

China Bills Finance Corporation

**Financial Statements for the
Years Ended December 31, 2021 and 2020 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Bills Finance Corporation

Opinion

We have audited the accompanying financial statements of China Bills Finance Corporation (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies, Regulations Governing the Preparation of Financial Reports by Securities Firms and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimated Impairment of Financial Guarantee Contracts

As of December 31, 2021, the Company's estimated reserve for losses on guarantee for the Company's financial guarantee contracts entered into with credit clients was \$1,382,077 thousand. In accordance with the requirements of IFRS 9, "Financial Instruments", the Company recognized the reserve for guarantee liabilities based on the assessed and estimated occurrence of expected losses on financial guarantee contracts. In addition, the reserve for guarantee liabilities was calculated and classified 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" (Regulations Governing the Procedures for Bad Debt) and related regulations.

Please refer to Notes 4, 5, 21 and 38 (f) for relevant information and accounting policy for financial guarantee contracts.

The Company should assess the classification of credit assets and recognize the reserve for guarantee liabilities in accordance with the "Regulations Governing the Procedures for Bad Debt". The assessment and reservation involve subjective judgment and estimates, which will directly affect the related accrued amounts. Thus, the estimated impairment of financial guarantee contracts is deemed to be a key audit matter.

The main audit procedures we performed in response to certain aspects of the key audit matter described above are as follows:

1. We understood the relevant internal controls about the estimated impairment of reserve for guarantee liabilities of financial guarantee contracts and we tested the effectiveness of the operation of the controls.
2. We reviewed the management's loss reserves evaluation report of credit assets, checked the completeness of credit assets on the loss reserves evaluation report, and evaluated the appropriateness of classification. We also recalculated the amount of reserve for guarantee liabilities shown on the provision for loss reserves evaluation report to confirm the mathematical accuracy of provision for loss reserves.

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

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, Regulations Governing the Preparation of Financial Reports by Securities Firms and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2021 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Yin-Chou Chen and Wang-Sheng Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 24, 2022

Notice to Readers

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 audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' 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' report and financial statements shall prevail.

CHINA BILLS FINANCE CORPORATION

BALANCE SHEETS

DECEMBER 31, 2021 AND 2020

(In Thousands of New Taiwan Dollars)

ASSETS	2021		2020	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	\$ 254,598	-	\$ 264,720	-
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Notes 4 and 7)	300,000	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 34)	114,478,739	50	106,155,540	49
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 9, 10 and 34)	106,627,030	47	105,237,279	48
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4, 11 and 35)	5,364,108	3	4,732,882	2
RECEIVABLES, NET (Notes 4 and 12)	730,800	-	782,861	1
CURRENT TAX ASSETS (Notes 4 and 31)	141,516	-	268,510	-
OTHER FINANCIAL ASSETS, NET (Notes 4, 13 and 34)	44,115	-	566,011	-
PROPERTY AND EQUIPMENT, NET (Notes 4 and 14)	151,544	-	153,086	-
RIGHT-OF-USE ASSETS, NET (Notes 4 and 15)	3,341	-	2,659	-
DEFERRED TAX ASSETS (Notes 4 and 31)	64,719	-	73,816	-
OTHER ASSETS, NET (Notes 16 and 34)	<u>573,370</u>	<u>-</u>	<u>46,637</u>	<u>-</u>
TOTAL	<u>\$ 228,733,880</u>	<u>100</u>	<u>\$ 218,284,001</u>	<u>100</u>
LIABILITIES AND EQUITY				
CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS (Note 17)	\$ 9,096,125	4	\$ 6,140,000	3
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	91,626	-	39,252	-
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 18, 33 and 35)	187,056,650	82	179,726,810	82
ACCOUNTS PAYABLE (Note 19)	435,714	-	425,800	-
CURRENT TAX LIABILITIES (Notes 4 and 31)	129,536	-	139,115	-
COMMERCIAL PAPER ISSUED, NET (Note 20)	4,498,670	2	4,499,227	2
PROVISIONS (Notes 4, 5 and 21)	1,433,924	1	1,440,191	1
LEASE LIABILITIES (Notes 4 and 15)	3,371	-	2,695	-
DEFERRED TAX LIABILITIES (Notes 4 and 31)	43,028	-	175,281	-
OTHER LIABILITIES	<u>388,051</u>	<u>-</u>	<u>246,188</u>	<u>-</u>
Total liabilities	<u>203,176,695</u>	<u>89</u>	<u>192,834,559</u>	<u>88</u>
EQUITY (Notes 4 and 23)				
Ordinary share	<u>13,429,600</u>	<u>6</u>	<u>13,429,600</u>	<u>6</u>
Capital surplus	<u>10,231</u>	<u>-</u>	<u>8,804</u>	<u>-</u>
Retained earnings				
Legal reserve	8,551,784	4	8,054,883	4
Special reserve	769,120	-	769,120	-
Unappropriated earnings	<u>2,006,611</u>	<u>1</u>	<u>1,665,706</u>	<u>1</u>
Total retained earnings	<u>11,327,515</u>	<u>5</u>	<u>10,489,709</u>	<u>5</u>
Other equity	<u>789,839</u>	<u>-</u>	<u>1,521,329</u>	<u>1</u>
Total equity	<u>25,557,185</u>	<u>11</u>	<u>25,449,442</u>	<u>12</u>
TOTAL	<u>\$ 228,733,880</u>	<u>100</u>	<u>\$ 218,284,001</u>	<u>100</u>

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

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

	2021		2020	
	Amount	%	Amount	%
NET INTEREST				
Interest revenue (Notes 4 and 24)	\$ 1,719,503	60	\$ 1,901,772	76
Deduct: Interest expense (Notes 4, 24 and 33)	<u>(460,680)</u>	<u>(16)</u>	<u>(781,134)</u>	<u>(31)</u>
Net interest	1,258,823	44	1,120,638	45
NET REVENUES OTHER THAN INTEREST				
Service fee income, net (Notes 4 and 25)	1,301,059	46	1,192,348	47
Gains on financial assets and liabilities at fair value through profit or loss (Notes 4, 8 and 26)	185,463	7	144,417	6
Realized gains on financial assets at fair value through other comprehensive income (Notes 4 and 27)	115,437	4	104,375	4
Foreign exchange losses, net (Notes 4 and 28)	(22,139)	(1)	(52,321)	(2)
Reversal of impairment loss (impairment losses) on financial assets (Notes 4 and 10)	8,337	-	(1,499)	-
Other non-interest gains (losses), net	<u>321</u>	<u>-</u>	<u>(787)</u>	<u>-</u>
TOTAL NET REVENUES	<u>2,847,301</u>	<u>100</u>	<u>2,507,171</u>	<u>100</u>
REVERSAL (PROVISIONS) (Notes 4 and 21)	<u>6,936</u>	<u>-</u>	<u>(31,875)</u>	<u>(1)</u>
OPERATING EXPENSES (Notes 4, 29, 30 and 33)				
Employee benefit expenses	(383,414)	(14)	(348,071)	(14)
Depreciation and amortization	(12,759)	-	(13,370)	(1)
Others	<u>(126,047)</u>	<u>(4)</u>	<u>(122,152)</u>	<u>(5)</u>
Total operating expenses	<u>(522,220)</u>	<u>(18)</u>	<u>(483,593)</u>	<u>(20)</u>
PROFIT BEFORE INCOME TAX	2,332,017	82	1,991,703	79
INCOME TAX EXPENSE (Notes 4 and 31)	<u>(474,351)</u>	<u>(17)</u>	<u>(413,461)</u>	<u>(16)</u>
NET INCOME FOR THE YEAR	<u>1,857,666</u>	<u>65</u>	<u>1,578,242</u>	<u>63</u>

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

	2021		2020	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME				
Components of other comprehensive income that will not be reclassified to profit or loss:				
Losses on remeasurement of defined benefit plans (Notes 4 and 22)	\$ (740)	-	\$ (1,934)	-
Revaluation gains on investments in equity instruments measured at fair value through other comprehensive income (Notes 4 and 23)	214,538	8	124,975	5
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (Notes 4 and 31)	<u>148</u>	<u>-</u>	<u>387</u>	<u>-</u>
Components of other comprehensive income that will not be reclassified to profit or loss for the year, net of income tax	<u>213,946</u>	<u>8</u>	<u>123,428</u>	<u>5</u>
Component of other comprehensive income that will be reclassified to profit or loss:				
(Losses) gains from investments in debt instruments at fair value through other comprehensive income (Notes 4 and 23)	(916,384)	(32)	979,538	39
Income tax related to components of other comprehensive income reclassified to profit or loss (Notes 4 and 31)	<u>119,463</u>	<u>4</u>	<u>(121,793)</u>	<u>(5)</u>
Components of other comprehensive income that will be reclassified to profit or loss for the year, net of income tax	<u>(796,921)</u>	<u>(28)</u>	<u>857,745</u>	<u>34</u>
Other comprehensive (loss) income for the year, net of income tax	<u>(582,975)</u>	<u>(20)</u>	<u>981,173</u>	<u>39</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,274,691</u>	<u>45</u>	<u>\$ 2,559,415</u>	<u>102</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 32)				
Basic	<u>\$ 1.38</u>		<u>\$ 1.18</u>	
Diluted	<u>\$ 1.38</u>		<u>\$ 1.17</u>	

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

(Concluded)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars)

