# China Bills Finance Corporation

## Financial Statements for the Three Months Ended March 31, 2021 and 2020 and Independent Auditors' Review Report

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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 March 31, 2021 and 2020 and the statements of comprehensive income, changes in equity and cash flows for the three-month period then ended, 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 March 31, 2021 and 2020, and its financial performance and its cash flows for the three-month period then ended 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

April 27, 2021

<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)**

| | March 31, 2021 (Reviewed) | | December 31, 2020 (Audited) | | March 31, 2020 (Reviewed) | |
|---|---|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| CASH AND CASH EQUIVALENTS (Notes 4 and 6) | $ 271,722 | - | $ 264,720 | - | $ 259,092 | - |
| DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANK (Notes 4 and 7) | - | - | - | - | 302,540 | - |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 34) | 104,551,612 | 49 | 106,155,540 | 49 | 90,439,354 | 47 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 9, 10 and 34) | 100,942,849 | 47 | 105,237,279 | 48 | 99,090,609 | 51 |
| SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4, 11 and 35) | 5,984,029 | 3 | 4,732,882 | 2 | 748,000 | 1 |
| RECEIVABLES, NET (Notes 4 and 12) | 702,032 | 1 | 782,861 | 1 | 1,085,533 | 1 |
| CURRENT TAX ASSETS (Note 4) | 268,510 | - | 268,510 | - | 308,184 | - |
| OTHER FINANCIAL ASSETS, NET (Notes 4, 13 and 34) | 55,876 | - | 566,011 | - | 713,320 | - |
| PROPERTY AND EQUIPMENT, NET (Notes 4 and 14) | 151,489 | - | 153,086 | - | 158,599 | - |
| RIGHT-OF-USE ASSETS, NET (Notes 4 and 15) | 2,354 | - | 2,659 | - | 3,980 | - |
| DEFERRED TAX ASSETS (Note 4) | 73,883 | - | 73,816 | - | 150,434 | - |
| OTHER ASSETS, NET (Notes 16 and 34) | 575,672 | - | 46,637 | - | 48,922 | - |
| TOTAL | $ 213,580,028 | 100 | $ 218,284,001 | 100 | $ 193,308,567 | 100 |
| **LIABILITIES AND EQUITY** | | | | | | |
| CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS (Note 17) | $ 4,499,745 | 2 | $ 6,140,000 | 3 | $ 14,855,712 | 8 |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8) | 56,214 | - | 39,252 | - | 22,377 | - |
| SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 18, 33 and 35) | 176,316,535 | 83 | 179,726,810 | 82 | 151,680,324 | 79 |
| ACCOUNTS PAYABLE (Note 19) | 406,102 | - | 425,800 | - | 505,689 | - |
| CURRENT TAX LIABILITIES (Note 4) | 250,674 | - | 139,115 | - | 47,877 | - |
| COMMERCIAL PAPER ISSUED, NET (Note 20) | 4,499,360 | 2 | 4,499,227 | 2 | - | - |
| PROVISIONS (Notes 4, 5 and 21) | 1,434,206 | 1 | 1,440,191 | 1 | 1,395,327 | 1 |
| LEASE LIABILITIES (Notes 4 and 15) | 2,383 | - | 2,695 | - | 4,021 | - |
| DEFERRED TAX LIABILITIES (Note 4) | 63,978 | - | 175,281 | - | 13,238 | - |
| OTHER LIABILITIES | 370,722 | - | 246,188 | - | 859,031 | - |
| Total liabilities | 187,899,919 | 88 | 192,834,559 | 88 | 169,383,596 | 88 |
| EQUITY (Notes 4 and 23) | | | | | | |
| Ordinary shares | 13,429,600 | 6 | 13,429,600 | 6 | 13,429,600 | 7 |
| Capital surplus | 10,256 | - | 8,804 | - | 9,028 | - |
| Retained earnings | | | | | | |
| Legal reserve | 8,054,883 | 4 | 8,054,883 | 4 | 7,681,488 | 4 |
| Special reserve | 769,120 | - | 769,120 | - | 769,120 | - |
| Unappropriated earnings | 2,268,596 | 1 | 1,665,706 | 1 | 1,706,854 | 1 |
| Total retained earnings | 11,092,599 | 5 | 10,489,709 | 5 | 10,157,462 | 5 |
| Other equity | 1,147,654 | 1 | 1,521,329 | 1 | 328,881 | - |
| Total equity | 25,680,109 | 12 | 25,449,442 | 12 | 23,924,971 | 12 |
| TOTAL | $ 213,580,028 | 100 | $ 218,284,001 | 100 | $ 193,308,567 | 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 March 31 | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Amount | % | Amount | % |
| NET INTEREST | | | | |
| Interest revenues (Notes 4 and 24) | $ 435,963 | 55 | $ 511,418 | 89 |
| Deduct: Interest expenses (Notes 4, 24 and 33) | (116,563) | (15) | (279,044) | (48) |
| Net interest | 319,400 | 40 | 232,374 | 41 |
| NET REVENUES OTHER THAN INTEREST | | | | |
| Service fee income, net (Notes 4 and 25) | 355,852 | 45 | 288,390 | 50 |
| Gains (Losses) on financial assets and liabilities at fair value through profit or loss (Notes 4, 8 and 26) | 17,764 | 2 | (2,734) | - |
| Realized gains or losses on financial assets at fair value through other comprehensive income (Notes 4 and 27) | 61,028 | 8 | 43,017 | 7 |
| Foreign exchange gains or losses, net (Notes 4 and 28) | 35,159 | 5 | 12,222 | 2 |
| Reversal of impairment loss on financial assets (Notes 4 and 10) | 2,441 | - | 243 | - |
| Other non-interest gains (losses), net | 14 | - | (17) | - |
| TOTAL NET REVENUES | 791,658 | 100 | 573,495 | 100 |
| REVERSAL (Notes 4 and 21) | 5,654 | 1 | 165 | - |
| OPERATING EXPENSES (Notes 4, 29, 30 and 33) | | | | |
| Employee benefit expenses | (94,746) | (12) | (85,444) | (15) |
| Depreciation and amortization | (3,356) | (1) | (3,002) | (1) |
| Others | (31,101) | (4) | (29,831) | (5) |
| Total operating expenses | (129,203) | (17) | (118,277) | (21) |
| PROFIT BEFORE INCOME TAX | 668,109 | 84 | 455,383 | 79 |
| INCOME TAX EXPENSE (Notes 4 and 31) | (137,129) | (17) | (98,314) | (17) |
| NET INCOME FOR THE PERIOD | 530,980 | 67 | 357,069 | 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 March 31 | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Amount | % | Amount | % |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Note 4) | $ (149) | - | $ 111 | - |
| Unrealized gains or losses on investments in equity instruments designated as at fair value through other comprehensive income (Notes 4 and 23) | 158,874 | 20 | (100,495) | (17) |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 31) | 30 | - | (22) | - |
| Items that will not be reclassified subsequently to profit or loss for the period, net of income tax | 158,755 | 20 | (100,406) | (17) |
| Item 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) | (565,483) | (71) | (311,246) | (54) |
| Income tax relating to items reclassified subsequently to profit or loss (Notes 4 and 31) | 104,963 | 13 | 122,372 | 21 |
| Item that will be reclassified subsequently to profit or loss for period, net of income tax | (460,520) | (58) | (188,874) | (33) |
| Other comprehensive income (loss) for the period, net of income tax | (301,765) | (38) | (289,280) | (50) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | $ 229,215 | 29 | $ 67,789 | 12 |
| EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 32) | | | | |
| Basic | $ 0.40 | | $ 0.27 | |
| Diluted | $ 0.39 | | $ 0.27 | |

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)**

| | | | Retained Earnings (Notes 4 and 23) | | | Other Equity (Notes 4 and 23) | |
|---|---|---|---|---|---|---|---|
| | Ordinary Share Capital (Notes 4 and 23) | Capital Surplus (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, 2020 | $ 13,429,600 | $ 7,308 | $ 7,681,488 | $ 769,120 | $ 1,349,696 | $ 618,250 | $ 23,855,462 |
| Unclaimed dividends | - | 1,720 | - | - | - | - | 1,720 |
| Net income for the three months ended March 31, 2020 | - | - | - | - | 357,069 | - | 357,069 |
| Other comprehensive income (loss) for the three months ended March 31, 2020 | - | - | - | - | 89 | (289,369) | (289,280) |
| Total comprehensive income (loss) for the three months ended March 31, 2020 | - | - | - | - | 357,158 | (289,369) | 67,789 |
| BALANCE AT MARCH 31, 2020 | $ 13,429,600 | $ 9,028 | $ 7,681,488 | $ 769,120 | $ 1,706,854 | $ 328,881 | $ 23,924,971 |
| BALANCE AT JANUARY 1, 2021 | $ 13,429,600 | $ 8,804 | $ 8,054,883 | $ 769,120 | $ 1,665,706 | $ 1,521,329 | $ 25,449,442 |
| Unclaimed dividends | - | 1,452 | - | - | - | - | 1,452 |
| Net income for the three months ended March 31, 2021 | - | - | - | - | 530,980 | - | 530,980 |
| Other comprehensive income (loss) for the three months ended March 31, 2021 | - | - | - | - | (119) | (301,646) | (301,765) |
| Total comprehensive income (loss) for the three months ended March 31, 2021 | - | - | - | - | 530,861 | (301,646) | 229,215 |
| Disposals of investments in equity instruments designated as at fair value through other comprehensive income | - | - | - | - | 72,029 | (72,029) | - |
| BALANCE AT MARCH 31, 2021 | $ 13,429,600 | $ 10,256 | $ 8,054,883 | $ 769,120 | $ 2,268,596 | $ 1,147,654 | $ 25,680,109 |

