China Bills Finance Corporation

Financial Statements for the
Nine Months Ended September 30, 2020 and 2019 and
Independent Auditors' Review Report

Deloitte.

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INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Stockholders
China Bills Finance Corporation

Introduction

We have reviewed the accompanying financial statements of China Bills Finance Corporation (the "Company") which comprise the balance sheets as of September 30, 2020 and 2019, the statements of comprehensive income for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the statement of changes in equity and cash flows for the nine-month period then ended September 30, 2020 and 2019, and the related notes to the financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies 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 financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of 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 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.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, its financial performance for the three months ended September 30, 2020 and 2019 and its financial performance and its cash flows for the nine-month period ended September 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies 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 Yin-Chou Chen and Wang-Sheng Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

October 27, 2020

<u>*Notice to Readers*</u>

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' review report and financial statements shall prevail.

CHINA BILLS FINANCE CORPORATION

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	September 30, 2020 (Reviewed)		December 31, 2019 (Audited)		September 30, 2019 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	$ 240,646	-	$ 244,731	-	$ 326,591	-
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANK (Notes 4 and 7)	-	-	-	-	1,000,000	1
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 34)	111,285,730	50	92,084,805	47	103,321,364	50
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 9, 10 and 34)	103,633,938	46	103,117,226	52	98,191,100	47
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4, 11 and 35)	7,322,042	3	100,013	-	2,190,130	1
RECEIVABLES, NET (Notes 4 and 12)	925,082	1	853,563	1	1,983,632	1
CURRENT TAX ASSETS (Note 4)	268,510	-	315,759	-	344,170	-
OTHER FINANCIAL ASSETS, NET (Notes 4, 13 and 34)	566,664	-	549,676	-	550,269	-
PROPERTY AND EQUIPMENT, NET (Notes 4 and 14)	154,205	-	154,192	-	151,747	-
RIGHT-OF-USE ASSETS, NET (Notes 4, 15 and 33)	3,666	-	4,735	-	8,758	-
DEFERRED TAX ASSETS (Note 4)	67,734	-	67,138	-	66,414	-
OTHER ASSETS, NET (Note 16)	59,025	-	47,721	-	57,966	-
TOTAL	$ 224,527,242	100	$ 197,539,559	100	$ 208,192,141	100
LIABILITIES AND EQUITY						
CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS (Note 17)	$ 14,951,101	7	$ 14,500,869	8	$ 18,993,954	9
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	12,593	-	5,122	-	790	-
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 18, 33 and 35)	177,712,119	79	156,689,837	79	162,758,889	78
ACCOUNTS PAYABLE (Note 19)	616,567	-	658,454	-	960,102	1
CURRENT TAX LIABILITIES (Note 4)	62,729	-	-	-	-	-
COMMERCIAL PAPERS ISSUED, NET (Note 20)	4,498,756	2	-	-	-	-
PROVISIONS (Notes 4, 5 and 21)	1,390,141	1	1,398,066	1	1,386,036	1
LEASE LIABILITIES (Notes 4, 15 and 33)	3,555	-	4,773	-	8,810	-
DEFERRED TAX LIABILITIES (Note 4)	131,195	-	51,120	-	43,358	-
OTHER LIABILITIES	470,844	-	375,856	-	467,879	-
Total liabilities	199,849,600	89	173,684,097	88	184,619,818	89
EQUITY (Notes 4 and 23)						
Ordinary shares	13,429,600	6	13,429,600	7	13,429,600	6
Capital surplus	8,804	-	7,308	-	7,311	-
Retained earnings						
Legal reserve	8,054,883	4	7,681,488	4	7,681,488	4
Special reserve	769,120	-	769,120	-	769,120	-
Unappropriated earnings	1,277,585	-	1,349,696	1	1,054,017	1
Total retained earnings	10,101,588	4	9,800,304	5	9,504,625	5
Other equity	1,137,650	1	618,250	-	630,787	-
Total equity	24,677,642	11	23,855,462	12	23,572,323	11
TOTAL	$ 224,527,242	100	$ 197,539,559	100	$ 208,192,141	100

The accompanying notes are an integral part of the financial statements.

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
NET INTEREST								
Interest revenues (Notes 4 and 24)	$ 459,520	67	$ 507,213	100	$ 1,446,511	78	$ 1,490,736	98
Deduct: Interest expenses (Notes 4, 24 and 33)	(158,398)	(23)	(302,871)	(60)	(645,978)	(35)	(857,139)	(56)
Net interest	301,122	44	204,342	40	800,533	43	633,597	42
NET REVENUES OTHER THAN INTEREST								
Service fee income, net (Notes 4 and 25)	308,674	45	248,928	49	899,032	48	739,983	49
Gains on financial assets and liabilities at fair value through profit or loss (Notes 4, 8, 26 and 33)	16,205	2	11,223	2	94,941	5	65,856	4
Realized gains (losses) on financial assets at fair value through other comprehensive income (Notes 4 and 27)	67,903	10	41,724	8	97,036	5	84,839	6
Foreign exchange gains (losses), net (Notes 4 and 28)	(6,803)	(1)	1,865	1	(24,997)	(1)	5,765	-
Reversed (recognized) impairment loss on financial assets (Notes 4 and 10)	759	-	(1,796)	-	(3,956)	-	(9,401)	(1)
Other non-interest gains (losses), net	(517)	-	1,096	-	(613)	-	2,122	-
TOTAL NET REVENUES	687,343	100	507,382	100	1,861,976	100	1,522,761	100
REVERSAL (Notes 4 and 21)	3,237	1	2,346	1	3,686	-	3,761	-
OPERATING EXPENSES (Notes 4, 29, 30 and 33)								
Employee benefit expenses	(88,839)	(13)	(83,359)	(17)	(260,154)	(14)	(246,872)	(16)
Depreciation and amortization	(3,191)	(1)	(6,178)	(1)	(9,723)	-	(18,512)	(1)
Others	(30,560)	(4)	(25,916)	(5)	(90,426)	(5)	(79,944)	(6)
Total operating expenses	(122,590)	(18)	(115,453)	(23)	(360,303)	(19)	(345,328)	(23)
PROFIT BEFORE INCOME TAX	567,990	83	394,275	78	1,505,359	81	1,181,194	77
INCOME TAX EXPENSE (Notes 4 and 31)	(111,856)	(16)	(76,536)	(15)	(311,366)	(17)	(231,812)	(15)
NET INCOME FOR THE PERIOD	456,134	67	317,739	63	1,193,993	64	949,382	62

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss:								
Remeasurement of defined benefit plans (Note 4)	$ -	-	$ -	-	$ 111	-	$ (40)	-
Unrealized gains or losses on investments in equity instruments designated as at fair value through other comprehensive income (Notes 4 and 23)	(1,717)	-	51,317	10	(5,203)	-	148,125	10
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 31)	-	-	-	-	(22)	-	8	-
Items that will not be reclassified subsequently to profit or loss for the period, net of income tax	(1,717)	-	51,317	10	(5,114)	-	148,093	10
Items that will be reclassified subsequently to profit or loss:								
Unrealized gains or losses on investments in debt instruments at fair value through other comprehensive income (Notes 4 and 23)	188,511	27	49,762	10	672,272	36	295,193	19
Income tax relating to items reclassified subsequently to profit or loss (Notes 4 and 31)	(34,531)	(5)	(8,928)	(2)	(73,536)	(4)	(61,098)	(4)
Items that will be reclassified subsequently to profit or loss for the period, net of income tax	153,980	22	40,834	8	598,736	32	234,095	15
Other comprehensive income (loss) for the period, net of income tax	152,263	22	92,151	18	593,622	32	382,188	25
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 608,397	89	$ 409,890	81	$ 1,787,615	96	$ 1,331,570	87
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 32)								
Basic	$ 0.34		$ 0.24		$ 0.89		$ 0.71	
Diluted	$ 0.34		$ 0.24		$ 0.89		$ 0.71	

The accompanying notes are an integral part of the financial statements. (Concluded)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Ordinary Share Capital (Notes 4 and 23)	Capital Surplus (Notes 4 and 23)	Retained Earnings (Notes 4 and 23)			Other Equity (Notes 4 and 23)	
			Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total Equity
BALANCE AT JANUARY 1, 2019	$ 13,429,600	$ 4,113	$ 7,280,862	$ 769,120	$ 1,470,586	$ 344,212	$ 23,298,493
Legal reserve	-	-	400,626	-	(400,626)	-	-
Cash dividends distributed	-	-	-	-	(1,060,938)	-	(1,060,938)
Unclaimed dividends	-	3,198	-	-	-	-	3,198
Net income for the nine months ended September 30, 2019	-	-	-	-	949,382	-	949,382
Other comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	(32)	382,220	382,188
Total comprehensive income for the nine months ended September 30, 2019	-	-	-	-	949,350	382,220	1,331,570
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	95,645	(95,645)	-
BALANCE AT SEPTEMBER 30, 2019	$ 13,429,600	$ 7,311	$ 7,681,488	$ 769,120	$ 1,054,017	$ 630,787	$ 23,572,323
BALANCE AT JANUARY 1, 2020	$ 13,429,600	$ 7,308	$ 7,681,488	$ 769,120	$ 1,349,696	$ 618,250	$ 23,855,462
Legal reserve	-	-	373,395	-	(373,395)	-	-
Cash dividends distributed	-	-	-	-	(966,931)	-	(966,931)
Unclaimed dividends	-	1,496	-	-	-	-	1,496
Net income for the nine months ended September 30, 2020	-	-	-	-	1,193,993	-	1,193,993
Other comprehensive income for the nine months ended September 30, 2020	-	-	-	-	89	593,533	593,622
Total comprehensive income for the nine months ended September 30, 2020	-	-	-	-	1,194,082	593,533	1,787,615
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	74,133	(74,133)	-
BALANCE AT SEPTEMBER 30, 2020	$ 13,429,600	$ 8,804	$ 8,054,883	$ 769,120	$ 1,277,585	$ 1,137,650	$ 24,677,642

The accompanying notes are an integral part of the financial statements.

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,505,359	$ 1,181,194
Adjustments for:		
Recognized expected credit impairment loss	3,956	9,401
Net gain on valuation of financial assets and liabilities at fair value through profit or loss	(28,093)	(19,737)
Depreciation expenses	7,289	16,539
Amortization expenses	2,434	1,973
Interest expenses	645,978	857,139
Interest revenues	(1,446,511)	(1,490,736)
Dividend revenues	(36,247)	(27,718)
Loss (gain) on disposal of property and equipment	423	(150)
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(19,165,361)	(5,851,465)
Financial assets at fair value through other comprehensive income	72,865	576,871
Securities purchased under resell agreements	(7,222,029)	(1,198,767)
Receivables and non-accrual loans	(169,995)	(767,386)
Other financial assets	(16,988)	(1,281)
Other assets	(15,003)	(10,137)
Securities sold under repurchase agreements	21,022,282	15,712,432
Payables	(15,398)	500,761
Provisions	(7,814)	(10,250)
Other liabilities	94,988	184,907
Interest received	1,547,256	1,568,473
Dividend received	33,978	25,435
Interest paid	(672,156)	(845,993)
Income tax paid	(121,931)	(216,212)
Net cash (used in) generated from operating activities	(3,980,718)	10,195,293
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	(6,458)	(6,274)
Proceeds from disposal of property and equipment	3	450
Increase in refundable deposits	-	(272)
Decrease in refundable deposits	3,999	-
Increase in other assets	(1,719)	(715)
Net cash used in investing activities	(4,175)	(6,811)

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2020	**2019**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in call loans from banks and overdrafts on banks	$ 450,232	$ -
Decrease in call loans from banks and overdrafts on banks	-	(7,550,550)
Increase in commercial papers issued	4,500,000	-
Decrease in commercial papers issued	-	(500,000)
Repayment of the principal portion of lease liabilities	(2,493)	(12,235)
Cash dividend paid	(966,931)	(1,060,938)
Net cash generated from (used in) financing activities	3,980,808	(9,123,723)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,085)	1,064,759
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	244,731	261,832
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 240,646	$ 1,326,591

Reconciliations of the amounts in the statements of cash flows with the equivalent items reported in the balance sheets as of September 30, 2020 and 2019

	September 30	
	2020	**2019**
Cash and cash equivalents in the balance sheets	$ 240,646	$ 326,591
Due from the Central Bank and call loans to banks in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	-	1,000,000
Cash and cash equivalents at the end of the period	$ 240,646	$ 1,326,591

The accompanying notes are an integral part of the financial statements. (Concluded)

CHINA BILLS FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. GENERAL INFORMATION

China Bills Finance Corporation (the "Company") was incorporated in October 1978 in accordance with the Corporation Law and other related laws. The Company's shares have been listed on the Taiwan Stock Exchange ("TWSE"). As of September 30, 2019, the Company's headquarters was located in Taipei, with five branches in Banqiao, Taoyuan, Taichung, Tainan and Kaohsiung.

The Company's main business scope includes: (a) certifying and underwriting of short-term bills and bank debentures; (b) brokering or undertaking proprietary trading of short-term bills, bank debentures, government and corporate bonds, and foreign bonds; (c) guaranteeing short-term bills; (d) providing financial consulting services to enterprises; (e) processing interbank call loans; (f) equity investments; (g) fixed-income security trading; (h) foreign-currency bills investment; and (i) doing other businesses authorized by relevant authorities.

As of September 30, 2020 and 2019, the Company had both a total of 158 employees.

The financial statements are presented in the Company's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company's board of directors on October 27, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. Initial application of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission of Republic of China (FSC)

   The initial application of the IFRSs endorsed and issued into effect by the FSC did not have significant impact on the Company.

b. New IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
"Annual Improvements to IFRS Standards 2018-2020"	January 1, 2022 (Note 2)
Amendments to IFRS 3 "Reference to the Conceptual Framework"	January 1, 2022 (Note 3)
Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase 2"	January 1, 2021

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use"	January 1, 2022 (Note 4)
Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"	January 1, 2022 (Note 5)

(Concluded)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 "Agriculture" are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 "First-time Adoptions of IFRSs" are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

1) Annual Improvements to IFRS Standards 2018-2020

Several standards, including IFRS 9 "Financial Instruments", were amended in the annual improvements. IFRS 9 requires to compare the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, with that of the cash flows under the original financial liability when there is an exchange or modification of debt instruments. The new terms and the original terms are substantially different if the difference between those discounted present values is at least 10 per cent. The amendments to IFRS 9 clarify that the only fees that should be included in the above assessment are those fees paid or received between the borrower and the lender.

2) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase 2"

Several standards were amended in the amendments. The amendments to IFRS 9 and IFRS 16 provide specific practical expedient that the modification of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform shall be applied by revising the effective interest rate. Besides, the amendments to IFRS 9 introduce additional temporary exceptions for hedging relationships subject to interest rate benchmark reform.

The Company may not restate prior reporting periods when applying the aforementioned amendments, and recognize the cumulative effect in the retained earnings or other component of equity at the date of the initial application instead.

As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations might have on the Company's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These interim financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies and IAS 34 "Interim Financial Reporting" endorsed and issued into effect by the FSC. Disclosure information included these interim the financial statements is less than those required in a complete set of annual financial statements.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements are grouped into the following Levels 1 to 3 based on the degree at which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

a. Level 1 inputs are quoted prices (unadjusted) in active markets;

b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

c. Level 3 inputs are unobservable inputs for the asset or liability.

Classification of Current and Non-current Assets and Liabilities

The operating cycle in the bills finance industry cannot be clearly identified; thus, accounts included in the financial statements of the Company were not classified as current or noncurrent. Nevertheless, accounts are properly categorized by the nature of each account and are sequenced by their liquidity.

Foreign Currencies

Monetary transactions in foreign currencies are recognized at the spot exchange rates at the dates of the transactions. On the settlement of the transactions, the gain or loss resulting from the application of exchange rates different from those used on initial recognition are recognized in profit or loss in the settlement period.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and time deposits with original maturities less than three months. In terms of statements of cash flows, cash and cash equivalents include due from the Central Bank and call loans to banks that meet the definition of cash and cash equivalents in IAS 7 as endorsed by the FSC.

Securities Purchased/Sold Under Resell/Repurchase Agreements

Securities purchased under resell agreements and securities sold under repurchase agreements are treated as collateralized financing transactions. Interest earned on resell agreements or interest incurred on repurchase agreements is recognized on an accrual basis.

In the case of outright sale of government bonds purchased under resell agreements, the Company recognizes on financial liabilities at fair value through profit or loss of outright sale, and recognizes the realized gain or loss when government bonds purchased under resell agreements are replenished in the settlement period.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

   All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

   1) Measurement category

      Financial assets are classified into the following categories: Financial assets at FVTPL, investments in debt instruments and equity instruments at FVTOCI, and financial assets at amortized cost.

      a) Financial asset at FVTPL

         Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

         Financial assets at FVTPL are subsequently measured at fair value, and remeasurement gains or losses on such financial assets (including any dividends or interest earned) are recognized in profit or loss. Fair value is determined in the manner described in Note 37.

      b) Investments in debt instruments at FVTOCI

         Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

         i. The financial asset is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of the financial assets; and

         ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

d) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost and other, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest revenue is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

i. Purchased or originated credit-impaired financial asset, for which interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

ii. Financial asset that has subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to the amortized cost of the financial asset.

A financial asset is credit impaired when one or more of the following events have occurred:

i. Significant financial difficulty of the issuer or the borrower;

ii. Breach of contract, such as a default;

iii. It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or

iv. The disappearance of an active market for that financial asset because of financial difficulties.

2) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), investments in debt instruments that are measured at FVTOCI, as well as contract assets.

The Company always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Company determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Company):

a) Internal or external information show that the debtor is unlikely to pay its creditors.

b) When a financial asset is more than 90 days past due unless the Company has reasonable and corroborative information to support a more lagged default criterion.

In addition to valuating impairment loss of receivables and recognizing allowance or bad debts under IFRS 9, the Company will evaluate impairment loss, under the “Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt” issued by the authorities and the Company’s provision procedures, and recognize the higher of allowance of and debts between the above regulations expect.

The Company recognizes an impairment loss and reversal of impairment in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

Credits deemed uncollectible may be written off upon approval by the board of directors.

3) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Financial liabilities

1) Subsequent measurement

Except the following situations, all the financial liabilities are measured at amortized cost using the effective interest method:

a) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities held for trading are stated at fair value, and remeasurement gains or losses on such financial liabilities (including any dividends or interest paid) are recognized in profit or loss. Fair value is determined in the manner described in Note 37.

b) Financial guarantee contracts

The Company measures financial guarantee contract issued at the higher of:

i. The amount of the loss allowance determined in accordance with IFRS 9; and

ii. The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with IFRS 15.

Besides subsequently measuring financial guarantee contracts at the higher of the abovementioned amounts, assessment is also performed under the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt" issued by the authorities, and the higher adequacy provision between the above regulations is recognized.

Financial guarantee contracts issued by the Company are measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of the amount of the expected credit loss allowance or the amount initially recognized less cumulative amortization recognized.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

c. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange swap contracts, interest rate swaps and convertible bond asset swap contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Non-accrual Loans

Under the "Regulation Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt" issued by the Financial Supervisory Commission, receivables and the balances of guaranteed and endorsed credits that are unpaid within six months after maturity are transferred to non-accrual loans.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

If the Company is under a contract for which the unavoidable costs of meeting contract obligations exceed the economic benefits expected to be received from the contract, the contract is considered onerous. The present obligations arising under this onerous contract are recognized and related provisions are set made.

Revenue Recognition

Service fee income are recognized when a major part of the earnings process has been completed and cash has been collected. Interest revenues are recorded on an accrual basis.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established and if it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest revenue from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest revenue is accrued on a timely basis by reference to the principal outstanding and at the effective interest rate applicable.

Leases

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

<u>The Company as lessee</u>

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in future lease payments resulting from a change in a lease term, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the balance sheets.

Employee and Retirement Benefits

a. Short-term employee benefits

Liabilities recognized on short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefit expenses in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

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 financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

a. Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be used.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured using applicable tax rates and laws that have been enacted or substantially enacted by the end of the reporting period in which the liability is settled or the asset realized. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes

Current and deferred taxes are recognized in profit or loss, but when these taxes relate to items that are recognized in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company’s accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Estimated Impairment of Financial Guarantee Contracts

In accordance with the “Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt”, the Company’s assessment of the adequacy of reserve for guarantee liabilities is focused on whether or not, guarantee liabilities and related cash outflows are likely to occur. Evidences for making such judgement include observable data indicating adverse movement in payment status of the debtor or industry news relevant to the debtor’s financial position. The Company periodically reviews judgement factors and assumptions in order to minimize the difference between estimated loss and actual loss.

6. CASH AND CASH EQUIVALENTS

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand	$ 650	$ -	$ 650
Checking accounts and demand deposits	239,996	244,696	325,941
Post-dated checks for clearance	-	35	-
	$ 240,646	$ 244,731	$ 326,591

7. DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS

	September 30, 2020	December 31, 2019	September 30, 2019
Call loans and drafts to other banks	$ -	$ -	$ 1,000,000

As of September 30, 2019, the last due date was October 1, 2019, with interest rate of 0.19%.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2020	December 31, 2019	September 30, 2019
Financial assets mandatorily classified as at fair value through profit or loss			
Derivative financial instruments			
Currency swap contracts	$ 8,910	$ 10,115	$ -
Purchase commitment contracts	-	164	-
Non-derivative financial instruments			
Investment in short-term bills	100,411,540	82,462,513	94,771,586
Bond investments	154,837	220,195	249,858
Domestic quoted shares	3,990	217,569	49,275
Fixed-rate commercial paper	78,743	50,800	45,877
Beneficiary securities	502,911	500,000	-
Hybrid financial assets			
Convertible bond asset swap contracts	10,124,799	8,623,449	8,204,768
Financial assets at fair value through profit or loss	$ 111,285,730	$ 92,084,805	$ 103,321,364
Financial liabilities held for trading			
Derivative financial instruments			
Purchase commitment contracts	$ 12,220	$ 660	$ 620
Currency swap contracts	275	-	-
Non-derivative financial instruments			
Variable rate commercial papers	98	4,462	170
Financial liabilities at fair value through profit or loss	$ 12,593	$ 5,122	$ 790

The contract amounts (or notional amounts) of outstanding derivative financial instruments as of September 30, 2020, December 31, 2019 and September 30, 2019 were as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Convertible bond asset swap contracts	$ 10,097,400	$ 8,617,600	$ 8,195,500
Purchase commitment contracts	12,300,000	750,000	450,000
Currency swap contracts	1,252,418	903,180	-

The Company used transactions of derivative financial instruments to acquire fixed returns and reduce the cash flow risk arising from interest rate and exchange rate fluctuations.

As of September 30, 2020, December 31, 2019 and September 30, 2019, the face values of financial assets at fair value through profit or loss under repurchase agreements were $73,930,300 thousand, $62,715,800 thousand and $72,608,149 thousand, respectively.

The profit and loss arising from financial assets and liabilities at fair value through profit and loss during the three months and the nine months ended September 30, 2020 and 2019 were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Financial assets at fair value through profit or loss				
Realized profit	$ 42,108	$ 9,398	$ 76,838	$ 55,698
Valuation profit (loss)	(24,549)	1,969	35,564	14,642
	$ 17,559	$ 11,367	$ 112,402	$ 70,340
Financial liabilities at fair value through profit or loss				
Realized loss	$ (3,391)	$ (2,382)	$ (9,990)	$ (9,579)
Valuation profit (loss)	2,037	2,238	$ (7,471)	5,095
	$ (1,354)	$ (144)	$ (17,461)	$ (4,484)

Note 34 shows the financial assets at FVTPL that were classified as pledged assets.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2020	December 31, 2019	September 30, 2019
Investments in equity instruments	$ 1,217,243	$ 1,400,515	$ 557,034
Investments in debt instruments	102,416,695	101,716,711	97,634,066
	$ 103,633,938	$ 103,117,226	$ 98,191,100

a. Investments in equity instruments

	September 30, 2020	December 31, 2019	September 30, 2019
Domestic investments			
Listed shares and emerging market shares	$ 701,425	$ 896,548	$ 74,898
Unlisted shares	368,968	356,967	350,886
Beneficial securities on real estate investment trust	146,850	147,000	131,250
	$ 1,217,243	$ 1,400,515	$ 557,034

As of September 30, 2020, December 31, 2019 and September 30, 2019, domestic unlisted shares held by the Company were as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Domestic unlisted shares			
Taiwan Depository and Clearing Corporation	$ 114,625	$ 108,504	$ 105,926
Taiwan Futures Exchange Corporation	91,731	87,028	85,551
Taiwan Asset Management Corporation	67,970	69,314	68,010
Core Pacific City Corporation	94,642	92,121	91,399
	$ 368,968	$ 356,967	$ 350,886

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI.

The Company adjusted the capital adequacy ratio by disposal of shares classified as at FVTOCI. For the nine months ended September 30, 2020 and 2019, the fair value of shares disposed which classified as at FVTOCI were $657,415 thousand and $1,056,943 thousand and the accumulated gain related to the sold assets were $74,133 thousand and $95,645 thousand which were transferred from other equity to retained earnings, respectively.

Dividends income from FVTOCI of $35,947 thousand and $26,704 thousand were recognized in profit or loss for the nine months ended September 30, 2020 and 2019. The dividends related to investments held at the end of the reporting period were $35,947 thousand and $24,467 thousand, respectively.

b. Investments in debt instruments

	September 30, 2020	December 31, 2019	September 30, 2019
Domestic investments			
Government bonds	$ 18,164,459	$ 23,559,064	$ 22,287,722
Corporate bonds	52,657,242	49,106,862	49,605,148
Bank debentures	10,892,614	9,933,130	9,262,318
Foreign investments			
Overseas government bonds	1,583,206	1,738,360	974,676
Overseas corporate bonds	8,255,599	6,910,923	5,334,728
Overseas bank debentures	10,863,575	10,468,372	10,169,474
	$ 102,416,695	$ 101,716,711	$ 97,634,066

Refer to Note 10 for information relating to the credit risk and impairment assessment about these investments in debt instruments at FVTOCI.

Note 34 shows the investments in debt instruments at FVTOCI that were classified as pledged assets.

As of September 30, 2020, December 31, 2019 and September 30, 2019, the face values of financial instruments at FVTOCI under repurchase agreements were $91,774,096 thousand, $90,117,159 thousand and $84,436,901 thousand, respectively.

10. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at FVTOCI.

	September 30, 2020	December 31, 2019	September 30, 2019
Gross carrying amount	$ 101,257,877	$ 101,226,208	$ 97,098,494
Adjustment to fair value	1,158,818	490,503	535,572
	$ 102,416,695	$ 101,716,711	$ 97,634,066
Allowance for impairment loss	$ (40,709)	$ (36,753)	$ (34,046)

The Company invests only in debt instruments that are rated the equivalent of investment grade or higher and have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies. The Company's exposure and the external credit ratings are continuously monitored. The Company reviews changes in bond yields and other public information and makes an assessment whether there has been a significant increase in credit risk since the last period to the reporting date.

In order to minimize credit risk, the Company has tasked its credit management committee to develop and maintain a credit risk grading framework to categorize exposures according to the degree of risk of default. The credit rating information may be obtained from independent rating agencies where available and, if not available, the credit management committee uses other publicly available financial information to rate the debtors.

In determining the expected credit losses for debt instrument investments, the Company considers the historical default rates of each credit rating supplied by external rating agencies, the current financial condition of debtors, and industry forecast in estimating 12-month or lifetime expected credit losses.