	Ordinary Share Capital (Notes 4 and 23)	Capital Surplus (Notes 4 and 23)	Retained Earnings (Notes 4 and 23)			Other Equity (Notes 4 and 23) Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings		
BALANCE AT JANUARY 1, 2020	\$ 13,429,600	\$ 7,308	\$ 7,681,488	\$ 769,120	\$ 1,349,696	\$ 618,250	\$ 23,855,462
Legal reserve	-	-	373,395	-	(373,395)	-	-
Cash dividends distributed	-	-	-	-	(966,931)	-	(966,931)
Unclaimed dividends	-	1,496	-	-	-	-	1,496
Net income for the year ended December 31, 2020	-	-	-	-	1,578,242	-	1,578,242
Other comprehensive (loss) income for the year ended December 31, 2020	-	-	-	-	(1,547)	982,720	981,173
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	1,576,695	982,720	2,559,415
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	79,641	(79,641)	-
BALANCE AT DECEMBER 31, 2020	13,429,600	8,804	8,054,883	769,120	1,665,706	1,521,329	25,449,442
Legal reserve	-	-	496,901	-	(496,901)	-	-
Cash dividends distributed	-	-	-	-	(1,168,375)	-	(1,168,375)
Unclaimed dividends	-	1,427	-	-	-	-	1,427
Net income for the year ended December 31, 2021	-	-	-	-	1,857,666	-	1,857,666
Other comprehensive loss for the year ended December 31, 2021	-	-	-	-	(592)	(582,383)	(582,975)
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	1,857,074	(582,383)	1,274,691
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	149,107	(149,107)	-
BALANCE AT DECEMBER 31, 2021	\$ 13,429,600	\$ 10,231	\$ 8,551,784	\$ 769,120	\$ 2,006,611	\$ 789,839	\$ 25,557,185

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

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(In Thousands of New Taiwan Dollars)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 2,332,017	\$ 1,991,703
Adjustments for:		
(Reversal of) recognized expected credit impairment loss	(1,337)	51,499
Net loss (gain) on valuation of financial assets and liabilities at fair value through profit or loss	30,126	(22,173)
Depreciation expenses	9,695	10,140
Amortization expenses	3,064	3,230
Interest expense	460,680	781,134
Interest revenue	(1,719,503)	(1,901,772)
Dividend revenues	(48,475)	(36,247)
(Gain) loss on disposal of property and equipment	(197)	623
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(8,350,483)	(14,014,432)
Financial assets at fair value through other comprehensive income	(2,131,973)	(1,017,039)
Securities purchased under resell agreements	(631,226)	(4,632,869)
Receivables and non-accrual loans	27,230	(80,563)
Other financial assets	(3,104)	(16,335)
Other assets	(2,717)	(3,411)
Securities sold under repurchase agreements	7,329,840	23,036,973
Payables	11,637	(204,444)
Provisions for employee benefits	(14,007)	(9,809)
Other liabilities	141,863	(129,668)
Interest received	1,793,866	2,053,037
Dividend received	48,475	36,247
Interest paid	(461,458)	(808,544)
Income tax paid	(360,481)	(231,020)
Net cash (used in) generated from operating activities	(1,536,468)	4,856,260
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	48,713	-
Payments for property and equipment	(6,270)	(7,618)
Proceeds from disposal of property and equipment	480	238
Increase in refundable deposits	(184)	-
Decrease in refundable deposits	-	3,999
Increase in other assets	(996)	(1,719)
Net cash generated from (used in) investing activities	41,743	(5,100)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in call loans from banks and overdrafts on banks	2,956,125	-
Decrease in call loans from banks and overdrafts on banks	-	(8,360,869)
Increase in commercial papers issued	-	4,500,000

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CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars)

	2021	2020
Repayment of the principal portion of lease liabilities	\$ (3,147)	\$ (3,371)
Cash dividend paid	<u>(1,168,375)</u>	<u>(966,931)</u>
Net cash generated from (used in) financing activities	<u>1,784,603</u>	<u>(4,831,171)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	289,878	19,989
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>264,720</u>	<u>244,731</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 554,598</u>	<u>\$ 264,720</u>

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

	December 31	
	2021	2020
Cash and cash equivalents in the balance sheets	\$ 254,598	\$ 264,720
Due from the Central Bank and call loans to banks in accordance with cash and cash equivalents under IAS 7 "Statement of Cash Flows"	<u>300,000</u>	<u>-</u>
Cash and cash equivalents at the end of the year	<u>\$ 554,598</u>	<u>\$ 264,720</u>

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

(Concluded)

CHINA BILLS FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

China Bills Finance Corporation (the “Company”) was incorporated in October 1978 in accordance with the Company Law and other related laws. The Company’s shares have been listed on the Taiwan Stock Exchange (“TWSE”). As of December 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 (i) doing other businesses as authorized by relevant authorities.

As of December 31, 2021 and 2020, the Company had a total of 163 and 158 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 February 24, 2022.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies and 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)

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company’s accounting policies:

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

The Company elected to apply the practical expedient provided in the amendments to deal with the changes in the basis for determining contractual cash flows of financial assets, financial liabilities or lease liabilities resulting from the interest rate benchmark reform. The changes are accounted for by updating the effective interest rate at the time the basis is changed, provided the changes are necessary as a direct consequence of the reform and the new basis is economically equivalent to the previous basis.

- b. The IFRSs endorsed by the FSC for application starting from 2022

New IFRSs	Effective Date Announced by IASB
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 1)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 2)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 3)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 4)

Note 1: 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 2: 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 3: 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 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the financial statements were authorized for issue, the Company has assessed that the application of other standards and interpretations will not have a material impact on the Company’s financial position and financial performance.

- c. 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)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 “Initial Application of IFRS 9 and IFRS 17 - Comparative Information”	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 2)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 3)
Amendments to IAS 12 “Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction”	January 1, 2023 (Note 4)

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 will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 3: 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 4: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

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 will 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

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies, the Regulations Governing the Preparation of Financial Reports by Securities Firms and the IFRSs endorsed and issued into effect by the FSC.

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 revenue is calculated by applying the effective interest rate to the amortized cost of the financial asset.

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

- i. Significant financial difficulty of the issuer or the borrower;
- ii. Breach of contract, such as a default;
- iii. It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv. The disappearance of an active market for that financial asset because of financial difficulties.

2) Impairment of financial assets

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

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

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

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

- a) Internal or external information show that the debtor is unlikely to pay its creditors.
- b) When a financial asset is more than 90 days past due unless the Company has reasonable and corroborative information to support a more lagged default criterion.

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

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

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

3) Derecognition of financial assets

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

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

b. 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.

e. Modification of financial instruments

When a financial instrument is modified, the Company assesses whether the modification will result in derecognition. If modification of a financial instrument results in derecognition, it is accounted for as derecognition of financial assets or liabilities. If the modification does not result in derecognition, the Company recalculates the gross carrying amount of the financial asset or the amortized cost of the financial liability based on the modified cash flows discounted at the original effective interest rate with any modification gain or loss recognized in profit or loss. The cost incurred is adjusted to the carrying amount of the modified financial asset or financial liability and amortized over the modified remaining period.

For the changes in the basis for determining contractual cash flows of financial assets or financial liabilities resulting from the interest rate benchmark reform, the Company elects to apply the practical expedient in which the changes are accounted for by updating the effective interest rate at the time the basis is changed, provided the changes are necessary as a direct consequence of the reform and the new basis is economically equivalent to the previous basis. When multiple changes are made to a financial asset or a financial liability, the Company first applies the practical expedient to those changes required by interest rate benchmark reform, and then applies the requirements of modification of financial instruments to the other changes that cannot apply the practical expedient.

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 is 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.

The Company as lessee

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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

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 Company considers the recent development of the COVID-19 in Taiwan and its economic environment implications when making its critical accounting estimates in cash flow projections, growth rate, discount rate, profitability, etc. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect 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

	December 31	
	2021	2020
Checking accounts and demand deposits	\$ 254,598	\$ 264,720

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

	December 31	
	2021	2020
Call loans and drafts to other banks	\$ 300,000	\$ -

As of December 31, 2021, the last due date was January 3, 2022, with interest rate of 0.1%.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2021	2020
Financial assets mandatorily classified as at fair value through profit or loss		
Derivative financial instruments		
Currency swap contracts	\$ 7,731	\$ 17,574
Non-derivative financial instruments		
Investment in short-term bills	103,218,241	96,213,716
Bond investments	435,348	176,050
Domestic quoted shares	284,300	63,139
Fixed-rate commercial paper	51,607	85,113
Beneficiary securities	502,165	503,298
Hybrid financial assets		
Convertible bond asset swap contracts	9,979,347	9,096,650
Financial assets at fair value through profit or loss	\$ 114,478,739	\$ 106,155,540

(Continued)

	December 31	
	2021	2020
<u>Financial liabilities held for trading</u>		
Derivative financial instruments		
Purchase commitment contracts	\$ 40,404	\$ 37,022
Currency swap contracts	-	270
Non-derivative financial instruments		
Fixed-rate commercial paper	1,691	-
Benchmark interest rate commercial paper	-	1,960
When-issued trading	<u>49,531</u>	<u>-</u>
Financial liabilities at fair value through profit or loss	<u>\$ 91,626</u>	<u>\$ 39,252</u> (Concluded)

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

	December 31	
	2021	2020
Convertible bond asset swap contracts	\$ 9,990,100	\$ 9,078,500
Purchase commitment contracts	12,900,000	12,800,000
Currency swap contracts	1,024,530	1,910,036

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 December 31, 2021 and 2020, the face values of financial assets at fair value through profit or loss under repurchase agreements were \$78,572,100 thousand and \$73,379,700 thousand, respectively.