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 Three Months Ended March 31 | |
|---|---|---|
| | **2021** | **2020** |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 668,109 | $ 455,383 |
| Adjustments for: | | |
| Reversal of expected credit impairment loss | (2,441) | (243) |
| Net loss (gain) on valuation of financial assets and liabilities at fair value through profit or loss | 25,066 | (2,983) |
| Depreciation expenses | 2,597 | 2,157 |
| Amortization expenses | 759 | 845 |
| Interest expenses | 116,563 | 279,044 |
| Interest revenues | (435,963) | (511,418) |
| Dividend revenues | (100) | - |
| Changes in operating assets and liabilities | | |
| Financial assets at fair value through profit or loss | 1,595,824 | 1,631,179 |
| Financial assets at fair value through other comprehensive income | 3,890,262 | 3,615,119 |
| Securities purchased under resell agreements | (1,251,147) | (647,987) |
| Receivables and non-accrual loans | 44,281 | (335,236) |
| Other financial assets | (14,865) | (163,644) |
| Other assets | (902) | (559) |
| Financial liabilities at fair value through profit or loss | - | 34,510 |
| Securities sold under repurchase agreements | (3,410,275) | (5,009,513) |
| Payables | (12,120) | (197,602) |
| Provisions | (6,134) | (2,628) |
| Other liabilities | 124,534 | 539,760 |
| Interest received | 472,611 | 614,684 |
| Interest paid | (122,542) | (289,052) |
| Income tax paid | (31,947) | (41,690) |
| Net cash generated from (used in) operating activities | 1,652,170 | (29,874) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for property and equipment | (125) | (7,259) |
| Increase in refundable deposits | (3,878) | - |
| Increase in other assets | (14) | (37) |
| Net cash used in investing activities | (4,017) | (7,296) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in call loans from banks and overdrafts on banks | - | 354,843 |
| Decrease in call loans from banks and overdrafts on banks | (1,640,255) | - |
| Repayment of the principal portion of lease liabilities | (896) | (772) |
| Net cash (used in) generated from financing activities | (1,641,151) | 354,071 |

(Continued)

# CHINA BILLS FINANCE CORPORATION

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

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2021** | **2020** |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | $ 7,002 | $ 316,901 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 264,720 | 244,731 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | $ 271,722 | $ 561,632 |

Reconciliations of amounts in the statements of cash flows with equivalent items reported in the balance sheets as of March 31, 2021 and 2020:

| | March 31 | |
|---|---|---|
| | **2021** | **2020** |
| Cash and cash equivalents in the balance sheets | $ 271,722 | $ 259,092 |
| Due from the Central Bank and call loans to bank in accordance with cash and cash equivalents under IAS 7 "Statement of Cash Flows" | - | 302,540 |
| Cash and cash equivalents at the end of the period | $ 271,722 | $ 561,632 |

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

# CHINA BILLS FINANCE CORPORATION

**NOTES TO FINANCIAL STATEMENTS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020**
**(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 March 31, 2021, 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 (h) doing other businesses authorized by relevant authorities.

As of March 31, 2021 and 2020, the Company had a total of 164 and 157 employees, respectively.

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 April 27, 2021.

## 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 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined by IASB |
| Amendment to IFRS 16 “Covid-19 - Related Rent Concessions beyond 30 June 2021” | April 1, 2021 (Note 8) |
| IFRS 17 “Insurance Contracts” | January 1, 2023 |

(Continued)

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| 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 1 “Disclosure of Accounting Policies” | January 1, 2023 (Note 6) |
| Amendments to IAS 8 “Definition of Accounting Estimates” | January 1, 2023 (Note 7) |
| 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 will be 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” will be 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” will be 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 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.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 8: The lessee applies the amendment for annual reporting periods beginning on or after April 1, 2021 and recognizes the cumulative effect of retrospective application in retained earnings at the beginning of the period.

Annual Improvements to IFRS Standards 2018-2020

Several standards, including IFRS 9 “Financial Instruments”, were amended in the annual improvements. IFRS 9 requires the comparison of 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%. 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.

Except for the above impact, 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 in these interim 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 fair value through profit or loss (FVTPL), investments in debt instruments and equity instruments at fair value through other comprehensive income (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 income 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. Equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

c. 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.

d. 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 “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 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 Property and Equipment, Right-of-Use Assets and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment, right-of-use assets 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

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Cash on hand | $ 650 | $ - | $ 650 |
| Checking accounts and demand deposits | 271,072 | 264,720 | 258,442 |
| | $ 271,722 | $ 264,720 | $ 259,092 |

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

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Call loans to banks | $ - | $ - | $ 302,540 |

As of March 31, 2020, the latest due date of loans was on April 1, 2020 with an interest rate of 1.60%.

## 8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Financial assets mandatorily classified as at fair value through profit or loss | | | |
| Derivative financial instruments | | | |
| Currency swap contracts | $ - | $ 17,574 | $ 3,724 |
| Non-derivative financial instruments | | | |
| Investment in short-term bills | 95,482,589 | 96,213,716 | 79,663,090 |
| Bond investments | 197,405 | 176,050 | 138,784 |
| Domestic quoted shares | 167,843 | 63,139 | - |
| Fixed-rate commercial paper | 78,295 | 85,113 | 103,249 |
| Beneficiary securities | 503,140 | 503,298 | 500,000 |
| Hybrid financial assets | | | |
| Convertible bond asset swap contracts | 8,122,340 | 9,096,650 | 10,030,507 |
| Financial assets at fair value through profit or loss | $ 104,551,612 | $ 106,155,540 | $ 90,439,354 |

(Continued)

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Financial liabilities held for trading | | | |
| Derivative financial instruments | | | |
| Purchase commitment contracts | $ 39,722 | $ 37,022 | $ 3,128 |
| Currency swap contracts | 16,212 | 270 | 1,213 |
| Non-derivative financial instruments | | | |
| Fixed-rate commercial paper | 280 | - | - |
| Benchmark interest rate commercial paper | - | 1,960 | 18,036 |
| Financial liabilities at fair value through profit or loss | $ 56,214 | $ 39,252 | $ 22,377 |

(Concluded)

The contract amounts (or notional amounts) of outstanding derivative financial instruments as of March 31, 2021, December 31, 2020 and March 31, 2020 were as follows:

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Convertible bond asset swap contracts | $ 8,088,000 | $ 9,078,500 | $ 10,046,800 |
| Purchase commitment contracts | 12,800,000 | 12,800,000 | 3,250,000 |
| Currency swap contracts | 998,585 | 1,910,036 | 1,361,430 |

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 March 31, 2021, December 31, 2020 and March 31, 2020, the face values of financial assets at fair value through profit or loss under repurchase agreements were $72,117,000 thousand, $73,379,700 thousand and $58,437,200 thousand, respectively.

The profit and loss arising from financial assets and liabilities at fair value through profit and loss for the three months ended March 31, 2021 and 2020 were as follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Financial assets at fair value through profit or loss | | |
| Realized profit (loss) | $ 43,727 | $ (1,314) |
| Valuation profit (loss) | (8,104) | 20,238 |
| | $ 35,623 | $ 18,924 |
| Financial liabilities at fair value through profit or loss | | |
| Realized loss | $ (897) | $ (4,403) |
| Valuation loss | (16,962) | (17,255) |
| | $ (17,859) | $ (21,658) |

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

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Investments in equity instruments | $ 1,477,324 | $ 1,685,578 | $ 1,300,019 |
| Investments in debt instruments | 99,465,525 | 103,551,701 | 97,790,590 |
| | $ 100,942,849 | $ 105,237,279 | $ 99,090,609 |

a. Investments in equity instruments

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Domestic investments | | | |
| Listed shares and emerging market shares | $ 948,803 | $ 1,163,982 | $ 798,720 |
| Unlisted shares | 385,271 | 376,096 | 364,649 |
| Beneficiary securities on real estate investment trust | 143,250 | 145,500 | 136,650 |
| | $ 1,477,324 | $ 1,685,578 | $ 1,300,019 |

As of March 31, 2021, December 31, 2020 and March 31, 2020, domestic unlisted shares held by the Company were as follows:

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Domestic unlisted shares | | | |
| Taiwan Depository and Clearing Corporation | $ 123,354 | $ 118,451 | $ 111,158 |
| Taiwan Futures Exchange Corporation | 96,641 | 94,050 | 89,139 |
| Taiwan Asset Management Corporation | 71,074 | 69,035 | 70,373 |
| Core Pacific City Corporation | 94,202 | 94,560 | 93,979 |
| | $ 385,271 | $ 376,096 | $ 364,649 |

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 three months ended March 31, 2021, the fair value of shares disposed which classified as at FVTOCI was $367,128 thousand and the accumulated gain related to the sold assets was $72,029 thousand which was transferred from equity to retained earnings.

b. Investments in debt instruments

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Domestic investments | | | |
| Government bonds | $ 16,466,816 | $ 17,928,945 | $ 21,769,722 |
| Corporate bonds | 51,658,383 | 52,729,932 | 45,997,998 |
| Bank debentures | 9,820,104 | 10,887,818 | 9,899,922 |
| Overseas investments | | | |
| Overseas government bonds | 1,491,580 | 1,486,924 | 2,273,424 |
| Overseas corporate bonds | 9,242,918 | 9,853,054 | 8,037,937 |
| Overseas bank debentures | 10,785,724 | 10,665,028 | 9,811,587 |
| | $ 99,465,525 | $ 103,551,701 | $ 97,790,590 |

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 March 31, 2021, December 31, 2020 and March 31, 2020, the face values of financial instruments at FVTOCI under repurchase agreements were $93,340,972 thousand, $96,764,689 thousand and $88,748,327 thousand, respectively.