The Company’s current credit risk grading mechanism is as follows:

Category	Description	Basis for Recognizing Expected Credit Losses (ECLs)
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12-month ECLs
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECLs - not credit-impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECLs - credit-impaired

The gross carrying amounts of debt instrument investments by credit category were as follows:

Category	September 30, 2020	December 31, 2019	September 30, 2019
Performing	$ 100,257,849	$ 99,826,168	$ 95,698,450
Doubtful	1,000,028	1,400,040	1,400,044
In default	-	-	-

The movements of the allowance for impairment loss of investments in debt instruments at FVTOCI were as follows:

	Credit Rating		
	Performing (12-month ECLs)	Doubtful (Lifetime ECLs - Not Credit - Impaired)	In default (Lifetime ECLs - Credit - Impaired)
Balance at January 1, 2020	$ 28,617	$ 8,136	$ -
Recognition	22	3,934	-
Balance at September 30, 2020	$ 28,639	$ 12,070	$ -
Balance at January 1, 2019	$ 24,645	$ -	$ -
Transfers			
From performing to doubtful	(923)	923	-
Recognition	303	9,098	-
Balance at September 30, 2019	$ 24,025	$ 10,021	$ -

11. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

As of September 30, 2020, December 31, 2019 and September 30, 2019, bonds and bills purchased were under resell agreements were in the amounts of $7,324,012 thousand, $100,030 thousand and $2,191,210 thousand before November 2020, January 2020 and November 2019, respectively.

As of September 30, 2020, December 31, 2019 and September 30, 2019, bonds and bills purchased under resell agreements were sold under repurchase agreements in the face values of $7,320,000 thousand, $100,000 thousand and $2,117,000 thousand, respectively.

12. RECEIVABLES, NET

	September 30, 2020	December 31, 2019	September 30, 2019
Interest receivables, net	$ 730,395	$ 827,082	$ 958,732
Receivables on bond sales	145,844	3,015	994,622
Receivables on settlement of asset swap	13,436	17,717	16,825
Dividend receivable	2,269	-	2,282
Others receivables	33,138	5,749	11,171
	$ 925,082	$ 853,563	$ 1,983,632

13. OTHER FINANCIAL ASSETS, NET

	September 30, 2020	December 31, 2019	September 30, 2019
Deposits placed with authorities for bank clearing	$ 525,000	$ 525,000	$ 525,000
Repurchase agreement margins	16,586	-	-
Futures margins	25,078	24,676	25,269
	$ 566,664	$ 549,676	$ 550,269

14. PROPERTY AND EQUIPMENT, NET

	September 30, 2020	December 31, 2019	September 30, 2019
Land	$ 83,337	$ 83,337	$ 83,337
Buildings	42,767	44,014	44,433
Machinery and computer equipment	21,359	13,447	14,029
Transportation equipment	3,122	3,690	3,901
Office and other equipment	2,418	2,602	2,741
Lease improvement	1,202	1,215	1,218
Equipment under installation and construction in progress	-	5,887	2,088
	$ 154,205	$ 154,192	$ 151,747

During the nine months ended September 30, 2020 and 2019, there were no property and equipment which had undergone major addition, disposal, and impairment except for recognizing the depreciation expense.

The above items of property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	5-55 years
Transportation equipment	3-5 years
Machinery and computer equipment	3-8 years
Office and other equipment	3-8 years
Lease improvement	5 years

There were no property and equipment pledged by the Company to secure its borrowings or issued guarantees.

15. LEASE ARRANGEMENTS

a. Right-of-use assets

	September 30, 2020	December 31, 2019	September 30, 2019
Carrying amounts			
Buildings	$ 1,946	$ 3,144	$ 6,861
Transportation equipment	673	1,591	1,897
Office equipment	1,047	-	-
	$ 3,666	$ 4,735	$ 8,758

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Additions to right-of-use assets			$ 1,216	$ 1,812
Depreciation charge for right-of-use assets				
Buildings	$ 300	$ 3,717	$ 1,198	$ 11,151
Transportation equipment	306	306	918	953
Office equipment	101	-	169	-
	$ 707	$ 4,023	$ 2,285	$ 12,104

Except for the aforementioned recognized depreciation, the Company did not have significant sublease or impairment of right-of-use assets during the nine months ended September 30, 2020 and 2019.

b. Lease liabilities

	September 30, 2020	December 31, 2019	September 30, 2019
Carrying amounts	$ 3,555	$ 4,773	$ 8,810

Discount rates for lease liabilities were as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Buildings	1.626%	1.626%	1.626%
Transportation equipment	2.283%-2.414%	2.283%-2.414%	2.283%-2.414%
Office equipment	2.332%	-	-

c. Other lease information

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Expenses relating to short-term leases	$ 3,212	$ -	$ 9,637	$ -
Expenses relating to low-value asset leases	$ 352	$ 185	$ 836	$ 484
Total cash outflow for leases			$ (12,966)	$ (12,719)

16. OTHER ASSETS

	September 30, 2020	December 31, 2019	September 30, 2019
Refundable deposits	$ 36,125	$ 40,124	$ 40,125
Long-term prepaid expenses	5,926	5,626	2,498
Prepaid expenses	16,915	1,797	15,286
Others	59	174	57
	$ 59,025	$ 47,721	$ 57,966

As of September 30, 2020, December 31, 2019 and September 30, 2019, the refundable deposits were as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Deposits placed with the Over the Counter (OTC) exchange for OTC transactions	$ 1,000	$ 5,000	$ 5,000
Others	35,125	35,124	35,125
	$ 36,125	$ 40,124	$ 40,125

The refundable deposits above were deposited in cash and time deposits.

17. CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS

As of September 30, 2020, December 31, 2019 and September 30, 2019, the balances of call loans from banks and overdrafts on banks amounted to $14,951,101 thousand, $14,500,869 thousand and $18,993,954 thousand respectively, with interest rate ranges from 0.26%-0.56%, 0.54%-2.57% and 0.55%-2.95%, and the latest due date were October, 2020, January 2020 and October 2019, respectively.

As of September 30, 2020, December 31, 2019 and September 30, 2019, the credit lines of call loans from banks and overdrafts on banks were $152,438,710 thousand, $136,579,680 thousand and $143,941,760 thousand, respectively.

18. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

As of September 30, 2020, December 31, 2019 and September 30, 2019, bonds and bills in the amounts of $177,712,119 thousand, $156,689,837 thousand and $162,758,889 thousand, respectively, had been sold under repurchase agreements for $177,788,030 thousand, $156,809,643 thousand and $162,859,945 thousand before their maturities in August 2021, December 2020 and August 2020, respectively.

19. PAYABLES

	September 30, 2020	December 31, 2019	September 30, 2019
Dividend payable	$ 144	$ 135	$ 136
Payable for bonds purchased	336,087	249,554	629,169
Employee awards payable	116,655	134,561	116,555
Withholding tax payable held by prior parties	55,046	67,838	82,693
Interest payables	39,311	64,304	59,010
Compensation to directors and employees	38,598	39,833	30,226
Payable for shares purchased	-	66,634	11,983
Others	30,726	35,595	30,330
	$ 616,567	$ 658,454	$ 960,102

20. COMMERCIAL PAPER ISSUED, NET

	September 30, 2020	December 31, 2019	September 30, 2019
Bill issued	$ 4,500,000	$ -	$ -
Less: Discount on bills issued	(1,244)	-	-
	$ 4,498,756	$ -	$ -

As of September 30, 2020, the latest due date were November 13, 2020, with interest rate of 0.37%.

21. PROVISIONS

	September 30, 2020	December 31, 2019	September 30, 2019
Reserve for losses on guarantees	$ 1,325,077	$ 1,325,077	$ 1,310,077
Provision for employee benefits	65,064	72,989	75,959
	$ 1,390,141	$ 1,398,066	$ 1,386,036

Reversal were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Amounts collected from prior years' write-off	$ 3,237	$ 2,346	$ 3,686	$ 3,761

22. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The total expenses recognized in profit or loss for the three months and the nine months ended September 30, 2020 and 2019 amounted to $1,971 thousand, $1,957 thousand, $5,876 thousand and $5,765 thousand, respectively, were the contributions payable by the Company to the LPA plan at the specified rates.

According to the Company's retirement policies, when the employees meet the criteria stated in the retirement policies, the pension costs payable are calculated based on the total number of years of employment, in accordance with the LPA and Labor Standards Act. The total pension costs recognized for the nine months ended September 30, 2020 amounted to $532 thousand.

b. Defined benefit plans

The pension expenses for the defined benefit plans were based on the pension cost rate as of December 31, 2019 and 2018. The pension expenses for the three months and the nine months ended September 30, 2020 and 2019 were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Operating expenses	$ 630	$ 824	$ 1,889	$ 2,473

23. EQUITY

a. Ordinary shares

	September 30, 2020	December 31, 2019	September 30, 2019
Number of shares authorized (in thousands)	1,678,700	1,678,700	1,678,700
Shares authorized	$ 16,787,000	$ 16,787,000	$ 16,787,000
Number of shares issued and fully paid (in thousands)	1,342,960	1,342,960	1,342,960
Shares issued	$ 13,429,600	$ 13,429,600	$ 13,429,600

b. Capital surplus

	September 30, 2020	December 31, 2019	September 30, 2019
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital			
Treasury share transactions	$ 2,474	$ 2,474	$ 2,474
May only be used to offset a deficit			
Unclaimed dividends	6,330	4,834	4,837
	$ 8,804	$ 7,308	$ 7,311

c. Retained earnings and dividend policy

The Company's Articles of Incorporation provide that the annual net income, less accumulated losses, should be appropriated as follows:

1) Legal reserve, 30%;

2) Special reserve, if needed; and

3) Dividends.

The Company's dividend policy is as follows:

1) The Company distributes a portion of the reserves in accordance with regulations, and the Company cannot distribute dividends if it has no earnings in the current period.

2) Because the Company is a fiercely competitive financial industry, which industrial growth has slowed down. As a result, dividends are distributed not only principally in cash, but also in stock. And should be at least 40% of total dividends.

3) The Company has the right to adjust its dividend policy in accordance with economic conditions, industry developments, and the Company's demand for funds.

Information on the employees' compensation and remuneration to directors proposed by the Company's board of directors is referred to in Note 29.

Legal reserve should be appropriated from earnings until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

The appropriations of earnings for 2019 and 2018 had been approved in the shareholders' meetings on May 28, 2020 and May 31, 2019, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31		Dividends Per Share (NT$) For the Year Ended December 31	
	2019	2018	2019	2018
Legal reserve	$ 373,395	$ 400,626		
Cash dividends	966,931	1,060,938	$ 0.72	$ 0.79

d. Other equity items

Unrealized valuation gain/loss on financial assets at FVTOCI

	For the Nine Months Ended September 30	
	2020	2019
Balance at January 1	$ 618,250	$ 344,212
Recognized for the period		
Unrealized gain or loss		
Debt instruments	655,869	282,829
Equity instruments	(5,203)	148,125
Adjustments of expected credit losses in debt instruments	3,956	9,401
Reclassification adjustments		
Disposal of investments in debt instruments	(61,089)	(58,135)
Other comprehensive income recognized in the period	593,533	382,220
Cumulative unrealized gain or loss on equity instruments transferred to retained earnings due to disposal	(74,133)	(95,645)
Balance at September 30	$ 1,137,650	$ 630,787

24. NET INTEREST

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Interest revenues				
Bonds	$ 318,186	$ 325,885	$ 999,573	$ 977,221
Short-term bills	100,009	147,576	331,198	423,597
Convertible bond asset swap	36,741	32,121	107,740	86,286
Securities purchased under resell agreements	4,071	1,421	6,240	2,905
Others	513	210	1,760	727
	459,520	507,213	1,446,511	1,490,736

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Interest expenses				
Bonds sold under repurchase agreements	$ (98,063)	$ (170,835)	$ (413,676)	$ (494,335)
Bills sold under repurchase agreement	(47,243)	(96,426)	(176,421)	(257,479)
Call loans from banks	(10,086)	(34,412)	(50,166)	(98,611)
Convertible bond asset swap	(714)	(375)	(2,359)	(1,422)
Lease liabilities	(17)	(50)	(59)	(183)
Others	(2,275)	(773)	(3,297)	(5,109)
	(158,398)	(302,871)	(645,978)	(857,139)
	$ 301,122	$ 204,342	$ 800,533	$ 633,597

(Concluded)

25. SERVICE FEE INCOME, NET

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Service fee income				
Guarantee business	$ 186,865	$ 174,795	$ 546,098	$ 509,812
Underwriting business	118,600	71,399	341,782	222,507
Others	4,430	4,264	13,354	10,454
	309,895	250,458	901,234	742,773
Service charge				
Others	(1,221)	(1,530)	(2,202)	(2,790)
	$ 308,674	$ 248,928	$ 899,032	$ 739,983

26. GAINS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term bills	$ 27,864	$ 11,689	$ 103,864	$ 39,635
Bonds	3,995	3,373	17,798	24,118
Stocks and mutual funds	225	(2,538)	(26,256)	(3,670)
Derivative financial instruments	(15,879)	(1,301)	(465)	5,773
	$ 16,205	$ 11,223	$ 94,941	$ 65,856

27. REALIZED GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Government bonds	$ 9,040	$ 8,436	$ (12,980)	$ 21,402
Corporate bonds	5,446	5,799	16,145	12,872
Bank debentures	23,634	6,888	57,924	23,861
Dividend revenues	29,783	20,601	35,947	26,704
	$ 67,903	$ 41,724	$ 97,036	$ 84,839

28. FOREIGN EXCHANGE GAINS (LOSSES), NET

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Gross amount of foreign currency exchange gain	$ 15,764	$ 8,915	$ 62,555	$ 35,052
Gross amount of foreign currency exchange loss	(22,567)	(7,050)	(87,552)	(29,287)
Net foreign exchange gain or loss	$ (6,803)	$ 1,865	$ (24,997)	$ 5,765

29. EMPLOYEE BENEFIT EXPENSES, DEPRECIATION AND AMORTIZATION

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Employee benefits				
Salaries and wages (include compensation to employees)	$ 67,792	$ 64,619	$ 197,534	$ 193,385
Labor insurance and national health insurance	3,427	4,094	10,248	12,092
Remuneration to directors	9,375	7,058	25,727	21,461
Pension (Note 22)	3,133	2,781	8,297	5,308
Others	5,112	4,807	18,348	14,626
Depreciation	2,390	5,502	7,289	16,539
Amortization	801	676	2,434	1,973

For the nine months ended September 30, 2019, the Company reversed a pension of $2,930 thousand due to the difference of actuarial report from prior years.