The profit and loss arising from financial assets and liabilities at fair value through profit and loss in 2021 and 2020 were as follows:

	For the Year Ended December 31	
	2021	2020
<u>Financial assets at fair value through profit or loss</u>		
Realized profit	\$ 217,369	\$ 132,729
Valuation (loss) profit	<u>(27,284)</u>	<u>56,303</u>
	<u>\$ 190,085</u>	<u>\$ 189,032</u>
<u>Financial liabilities at fair value through profit or loss</u>		
Realized loss	\$ (1,780)	\$ (10,485)
Valuation loss	<u>(2,842)</u>	<u>(34,130)</u>
	<u>\$ (4,622)</u>	<u>\$ (44,615)</u>

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

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2021	2020
Investments in equity instruments	\$ 1,548,293	\$ 1,685,578
Investments in debt instruments	<u>105,078,737</u>	<u>103,551,701</u>
	<u>\$ 106,627,030</u>	<u>\$ 105,237,279</u>

a. Investments in equity instruments

	December 31	
	2021	2020
Domestic investments		
Listed shares and emerging market shares	\$ 1,043,747	\$ 1,163,982
Unlisted shares	367,896	376,096
Beneficiary securities on real estate investment trust	<u>136,650</u>	<u>145,500</u>
	<u>\$ 1,548,293</u>	<u>\$ 1,685,578</u>

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

	December 31	
	2021	2020
<u>Domestic unlisted shares</u>		
Taiwan Depository and Clearing Corporation	\$ 136,530	\$ 118,451
Taiwan Futures Exchange Corporation	101,413	94,050
Taiwan Asset Management Corporation	70,730	69,035
Core Pacific City Corporation	<u>59,223</u>	<u>94,560</u>
	<u>\$ 367,896</u>	<u>\$ 376,096</u>

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 years ended December 31, 2021 and 2020, the fair value of shares disposed which classified as at FVTOCI were \$770,476 thousand and \$788,598 thousand and the accumulated gains related to the sold assets were \$149,107 thousand and \$79,641 thousand which were transferred from other equity to retained earnings, respectively.

Dividends of \$45,553 thousand and \$35,947 thousand were recognized during 2021 and 2020, and those related to investments held at the end of the reporting period were \$45,553 thousand and \$35,947 thousand, respectively.

b. Investments in debt instruments

	December 31	
	2021	2020
<u>Domestic investments</u>		
Government bonds	\$ 14,757,511	\$ 17,928,945
Corporate bonds	57,729,769	52,729,932
Bank debentures	9,759,216	10,887,818
<u>Foreign investments</u>		
Overseas government bonds	1,865,264	1,486,924
Overseas corporate bonds	8,974,548	9,853,054
Overseas bank debentures	<u>11,992,429</u>	<u>10,665,028</u>
	<u>\$ 105,078,737</u>	<u>\$ 103,551,701</u>

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 December 31, 2021 and 2020, the face value of financial instruments at FVTOCI under repurchase agreements was \$98,274,083 thousand and \$96,764,689 thousand, respectively.

10. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at FVTOCI.

	December 31	
	2021	2020
Gross carrying amount	\$ 104,518,242	\$ 102,083,159
Adjustment to fair value	<u>560,495</u>	<u>1,468,542</u>
	<u>\$ 105,078,737</u>	<u>\$ 103,551,701</u>
Allowance for impairment loss	<u>\$ (29,915)</u>	<u>\$ (38,252)</u>

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	12m 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	December 31	
	2021	2020
Performing	\$ 103,518,232	\$ 101,083,134
Doubtful	1,000,010	1,000,025
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	4,319	-	-
Derecognition	(7,015)	-	-
Change in model or risk parameters	(1,693)	(3,603)	-
Change in exchange rates or others	<u>(345)</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2021	<u>\$ 24,697</u>	<u>\$ 5,218</u>	<u>\$ -</u>
Balance at January 1, 2020	\$ 28,617	\$ 8,136	\$ -
Transfers			
From doubtful to performing	914	(914)	-
New financial assets purchased	5,266	-	-
Derecognition	(5,470)	-	-
Change in model or risk parameters	548	1,599	-
Change in exchange rates or others	<u>(444)</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 29,431</u>	<u>\$ 8,821</u>	<u>\$ -</u>

11. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

As of December 31, 2021 and 2020, bonds and bills in the amounts of \$5,364,108 thousand and \$4,732,882 thousand purchased were under resell agreements were in the amounts of \$5,365,201 thousand and \$4,734,256 thousand before February 2022 and March 2021, respectively.

As of December 31, 2021 and 2020, bonds and bills purchased under resell agreements were sold under repurchase agreements in the face values of \$5,330,000 thousand and \$4,726,100 thousand, respectively.

12. RECEIVABLES, NET

	December 31	
	2021	2020
Interest receivables, net	\$ 600,874	\$ 674,826
Receivables on bond sales	49,531	463
Receivables on settlement of asset swap	34,644	92,039
Other service fee income receivables	22,295	-
Others receivables	<u>23,456</u>	<u>15,533</u>
	<u>\$ 730,800</u>	<u>\$ 782,861</u>

13. OTHER FINANCIAL ASSETS, NET

	December 31	
	2021	2020
Deposits placed with authorities for bank clearing	\$ -	\$ 525,000
Repurchase agreement margins	19,885	16,234
Futures margins	<u>24,230</u>	<u>24,777</u>
	<u>\$ 44,115</u>	<u>\$ 566,011</u>

14. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Transportation Equipment	Machinery and Computer Equipment	Office and Other Equipment	Lease Improvement	Equipment under Installation and Construction in Progress	Total
<u>Cost</u>								
Balance at January 1, 2020	\$ 83,337	\$ 94,187	\$ 10,201	\$ 52,098	\$ 17,845	\$ 6,825	\$ 5,887	\$ 270,380
Additions	-	-	1,000	6,437	181	-	-	7,618
Reclassification	-	-	-	4,872	-	-	(5,887)	(1,015)
Disposals	-	-	(849)	(2,938)	(32)	-	-	(3,819)
Balance at December 31, 2020	\$ 83,337	\$ 94,187	\$ 10,352	\$ 60,469	\$ 17,994	\$ 6,825	\$ -	\$ 273,164
<u>Accumulated depreciation</u>								
Balance at January 1, 2020	\$ -	\$ 50,173	\$ 6,511	\$ 38,651	\$ 15,243	\$ 5,610	\$ -	\$ 116,188
Disposals	-	-	(708)	(2,222)	(28)	-	-	(2,958)
Depreciation expense	-	1,663	785	4,120	264	16	-	6,848
Balance at December 31, 2020	\$ -	\$ 51,836	\$ 6,588	\$ 40,549	\$ 15,479	\$ 5,626	\$ -	\$ 120,078
Net amount at December 31, 2020	<u>\$ 83,337</u>	<u>\$ 42,351</u>	<u>\$ 3,764</u>	<u>\$ 19,920</u>	<u>\$ 2,515</u>	<u>\$ 1,199</u>	<u>\$ -</u>	<u>\$ 153,086</u>

(Continued)

	Land	Buildings	Transportation Equipment	Machinery and Computer Equipment	Office and Other Equipment	Lease Improvement	Equipment under Installation and Construction in Progress	Total
<u>Cost</u>								
Balance at January 1, 2021	\$ 83,337	\$ 94,187	\$ 10,352	\$ 60,469	\$ 17,994	\$ 6,825	\$ -	\$ 273,164
Additions	-	-	1,721	1,588	181	-	2,780	6,270
Reclassification	-	-	-	1,880	-	-	(2,780)	(900)
Disposals	-	-	(1,494)	-	(242)	-	-	(1,736)
Balance at December 31, 2021	<u>\$ 83,337</u>	<u>\$ 94,187</u>	<u>\$ 10,579</u>	<u>\$ 63,937</u>	<u>\$ 17,933</u>	<u>\$ 6,825</u>	<u>\$ -</u>	<u>\$ 276,798</u>
<u>Accumulated depreciation</u>								
Balance at January 1, 2021	\$ -	\$ 51,836	\$ 6,588	\$ 40,549	\$ 15,479	\$ 5,626	\$ -	\$ 120,078
Disposals	-	-	(1,228)	-	(225)	-	-	(1,453)
Depreciation expense	-	1,663	820	3,882	248	16	-	6,629
Balance at December 31, 2021	<u>\$ -</u>	<u>\$ 53,499</u>	<u>\$ 6,180</u>	<u>\$ 44,431</u>	<u>\$ 15,502</u>	<u>\$ 5,642</u>	<u>\$ -</u>	<u>\$ 125,254</u>
Net amount at December 31, 2021	<u>\$ 83,337</u>	<u>\$ 40,688</u>	<u>\$ 4,399</u>	<u>\$ 19,506</u>	<u>\$ 2,431</u>	<u>\$ 1,183</u>	<u>\$ -</u>	<u>\$ 151,544</u>

(Concluded)

The above items of property and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

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 borrowing or issued guarantees.

15. LEASE ARRANGEMENTS

a. Right-of-use assets

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Carrying amounts</u>		
Buildings	\$ -	\$ 1,347
Transportation equipment	2,800	366
Office equipment	<u>541</u>	<u>946</u>
	<u>\$ 3,341</u>	<u>\$ 2,659</u>
<u>For the Year Ended December 31</u>		
	<u>2021</u>	<u>2020</u>
Additions to right-of-use assets	<u>\$ 3,748</u>	<u>\$ 1,216</u>
Depreciation charge for right-of-use assets		
Buildings	\$ 1,348	\$ 1,797
Transportation equipment	1,313	1,225
Office equipment	<u>405</u>	<u>270</u>
	<u>\$ 3,066</u>	<u>\$ 3,292</u>

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

b. Lease liabilities

	December 31	
	2021	2020
Carrying amounts	<u>\$ 3,371</u>	<u>\$ 2,695</u>

Discount rates for lease liabilities were as follows:

	December 31	
	2021	2020
Buildings	-	1.626%
Transportation equipment	2.037%-2.171%	2.283%-2.414%
Office equipment	2.332%	2.332%

c. Other lease information

	For the Year Ended December 31	
	2021	2020
Expenses relating to short-term leases	<u>\$ 13,290</u>	<u>\$ 12,849</u>
Expenses relating to low-value asset leases	<u>\$ 1,120</u>	<u>\$ 1,097</u>
Total cash outflow for leases	<u>\$ (17,557)</u>	<u>\$ (17,317)</u>

16. OTHER ASSETS, NET

	December 31	
	2021	2020
Refundable deposits	\$ 561,309	\$ 36,125
Long-term prepaid expenses	3,962	5,130
Prepaid expenses	8,053	5,328
Others	<u>46</u>	<u>54</u>
	<u>\$ 573,370</u>	<u>\$ 46,637</u>

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

	December 31	
	2021	2020
Deposits placed with the Over the Counter (OTC) exchange for OTC transactions	\$ 1,000	\$ 1,000
Deposits placed with bank overdrafts	525,000	-
Others	<u>35,309</u>	<u>35,125</u>
	<u>\$ 561,309</u>	<u>\$ 36,125</u>

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

17. CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS

As of December 31, 2021 and 2020, the balances of call loans from banks and overdrafts on banks amounted to \$9,096,125 thousand and \$6,140,000 thousand, respectively, with interest rate ranges from 0.21%-0.35% and 0.21%-0.26%, and the latest due date were January 2022 and January 2021, respectively.