## 10. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at FVTOCI.

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Gross carrying amount | $ 98,560,024 | $ 102,083,159 | $ 97,611,090 |
| Adjustment to fair value | 905,501 | 1,468,542 | 179,500 |
| | $ 99,465,525 | $ 103,551,701 | $ 97,790,590 |
| Allowance for impairment loss | $ (35,811) | $ (38,252) | $ (36,510) |

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 | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Performing | $ 97,560,003 | $ 101,083,134 | $ 96,611,053 |
| Doubtful | 1,000,021 | 1,000,025 | 1,000,037 |
| 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, 2021 | $ 29,431 | $ 8,821 | $ - |
| New financial assets purchased | 485 | - | - |
| Derecognition | (1,450) | - | - |
| Change in model or risk parameters | (1,497) | 11 | - |
| Change in exchange rates or others | 10 | - | - |
| Balance at March 31, 2021 | $ 26,979 | $ 8,832 | $ - |
| Balance at January 1, 2020 | $ 28,617 | $ 8,136 | $ - |
| Transfers | | | |
| From doubtful to performing | 914 | (914) | - |
| New financial assets purchased | 1,998 | - | - |
| Derecognition | (2,829) | - | - |
| Change in model or risk parameters | 534 | 6 | - |
| Change in exchange rates or others | 48 | - | - |
| Balance at March 31, 2020 | $ 29,282 | $ 7,228 | $ - |

## 11. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

As of March 31, 2021, December 31, 2020 and March 31, 2020, bonds and bills purchased under resell agreements were in the amounts of $5,985,064 thousand, $4,734,256 thousand and $748,205 thousand before May 2021, March 2021 and April 2020, respectively.

As of March 31, 2021, December 31, 2020 and March 31 2020, bonds and bills purchased under resell agreements were sold under repurchase agreements in the face values of $5,980,000 thousand, $4,726,100 thousand and 450,000 thousand, respectively.

## 12. RECEIVABLES, NET

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Interest receivables, net | $ 638,602 | $ 674,826 | $ 728,126 |
| Receivables on bond sales | - | 463 | 357,307 |
| Receivables on settlements of asset swap | 34,367 | 92,039 | 100 |
| Dividend receivable | 100 | - | - |
| Others receivables | 28,963 | 15,533 | - |
| | $ 702,032 | $ 782,861 | $ 1,085,533 |

## 13. OTHER FINANCIAL ASSETS, NET

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Deposits placed with authorities for bank clearing | $ - | $ 525,000 | $ 525,000 |
| Repurchase agreement margins | 31,940 | 16,234 | 162,309 |
| Futures margins | 23,936 | 24,777 | 26,011 |
| | $ 55,876 | $ 566,011 | $ 713,320 |

## 14. PROPERTY AND EQUIPMENT, NET

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Land | $ 83,337 | $ 83,337 | $ 83,337 |
| Buildings | 41,936 | 42,351 | 43,600 |
| Machinery and computer equipment | 19,015 | 19,920 | 22,751 |
| Transportation equipment | 3,558 | 3,764 | 3,470 |
| Office and other equipment | 2,449 | 2,515 | 2,496 |
| Lease improvement | 1,194 | 1,199 | 1,210 |
| Equipment under installation and construction in Progress | - | - | 1,735 |
| | $ 151,489 | $ 153,086 | $ 158,599 |

For the three months ended March 31, 2021 and 2020, 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

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Carrying amounts | | | |
| Buildings | $ 898 | $ 1,347 | $ 2,695 |
| Transportation equipment | 611 | 366 | 1,285 |
| Office equipment | 845 | 946 | - |
| | $ 2,354 | $ 2,659 | $ 3,980 |

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Additions to right-of-use assets | $ 570 | $ - |
| Depreciation charge for right-of-use assets | | |
| Buildings | $ 449 | $ 449 |
| Transportation equipment | 325 | 306 |
| Office equipment | 101 | - |
| | $ 875 | $ 755 |

Except for the aforementioned additions and recognized depreciation, the Company did not have significant sublease or impairment of right-of-use assets for the three months ended March 31, 2021 and 2020.

b. Lease liabilities

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Carrying amounts | $ 2,383 | $ 2,695 | $ 4,021 |

Discount rates for lease liabilities were as follows:

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Buildings | 1.626% | 1.626% | 1.626% |
| Transportation equipment | 2.037%-2.414% | 2.283%-2.414% | 2.283%-2.414% |
| Office equipment | 2.332% | 2.332% | - |

c. Other lease information

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Expense relating to short-term leases | $ 3,212 | $ 3,212 |
| Expenses relating to low-value asset leases | $ 252 | $ 225 |
| Total cash outflow for leases | $ (4,360) | $ (4,209) |

## 16. OTHER ASSETS, NET

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Refundable deposits | $ 565,003 | $ 36,125 | $ 40,124 |
| Long-term prepaid expenses | 4,385 | 5,130 | 6,268 |
| Prepaid expenses | 6,268 | 5,328 | 2,491 |
| Others | 16 | 54 | 39 |
| | $ 575,672 | $ 46,637 | $ 48,922 |

As of March 31, 2021, December 31, 2020 and March 31, 2020, the refundable deposits were as follows:

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Deposits placed with the Over the Counter (OTC) exchange for OTC transactions | $ 5,000 | $ 1,000 | $ 5,000 |
| Deposits placed with bank overdrafts | 525,000 | - | - |
| Others | 35,003 | 35,125 | 35,124 |
| | $ 565,003 | $ 36,125 | $ 40,124 |

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

## 17. CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS

As of March 31, 2021, December 31, 2020 and March 31, 2020, the balances of call loans from banks and overdrafts on banks amounted to $4,499,745 thousand, $6,140,000 thousand and $14,855,712 thousand respectively, with interest rate ranges from 0.2%-0.51%, 0.21%-0.26% and 0.4%-2.95%, and the latest due date were April 2021, January 2021 and April 2020, respectively.

As of March 31, 2021, December 31, 2020 and March 31, 2020, the credit lines of call loans from banks and overdrafts on banks were $153,193,465 thousand, $152,777,180 thousand and $147,511,760 thousand, respectively.

## 18. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

As of March 31, 2021, December 31, 2020 and March 31, 2020, bonds and bills in the amounts of $176,316,535 thousand, $179,726,810 thousand and $151,680,324 thousand, respectively, had been sold under repurchase agreements for $176,375,596 thousand, $179,794,171 thousand and $151,788,923 thousand before their maturities in March 2022, December 2021 and February 2021, respectively.

## 19. PAYABLES

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Dividend payable | $ 130 | $ 144 | $ 149 |
| Payable for bonds purchased | 153,500 | 101,800 | 246,005 |
| Employee awards payable | 70,727 | 139,986 | 67,055 |
| Withholding tax payable held by prior parties | 46,462 | 51,768 | 54,570 |
| Interest payable | 31,464 | 37,590 | 54,276 |
| Compensation to directors and employees | 68,202 | 51,070 | 51,509 |
| Payable for shares purchased | - | 6,453 | - |
| Others | 35,617 | 36,989 | 32,125 |
| | $ 406,102 | $ 425,800 | $ 505,689 |

## 20. COMMERCIAL PAPER ISSUED, NET

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Bills issued | $ 4,500,000 | $ 4,500,000 | $ - |
| Less: Discount on bills issued | (640) | (773) | - |
| | $ 4,499,360 | $ 4,499,227 | $ - |

As of March 31, 2021 and December 31, 2020, the latest due date were April 28, 2021 and January 28, 2021 with the interest rate of 0.23%-0.26% and 0.27%-0.36%, respectively.

## 21. PROVISIONS

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Reserve for losses on guarantees | $ 1,375,077 | $ 1,375,077 | $ 1,325,077 |
| Provision for employee benefits | 59,129 | 65,114 | 70,250 |
| | $ 1,434,206 | $ 1,440,191 | $ 1,395,327 |

Reversal were as follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Amounts collected from prior years' write-off | $ 5,654 | $ 165 |

## 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.

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 three months ended March 31, 2020 amounted to $532 thousand.

The total expenses recognized in profit or loss for the three months ended March 31, 2021 and 2020 amounted to $2,010 thousand and $1,932 thousand, respectively, were the contributions payable by the Company to the LPA plan at the specified rates.

b. Defined benefit plans

The pension expenses for the defined benefit plans were based on the pension cost rate as of December 31, 2020 and 2019. The pension expenses for the three months ended March 31, 2021 and 2020 were as follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Operating expenses | $ 582 | $ 630 |

## 23. EQUITY

a. Ordinary shares

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Number of shares authorized (in thousands) | 1,678,700 | 1,678,700 | 1,678,700 |
| Shares authorized | $ 16,787,700 | $ 16,787,700 | $ 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

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| 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 | 7,782 | 6,330 | 6,554 |
| | $ 10,256 | $ 8,804 | $ 9,028 |

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) The Company is in a fiercely competitive financial industry, which its 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 certain rules the Company should appropriate or reverse to a special reserve according to the net debit balance. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

The appropriations of earnings for 2021 and 2020 proposed by the Company's board of directors and approved in the shareholders' meetings on February 25, 2021 and May 28, 2020, respectively, were as follows:

| | Appropriation of Earnings For the Year Ended December 31 | | Dividends Per Share (NT$) For the Year Ended December 31 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Legal reserve | $ 496,901 | $ 373,395 | | |
| Cash dividends | 1,168,375 | 966,931 | $ 0.87 | $ 0.72 |

The appropriations of earnings for 2020 are subject to the resolution of the shareholder's meeting to be held on June 18, 2021.

d. Other equity items

Unrealized valuation gain/loss on financial assets at FVTOCI

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2021** | **2020** |
| Balance at January 1 | $ 1,521,329 | $ 618,250 |
| Recognized for the period | | |
| Unrealized gain or loss | | |
| Debt instruments | (397,051) | (145,614) |
| Equity instruments | 158,874 | (100,495) |
| Adjustments of expected credit losses in debt instruments | (2,441) | (243) |
| Reclassification adjustments | | |
| Disposal of investments in debt instruments | (61,028) | (43,017) |
| Other comprehensive income recognized in the period | (301,646) | (289,369) |
| Cumulative unrealized gain on equity instruments transferred to retained earnings due to disposal | (72,029) | - |
| Balance at March 31 | $ 1,147,654 | $ 328,881 |

