

**CAPITAL SECURITIES CORPORATION AND  
SUBSIDIARIES**

**Consolidated Financial Statements**

**With Independent Auditors' Review Report  
For The Nine Months Ended September 30, 2020 and 2019**

Address: 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei,  
Taiwan, R.O.C.

Telephone: 886-2-87898888

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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安侯建業聯合會計師事務所  
KPMG

台北市110615信義路5段7號68樓(台北101大樓)  
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,  
Xinyi Road, Taipei City 110615, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666  
Fax 傳真 + 886 (2) 8101 6667  
Internet 網址 kpmg.com/tw

## 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 September 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three months and the nine months ended September 30, 2020 and 2019, as well as the changes in equity and cash flows for the nine months ended September 30, 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 \$6,142,645 thousands and \$2,800,768 thousands, constituting 3.77% and 2.13% of consolidated total assets as of September 30, 2020 and 2019, respectively, total liabilities amounting to \$3,608,684 thousands and \$222,128 thousands, constituting 2.88% and 0.23% of consolidated total liabilities as of September 30, 2020 and 2019, respectively, and total comprehensive income (loss) amounting to \$6,022 thousands, \$(8,773) thousands, \$53,782 thousands and \$(111,091) thousands, constituting 0.38%, (0.92)%, 2.09% and (3.82)% of consolidated total comprehensive income (loss) for the three months and the nine months ended September 30, 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 \$1,436,800 thousands and \$1,428,086 thousands as of September 30, 2020 and 2019, respectively, and its equity in net earnings on these investee companies of \$47,041 thousands, \$52,092 thousands, \$138,193 thousands and \$151,403 thousands for the three months and the nine months ended September 30, 2020 and 2019, respectively, and its equity in other comprehensive income (loss) on these investee companies of \$(279) thousands, \$(109) thousands, \$(47) thousands and \$3,552 thousands for the three months and the nine months ended September 30, 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 September 30, 2020 and 2019, and of its consolidated financial performance for the three months and the nine months ended September 30, 2020 and 2019, as well as its consolidated cash flows for the nine months ended September 30, 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)  
November 12, 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 SEPTEMBER 30, 2020 AND 2019**

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**September 30, 2020, December 31, 2019, and September 30, 2019**

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

	September 30, 2020		December 31, 2019		September 30, 2019	
	Amount	%	Amount	%	Amount	%
<b>Assets</b>						
<b>Current assets:</b>						
110000 Cash and cash equivalents (note 6(a))	\$ 8,127,108	5	8,323,636	6	8,104,149	6
112000 Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	36,172,009	22	31,003,268	24	31,910,676	24
113200 Financial assets at fair value through other comprehensive income - current (note 6(b))	19,083,718	12	15,982,702	12	15,697,331	12
114030 Receivable for securities provided as collateral	15,766,794	10	12,166,194	9	10,778,792	8
114040 Refinancing margin	37,530	-	91,153	-	23,577	-
114050 Refinancing collateral receivable	34,800	-	137,339	-	19,616	-
114060 Receivable of securities business money lending	2,298,986	2	1,996,204	2	1,896,871	2
114070 Customers' margin account (note 6(d))	38,393,523	24	34,803,719	26	36,177,111	28
114080 Receivable - futures margin	5	-	2	-	13	-
114090 Collateral for securities borrowed	566,777	-	344,523	-	295,862	-
114100 Security borrowing margin	536,596	-	315,958	-	289,005	-
114110 Notes receivable	15,699	-	22,401	-	18,042	-
114130 Accounts receivable (note 6(c))	6,919,889	4	6,488,246	5	6,649,944	5
114150 Prepayments	33,779	-	33,609	-	33,531	-
114170 Other receivables	179,028	-	178,684	-	149,921	-
114300 Leverage contract trading - customers' margin account	322,938	-	308,543	-	265,213	-
114600 Current income tax assets	23,587	-	27,957	-	26,588	-
119095 Amounts held for each customer in the account (note 6(n))	9,344,348	6	3,025,153	2	1,386,730	1
119990 Other current assets-others	8,241,020	5	753,210	1	808,420	1
	146,098,134	90	116,002,501	87	114,531,392	87
<b>Non-current assets:</b>						
120000 Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	181,106	-	180,467	-	180,507	-
123200 Financial assets at fair value through other comprehensive income - non-current (note 6(b))	2,226,789	1	2,464,932	2	2,341,950	2
124100 Investments accounted for under equity method (note 6(e))	1,436,800	1	1,471,573	1	1,428,086	1
125000 Property and equipment (notes 6(f) and 8)	3,130,026	2	3,025,605	2	3,061,842	2
125800 Right-of-use assets (notes 6(g))	833,999	1	955,250	1	979,570	1
126000 Investment property (notes 6(h) and 8)	3,616,577	2	3,796,990	3	3,754,219	3
127000 Intangible assets (note 6(i))	3,611,063	2	3,609,740	3	3,613,346	3
128000 Deferred income tax assets	17,099	-	107,846	-	167,309	-
129000 Other non-current assets	1,611,173	1	1,555,509	1	1,504,101	1
	16,664,632	10	17,167,912	13	17,030,930	13
<b>Total assets</b>	\$ 162,762,766	100	133,170,413	100	131,562,322	100

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**STANDARDS AS OF SEPTEMBER 30, 2020 AND 2019**

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**September 30, 2020, December 31, 2019, and September 30, 2019**

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

	September 30, 2020		December 31, 2019		September 30, 2019	
	Amount	%	Amount	%	Amount	%
<b>Liabilities and Equity</b>						
<b>210000 Current liabilities:</b>						
211100 Short-term borrowings (note 6(j))	\$ 7,296,290	5	6,631,002	5	4,625,578	4
211200 Commercial paper payable (note 6(k))	2,799,825	2	-	-	-	-
212000 Financial liabilities at fair value through profit or loss - current (note 6(l))	2,563,087	2	1,459,094	1	1,276,332	1
214010 Bonds sold under repurchase agreements (note 6(m))	38,408,657	24	31,847,531	24	33,974,224	26
214040 Guarantee deposited for short sales	1,993,074	1	2,390,464	2	1,894,774	1
214050 Proceeds payable from short sales	2,337,509	1	2,755,405	2	2,095,874	2
214070 Securities lending refundable deposits	1,171,623	1	336,713	-	57,419	-
214080 Futures traders' equity (note 6(d))	38,331,644	24	34,747,531	26	36,038,209	27
214090 Equity for each customer in the account (note 6(n))	9,344,348	6	3,025,153	2	1,386,730	1
214100 Leverage contract trading - customers' equity	321,355	-	308,590	-	265,885	-
214110 Notes payable	228	-	-	-	98	-
214130 Accounts payable (note 6(o))	5,850,600	4	6,236,058	5	5,665,147	4
214150 Advance receipts	28,245	-	60,867	-	43,034	-
214160 Receipts under custody	8,089,185	5	114,442	-	116,735	-
214170 Other payables	735,184	-	662,217	1	710,620	1
214200 Other financial liabilities - current (note 6(w))	3,194,662	2	3,579,951	3	3,567,102	3
214600 Current income tax liabilities	316,338	-	269,795	-	436,538	-
215100 Provisions - current (note 6(q))	60,222	-	52,566	-	59,892	-
216000 Current lease liabilities (note 6(p))	173,672	-	193,565	-	195,354	-
219000 Other current liabilities	16,720	-	13,717	-	22,351	-
	123,032,468	77	94,684,661	71	92,431,896	70
<b>220000 Non-Current liabilities:</b>						
224200 Other financial liabilities - non-current (note 6(w))	570,333	-	349,518	-	206,200	-
226000 Non-current lease liabilities (note 6(p))	722,425	-	819,040	1	846,516	1
228000 Deferred income tax liabilities	484,507	-	463,963	-	470,936	-
229000 Other non-current liabilities	624,824	-	637,102	1	683,717	1
	2,402,089	-	2,269,623	2	2,207,369	2
<b>Total liabilities</b>	125,434,557	77	96,954,284	73	94,639,265	72
<b>Equity attributable to shareholders of the parent:</b>						
301010 Common stock (note 6(s))	21,709,081	13	23,209,081	17	23,209,081	18
302000 Capital surplus (note 6(s))	2,743,205	2	2,852,299	2	2,852,299	2
304000 Retained earnings:						
304010 Legal reserve	1,922,939	1	1,658,360	1	1,658,360	1
304020 Special reserve	4,116,356	3	3,587,197	3	3,587,197	3
304040 Unappropriated earnings (note 6(s))	2,374,610	1	2,681,569	2	1,798,829	1
305120 Exchange differences on translation of foreign operations	(212,566)	-	(118,543)	-	(16,480)	-
305140 Unrealized gains (losses) on financial assets at fair value through other comprehensive income	1,937,967	1	1,696,677	1	1,660,954	1
305500 Treasury shares (note 6(s))	-	-	(1,574,000)	(1)	-	-
<b>Total equity attributable to the parent company</b>	34,591,592	21	33,992,640	25	34,750,240	26
306000 <b>Non-controlling interests</b>	2,736,617	2	2,223,489	2	2,172,817	2
<b>Total equity</b>	37,328,209	23	36,216,129	27	36,923,057	28
<b>Total liabilities and equity</b>	\$ 162,762,766	100	133,170,413	100	131,562,322	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 and nine months ended September 30, 2020 and 2019**

