
	VIX Futures	Short	30	(15,735)	(15,026)	
	Euro Futures	Long	8	35,369	35,053	
	Euro Futures	Short	(4)	(17,465)	(17,396)	
	Subtotal			(2,924,819)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	TAIEX Options (Call)	Long	15	329	328	
	TAIEX Options (Put)	Long	65	572	224	
	Stock Options (Call)	Long	1	544	709	
	Stock Options (Put)	Long	888	1,843	981	
	Stock Options (Call)	Short	1,002	(1,371)	(1,336)	
	TAIEX Weekly Options (Put)	Long	19	27	10	
	S&P 500 Options (Call)	Long	33	822	728	
	S&P 500 Options (Put)	Long	159	1,959	363	
	S&P 500 Options (Call)	Short	58	(2,965)	(2,855)	
	S&P 500 Options (Put)	Short	28	(1,414)	(397)	
	Taiwan SE Weighted Index Options (Call)	Long	966	1,449	372	
	Taiwan SE Weighted Index Options (Put)	Long	1,051	1,280	1,971	
	Taiwan SE Weighted Index Options (Call)	Short	425	(3,460)	(4,800)	
	Taiwan SE Weighted Index Options (Put)	Short	1,887	(2,192)	(1,197)	
	Japanese Yen Options (Put)	Short	2	(2)	(1)	
	Soybean Meal Option (Put)	Short	4	(7)	(12)	
	Subtotal			(2,586)		
Total				<u>\$ (2,927,405)</u>		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Stockholders' equity}}{\text{(Total liabilities - futures traders' equity)}}$	$\frac{6,358,605}{706,507}$	9.00	$\frac{5,196,915}{519,249}$	10.01	≥ 1	Satisfactory to requirement
17	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{47,910,361}{43,006,955}$	1.11	$\frac{38,914,455}{35,242,480}$	1.10	≥ 1	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{6,358,605}{1,115,000}$	570.28 %	$\frac{5,196,915}{1,115,000}$	466.09 %	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Adjusted net capital}}{\text{Total amount of customers' margin required for open positions of futures trader}}$	$\frac{5,045,719}{9,637,179}$	52.36 %	$\frac{3,813,617}{6,873,468}$	55.48 %	$\geq 20\%$ $\geq 15\%$	"

- (c) Unique risk for futures trading

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

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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	US 29,322	US 29,322	- %	2	-	Operations	-	-	-	US 53,637	US 53,637
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited.	Other receivables - Related party	Yes	US 3,380	US 3,380	US 3,380	- %	2	-	Operations & repayment of financing	-	-	-	US 3,380	US 3,380
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	- %	2	-	Repayment of financing	-	-	-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	41,994	41,994	29,096	5 %	2	-	Tradings	-	-	-	193,061	965,305
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	83,988	83,988	14,998	4.91 %	2	-	Tradings	-	-	-	193,061	965,305
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	83,988	83,988	-	5 %	2	-	Tradings	-	-	-	193,061	965,305
7	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	83,988	83,988	-	4.91 %	2	-	Tradings	-	-	-	193,061	965,305
8	CSC Futures (HK) Ltd.	Derivatives China Alpha Fund	Account receivables - Customer	No	83,988	83,988	-	4.91 %	2	-	Tradings	-	-	-	193,061	965,305
9	CSC Futures (HK) Ltd.	Perfect Hexagon Limited	Account receivables - Customer	No	89,987	89,987	-	4.91 %	2	-	Tradings	-	-	-	193,061	965,305

Note: Type of Loans

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

- (ii) Providing endorsements and guarantees for other parties:None
- (iii) Acquisition of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (iv) Disposal of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (v) Handling fee discounts on transactions with related parties exceeding NT\$5 million:None
- (vi) Accounts receivables from related parties exceeding NT\$100 million or 20% of paid-in capital:None
- (vii) Significant transactions between parent company and subsidiaries for the three months ended March 31, 2020:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	396		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	29,434		0.02 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivable	11,940		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	38,002		0.03 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payable	3,877		- %

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	4,195		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	58,332	General transaction	10.76 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	4,462	General transaction	0.82 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	102	General transaction	0.02 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	93	General transaction	0.02 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	1	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	1,186	General transaction	0.22 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	40	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expense	1,682	General transaction	0.31 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenue	11,742	General transaction	2.17 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Accounts receivable	23		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fee	15,750	General transaction	2.91 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other operating revenue	75	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivable	42		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other payable	15		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	18		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expense	599	General transaction	0.11 %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Lease revenue	11	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Non-operating revenue	11	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantee deposits received	11		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	1,289,165		0.90 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,289,165		0.90 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	557,454		0.39 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	4,186,323		2.91 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payable	3,347		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	2,401	General transaction	0.44 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	19,017	General transaction	3.51 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	1,026	General transaction	0.19 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	3,803,397		2.65 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	174,528		0.12 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Prepayments	719		- %
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	Professional service fees	5,713	General transaction	1.05 %
2	CSC Futures (HK) Ltd.	CSC Securities (HK) Ltd.	3	Financial costs	116	General transaction	0.02 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Lease revenue	2,960	General transaction	0.55 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivable	HK 22		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 990	General transaction	0.71 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 107	General transaction	0.08 %

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payable	HK 228,306		0.62 %
4	Taiwan International Securities (B.V.I.) Corp.	TIS Securities (HK) Limited	3	Other receivable	HK 26,248		0.07 %

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.