## 24. NET INTEREST

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Interest revenues | | |
| Bonds | $ 308,420 | $ 348,785 |
| Short-term bills | 90,811 | 128,088 |
| Convertible bond asset swap | 33,647 | 33,353 |
| Securities purchased under resell agreements | 2,631 | 502 |
| Others | 454 | 690 |
| | 435,963 | 511,418 |
| Interest expenses | | |
| Bonds sold under repurchase agreements | (70,416) | (171,653) |
| Bills sold under repurchase agreements | (38,892) | (78,237) |
| Call loans from banks | (4,013) | (28,343) |
| Convertible bond asset swap | (96) | (783) |
| Lease liabilities | (14) | (20) |
| Others | (3,132) | (8) |
| | (116,563) | (279,044) |
| | $ 319,400 | $ 232,374 |

## 25. SERVICE FEE INCOME, NET

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Service fee income | | |
| Guarantee business | $ 198,788 | $ 180,415 |
| Underwriting business | 153,549 | 104,477 |
| Others | 4,178 | 4,327 |
| | 356,515 | 289,219 |
| Service charge | | |
| Others | (663) | (829) |
| | $ 355,852 | $ 288,390 |

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

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Short-term bills | $ 31,488 | $ 61,928 |
| Bonds | 13,703 | (2,133) |
| Stocks and mutual funds | (5,737) | (27,053) |
| Derivative financial instruments | (21,690) | (35,476) |
| | $ 17,764 | $ (2,734) |

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

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Government bonds | $ 18,554 | $ 8,669 |
| Corporate bonds | 16,126 | 7,173 |
| Bank debentures | 26,348 | 27,175 |
| | $ 61,028 | $ 43,017 |

## 28. FOREIGN EXCHANGE GAINS (LOSSES), NET

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Gross amount of foreign currency exchange gain | $ 35,159 | $ 27,840 |
| Gross amount of foreign currency exchange loss | - | (15,618) |
| Net foreign exchange gain or loss | $ 35,159 | $ 12,222 |

## 29. EMPLOYEE BENEFIT EXPENSES, DEPRECIATION AND AMORTIZATION

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Employee benefits | | |
| Salaries and wages (include compensation to employees) | $ 71,225 | $ 64,037 |
| Labor insurance and national health insurance | 3,702 | 3,405 |
| Remuneration of directors | 10,696 | 8,078 |
| Pension (Note 22) | 2,592 | 3,094 |
| Others | 6,531 | 6,830 |
| Depreciation | 2,597 | 2,157 |
| Amortization | 759 | 845 |

If the Company has profit in the year, the profit shall be reserved as employees' compensation and remuneration of directors 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 employees' compensation and remuneration of directors.

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

For the three months ended March 31, 2021 and 2020, the accrual rates and amounts of employees' compensation and remuneration of directors were as follows:

Accrual rate

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2021** | **2020** |
| Employees' compensation | 1.25% | 1.25% |
| Remuneration of directors | 1.25% | 1.25% |

Amount

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2021** | **2020** |
| Employees' compensation | $ 8,566 | $ 5,838 |
| Remuneration of directors | $ 8,566 | $ 5,838 |

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 and remuneration of directors for 2020 and 2019 resolved by the Company's board of directors on February 25, 2021 and February 25, 2020, respectively, were listed below:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Employees' compensation - cash | $ 25,535 | $ 19,917 |
| Remuneration of directors | $ 25,535 | $ 19,917 |

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, 2020 and 2019.

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 March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Taxation | $ 13,290 | $ 11,182 |
| Rental | 3,464 | 3,437 |
| Annual fee allocated | 1,388 | 1,346 |
| Donation | - | 750 |
| Stocks service fee | 614 | 613 |
| Others | 12,345 | 12,503 |
| | $ 31,101 | $ 29,831 |

## 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 March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Current tax | | |
| In respect of the current period | $ 143,506 | $ 97,142 |
| Deferred tax | | |
| In respect of the current period | (6,377) | 1,172 |
| Income tax expense recognized in profit or loss | $ 137,129 | $ 98,314 |

b. Income tax recognized directly in other comprehensive income

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Deferred tax | | |
| Current period | | |
| Remeasurement of defined benefit plans | $ (30) | $ 22 |
| Unrealized gains or losses on financial assets at FVTOCI | (104,963) | (122,372) |
| Income tax expense (benefit) recognized in other comprehensive income | $ (104,993) | $ (122,350) |

c. Income tax assessments

The Company's income tax returns through 2016 had been assessed 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 March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Earnings used in the computation of basic earnings per share | $ 530,980 | $ 357,069 |

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

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Weighted average number of ordinary shares in the computation of basic earnings per share | 1,342,960 | 1,342,960 |
| Effect of potentially dilutive ordinary shares: | | |
| Employees' compensation issued to employees | 1,612 | 1,194 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 1,344,572 | 1,344,154 |

**Unit: NT$ Per Share**

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2021 | 2020 |
| Basic earnings per share | $ 0.40 | $ 0.27 |
| Diluted earnings per share | $ 0.39 | $ 0.27 |

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 key 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 March 31, 2021

| Related Party | Security Sold Under Repurchase Agreements | March 31, 2021 | Intervals of Interest Rate | Interest Expense |
|---|---|---|---|---|
| Others | $ 2,726,877 | $ 1,081,356 | 0.15%-0.45% | $ 752 |

For the three months ended March 31, 2020

| Related Party | Security Sold Under Repurchase Agreements | March 31, 2020 | Intervals of Interest Rate | Interest Expense |
|---|---|---|---|---|
| Others | $ 1,825,753 | $ 1,459,220 | 0.37%-2.10% | $ 1,077 |

2) Lease arrangements

| | For the Three Months Ended March 31 | |
|---|---|---|
| **Related Party Category/Name** | **2021** | **2020** |
| Lease expense (accounted as other operating expenses) | | |
| Parent company: | | |
| O-Bank | $ 3,304 | $ 3,304 |

In January 2021 and January 2020 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 both 1 year. 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:

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Total lease payments to be paid in the future | $ 9,912 | $ 13,216 | $ 9,912 |

c. Compensation of key management personnel

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2021** | **2020** |
| Short-term employee benefits | $ 20,748 | $ 17,408 |
| Post-employment benefits | 5,156 | 1,174 |
| | $ 25,904 | $ 18,582 |

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:

| | March 31, 2021 | December 31, 2020 | March 31, 2020 | Purposes |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| Negotiable certificate of deposits | $ 1,600,690 | $ 1,600,783 | $ 1,600,987 | Credit line for loans |
| Negotiable certificate of deposits | 700,078 | 700,098 | 700,007 | Deposits placed with authorities to carry out bills finance businesses |
| Negotiable certificate of deposits | 1,600,015 | 1,700,348 | 1,700,651 | Deposits placed with bank overdrafts |
| Financial assets at fair value through other comprehensive income | | | | |
| Government bonds | 90,567 | 90,714 | 90,655 | OTC online deposits refund |
| Government bonds | 35,220 | 35,278 | 35,255 | Deposits placed with authorities to operate as a security dealer |
| Other financial assets | | | | |
| Certificate of deposits | - | 525,000 | 525,000 | Deposits placed with bank overdrafts |
| Other assets | | | | |
| Refundable of deposits | 525,000 | - | - | Deposits placed with bank overdrafts |

## 35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of March 31, 2021 were as follows:

| | |
|---|---|
| Bonds and bills sold under repurchase agreements (at repurchase price) | $ 176,375,596 |
| Bonds and bills purchased under resell agreements (at resell price) | 5,985,064 |
| Guaranteed commercial paper | 108,533,600 |
| Fixed-rate commercial paper commitments | 22,250,000 |
| Benchmark interest rate commercial paper commitments | 43,975,000 |
| Purchase commitment contracts | 12,800,000 |
| Revolving insurance on commercial paper commitments | 14,684,200 |

## 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 | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Eligible capital | Tier 1 capital | $ 23,899,222 | $ 23,198,939 |
| | Tier 2 capital | 172,840 | 108,144 |
| | Tier 3 capital | 753,504 | 295,820 |
| | Eligible capital | 24,825,566 | 23,602,903 |
| Risk-weighted assets | Credit risk | 125,949,038 | 120,219,765 |
| | Operational risk | 3,807,116 | 3,993,818 |
| | Market risk | 64,163,236 | 61,676,900 |
| | Total risk-weighted assets | 193,919,390 | 185,890,483 |
| Capital adequacy ratio (Note) | | 12.80 | 12.70 |
| Ratio of Tier 1 capital to risk-weighted assets (Note) | | 12.32 | 12.48 |
| Ratio of Tier 2 capital to risk-weighted assets (Note) | | 0.09 | 0.06 |
| Ratio of Tier 3 capital to risk-weighted assets (Note) | | 0.39 | 0.16 |
| Ratio of common shareholders' equity to total assets (Note) | | 6.15 | 6.80 |

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 March 31, 2021, December 31, 2020 and March 31, 2020 was as follows:

1) The fair value hierarchy

| Item | March 31, 2021 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 | $ 167,843 | $ 167,843 | $ - | $ - |
| Bonds | 197,405 | 197,405 | - | - |
| Bills | 95,482,589 | - | 95,482,589 | - |
| Fixed-rate commercial paper | 78,295 | - | 78,295 | - |
| Beneficiary securities | 503,140 | - | 503,140 | - |
| Financial assets at FVTOCI | | | | |
| Shares | 1,334,074 | 948,803 | - | 385,271 |
| Bonds | 99,465,525 | - | 99,465,525 | - |
| Beneficiary securities on real estate investment trust | 143,250 | 143,250 | - | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 280 | - | 280 | - |
| Derivative financial instruments | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | 8,122,340 | - | - | 8,122,340 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 55,934 | - | 55,934 | - |

| Item | December 31, 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 | $ 63,139 | $ 63,139 | $ - | $ - |
| Bonds | 176,050 | 176,050 | - | - |
| Bills | 96,213,716 | - | 96,213,716 | - |
| Fix-rate commercial paper | 85,113 | - | 85,113 | - |
| Beneficiary certificates | 503,298 | - | 503,298 | - |
| Financial assets at FVTOCI | | | | |
| Shares | 1,540,078 | 1,163,982 | - | 376,096 |
| Bonds | 103,551,701 | - | 103,551,701 | - |
| Beneficiary securities on real estate investment trust | 145,500 | 145,500 | - | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 1,960 | - | 1,960 | - |

(Continued)

| Item | December 31, 2020 Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Derivative financial instruments | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | $ 9,114,224 | $ - | $ 17,574 | $ 9,096,650 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 37,292 | - | 37,292 | - |

(Concluded)

| Item | March 31, 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 | | | | |
| Bonds | $ 138,784 | $ 138,784 | $ - | $ - |
| Bills | 79,663,090 | - | 79,663,090 | - |
| Fixed-rate commercial paper | 103,249 | - | 103,249 | - |
| Beneficiary securities | 500,000 | - | 500,000 | - |
| Financial assets at FVTOCI | | | | |
| Shares | 1,163,369 | 798,720 | - | 364,649 |
| Bonds | 97,790,590 | - | 97,790,590 | - |
| Beneficiary securities on real estate investment trust | 136,650 | 136,650 | - | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 18,036 | - | 18,036 | - |
| Derivative financial instruments | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | 10,034,231 | - | 3,724 | 10,030,507 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 4,341 | - | 4,341 | - |

2) The Company had no significant transfers between Levels 1 and 2 for the three months ended March 31, 2021 and 2020.