If the Company has profit in the year, the profit shall be reserved as employees' and the directors' compensation and resolved with the consent of the majority of the directors present at the meeting attended by more than two-thirds of the total directors. However, in case of accumulated losses, profit shall first be reserved to cover the losses.

The Company's compensation policy is as follows:

a. Employees: 1% to 2.5% of the profit;

b. Directors: 2.5% of the profit as an upper limit. The independent directors do not participate in assignment of remuneration.

The profit mentioned above is net profit before income tax without compensation to the employees and remuneration to directors.

The employees' compensation may be distributed by stocks or cash. The directors' compensation should only be distributed by cash. The appropriations of earnings for employees' and the directors' compensation should be approved by the Company's board of directors and reported to the shareholders in their meeting.

For the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019, the accrual rates and amounts of employees' compensation and the directors' remuneration were as follows:

Accrual rate

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Compensation to employees	1.25%	1.25%	1.25%	1.25%
Remuneration to directors	1.25%	1.25%	1.25%	1.25%

Amount

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Compensation to employees	$ 7,281	$ 5,024	$ 19,299	$ 15,113
Remuneration to directors	$ 7,281	$ 5,024	$ 19,299	$ 15,113

If there is a change in the amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

The employees' compensation to employees and remuneration to directors for 2019 and 2018 resolved by the Company's board of directors on February 25, 2020 and February 26, 2019, respectively, were listed below:

	For the Year Ended December 31	
	2019	**2018**
Compensation to employees - cash	$ 19,917	$ 20,901
Remuneration to directors	$ 19,917	$ 20,901

There was no significant difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the years ended December 31, 2019 and 2018.

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

30. OTHER OPERATING EXPENSES

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Taxation	$ 11,182	$ 9,837	$ 33,954	$ 30,034
Rental	3,564	185	10,473	484
Annual fee and allocated	1,282	1,256	3,230	4,082
Donations	-	880	750	880
Stock service fee	1,389	1,282	3,498	3,470
Others	13,143	12,476	38,521	40,994
	$ 30,560	$ 25,916	$ 90,426	$ 79,944

31. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Current tax				
In respect of the current period	$ 116,934	$ 73,043	$ 305,445	$ 219,469
Deferred tax				
In respect of the current period	(5,078)	3,493	5,921	12,343
Income tax expense recognized in profit or loss	$ 111,856	$ 76,536	$ 311,366	$ 231,812

b. Income tax recognized directly in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Deferred tax				
Current period				
Remeasurement of defined benefit plans	$ -	$ -	$ 22	$ (8)
Unrealized gains or losses on financial assets at FVTOCI	34,531	8,928	73,536	61,098
Income tax expense recognized in other comprehensive income	$ 34,531	$ 8,928	$ 73,558	$ 61,090

c. Income tax assessments

The tax returns through 2016 have been examined by the tax authorities.

32. EARNINGS PER SHARE

Earnings and weighted average number of ordinary shares used in calculating earnings per share were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Earnings used in the computation of basic earnings per share	$ 456,134	$ 317,739	$ 1,193,993	$ 949,382

Weighted average number of ordinary shares outstanding (in thousands of shares):

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Weighted average number of ordinary shares in the computation of basic earnings per share	1,342,960	1,342,960	1,342,960	1,342,960
Effect of potentially dilutive ordinary shares:				
Employees' compensation issued to employees	500	338	1,589	1,326
Weighted average number of ordinary shares used in the computation of diluted earnings per share	1,343,460	1,343,298	1,344,549	1,344,286

Unit: NT$ Per Share

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Basic earnings per share	$ 0.34	$ 0.24	$ 0.89	$ 0.71
Diluted earnings per share	$ 0.34	$ 0.24	$ 0.89	$ 0.71

If the Company offered to settle compensation paid to employees in cash or stocks, the Company assumed the entire amount of the compensation will be settled in stocks, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

33. RELATED PARTY TRANSACTIONS

a. The related parties and their relationship with the Company are summarized as follows:

Related Party	Relationship with the Company
O-Bank	Parent of the Company
O-Bank Education Foundation (OBTEF)	O-Bank is the major donor of the foundation
Others	The Company's Chairman of the board is the director of the company.
	Individuals and close relatives of the Company's major management, related party in substance

b. The significant transactions and balances with the related parties are summarized as follows:

1) Security transactions under repurchase agreements

For the three months ended September 30, 2020

Related Party	Security Sold Under Repurchase Agreements	Intervals of Interest Rate	Interest Expense
Others	$ 3,844,270	0.22%-1.85%	$ 1,406

For the three months ended September 30, 2019

Related Party	Security Sold Under Repurchase Agreements	Intervals of Interest Rate	Interest Expense
Others	$ 1,604,652	0.36%-0.48%	$ 695

For the nine months ended September 30, 2020

Related Party	Security Sold Under Repurchase Agreements	September 30, 2020	Intervals of Interest Rate	Interest Expense
Others	$ 7,565,398	$ 1,530,759	0.22%-2.40%	$ 4,258

For the nine months ended September 30, 2019

Related Party	Security Sold Under Repurchase Agreements	September 30, 2019	Intervals of Interest Rate	Interest Expense
Others	$ 2,160,189	$ 461,794	0.36%-0.48%	$ 1,718

2) Bonds and short-term bills acquired

For the three months ended September 30, 2020

Related Party	Bills	Bonds	Total
Parent company			
O-Bank	$ -	$ -	$ -

For the three months ended September 30, 2019

Related Party	Bills	Bonds	Total
Parent company			
O-Bank	$ -	$ -	$ -

For the nine months ended September 30, 2020

Related Party	Bills	Bonds	Total
Parent company			
O-Bank	$ -	$ -	$ -

For the nine months ended September 30, 2019

Related Party	Bills	Bonds	Total
Parent company			
O-Bank	$ -	$ 49,824	$ 49,824

3) Bonds and short-term bills sold

For the three months ended September 30, 2020

Related Party	Amounts	Gain (Loss) on Disposal of Financial Assets at Fair Value Through Profit or Loss
Parent company		
O-Bank	$ -	$ -

For the three months ended September 30, 2019

Related Party	Amounts	Gain (Loss) on Disposal of Financial Assets at Fair Value Through Profit or Loss
Parent company		
O-Bank	$ -	$ -

For the nine months ended September 30, 2020

Related Party	Amounts	Gain (Loss) on Disposal of Financial Assets at Fair Value Through Profit or Loss
Parent company		
O-Bank	$ -	$ -

For the nine months ended September 30, 2019

Related Party	Amounts	Gain (Loss) on Disposal of Financial Assets at Fair Value Through Profit or Loss
Parent company		
O-Bank	$ 99,609	$ 156

4) Lease arrangements

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
Related Party Category/Name	2020	2019	2020	2019
Acquisition of right-of-use assets				
Parent company				
O-Bank	$ -	$ -	$ -	$ 13,071

Line Item	Related Party Category/Name	September 30, 2020	December 31, 2019	September 30, 2019
Lease liabilities	Parent company			
	O-Bank	$ -	$ -	$ 3,288

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
Related Party Category/Name	2020	2019	2020	2019
Interest expense				
Parent company:				
O-Bank	$ -	$ 22	$ -	$ 106
Lease expense (accounted as other operating expenses)				
Parent company:				
O-Bank	$ 3,487	$ -	$ 9,912	$ -

In January 2020 and January 2012, the Company entered into operating lease agreements with O-bank for the use of O-bank's building and parking lots. The lease terms of the contracts were 1 year and 8 years, respectively. The rentals are based on similar asset's market rental rates and fixed lease payments are paid monthly.

Lease expenses include expenses relating to short-term leases, low-value asset leases and variable lease payments that do not depend on an index or a rate. Future lease payables related to short-term leases and low-value asset leases are as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Total lease payments to be paid in the future	$ 3,304	$ 13,216	$ -

5) Donations

For the nine months ended September 30, 2019, the Company's donation expense (recorded under other operating expense) to O-Bank Education Foundation for supporting national academic and cultural activities was $880 thousand.

c. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term employee benefits	$ 18,682	$ 16,484	$ 53,646	$ 49,969
Post-employment benefits	1,147	1,475	3,468	3,933
	$ 19,829	$ 17,959	$ 57,114	$ 53,902

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

34. PLEDGED ASSETS

The following assets were provided as collaterals for call loans from banks and overdrafts:

	September 30, 2020	December 31, 2019	September 30, 2019	Purposes
Financial assets at fair value through profit or loss				
Negotiable certificate of deposits	$ 1,600,917	$ 1,601,618	$ 1,601,762	Credit line for loans
Negotiable certificate of deposits	700,091	700,147	700,057	Deposits placed with authorities to carry out bills finance businesses
Negotiable certificate of deposits	1,700,121	1,700,165	1,700,385	Deposits placed with bank overdrafts

(Continued)

	September 30, 2020	December 31, 2019	September 30, 2019	Purposes
Financial assets at fair value through other comprehensive income				
Government bonds	$ 90,817	$ 90,473	$ 90,473	OTC online deposits refund
Government bonds	35,318	35,184	35,184	Deposits placed with authorities to operate as a security dealer
Other financial assets				
Certificate of deposits	525,000	525,000	525,000	Deposits placed with bank overdrafts

(Concluded)

35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of September 30, 2020 were as follows:

Bonds and bills sold under repurchase agreements (at repurchase price)	$ 177,788,030
Bonds and bills purchased under resell agreements (at resell price)	7,324,012
Guarantees on commercial paper	107,201,500
Fixed-rate commercial paper commitments	18,300,000
Benchmark interest rate commercial paper commitments	45,725,000
Purchase commitment contracts	12,300,000
Revolving insurance on commercial paper commitments	15,945,000

36. CAPITAL RISK MANAGEMENT

a. Overview

The basic goal of the Company's capital risk management is to maintain the regulatory capital and the capital adequacy ratio based on the minimum requirements of the authorities and the Basel Accords framework. For enhanced risk taking and an efficient and effective resource allocation, the Company evaluates its capital requirement in consideration of the nature of its risks and various risk scenarios.

b. Capital management process

The capital adequacy ratio is maintained by risk management department, fixed income products department and administration department based on the requirements of the authorities, which is reported to the Company's president in the assets and liabilities committee monthly and to the authorities quarterly.

c. Capital adequacy rate

(Unit:%)

Items		Year: June 30, 2020	June 30, 2019
Eligible capital	Tier 1 capital	$ 22,981,312	$ 22,602,086
	Tier 2 capital	131,830	105,866
	Tier 3 capital	506,873	249,067
	Eligible capital	23,620,015	22,957,019
Risk-weighted assets	Credit risk	124,377,005	116,363,830
	Operational risk	3,807,116	3,991,085
	Market risk	61,408,454	57,586,430
	Total risk-weighted assets	189,592,575	177,941,345
Capital adequacy ratio (Note)		12.46	12.90
Ratio of Tier 1 capital to risk-weighted assets (Note)		12.12	12.70
Ratio of Tier 2 capital to risk-weighted assets (Note)		0.07	0.06
Ratio of Tier 3 capital to risk-weighted assets (Note)		0.27	0.14
Ratio of common shareholders' equity to total assets (Note)		6.72	6.82

Note: Formulas used were as follows:

1) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.

2) The amount of total assets used in the calculation refers to all assets in the balance sheets.

3) The capital adequacy ratios (CARs) should be computed at the end of June and December. The reports of the first-quarter and the third-quarter the CARs disclosed are based on the data of the last preceding period, i.e., the end of December and the end of June, respectively.

4) Eligible capital and risk-weighted assets are calculated under the "Regulations Governing the Capital Adequacy Ratio of Bills Finance Companies" and "Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Bills Finance Companies".

37. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

For financial assets and financial liabilities that are not measured at fair value, e.g., cash and cash equivalents, receivables, other financial assets, net and accounts payable, their carrying amounts as recognized in the financial statements approximate their fair values.

b. Definitions of the fair value hierarchy

1) Level 1 - inputs are quoted prices in active markets (for identical assets or liabilities that the Company can assess at the measurement date). Active markets feature all of the following conditions: (i) the products traded in the market are homogeneous, (ii) market participants anytime in the market, and (iii) price information that is available to the public. The investment in listed shares, beneficiary certificates, convertible bonds and derivative instruments with quoted prices in active markets belong to this level.

2) Level 2 - inputs are those other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices). The investments in government bonds, corporate bonds, bank debentures and a part of derivative instruments belong to this level.

3) Level 3 - inputs are not based on observable market data (i.e., unobservable inputs). The investment in a part of a derivative instrument, a hybrid asset and an equity instrument belong to this level.

c. Valuation techniques and assumptions applied for the purpose of measuring the fair values

Financial instruments refer to quoted market prices for fair value. If quoted market prices are not available, then fair value is determined by using a valuation technique. This valuation methodology is based upon the market parameters to derive the value of the positions and incorporate estimates, as well as assumptions consistent with those generally used by other market participants to price financial instruments.

If the market price quotation from a stock exchange, brokers, underwriters, Industrial Trade Unions, pricing service agencies or competent authorities can be frequently obtained on time, and the price represents the actual and frequent transactions at arm's length, then a financial instrument is deemed to have an active market. If financial instruments do not satisfy the criteria above, they are regarded as not having active market. In general, significant price variance between the purchase price and selling price, or extremely low trading volume are all indicators of an inactive market.

Except for reference to quoted market prices, the fair value of financial instruments may be estimated also through the use of available valuation technique or counterparties. Fair value measured by a valuation technique is estimated by reference to the fair values of other financial instruments with similar terms and characteristics, or by using cash flows discounting method, or using model calculation based on the market information available on the balance sheet date.