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

	For the three months ended September 30				For the nine months ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Income:</b>								
401000 Brokerage commissions (note 6(u))	\$ 1,523,829	47	991,578	47	4,027,238	60	2,790,558	50
402000 Revenues from securities business money lending	12	-	4	-	74	-	93	-
403000 Revenue from securities lending	51,730	2	56,263	3	143,887	2	140,128	3
404000 Underwriting commissions (note 6(u))	119,617	4	25,454	1	175,019	3	65,515	1
406000 Commissions on wealth management business	15,280	1	34,218	2	56,445	1	81,786	1
410000 Net gains (losses) on sale of trading securities (note 6(u))	829,561	26	291,180	14	408,732	6	516,460	9
421100 Securities management, distribution, and management fees	37,569	1	39,475	2	112,903	2	108,857	2
421200 Interest revenue (note 6(u))	383,251	12	388,040	19	1,056,577	16	1,145,207	21
421300 Dividend revenue	138,013	4	195,600	9	175,683	3	230,876	4
421500 Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(u))	(148,173)	(5)	(19,778)	(1)	(378,735)	(6)	608,077	11
421600 Net gains (losses) on covering of borrowed securities and bonds with resale agreements	37,229	1	(22,611)	(1)	104,413	2	29,650	1
421610 Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(7,781)	-	(13,120)	(1)	(44,178)	(1)	(153,124)	(3)
421750 Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	197,806	6	107,526	5	350,763	5	204,558	4
422000 Net gains (losses) from exchange traded notes (note 6(w))	(106)	-	6	-	(109)	-	26	-
422100 Management and commissions revenue from exchange traded notes (note 6(w))	2	-	-	-	5	-	-	-
422200 Net gains (losses) on stock warrants issued (note 6(u) and (w))	164,100	5	50,874	2	285,298	4	119,320	2
424100 Futures commission revenues (note 6(u))	94,741	3	52,916	3	242,477	4	160,539	3
424400 Net gains (losses) on derivative instruments - futures (note 6(w))	(42,058)	(1)	(24,272)	(1)	103,484	1	(410,846)	(7)
424500 Net gains (losses) on derivative instruments - OTC (note 6(w))	(213,930)	(7)	(71,801)	(3)	(221,989)	(3)	(189,846)	(3)
424800 Management fee revenues	169	-	118	-	561	-	222	-
424900 Consultancy fee revenue	2,791	-	3,870	-	8,978	-	10,908	-
425300 Impairment losses and reversal gains (note 6(v))	(32,271)	(1)	623	-	(35,153)	(1)	582	-
428000 Other operating revenues	79,461	2	8,264	-	116,216	2	66,714	1
	<u>3,230,842</u>	<u>100</u>	<u>2,094,427</u>	<u>100</u>	<u>6,688,589</u>	<u>100</u>	<u>5,526,260</u>	<u>100</u>
<b>Expenses:</b>								
501000 Brokerage fees	194,248	6	117,940	6	485,149	7	332,158	6
502000 Brokerage and clearing fees - proprietary trading	5,170	-	3,469	-	12,949	-	10,537	-
503000 Clearing and exchange fees - refinancing	704	-	344	-	2,487	-	1,553	-
504000 Clearing and exchange fees - underwriting	352	-	259	-	980	-	810	-
521200 Financial costs	72,136	2	166,331	8	317,072	5	484,609	9
521640 Loss from securities borrowing transactions	1,874	-	123	-	1,874	-	123	-
524100 Futures commission expense (note 6(u))	78,754	2	75,807	4	266,124	4	226,868	4
524300 Clearing and settlement expenses	47,232	2	38,022	2	136,808	2	108,840	2
528000 Other operating expenditure	5,376	-	1,125	-	11,525	-	2,099	-
531000 Employee benefits expenses (note 6(u))	815,561	25	603,661	29	2,104,197	31	1,760,711	32
532000 Depreciation and amortization expense (note 6(u))	111,644	4	110,739	5	335,341	5	310,755	6
533000 Other operating expenses (note 6(u))	418,708	13	325,726	15	1,122,823	17	988,500	18
	<u>1,751,759</u>	<u>54</u>	<u>1,443,546</u>	<u>69</u>	<u>4,797,329</u>	<u>71</u>	<u>4,227,563</u>	<u>77</u>
<b>Other income (expenses):</b>								
601000 Share of profits of associates and joint ventures accounted for using equity method (note 6(e))	47,041	2	52,092	2	138,193	2	151,403	3
602000 Other gains and losses (note 6(u))	229,641	7	248,972	12	746,092	11	801,972	15
	<u>276,682</u>	<u>9</u>	<u>301,064</u>	<u>14</u>	<u>884,285</u>	<u>13</u>	<u>953,375</u>	<u>18</u>
902001 <b>Net income before income tax</b>	<u>1,755,765</u>	<u>55</u>	<u>951,945</u>	<u>45</u>	<u>2,775,545</u>	<u>42</u>	<u>2,252,072</u>	<u>41</u>
701000 <b>Less: Income tax expenses (note 6(r))</b>	<u>156,170</u>	<u>5</u>	<u>89,552</u>	<u>4</u>	<u>381,528</u>	<u>6</u>	<u>291,494</u>	<u>5</u>
<b>Net income</b>	<u>1,599,595</u>	<u>50</u>	<u>862,393</u>	<u>41</u>	<u>2,394,017</u>	<u>36</u>	<u>1,960,578</u>	<u>36</u>
805000 <b>Other comprehensive income:</b>								
805500 <b>Components that may not be reclassified to profit or loss in subsequent periods:</b>								
805540 Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income,	72,744	2	63,372	3	116,361	2	433,029	8
805550 Share of other comprehensive income of associates and joint ventures accounted for using equity method	-	-	-	-	344	-	3,439	-
805599 Less: Income tax related to components of other comprehensive income	-	-	-	-	-	-	-	-
<b>Subtotal of components that may not be subsequently reclassified into profit or loss</b>	<u>72,744</u>	<u>2</u>	<u>63,372</u>	<u>3</u>	<u>116,705</u>	<u>2</u>	<u>436,468</u>	<u>8</u>
805600 <b>Components that may be reclassified to profit or loss in subsequent periods:</b>								
805610 Exchange differences on translation of foreign operations	(78,616)	(2)	(9,669)	(1)	(113,960)	(2)	32,224	-
805615 Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	868	-	37,900	2	164,738	3	483,494	9
805699 Less: Income tax related to components of other comprehensive income (note 6(r))	(5,771)	-	(677)	-	(9,031)	-	3,389	-
<b>Subtotal of items that may be subsequently reclassified into profit or loss</b>	<u>(71,977)</u>	<u>(2)</u>	<u>28,908</u>	<u>1</u>	<u>59,809</u>	<u>1</u>	<u>512,329</u>	<u>9</u>
805000 <b>Other comprehensive income, net</b>	<u>767</u>	<u>-</u>	<u>92,280</u>	<u>4</u>	<u>176,514</u>	<u>3</u>	<u>948,797</u>	<u>17</u>
902006 <b>Total comprehensive income</b>	<u>\$ 1,600,362</u>	<u>50</u>	<u>954,673</u>	<u>45</u>	<u>2,570,531</u>	<u>39</u>	<u>2,909,375</u>	<u>53</u>
<b>Net income attributable to:</b>								
913100 Shareholders of the parent	\$ 1,524,795	48	799,603	38	2,183,329	33	1,762,181	32
913200 Non-controlling interests	74,800	2	62,790	3	210,688	3	198,397	4
	<u>\$ 1,599,595</u>	<u>50</u>	<u>862,393</u>	<u>41</u>	<u>2,394,017</u>	<u>36</u>	<u>1,960,578</u>	<u>36</u>
<b>Total comprehensive income attributable to:</b>								
914100 Shareholders of the parent	\$ 1,533,220	48	894,580	42	2,370,772	36	2,706,611	49
914200 Non-controlling interests	67,142	2	60,093	3	199,759	3	202,764	4
	<u>\$ 1,600,362</u>	<u>50</u>	<u>954,673</u>	<u>45</u>	<u>2,570,531</u>	<u>39</u>	<u>2,909,375</u>	<u>53</u>
975000 <b>Basic earnings per share (note 6(t))</b>	<u>\$ 0.70</u>		<u>0.34</u>		<u>1.01</u>		<u>0.76</u>	
985000 <b>Diluted earnings per share (note 6(t))</b>	<u>\$ 0.70</u>		<u>0.34</u>		<u>1.00</u>		<u>0.76</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 nine months ended September 30, 2020 and 2019**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to the parent company										Non-controlling interests	Total Equity
	Stock	Retained earnings				Total other equity interest			Total equity attributable to the parent company			
	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				
<b>Balance at January 1, 2019</b>	\$ 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 nine months ended September 30, 2019	-	-	-	-	1,762,181	-	-	-	1,762,181	198,397	1,960,578	
Other comprehensive income	-	-	-	-	-	24,588	919,842	-	944,430	4,367	948,797	
Total comprehensive income	-	-	-	-	1,762,181	24,588	919,842	-	2,706,611	202,764	2,909,375	
Appropriation and distribution of retained earnings: (note 6(r))												
Legal reserve	-	-	138,725	-	(138,725)	-	-	-	-	-	-	
Special reserve	-	-	-	284,386	(284,386)	-	-	-	-	-	-	
Cash dividends of common stocks	-	-	-	-	(928,363)	-	-	-	(928,363)	-	(928,363)	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	872	-	(872)	-	-	-	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(262,691)	(262,691)	
<b>Balance at September 30, 2019</b>	\$ 23,209,081	2,852,299	1,658,360	3,587,197	1,798,829	(16,480)	1,660,954	-	34,750,240	2,172,817	36,923,057	
<b>Balance at January 1, 2020</b>	\$ 23,209,081	2,852,299	1,658,360	3,587,197	2,681,569	(118,543)	1,696,677	(1,574,000)	33,992,640	2,223,489	36,216,129	
Net income for the nine months ended September 30, 2020	-	-	-	-	2,183,329	-	-	-	2,183,329	210,688	2,394,017	
Other comprehensive income	-	-	-	-	-	(94,023)	281,466	-	187,443	(10,929)	176,514	
Total comprehensive income	-	-	-	-	2,183,329	(94,023)	281,466	-	2,370,772	199,759	2,570,531	
Appropriation and distribution of retained earnings: (note 6(r))												
Legal reserve	-	-	264,579	-	(264,579)	-	-	-	-	-	-	
Special reserve	-	-	-	529,159	(529,159)	-	-	-	-	-	-	
Cash dividends of common stocks	-	-	-	-	(1,736,726)	-	-	-	(1,736,726)	-	(1,736,726)	
Purchase of treasury shares	-	-	-	-	-	-	-	(30,387)	(30,387)	-	(30,387)	
Retirement of treasury shares	(1,500,000)	(104,387)	-	-	-	-	-	1,604,387	-	-	-	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	40,176	-	(40,176)	-	-	-	-	
Capital surplus changes in ownership interests in subsidiaries	-	(4,707)	-	-	-	-	-	-	(4,707)	-	(4,707)	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	313,369	313,369	
<b>Balance at September 30, 2020</b>	\$ 21,709,081	2,743,205	1,922,939	4,116,356	2,374,610	(212,566)	1,937,967	-	34,591,592	2,736,617	37,328,209	

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 nine months ended September 30, 2020 and 2019**

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

	<u>For the nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities:</b>		
Net income before tax	\$ 2,775,545	2,252,072
<b>Adjustments:</b>		
<b>Income and expenses items:</b>		
Depreciation expense	308,904	285,395
Amortization expense	26,437	25,360
Impairment loss(reversal gains)	35,153	(582)
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	422,913	(454,953)
Financial cost	317,072	484,609
Interest revenue (including financial revenue)	(1,373,171)	(1,572,955)
Dividend revenue	(258,438)	(292,515)
Cash dividend received from investments under equity method	172,822	159,432
Share of profit of associates and joint ventures accounted for using equity method	(138,193)	(151,403)
Losses (gains) on disposal and retirement of property and equipment	(11,317)	342
Net gains on non-operating financial instruments at fair value through profit or loss	(28,786)	(23,729)
Gains on lease modifications	(24)	-
<b>Subtotal of income of non-cash activities</b>	<u>(526,628)</u>	<u>(1,540,999)</u>
<b>Changes in operating assets and liabilities:</b>		
Increase in financial assets at fair value through profit or loss	(5,564,537)	(365,091)
Increase in financial assets at fair value through other comprehensive income	(2,764,189)	(4,257,182)
Increase in receivable for securities provided as collateral	(3,600,243)	(782,790)
Decrease in refinancing margin	53,623	16,037
Decrease in receivable on refinancing collateral	102,539	14,803
Decrease (increase) in receivable of securities business money lending	(302,782)	52,234
Increase in customers' margin account	(3,589,804)	(2,901,481)
Decrease (increase) in margin receivable of futures trading	(1,454)	1,585
Decrease (increase) in collateral for securities borrowed	(222,254)	158,338
Decrease (increase) in security borrowing margin	(220,638)	123,143
Decrease (increase) in notes receivable	6,702	(861)
Increase in accounts receivable	(545,988)	(2,023,861)
Decrease (increase) in prepayments	(170)	4,220
Increase in other receivables	(42,994)	(60,043)
Increase in leverage contract trading - customers' margin account	(14,395)	(36,649)
Increase in pledged assets - current	(54,875)	-
Increase in other current assets	(7,428,614)	(1,318,681)
Decrease (increase) in guarantee deposited for business operations	272	(58,366)
Decrease (increase) in settlement fund	(9,438)	10,620
Decrease (increase) in refundable deposits	(21,718)	15,015
Increase in other non-current assets	(25,093)	(30,939)
Increase in financial liabilities at fair value through profit or loss	1,105,101	72,663
Increase in bonds sold under repurchase agreements	6,561,126	5,941,701
Decrease in guarantee deposited for short sales	(397,390)	(421,970)
Decrease in proceeds payable from short sales	(417,896)	(507,441)
Increase (decrease) in securities lending refundable deposits	834,910	(587,424)
Increase in futures traders' equity	3,584,113	2,879,383
Increase in customers' equity of separate account ledger in settlement account	-	1,359,761
Increase in leverage contract trading - customers' equity	12,765	39,986
Increase (decrease) in notes payable	228	(383)
Increase (decrease) in accounts payable	(354,763)	1,810,576
Increase (decrease) in advance receipts	(32,622)	5,945
Increase (decrease) in receipts under custody	7,974,743	(3,590)
Increase (decrease) in other payable	73,674	(63,789)
Increase (decrease) in other financial liabilities - current	(385,289)	209,215
Increase in provision - current	7,656	14,418
Increase in other current liabilities	3,003	10,699
Increase (decrease) in other financial liabilities - non-current	220,815	(103,832)
Increase (decrease) in other non-current liabilities	(12,278)	25,451
<b>Total changes in assets and liabilities from operating activities</b>	<u>(5,468,154)</u>	<u>(758,580)</u>
<b>Total cash generated from operation</b>	<u>(5,994,782)</u>	<u>(2,299,579)</u>

(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 nine months ended September 30, 2020 and 2019**

(Expressed in Thousands of New Taiwan Dollars)

	<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Cash generated from operating activities	\$ (3,219,237)	(47,507)
Interest received	1,510,708	1,583,729
Dividends received	246,414	270,086
Interest paid	(349,033)	(485,693)
Income taxes paid	(214,616)	(369,519)
<b>Net Cash flows (used in) provided by operating activities</b>	<b>(2,025,764)</b>	<b>951,096</b>
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(49,880)	(94,864)
Proceeds from disposal of financial assets at fair value through other comprehensive income	27,421	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	202,681	3,874
Increase in deferred debits	(126)	(607)
Acquisition of property and equipment	(87,477)	(241,633)
Proceeds from disposal of property and equipment	20,287	-
Acquisition of intangible assets	(27,378)	(17,031)
<b>Net cash flows provided by (used in) investing activities</b>	<b>85,528</b>	<b>(350,261)</b>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	665,288	752,072
Increase in commercial papers payable	2,799,825	-
Payment of lease liabilities	(151,325)	(83,108)
Cash dividends paid	(1,910,332)	(1,191,029)
Issuance of common stock for cash	482,278	-
Purchase of treasury shares	(30,387)	-
Change in non-controlling interests	(10)	-
<b>Net cash flows provided by (used in) financing activities</b>	<b>1,855,337</b>	<b>(522,065)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(111,629)</b>	<b>31,960</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(196,528)</b>	<b>110,730</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>8,323,636</b>	<b>7,993,419</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 8,127,108</b>	<b>8,104,149</b>

(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**

**September 30, 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 September 30, 2020, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of September 30, 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.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

The consolidated financial statements were authorized for issue by the board of directors on November 12, 2020.