As of December 31, 2021 and 2020, the credit lines of call loans from banks and overdrafts on banks were \$151,860,350 thousand and \$152,777,180 thousand, respectively.

18. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

As of December 31, 2021 and 2020, bonds and bills in the amounts of \$187,056,650 thousand and \$179,726,810 thousand, respectively, had been sold under repurchase agreements for \$187,122,588 thousand and \$179,794,171 thousand before their maturities in August 2022 and December 2021, respectively.

19. PAYABLES

	December 31	
	2021	2020
Dividend payable	\$ 155	\$ 144
Payable for bonds purchased	22,318	101,800
Employee awards payable	160,787	139,986
Withholding tax payable held by prior parties	43,671	51,768
Interest payables	37,294	37,590
Compensation to directors and employees	59,796	51,070
Payable for shares purchased	47,544	6,453
Other service charge payable	22,295	-
Others	<u>41,854</u>	<u>36,989</u>
	<u>\$ 435,714</u>	<u>\$ 425,800</u>

20. COMMERCIAL PAPER ISSUED, NET

	December 31	
	2021	2020
Commercial paper issued	\$ 4,500,000	\$ 4,500,000
Less: Discount on commercial paper issued	<u>(1,330)</u>	<u>(773)</u>
	<u>\$ 4,498,670</u>	<u>\$ 4,499,227</u>

As of December 31, 2021 and 2020, the latest due dates of commercial paper issued were February 9, 2022, January 28, 2021 with interest rate of 0.30%-0.37%, 0.27%-0.36%, respectively.

21. PROVISIONS

	December 31	
	2021	2020
Reserve for losses on guarantees	\$ 1,382,077	\$ 1,375,077
Provision for employee benefits	<u>51,847</u>	<u>65,114</u>
	<u>\$ 1,433,924</u>	<u>\$ 1,440,191</u>

Reversals were as follows:

	For the Year Ended December 31	
	2021	2020
Amounts collected from prior years' write-off	\$ 13,936	\$ 18,125
Amounts reserved for loss on guarantees	<u>(7,000)</u>	<u>(50,000)</u>
	<u>\$ 6,936</u>	<u>\$ (31,875)</u>

22. RETIREMENT BENEFITS PLANS

a. Defined contribution plans

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

The total expenses recognized in profit or loss for the years ended December 31, 2021 and 2020 amounted to \$8,237 thousand, and \$7,847 thousand, respectively, were the contributions payable by the Company to the LPA plan at the specified rates.

According to the Company's retirement policies, when the managers 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 year ended December 31, 2020 amounted to \$532 thousand.

b. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standard Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts within the range of 15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the pension fund balance is inadequate for the payment of the retirement benefits of employees who will qualify for retirement in the next year, the Company is required to fund the difference through an appropriation that should be made by the end of March of the next year. The pension fund is managed by the Bureau of Labor (the "Bureau") under Ministry of Labor; the Company has no right to influence the Bureau's fund investment policy and strategy.

The amount included in the balance sheet arising from the Company's obligation in respect of its defined benefit plans was as follows:

	December 31	
	2021	2020
Present value of defined benefit obligation	\$ 241,820	\$ 252,855
Fair value of plan assets	<u>(189,973)</u>	<u>(187,741)</u>
Net defined benefit liability	<u>\$ 51,847</u>	<u>\$ 65,114</u>

Movements of the net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2020	<u>\$ 260,115</u>	<u>\$ (187,126)</u>	<u>\$ 72,989</u>
Service cost			
Current service cost	1,989	-	1,989
Past service cost and loss on settlements	611	-	611
Net interest expense (revenue)	<u>1,871</u>	<u>(1,341)</u>	<u>530</u>
Recognized in profit or loss	<u>4,471</u>	<u>(1,341)</u>	<u>3,130</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(5,727)	(5,727)
Actuarial loss - changes in financial assumptions	5,382	-	5,382
Actuarial loss - experience adjustments	2,390	-	2,390
Others	<u>-</u>	<u>(111)</u>	<u>(111)</u>
Recognized in other comprehensive income	<u>7,772</u>	<u>(5,838)</u>	<u>1,934</u>
Contributions from the employer	-	(12,939)	(12,939)
Benefits paid	<u>(19,503)</u>	<u>19,503</u>	<u>-</u>
Balance at December 31, 2020	<u>252,855</u>	<u>(187,741)</u>	<u>65,114</u>
Service cost			
Current service cost	2,035	-	2,035
Net interest expense (revenue)	<u>1,225</u>	<u>(933)</u>	<u>292</u>
Recognized in profit or loss	<u>3,260</u>	<u>(933)</u>	<u>2,327</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(2,290)	(2,290)
Actuarial loss - changes in demographic assumptions	5,895	-	5,895
Actuarial gain - changes in financial assumptions	(2,570)	-	(2,570)
Actuarial gain - experience adjustments	(444)	-	(444)
Others	<u>-</u>	<u>149</u>	<u>149</u>
Recognized in other comprehensive income	<u>2,881</u>	<u>(2,141)</u>	<u>740</u>
Contributions from the employer	-	(16,334)	(16,334)
Benefits paid	<u>(17,176)</u>	<u>17,176</u>	<u>-</u>
Balance at December 31, 2021	<u>\$ 241,820</u>	<u>\$ (189,973)</u>	<u>\$ 51,847</u>

The Company is exposed to the following risks on its defined benefit plan:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is made at the discretion of the Bureau of Labor (BOL) or the BOL's designated investment manager. However, in accordance with relevant regulations, the return on plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government/corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. Thus, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2021	2020
Discount rates	0.625%	0.500%
Expected rates of salary increase	2.500%	2.500%

If there is a possible reasonable change in each of the significant actuarial assumptions and all other assumptions remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2021	2020
Discount rates		
0.25% increase	\$ (5,128)	\$ (5,382)
0.25% decrease	\$ 5,294	\$ 5,563
Expected rates of salary increase		
0.25% increase	\$ 5,108	\$ 5,357
0.25% decrease	\$ (4,975)	\$ (5,211)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation because it is unlikely that the change in assumptions would occur independently of each other as some of the assumptions may be correlated.

	December 31	
	2021	2020
The expected contributions to the plan for the next year	\$ 16,744	\$ 13,263
The average duration of the defined benefit obligation	8.7 years	8.7 years

23. EQUITY

a. Ordinary share

	December 31	
	2021	2020
Number of shares authorized (in thousands)	<u>1,678,700</u>	<u>1,678,700</u>
Shares authorized	<u>\$ 16,787,700</u>	<u>\$ 16,787,700</u>
Number of shares issued and fully paid (in thousands)	<u>1,342,960</u>	<u>1,342,960</u>
Shares issued	<u>\$ 13,429,600</u>	<u>\$ 13,429,600</u>

b. Capital surplus

	December 31	
	2021	2020
May be used to offset a deficit, distributed as cash dividends, or <u>transferred to share capital</u>		
Treasury share transactions	\$ 2,474	\$ 2,474
<u>May only be used to offset a deficit</u>		
Unclaimed dividends	<u>7,757</u>	<u>6,330</u>
	<u>\$ 10,231</u>	<u>\$ 8,804</u>

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 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 of directors proposed by the Company's board of directors is referred 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 2020 and 2019 which had been approved in the shareholders' meeting on July 26, 2021 and May 28, 2020, respectively, were as follows:

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

The appropriation of earnings for 2021 are subject to the proposal of the Company's board of directors and the resolution of the shareholders' meeting to be held in 2022.

d. Other equity items

Unrealized valuation gain/loss on financial assets at FVTOCI

	For the Year Ended December 31	
	2021	2020
Balance at January 1	\$ 1,521,329	\$ 618,250
Recognized during the period		
Unrealized gain or loss		
Debt instruments	(718,700)	924,674
Equity instruments	214,538	124,975
Adjustments of expected credit losses in debt instruments	(8,337)	1,499
Reclassification adjustments		
Disposal of investments in debt instruments	(69,884)	(68,428)
Other comprehensive income recognized in the period	(582,383)	982,720
Cumulative unrealized gain on equity instruments transferred to retained earnings due to disposal	(149,107)	(79,641)
Balance at December 31	\$ 789,839	\$ 1,521,329

24. NET INTEREST

	For the Year Ended December 31	
	2021	2020
Interest revenue		
Bonds	\$ 1,211,028	\$ 1,319,362
Short-term bills	366,416	427,350
Convertible bond asset swap	129,057	143,063
Securities purchased under resell agreements	11,003	9,699
Others	<u>1,999</u>	<u>2,298</u>
	<u>1,719,503</u>	<u>1,901,772</u>
Interest expense		
Bonds sold under repurchase agreements	(263,856)	(495,890)
Bills sold under repurchase agreements	(161,339)	(218,309)
Call loans from banks	(22,038)	(56,762)
Convertible bond asset swap	(101)	(2,744)
Lease liabilities	(75)	(77)
Others	<u>(13,271)</u>	<u>(7,352)</u>
	<u>(460,680)</u>	<u>(781,134)</u>
	<u>\$ 1,258,823</u>	<u>\$ 1,120,638</u>