Fair values of derivative financial instruments are based on quoted market prices. If quoted market prices are not available, then the fair values are determined by the discounted cash flow method.

d. The fair value hierarchy of the financial instruments as of September 30, 2020, December 31, 2019 and September 30, 2019 was as follows:

1) The fair value hierarchy

Item	September 30, 2020			
	Total	**Level 1**	**Level 2**	**Level 3**
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily classified as at FVTPL				
Shares	$ 3,990	$ 3,990	$ -	$ -
Bonds	154,837	154,837	-	-
Bills	100,411,540	-	100,414,540	-
Fixed-rate commercial paper	78,743	-	78,743	-
Beneficiary securities	502,911	-	502,911	-
Financial assets at FVTOCI				
Shares	1,070,393	701,425	-	368,968
Bonds	102,416,695	-	102,416,695	-
Beneficial securities on real estate investment trust	146,850	146,850	-	-

(Continued)

Item	September 30, 2020			
	Total	Level 1	Level 2	Level 3
Liabilities				
Financial liabilities at fair value through profit or loss	$ 98	$ -	$ 98	$ -
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	10,133,709	-	8,910	10,124,799
Liabilities				
Financial liabilities at fair value through profit or loss	12,495	-	12,495	-

(Concluded)

Item	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily classified as at FVTPL				
Shares	$ 217,569	$ 217,569	$ -	$ -
Bonds	220,195	120,203	99,992	-
Bills	82,462,513	-	82,462,513	-
Fix-rate commercial paper	50,800	-	50,800	-
Beneficiary securities	500,000	-	500,000	-
Financial assets at FVTOCI				
Shares	1,253,515	896,548	-	356,967
Bonds	101,716,711	-	101,716,711	-
Beneficial securities on real estate investment trust	147,000	147,000	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	4,462	-	4,462	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	8,633,728	-	10,279	8,623,449
Liabilities				
Financial liabilities at fair value through profit or loss	660	-	660	-

Item	September 30, 2019 Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily classified as at FVTPL				
Shares	$ 49,275	$ 49,275	$ -	$ -
Bonds	249,858	150,423	99,435	-
Bills	94,771,586	-	94,771,586	-
Fixed-rate commercial paper	45,877	-	45,877	-
Financial assets at FVTOCI				
Shares	425,784	74,898	-	350,886
Bonds	97,634,066	-	97,634,066	-
Beneficial securities on real estate investment trust	131,250	131,250	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	170	-	170	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	8,204,768	-	-	8,204,768
Liabilities				
Financial liabilities at fair value through profit or loss	620	-	620	-

2) The Company had no significant transfers between Levels 1 and 2 for the nine months ended September 30, 2020 and 2019.

3) Reconciliation of Level 3 items of financial instruments

For the nine months ended September 30, 2020

Financial Assets	Financial Assets at Fair Value Through Profit or Loss Hybrid Financial Assets	Financial Assets at Fair Value Through Other Comprehensive Income Equity Instruments	Total
Balance at January 1, 2020	$ 8,623,449	$ 356,967	$ 8,980,416
Recognized in profit or loss	21,550	-	21,550
Recognized in other comprehensive income (unrealized gain or loss of equity instruments on financial assets at FVTOCI)	-	12,001	12,001
Purchases	7,506,600	-	7,506,600
Sales	(6,026,800)	-	(6,026,800)
Balance at September 30, 2020	$ 10,124,799	$ 368,968	$ 10,493,767

For the nine months ended September 30, 2019

Financial Assets	Financial Assets at Fair Value Through Profit or Loss Hybrid Financial Assets	Financial Assets at Fair Value Through Other Comprehensive Income Equity Instruments	Total
Balance at January 1, 2019	$ 6,498,395	$ 294,613	$ 6,793,008
Recognized in profit or loss	15,373	-	15,373
Recognized in other comprehensive income (unrealized gain or loss of equity instruments on financial assets at FVTOCI)	-	56,273	56,273
Purchases	7,798,200	-	7,798,200
Sales	(6,107,200)	-	(6,107,200)
Balance at September 30, 2019	$ 8,204,768	$ 350,886	$ 8,555,654

Unrealized gain and loss recognized in profit or loss for the nine months ended September 30, 2020 and 2019 for the assets held on the balance sheet date amounted to net gain of $27,399 thousand and gain of $9,268 thousand, respectively.

4) Quantitative information of Level 3 financial instruments

Level 3 items (those with unobservable inputs) included financial assets at fair value through profit or loss and derivative financial instruments. Level 3 items of the Company contain only one significant unobservable inputs.

The quantitative information of significant unobservable input was as follows:

	Fair Value at September 30, 2020	Valuation Techniques	Significant Unobservable Inputs	Range	Relationship Between Inputs and Fair Value
Financial assets at fair value through profit or loss					
Hybrid financial assets	$ 10,124,799	Discounted cash flow method	a) Discount rate b) Liquidity risk premium	0.4666%-0.7068% 39BP-220BP	The higher of discount rate, the lower of fair value. The higher of liquidity risk premium, the lower of fair value.
Financial assets at fair value through other comprehensive income					
Unlisted shares	368,968	Asset method	a) Lack of liquidity discount b) Lack of control discount	10% 10%	The higher of liquidity and control discount, the lower of fair value.

	Fair Value at December 31, 2019	Valuation Techniques	Significant Unobservable Inputs	Range	Relationship Between Inputs and Fair Value
Financial assets at fair value through profit or loss					
Hybrid financial assets	$ 8,623,449	Discounted cash flow method	a) Discount rate	0.6345%-0.8300%	The higher of discount rate, the lower of fair value. The higher of liquidity risk premium, the lower of fair value.
			b) Liquidity risk premium	39BP-220BP	
Financial assets at fair value through other comprehensive income					
Unlisted shares	356,967	Asset method	a) Lack of liquidity discount	10%	The higher of liquidity and control discount, the lower of fair value.
			b) Lack of control discount	10%	

	Fair Value at September 30, 2019	Valuation Techniques	Significant Unobservable Inputs	Range	Relationship Between Inputs and Fair Value
Financial assets at fair value through profit or loss					
Hybrid financial assets	$ 8,204,768	Discounted cash flow method	a) Discount rate	0.4424%-0.8252%	The higher of discount rate, the lower of fair value. The higher of liquidity risk premium, the lower of fair value.
			b) Liquidity risk premium	39BP-220BP	
Financial assets at fair value through other comprehensive income					
Unlisted shares	350,886	Asset method	a) Lack of liquidity discount	10%	The higher of liquidity and control discount, the lower of fair value.
			b) Lack of control discount	10%	

5) Process for valuation of Level 3 items

The team responsible for financial instrument valuation under the risk management division is responsible for determining fair value based on independent information on the market situation. To confirm the valuation result, the Company periodically reviews the valuation model, conducts back testing, updates valuation model parameters and adjusts each parameter, if necessary.

6) The sensitivity analysis of Level 3 items

The method for measuring the fair value of financial instruments is found to be reasonable. However, measurement parameters are subject to fluctuations or movements. The impact on income and other comprehensive income based on parameter movements was as follows:

Items	Inputs	Discount Rate Movement: Upward/ Downward	Effect on Income		Effect on Other Comprehensive Income	
			Advantages	Disadvantages	Advantages	Disadvantages
September 30, 2020						
Assets						
Hybrid financial assets	Discount rate	Upward 1BP	$ -	$ 1,358	$ -	$ -
Unlisted shares	Lack of liquidity and control discount	Upward 10%	-	-	-	45,552

Items	Inputs	Discount Rate Movement: Upward/ Downward	Effect on Income		Effect on Other Comprehensive Income	
			Advantages	Disadvantages	Advantages	Disadvantages
December 31, 2019						
Assets						
Hybrid financial assets	Discount rate	Upward 1 BP	$ -	$ 1,244	$ -	$ -
Unlisted shares	Lack of liquidity and control discount	Upward 10%	-	-	-	44,070

Items	Inputs	Discount Rate Movement: Upward/ Downward	Effect on Income		Effect on Other Comprehensive Income	
			Advantages	Disadvantages	Advantages	Disadvantages
September 30, 2019						
Assets						
Hybrid financial assets	Discount rate	Upward 1BP	$ -	$ 1,225	$ -	$ -
Unlisted shares	Lack of liquidity and control discount	Upward 10%	-	-	-	43,319

Advantages and disadvantages refer to changes in fair value. The fair value was computed by valuation techniques using unobservable parameters in varying degrees. The table above refers to change in fair value as result of a single input. The correlation and variation of inputs were not considered in the table.

e. Transfers of financial assets

Transferred financial assets not derecognized

Most of the transferred financial assets of the Company that were not fully derecognized were securities sold under repurchase agreements. Under the terms of these transfers, the right to the cash flows of the transferred financial assets would be transferred to other entities, and the associated liabilities of the Company’s obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. Since the Company is restricted from using, selling, or pledging the transferred financial assets within the transaction period, and is still exposed to interest rate risks and credit risks on these assets, the transferred financial assets were not fully derecognized.

The financial assets that were not fully derecognized and the associated financial liabilities were as follows:

September 30, 2020

Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities
Financial assets at fair value through gain or loss		
Bills sold under repurchase agreements	$ 72,898,541	$ 72,933,487
Bonds sold under repurchase agreements	947,288	945,161
Financial assets at FVTOCI		
Bonds sold under repurchase agreements	94,157,555	96,284,901
Securities purchase under resell agreements		
Bonds sold under repurchase agreements	7,322,042	7,548,570

December 31, 2019

Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities
Financial assets at fair value through gain or loss		
Bills sold under repurchase agreements	$ 61,832,316	$ 61,873,869
Bonds sold under repurchase agreements	787,443	777,184
Financial assets at FVTOCI		
Bonds sold under repurchase agreements	92,085,581	93,927,924
Securities purchase under resell agreements		
Bonds sold under repurchase agreements	100,013	110,860

September 30, 2019

Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities
Financial assets at fair value through gain or loss		
Bills sold under repurchase agreements	$ 72,441,734	$ 72,433,247
Bonds sold under repurchase agreements	101,015	100,000
Financial assets at FVTOCI		
Bonds sold under repurchase agreements	86,384,627	87,958,838
Securities purchase under resell agreements		
Bonds sold under repurchase agreements	2,190,130	2,266,804

f. Offsetting financial assets and financial liabilities

Certain transactions of the Company covered by enforceable master netting agreements or similar agreements, or under similar repurchase agreements may not meet all offsetting criteria under IFRSs. However, in these transactions, financial liabilities are allowed to be offset against financial assets when any of the counterparties specifies to settle at net amounts. If no counterparty specifies to settle at net amounts, the transactions will be settled at gross amounts instead. One of the counterparties can decide to settle at net amounts if the other party of the transaction defaults.

The tables below present the quantitative information of financial assets and financial liabilities on the balance sheets that had been offset or are covered by enforceable master netting arrangements or similar agreements.

September 30, 2020

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	$ 8,910	$ -	$ 8,910	$ -	$ -	$ 8,910

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Pledged	
Repurchase agreements	$ 177,712,119	$ -	$ 177,712,119	$ 175,325,426	$ -	$ 2,386,693

December 31, 2019

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	$ 10,279	$ -	$ 10,279	$ -	$ -	$ 10,279

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Pledged	
Repurchase agreements	$ 156,689,837	$ -	$ 156,689,837	$ 154,805,353	$ -	$ 1,884,484

September 30, 2019

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Pledged	
Repurchase agreements	$ 162,758,889	$ -	$ 162,758,889	$ 161,117,506	$ -	$ 1,641,383

Note: Included non-cash financial collaterals.

38. FINANCIAL RISK MANAGEMENT

a. Overview

The main goals of risk management, besides meeting the requirements of authorities, are to manage risk assets and liabilities systematically, avoid financial crisis and pursue sustainable development. To attain these goals, the Company runs various risk management systems and promotes a culture toward risk management, with the approval of the board of directors and management. The Company's risk management process covers various aspects of its operations and involves the efficient disclosure and control of operating risks through the implementation of procedures for risk identification, measurement, reporting, handling, and supervision.

b. Risk management framework and process

The board of directors occupies the highest level in the Company's risk management framework and supervises the implementation of risk management procedures. The general manager leads the business risk management and financial asset and liability management committee; the business evaluation committee and investment evaluation committee, which are under the president, deal with market, credit, and operational risks; and the internal auditing office supervises risk control.

The Company's risk management process involves the formulation of risk management policies and the implementation of risk management procedures, which consist of identifying, valuating, monitoring and reporting of risks. The board of directors determines the Company's risk threshold and sets authorization levels on risk acceptance, and the risk management department identifies and monitors various kinds of risks and reports these risks to the management for decision making.

c. Financial risk management policy

1) Credit risk

The Company manages credit quality of bills, bonds, equity investments and derivatives to maintain possible losses and liquidity risk arising from credit risk. The Company prepares a variety of report forms focusing on credit conditions, statics of business, risk exposure, risk management and reports to the management and the authority regularly.

2) Market risk

The Company evaluates market risk factors affecting bills, bonds, equity investments and derivatives for the impact of these factors on the Company's net worth and profit and loss and takes measures to control market risk. The management division summarizes stop-loss control report forms and makes daily reports to the management for ongoing risk supervision. It also summarizes value at risk, conclusions of interest rate stress tests and status of profit and loss on financial assets and gives related updates to the financial asset and liability management committee.

3) Operational risk

The operating, financial and information technology divisions conduct thorough general self-inspections once every six months and special self-inspection every month. The internal auditing office does a routine audit and a special audit at least annually of the operating, financial and information technology divisions and a special audit at least annually of other management divisions, and monitors the improvement of these divisions on the basis of audit results.

4) Liquidity risk

The fixed return division is in charge of financial gap analysis, and the risk management division is responsible for the daily monitoring of total amounts of liabilities and performing liquidity stress tests regularly to control risk.

d. Resource and definition of risk

1) Credit risk

Credit risk refers to a debtor or a counterparty's failure to meet contract terms or to repay principal and interest. It includes (a) the issuer default risk arising from the Company's guaranteeing of bills and from the brokering and trading of bills and bonds, (b) the counterparty default risk on derivatives, and (c) default risk arising from the Company's own equity investments.

2) Market risk

Market risk pertains to the impact on the Company's net worth and profit and loss of changes in market factors affecting bills, bonds, equity investments and derivatives.

3) Operational risk

Operational risk refers to additional costs or expenses due to operating or internal management negligence or other reasons.

4) Liquidity risk

Liquidity risk pertains to losses the Company may suffer because of failure to finance its operations or to liquidate its assets fast enough to meet matured payment obligations or because of adverse changes in market rates. A liquidity gap occurs when liquid assets are not enough to cover any liabilities incurred by the Company.

e. Hedge policy and supervision

1) Credit risk

The "Loan Review System" is used to monitor debt accounts after the loan approval. In addition, the risk management division and relevant divisions determine the credit limit for each frequent borrower, and this limit is approved by the Company president. These divisions provide credit information periodically on the status of issuers of bonds and shares and guarantors as well as the credit-evaluation of counterparties to commodity derivative transactions so that the Company can measure each credit risk.