3) Reconciliation of Level 3 items of financial instruments

For the three months ended March 31, 2021

| 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 | $ 9,096,650 | $ 376,096 | $ 9,472,746 |
| Recognized in profit or loss | 16,190 | - | 16,190 |
| Recognized in other comprehensive income (unrealized valuation gain or loss of equity instruments on financial assets at FVTOCI) | - | 9,175 | 9,175 |
| Purchases | 3,218,500 | - | 3,218,500 |
| Sales | (4,209,000) | - | (4,209,000) |
| Balance at March 31 | $ 8,122,340 | $ 385,271 | $ 8,507,611 |

For the three months ended March 31, 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 | $ 8,623,449 | $ 356,967 | $ 8,980,416 |
| Recognized in profit or loss | (22,142) | - | (22,142) |
| Recognized in other comprehensive income (unrealized valuation gain or loss of equity instruments on financial assets at FVTOCI) | - | 7,682 | 7,682 |
| Purchases | 3,314,900 | - | 3,314,900 |
| Sales | (1,885,700) | - | (1,885,700) |
| Balance at March 31 | $ 10,030,507 | $ 364,649 | $ 10,395,156 |

Unrealized gain and loss recognized in profit or loss for the three months ended March 31, 2021 and 2020 for the assets held on the balance sheet date amounted to net gain of $34,340 thousand and loss of $16,293 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 March 31, 2021 | Valuation Techniques | Significant Unobservable Inputs | Range | Relationship Between Inputs and Fair Value |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | | |
| Hybrid financial assets | $ 8,122,340 | Discounted cash flow method | a) Discount rate<br>b) Liquidity risk premium | 0.4507%-0.6832%<br>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 | 385,271 | Asset method | a) Lack of liquidity discount<br>b) Lack of control discount | 10%<br>10% | The higher of liquidity and control discount, the lower of fair value. |

| | Fair Value at December 31, 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 | $ 9,096,650 | Discounted cash flow method | a) Discount rate<br>b) Liquidity risk premium | 0.2004%-0.6911%<br>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 | 376,096 | Asset method | a) Lack of liquidity discount<br>b) Lack of control discount | 10%<br>10% | The higher of liquidity and control discount, the lower of fair value. |

| | Fair Value at March 31, 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 | $ 10,030,507 | Discounted cash flow method | a) Discount rate<br>b) Liquidity risk premium | 0.4007%-0.7482%<br>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 | 364,649 | Asset method | a) Lack of liquidity discount<br>b) Lack of control discount | 10%<br>10% | The higher of liquidity and control discount, the lower of fair value. |

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 |
| March 31, 2021 | | | | | | |
| Assets | | | | | | |
| Hybrid financial assets | Discount rate | Upward 1 BP | $ - | $ 1,272 | $ - | $ - |
| Unlisted shares | Lack of liquidity and control discount | Upward 10% | - | - | - | 47,564 |

| Items | Inputs | Discount Rate Movement: Upward/ Downward | Effect on Income | | Effect on Other Comprehensive Income | |
|---|---|---|---|---|---|---|
| | | | Advantages | Disadvantages | Advantages | Disadvantages |
| December 31, 2020 | | | | | | |
| Assets | | | | | | |
| Hybrid financial assets | Discount rate | Upward 1 BP | $ - | $ 1,379 | $ - | $ - |
| Unlisted shares | Lack of liquidity and control discount | Upward 10% | - | - | - | 46,431 |

| Items | Inputs | Discount Rate Movement: Upward/ Downward | Effect on Income | | Effect on Other Comprehensive Income | |
|---|---|---|---|---|---|---|
| | | | Advantages | Disadvantages | Advantages | Disadvantages |
| March 31, 2020 | | | | | | |
| Assets | | | | | | |
| Hybrid financial assets | Discount rate | Upward 1 BP | $ - | $ 1,459 | $ - | $ - |
| Unlisted shares | Lack of liquidity and control discount | Upward 10% | - | - | - | 45,018 |

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:

March 31, 2021

| 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 | $ 71,955,410 | $ 71,993,521 |
| Bonds sold under repurchase agreements | 80,144 | 80,255 |
| Financial assets at FVTOCI | | |
| Bonds sold under repurchase agreements | 95,460,033 | 97,983,428 |
| Securities purchased under resell agreements | | |
| Bonds sold under repurchase agreements | 5,984,029 | 6,259,331 |

December 31, 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 | $ 73,059,276 | $ 73,092,529 |
| Bonds sold under repurchase agreements | 245,568 | 245,180 |
| Financial assets at FVTOCI | | |
| Bonds sold under repurchase agreements | 99,350,593 | 101,453,958 |
| Securities purchased under resell agreements | | |
| Bonds sold under repurchase agreements | 4,732,882 | 4,935,143 |

March 31, 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 | $ 57,999,726 | $ 58,025,247 |
| Bonds sold under repurchase agreements | 360,574 | 360,103 |
| Financial assets at FVTOCI | | |
| Bonds sold under repurchase agreements | 90,317,183 | 92,828,774 |
| Securities purchased under resell agreements | | |
| Bonds sold under repurchase agreements | 452,307 | 466,200 |

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 covered by enforceable master netting arrangements or similar agreements.

March 31, 2021

| Financial Liabilities | Gross Amounts of Recognized Financial Liabilities | Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet | Net Amounts of Financial Liabilities Presented in the Balance Sheet | Related Amounts Not Offset in the Balance Sheet | | Net Amounts |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments (Note) | Cash Collateral Pledged | |
| Repurchase agreements | $ 176,316,535 | $ - | $ 176,316,535 | $ 173,479,616 | $ - | $ 2,836,919 |

December 31, 2020

| Financial Assets | Gross Amounts of Recognized Financial Assets | Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet | Net Amounts of Financial Assets Presented in the Balance Sheet | Related Amounts Not Offset in the Balance Sheet | | Net Amounts |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments (Note) | Cash Collateral Received | |
| Derivative financial instruments | $ 17,574 | $ - | $ 17,574 | $ - | $ - | $ 17,574 |

| Financial Liabilities | Gross Amounts of Recognized Financial Liabilities | Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet | Net Amounts of Financial Liabilities Presented in the Balance Sheet | Related Amounts Not Offset in the Balance Sheet | | Net Amounts |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments (Note) | Cash Collateral Pledged | |
| Repurchase agreements | $ 179,726,810 | $ - | $ 179,726,810 | $ 177,388,319 | $ - | $ 2,338,491 |

March 31, 2020

| Financial Assets | Gross Amounts of Recognized Financial Assets | Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet | Net Amounts of Financial Assets Presented in the Balance Sheet | Related Amounts Not Offset in the Balance Sheet | | Net Amounts |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments (Note) | Cash Collateral Received | |
| Derivative financial instruments | $ 3,724 | $ - | $ 3,724 | $ - | $ - | $ 3,724 |

| Financial Liabilities | Gross Amounts of Recognized Financial Liabilities | Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet | Net Amounts of Financial Liabilities Presented in the Balance Sheet | Related Amounts Not Offset in the Balance Sheet | | Net Amounts |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments (Note) | Cash Collateral Pledged | |
| Repurchase agreements | $ 151,680,324 | $ - | $ 151,680,324 | $ 149,129,790 | $ - | $ 2,550,534 |

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) Bonds 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 off balance sheet 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) Bonds 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 are as follows:

i. As for March 31, 2021, December 31, 2020 and March 31, 2020, guarantees with collateral accounted for 61.07%, 61.61% and 60.44%, respectively, of the total guarantees given by the Company.

ii. As for March 31, 2021, December 31, 2020 and March 31, 2020, balances of commercial paper guarantee contracts, which were off-balance sheet risks owned by the Company amounted to $191,263 million, $189,461 million and $188,715 million (amounts used of guarantee contracts were $108,534 million, $109,165 million and $107,211 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 of guarantee liabilities

The movements in reserve of guarantee liabilities were as follows:

For the three months ended March 31, 2021

| | 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 | $ 15,461 | $ 16 | $ - | $ 15,477 | $ 1,359,600 | $ 1,375,077 |
| Changes from credit assets recognized at the beginning of the period | | | | | | |
| The impairment allowance for credit assets derecognized in the current period | - | - | - | - | - | - |
| Originated or purchased new credit assets | - | - | - | - | - | - |
| 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" | - | - | - | - | 15,477 | 15,477 |
| Changes of model/risk parameter | (15,461) | (16) | - | (15,477) | - | (15,477) |
| Balance at March 31 | $ - | $ - | $ - | $ - | $ 1,375,077 | $ 1,375,077 |