**(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
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 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 the FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2021:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	January 1, 2021

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

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

As of the date, the following IFRSs that have been issued by the 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, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”	January 1, 2021

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
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>

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
August 27, 2020	Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”	<p>The amendments in this final phase relate to:</p> <ul style="list-style-type: none"> <li>● Changes to contractual cash flows: a company will not have to derecognize or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate ;</li> <li>● Hedge accounting: a company will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and</li> <li>● Disclosures: a company will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.</li> </ul>

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.

**(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.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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.

(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
			September 30, 2020	December 31, 2019	September 30, 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 September 30, 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 September 30, 2020, the paid-in capitals amounted to US\$45,000 thousands.(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
			September 30, 2020	December 31, 2019	September 30, 2019	
The Company	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 September 30, 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 September 30, 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 %	Completion of liquidation.(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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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.(noe 2)
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 %	Liquidation in progress.(note 3)

Note 1: Capital Investment Management Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2020 and 2019, the total assets amounted to \$131,722 and \$150,524, and the total liabilities amounted to \$52,123 and \$57,090, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2020 and 2019 were \$(4,484), \$(840), \$(12,845) and \$(3,806).

(Continued)



## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- Note 2: CSC International Holdings Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2020 and 2019, the total consolidated assets amounted to \$5,101,961 and \$1,805,338, and the total consolidated liabilities amounted to \$3,540,186 and \$147,445, respectively. The total consolidated comprehensive income (loss) for the three months and the nine months ended September 30, 2020 and 2019 were \$10,854, \$(4,867), \$618 and \$4,300.
- Note 3: Taiwan International Securities (B.V.I) Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2020 and 2019, the total consolidated assets amounted to \$28 and \$93, and the total consolidated liabilities amounted to \$0 and \$0, respectively. The total consolidated comprehensive income (loss) for the three months and the nine months ended September 30, 2020 and 2019 were \$1, \$(354), \$484 and \$(365).
- Note 4: Taiwan International Securities Investment Consulting Corp. is a non-major subsidiary; its financial statements have not been reviewed. And on June 15, 2020, the entity was admitted the completion of liquidation by the court. As of September 30, 2019, the total assets amounted to \$12,662, and the total liabilities amounted to \$1, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2019 were \$(24) and \$(148).
- Note 5: CSC Venture Capital Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2020 and 2019, the total assets amounted to \$836,607 and \$759,942, and the total liabilities amounted to \$10,857 and \$12,033, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2020 and 2019 were \$(316), \$(394), \$62,638 and \$(106,997).
- Note 6: Capital International Technology Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2020 and 2019, the total assets amounted to \$46,432 and \$43,773, and the total liabilities amounted to \$3,003 and \$188, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2020 and 2019 were \$142, \$(1,466), \$1,180 and \$(2,698).
- Note 7: Capital True Partner Technology Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2020 and 2019, the total assets amounted to \$8,185 and \$8,902, and the total liabilities amounted to \$1,281 and \$4,824, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2020 and 2019 were \$223, \$1,149, \$3,023 and \$2,233.
- Note 8: Capital Futures Technology (Shanghai) Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2020 and 2019, the total assets amounted to \$17,710 and \$19,534, and the total liabilities amounted to \$1,234 and \$547, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2020 and 2019 were \$(398), \$(1,977), \$(1,316) and \$(3,610).

#### (iii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			September 30, 2020	December 31, 2019	September 30, 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 paid-in capitals amounted to \$7,400. As of September 30, 2020, December 31, 2019 and September 30, 2019, the total assets constituted 0.03% · 0.04% and 0.04% of the Group's total assets. For the nine months ended September 30, 2020 and 2019, the operation revenue were merely 0.62% and 1.35% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			September 30, 2020	December 31, 2019	September 30, 2019	
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 paid-in capitals amounted to \$5,000. As of September 30, 2020, December 31, 2019 and September 30, 2019, the total assets constituted 0.05% , 0.09% and 0.09% of the Group's total assets. For the nine months ended September 30, 2020 and 2019, the operation revenue were merely 1.33% and 2.71% 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.

**(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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(6) Explanation of significant accounts:**

(a) Cash and cash equivalents

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Cash	\$ 2,747	2,781	2,809
Bank deposits			
Checking accounts	32,736	38,143	35,981
Demand deposits	503,182	581,921	397,573
Foreign currency deposits	592,326	1,219,527	931,896
Subtotal	<u>1,128,244</u>	<u>1,839,591</u>	<u>1,365,450</u>
Cash equivalents			
Time deposits	5,111,755	5,286,174	5,227,435
Futures margin - excess margin	1,870,369	1,184,098	1,472,508
Commercial papers	13,993	10,992	35,947
Subtotal	<u>6,996,117</u>	<u>6,481,264</u>	<u>6,735,890</u>
Total	<u>\$ 8,127,108</u>	<u>8,323,636</u>	<u>8,104,149</u>

(b) Financial assets

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
<b>Open-ended funds and money-market instruments</b>			
Open-ended funds and money-market instruments	\$ 391,230	251,541	168,560
Valuation adjustment	40,444	15,091	8,640
Subtotal	<u>431,674</u>	<u>266,632</u>	<u>177,200</u>
<b>Securities invested by securities broker</b>			
Securities invested by securities broker	6,142	146,849	29,765
Valuation adjustment	125	(1,589)	(335)
Subtotal	<u>6,267</u>	<u>145,260</u>	<u>29,430</u>

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
<b>Trading securities - proprietary trading</b>			
Listed stocks	\$ 1,957,582	1,810,032	1,440,060
Listed funds	686,917	796,400	801,912
OTC stocks	300,073	387,666	381,443
OTC funds	128,922	200,580	200,940
Emerging market stocks	404,862	532,189	523,279
Convertible corporate bonds	736,876	889,088	789,376
Government bonds	5,081,497	3,317,485	6,370,178
Corporate bonds	8,392,452	7,641,557	7,795,372
International bonds	4,813,074	4,536,910	4,453,460
Financial debentures	1,159,251	200,000	600,000
Foreign stocks	345,430	519,279	139,349
Overseas bonds	277,856	233,297	243,666
Others	<u>8,300</u>	<u>300</u>	<u>293</u>
	24,293,092	21,064,783	23,739,328
Valuation adjustment	<u>159,210</u>	<u>165,577</u>	<u>30,250</u>
Subtotal	<u>24,452,302</u>	<u>21,230,360</u>	<u>23,769,578</u>
<b>Trading securities - underwriting:</b>			
Listed stocks	212,446	37,424	46,621
OTC stocks	-	38,716	39,001
Convertible corporate bonds	48,472	85,097	91,559
Other	<u>-</u>	<u>-</u>	<u>14,175</u>
	260,918	161,237	191,356
Valuation adjustment	<u>(1,679)</u>	<u>26,053</u>	<u>24,718</u>
Subtotal	<u>259,239</u>	<u>187,290</u>	<u>216,074</u>
<b>Trading securities - hedging</b>			
Listed stocks	1,643,111	2,816,447	2,419,888
OTC stocks	454,986	773,913	467,050
Convertible corporate bonds	6,720,713	4,948,227	4,434,510
Others	<u>1,862,520</u>	<u>-</u>	<u>-</u>
	10,681,330	8,538,587	7,321,448
Valuation adjustment	<u>(66,475)</u>	<u>279,305</u>	<u>55,751</u>
Subtotal	<u>10,614,855</u>	<u>8,817,892</u>	<u>7,377,199</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
<b>Derivatives</b>			
Buy options	\$ 24,020	3,482	-
Futures margin - proprietary fund	214,831	233,624	262,778
IRS asset swaps	14,029	16,053	12,515
Asset swap options - long position	112,465	37,684	35,450
Leverage derivatives - non-hedging	35,647	39,066	26,333
Structured notes	6,680	25,925	3,103
Interest rate swaps	-	-	1,016
Subtotal	<u>407,672</u>	<u>355,834</u>	<u>341,195</u>
Total	<u>\$ 36,172,009</u>	<u>31,003,268</u>	<u>31,910,676</u>

As of September 30, 2020, December 31, 2019 and September 30, 2019, par value for trading securities-bonds and financial assets at fair value through other comprehensive income-bonds undertaken for repurchase agreements of the Group, please refer to note 8 for details.

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Debt instruments at fair value through other comprehensive income			
Government bonds	\$ 2,221,885	2,225,249	-
International bonds	814,282	1,198,147	1,240,331
Overseas bonds	<u>15,118,656</u>	<u>12,054,824</u>	<u>13,834,481</u>
	18,154,823	15,478,220	15,074,812
Valuation adjustment	<u>518,915</u>	<u>366,972</u>	<u>432,214</u>
Subtotal	<u>18,673,738</u>	<u>15,845,192</u>	<u>15,507,026</u>
Equity instrument at fair value through other comprehensive income			
Listed stocks	221,120	118,428	70,645
OTC stocks	65,743	10,756	10,756
Emerging market stocks	59,622	24,130	24,130
Foreign stocks	-	-	90,512
	346,485	153,314	196,043
Valuation adjustment	<u>63,495</u>	<u>(15,804)</u>	<u>(5,738)</u>
Subtotal	<u>409,980</u>	<u>137,510</u>	<u>190,305</u>
Total	<u>\$ 19,083,718</u>	<u>15,982,702</u>	<u>15,697,331</u>

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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 and the nine months ended September 30, 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 \$10,260, \$9,623, \$16,480 and \$11,651, 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 \$25,298, \$167,549, \$292,768 and \$568,700, respectively, cumulative dispose gains for the three months and the nine months ended September 30, 2020 and 2019, amounted to \$9,903, \$6,311, \$40,176 and \$872, respectively, were transferred from other equity items to retained earnings.

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

4) For the nine months ended September 30, 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>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
Mandatorily measured at fair value through profit or loss:			
Government bonds	\$ 180,329	180,329	180,329
Valuation adjustment	<u>777</u>	<u>138</u>	<u>178</u>
Total	<u>\$ 181,106</u>	<u>180,467</u>	<u>180,507</u>

As of September 30, 2020, December 31, 2019 and September 30, 2019, the Group took advantage of government bonds as margins of bills, interest rate swaps, structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (for details please refer to note 8).

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Equity instruments at fair value through other comprehensive income			
Non-listed or non-over-the-counter stocks	\$ 946,725	1,181,752	1,154,922
Valuation adjustment	<u>1,280,064</u>	<u>1,283,180</u>	<u>1,187,028</u>
Total	<u>\$ 2,226,789</u>	<u>2,464,932</u>	<u>2,341,950</u>

For the three months and the nine months ended September 30, 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 \$29,583, \$26,793, \$85,056 and \$61,553, respectively.

For the nine months ended September 30, 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 nine months ended September 30, 2020.