2) Market risk

The Company hedges against cash flow risks and adverse fluctuations of fair value through single or multiple portfolio hedge instruments to offset the effects of negative interest rate and price changes on the financial assets held by the Company. It uses interest rate swap contracts as hedging instruments and makes hedge effectiveness tests on an ongoing basis.

3) Operational risk

Mutual authentication of transactions is applied, i.e., the business division is responsible for authorizing and approving transactions, and the operating division is responsible for processing and recording transactions. In addition, through enhanced employee training, automation of operating processes and establishing standard operating procedures, the Company reduces operational risk effectively.

4) Liquidity risk

The Company has a mechanism for monitoring liquidity. It has also set up a financial gap limit per period, and the fixed return division is responsible for observing this limit. Under an authorized personnel's approval, the Company takes appropriate measures to ensure payment by a counterparty once the financial gap limit is exceeded. For unexpected liquidity risks, the Company has set up an emergency reaction plan.

f. Expected credit losses calculation

In the assessment of impairment and calculation of expected credit losses, the Company considers reasonable and supportable information (that can be obtained without incurring excessive costs or inputs) about past events, current conditions and reasonable and supportable forecasts of future economic conditions. The Company determines at the reporting date whether there has been a significant increase in credit risk since initial recognition or whether credit impairment has occurred, and recognizes expected credit losses according to which stage the asset belongs: No significant increase in credit risk or low credit risk at balance sheet date (Stage 1), significant increase in credit risk (Stage 2), and credit impaired (Stage 3).

The definition of each stage and the recognition of expected credit loss are as follows:

	Stage 1	**Stage 2**	**Stage 3**
Definition	Financial asset which has low credit risk at reporting date, or there has not been a significant increase in credit risk since initial recognition.	Credit risk of financial asset has significant increase since initial recognition but not impaired.	The credit of financial asset is impaired at reporting date.
Recognition of expected credit loss	12 months expected credit losses	The lifetime expected credit losses (ECLs)	The lifetime expected credit losses (ECLs)

In calculating expected credit losses under IFRS 9, the Company applies key judgement and assumptions as follows:

1) Determination of a significant increase in credit risk after initial recognition

   The Company assesses the changes in default risk over the lifetime of credit assets and investments in debt instruments of financial assets at FVTOCI to determine whether there has been a significant increase in credit risk.

   a) Credit business

      The main indicators of significant increase in credit risk of the Company's credit business:

      i. The repayment of principal and interest has been 1 to 3 months past due.

      ii. The debtor only pays interest or initiates debt negotiations.

      iii. The debtor was notified as a dishonored account.

      iv. The debtor's loans from other financial institutions have been delayed.

      v. The debtor has other records of bad credit.

b) Bonds and bills investments

Indicators that the Company's bonds and bills investments have significant increase in credit risk are as follows:

i. The repayment including interests is over 30 days.

ii. Domestic currency: Credit rating at reporting date compared to initial recognition, the credit rating has decreased from twA to between twA- and twCCC- or from between twA- and twBBB- to between twBB+ and twCCC-.

iii. Foreign currency: Credit rating at reporting date compared to initial recognition, the credit rating has decreased from Baa3 to between Ba1 and Caa3 or from between Ba1 and Ba3 to between B1 and Caa3.

2) Definition of default and credit impaired financial assets

a) Credit business

i. The balance of guarantees and endorsement credits has been 3 months overdue.

ii. The debtor's loans from other financial institutions have been reclassified as overdue loan or written off as bad debt.

iii. The debtor has filed for reorganization and bankruptcy.

iv. The debtor has other records of bad credit.

b) Bond and bills investments

The Company's bonds and bills investments with any item below are considered as credit-impaired:

i. The repayment including interests has been 3 months overdue.

ii. The credit is rated as in default at reporting date.

iii. The issuer has filed for the bankruptcy, reorganization or other procedure of debt redemptions.

3) Write-off policy

Under the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt", the credit shall be written off as bad debt after deduction of the estimated recoverable portion:

a) All or part of the debt is unrecoverable due to the dissolution, flight, settlement, bankruptcy or other reason of the debtor.

b) The debt cannot be repaid, or no financial benefit would accrue from execution after deduction of senior mortgages on the collateral and the property of the primary and secondary debtor.

c) Where there are no buyers for the collateral and the property of the primary and secondary debtor after being auctioned at successively lower prices, and their assumption would bring no financial benefit for the bills finance company.

d) More than one year have elapsed since the maturity date of the non-performing or non-accrual credit and collection efforts have failed.

e) Any uncollateralized non-performing or non-accrual credit shall be written off as bad debt within six months after the maturity date, provided that this requirement shall not apply when it can be proven that a claim against the property of the primary or secondary debtor would yield benefit.

4) Measurement of expected credit losses

The model of expected credit losses is composed of probability of default, loss given default, and exposure at default.

a) Credit business

i. Probability of default:

i) Stage 1: Number of declining client in the current year ÷ number of client at the beginning of the year. The average of the current evaluation period is the probability of default which evaluation period is current 5 years. If the current evaluation period is 5 years, then the average of the 5 years is the probability of default.

ii) Stage 2: Number of default client in the current year ÷ number of Stage 2 client at the beginning of the year. The average of 5 years is the probability of default. However, under the conservative principle, the higher rate between Stage 1 and Stage 2 will be used to calculate the expected credit losses.

ii. Loss given default (1 - recovery rate), the way to calculate recovery rate is as follows:

To calculate 5 years recovery rate, the Company uses the effective interest rate (average of issued interest rate in primary market in the current year) to discount the client's recovery amount who defaulted from 2008.

iii. Exposure at default: The amount of self-guarantee, which is an off balance sheet item and calculated by commercial paper guarantee contracts.

b) Bonds and bills investments

i. Probability of default: Adopt data of external credit ratings.

ii. Loss given default: Basel of credit risk of internal ratings, the loss given default based on foundation approach.

iii. Exposure at default: Total book cost (including interest receivables).

5) Consideration of forward-looking information

a) Credit business

i. Refer to major message of Market Observation Post System and external credit ratings.

ii. The Company's credit contracts are all within a year, which adequately considered the comprehensive forward-looking information of clients' background, financial situation, operation performance, investment performance, repayment ability, peer comparison, and industry development of internal credit process and internal credit rating.

b) Bond and bills investments

The rating is forward-looking according to rating criteria refer to institution of external rating.

g. Material financial risk

1) Credit risk

The financial instruments held by the Company may give rise to losses if counterparties fail to meet their contract obligations. Thus, when guaranteeing commercial paper, the Company makes a careful credit evaluation, and if necessary, requires issuers to offer adequate collaterals. Collaterals are often cash, realty, securities or other assets. If counterparties default, the Company may compulsorily execute its rights to claim the collaterals to lower its credit risks effectively. However, in the disclosure of the maximum exposure to credit risks, the fair value of collaterals is not included.

For commercial paper, the Company may need to pay the paper holders on maturity if the issuers default. Thus, the contractual amounts do not represent actual future cash flows.

Assuming that a credit is completely used and the collaterals lose their values, the credit risk amount equals the contract amount, and a maximum exposure risk may arise.

a) The balances of commercial paper guarantee contracts, amounts used of guarantee contracts and ratios of guarantees with collateral, which are considered as off-balance sheet risks of the Company has are as follows:

i. As for September 30, 2020, December 31, 2019 and September 30, 2019, guarantees with collateral accounted for 61.20%, 60.27% and 58.54%, respectively, of the total guarantees given by the Company.

ii. As for September 30, 2020, December 31, 2019 and September 30, 2019, balances of commercial paper guarantee contracts, which were off-balance sheet risks owned by the Company amounted to $188,846 million, $188,047 million and $182,674 million (amounts used of guarantee contracts were $107,202 million, $108,292 million and $107,451 million), respectively.

iii. The maximum exposures to credit risks on balance-sheet assets, without consideration of the related guarantees, approximate the assets’ carrying amounts. Refer to notes in the financial statements.

iv. The movements in reserve guarantee liabilities

The movements in reserve guarantee liabilities were as follows:

For the nine months ended September 30, 2020

	Stage 1 Performing (12-month ECL)	Stage 2 Doubtful (Lifetime ECL-Assessment Collectively)	Stage 3 Doubtful (Lifetime ECL-Assessment Individually)	Recognition of Impairment under IFRS 9	Recognition of Impairment Difference under the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt"	Total
Balance at January 1	$ 15,313	$ 21	$ -	$ 15,334	$ 1,309,743	$ 1,325,077
Changes from credit assets recognized at the beginning of the period						
The impairment allowance for credit assets derecognized in the current period	(3,438)	(5)	-	(3,443)	-	(3,443)
Originated or purchased new credit assets	3,289	-	-	3,289	-	3,289
Recognition of impairment difference under the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt"	-	-	-	-	138	138
Changes of model/risk parameter	16	-	-	16	-	16
Balance at September 30	$ 15,180	$ 16	$ -	$ 15,196	$ 1,309,881	$ 1,325,077

For the nine months ended September 30, 2019

	Stage 1 Performing (12-month ECL)	Stage 2 Doubtful (Lifetime ECL-Assessment Collectively)	Stage 3 Doubtful (Lifetime ECL-Assessment Individually)	Recognition of Impairment under IFRS 9	Recognition of Impairment Difference under the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt"	Total
Balance at January 1	$ 43,401	$ 64	$ -	$ 43,465	$ 1,266,612	$ 1,310,077
Changes from credit assets recognized at the beginning of the period						
The impairment allowance for credit assets derecognized in the current period	(3,478)	-	-	(3,478)	-	(3,478)
Originated or purchased new credit assets	3,905	-	-	3,905	-	3,905
Recognition of impairment difference under the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt"	-	-	-	-	28,250	28,250
Changes of model/risk parameter	(28,634)	(43)	-	(28,677)	-	(28,677)
Balance at September 30	$ 15,194	$ 21	$ -	$ 15,215	$ 1,294,862	$ 1,310,077

v. Exposure to credit risk

The amounts of the Company's maximum exposure to credit risk and impairment allowance were as follows:

September 30, 2020

	On- and off- Balance Sheet Credit Assets				
	Stage 1		Stage 3		
	Performing (12-month ECLs)	Stage 2 Doubtful (Lifetime ECLs)	Doubtful (Lifetime ECLs)	Credit Impairment of Purchase	Total
Rating level					
Internal rating 1-2	$ 107,124,781	$ 111,500	$ -	$ -	$ 107,236,281
Internal rating 3-4	-	-	-	-	-
Defect	-	-	-	-	-
Total book value	$ 107,124,781	$ 111,500	$ -	$ -	$ 107,236,281
Impairment allowance	$ 15,180	$ 16	$ -	$ -	$ 15,196
Recognition of impairment under the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt"	1,198,397	111,484	-	-	1,309,881
	$ 1,213,577	$ 111,500	$ -	$ -	$ 1,325,077

December 31, 2019

	On- and off- Balance Sheet Credit Assets				
	Stage 1		Stage 3		
	Performing (12-month ECLs)	Stage 2 Doubtful (Lifetime ECLs)	Doubtful (Lifetime ECLs)	Credit Impairment of Purchase	Total
Rating level					
Internal rating 1-2	$ 108,179,879	$ 147,400	$ -	$ -	$ 108,327,279
Internal rating 3-4	-	-	-	-	-
Defect	-	-	-	-	-
Total book value	$ 108,179,879	$ 147,400	$ -	$ -	$ 108,327,279
Impairment allowance	$ 15,313	$ 21	$ -	$ -	$ 15,334
Recognition of impairment under the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt"	1,177,714	132,029	-	-	1,309,743
	$ 1,193,027	$ 132,050	$ -	$ -	$ 1,325,077

September 30, 2019

	On- and off- Balance Sheet Credit Assets				
	Stage 1		Stage 3		
	Performing (12-month ECLs)	Stage 2 Doubtful (Lifetime ECLs)	Doubtful (Lifetime ECLs)	Credit Impairment of Purchase	Total
Rating level					
Internal rating 1-2	$ 107,341,985	$ 147,900	$ -	$ -	$ 107,489,885
Internal rating 3-4	-	-	-	-	-
Defect	-	-	-	-	-
Total book value	$ 107,341,985	$ 147,900	$ -	$ -	$ 107,489,885
Impairment allowance	$ 15,194	$ 21	$ -	$ -	$ 15,215
Recognition of impairment under the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt"	1,162,433	132,429	-	-	1,294,862
	$ 1,177,627	$ 132,450	$ -	$ -	$ 1,310,077

vi. The amounts of the Company's maximum exposure to credit risk of financial instruments were not applicable regulations of impairment and as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Financial assets at fair value through profit or loss			
Derivative financial instruments			
Currency swap contracts	$ 8,910	$ 10,115	$ -
Purchase commitment contracts	-	164	-
Non-derivative financial instruments			
Investment in short-term bills	100,411,540	82,462,513	94,771,586
Bond investments	154,837	220,195	249,858
Domestic quoted shares	3,990	217,569	49,275
Fixed-rate commercial paper	78,743	50,800	45,877
Beneficiary securities	502,911	500,000	-
Hybrid financial assets			
Convertible bond asset swap contracts	10,124,799	8,623,449	8,204,768
	111,285,730	92,084,805	103,321,364
Financial assets at FVTOCI			
Investments in equity instruments	1,217,243	1,400,515	557,034
	$ 112,502,973	$ 93,485,320	$ 103,878,398

b) Concentration of credit risk

Significant concentration of credit risk occurs when counterparties to financial asset transactions are individuals or a group of individuals engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The check for significant concentration of credit risk includes the nature of a counterparty's operating activity. Transactions the Company engaged in do not significantly concentrate on the same counterparty or customer.