25. SERVICE FEE INCOME, NET

	For the Year Ended December 31	
	2021	2020
Service fee income		
Guarantee business	\$ 778,083	\$ 742,626
Underwriting business	515,301	435,730
Others	<u>41,898</u>	<u>17,830</u>
	<u>1,335,282</u>	<u>1,196,186</u>
Service charge		
Others	<u>(34,223)</u>	<u>(3,838)</u>
	<u>\$ 1,301,059</u>	<u>\$ 1,192,348</u>

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

	For the Year Ended December 31	
	2021	2020
Short-term bills	\$ 91,848	\$ 154,711
Bonds	111,396	35,867
Stocks and mutual funds	25,701	(19,958)
Derivative financial instruments	<u>(43,482)</u>	<u>(26,203)</u>
	<u>\$ 185,463</u>	<u>\$ 144,417</u>

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

	For the Year Ended December 31	
	2021	2020
Government bonds	\$ 20,856	\$ (8,173)
Corporate bonds	18,169	18,677
Bank debentures	30,859	57,924
Dividend revenues	<u>45,553</u>	<u>35,947</u>
	<u>\$ 115,437</u>	<u>\$ 104,375</u>

28. FOREIGN EXCHANGE GAINS (LOSSES), NET

	For the Year Ended December 31	
	2021	2020
Gross amount of foreign currency exchange gains	\$ 71,236	\$ 67,531
Gross amount of foreign currency exchange losses	<u>(93,375)</u>	<u>(119,852)</u>
Net foreign exchange gains or losses	<u>\$ (22,139)</u>	<u>\$ (52,321)</u>

29. EMPLOYEE BENEFITS EXPENSES, DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2021	2020
Employee benefit		
Salaries and wages (include employees' compensation)	\$ 291,865	\$ 263,030
Labor insurance and national health insurance	15,173	13,892
Remuneration of directors	38,456	34,039
Pension (Note 22)	10,564	11,509
Others	27,356	25,601
Depreciation	9,695	10,140
Amortization	3,064	3,230

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 employee's compensation and remuneration of directors.

The employees' compensation may be distributed by stock 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 years ended December 31, 2021 and 2020, the accrual rates and amounts of employees' compensation and remuneration of directors were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	2021	2020
Employees' compensation	1.25%	1.25%
Remuneration of directors	1.25%	1.25%

Amount

	<u>For the Year Ended December 31</u>	
	2021	2020
Employees' compensation	<u>\$ 29,898</u>	<u>\$ 25,535</u>
Remuneration of directors	<u>\$ 29,898</u>	<u>\$ 25,535</u>

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 as below:

	<u>For the Year Ended December 31</u>	
	2020	2019
Employees' compensation - cash	<u>\$ 25,535</u>	<u>\$ 19,917</u>
Remuneration of directors	<u>\$ 25,535</u>	<u>\$ 19,917</u>

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.

The employees' compensation and remuneration of directors of the Company for 2021 are subject to the approval of the board of directors.

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 Year Ended December 31	
	2021	2020
Taxation	\$ 46,911	\$ 44,779
Rental	14,410	13,946
Annual fee and allocated	5,321	5,128
Donations	503	760
Stock service fee	5,685	4,527
Others	<u>53,217</u>	<u>53,012</u>
	<u>\$ 126,047</u>	<u>\$ 122,152</u>

31. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2021	2020
Current tax		
In respect of the current year	\$ 477,896	\$ 417,384
Deferred tax		
In respect of the current year	<u>(3,545)</u>	<u>(3,923)</u>
Income tax expense recognized in profit or loss	<u>\$ 474,351</u>	<u>\$ 413,461</u>

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2021	2020
Profit before tax	<u>\$ 2,332,017</u>	<u>\$ 1,991,703</u>
Income tax expense calculated at the statutory rate	\$ 466,403	\$ 398,341
Realized gain on investment in equity instruments measured at fair value through other comprehensive income	29,821	15,928
Nondeductible expense in determining taxable income	37,566	22,390
Tax-exempt income	(49,756)	(23,394)
Unrecognized deductible temporary differences	<u>(9,683)</u>	<u>196</u>
Income tax expense recognized in profit or loss	<u>\$ 474,351</u>	<u>\$ 413,461</u>

b. Income tax recognized directly in other comprehensive income

	For the Year Ended December 31	
	2021	2020
<u>Deferred tax</u>		
Current period		
Unrealized gains or losses on financial assets at FVTOCI	\$ (119,463)	\$ 121,793
Remeasurement of defined benefit plans	<u>(148)</u>	<u>(387)</u>
Income tax (benefit) expense recognized in other comprehensive income	<u>\$ (119,611)</u>	<u>\$ 121,406</u>

c. Current tax assets and liabilities

	December 31	
	2021	2020
Current tax assets		
Tax refund receivable	<u>\$ 141,516</u>	<u>\$ 268,510</u>
Current tax liabilities		
Income tax payable	<u>\$ 129,536</u>	<u>\$ 139,115</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2021

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Financial assets at FVTPL	\$ -	\$ 3,280	\$ -	\$ 3,280
Reserve for losses on guarantees	56,453	(5,385)	-	51,068
Defined benefit obligation	13,024	(2,801)	148	10,371
Asset impairment	<u>4,339</u>	<u>(4,339)</u>	<u>-</u>	<u>-</u>
	<u>\$ 73,816</u>	<u>\$ (9,245)</u>	<u>\$ 148</u>	<u>\$ 64,719</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Financial assets at FVTPL	\$ 12,796	\$ (12,790)	\$ -	\$ 6
Financial assets at FVTOCI	<u>162,485</u>	<u>-</u>	<u>(119,463)</u>	<u>43,022</u>
	<u>\$ 175,281</u>	<u>\$ (12,790)</u>	<u>\$ (119,463)</u>	<u>\$ 43,028</u>

For the year ended December 31, 2020

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Reserve for losses on guarantees	\$ 48,200	\$ 8,253	\$ -	\$ 56,453
Defined benefit obligation	14,599	(1,962)	387	13,024
Asset impairment	<u>4,339</u>	<u>-</u>	<u>-</u>	<u>4,339</u>
	<u>\$ 67,138</u>	<u>\$ 6,291</u>	<u>\$ 387</u>	<u>\$ 73,816</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Financial assets at FVTPL	\$ 10,428	\$ 2,368	\$ -	\$ 12,796
Financial assets at FVTOCI	<u>40,692</u>	<u>-</u>	<u>121,793</u>	<u>162,485</u>
	<u>\$ 51,120</u>	<u>\$ 2,368</u>	<u>\$ 121,793</u>	<u>\$ 175,281</u>

e. Income tax assessments

The tax returns through 2017 have been examined by the tax authorities.

32. EARNINGS PER SHARE

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

	<u>For the Year Ended December 31</u>	
	2021	2020
Earnings used in the computation of basic earnings per share	<u>\$ 1,857,666</u>	<u>\$ 1,578,242</u>
Weighted average number of ordinary shares outstanding (in thousands of shares):		
	<u>For the Year Ended December 31</u>	
	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	<u>2,000</u>	<u>1,910</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>1,344,960</u>	<u>1,344,870</u>

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2021	2020
Basic earnings per share	\$ <u>1.38</u>	\$ <u>1.18</u>
Diluted earnings per share	\$ <u>1.38</u>	\$ <u>1.17</u>

If the Company offered to settle compensation paid to employees in cash or shares, 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
Criminal Investigation and Prevention Association, R.O.C (CIPA)	The Company's director is the director of CIPA.
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 year ended December 31, 2021

Related Party	Securities Sold Under Repurchase Agreements			
	December 31, 2021	Intervals of Interest Rate	Interest Expense	
Others	\$ <u>6,854,612</u>	\$ <u>5,689</u>	0.15%-0.45%	\$ <u>2,466</u>

For the year ended December 31, 2020

Related Party	Securities Sold Under Repurchase Agreements			
	December 31, 2020	Intervals of Interest Rate	Interest Expense	
Others	\$ <u>9,520,235</u>	\$ <u>985,402</u>	0.22%-2.40%	\$ <u>5,552</u>

2) Lease arrangements

Related Party Category/Name	For the Year Ended December 31	
	2021	2020

Lease expense (accounted as other operating expenses)

Parent company:

O-Bank	\$ 13,216	\$ 13,216
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In January 2021 and 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:

	December 31	
	2021	2020
Total lease payments to be paid in the future	\$ -	\$ 13,216

On September 8, 2021, the Company entered into lease agreements and acquired right-of-use assets from O-Bank for the use of O-Bank's building and parking lots. The lease period is from January 1, 2022 through December 31, 2024, and the monthly rental fee is \$1,101 thousand.