For the three months ended March 31, 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 | (1,988) | - | - | (1,988) | - | (1,988) |
| Originated or purchased new credit assets | 1,834 | - | - | 1,834 | - | 1,834 |
| 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" | - | - | - | - | 136 | 136 |
| Changes of model/risk parameter | 18 | - | - | 18 | - | 18 |
| Balance at March 31 | $ 15,177 | $ 21 | $ - | $ 15,198 | $ 1,309,879 | $ 1,325,077 |

v. Exposure to credit risk

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

March 31, 2021

| | On and Off-Balance Sheet Credit Assets | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 Performing (12-month ECL) | Stage 2 Doubtful (Lifetime ECL) | Doubtful (Lifetime ECL) | Credit Impairment of Purchase | Total |
| Rating level | | | | | |
| Internal rating 1-2 | $ 108,476,383 | $ 110,900 | $ - | $ - | $ 108,587,283 |
| Internal rating 3-4 | - | - | - | - | - |
| Defect | - | - | - | - | - |
| Total book value | $ 108,476,383 | $ 110,900 | $ - | $ - | $ 108,587,283 |
| Impairment allowance | $ - | $ - | $ - | $ - | $ - |
| 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" | 1,264,177 | 110,900 | - | - | 1,375,077 |
| | $ 1,264,177 | $ 110,900 | $ - | $ - | $ 1,375,077 |

December 31, 2020

| | On- and off- Balance Sheet Credit Assets | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 Performing (12-month ECL) | Stage 2 Doubtful (Lifetime ECL) | Doubtful (Lifetime ECL) | Credit Impairment of Purchase | Total |
| Rating level | | | | | |
| Internal rating 1-2 | $ 109,103,705 | $ 111,200 | $ - | $ - | $ 109,214,905 |
| Internal rating 3-4 | - | - | - | - | - |
| Defect | - | - | - | - | - |
| Total book value | $ 109,103,705 | $ 111,200 | $ - | $ | $ 109,214,905 |
| Impairment allowance | $ 15,461 | $ 16 | $ - | $ - | $ 15,477 |
| 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" | 1,248,416 | 111,184 | - | - | 1,359,600 |
| | $ 1,263,877 | $ 111,200 | $ - | $ - | $ 1,375,077 |

March 31, 2020

| | On and Off-Balance Sheet Credit Assets | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 Performing (12-month ECL) | Stage 2 Doubtful (Lifetime ECL) | Doubtful (Lifetime ECL) | Credit Impairment of Purchase | Total |
| Rating level | | | | | |
| Internal rating 1-2 | $ 107,097,860 | $ 147,100 | $ - | $ - | $ 107,244,960 |
| Internal rating 3-4 | - | - | - | - | - |
| Defect | - | - | - | - | - |
| Total book value | $ 107,097,860 | $ 147,100 | $ - | $ - | $ 107,244,960 |
| Impairment allowance | $ 15,177 | $ 21 | $ - | $ - | $ 15,198 |
| 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" | 1,178,150 | 131,729 | - | - | 1,309,879 |
| | $ 1,193,327 | $ 131,750 | $ - | $ - | $ 1,325,077 |

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

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Financial assets at fair value through profit or loss | | | |
| Derivative financial instruments | | | |
| Currency swap contracts | $ - | $ 17,574 | $ 3,724 |
| Non-derivative financial instruments | | | |
| Investment in short-term bills | 95,482,589 | 96,213,716 | 79,663,090 |
| Bond investments | 197,405 | 176,050 | 138,784 |
| Domestic quoted shares | 167,843 | 63,139 | - |
| Fixed-rate commercial paper | 78,295 | 85,113 | 103,249 |
| Beneficiary securities | 503,140 | 503,298 | 500,000 |
| Hybrid financial assets | | | |
| Convertible bond asset swap contracts | 8,122,340 | 9,096,650 | 10,030,507 |
| | 104,551,612 | 106,155,540 | 90,439,354 |
| Financial assets at FVTOCI | | | |
| Investments in equity instruments | 1,477,324 | 1,685,578 | 1,300,019 |
| | $ 106,028,936 | $ 107,841,118 | $ 91,739,373 |

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 March 31, 2021, December 31, 2020 and March 31, 2020, the Company's concentrations of credit risk arising from guaranteeing commercial paper were as follows (in millions of New Taiwan dollars):

i. By industry

| | March 31, 2021 | | December 31, 2020 | | March 31, 2020 | |
|---|---|---|---|---|---|---|
| **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 | $ 35,445 | $ 35,445 | $ 35,725 | $ 35,725 | $ 36,274 | $ 36,274 |
| Real estate | 27,469 | 27,469 | 28,799 | 28,799 | 26,633 | 26,633 |
| Manufacturer | 22,335 | 22,335 | 23,543 | 23,543 | 23,233 | 23,233 |
| Wholesaling and retailing | 11,473 | 11,473 | 11,540 | 11,540 | 11,159 | 11,159 |
| Others | 11,812 | 11,812 | 9,558 | 9,558 | 9,912 | 9,912 |
| | $ 108,534 | $ 108,534 | $ 109,165 | $ 109,165 | $ 107,211 | $ 107,211 |

ii. By collateral

| | March 31, 2021 | | December 31, 2020 | | March 31, 2020 | |
|---|---|---|---|---|---|---|
| **Collateral Sector** | **Carrying Amounts** | **% to Total** | **Carrying Amounts** | **% to Total** | **Carrying Amounts** | **% to Total** |
| Without collateral | $ 42,252 | 38.93 | $ 41,905 | 38.39 | $ 42,418 | 39.56 |
| With collateral | | | | | | |
| Real estate | 38,710 | 35.67 | 40,451 | 37.05 | 37,662 | 35.13 |
| Shares | 25,063 | 23.09 | 24,755 | 22.68 | 24,657 | 23.00 |
| Bonds | 1,866 | 1.72 | 1,729 | 1.58 | 2,088 | 1.95 |
| Bills | 643 | 0.59 | 325 | 0.30 | 386 | 0.36 |
| | $ 108,534 | 100.00 | $ 109,165 | 100.00 | $ 107,211 | 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% fluctuation in market rates is as follows:

**March 31, 2021**

| Financial Asset | Face Value | Average Duration (Year) | Influence to Fair Value Per 0.01 Fluctuation in Market Value |
|---|---|---|---|
| Bills | $ 95,569,983 | 0.1188 | $ 1,135 |
| Bonds | 106,554,133 | 2.9899 | 31,430 |

**December 31, 2020**

| Financial Asset | Face Value | Average Duration (Year) | Influence to Fair Value Per 0.01 Fluctuation in Market Value |
|---|---|---|---|
| Bills | $ 96,295,605 | 0.1028 | $ 989 |
| Bonds | 111,036,915 | 3.039 | 33,375 |

| March 31, 2020 | | | |
|---|---|---|---|
| **Financial Asset** | **Face Value** | **Average Duration (Year)** | **Influence to Fair Value Per 0.01 Fluctuation in Market Value** |
| Bills | $ 79,747,860 | 0.1072 | $ 854 |
| Bonds | 107,387,857 | 2.9080 | 30,843 |

Effect of interest rate benchmark reform

The Company is exposed to USD LIBOR which is subject to interest rate benchmark reform. The exposures arise on non-derivative financial assets. SOFR (Secured Overnight Financing Rate) is expected to replace USD LIBOR. There are key differences between USD LIBOR and SOFR. USD LIBOR is "forward looking", which implies market expectation over future interest rates, and includes a credit spread over the risk-free rate. SOFR is currently a "backward-looking" rate, based on interest rates from actual transactions, and excludes a credit spread. To transition existing contracts and agreements that reference USD LIBOR to SOFR, adjustments for these differences might need to be applied to SOFR to enable the two benchmark rates to be economically equivalent.

The Company revises the basic information of its foreign-currency-denominated floating-rate notes to the interest rate benchmark in accordance with each supplementary agreement. The revision is considering changes to risk management policies, internal processes, IT systems and valuation models, as well as managing any related tax and accounting implications.

Risks arising from the transition relate principally to the potential impact of interest rate basis risk. If the bilateral negotiations with the Company's counterparties are not successfully concluded before the cessation of USD LIBOR, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

The following table contains details of all of the financial instruments held by the Company at March 31, 2021 which are subject to the reform and have not transitioned to an alternative benchmark interest rate:

| | Carrying Amount |
|---|---|
| **Non-Derivative Financial Instrument** | **Financial Assets** |
| 3-month USD LIBOR | $ 3,219,277 |

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:

| | March 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **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 | $ 271,722 | $ - | $ - | $ - | $ - | $ - | $ 271,722 |
| Financial assets at fair value through profit or loss | 43,512,944 | 47,285,599 | 6,208,929 | 2,274,621 | 5,269,519 | - | 104,551,612 |
| Securities purchased under resell agreements | 5,754,708 | 230,356 | - | - | - | - | 5,985,064 |
| Receivables | 170,734 | 144,967 | 118,639 | 123,533 | 143,633 | - | 701,506 |
| Financial assets at FVTOCI | 1,600,850 | 2,153,307 | 1,826,360 | 8,578,641 | 77,015,164 | 9,768,527 | 100,942,849 |
| Other financial assets | - | - | - | - | 55,876 | - | 55,876 |
| Refundable deposits | - | - | - | - | - | 565,003 | 565,003 |
| | 51,310,958 | 49,814,229 | 8,153,928 | 10,976,795 | 82,484,192 | 10,333,530 | 213,073,632 |
| Liabilities | | | | | | | |
| Call loans from banks and overdrafts on banks | 4,499,745 | - | - | - | - | - | 4,499,745 |
| Financial liabilities at fair value through profit or loss | 16,213 | - | 390 | - | 39,611 | - | 56,214 |
| Securities sold under repurchase agreements | 133,538,813 | 38,011,530 | 4,615,540 | 209,713 | - | - | 176,375,596 |
| Bills issued net | 4,500,000 | - | - | - | - | - | 4,500,000 |
| Accounts payable | 172,362 | 16,423 | 96,473 | 29,055 | 60,616 | - | 374,929 |
| Lease liabilities | 596 | 98 | 637 | 414 | 673 | - | 2,418 |
| | 142,727,729 | 38,028,051 | 4,713,040 | 239,182 | 100,900 | - | 185,808,902 |
| Net liquidity gap | $ (91,416,771) | $ 11,786,178 | $ 3,440,888 | $ 10,737,613 | $ 82,383,292 | $ 10,333,530 | $ 27,264,730 |