As of September 30, 2020, December 31, 2019 and September 30, 2019, the Company's concentrations of credit risk arising from guaranteeing commercial paper were as follows (in millions of New Taiwan dollars):

i. By industry

	September 30, 2020		December 31, 2019		September 30, 2019	
Industry Sector	**Carrying Amounts**	**Maximum Amounts Exposed to Credit Risk**	**Carrying Amounts**	**Maximum Amounts Exposed to Credit Risk**	**Carrying Amounts**	**Maximum Amounts Exposed to Credit Risk**
Finance and insurance	$ 34,364	$ 34,364	$ 36,287	$ 36,287	$ 35,739	$ 35,739
Real estate	29,231	29,231	26,013	26,013	25,261	25,261
Manufacturer	23,991	23,991	23,824	23,824	24,665	24,665
Wholesaling and retailing	9,664	9,664	9,895	9,895	9,909	9,909
Others	9,952	9,952	12,273	12,273	11,877	11,877
	$ 107,202	$ 107,202	$ 108,292	$ 108,292	$ 107,451	$ 107,451

ii. By collateral

	September 30, 2020		December 31, 2019		September 30, 2019	
Collateral Sector	**Carrying Amounts**	**% to Total**	**Carrying Amounts**	**% to Total**	**Carrying Amounts**	**% to Total**
Without collateral	$ 41,591	38.80	$ 43,021	39.73	$ 44,547	41.46
With collateral						
Real estate	40,710	37.98	37,706	34.82	36,753	34.20
Shares	22,796	21.26	24,931	23.02	23,562	21.93
Bond	1,730	1.61	2,207	2.04	2,117	1.97
Bills	375	0.35	427	0.39	472	0.44
	$ 107,202	100.00	$ 108,292	100.00	$ 107,451	100.00

c) Credit quality and impairment assessment

- Some financial assets such as cash and cash equivalents, due from Central Bank and call loan to banks, refundable deposits, operating deposits and clearing and settlement funds are regarded as very low credit risk owing to the good credit rating of counterparties. Except for the above, the risk levels of the Company's financial assets were as follows:

  i. Low risk: Credit quality and contractual capacity is above average.

  ii. Medium risk: Credit quality and contractual capacity is average.

  iii. High risk: Credit quality and contractual capacity is lower than average.

iv. Each of these levels has internal and external credit rating equivalents in the following table. The “Risk Level” and “Rating” are not highly associated. This table is used for similarity matrix.

Risk Level	Rating
Low risk	twAAA to twBBB-
Medium risk	twBB+ to twBB
High risk	twBB- to twC

2) Market risk

Market risk refers to interest rate risk and fluctuation in shares price risk. The Company weighs market risk mainly by profit and loss analysis, through which profits and losses are evaluated individually on the basis of the nature of financial assets, such as interest rate futures, shares index futures and options. Other financial assets, such as interest rate swaps, convertible bond asset swaps and bond options, are evaluated by their theoretical prices and reference prices published by the authorities. The Company also observes daily the fluctuation of profits and losses on the financial assets. In addition, interest rate risk commodities are reviewed using sensitivity analysis tools which include duration, DV01, etc.

The Company enters into interest rate swap contracts to hedge against the future cash flow risk arising from floating interest rate assets and liabilities, which are exposed to market rate fluctuations, and manages risk from changes in fair value by using factor sensitivity measures. For related information, refer to Note 39.

The sensitivity analysis of interest rate-sensitive commodities assuming a 0.01% rise in market rates is as follows:

	September 30, 2020		
Financial Asset	**Face Value**	**Average Duration (Year)**	**Influence to Fair Value Per 0.01 Fluctuation in Market Value**
Bills	$ 100,507,381	0.1143	$ 1,148
Bonds	111,160,457	3.0522	33,657

	December 31, 2019		
Financial Asset	**Face Value**	**Average Duration (Year)**	**Influence to Fair Value Per 0.01 Fluctuation in Market Value**
Bills	$ 82,573,479	0.1165	$ 961
Bonds	109,606,394	3.1172	31,160

September 30, 2019			
Financial Asset	**Face Value**	**Average Duration (Year)**	**Influence to Fair Value Per 0.01 Fluctuation in Market Value**
Bills	$ 94,899,085	0.1124	$ 1,091
Bonds	104,534,898	2.8851	27,244

3) Liquidity risk

a) There is no liquidity risk arising from non-performance of contractual obligations because capital and working capital are sufficient to cover all the contractual obligations. In addition, liquidity risk is quite low since cash requirement is not material on the maturity dates of derivative financial instruments.

The basic rule for the Company's operating and management activities is to handle assets and liabilities in the order of their maturities, considering the interest-rate and liquidity gap; however, assets and liabilities cannot be completely matched because of the differences in types and uncertainty of transaction terms, and these differences may affect profits and losses. The Company evaluates liquidity by maturity analysis, which is shown in the following table:

	September 30, 2020						
	1-30 Days	**31-90 Days**	**91-180 Days**	**181-365 Days**	**Over 1 Year-7 Years**	**Over 7 Years**	**Total**
Assets							
Cash and cash equivalents	$ 240,646	$ -	$ -	$ -	$ -	$ -	$ 240,646
Financial assets at fair value through profit or loss	49,430,262	45,358,619	9,396,311	1,276,366	5,824,172	-	111,285,730
Securities purchased under resell agreements	6,253,139	1,070,873	-	-	-	-	7,324,012
Receivables	284,219	208,249	173,268	117,023	141,097	-	923,856
Financial assets at FVTOCI	137,469	2,282,924	3,822,051	6,471,504	80,850,727	10,069,263	103,633,938
Other financial assets	-	-	-	-	566,664	-	566,664
Refundable deposits	-	-	-	-	-	36,125	36,125
	56,345,735	48,920,665	13,391,630	7,864,893	87,382,660	10,105,388	224,010,971
Liabilities							
Call loans from banks and overdrafts on banks	14,951,101	-	-	-	-	-	14,951,101
Financial liabilities at fair value through profit or loss	1	-	274	373	11,945	-	12,593
Securities sold under repurchase agreements	141,658,018	31,477,103	4,516,868	136,041	-	-	177,788,030
Bills issued, net	2,500,000	2,000,000	-	-	-	-	4,500,000
Accounts payable	353,025	15,975	127,659	-	81,668	-	578,327
Lease liabilities	-	738	850	1,356	665	-	3,609
	159,462,145	33,493,816	4,645,651	137,770	94,278	-	197,833,660
Net liquidity gap	$ (103,116,410)	$ 15,426,849	$ 8,745,979	$ 7,727,123	$ 87,288,382	$ 10,105,388	$ 26,177,311

	December 31, 2019						
	1-30 Days	**31-90 Days**	**91-180 Days**	**181-365 Days**	**Over 1 Year-7 Years**	**Over 7 Years**	**Total**
Assets							
Cash and cash equivalents	$ 244,731	$ -	$ -	$ -	$ -	$ -	$ 244,731
Financial assets at fair value through profit or loss	34,930,608	44,669,512	4,738,960	1,675,143	6,070,582	-	92,084,805
Securities purchased under resell agreements	100,030	-	-	-	-	-	100,030
Receivables	197,935	232,984	208,407	114,341	99,889	-	853,556
Financial assets at FVTOCI	2,202,611	2,003,399	4,408,040	6,511,160	80,509,919	7,482,097	103,117,226
Other financial assets	-	-	-	-	549,676	-	549,676
Refundable deposits	-	-	-	-	-	40,124	40,124
	37,675,915	46,905,895	9,355,407	8,300,644	87,230,066	7,522,221	196,990,148
Liabilities							
Call loans from banks and overdrafts on banks	14,500,869	-	-	-	-	-	14,500,869
Financial liabilities at fair value through profit or loss	2	-	-	-	5,120	-	5,122
Securities sold under repurchase agreements	117,389,066	38,101,977	1,019,705	298,895	-	-	156,809,643
Accounts payable	492,438	14,338	103,821	-	42,073	-	652,670
Lease liabilities	-	668	773	1,545	1,857	-	4,843
	132,382,375	38,116,983	1,124,299	300,440	49,050	-	171,973,147
Net liquidity gap	$ (94,706,460)	$ 8,788,912	$ 8,231,108	$ 8,000,204	$ 87,181,016	$ 7,522,221	$ 25,017,001

	September 30, 2019						
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
Assets							
Cash and cash equivalents	$ 326,591	$ -	$ -	$ -	$ -	$ -	$ 326,591
Due from the Central Bank and call loans to bank	1,000,000	-	-	-	-	-	1,000,000
Financial assets at fair value through profit or loss	85,094,241	10,345,094	479,082	1,269,880	6,133,067	-	103,321,364
Securities purchased under resell agreements	1,290,654	900,556	-	-	-	-	2,191,210
Receivables	1,111,525	315,553	279,224	158,513	118,424	-	1,983,239
Financial assets at FVTOCI	682,831	1,452,530	4,440,977	7,472,497	80,620,611	3,521,654	98,191,100
Other financial assets	-	-	-	-	550,269	-	550,269
Refundable deposits	-	-	-	-	-	40,125	40,125
	89,505,842	13,013,733	5,199,283	8,900,890	87,422,371	3,561,779	207,603,898
Liabilities							
Call loans from banks and overdrafts on banks	18,993,954	-	-	-	-	-	18,993,954
Financial liabilities at fair value through profit or loss	790	-	-	-	-	-	790
Securities sold under repurchase agreements	137,370,370	23,873,121	1,539,478	76,976	-	-	162,859,945
Accounts payable	662,338	14,514	184,386	-	42,257	-	903,495
Lease liabilities	-	2,866	1,872	1,545	2,630	-	8,913
	157,027,452	23,890,501	1,725,736	78,521	44,887	-	182,767,097
Net liquidity gap	$ (67,521,610)	$ (10,876,768)	$ 3,473,547	$ 8,822,369	$ 87,377,484	$ 3,561,779	$ 24,836,801

	September 30, 2020						
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
Currency swap							
Inflow	$ 737,005	$ -	$ 523,822	$ -	$ -	$ -	$ 1,260,827
Outflow	728,150	-	524,268	-	-	-	1,252,418
Total inflows	$ 737,005	$ -	$ 523,822	$ -	$ -	$ -	$ 1,260,827
Total outflows	$ 728,150	$ -	$ 524,268	$ -	$ -	$ -	$ 1,252,418

	December 31, 2019						
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
Currency swap							
Inflow	$ 912,640	$ -	$ -	$ -	$ -	$ -	$ 912,640
Outflow	903,180	-	-	-	-	-	903,180
Total inflows	$ 912,640	$ -	$ -	$ -	$ -	$ -	$ 912,640
Total outflows	$ 903,180	$ -	$ -	$ -	$ -	$ -	$ 903,180

As of September 30, 2019, there is no currency swap.

b) Maturity analysis of off-balance sheet items

The following table shows the Company’s maturity analysis of off-balance sheet items based on residual maturity from the balance-sheet date to the contract maturity date. The amounts of guaranteed and endorsed commercial papers are included in accordance with the earliest date of performance obligation.

	1 Month	Over 1 Month - 3 Months	Over 3 Months - 6 Months	Over 6 Months - 1 Year	Over 1 Year	Total
September 30, 2020						
Off-balance sheet item						
Guaranteed commercial paper	$ 34,523,800	$ 61,343,700	$ 8,422,900	$ 2,911,100	$ -	$ 107,201,500
December 31, 2019						
Off-balance sheet item						
Guaranteed commercial paper	31,643,300	65,391,300	8,425,200	2,832,400	-	108,292,200
September 30, 2019						
Off-balance sheet item						
Guaranteed commercial paper	32,920,600	65,926,400	6,271,700	2,332,400	-	107,451,100

4) Foreign exchange risk

a) Foreign exchange risk faced by the Company refers to movements in fair values of foreign currency denominated assets less foreign currency denominated liability plus derivative position as a result of exchange rate fluctuations that may result in losses to the Company.

b) In terms of foreign exchange risk management, the Company mainly supervises position limits and loss limits on relevant businesses. Related control measures include daily supervision on exposure position, price assessment, and control over loss limits; and reporting to the Asset and Liability Management committee monthly.

c) Company's foreign exchange risk exposure

	September 30, 2020	
	USD	RMB
Cash and cash equivalents	$ 6,000	$ -
Financial assets at FVTOCI	20,702,382	-
Receivables, net	339,143	-
Other financial assets	39,961	-
Total assets	21,084,486	-
Call loans from banks and overdrafts on banks	763,101	-
Securities sold under repurchase agreements	17,386,504	-
Accounts payable	303,406	-
Total liabilities	18,453,011	-
On-balance sheet foreign exchange gap	$ 2,631,475	$ -
Off-balance sheet currency swaps	$ (1,252,418)	$ -
Exchange rate to NTD	29.126	4.275
Foreign exchange loss	$ (23,854)	$ (1,143)

	December 31, 2019	
	USD	RMB
Cash and cash equivalents	$ 41,787	$ 3,915
Financial assets at FVTOCI	19,074,499	43,151
Receivables, net	130,871	777
Other financial assets	19,990	-
Total assets	19,267,147	47,843
Call loans from banks and overdrafts on banks	1,950,869	-
Securities sold under repurchase agreements	15,563,206	-
Accounts payable	31,792	-
Total liabilities	17,545,867	-
On-balance sheet foreign exchange gap	$ 1,721,280	$ 47,843
Off-balance sheet currency swaps	$ (903,180)	$ -
Exchange rate to NTD	30.106	4.316
Foreign exchange loss	$ (22,829)	$ (1,489)

	September 30, 2019	
	USD	RMB
Cash and cash equivalents	$ 21,605	$ 3,945
Financial assets at FVTOCI	16,435,342	43,542
Receivables, net	366,265	305
Other financial assets	20,581	-
Total assets	16,843,793	47,792
Call loans from banks and overdrafts on banks	3,513,954	-
Securities sold under repurchase agreements	12,338,854	-
Accounts payable	253,115	-
Total liabilities	16,105,923	-
On-balance sheet foreign exchange gap	$ 737,870	$ 47,792
Off-balance sheet currency swaps	$ -	$ -
Exchange rate to NTD	31.0420	4.3546
Foreign exchange gain (loss)	$ 6,829	$ (1,064)

d) Sensitivity analysis

Risky Financial Instruments of Primary Market	Extent of Variation	September 30, 2020 Effect on Profit or Loss	September 30, 2020 Effect on Other Comprehensive Income
Foreign exchange financial instruments	Exchange rate of NTD to USD and to RMB appreciated by 1%	$ (12,649)	$ -
Foreign exchange financial instruments	Exchange rate of NTD to USD and to RMB depreciated by 1%	12,649	-

Risky Financial Instruments of Primary Market	Extent of Variation	December 31, 2019 Effect on Profit or Loss	December 31, 2019 Effect on Other Comprehensive Income
Foreign exchange financial instruments	Exchange rate of NTD to USD and to RMB appreciated by 1%	$ (8,252)	$ -
Foreign exchange financial instruments	Exchange rate of NTD to USD and to RMB depreciated by 1%	8,252	-

Risky Financial Instruments of Primary Market	Extent of Variation	September 30, 2019 Effect on Profit or Loss	Effect on Other Comprehensive Income
Foreign exchange financial instruments	Exchange rate of NTD to USD and to RMB appreciated by 1%	$ (7,491)	$ -
Foreign exchange financial instruments	Exchange rate of NTD to USD and to RMB depreciated by 1%	7,491	-

5) Equity securities risk management

a) The Company's equity securities market risk comprises the risk of individual equity security arising from the security's market price changes and the general market risk coming from overall equity securities market price changes.

b) For equity securities risk management, the Company has set trading strategies for three categories of positions: (a) positions held for selling and earning capital gains in the short-term; (b) positions held for earning dividends; (c) positions held for earning capital gains derived from stocks that price in on promising industries or robust profitability in the long-term, and (d) setting annual loss limits to the tolerable scopes.

c) Related control measures include: Daily market price valuation to control loss limits and monthly reporting to the Risk Management Committee.