3) Donations

For the year ended December 31, 2021, the Company's donation expense (recorded under other operating expense) to Criminal Investigation and Prevention Association, R.O.C for fulfilling corporate social responsibility was \$300 thousand.

c. Compensation of key management personnel

	For the Year Ended December 31	
	2021	2020
Short-term employee benefits	\$ 76,590	\$ 68,932
Post-employment benefits	<u>10,128</u>	<u>5,143</u>
	\$ 86,718	\$ 74,075

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:

	December 31		
	2021	2020	Purposes
Financial assets at fair value through profit or loss			
Negotiable certificate of deposits	\$ 1,600,771	\$ 1,600,783	Credit line for loans
Negotiable certificate of deposits	700,098	700,098	Deposits placed with authorities to carry out bills finance businesses
Negotiable certificate of deposits	1,600,109	1,700,348	Deposits placed with bank overdrafts
Financial assets at fair value through other comprehensive income			
Government bonds	90,118	90,714	OTC online deposits refund
Government bonds	35,046	35,278	Deposits placed with authorities to operate as a security dealer
Other financial assets			
Certificate of deposits	-	525,000	Deposits placed with bank overdrafts
Other assets - refundable deposits			
Demand 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 December 31, 2021 were as follows:

Bonds and bills sold under repurchase agreements (at repurchase price)	\$ 187,122,588
Bonds and bills purchased under resell agreements (at resell price)	5,365,201
Guarantees on commercial paper	112,558,100
Fixed-rate commercial paper commitments	22,400,000
Benchmark interest rate commercial paper commitments	48,060,000
Purchase commitment contracts	12,900,000
Revolving insurance on commercial paper commitments	12,780,200

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, 2021	December 31, 2020
Eligible capital	Tier 1 capital		\$ 24,748,352	\$ 23,899,222
	Tier 2 capital		151,242	172,840
	Tier 3 capital		369,873	753,504
	Eligible capital		25,269,467	24,825,566
Risk-weighted assets	Credit risk		129,434,396	125,949,038
	Operational risk		4,062,412	3,807,116
	Market risk		66,290,668	64,163,236
	Total risk-weighted assets		199,787,476	193,919,390
Capital adequacy ratio (Note)			12.65	12.80
Ratio of Tier 1 capital to risk-weighted assets (Note)			12.39	12.32
Ratio of Tier 2 capital to risk-weighted assets (Note)			0.08	0.09
Ratio of Tier 3 capital to risk-weighted assets (Note)			0.18	0.39
Ratio of common shareholders' equity to total assets (Note)			5.87	6.15

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 December 31, 2021 and 2020 was as follows:

1) The fair value hierarchy

Item	December 31, 2021			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily classified as at FVTPL				
Shares	\$ 284,300	\$ 284,300	\$ -	\$ -
Bonds	435,348	435,348	-	-
Bills	103,218,241	-	103,218,241	-
Fix-rate commercial paper	51,607	-	51,607	-
Beneficiary securities	502,165	-	502,165	-
Financial assets at FVTOCI				
Shares	1,411,643	1,043,747	-	367,896
Bonds	105,078,737	-	105,078,737	-
Beneficiary securities on real estate investment trust	136,650	136,650	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	51,222	-	51,222	-
<u>Derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	9,987,078	-	7,731	9,979,347
Liabilities				
Financial liabilities at fair value through profit or loss	40,404	-	40,404	-
Item	December 31, 2020			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
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 securities	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
<u>Derivative financial instruments</u>				
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)

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

3) Reconciliation of Level 3 items of financial instruments

For the year ended December 31, 2021

Financial Assets	Financial Assets at Fair Value Through Profit or Loss	Financial Assets at Fair Value Through Other Comprehensive Income	Total
	Hybrid Financial Assets	Equity Instruments	
Balance at January 1, 2021	\$ 9,096,650	\$ 376,096	\$ 9,472,746
Recognized in profit or loss	(28,903)	-	(28,903)
Recognized in other comprehensive income (unrealized valuation gain or loss of equity instruments on financial assets at FVTOCI)	-	40,513	40,513
Purchases	16,714,300	-	16,714,300
Sales	(15,802,700)	-	(15,802,700)
Proceeds from capital reduction	-	(48,713)	(48,713)
Balance at December 31, 2021	<u>\$ 9,979,347</u>	<u>\$ 367,896</u>	<u>\$ 10,347,243</u>

For the year ended December 31, 2020

	Financial Assets at Fair Value Through Profit or Loss	Financial Assets at Fair Value Through Other Comprehensive Income	
Financial Assets	Hybrid Financial Assets	Equity Instruments	Total
Balance at January 1, 2020	\$ 8,623,449	\$ 356,967	\$ 8,980,416
Recognized in profit or loss	12,301	-	12,301
Recognized in other comprehensive income (unrealized valuation gain or loss of equity instruments on financial assets at FVTOCI)	-	19,129	19,129
Purchases	10,349,800	-	10,349,800
Sales	(9,888,900)	-	(9,888,900)
Balance at December 31, 2020	<u>\$ 9,096,650</u>	<u>\$ 376,096</u>	<u>\$ 9,472,746</u>

Unrealized gain and loss recognized in profit or loss for the years ended December 31, 2021 and 2020 for the assets held on the balance sheet date amounted to net loss of \$10,753 thousand and gain of \$18,150 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 December 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	\$ 9,979,347	Discounted cash flow method	a) Discount rate b) Liquidity risk premium	0.1283%-0.7522% 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	367,896	Asset method	a) Lack of liquidity discount b) Lack of control discount	10% 10%	The higher of liquidity and control discount, the lower of fair value.

	Fair Value at December 31, 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 b) Liquidity risk premium	0.2004%-0.6911% 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 b) Lack of control discount	10% 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
<u>December 31, 2021</u>						
Assets						
Hybrid financial assets	Discount rate	Upward 1 BP	\$ -	\$ 1,830	\$ -	\$ -
Unlisted shares	Lack of liquidity and control discount	Upward 10%	-	-	-	45,419

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

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:

December 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	\$ 77,979,560	\$ 78,017,892
Bonds sold under repurchase agreements	502,343	534,588
Financial assets at FVTOCI		
Bonds sold under repurchase agreements	99,999,630	102,877,569
Securities purchase under resell agreements		
Bonds sold under repurchase agreements	5,334,108	5,626,601

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 purchase under resell agreements		
Bonds sold under repurchase agreements	4,728,980	4,935,143

f. Offsetting financial assets and financial liabilities

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

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

December 31, 2021

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	\$ 7,731	\$ -	\$ 7,731	\$ -	\$ -	\$ 7,731

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Pledged	
Repurchase agreements	\$ 187,056,650	\$ -	\$ 187,056,650	\$ 183,815,641	\$ -	\$ 3,241,009

December 31, 2020

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

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Pledged	
Derivative financial instruments	\$ 270	\$ -	\$ 270	\$ -	\$ -	\$ 270
Repurchase agreements	179,726,810	-	179,726,810	177,384,417	-	2,342,393
	\$ 179,727,080	\$ -	\$ 179,727,080	\$ 177,384,417	\$ -	\$ 2,342,663

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 makes 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 $\div$ number of client at the beginning of the year. The average of the current evaluation period is the probability of default since 2015.
- ii) Stage 2: Number of default client in the current year $\div$ number of Stage 2 client at the beginning of the year. The average of the current evaluation period is the probability of default since 2015. However, under the conservative principle, the higher rate between Stage 1 and Stage 2 will be used to calculate the expected credit losses.

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

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

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

b) Bonds and bills investments

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

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

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

5) Consideration of forward-looking information

a) Credit business

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

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

b) 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 has are as follows:

- i. As of December 31, 2021 and 2020, guarantees with collateral accounted for 57.19% and 61.61%, respectively, of the total guarantees given by the Company.
- ii. As of December 31, 2021 and 2020, balances of commercial paper guarantee contracts, which were off-balance sheet risks owned by the Company amounted to \$193,167 million and \$189,461 million (amounts used of guarantee contracts were \$112,558 million and \$109,165 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 year ended December 31, 2021

	Stage 1 Performing (12-month ECLs)	Stage 2 Doubtful (Lifetime ECLs- Assessment Collectively)	Stage 3 Doubtful (Lifetime ECLs- 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	(2,939)	(1)	-	(2,940)	-	(2,940)
Originated or purchased new credit assets	3,340	-	-	3,340	-	3,340
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”	-	-	-	-	9,186	9,186
Changes of model/risk parameter	(2,584)	(2)	-	(2,586)	-	(2,586)
Balance at December 31	\$ 13,278	\$ 13	\$ -	\$ 13,291	\$ 1,368,786	\$ 1,382,077

For the year ended December 31, 2020

	Stage 1 Performing (12-month ECLs)	Stage 2 Doubtful (Lifetime ECLs- Assessment Collectively)	Stage 3 Doubtful (Lifetime ECLs- Assessment Individually)	Recognition of Impairment under IFRS 9	Recognition of Impairment Difference under the “Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt”	Total
Balance at January 1	\$ 15,313	\$ 21	\$ -	\$ 15,334	\$ 1,309,743	\$ 1,325,077
Changes from credit assets recognized at the beginning of the period						
The impairment allowance for credit assets derecognized in the current period	(3,962)	(5)	-	(3,967)	-	(3,967)
Originated or purchased new credit assets	4,091	-	-	4,091	-	4,091
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”	-	-	-	-	49,857	49,857
Changes of model/risk parameter	19	-	-	19	-	19
Balance at December 31	\$ 15,461	\$ 16	\$ -	\$ 15,477	\$ 1,359,600	\$ 1,375,077

v. Exposure to credit risk

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

December 31, 2021

	On- and off- Balance Sheet Credit Assets				
	Stage 1 Performing (12-month ECLs)	Stage 2 Doubtful (Lifetime ECLs)	Stage 3		Total
			Doubtful (Lifetime ECLs)	Credit Impairment of Purchase	
Rating level					
Internal rating 1-2	\$ 112,493,536	\$ 105,900	\$ -	\$ -	\$ 112,599,436
Internal rating 3-4	-	-	-	-	-
Defect	-	-	-	-	-
Total book value	\$ 112,493,536	\$ 105,900	\$ -	\$ -	\$ 112,599,436
Impairment allowance	\$ 13,278	\$ 13	\$ -	\$ -	\$ 13,291
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"	1,262,899	105,887	-	-	1,368,786
	\$ 1,276,177	\$ 105,900	\$ -	\$ -	\$ 1,382,077

December 31, 2020

	On- and off- Balance Sheet Credit Assets				
	Stage 1 Performing (12-month ECLs)	Stage 2 Doubtful (Lifetime ECLs)	Stage 3		Total
			Doubtful (Lifetime ECLs)	Credit Impairment of Purchase	
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