(b) Information on investees:

(In Thousands of New Taiwan Dollars)

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on March 31, 2020	Balance on December 31, 2019	Shares	Ratio	Book value					
0	Capital Investment Management Corp.	Taipei, Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	7,000,000	100.00 %	88,463	15,961	(3,982)	(3,982)	-	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.	1,896,520	1,212,539	119,066,014	56.58 %	3,597,745	583,932	164,287	92,108	-	"
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment business.	1,339,555	1,339,555	45,000,000	100.00 %	1,608,812	(6,800)	(12,474)	(12,474)	-	"
0	Capital Insurance Advisory Corp.	Taipei, Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	500,000	100.00 %	92,612	47,560	13,706	13,706	-	Subsidiary
0	Capital Insurance Agency Corp.	Taipei, Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	740,000	100.00 %	44,232	20,117	784	784	-	"
0	Taiwan International Securities (B.V.I.) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Long-term equity investment business.	1,394,817	1,394,817	300	100.00 %	5	431	431	431	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities Investment Consulting Corp. (Note 4)	Taipei, Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92 %	12,638	-	(6)	(6)	-	"
0	CSC Venture Capital Corp.	Taipei, Taiwan, R.O.C.	January 12, 2016	No. FSC-1040034071 dated September 8, 2015	Venture Capital and consulting business	1,000,000	1,000,000	100,000,000	100.00 %	728,573	32	(1,704)	(1,704)	-	"
0	Capital Investment Trust Corp.	Taipei, Taiwan, R.O.C.	October 10, 1995		Engaged in security investment and discretionary investment services.	1,272,505	1,272,505	33,067,507	20.00 %	1,335,742	461,253	171,909	34,382	-	Associates

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		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 March 31, 2020	Balance on December 31, 2019	Shares	Ratio	Book value					
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 128,000 thousands	HK 128,000 thousands	128,000,000	100.00 %	HK 164,947 thousands	HK 7,468 thousands	HK (1,755) thousands	-	-	The transaction has been written off in the consolidated financial statements
2	TIS Securities (HK) Limited. (Note 5)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousands	HK 265,000 thousands	265,000,000	100.00 %	HK (26,059) thousands	HK -	HK 111 thousands	-	-	"
3	Taiwan International Capital (HK) Ltd. (Note 5)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,024) thousands	HK -	HK 62 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	214,000,000	97.27 %	938,952	66,521	(13,622)	-	-	"
4	Capital International Technology Co., Ltd.	Taipei, Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	5,000,000	100.00 %	42,878	-	871	-	-	"
4	True Partner Advisor Hong Kong Ltd	Hong Kong	May 31, 2010	No. FSC-1040027513 dated July 16, 2015	Asset Management	36,701	36,701	245,000	49.00 %	49,088	32,255	2,050	-	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	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 resolved to dissolve on June 27, 2012, and the company is being liquidated now.

Note 5: The board of directors of the Company resolved to dissolve the investee company on December 30, 2011. The representative office of China dissolved in 2014 as well. According to the laws of Hong Kong, it can't be liquidated voluntarily because the total assets of TIS Securities (HK) Limited. and Taiwan International Capital (HK) Ltd. can't cover the liabilities. The company has briefed it to the accountant in Hong Kong to plan the solutions.

(c) Information on overseas branches and representative offices:

(In Thousands of New Taiwan Dollars)

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2020	Remittance of recoverable investment this period		Accumulated remittance as of March 31, 2020	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the company	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of March 31, 2020
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	1,505	28.86%	435 B(3)	14,034	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	137	56.58%	78 B(3)	10,026	-

Note 1: Investment methods are classified into the following three categories:

- A. Directly invest in a company in Mainland China.
- B. Through investing in an existing company in the third area, which then invested in the investee in Mainland China (Please indicate the investee name of the third area).
- C. Through a subsidiary to invest in a company in Mainland China.

Note 2: Investment gains and losses recognized during the period

- A. It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- B. Indicate the basis for investment gains and losses recognition in the number of one of the following three categories:
 - (1) The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
 - (2) The financial statements that are audited and attested by R.O.C. parent company's CPA.
 - (3) The financial statements that are provided by the investee without audited by CPA.

Note 3: Above information is expressed in New Taiwan Dollars.

(ii) Limitation on investment in the Mainland China:

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

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

(e) Major shareholders:

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

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

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

(a) General information

The operating segments are consistent with the internal reports provided to the chief operating decision-maker. The Group's operating segments are classified into brokerage, 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) Corporate financing segment: Engaged in providing advisory on initial public offering or to register on the emerging or listed market, securities underwriting and sales, corporate finance, mergers and acquisitions.
- (iii) Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.
- (iv) Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.
- (v) Futures: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(b) Measurement of segmental information

All 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".

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

For the three months ended March 31, 2020								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 970,435	48,574	(844,393)	(224,426)	44,926	629,035	(82,016)	542,135
Segment profit or loss	\$ 445,462	15,095	(972,581)	(274,508)	(7,522)	216,401	(74,390)	(652,043)

For the three months ended March 31, 2019								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 712,554	100,553	505,955	29,108	49,486	459,737	(54,673)	1,802,720
Segment profit or loss	\$ 256,606	66,485	341,177	(31,298)	33,039	198,521	(92,111)	772,419

Note 1: Internal segment revenues are eliminated on consolidation.

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

(d) Information about products and services

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

(e) Information about regions

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

(f) Information about major customers

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