39. DISCLOSURES IN CONFORMITY WITH THE REGULATIONS GOVERNING THE PREPARATION OF FINANCIAL REPORTS BY PUBLICLY HELD BILLS FINANCE COMPANIES

a. Asset quality

Item / Year	September 30, 2020	September 30, 2019
Balance of guarantees and endorsement credits overdue within 3 months	$ -	$ -
Nonperforming debts (include overdue receivables)	-	-
Credits under observation	-	-
Overdue receivables	-	-
Ratio of nonperforming debts	0.00%	0.00%
Ratio of nonperforming debts and credits under observation	0.00%	0.00%
Required provision for credit losses and reserve for losses on guarantees	1,177,200	1,074,899
Actual provision for credit losses and reserve for losses on guarantees	1,325,077	1,310,077

b. The principal operation

Item \ Year	September 30, 2020	September 30, 2019
Balance of guarantees and endorsement securities	$ 107,201,500	$ 107,451,100
Ratio of guarantees and endorsement securities to net worth	4.76	4.90
Short-term bills and bonds sold under repurchase agreements	$ 177,788,030	$ 162,859,945
Ratio of short-term bills and bonds sold under repurchase agreements to net worth	7.89	7.42

c. Concentrations of credit extensions

Item \ Year	September 30, 2020		September 30, 2019	
Credit to common interest party	$ -		$ -	
Ratio of credit extensions to common interest parties	-		-	
Ratio of credit extensions secured by pledged shares	21.26		21.93	
Loan concentration by industry (ratio of top three industry to which credit line issued to credit extension balance)	**Type of Industry**	**%**	**Type of Industry**	**%**
	Finance and insurance industry	32.06	Finance and insurance industry	33.26
	Manufacturing industry	22.38	Manufacturing industry	22.95
	Real estate industry	27.27	Real estate industry	23.51

Note 1: Ratio of credit extensions to common interest parties: Credit to common interest party ÷ Total credit.

Note 2: Ratio of credit extensions secured by pledged shares: Credit with shares pledged ÷ Total credit.

Note 3: Total credit included guarantees, endorsement notes and overdue credit (including overdue receivables, accounts receivable, and notes receivable).

d. Concentrations of assets, liabilities and off-balance sheet items

Information on the concentrations of assets, liabilities and off-balance sheet items is shown in Note 38.

e. Average amount and average interest rate of interest-earning assets and interest-bearing liabilities

	September 30			
	2020		2019	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
Interest-earning assets				
Cash and cash equivalents (including certificate of deposits)	$ 771,733	0.06	$ 817,944	0.11
Call loans to banks	62,478	0.23	33,370	0.18
Financial assets at fair value through profit or loss - bonds and bills	87,170,200	0.51	93,288,461	0.62
FVTOCI - bonds	98,632,299	1.34	96,907,206	1.33
Financial instruments at fair value through profit or loss - hybrid financial assets	9,742,011	1.47	7,423,033	1.55
Securities purchased under resell agreements	3,635,554	0.23	1,118,027	0.35

(Continued)

	September 30			
	2020		2019	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
<u>Interest-bearing liabilities</u>				
Due to other banks	$ 14,894,256	0.45	$ 16,699,616	0.79
Bank overdraft	1,662	1.59	2,429	1.78
Securities sold under repurchase agreements	160,083,985	0.49	158,569,667	0.63
Commercial papers issued, net	1,012,774	0.48	1,157,509	0.62

(Concluded)

f. Information on interest rate sensitivity

September 30, 2020

In Millions of New Taiwan Dollars, %

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 103,305	$ 11,968	$ 7,121	$ 98,778	$ 221,172
Interest rate-sensitive liabilities	192,518	4,509	135	-	197,162
Interest rate sensitivity gap	(89,213)	7,459	6,986	98,778	24,010
Net worth					24,678
Ratio of interest rate-sensitive assets to liabilities					112.18
Ratio of interest rate sensitivity gap to net worth					97.29

September 30, 2019

In Millions of New Taiwan Dollars, %

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 92,580	$ 11,249	$ 9,057	$ 91,490	$ 204,376
Interest rate-sensitive liabilities	180,137	1,539	77	-	181,753
Interest rate sensitivity gap	(87,557)	9,710	8,980	91,490	22,623
Net worth					23,572
Ratio of interest rate-sensitive assets to liabilities					112.45
Ratio of interest rate sensitivity gap to net worth					95.97

Note 1: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities affected by interest rate changes.

Note 2: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

g. Table of funding sources used

September 30, 2020

In Millions of New Taiwan Dollars

Items		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year
Cash used in	Bills	$ 47,806	$ 45,280	$ 7,225	$ 100	$ -
	Bonds	356	2,301	4,743	7,021	98,778
	Due from banks	240	-	-	-	-
	Call loans	-	-	-	-	-
	Securities purchased under resell agreements	6,251	1,071	-	-	-
	Total	54,653	48,652	11,968	7,121	98,778
Cash provided by	Borrowing	17,451	1,999	-	-	-
	Securities sold under repurchase agreements	141,616	31,452	4,509	135	-
	Eligible capital	-	-	-	-	24,678
	Total	159,067	33,451	4,509	135	24,678
Net cash flows		(104,414)	15,201	7,459	6,986	74,100
Accumulated cash flows		(104,414)	(89,213)	(81,754)	(74,768)	(668)

September 30, 2019

In Millions of New Taiwan Dollars

Items		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year
Cash used in	Bills	$ 44,526	$ 42,753	$ 6,573	$ 919	$ -
	Bonds	250	1,535	4,676	8,138	91,490
	Due from banks	326	-	-	-	-
	Call loans	1,000	-	-	-	-
	Securities purchased under resell agreements	1,290	900	-	-	-
	Total	47,392	45,188	11,249	9,057	91,490
Cash provided by	Borrowing	18,994	-	-	-	-
	Securities sold under repurchase agreements	137,285	23,858	1,539	77	-
	Eligible capital	-	-	-	-	23,572
	Total	156,279	23,858	1,539	77	23,572
Net cash flows		(108,887)	21,330	9,710	8,980	67,918
Accumulated cash flows		(108,887)	(87,557)	(77,847)	(68,867)	(949)

h. Matters requiring special notation

Items \ Period	September 30, 2020	September 30, 2019
Within the past year, a responsible person or professional employee violated the law in the course of business, resulting in an indictment by a prosecutor	None	None
Within the past year, a fine was levied on CBF for violations of the Act Governing Bills Finance Business and the other laws	None	None
Within the past year, misconduct occurred, resulting in the Ministry of Finance's imposing strict corrective measures on CBF	None	None
Within the past year, the individual loss or total loss from employee fraud, accidental and material events, or failure to abide by the "Guidelines for Maintenance of Soundness of Financial Institutions" which exceeded NT$50 million	None	None
Other	None	None

Note: The term "within the past year" means one year before the balance sheet date.

40. CASH FLOW INFORMATION

Changes in Liabilities Arising from Financing Activities

For the nine months ended September 30, 2020

	Opening Balance	Cash Flows	Non-cash Changes		Closing Balance
			New Leases	Others	
Call loans from banks and overdrafts on banks	$ 14,500,869	$ 450,232	$ -	$ -	$ 14,951,101
Commercial papers issued, net	-	4,500,000	-	(1,244)	4,498,756
Lease liabilities	4,773	(2,493)	1,216	59	3,555
	$ 14,505,642	$ 4,947,739	$ 1,216	$ (1,185)	$ 19,453,412

For the nine months ended September 30, 2019

	Opening Balance	Cash Flows	Non-cash Changes		Closing Balance
			New Leases	Others	
Call loans from banks and overdrafts on banks	$ 26,544,504	$ (7,550,550)	$ -	$ -	$ 18,993,954
Commercial papers issued, net	499,881	(500,000)	-	119	-
Lease liabilities	19,050	(12,235)	1,812	183	8,810
	$ 27,063,435	$ (8,062,785)	$ 1,812	$ 302	$ 19,002,764

41. INFORMATION ON SIGNIFICANT TRANSACTIONS AND INVESTEES AND PROPORTIONATE SHARE IN INVESTEES

a. Related information of significant transactions for the nine months ended September 30, 2020:

1) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None

2) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: None

3) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: None

4) Allowance of service fees to related parties amounting to at least NT$5 million: None

5) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None

6) Sale of nonperforming loans amounting to at least NT$300 million: None

7) Information on asset securitization under the “Regulations for Financial Asset Securitization”: None

8) Intercompany relationships and significant intercompany transactions: None

9) Other significant transactions which may affect the decisions of users of financial reports: None

b. Name, locations and other information on investees: None

c. Investment in Mainland China: None

d. Information on major shareholders: Listing of all shareholders with ownership of 5% or greater showing the name of the shareholder, number of shares owned, and percentage of ownership of each shareholder: Table 1.

42. OPERATING SEGMENTS

The information reported to the Company's chief operating decision makers for the assessment of segment performance focuses mainly on types of goods or services delivered or provided. The Company's reportable segments are as follows:

Segment Revenues and Results

An analysis of the Company's revenues and results by reportable segment is as follows:

	Segment Revenues and Results For the Nine Months Ended September 30, 2020				
	Headquarters				
	Commercial Papers and Bonds	Equity Products	Others	Branches	Total
Bills	$ 648,368	$ -	$ -	$ 464,594	$ 1,112,962
Bonds	451,303	14,715	-	191,453	657,471
Shares and beneficial certificates	-	(10,237)	14,707	-	4,470
Derivatives	(10,316)	126,955	-	-	116,639
Gain from reportable segments	1,089,355	131,433	14,707	656,047	1,891,542
Net revenues other than interest	(22,346)	-	-	(3,264)	(25,610)
Reversed (recognize) impairment loss on assets	(3,956)	-	-	-	(3,956)
Reversal	3,613	-	-	73	3,686
Operating expenses	(158,062)	(31,679)	-	(170,562)	(360,303)
Income before income tax	$ 908,604	$ 99,754	$ 14,707	$ 482,294	$ 1,505,359

	Segment Revenues and Results For the Nine Months Ended September 30, 2019				
	Headquarters				
	Commercial Papers and Bonds	Equity Products	Others	Branches	Total
Bills	$ 507,841	$ -	$ -	$ 380,255	$ 888,096
Bonds	299,707	22,496	-	201,010	523,213
Shares and beneficial certificates	-	6,780	-	-	6,780
Derivatives	(11,177)	101,474	-	-	90,297
Gain from reportable segments	796,371	130,750	-	581,265	1,508,386
Net revenues other than interest	19,103	-	6,330	(1,657)	23,776
Reversed (recognize) impairment loss on financial assets	(9,401)	-	-	-	(9,401)
Reversal	3,648	-	-	113	3,761
Operating expenses	(145,617)	(30,795)	-	(168,916)	(345,328)
Income before income tax	$ 664,104	$ 99,955	$ 6,330	$ 410,805	$ 1,181,194

Segment result is measured at income before income tax, and this measure is reported to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance. The Company's branches in Banqiao, Taoyuan, Taichung, Tainan and Kaohsiung are categorized as single segment because they have the same type of products or services.

	Segment Assets		
	September 30, 2020	**December 31, 2019**	**September 30, 2019**
Headquarters	$ 172,917,257	$ 152,300,058	$ 161,447,817
Branches	68,811,679	59,080,536	61,085,947
Write-off of internal transactions	(17,201,694)	(13,841,035)	(14,341,623)
Total assets	$ 224,527,242	$ 197,539,559	$ 208,192,141

TABLE 1

CHINA BILLS FINANCE CORPORATION

INFORMATION ON MAJOR SHAREHOLDERS
SEPTEMBER 30, 2020

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
O-Bank	380,981,600	28.36
PJ Asset Management Co., Ltd.	228,147,000	16.98
He Zhu Investment Co., Ltd.	77,084,000	5.73

Note 1: The information on major shareholders in this table is derived from Taiwan Depository and Clearing Corporation for shareholders holding more than 5% of the Company's ordinary shares and preferred stocks that have been delivered without physical registration (including treasury shares) on the last business day of the current quarter. The share capital recorded in the Company's financial report and the actual number of shares delivered without physical registration may be different due to the basis of preparation and calculation.

Note 2: According the above information, the delivery of shares to the trust by shareholders is disclosed by the individual trustee who opened the trust account. In accordance with the Securities Exchange Act, shareholders who acquire more than 10% of shareholding have to disclose their insider ownerships, including their own shares held, delivery to the trust and shares that have the right to make decisions on trust property. Refer to the information on filing of insider ownership declaration at the Market Observation Post System website of the Taiwan Stock Exchange.