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

	December 31	
	2021	2020
<u>Financial assets at fair value through profit or loss</u>		
Derivative financial instruments		
Currency swap contracts	\$ 7,731	\$ 17,574
Non-derivative financial instruments	103,218,241	96,213,716
Investment in short-term bills	435,348	176,050
Bond investments	284,300	63,139
Domestic quoted shares	51,607	85,113
Fixed-rate commercial paper	502,165	503,298
Beneficiary securities		
Hybrid financial assets	<u>9,979,347</u>	<u>9,096,650</u>
Convertible bond asset swap contracts	<u>114,478,739</u>	<u>106,155,540</u>
<u>Financial assets at FVTOCI</u>		
Investments in equity instruments	<u>1,548,293</u>	<u>1,685,578</u>
	<u>\$ 116,027,032</u>	<u>\$ 107,841,118</u>

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 December 31, 2021 and 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

Industry Sector	December 31			
	2021		2020	
	Carrying Amounts	Maximum Amounts Exposed to Credit Risk	Carrying Amounts	Maximum Amounts Exposed to Credit Risk
Finance and insurance	\$ 34,732	\$ 34,732	\$ 35,725	\$ 35,725
Real estate	30,002	30,002	28,799	28,799
Manufacturer	23,048	23,048	23,543	23,543
Wholesaling and retailing	12,493	12,493	11,540	11,540
Others	<u>12,283</u>	<u>12,283</u>	<u>9,558</u>	<u>9,558</u>
	<u>\$ 112,558</u>	<u>\$ 112,558</u>	<u>\$ 109,165</u>	<u>\$ 109,165</u>

ii. By collateral

Collateral Sector	December 31			
	2021		2020	
	Carrying Amounts	% to Total	Carrying Amounts	%to Total
Without collateral	\$ 48,189	42.81	\$ 41,905	38.39
With collateral				
Real estate	39,814	35.37	40,451	37.05
Shares	21,707	19.29	24,755	22.68
Bonds	2,081	1.85	1,729	1.58
Bills	<u>767</u>	<u>0.68</u>	<u>325</u>	<u>0.30</u>
	<u>\$ 112,558</u>	<u>100.00</u>	<u>\$ 109,165</u>	<u>100.00</u>

c) Credit quality

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:

December 31, 2021			
Financial Asset	Face Value	Average Duration (Year)	Influence to Fair Value Per 0.01 Fluctuation in Market Value
Bills	\$ 103,317,336	0.1183	\$ 1,221
Bonds	114,638,197	3.058	34,008

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

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 December 31, 2021 which are subject to the reform and have not transitioned to an alternative benchmark interest rate:

Non-Derivative Financial Instrument	Carrying Amount Financial Assets
3-month USD LIBOR	\$ 2,428,992

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:

December 31, 2021							
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 254,598	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 254,598
Due from the central bank and call loans to banks	300,000	-	-	-	-	-	300,000
Financial assets at fair value through profit or loss	51,031,348	46,777,772	7,467,029	1,370,474	7,824,385	-	114,471,008
Securities purchased under resale agreements	4,864,971	500,230	-	-	-	-	5,365,201
Receivables	167,205	265,607	184,586	105,983	6,795	-	730,176
Financial assets at FVTOCI	1,999,756	2,221,331	4,706,573	10,932,414	76,509,570	10,257,386	106,627,030
Other financial assets	-	-	-	-	44,115	-	44,115
Refundable deposits	-	-	-	-	-	561,309	561,309
	<u>58,617,878</u>	<u>49,764,940</u>	<u>12,358,188</u>	<u>12,408,871</u>	<u>84,384,865</u>	<u>10,818,695</u>	<u>228,353,437</u>
<u>Liabilities</u>							
Call loans from banks and overdrafts on banks	9,096,125	-	-	-	-	-	9,096,125
Financial liabilities at fair value through profit or loss	-	49,531	-	1,266	40,829	-	91,626
Securities sold under repurchase agreements	145,250,897	39,034,647	2,721,818	115,226	-	-	187,122,588
Bills issued, net	2,000,000	2,500,000	-	-	-	-	4,500,000
Accounts payable	221,267	15,139	105,710	7,771	49,920	-	399,807
Lease liabilities	-	301	451	902	1,795	-	3,449
	<u>156,568,289</u>	<u>41,599,618</u>	<u>2,827,979</u>	<u>125,165</u>	<u>92,544</u>	<u>-</u>	<u>201,213,595</u>
Net liquidity gap	<u>\$ (97,950,411)</u>	<u>\$ 8,165,322</u>	<u>\$ 9,530,209</u>	<u>\$ 12,283,706</u>	<u>\$ 84,292,321</u>	<u>\$ 10,818,695</u>	<u>\$ 27,139,842</u>
December 31, 2020							
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 264,720	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264,720
Financial assets at fair value through profit or loss	56,922,411	37,785,598	4,451,159	1,600,057	5,378,741	-	106,137,966
Securities purchased under resale 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
	<u>62,935,392</u>	<u>40,970,913</u>	<u>8,516,266</u>	<u>8,402,574</u>	<u>86,106,833</u>	<u>10,826,342</u>	<u>217,758,320</u>
<u>Liabilities</u>							
Call loans from banks and overdrafts on banks	6,140,000	-	-	-	-	-	6,140,000
Financial liabilities at fair value through profit or loss	-	-	-	512	38,470	-	38,982
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
	<u>148,897,665</u>	<u>39,319,271</u>	<u>2,552,349</u>	<u>13,082</u>	<u>82,100</u>	<u>-</u>	<u>190,864,467</u>
Net liquidity gap	<u>\$ (85,962,273)</u>	<u>\$ 1,651,642</u>	<u>\$ 5,963,917</u>	<u>\$ 8,389,492</u>	<u>\$ 86,024,733</u>	<u>\$ 10,826,342</u>	<u>\$ 26,893,853</u>
December 31, 2021							
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
<u>Currency swap</u>							
Inflow	\$ 420,624	\$ 611,685	\$ -	\$ -	\$ -	\$ -	\$ 1,032,309
Outflow	\$ 415,365	\$ 609,213	\$ -	\$ -	\$ -	\$ -	\$ 1,024,578

	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	\$ 1,225,766	\$ 684,092	\$ -	\$ -	\$ -	\$ -	\$ 1,909,858

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 paper 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
<u>December 31, 2021</u>						
Off-balance sheet item						
Guaranteed commercial paper	\$ 26,774,500	\$ 71,537,100	\$ 11,744,300	\$ 2,502,200	\$ -	\$ 112,558,100
<u>December 31, 2020</u>						
Off-balance sheet item						
Guaranteed commercial paper	28,891,300	67,775,800	9,587,100	2,911,100	-	109,165,300

4) Foreign exchange risk

- 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.
- 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.
- Company's foreign exchange risk exposure

	December 31, 2021	
	USD	RMB
Cash and cash equivalents	\$ 26,499	\$ 2
Financial assets at FVTOCI	22,832,233	-
Receivables, net	145,871	-
Other financial assets	39,431	-
Total assets	23,044,034	2
Call loans from banks and overdrafts on banks	346,125	-
Securities sold under repurchase agreements	20,185,982	-
Accounts payable	10,522	-
Total liabilities	20,542,629	-
On-balance sheet foreign exchange gap	\$ 2,501,405	\$ 2
Off-balance sheet currency swaps	\$ (1,024,530)	\$ -
Exchange rate to NTD	27.69	4.3476
Foreign exchange loss	\$ (22,139)	\$ -

	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	<u>36,319</u>	<u>-</u>
Total assets	<u>22,198,667</u>	<u>2</u>
Call loans from banks and overdrafts on banks	-	-
Securities sold under repurchase agreements	18,594,115	-
Accounts payable	<u>14,340</u>	<u>-</u>
Total liabilities	<u>18,608,455</u>	<u>-</u>
On-balance sheet foreign exchange gap	<u>\$ 3,590,212</u>	<u>\$ 2</u>
Off-balance sheet currency swaps	<u>\$ (1,910,036)</u>	<u>\$ -</u>
Exchange rate to NTD	<u>28.508</u>	<u>4.384</u>
Foreign exchange loss	<u>\$ (51,179)</u>	<u>\$ (1,142)</u>

d) Sensitivity analysis

Risky Financial Instruments of Primary Market	Extent of Variation	December 31, 2021	
		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%	\$ (14,339)	\$ -
Foreign exchange financial instruments	Exchange rate of NTD to USD and to RMB depreciated by 1%	14,339	-
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	-

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	December 31, 2021	December 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		1,375,981	1,196,691
Actual provision for credit losses and reserve for losses on guarantees		1,382,077	1,375,077

b. The principal operation

Item	Year	December 31, 2021	December 31, 2020
Balance of guarantees and endorsement securities		\$ 112,558,100	\$ 109,165,300
Ratio of guarantees and endorsement securities to net worth		4.71	4.84
Short-term bills and bonds sold under repurchase agreements		\$ 187,122,588	\$ 179,794,171
Ratio of short-term bills and bonds sold under repurchase agreements to net worth		7.83	7.98

c. Concentrations of credit extensions

Unit: %

Item \ Year	December 31, 2021		December 31, 2020	
Credit to common interest party	\$ -		\$ -	
Ratio of credit extensions to common interest parties	-		-	
Ratio of credit extensions secured by pledged shares	19.28		22.68	
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	30.86	Finance and insurance industry	32.73
	Real estate industry	26.65	Real estate industry	26.38
	Manufacturing industry	20.48	Manufacturing industry	21.57