| | December 31, 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 | $ 264,720 | $ - | $ - | $ - | $ - | $ - | $ 264,720 |
| Financial assets at fair value through profit or loss | 56,938,355 | 37,787,228 | 4,451,159 | 1,600,057 | 5,378,741 | - | 106,155,540 |
| Securities purchased under resell agreements | 4,163,529 | 570,727 | - | - | - | - | 4,734,256 |
| Receivables | 211,456 | 192,961 | 152,158 | 103,007 | 122,381 | - | 781,963 |
| Financial assets at FVTOCI | 1,373,276 | 2,421,627 | 3,912,949 | 6,699,510 | 80,039,700 | 10,790,217 | 105,237,279 |
| Other financial assets | - | - | - | - | 566,011 | - | 566,011 |
| Refundable deposits | - | - | - | - | - | 36,125 | 36,125 |
| | 62,951,336 | 40,972,543 | 8,516,266 | 8,402,574 | 86,106,833 | 10,826,342 | 217,775,894 |
| Liabilities | | | | | | | |
| Call loans from banks and overdrafts on banks | 6,140,000 | - | - | - | - | - | 6,140,000 |
| Financial liabilities at fair value through profit or loss | 1 | 269 | - | 512 | 38,470 | - | 39,252 |
| Securities sold under repurchase agreements | 138,102,330 | 39,229,803 | 2,450,172 | 11,866 | - | - | 179,794,171 |
| Bills issued net | 4,500,000 | - | - | - | - | - | 4,500,000 |
| Accounts payable | 155,335 | 88,645 | 101,532 | - | 43,070 | - | 388,582 |
| Lease liabilities | - | 823 | 645 | 704 | 560 | - | 2,732 |
| | 148,897,666 | 39,319,540 | 2,552,349 | 13,082 | 82,100 | - | 190,864,737 |
| Net liquidity gap | $ (85,946,330) | $ 1,653,003 | $ 5,963,917 | $ 8,389,492 | $ 86,024,733 | $ 10,826,342 | $ 26,911,157 |

| | March 31, 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 | $ 259,092 | $ - | $ - | $ - | $ - | $ - | $ 259,092 |
| Due from the Central Bank and call loans to bank | 302,540 | - | - | - | - | - | 302,540 |
| Financial assets at fair value through profit or loss | 39,943,192 | 36,914,619 | 4,563,765 | 3,172,048 | 5,845,730 | - | 90,439,354 |
| Securities purchased under resell agreements | 748,205 | - | - | - | - | - | 748,205 |
| Receivables | 502,123 | 160,967 | 108,847 | 178,938 | 134,644 | - | 1,085,519 |
| Financial assets at FVTOCI | 1,051,018 | 2,335,181 | 1,914,973 | 8,448,176 | 76,167,118 | 9,174,143 | 99,090,609 |
| Other financial assets | - | - | - | - | 713,320 | - | 713,320 |
| Refundable deposits | - | - | - | - | - | 40,124 | 40,124 |
| | 42,806,170 | 39,410,767 | 6,587,585 | 11,799,162 | 82,860,812 | 9,214,267 | 192,678,763 |
| Liabilities | | | | | | | |
| Call loans from banks and overdrafts on banks | 14,855,712 | - | - | - | - | - | 14,855,712 |
| Financial liabilities at fair value through profit or loss | - | 1,212 | - | 41 | 21,124 | - | 22,377 |
| Securities sold under repurchase agreements | 128,587,415 | 19,599,268 | 3,350,635 | 251,605 | - | - | 151,788,923 |
| Accounts payable | 268,056 | 55,079 | 51,697 | 25,811 | 53,806 | - | 454,449 |
| Lease liabilities | 564 | 105 | 773 | 1,596 | 1,032 | - | 4,070 |
| | 143,711,747 | 19,655,664 | 3,403,105 | 279,053 | 75,962 | - | 167,125,531 |
| Net liquidity gap | $(100,905,577) | $ 19,755,103 | $ 3,184,480 | $ 11,520,109 | $ 82,784,850 | $ 9,214,267 | $ 25,553,232 |

| | March 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1-30 Days | 31-90 Days | 91-180 Days | 181-365 Days | Over 1 Year-7 Years | Over 7 Years | Total |
| Currency swap | | | | | | | |
| Inflow | $ 982,284 | $ - | $ - | $ - | $ - | $ - | $ 982,284 |
| Outflow | 998,585 | - | - | - | - | - | 998,585 |
| Total inflows | $ 982,284 | $ - | $ - | $ - | $ - | $ - | $ 982,284 |
| Total outflows | $ 998,585 | $ - | $ - | $ - | $ - | $ - | $ 998,585 |

| | December 31, 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 | $ 1,241,709 | $ 685,453 | $ - | $ - | $ - | $ - | $ 1,927,162 |
| Outflow | 1,225,844 | 684,192 | - | - | - | - | 1,910,036 |
| Total inflows | $ 1,241,709 | $ 685,453 | $ - | $ - | $ - | $ - | $ 1,927,162 |
| Total outflows | $ 1,225,844 | $ 684,192 | $ - | $ - | $ - | $ - | $ 1,910,036 |

| | March 31, 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 | $ 302,604 | $ 601,900 | $ 454,485 | $ - | $ - | $ - | $ 1,358,989 |
| Outflow | 302,540 | 605,080 | 453,810 | - | - | - | 1,361,430 |
| Total inflows | $ 302,604 | $ 601,900 | $ 454,485 | $ - | $ - | $ - | $ 1,358,989 |
| Total outflows | $ 302,540 | $ 605,080 | $ 453,810 | $ - | $ - | $ - | $ 1,361,430 |

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 |
|---|---|---|---|---|---|---|
| March 31, 2021 | | | | | | |
| Off-balance sheet item | | | | | | |
| Guaranteed commercial paper | $ 32,809,300 | $ 65,269,600 | $ 8,353,600 | $ 2,101,100 | $ - | $ 108,533,600 |
| December 31, 2020 | | | | | | |
| Off-balance sheet item | | | | | | |
| Guaranteed commercial paper | 28,891,300 | 67,775,800 | 9,587,100 | 2,911,100 | - | 109,165,300 |
| March 31, 2020 | | | | | | |
| Off-balance sheet item | | | | | | |
| Guaranteed commercial paper | 24,603,700 | 73,844,800 | 5,757,400 | 3,005,400 | - | 107,211,300 |

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

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

| | March 31, 2021 | |
|---|---|---|
| | **USD** | **RMB** |
| Cash and cash equivalents | $ 21,798 | $ 2 |
| Due from the Central Bank and call loans to bank | - | - |
| Financial assets at FVTOCI | 21,520,220 | - |
| Receivables, net | 154,010 | - |
| Other financial assets | 51,185 | - |
| Total assets | 21,747,213 | 2 |
| Call loans from banks and overdrafts on banks | 179,745 | - |
| Securities sold under repurchase agreements | 19,225,215 | - |
| Accounts payable | 9,472 | - |
| Total liabilities | 19,414,432 | - |
| On-balance sheet foreign exchange gap | $ 2,332,781 | $ 2 |
| Off-balance sheet currency swaps | $ (998,585) | $ - |
| Exchange rate to NTD | 28.531 | 4.3403 |
| Foreign exchange gain | $ 35,159 | $ - |

| | December 31, 2020 | |
|---|---|---|
| | USD | RMB |
| Cash and cash equivalents | $ 19,728 | $ 2 |
| Financial assets at FVTOCI | 22,005,012 | - |
| Receivables, net | 137,608 | - |
| Other financial assets | 36,319 | - |
| Total assets | 22,198,667 | 2 |
| Call loans from banks and overdrafts on banks | - | - |
| Securities sold under repurchase agreements | 18,594,115 | - |
| Accounts payable | 14,340 | - |
| Total liabilities | 18,608,455 | - |
| On-balance sheet foreign exchange gap | $ 3,590,212 | $ 2 |
| Off-balance sheet currency swaps | $ (1,910,036) | $ - |
| Exchange rate to NTD | 28.508 | 4.384 |
| Foreign exchange loss | $ (51,179) | $ (1,142) |

| | March 31, 2020 | |
|---|---|---|
| | USD | RMB |
| Cash and cash equivalents | $ 41,327 | $ 3,865 |
| Due from the Central Bank and call loans to bank | 302,540 | - |
| Financial assets at FVTOCI | 20,080,336 | 42,608 |
| Receivables, net | 519,612 | 1,236 |
| Other financial assets | 183,642 | - |
| Total assets | 21,127,457 | 47,709 |
| Call loans from banks and overdrafts on banks | 1,037,712 | - |
| Securities sold under repurchase agreements | 18,139,905 | - |
| Accounts payable | 270,168 | - |
| Total liabilities | 19,447,785 | - |
| On-balance sheet foreign exchange gap | $ 1,679,672 | $ 47,709 |
| Off-balance sheet currency swaps | $ 1,361,430 | $ - |
| Exchange rate to NTD | 30.254 | 4.2617 |
| Foreign exchange gain (loss) | $ 12,830 | $ (608) |

d) Sensitivity analysis

| | | March 31, 2021 | |
|---|---|---|---|
| **Risky Financial Instruments of Primary Market** | **Extent of Variation** | **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% | $ (12,767) | $ - |
| Foreign exchange financial instruments | Exchange rate of NTD to USD and to RMB depreciated by 1% | 12,767 | - |

| Risky Financial Instruments of Primary Market | Extent of Variation | December 31, 2020 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% | $ (15,177) | $ - |
| Foreign exchange financial instruments | Exchange rate of NTD to USD and to RMB depreciated by 1% | 15,177 | - |

| Risky Financial Instruments of Primary Market | Extent of Variation | March 31, 2020 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% | $ (4,476) | $ - |
| Foreign exchange financial instruments | Exchange rate of NTD to USD and to RMB depreciated by 1% | 4,476 | - |