- (v) The Group uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the nine months ended September 30, 2020 and 2019 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	September 30, 2020	December 31, 2019	September 30, 2019	For the nine months ended September 30,					
				2020			2019		
				Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,244,449	1,364,147	1,163,965	1,213,470	1,378,457	1,066,520	1,056,933	1,173,374	932,006

(c) Accounts Receivable

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Receivable on securities purchased by customers	\$ 24,564	21,368	11,671
Settlement	623,247	-	-
Interests receivable	401,552	527,952	544,185
Receivables on securities sold	5,801,221	5,859,407	5,963,018
Others	<u>71,011</u>	<u>81,225</u>	<u>132,776</u>
Subtotal	6,921,595	6,489,952	6,651,650
Less: allowance for doubtful accounts	<u>(1,706)</u>	<u>(1,706)</u>	<u>(1,706)</u>
Total	<u>\$ 6,919,889</u>	<u>6,488,246</u>	<u>6,649,944</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(v).
- (ii) For the nine months ended September 30, 2020 and 2019, impairment test have been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(v).
- (d) Customers' margin account / Futures traders' equity

As of September 30, 2020, December 31, 2019 and September 30, 2019, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Customers' margin account			
Cash in banks	\$ 27,569,926	26,292,763	26,219,417
Customers' margin account - futures clearing house	5,535,011	4,874,988	5,383,596
Customers' margin account - other futures commission merchants	5,288,284	3,635,783	4,573,428
Marketable securities	<u>302</u>	<u>185</u>	<u>670</u>
Total customers' margin account	<u>38,393,523</u>	<u>34,803,719</u>	<u>36,177,111</u>
Add:			
Commission expense	1,769	1,248	6,331
Other	43	(66)	47
Less:			
Commission revenue	(11,514)	(7,426)	(33,423)
Futures transaction tax	(2,066)	(1,342)	(1,505)
Interest revenues	(2,344)	(5,699)	(8,643)
Temporary receipts	(15,253)	(1,817)	(377)
Remittance amount of the customers after the market closed	(10,442)	(9,235)	(3,861)
Other receivables	<u>(22,072)</u>	<u>(31,851)</u>	<u>(97,471)</u>
Futures traders' equity	<u>\$ 38,331,644</u>	<u>34,747,531</u>	<u>36,038,209</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(e) Investments accounted for under equity method

As of September 30, 2020, December 31, 2019 and September 30, 2019, investments under equity method consisted of the following:

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 48,224	78,906	71,738
Capital Insurance Agency Corp.	<u>40,158</u>	<u>43,447</u>	<u>43,605</u>
Subtotal	<u>88,382</u>	<u>122,353</u>	<u>115,343</u>
Associates			
True Partner Advisor Hong Kong Ltd.	49,850	47,860	48,076
Capital Investment Trust Corp.	<u>1,298,568</u>	<u>1,301,360</u>	<u>1,264,667</u>
Subtotal	<u>1,348,418</u>	<u>1,349,220</u>	<u>1,312,743</u>
Total	<u>\$ 1,436,800</u>	<u>1,471,573</u>	<u>1,428,086</u>

(i) Subsidiaries:

For the three months and the nine months ended September 30, 2020 and 2019, the Group's share of gains or losses of the subsidiaries were as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
The Group's share of gains based on the subsidiaries' financial statements	<u>\$ 5,055</u>	<u>16,110</u>	<u>23,114</u>	<u>50,084</u>
		<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Total assets		<u>\$ 122,191</u>	<u>167,994</u>	<u>166,910</u>
Total liabilities		<u>\$ 33,809</u>	<u>45,641</u>	<u>51,567</u>
	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenue	<u>\$ 31,738</u>	<u>69,168</u>	<u>130,858</u>	<u>224,593</u>
Net income	<u>\$ 5,055</u>	<u>16,110</u>	<u>23,114</u>	<u>50,084</u>

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (ii) Associates

Name of associate	Nature between the Company	Primary business area and registered country	Proportion of Ownership and Voting Rights		
			September 30, 2020	December 31, 2019	September 30, 2019
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:

	September 30, 2020	December 31, 2019	September 30, 2019
Total carrying amount of the associates that were not individually material	\$ <u>1,348,418</u>	<u>1,349,220</u>	<u>1,312,743</u>
	For the three months ended September 30, 2020	2019	For the nine months ended September 30, 2020
	2020	2019	2020
The Group's share of gains based on the associates' financial statements:			
Net gains from continuing operations	\$ 41,986	35,982	115,079
Other comprehensive income (losses)	(279)	(109)	(47)
Total comprehensive income (losses)	\$ <u>41,707</u>	<u>35,873</u>	<u>115,032</u>

## (iii) Collateral

As of September 30, 2020, December 31, 2019 and September 30, 2019, none of the investment accounted for under equity method of the Group were pledged for collateral.

## (f) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Carrying amount:					
September 30, 2020	\$ <u>1,990,853</u>	<u>746,049</u>	<u>270,389</u>	<u>122,735</u>	<u>3,130,026</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>
September 30, 2019	\$ <u>1,916,596</u>	<u>744,644</u>	<u>250,124</u>	<u>150,478</u>	<u>3,061,842</u>

As of September 30, 2020, December 31, 2019 and September 30, 2019, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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 nine months ended September 30, 2020 and 2019. For the nine months ended September 30, 2020 and 2019, \$421,088 and \$2,429,307 of property and equipment were transferred to investment property, and \$575,035 and \$34,077 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.

(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	33,993	4,943	38,936
Reductions	(18,341)	(1,826)	(20,167)
Effect of changes in foreign exchange rates	(1,364)	-	(1,364)
Balance at September 30, 2020	<u>\$ 1,131,091</u>	<u>25,453</u>	<u>1,156,544</u>
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	1,062,820	8,049	1,070,869
Additions	37,244	13,203	50,447
Effect of changes in foreign exchange rates	(408)	-	(408)
Balance at September 30, 2019	<u>\$ 1,099,656</u>	<u>21,252</u>	<u>1,120,908</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2020	\$ 176,718	7,171	183,889
Depreciation	150,088	6,415	156,503
Reductions	(15,429)	1,757	(17,186)
Effect of changes in foreign exchange rates	(661)	-	(661)
Balance at September 30, 2020	<u>\$ 310,716</u>	<u>11,829</u>	<u>322,545</u>
Balance at January 1, 2019	\$ -	-	-
Depreciation	136,330	5,046	141,376
Effect of changes in foreign exchange rates	(38)	-	(38)
Balance at September 30, 2019	<u>\$ 136,292</u>	<u>5,046</u>	<u>141,338</u>

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Carrying amount:			
September 30, 2020	\$ <u>820,375</u>	<u>13,624</u>	<u>833,999</u>
January 1, 2020	\$ <u>940,085</u>	<u>15,165</u>	<u>955,250</u>
September 30, 2019	\$ <u>963,364</u>	<u>16,206</u>	<u>979,570</u>

(h) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
September 30, 2020	\$ <u>2,964,854</u>	<u>651,723</u>	<u>3,616,577</u>
January 1, 2020	\$ <u>3,083,445</u>	<u>713,545</u>	<u>3,796,990</u>
September 30, 2019	\$ <u>3,048,546</u>	<u>705,673</u>	<u>3,754,219</u>
<u>Fair Value:</u>			
September 30, 2020			<u>7,295,403</u>
January 1, 2020			<u>7,577,872</u>
September 30, 2019			<u>7,460,444</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 September 30, 2020, December 31, 2019 and September 30, 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 nine months ended September 30, 2020 and 2019. For the nine months ended September 30, 2020 and 2019, \$421,088 and \$2,429,307 of property and equipment which were out of use land and buildings were transferred to investment property, and \$575,035 and \$34,077 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 nine months ended September 30, 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.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of September 30, 2020, December 31, 2019 and September 30, 2019, the book value was all \$3,126,698.

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 September 30, 2020, December 31, 2019 and September 30, 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 September 30, 2020, December 31, 2019 and September 30, 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 September 30, 2020, December 31, 2019 and September 30, 2019, the book values of intangible assets were \$46,187, \$46,235 and \$46,289, 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 September 30, 2020, December 31, 2019 and September 30, 2019, the amortized book value were \$26,091, \$24,720 and \$28,272, respectively.

(j) Short-term borrowings

<u>Nature of borrowings</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Collateralized loan	\$ 902,100	709,780	1,536,553
Credit loan	6,394,190	5,921,222	3,089,025
Total	<u>\$ 7,296,290</u>	<u>6,631,002</u>	<u>4,625,578</u>
Interest rate range	<u>0.48%~4.462%</u>	<u>0.95%~3.37%</u>	<u>0.70%~4.80%</u>

As of September 30, 2020, December 31, 2019 and September 30, 2019, the Group had provided the land, buildings, and certificates of time deposits as collateral, for details please refer to note 8.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (k) Commercial paper payable

	September 30, 2020	December 31, 2019	September 30, 2019
Commercial paper payable	\$ 2,800,000	-	-
Less: Unamortized discount	(175)	-	-
Net amount	<u>\$ 2,799,825</u>	<u>-</u>	<u>-</u>
Interest rate range	<u>0.378%-0.388%</u>	<u>-</u>	<u>-</u>

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

	September 30, 2020	December 31, 2019	September 30, 2019
Liabilities on sale of borrowed securities	\$ 658,061	386,818	345,153
Redeem liabilities on sale of borrowed securities	-	-	(10,880)
Valuation adjustment	(6,117)	(50,296)	13,299
Subtotal	<u>651,944</u>	<u>336,522</u>	<u>347,572</u>
Exchange Traded Notes	680	699	889
Valuation adjustment	106	30	(15)
Subtotal	<u>786</u>	<u>729</u>	<u>874</u>
Stock warrants issued	9,016,337	14,997,622	14,117,121
Stock warrants repurchased	(8,539,042)	(14,444,316)	(13,601,590)
Subtotal	<u>477,295</u>	<u>553,306</u>	<u>515,531</u>
Put options	26,606	11,902	40
Equity derivatives	-	-	1
IRS asset swaps	11,247	2,436	590
Asset swap options - short position	771,158	529,328	400,049
Structured notes	609,732	11,583	10,822
Leverage derivatives - non-hedging	2,246	7,574	853
Currency swaps	11,207	4,745	-
Interest rate swaps	866	969	-
Subtotal	<u>1,433,062</u>	<u>568,537</u>	<u>412,355</u>
Total	<u>\$ 2,563,087</u>	<u>1,459,094</u>	<u>1,276,332</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(m) Bonds sold under repurchase agreements

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Bonds sold under repurchase agreements	<u>\$ 38,408,657</u>	<u>31,847,531</u>	<u>33,974,224</u>
Agreed-upon repurchase amounts	<u>38,479,633</u>	<u>32,022,184</u>	<u>34,218,168</u>
Interest rates	<u>0.10%~2.45%</u>	<u>0.20%~3.20%</u>	<u>0.42%~3.30%</u>
Date of repurchase	<u>2020.10.5~2021.9.17</u>	<u>2020.1.2~2020.12.30</u>	<u>2019.10.1~2020.7.31</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.

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Equity for each customer in the account	<u>\$ 9,344,348</u>	<u>3,025,153</u>	<u>1,386,730</u>

(o) Accounts payable

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Payable of securities sold by customers	\$ 36,057	11,136	11,426
Settlement	-	248,937	914,685
Payable of settlements	5,589,690	5,072,389	4,479,078
Others	<u>224,853</u>	<u>903,596</u>	<u>259,958</u>
Total	<u>\$ 5,850,600</u>	<u>6,236,058</u>	<u>5,665,147</u>

(p) Lease liabilities

The Group’s lease liabilities are as follow:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Current	<u>\$ 173,672</u>	<u>193,565</u>	<u>195,354</u>
Non-current	<u>\$ 722,425</u>	<u>819,040</u>	<u>846,516</u>

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

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The amounts recognized in profit or loss were as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	<u>\$ 3,158</u>	<u>3,755</u>	<u>10,009</u>	<u>10,625</u>
Expenses relating to short-term leases	<u>\$ 1,671</u>	<u>1,540</u>	<u>4,735</u>	<u>16,893</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 3,301</u>	<u>6,537</u>	<u>16,993</u>	<u>19,636</u>

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

	<u>For the nine months ended</u> <u>September 30,</u>	
	<u>2020</u>	<u>2019</u>
Total cash outflow for leases	<u>\$ 183,062</u>	<u>130,262</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.

For the three months and the nine months ended September 30, 2020 and 2019, the Group's pension expenses recognized in profit or loss were \$1,966, \$2,866, \$5,889 and \$8,589, 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 \$22,585, \$19,887, \$65,544 and \$60,907 under defined contribution plan to the Bureau of the Labor Insurance for the three months and the nine months ended September 30, 2020 and 2019, respectively.

(iii) For the three months and the nine months ended September 30, 2020 and 2019, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$753, \$1,144, \$2,521 and \$3,577, respectively.

(Continued)



**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iv) Provision for employee benefits liabilities

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
Compensated absences	\$ <u>60,222</u>	<u>52,566</u>	<u>59,892</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 nine months ended September 30, 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 nine months ended September 30, 2020 and 2019.

The tax rate of reinvestment business of subsidiaries which founded in Hong Kong are all 16.5% for the nine months ended September 30, 2020 and 2019.

The tax rate of reinvestment business of subsidiaries which founded in Mainland are all 25% for the nine months ended September 30, 2020 and 2019.

(ii) The detail of income tax expense or benefit for the three months and the nine months ended September 30, 2020 and 2019 were as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current tax expense	\$ 42,747	79,753	261,206	345,103
Deferred income tax expense (benefit)	113,423	9,799	120,322	(53,609)
Total	\$ <u>156,170</u>	<u>89,552</u>	<u>381,528</u>	<u>291,494</u>

(iii) The amount of income tax expense or benefit recognized in other comprehensive income for the three months and the nine months ended September 30, 2020 and 2019 were as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Foreign exchange difference from translating financial statement of foreign operations	\$ <u>(5,771)</u>	<u>(677)</u>	<u>(9,031)</u>	<u>3,389</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iv) Income tax assessment status

- 1) The Company's income tax returns through 2017 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. And on June 15, 2020, the entity was been admitted the completion of liquidation by the court.
- 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 the amortization of intangible assets withheld and tax loss carried forward from year 2012 and 2015 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept.

(s) Capital and other equity

(i) Capital stock

As of September 30, 2020, December 31, 2019 and September 30, 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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The followings are the capital surplus of the Company:

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
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>30,080</u>	<u>34,787</u>	<u>34,787</u>
	<u>\$ 2,743,205</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.

2) Special reserve

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

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

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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 and 2018 earnings distribution resolved by the shareholders' meeting on June 22, 2020 and June 24, 2019, respectively, were as follows:

	2019		2018	
	Amount	Dividends per share	Amount	Dividends per share
Cash dividends	\$ 1,736,726	0.8	928,363	0.4

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

(iv) Treasury stocks

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

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

On November 11, 2019, the Company's board meeting resolved a share buyback plan, 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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(t) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months and the nine months ended September 30, 2020 and 2019 were calculated as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income attributable to common shareholders of the Company	\$ <u>1,524,795</u>	<u>799,603</u>	<u>2,183,329</u>	<u>1,762,181</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,170,918</u>	<u>2,320,908</u>	<u>2,170,918</u>	<u>2,320,908</u>
Basic earnings per share (dollar)	\$ <u>0.70</u>	<u>0.34</u>	<u>1.01</u>	<u>0.76</u>
Effect of potentially dilutive common stock				
- Employee remuneration (thousands of shares) (Note)	<u>1,734</u>	<u>1,231</u>	<u>2,615</u>	<u>2,551</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,172,652</u>	<u>2,322,139</u>	<u>2,173,533</u>	<u>2,323,459</u>
Dilutive earnings per share (dollar)	\$ <u>0.70</u>	<u>0.34</u>	<u>1.00</u>	<u>0.76</u>

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

(u) Items of the statements of comprehensive income

(i) Brokerage commissions

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Brokerage commission from TSE market	\$ 736,415	408,118	1,790,005	1,094,438
Brokerage commission from OTC market	268,079	146,162	618,402	408,944
Handling fee from security financing	10,017	6,087	25,608	17,950
Futures commission income - brokerage	459,534	406,814	1,470,135	1,181,371
Overseas subsidiaries	21,261	7,241	43,016	34,117
Others	<u>28,523</u>	<u>17,156</u>	<u>80,072</u>	<u>53,738</u>
	\$ <u>1,523,829</u>	<u>991,578</u>	<u>4,027,238</u>	<u>2,790,558</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Underwriting commissions

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenue from underwriting securities on a firm commitment basis	\$ 25,685	18,824	67,637	41,567
Handling fee revenues from underwriting securities on best efforts basis	147	2,934	398	4,074
Processing fee revenues from underwriting operations	91,875	2,481	99,793	14,008
Revenue from underwriting consultation	1,260	900	5,660	4,160
Others	650	315	1,531	1,706
	<u>\$ 119,617</u>	<u>25,454</u>	<u>175,019</u>	<u>65,515</u>

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Gains (losses) on securities sold - proprietary trading	\$ 386,955	173,158	57,536	292,910
Gains (losses) on securities sold - underwriting	40,775	29,086	74,122	38,474
Gains (losses) on securities sold - hedging	401,831	88,936	277,074	185,076
	<u>\$ 829,561</u>	<u>291,180</u>	<u>408,732</u>	<u>516,460</u>

(iv) Interest revenue

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest revenue - margin loans	\$ 163,008	147,593	434,801	431,587
Interest revenue - bonds	176,216	214,740	497,623	630,029
Overseas subsidiaries	13,672	7,848	40,861	31,825
Others	30,355	17,859	83,292	51,766
	<u>\$ 383,251</u>	<u>388,040</u>	<u>1,056,577</u>	<u>1,145,207</u>

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Trading securities - proprietary	\$ 48,007	(48,742)	(5,224)	287,787
Trading securities - underwriting	(1,142)	(105)	(27,731)	33,029
Trading securities - hedging	(195,021)	29,069	(345,780)	287,261
Settlement coverage bonds payable of short sale	(17)	-	-	-
	<u>\$ (148,173)</u>	<u>(19,778)</u>	<u>(378,735)</u>	<u>608,077</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Gains on changes in fair value of stock warrants	\$ 3,553,113	6,660,270	9,019,562	19,635,806
Gains on exercise of stock warrants before maturity	16,666,696	4,172,239	32,418,816	12,014,149
Losses on changes in fair value of stock warrants repurchased	(19,999,206)	(10,746,133)	(41,039,562)	(31,428,013)
Gains on expiration of stock warrants	6,341	2,121	35,528	11,805
Stock warrants issuance expenses	(62,844)	(37,623)	(149,046)	(114,427)
	<u>\$ 164,100</u>	<u>50,874</u>	<u>285,298</u>	<u>119,320</u>

(vii) Futures commission revenues

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Futures commission revenues - CSC Futures (HK) Ltd.	\$ <u>94,741</u>	<u>52,916</u>	<u>242,477</u>	<u>160,539</u>

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Future trading - reconignment	\$ 61,227	65,142	210,554	186,748
Future trading - introducing brokers	300	158	1,245	572
Commission expenses - CSC Futures (HK) Ltd.	17,227	10,507	54,325	39,548
	<u>\$ 78,754</u>	<u>75,807</u>	<u>266,124</u>	<u>226,868</u>

(ix) Employee benefits, depreciation, and amortization expenses

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Employee benefit expenses				
Salary expense	\$ 731,515	527,096	1,859,083	1,526,702
Health and labor insurance expense	41,519	37,919	125,207	118,353
Pension expense	25,304	23,897	73,954	73,073
Others	17,223	14,749	45,953	42,583
Depreciation expense	102,913	102,201	308,904	285,395
Amortization expense	8,731	8,538	26,437	25,360
	<u>\$ 927,205</u>	<u>714,400</u>	<u>2,439,538</u>	<u>2,071,466</u>

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(x) Other operating expenses

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Rental expense	\$ 4,965	8,076	21,708	36,529
Taxes	127,651	82,923	316,282	250,066
Information technology expense	60,916	49,263	174,833	157,072
Postage expense	53,449	44,156	157,532	128,531
Professional service fee	5,401	3,390	18,842	14,335
Other expenses	166,326	137,918	433,626	401,967
	<u>\$ 418,708</u>	<u>325,726</u>	<u>1,122,823</u>	<u>988,500</u>

(xi) Other gains and losses

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Financial revenue	\$ 83,755	139,350	316,594	427,748
Currency exchange gains (losses)	1,358	(1,310)	(8,324)	(160)
Net gains (losses) on disposal of investment	14,001	(681)	8,720	6,063
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	8,279	3,829	28,786	23,729
Revenue from bank's allocation fee	47,408	35,315	124,544	102,882
Net gains (losses) on disposal of property and equipment	-	-	11,317	(342)
Dividend revenue	27,282	26,879	82,755	61,639
Gains on reversal of prior year's liabilities	303	303	20,416	52,201
Rental income	39,317	30,436	121,553	82,388
Others	7,938	14,851	39,731	45,824
	<u>\$ 229,641</u>	<u>248,972</u>	<u>746,092</u>	<u>801,972</u>

(xii) Remuneration to employees and directors

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

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

(Continued)



**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

For the three months and the nine months ended September 30, 2020 and 2019, the estimated amounts of remuneration to employees were \$18,992, \$9,959, \$28,113 and \$22,474, respectively, and to directors were \$31,654, \$16,599, \$46,855 and \$37,456, 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, 2019 and 2018, the estimated amounts of remuneration to employees were \$32,756 and \$20,971, and to directors were \$54,594 and \$34,951 by the Company. The difference between actual employee remuneration of \$27,027 and \$14,587 and actual remuneration to directors of \$45,335 and \$24,248 were \$14,988 and \$17,087 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2020 and 2019. The information about the appropriations is available at the website of the Market Observation Post System.

For the three months and the nine months ended September 30, 2020 and 2019, the estimated amounts of remuneration to employees were \$1,950, \$1,850, \$6,550 and \$6,630 and to directors were \$1,950, \$1,850, \$6,550 and \$6,630 by the domestic subsidiaries of the Group, respectively.

(v) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of September 30, 2020, December 31, 2019 and September 30, 2019, the maximum credit exposure amounted to \$126,209,846, \$100,461,622 and \$103,275,079, respectively.

The regional distribution of financial assets' credit risk exposure amount which owned by the Group is as the list below. The region of exposure is mostly in Taiwan (73.45%); secondly, is in Asia (15.49%, exclusion of Taiwan); then, is in America (7.17%). 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.

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<u>Region</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Taiwan	\$ 92,300,605	74,762,540	74,511,839
Asia (Taiwan is excluded)	19,464,437	13,582,675	14,989,602
Europe	3,981,816	4,010,808	4,755,271
America	9,011,160	7,523,511	8,451,623
Other	898,591	77,525	91,040
Total	<u>\$ 125,656,609</u>	<u>99,957,059</u>	<u>102,799,375</u>

2) Impairment loss

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

	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 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	\$ 25,204,756	40,054	20,845,564	9,373	19,492,604	10,174
Past due 0~30 days	272	272	275	275	284	284
Past due 31~120 days	2,865	2,865	127	127	141	141
Past due 121~360 days	144	144	8	8	8	8
Past due more than 360 days	299,999	299,999	305,771	305,771	308,474	308,474
	<u>\$ 25,508,036</u>	<u>343,334</u>	<u>21,151,745</u>	<u>315,554</u>	<u>19,801,511</u>	<u>319,081</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 September 30, 2020, December 31, 2019 and September 30, 2019, the impairment losses of accrued receivables were recognized \$343,334, \$315,554 and \$319,081, respectively.