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 | March 31, 2021 | March 31, 2020 |
|---|---|---|
| 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 | 1,190,227 | 1,196,892 |
| Actual provision for credit losses and reserve for losses on guarantees | 1,375,077 | 1,325,077 |

b. The principal operation

| Item \ Year | March 31, 2021 | March 31, 2020 |
|---|---|---|
| Balance of guarantees and endorsement securities | $ 108,533,600 | $ 107,211,300 |
| Ratio of guarantees and endorsement securities to net worth | 4.82 | 4.89 |
| Short-term bills and bonds sold under repurchase agreements | $ 176,375,596 | $ 151,788,923 |
| Ratio of short-term bills and bonds sold under repurchase agreements to net worth | 7.83 | 6.92 |

c. Concentrations of credit extensions

| Item \ Year | March 31, 2021 | | March 31, 2020 | |
|---|---|---|---|---|
| Credit to common interest party | $ - | | $ - | |
| Ratio of credit extensions to common interest parties | - | | - | |
| Ratio of credit extensions secured by pledged shares | 23.09 | | 23.00 | |
| 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 | 32.66 | Finance and insurance industry | 33.83 |
| | Manufacturing industry | 20.58 | Manufacturing industry | 21.67 |
| | Real estate industry | 25.31 | Real estate industry | 24.84 |

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

| | March 31 | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Average Balance | Average Rate (%) | Average Balance | Average Rate (%) |
| Interest-earning assets | | | | |
| Cash and cash equivalents (including certificate of deposits) | $ 396,747 | 0.02 | $ 773,196 | 0.09 |
| Call loans to banks | 36,778 | 0.10 | 111,566 | 0.30 |
| Financial assets at fair value through profit or loss - bonds and bills | 99,002,467 | 0.38 | 87,834,007 | 0.59 |
| FVTOCI - bonds | 100,773,339 | 1.23 | 99,826,117 | 1.39 |
| Financial instruments at fair value through profit or loss - hybrid financial assets | 8,585,699 | 1.59 | 8,835,600 | 1.52 |
| Securities purchased under resell agreements | 5,964,252 | 0.18 | 1,224,419 | 0.16 |
| Interest-bearing liabilities | | | | |
| Due to other banks | 7,408,149 | 0.22 | 18,017,897 | 0.63 |
| Bank overdraft | 642 | 1.50 | 1,721 | 1.75 |
| Securities sold under repurchase agreements | 179,196,999 | 0.25 | 157,120,812 | 0.64 |
| Commercial papers issued, net | 4,500,000 | 0.32 | - | - |

f. Information on interest rate sensitivity

**March 31, 2021**

**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 | $ 99,842 | $ 7,756 | $ 9,352 | $ 93,077 | $ 210,027 |
| Interest rate-sensitive liabilities | 180,497 | 4,611 | 208 | - | 185,316 |
| Interest rate sensitivity gap | (80,655) | 3,145 | 9,144 | 93,077 | 24,711 |
| Net worth | | | | | 25,680 |
| Ratio of interest rate-sensitive assets to liabilities | | | | | 113.33 |
| Ratio of interest rate sensitivity gap to net worth | | | | | 96.23 |

**March 31, 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 | $ 80,412 | $ 6,323 | $ 9,701 | $ 92,995 | $ 189,431 |
| Interest rate-sensitive liabilities | 162,949 | 3,338 | 249 | - | 166,536 |
| Interest rate sensitivity gap | (82,537) | 2,985 | 9,452 | 92,995 | 22,895 |
| Net worth | | | | | 23,925 |
| Ratio of interest rate-sensitive assets to liabilities | | | | | 113.75 |
| Ratio of interest rate sensitivity gap to net worth | | | | | 95.69 |

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

**March 31, 2021**

**In Millions of New Taiwan Dollars**

| Items | Period | 1 to 30 Days | 31 to 90 Days | 91 to 180 Days | 181 Days to One Year | Over One Year |
|---|---|---|---|---|---|---|
| Cash used in | Bills | $ 42,558 | $ 46,811 | $ 5,930 | $ 184 | $ - |
| | Bonds | 1,609 | 2,608 | 1,826 | 9,168 | 93,077 |
| | Due from banks | 272 | - | - | - | - |
| | Call loans | - | - | - | - | - |
| | Securities purchased under resell agreements | 5,755 | 229 | - | - | - |
| | Total | 50,194 | 49,648 | 7,756 | 9,352 | 93,077 |
| Cash provided by | Borrowing | 8,999 | - | - | - | - |
| | Securities sold under repurchase agreements | 133,507 | 37,991 | 4,611 | 208 | - |
| | Eligible capital | - | - | - | - | 25,680 |
| | Total | 142,506 | 37,991 | 4,611 | 208 | 25,680 |
| Net cash flows | | (92,312) | 11,657 | 3,145 | 9,144 | 67,397 |
| Accumulated cash flows | | (92,312) | (80,655) | (77,510) | (68,366) | (969) |

**March 31, 2020**

**In Millions of New Taiwan Dollars**

| Items | Period | 1 to 30 Days | 31 to 90 Days | 91 to 180 Days | 181 Days to One Year | Over One Year |
|---|---|---|---|---|---|---|
| Cash used in | Bills | $ 39,197 | $ 36,147 | $ 4,259 | $ 60 | $ - |
| | Bonds | 1,051 | 2,708 | 2,064 | 9,641 | 92,995 |
| | Due from banks | 259 | - | - | - | - |
| | Call loans | 302 | - | - | - | - |
| | Securities purchased under resell agreements | 748 | - | - | - | - |
| | Total | 41,557 | 38,855 | 6,323 | 9,701 | 92,995 |
| Cash provided by | Borrowing | 14,856 | - | - | - | - |
| | Securities sold under repurchase agreements | 128,528 | 19,565 | 3,338 | 249 | - |
| | Eligible capital | - | - | - | - | 23,925 |
| | Total | 143,384 | 19,565 | 3,338 | 249 | 23,925 |
| Net cash flows | | (101,827) | 19,290 | 2,985 | 9,452 | 69,070 |
| Accumulated cash flows | | (101,827) | (82,537) | (79,552) | (70,100) | (1,030) |

h. Matters requiring special notation

| Items \ Period | March 31, 2021 | March 31, 2020 |
|---|---|---|
| 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 Financial Supervisory Commission'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 three months ended March 31, 2021

| | Opening Balance | Cash Flows | Non-cash Changes | | Closing Balance |
|---|---|---|---|---|---|
| | | | New Leases | Others | |
| Call loans from banks and overdrafts on banks | $ 6,140,000 | $ (1,640,255) | $ - | $ - | $ 4,499,745 |
| Commercial papers issued, net | 4,499,227 | - | - | 133 | 4,499,360 |
| Lease liabilities | 2,695 | (896) | 570 | 14 | 2,383 |
| | $ 10,641,922 | $ (1,641,151) | $ 570 | $ 147 | $ 9,001,488 |

For the three months ended March 31, 2020

| | Opening Balance | Cash Flows | Non-cash Changes | | Closing Balance |
|---|---|---|---|---|---|
| | | | New Leases | Others | |
| Call loans from banks and overdrafts on banks | $ 14,500,869 | $ 354,843 | $ - | $ - | $ 14,855,712 |
| Commercial paper issued, net | 4,773 | (772) | - | 20 | 4,021 |
| Lease liabilities | | | | | |
| | $ 14,505,642 | $ 354,071 | $ - | $ 20 | $ 14,859,733 |

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

a. Related information of significant transactions for the three months ended March 31, 2021:

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 Three Months Ended March 31, 2021 | | | |
| | Headquarters | | | |
| | Bills and Bonds | Equity Products | Branches | Total |
| Bills | $ 253,800 | $ - | $ 179,172 | $ 432,972 |
| Bonds | 229,827 | 14,024 | 68,622 | 312,473 |
| Shares and beneficiary certificates | - | (5,962) | - | (5,962) |
| Derivatives | (35,180) | 49,741 | - | 14,561 |
| Gain from reportable segments | 448,447 | 57,803 | 247,794 | 754,044 |
| Net revenues other than interest | 35,935 | - | (762) | 35,173 |
| Reversed (recognized) impairment loss on assets | 2,441 | - | - | 2,441 |
| Reversal | 5,633 | - | 21 | 5,654 |
| Operating expenses | (57,354) | (12,888) | (58,961) | (129,203) |
| Income before income tax | $ 435,102 | $ 44,915 | $ 188,092 | $ 668,109 |

| | Segment Revenues and Results | | | |
|---|---|---|---|---|
| | For the Three Months Ended March 31, 2020 | | | |
| | Headquarters | | | |
| | Bills and Bonds | Equity Products | Branches | Total |
| Bills | $ 238,410 | $ - | $ 141,585 | $ 379,995 |
| Bonds | 148,727 | (2,336) | 62,408 | 208,799 |
| Shares and beneficiary certificates | - | (27,474) | - | (27,474) |
| Derivatives | (10,726) | 10,453 | - | (273) |
| Gain from reportable segments | 376,411 | (19,357) | 203,993 | 561,047 |
| Net revenues other than interest | 13,333 | - | (1,128) | 12,205 |
| Reversed (recognized) impairment loss on assets | 243 | - | - | 243 |
| Reversal | 138 | - | 27 | 165 |
| Operating expenses | (51,846) | (10,000) | (56,431) | (118,277) |
| Income before income tax | $ 338,279 | $ (29,357) | $ 146,461 | $ 455,383 |

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 | | |
|---|---|---|---|
| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
| Headquarters | $ 159,225,870 | $ 161,364,666 | $ 145,544,732 |
| Branches | 69,166,518 | 71,890,648 | 62,370,127 |
| Write-off of internal transactions | (14,812,360) | (14,971,313) | (14,606,292) |
| Total assets | $ 213,580,028 | $ 218,284,001 | $ 193,308,567 |

# CHINA BILLS FINANCE CORPORATION

## INFORMATION ON MAJOR SHAREHOLDERS
## MARCH 31, 2021

| 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.