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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The loss allowance provision for the nine months ended September 30, 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	-	2,193	-	-	32,960	-	35,153
Amounts written off	-	-	-	-	(3,527)	-	(3,527)
Effect of exchange rate	-	-	-	-	(1,653)	-	(1,653)
Balance on September 30, 2020	<u>\$ -</u>	<u>9,760</u>	<u>-</u>	<u>-</u>	<u>343,334</u>	<u>-</u>	<u>353,094</u>
	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		Total
	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	
Balance on January 1, 2019	-	5,861	-	-	338,517	-	344,378
Provision or reversal of Impairment loss	-	2,185	-	-	(2,767)	-	(582)
Amounts written off	-	-	-	-	(20,832)	-	(20,832)
Effect of exchange rate	-	-	-	-	4,163	-	4,163
Balance on September 30, 2019	<u>\$ -</u>	<u>8,046</u>	<u>-</u>	<u>-</u>	<u>319,081</u>	<u>-</u>	<u>327,127</u>

(Continued)

**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.

September 30, 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	\$ 651,944	651,944	651,944	-	-	-	-
Stock warrants issued	477,295	477,295	424,172	53,123	-	-	-
Put options - futures	26,606	26,606	26,606	-	-	-	-
Exchange traded notes	786	786	-	-	786	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	23,320	23,320	12,445	2,095	1,130	7,650	-
Put options	771,158	771,158	45,998	113,076	306,751	305,333	-
Leverage derivatives - non- hedging	2,246	2,246	2,246	-	-	-	-
Short-term borrowings	7,296,290	7,296,290	7,296,290	-	-	-	-
Commercial paper payable	2,799,825	2,800,000	2,800,000	-	-	-	-
Bonds sold under repurchase agreements	38,408,657	38,479,585	25,085,465	13,394,120	-	-	-
Guarantee deposited for short sales	1,993,074	1,993,074	1,993,074	-	-	-	-
Proceeds payable from short sales	2,337,509	2,337,509	2,337,509	-	-	-	-
Securities lending refundable deposits	1,171,623	1,171,623	1,171,623	-	-	-	-
Futures traders' equity	38,331,644	38,331,644	38,331,644	-	-	-	-
Leverage contract trading customers' equity	321,355	321,355	321,355	-	-	-	-
Notes payable and accounts payable	248,762	248,762	248,762	-	-	-	-
Receipts under custody	8,089,185	8,089,185	8,089,185	-	-	-	-
Other payables	735,184	735,184	732,414	2,770	-	-	-
Structured notes	4,374,727	4,374,727	3,114,923	88,832	219,216	951,756	-
Lease liabilities	896,097	938,107	105,112	79,377	138,454	326,037	289,127
	<u>\$ 108,957,287</u>	<u>109,070,400</u>	<u>92,790,767</u>	<u>13,733,393</u>	<u>666,337</u>	<u>1,590,776</u>	<u>289,127</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>
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	-
Leverage derivatives - non- hedging	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**

September 30, 2019	<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	\$ 347,572	347,572	347,572	-	-	-	-
Stock warrants issued	515,531	515,531	463,244	52,287	-	-	-
Put options - futures	40	40	40	-	-	-	-
Exchange traded notes	874	874	-	-	874	-	-
Equity derivatives	1	1	1	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	590	590	23	-	876	(309)	-
Put options	400,049	400,049	17,994	71,035	142,167	168,853	-
Leverage derivatives - non- hedging	853	853	853	-	-	-	-
Short-term borrowings	4,625,578	4,625,578	4,625,578	-	-	-	-
Bonds sold under repurchase agreements	33,974,224	34,218,168	34,218,168	-	-	-	-
Guarantee deposited for short sales	1,894,774	1,894,774	1,894,774	-	-	-	-
Proceeds payable from short sales	2,095,874	2,095,874	2,095,874	-	-	-	-
Securities lending refundable deposits	57,419	57,419	57,419	-	-	-	-
Futures traders' equity	36,038,209	36,038,209	36,038,209	-	-	-	-
Leverage contract trading customers' equity	265,885	265,885	265,885	-	-	-	-
Notes payable and accounts payable	1,646,787	1,646,787	1,646,787	-	-	-	-
Receipts under custody	116,735	116,735	116,735	-	-	-	-
Other payables	710,620	710,620	709,077	1,543	-	-	-
Structured notes	3,784,124	3,784,124	3,268,050	309,873	149,777	56,424	-
Lease liabilities	1,041,870	1,096,083	111,974	96,576	284,713	306,954	295,866
	<u>\$ 87,517,609</u>	<u>87,815,766</u>	<u>85,878,257</u>	<u>531,314</u>	<u>578,407</u>	<u>531,922</u>	<u>295,866</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Currency risk

1) Currency risk exposure

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

				<b>September 30, 2020</b>		
				<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>Amount</b>
				<b>(thousands)</b>		
<b><u>Financial assets</u></b>						
<b><u>Monetary Item</u></b>						
USD	\$	694,549		29.1000		20,211,376
AUD		3,262		20.7150		67,572
CAD		7		21.7200		152
CHF		52		31.5850		1,642
EUR		15,386		34.1500		525,432
GBP		2,335		37.3000		87,096
HKD		107,216		3.7540		402,489
JPY		1,004,084		0.2756		276,726
SGD		397		21.2600		8,440
CNY		72,965		4.2690		311,488
KRW		340,460		0.0251		8,546
NZD		13		19.1500		249
THB		4,681		0.9242		4,326
MYR		562		6.7035		3,767
<b><u>Non-Monetary Item</u></b>						
USD		579,420		29.1000		16,861,122
AUD		105,316		20.7150		2,181,621
CAD		1		21.7200		22
EUR		38,560		34.1500		1,316,824
GBP		2		37.3000		75
HKD		353		3.7540		1,325
CNY		249,409		4.2690		1,064,727
<b><u>Investments under equity method</u></b>						
HKD		13,279		3.7540		49,850

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>September 30, 2020</b>		
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 1,253,190	29.1000	36,467,829
AUD	97,670	20.7150	2,023,234
CAD	2	21.7200	43
CHF	52	31.5850	1,642
EUR	53,238	34.1500	1,818,078
GBP	2,257	37.3000	84,186
HKD	178,613	3.7540	670,513
JPY	986,158	0.2756	271,785
SGD	484	21.2600	10,290
CNY	169,224	4.2690	722,417
KRW	338,179	0.0251	8,488
THB	4,021	0.9242	3,716
MYR	547	6.7035	3,667
<b><u>Non-Monetary Item</u></b>			
USD	16	29.1000	466
JPY	1,792	0.2756	494
CNY	296	4.2690	1,264
NZD	2	19.1500	38

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>December 31, 2019</b>		
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial assets</u></b>			
<b><u>Monetary Item</u></b>			
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
<b><u>Non-Monetary Item</u></b>			
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
<b><u>Investments under equity method</u></b>			
HKD	12,434	3.8490	47,860

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<b>December 31, 2019</b>			
<b><u>Financial liabilities</u></b>	<b><u>Foreign Currency</u></b>	<b><u>Exchange Rate</u></b>	<b><u>Amount</u></b>
<b><u>Monetary Item</u></b>	<b><u>(thousands)</u></b>		
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
<b><u>Non-Monetary Item</u></b>			
USD	175	29.9800	5,247
CNY	539	4.3050	2,320

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>September 30, 2019</b>		
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 615,143	31.0400	19,094,039
AUD	2,682	20.9650	56,228
CAD	72	23.4600	1,689
CHF	47	31.2650	1,469
EUR	7,988	33.9500	271,193
GBP	3,056	38.2000	116,739
HKD	72,375	3.9580	286,460
JPY	1,171,939	0.2878	337,284
SGD	230	22.4700	5,168
CNY	68,235	4.3500	296,822
ZAR	1	2.0400	2
KRW	233,745	0.0261	6,101
NZD	56	19.4500	1,089
THB	2,525	1.0205	2,577
MYR	22	7.1220	157
<b><u>Non-Monetary Item</u></b>			
USD	509,297	31.0400	15,808,579
AUD	153,535	20.9650	3,218,861
HKD	354	3.9580	1,401
JPY	2,112	0.2878	608
CNY	308,687	4.3500	1,342,788
<b><u>Investments under equity method</u></b>			
HKD	12,147	3.9580	48,076

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	September 30, 2019		
	Foreign Currency (thousands)	Exchange Rate	Amount
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 1,086,781	31.0400	33,733,682
AUD	141,835	20.9650	2,973,571
CHF	47	31.2650	1,469
EUR	7,091	33.9500	240,739
GBP	2,986	38.2000	114,065
HKD	165,586	3.9580	655,389
JPY	1,198,388	0.2878	344,896
SGD	272	22.4700	6,112
CNY	239,443	4.3500	1,041,577
KRW	79,104	0.0261	2,065
THB	957	1.0205	977
MYR	22	7.1220	157
<b><u>Non-Monetary Item</u></b>			
JPY	2,918	0.2878	840
NZD	1	19.4500	19

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 and the nine months ended September 30, 2020 and 2019, the realized and unrealized currency exchange gains (losses) amounted to \$48,911, \$(23,904), \$26,275 and \$(21,130), respectively.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, customers' margin account, short-term borrowings, futures traders' equity, and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the nine months ended September 30, 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 nine months ended September 30, 2020		For the nine months ended September 30, 2019	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
	Net income	(606,988)	606,988	(555,406)
Other comprehensive income	658,857	(658,857)	626,676	(626,676)

(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	September 30, 2020	December 31, 2019	September 30, 2019	For the nine months ended September 30,					
				2020			2019		
				Average	Maximum	Minimum	Average	Maximum	Minimum
Interest risk	1,690,679	1,409,781	1,535,060	1,578,584	1,758,733	1,378,218	1,514,305	1,572,243	1,473,449

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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(v) Fair value information and hierarchy

1) Fair value information

a) General description

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

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

b) Definition of fair value hierarchy

i) Level 1

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

ii) Level 2

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

iii) Level 3

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

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Not measured at fair value

As of September 30, 2020, December 31, 2019 and September 30, 2019, the fair value information of the financial assets and financial liabilities of the Group was as follows:

a) Fair value information

	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 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	\$ 8,127,108	8,127,108	8,323,636	8,323,636	8,104,149	8,104,149
Accrued receivable	35,724,039	35,724,039	24,793,814	24,793,814	21,534,990	21,534,990
Customers' margin account	38,393,523	38,393,523	34,803,719	34,803,719	36,177,111	36,177,111
Leverage contract trading - customers' margin account	322,938	322,938	308,543	308,543	265,213	265,213
Restricted assets - current	140,006	140,006	673,926	673,926	732,233	732,233
Other non-current assets	1,495,441	1,495,441	1,473,700	1,473,700	1,467,657	1,467,657
Financial liabilities :						
Short-term borrowings	7,296,290	7,296,290	6,631,002	6,631,002	4,625,578	4,625,578
Commercial paper payable	2,799,825	2,799,825	-	-	-	-
Bonds sold under repurchase agreements	38,408,657	38,408,657	31,847,531	31,847,531	33,974,224	33,974,224
Accrued payable	29,838,089	29,838,089	15,790,247	15,790,247	12,363,935	12,363,935
Futures traders' equity	38,331,644	38,331,644	34,747,531	34,747,531	36,038,209	36,038,209
Leverage contract trading - customers' equity	321,355	321,355	308,590	308,590	265,885	265,885
Other financial liabilities - current	3,194,662	3,194,662	3,579,951	3,579,951	3,567,102	3,567,102
Other financial liabilities - non- current	570,333	570,333	349,518	349,518	206,200	206,200
Other non-current liabilities	98,185	98,185	103,115	103,115	95,964	95,964

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				
September 30, 2020	\$ -	-	<u>7,295,403</u>	<u>7,295,403</u>
December 31, 2019	\$ -	-	<u>7,577,872</u>	<u>7,577,872</u>
September 30, 2019	\$ -	-	<u>7,460,444</u>	<u>7,460,444</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- c) Valuation techniques used in estimating the fair values of financial instruments
- i) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. 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>
<b>September 30, 2020</b>				
Financial assets at fair value through profit or loss	\$ 13,679,058	22,266,385	-	35,945,443
Financial assets at fair value through other comprehensive income	2,662,049	16,421,669	2,226,789	21,310,507
Derivative financial assets	<u>238,851</u>	<u>168,821</u>	<u>-</u>	<u>407,672</u>
	<u>\$ 16,579,958</u>	<u>38,856,875</u>	<u>2,226,789</u>	<u>57,663,622</u>
Financial liabilities at fair value through profit or loss	\$ 1,130,025	-	-	1,130,025
Derivative financial liabilities	<u>627,245</u>	<u>805,817</u>	<u>-</u>	<u>1,433,062</u>
	<u>\$ 1,757,270</u>	<u>805,817</u>	<u>-</u>	<u>2,563,087</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2019</b>				
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>
<b>September 30, 2019</b>				
Financial assets at fair value through profit or loss	\$ 13,253,268	18,496,720	-	31,749,988
Financial assets at fair value through other comprehensive income	190,305	15,507,026	2,341,950	18,039,281
Derivative financial assets	<u>262,778</u>	<u>78,417</u>	<u>-</u>	<u>341,195</u>
	<u>\$ 13,706,351</u>	<u>34,082,163</u>	<u>2,341,950</u>	<u>50,130,464</u>
Financial liabilities at fair value through profit or loss	\$ 863,977	-	-	863,977
Derivative financial liabilities	<u>40</u>	<u>412,315</u>	<u>-</u>	<u>412,355</u>
	<u>\$ 864,017</u>	<u>412,315</u>	<u>-</u>	<u>1,276,332</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 nine months ended September 30, 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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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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6) Movements of financial assets at fair value classified into Level 3

(In Thousands Dollars)

Item	For the nine months ended September 30, 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	-	14,816	94,880	-	225,181	-	122,658	2,226,789

  

Item	For the nine months ended September 30, 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	-	340,118	94,864	-	4,609	-	-	2,341,950

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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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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:

	<b>Change in fair value recognized in other comprehensive income</b>	
	<b>Favorable change</b>	<b>Unfavorable change</b>
<b>September 30, 2020</b>		
Financial assets fair value through other comprehensive income	\$ <u>22,268</u>	<u>(22,268)</u>
<b>December 31, 2019</b>		
Financial assets fair value through other comprehensive income	\$ <u>24,649</u>	<u>(24,649)</u>
<b>September 30, 2019</b>		
Financial assets fair value through other comprehensive income	\$ <u>23,420</u>	<u>(23,420)</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	September 30, 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>43,621,725</u>	<u>38,408,657</u>	<u>-</u>	<u>-</u>	<u>-</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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	\$ 33,447,074	31,847,531	-	-	-

  

September 30, 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	\$ 33,495,993	33,974,224	-	-	-

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:

September 30, 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	\$ 168,821	-	168,821	-	-	168,821

  

September 30, 2020						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 1,406,456	-	1,406,456	-	-	1,406,456
Under repurchase agreements	38,408,657	-	38,408,657	38,408,657	-	-
Total	\$ 39,815,113	-	39,815,113	38,408,657	-	1,406,456

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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
September 30, 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	\$ 78,417	-	78,417	-	-	78,417
September 30, 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	\$ 412,315	-	412,315	-	-	412,315
Under repurchase agreements	33,974,224	-	33,974,224	33,974,224	-	-
Total	\$ 34,386,539	-	34,386,539	33,974,224	-	412,315

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

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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(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 September 30, 2020, December 31, 2019 and September 30, 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	September 30, 2020		December 31, 2019		September 30, 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	\$ 12,299,660	-	18,302,776	-	15,804,335	-

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

(ii) Market risk:

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

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

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

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

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

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

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(v) Presentation of financial derivatives

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

1) For the three months and nine months ended September 30, 2020:

a) Gains (losses) on valuation

	<u>For the three months ended September 30, 2020</u>	<u>For the nine months ended September 30, 2020</u>	<u>Account</u>
Stock warrants issued	\$ 10,165,725	19,004,219	Gains (losses) on stock warrants issued
Stock warrants repurchased	(9,923,730)	(18,793,149)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the three months ended September 30, 2020</u>	<u>For the nine months ended September 30, 2020</u>	<u>Account</u>
Security borrowing	\$ 37,452	109,319	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	117,954	(95,728)	Gains (losses) on sale of trading securities
Futures transaction	(36,587)	(23,602)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended September 30, 2020</u>	<u>For the nine months ended September 30, 2020</u>	<u>Account</u>
Stock warrants issued	\$ 10,060,425	22,469,687	Gains (losses) on stock warrants issued
Stock warrants repurchased	(10,075,476)	(22,246,413)	Gains (losses) on stock warrants issued

2) For the three months and nine months ended September 30, 2019:

a) Gains (losses) on valuation

	<u>For the three months ended September 30, 2019</u>	<u>For the nine months ended September 30, 2019</u>	<u>Account</u>
Stock warrants issued	\$ 2,757,262	11,191,952	Gains (losses) on stock warrants issued
Stock warrants repurchased	(2,711,101)	(11,071,698)	Gains (losses) on stock warrants issued

(Continued)



**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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b) Gains (losses) on sale

	For the three months ended September 30, 2019	For the nine months ended September 30, 2019	<u>Account</u>
Security borrowing	\$ (22,443)	7,743	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	25,010	67,045	Gains (losses) on sale of trading securities
Futures transaction	(39,193)	(132,215)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	For the three months ended September 30, 2019	For the nine months ended September 30, 2019	<u>Account</u>
Stock warrants issued	\$ 8,077,368	20,469,808	Gains (losses) on stock warrants issued
Stock warrants repurchased	(8,035,032)	(20,356,315)	Gains (losses) on stock warrants issued

Exchange traded notes

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

<u>Financial Instruments</u>	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 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	\$ 786	-	729	-	874	-

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.

(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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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- (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:

	September 30, 2020	December 31, 2019	September 30, 2019	Account	
Margin - exchange traded notes	\$ 25	25	25	Other non-current assets	
Outstanding liabilities - exchange traded notes	786	729	874	Financial liabilities at fair value through profit or loss - current	
	For the three months ended September 30,	For the nine months ended September 30,			
	2020	2019	2020	2019	Account
Gains (losses) on exchange traded notes	\$ (106)	6	(109)	26	Net gains (losses) from exchange traded notes
Management and commissions revenue on exchange traded notes	2	-	5	-	Management and commissions revenue 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 September 30, 2020, December 31, 2019 and September 30, 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.

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

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

The open positions of futures and options held by the 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>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>	<u>Account</u>	
Futures margin - proprietary fund	\$ 214,831	233,624	262,778	Financial assets at fair value through profit or loss - current	
Excess futures margin	1,870,369	1,184,098	1,472,508	Cash and cash equivalent	
Buy options	24,020	3,482	-	Financial assets at fair value through profit or loss - current	
Sale options	26,606	11,902	40	Financial liabilities at fair value through profit or loss - current	
	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>Account</u>
Gains (losses) on futures transactions	\$ (42,058)	(24,272)	103,484	(410,846)	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>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 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	\$ 10,900,000	-	21,300,000	-	23,100,000	-

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

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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2) Market risk:

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

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

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

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

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

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

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

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

(ii) Structured notes

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

Financial Instruments	September 30, 2020		December 31, 2019		September 30, 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	\$ 1,024,000	-	215,789	-	230,996	-
Principal guaranteed notes	2,639,976	-	2,935,907	-	2,792,506	-
Credit-linked notes	722,400	-	669,900	-	601,800	-
Principal guaranteed notes (in USD thousands)	USD 100	-	USD 3,690	-	USD 4,792	-

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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 swaps

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

Financial Instruments	September 30, 2020		December 31, 2019		September 30, 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 swaps	\$ 1,570,100	-	886,900	-	864,800	-
Convertible bond options	6,916,900	-	4,452,000	-	3,971,900	-

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

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

2) Market risk:

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

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

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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 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	September 30, 2020		December 31, 2019		September 30, 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	-	50,000	-

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) Leverage derivatives

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

Financial Instruments	September 30, 2020		December 31, 2019		September 30, 2019	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:						
Leverage derivatives-long position	\$ 1,236,531	-	2,700,301	-	2,028,771	-
Leverage derivatives-short position	1,245,061	-	2,448,322	-	2,117,043	-

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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 September 30, 2020, December 31, 2019 and September 30, 2019, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset swaps and currency swaps were presented on the balance sheets as follows:

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 14,029	16,053	12,515
Asset swap options-long position	112,465	37,684	35,450
Leverage derivatives - non-hedging	35,647	39,066	26,333
Structured notes	6,680	25,925	3,103
Interest rate swaps	-	-	1,016
Total	<u>\$ 168,821</u>	<u>118,728</u>	<u>78,417</u>
Financial liabilities at fair value through profit or loss - current			
Equity derivatives	\$ -	-	1
IRS asset swaps	11,247	2,436	590
Asset swap options-short position	771,158	529,328	400,049
Leverage derivatives - non-hedging	2,246	7,574	853
Structured notes	609,732	11,583	10,822
Currency swaps	11,207	4,745	-
Interest rate swaps	866	969	-
Total	<u>\$ 1,406,456</u>	<u>556,635</u>	<u>412,315</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Capital adequacy ratio	376 %	390 %	424 %

(y) Financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the nine months ended September 30, 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).

	<b>January 1, 2020</b>	<b>Cash flows</b>	<b>Non-cash changes</b>			<b>September 30, 2020</b>
			<b>Other</b>	<b>Foreign exchange movement</b>	<b>Fair value changes</b>	
Short-term borrowings	\$ 6,631,002	665,288	-	-	-	7,296,290
Commercial papers payable	-	2,799,825	-	-	-	2,799,825
Lease liabilities	1,012,605	(161,334)	45,807	(981)	-	896,097
Total liabilities from financing activities	<b>\$ 7,643,607</b>	<b>3,303,779</b>	<b>45,807</b>	<b>(981)</b>	-	<b>10,992,212</b>

	<b>January 1, 2019</b>	<b>Cash flows</b>	<b>Non-cash changes</b>			<b>September 30, 2019</b>
			<b>Other</b>	<b>Foreign exchange movement</b>	<b>Fair value changes</b>	
Short-term borrowings	\$ 3,873,506	752,072	-	-	-	4,625,578
Lease liabilities	1,070,869	(83,108)	54,493	(384)	-	1,041,870
Total liabilities from financing activities	<b>\$ 4,944,375</b>	<b>668,964</b>	<b>54,493</b>	<b>(384)</b>	-	<b>5,667,448</b>

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**Notes to the Consolidated Financial Statements**

**(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.

<u>Names of related parties</u>	<u>Relationships</u>
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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 82,302	66,051	200,282	168,515
Post-employment benefits	690	671	2,081	2,049
Total	<u>\$ 82,992</u>	<u>66,722</u>	<u>202,363</u>	<u>170,564</u>

(ii) Bond transactions - bonds sold under repurchase agreements

	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	<u>\$ 28,320</u>	<u>28,584</u>	<u>22,500</u>	<u>22,670</u>	<u>32,500</u>	<u>32,676</u>

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>Total financial expenses</b>				
Key management personnel	<u>\$ 41</u>	<u>46</u>	<u>99</u>	<u>144</u>

(iii) Structured notes transactions

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Key management personnel	<u>\$ 100,100</u>	<u>71,393</u>	<u>65,938</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(d) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

	September 30, 2020		December 31, 2019		September 30, 2019	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Funds issued by associate	\$ 28,816	28,795	-	-	-	-
	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>			
<b>Total financial expenses</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>		
Funds issued by associate	\$ 32	158	66	472		
Juristic-person directors	-	-	-	56		
Total	\$ 32	158	66	528		

Transaction terms are the same as the general clients.

(ii) Futures transactions

<b>Futures traders' equity</b>	September 30, 2020	December 31, 2019	September 30, 2019
Funds issued by associate	\$ 319,021	142,376	289,485

(iii) Lease agreements

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
<b>Lease revenue</b>				
Subsidiaries	\$ -	-	-	346
Associates	4,312	4,312	12,935	12,935
Total	\$ 4,312	4,312	12,935	13,281
	<b>Guarantee deposits received</b>			
Associates	\$ 3,811	3,811	3,811	3,811

(iv) Insurance commission revenues

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Subsidiaries	\$ 1,483	2,991	6,873	10,509
	<b>Accounts receivable</b>			
Subsidiaries	\$ 1,084	1,877	2,016	2,016

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(v) Brokerage and sub-brokerage

<b>Brokerage commissions</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Funds issued by associate	\$ 16,905	10,391	33,751	18,973
Other related parties	777	250	1,876	812
<b>Total</b>	<b>\$ 17,682</b>	<b>10,641</b>	<b>35,627</b>	<b>19,785</b>

  

<b>Re-consigned handling commissions</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Funds issued by associate	\$ 948	946	4,810	5,210
Other related parties	226	83	400	160
<b>Total</b>	<b>\$ 1,174</b>	<b>1,029</b>	<b>5,210</b>	<b>5,370</b>

(vi) Wealth management business

<b>Trust account commissions revenue</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Associates	\$ 289	-	3,778	-

  

<b>Trust account management fee revenue</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Associates	\$ 112	27	572	122

(vii) Underwriting business

<b>Stock service income</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Associates	\$ 30	34	92	94

  

<b>Underwriting commissions</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Funds issued by associate	\$ -	2,793	1	3,690

  

<b>Account receivable</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
	Associates	\$ 10	10

(viii) Others

<b>Other revenue</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Associates	\$ 1,584	1	1,586	3

  

<b>Accounts receivable</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
	Associates	\$ 875	-

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(ix) Custody account business

Custody account business revenue	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Second level subsidiaries	\$ <u>1,787</u>	<u>-</u>	<u>4,866</u>	<u>-</u>

(x) Accrued receivables

Other receivable	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiaries	\$ <u>68</u>	<u>154</u>	<u>55</u>

(xi) 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 September 30, 2020, December 31, 2019 and September 30, 2019:

	September 30, 2020	December 31, 2019	September 30, 2019	The collateral use
Restricted assets - current	\$ 140,006	673,926	732,233	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	38,783,469	32,506,236	34,788,255	Repurchase agreement
Property and equipment	1,764,786	1,832,513	1,854,232	Bank borrowings
Financial assets at fair value through profit or loss - non - current	181,106	180,467	180,507	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	<u>2,791,957</u>	<u>2,974,772</u>	<u>2,930,389</u>	Bank borrowings
Total	<u>\$ 43,661,324</u>	<u>38,167,914</u>	<u>40,485,616</u>	

**(9) Significant commitments and contingencies:**

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

	September 30, 2020		December 31, 2019		September 30, 2019	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	477,792	\$ 4,777,920	520,214	5,202,140	539,639	5,396,390
Collateral for margin purchase	13,430	134,300	8,868	88,680	12,986	129,860
Lending securities to customers through short sales	47,602	476,020	57,750	577,500	63,853	638,530
Collateral for short sales	10,216	102,160	6,900	69,000	2,777	27,770

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities borrowed from securities finance companies	1,626	\$ 16,260	3,594	35,940	531	5,310
Collateral for refinancing margin	120	1,200	969	9,690	-	-

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Promissory notes	<u>\$ 21,980,000</u>	<u>25,510,000</u>	<u>26,570,000</u>
Promissory notes (in USD thousands)	<u>USD 65,000</u>	<u>USD 60,000</u>	<u>USD 60,000</u>

- (d) As of September 30, 2020, December 31, 2019 and September 30, 2019, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$5,916,753, \$5,687,926 and \$4,671,871, 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. 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 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.
- (g) A resigned employee of Xi-Song branch scammed the clients. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation of \$16,375. The 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.
- (h) Tatung Company applied for provisional attachment of the stocks stored by the Company's custody business client under the custody account. The Company replied the court that the client had no stock for attachment. Tatung Company claimed the Company's reply was not true, and filed a lawsuit against the Company for compensation of \$100,000. 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.
- (i) Tatung Company claimed the voting right of the stocks owned by the Company's custody business clients did not exist and filed a lawsuit against the Company alleged for taking joint responsibility of compensation of \$8,250. 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**

- (j) 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 September 30, 2020.
- (k) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC Securities (HK) Ltd.

**(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 September 30, 2020, December 31, 2019 and September 30, 2019, the open positions of futures and option contracts were as follows:

(i) September 30, 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	66	\$ 165,412	163,374	
	TAIEX Futures	Short	263	(653,687)	(655,933)	
	Mini-TAIEX Futures	Long	349	217,320	216,920	
	Mini-TAIEX Futures	Short	41	(25,121)	(25,467)	
	Electronic Sector Index Futures	Short	6	(14,087)	(14,358)	
	Finance Sector Index Futures	Short	2	(2,386)	(2,387)	
	Non-Finance & Non-Electronics Index Futures	Long	2	2,408	2,333	
	Single Stock Futures	Long	531	191,778	187,781	
	Single Stock Futures	Short	1,831	(250,519)	(241,105)	
	HSI Futures	Short	3	(13,189)	(13,193)	
	Mini-HSI Futures	Short	1	(882)	(880)	
	Mini-Nasdaq Futures	Short	1	(6,375)	(6,639)	
	Wheat Futures	Long	4	3,062	3,364	
	Corn Futures	Long	3	1,512	1,654	
	Soybean Futures	Short	18	(26,756)	(26,805)	
	Gold Futures	Short	13	(73,591)	(71,707)	
	FTSE China A50 Index Futures	Long	77	33,759	33,879	
	FTSE China A50 Index Futures	Short	180	(79,059)	(79,199)	
	VIX Futures	Long	137	124,534	125,316	
	10 Year U.S. T-Note Futures	Long	15	69,960	69,806	
	Crude Oil Futures	Long	6	7,260	7,375	
	Mini-Weekly Stock Index Futures	Short	20	(12,527)	(12,506)	
	USD Futures	Long	10	27,402	27,333	
	Japanese Yen Futures	Long	9	31,074	31,060	
	Long-term Euro-BTP Futures	Long	36	181,731	181,435	
	GBP Futures	Long	5	11,694	11,735	
	Brent Crude Oil Futures	Long	57	68,506	70,163	
	Subtotal			(20,767)		
Options contract :						
	Taonex Options (Call )	Long	1,820	11,323	8,346	
	Taonex Options (Put)	Long	1,954	17,634	15,103	
	Taonex Options (Call)	Short	1,549	(12,317)	(9,880)	
	Taonex Options (Put)	Short	1,353	(16,265)	(15,527)	
	Stock Options (Call)	Long	2	482	7	
	Taonex Weekly Options (Call)	Long	75	71	64	
	Taonex Weekly Options (Put)	Long	143	467	500	
	Taonex Weekly Options (Call)	Short	38	(252)	(237)	
	Taonex Weekly Options (Put)	Short	70	(317)	(351)	
	CSI 300 Index Call Options (Call)	Short	68	(656)	(611)	
	Subtotal			170		
Total				\$ (20,597)		

(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			(1,499,402)		
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			(6,403)		
Total				\$ (1,505,805)		

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) September 30, 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	Short	62	\$ (134,706)	(134,194)	
	Mini-TAIEX Futures	Short	15	(8,154)	(8,118)	
	Electronic Sector Index Futures	Short	6	(10,987)	(10,918)	
	Single Stock Futures	Long	454	100,984	100,581	
	Single Stock Futures	Short	7,724	(1,417,944)	(1,417,719)	
	HSI Futures	Short	3	(15,398)	(15,461)	
	Mini-HSI Futures	Long	2	2,054	2,061	
	FTSE China A50 Index Futures	Long	74	31,594	31,216	
	FTSE China A50 Index Futures	Short	368	(157,734)	(155,235)	
	SGX Nikkei 225 Index Futures	Short	4	(12,208)	(12,514)	
	5 Year U.S. T-Note Futures	Short	20	(73,919)	(73,967)	
	10 Year U.S. T-Note Futures	Short	5	(20,501)	(20,224)	
	Ultra U.S. Treasury Bond Futures	Long	1	6,063	5,957	
	Crude Oil Futures	Short	88	(152,650)	(147,693)	
	Japanese Yen Futures	Long	2	7,253	7,215	
	VIX Futures	Short	4	(2,297)	(2,126)	
	Subtotal			(1,858,550)		
Options contract :						
	Crude Oil Options (Put)	Short	13	(42)	(40)	
	Subtotal			(42)		
Total				\$ (1,858,592)		

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

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

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	Stockholders' equity (Total liabilities - futures traders' equity)	6,236,635 659,508	9.46	4,894,307 552,646	8.86	≥ 1	Satisfactory to requirement
17	Current Assets Current Liabilities	43,631,142 38,817,083	1.12	40,145,966 36,748,156	1.09	≥ 1	"
22	Stockholders' equity Minimum paid-in capital	6,236,635 1,115,000	559.34 %	4,894,307 1,115,000	438.95 %	≥ 60% ≥ 40%	"
22	Adjusted net capital Total amount of customers' margin required for open positions of futures trader	4,869,638 7,949,803	61.25 %	3,541,203 8,131,987	43.55 %	≥ 20% ≥ 15%	"

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(c) Unique risk for futures trading

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

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (13) Other disclosures:

##### (a) Information on significant transactions:

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

##### (i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on Loans to a Single Business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd	Account receivables - Related party	Yes	US 29,322	US 29,322	US 29,322	- %	2	-	Operations	-	-	-	US 53,395	US 53,395
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	40,405	40,405	2,886	5 %	2	-	Tradings	-	-	-	185,256	926,280
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	173,166	173,166	77,059	3.3 %	2	-	Tradings	-	-	-	185,256	926,280
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	80,811	80,811	-	5 %	2	-	Tradings	-	-	-	185,256	926,280
7	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	80,811	80,811	-	3.3 %	2	-	Tradings	-	-	-	185,256	926,280
8	CSC Futures (HK) Ltd.	Derivatives China Alpha Fund	Account receivables - Customer	No	80,811	80,811	-	3.3 %	2	-	Tradings	-	-	-	185,256	926,280
9	CSC Futures (HK) Ltd.	Perfect Hexagon Limited	Account receivables - Customer	No	86,583	86,583	-	3.3 %	2	-	Tradings	-	-	-	185,256	926,280

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 nine months ended September 30, 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	567		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	15,024		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivable	4,506		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	109,510		0.07 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payable	3,848		- %

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	4,450		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	145,121	General transaction	2.17 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	13,212	General transaction	0.20 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	376	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	254	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	52	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	5,805	General transaction	0.09 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	129	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expense	3,520	General transaction	0.05 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenue	38,432	General transaction	0.57 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Accounts receivable	4		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fee	47,250	General transaction	0.71 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other operating revenue	191	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivable	97		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other payable	51		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	44		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expense	1,919	General transaction	0.03 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	1,117,834		0.69 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,117,834		0.69 %
1	Capital Futures Corp.	Capital True Partner Technology Co., Ltd.	3	Other payable	1,061		- %
1	Capital Futures Corp.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	7,428	General transaction	0.11 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	575,056		0.35 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	5,123,846		3.15 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payable	4,443		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	5,617	General transaction	0.08 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	50,457	General transaction	0.75 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	2,599	General transaction	0.04 %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Professional service fees	1,536	General transaction	0.02 %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Prepayments	768		0.01 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	4,721,580		2.90 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	181,520		0.11 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Prepayments	289		- %
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	Other payable	227		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	8,201	General transaction	0.12 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expense	399	General transaction	0.12 %
2	CSC Futures (HK) Ltd.	CSC Securities (HK) Ltd.	3	Financial costs	278	General transaction	- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivable	15	HK	- %

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 2,970	General transaction	0.17 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 404	General transaction	0.02 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payable	HK 228,306		0.55 %
4	Taiwan International Securities (B.V.I.) Corp.	TIS Securities (HK) Limited	3	Other receivable	HK 26,248		0.06 %

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 September 30, 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 %	79,599	47,886	(12,845)	(12,845)	-	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-105004467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,896,520	1,212,539	119,066,014	56.58 %	3,528,731	1,608,487	480,883	271,234	226,225	"
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 %	1,561,775	17,613	618	618	-	"
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 %	48,224	89,238	22,363	22,363	53,045	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 %	40,158	41,620	751	751	4,040	"
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 %	28	484	484	484	-	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		Completion of liquidation.	-	9,992	-	- %	-	-	(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 %	825,750	2,474	(2,508)	(2,508)	-	"
0	Capital Investment Trust Corp.	Taipei, Taiwan, R.O.C.	October 16, 1995		Engaged in security investment and discretionary investment services.	1,272,505	1,272,505	33,067,507	20.00 %	1,298,568	1,397,629	563,004	112,600	115,737	Associates

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		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 September 30, 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 171,335 thousands	HK 29,974 thousands	HK 4,632 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 (26,043) thousands	HK -	HK 127 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 (66,015) thousands	HK -	HK 71 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 %	900,993	269,830	(16,521)	-	-	
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 %	43,429	1,536	1,350	-	-	
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 %	49,850	96,286	5,058	-	-	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 was liquidated as approved by the court on June 15, 2020.

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	-	-	-	-	-	-	-	-

#### (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 September 30, 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 September 30, 2020
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	3,087	28.86%	891 B(3)	14,490	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	(1,178)	56.58%	(667) B(3)	9,322	-

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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, corporate financing, dealing, derivative instrument and reinvestment according to the sources of revenue. The remaining operating results which have not reached the threshold requirements are consolidated in other operating segments.

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

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

(b) Measurement of segmental information

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

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

For the three months ended September 30, 2020								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 1,309,290	222,079	884,982	196,092	62,835	624,347	(68,783)	3,230,842
Segment profit or loss	\$ 672,797	172,628	792,974	128,699	(121,314)	214,381	(104,400)	1,755,765

  

For the three months ended September 30, 2019								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 876,077	119,201	511,314	120,659	46,684	481,418	(60,926)	2,094,427
Segment profit or loss	\$ 365,428	82,275	400,900	72,722	(77,969)	181,739	(73,150)	951,945

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

For the nine months ended September 30, 2020								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ <u>3,352,868</u>	<u>370,668</u>	<u>1,090,706</u>	<u>104,937</u>	<u>164,335</u>	<u>1,822,268</u>	<u>(217,193)</u>	<u>6,688,589</u>
Segment profit or loss	\$ <u>1,618,910</u>	<u>246,906</u>	<u>768,836</u>	<u>(62,412)</u>	<u>(155,698)</u>	<u>616,003</u>	<u>(257,000)</u>	<u>2,775,545</u>

  

For the nine months ended September 30, 2019								
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ <u>2,398,721</u>	<u>288,222</u>	<u>1,237,203</u>	<u>188,431</u>	<u>162,239</u>	<u>1,429,911</u>	<u>(178,467)</u>	<u>5,526,260</u>
Segment profit or loss	\$ <u>940,249</u>	<u>183,412</u>	<u>782,179</u>	<u>34,311</u>	<u>(4,187)</u>	<u>566,212</u>	<u>(250,104)</u>	<u>2,252,072</u>

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.