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

	December 31			
	2021		2020	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
<u>Interest-earning assets</u>				
Cash and cash equivalents (including certificate of deposits)	\$ 347,622	0.04	\$ 765,369	0.06
Call loans to banks	127,288	0.11	67,757	0.20
Financial assets at fair value through profit or loss - bonds and bills	99,956,081	0.38	88,593,970	0.49
Financial assets at fair value through other comprehensive income - bonds	100,745,035	1.19	99,597,371	1.31
Financial assets at fair value through profit or loss - hybrid financial assets	8,935,605	1.44	9,704,665	1.47
Securities purchased under resell agreements	6,411,458	0.17	4,300,649	0.22
<u>Interest-bearing liabilities</u>				
Due to other banks	9,077,356	0.24	13,971,217	0.41
Bank overdraft	955	1.50	1,308	1.59
Securities sold under repurchase agreements	178,797,692	0.24	163,287,187	0.44
Commercial paper issued, net	4,500,000	0.33	1,885,246	0.43

f. Information on interest rate sensitivity

December 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	\$ 106,430	\$ 12,173	\$ 11,795	\$ 94,735	\$ 225,133
Interest rate-sensitive liabilities	197,818	2,719	115	-	200,652
Interest rate sensitivity gap	(91,388)	9,454	11,680	94,735	24,481
Net worth					25,557
Ratio of interest rate-sensitive assets to liabilities					112.20
Ratio of interest rate sensitivity gap to net worth					95.79

December 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	\$ 101,567	\$ 8,343	\$ 7,059	\$ 97,571	\$ 214,540
Interest rate-sensitive liabilities	187,907	2,447	12	-	190,366
Interest rate sensitivity gap	(86,340)	5,896	7,047	97,571	24,174
Net worth					25,449
Ratio of interest rate-sensitive assets to liabilities					112.70
Ratio of interest rate sensitivity gap to net worth					94.99

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

December 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	\$ 49,705	\$ 46,434	\$ 6,962	\$ 117	\$ -
	Bonds	2,050	2,322	5,211	11,678	94,735
	Due from banks	255	-	-	-	-
	Call loans	300	-	-	-	-
	Securities purchased under resell agreements	4,864	500	-	-	-
	Total	57,174	49,256	12,173	11,795	94,735
Cash provided by	Borrowing	11,096	2,499	-	-	-
	Securities sold under repurchase agreements	145,214	39,009	2,719	115	-
	Eligible capital	-	-	-	-	25,557
	Total	156,310	41,508	2,719	115	25,557
Net cash flows		(99,136)	7,748	9,454	11,680	69,178
Accumulated cash flows		(99,136)	(91,388)	(81,934)	(70,254)	(1,076)

December 31, 2020

In Millions of New Taiwan Dollars

Period		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year
Items						
Cash used in	Bills	\$ 55,095	\$ 37,074	\$ 3,944	\$ 101	\$ -
	Bonds	1,599	2,801	4,399	6,958	97,571
	Due from banks	265	-	-	-	-
	Call loans	-	-	-	-	-
	Securities purchased under resell agreements	4,162	571	-	-	-
	Total	61,121	40,446	8,343	7,059	97,571
Cash provided by	Borrowing	10,639	-	-	-	-
	Securities sold under repurchase agreements	138,066	39,202	2,447	12	-
	Eligible capital	-	-	-	-	25,449
	Total	148,705	39,202	2,447	12	25,449
Net cash flows		(87,584)	1,244	5,896	7,047	72,122
Accumulated cash flows		(87,584)	(86,340)	(80,444)	(73,397)	(1,275)

h. Matters requiring special notation

Items	Period	December 31, 2021	December 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 year ended December 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	\$ 2,956,125	\$ -	\$ -	\$ 9,096,125
Commercial paper issued, net	4,499,227	-	-	(557)	4,498,670
Lease liabilities	2,695	(3,147)	3,748	75	3,371
	\$ 10,641,922	\$ 2,952,978	\$ 3,748	\$ (482)	\$ 13,598,166

For the year ended December 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	\$ (8,360,869)	\$ -	\$ -	\$ 6,140,000
Commercial paper issued, net	-	4,500,000	-	(773)	4,499,227
Lease liabilities	4,773	(3,371)	1,216	77	2,695
	<u>\$ 14,505,642</u>	<u>\$ (3,864,240)</u>	<u>\$ 1,216</u>	<u>\$ (696)</u>	<u>\$ 10,641,922</u>

41. OTHER MATTERS

The outbreak of the COVID-19 pandemic has impacted global industries and economic activities. In response to the pandemic, the Company adopted flexible regulation of business operations, strengthened risk monitoring of the debtors and implemented management procedures after the loan approval. As of the date of release of the financial statements, the management assessed that the pandemic had no significant impact on the Company. The Company will continue to monitor the development of the pandemic, carefully evaluate and actively respond to the impact of the pandemic on the Company's financial status and operating performance.

42. INFORMATION ON SIGNIFICANT TRANSACTIONS AND INVESTEEES AND PROPORTIONATE SHARE IN INVESTEEES

a. Related information of significant transactions for the year ended December 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.

43. 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 Year Ended December 31, 2021					
Headquarters					
	Bills and Bonds	Equity Products	Others	Branches	Total
Bills	\$ 889,522	\$ -	\$ -	\$ 685,720	\$ 1,575,242
Bonds	743,384	112,635	-	276,415	1,132,434
Shares and beneficiary certificates	-	46,182	18,068	-	64,250
Derivatives	(11,196)	100,052	-	-	88,856
Gain from reportable segments	1,621,710	258,869	18,068	962,135	2,860,782
Net revenues other than interest	(19,424)	-	-	(2,394)	(21,818)
Reversed impairment loss on assets	8,337	-	-	-	8,337
Reversal	6,880	-	-	56	6,936
Operating expenses	(229,377)	(49,671)	-	(243,172)	(522,220)
Income before income tax	<u>\$ 1,388,126</u>	<u>\$ 209,198</u>	<u>\$ 18,068</u>	<u>\$ 716,625</u>	<u>\$ 2,332,017</u>

Segment Revenues and Results					
For the Year Ended December 31, 2020					
Headquarters					
	Bills and Bonds	Equity Products	Others	Branches	Total
Bills	\$ 845,454	\$ -	\$ -	\$ 634,534	\$ 1,479,988
Bonds	629,395	32,288	-	258,972	920,655
Shares and beneficiary certificates	-	(4,214)	14,707	-	10,493
Derivatives	(2,002)	152,644	-	-	150,642
Gain from reportable segments	1,472,847	180,718	14,707	893,506	2,561,778
Net revenues other than interest	(48,635)	-	-	(4,473)	(53,108)
Recognized impairment loss on assets	(1,499)	-	-	-	(1,499)
Provisions	(31,970)	-	-	95	(31,875)
Operating expenses	(212,129)	(42,168)	-	(229,296)	(483,593)
Income before income tax	<u>\$ 1,178,614</u>	<u>\$ 138,550</u>	<u>\$ 14,707</u>	<u>\$ 659,832</u>	<u>\$ 1,991,703</u>

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	
		December 31	
		2021	2020
Headquarters		\$ 171,217,580	\$ 161,364,666
Branches		77,091,352	71,890,648
Write-off of internal transactions		<u>(19,575,052)</u>	<u>(14,971,313)</u>
Total assets		<u>\$ 228,733,880</u>	<u>\$ 218,284,001</u>

TABLE 1**CHINA BILLS FINANCE CORPORATION****INFORMATION ON MAJOR SHAREHOLDERS
DECEMBER 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.

STATEMENT 1**CHINA BILLS FINANCE CORPORATION****STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Items	Description	Amounts
Checking accounts		\$ 193,888
Demand deposits	Including US\$957 thousand @27.69 and RMB0.465 thousand @4.3476	<u>60,710</u>
		<u>\$ 254,598</u>

CHINA BILLS FINANCE CORPORATION

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Items	Description	Total Face Value/Share	Rate (%)	Acquisition Cost	Fair Value		Change in Fair Value Belong to Credit Risk	Remark
					Unit Price	Amount		
Bills								
Negotiable certificate of deposits	90 days and below	\$ 15,300,000	0.34-0.40	\$ 15,300,000	100.00	\$ 15,300,057	\$ -	Note 5
Commercial paper 1	90 days and below	41,336	1.7629-1.8594	41,225	99.79	41,248	-	
Commercial paper 2	90 days and below	80,878,900	0.2202-0.9808	80,813,657	99.90	80,798,000	-	
	91 day-180 days	6,979,400	0.2503-0.5917	6,969,495	99.75	6,962,173	-	
	180 days to 1 year	117,700	0.2707-0.9590	116,734	99.20	116,763	-	
				<u>\$ 103,241,111</u>		<u>103,218,241</u>	-	Note 1
Bonds								
Corporate bonds								
More than 1 year and less than 5 years	Interest payment annually, principal and interest payment day from June 8, 2023 to November 16, 2026	386,900		<u>\$ 389,649</u>	112.52	<u>435,348</u>	-	
Beneficiary securities								
More than 1 year and less than 5 years	Interest payment monthly, principal and interest payment date on: December 11, 2026	500,000	1.30	<u>\$ 500,000</u>	100.43	<u>502,165</u>	-	
Shares								
Others		-		<u>\$ 261,726</u>		<u>284,300</u>	-	Note 4
Benchmark interest rate commercial paper								
	Within 6 months	6,350,000				-	-	
	Between 1 year (not included) and 3 years	30,510,000				-	-	
	Between 3 years (not included) and 5 years	11,200,000				-	-	
						<u>-</u>	<u>-</u>	Notes 2 and 3
Fixed-rate commercial paper								
	Within 6 months	1,900,000				2,446	-	
	Between 6 months (not included) and 1 year	1,600,000				7,519	-	
	Between 1 year (not included) and 3 years	15,150,000				35,670	-	
	Between 3 years (not included) and 5 years	1,450,000				5,972	-	
						<u>51,607</u>	-	Note 2
Hybrid financial assets								
Convertible bond asset swap contracts								
	Within 6 months	921,700		\$ 921,700		922,145	-	
	Between 6 months (not included) and 1 year	1,230,300		1,230,300		1,232,818	-	
	Between 1 year (not included) and 3 years below	7,718,300		7,718,300		7,704,602	-	
	Between 3 years (not included) and 5 years	119,800		119,800		119,782	-	
				<u>\$ 9,990,100</u>		<u>9,979,347</u>	-	Notes 1 and 2
Derivative financial instruments								
Currency swap contracts	Within 6 months	1,024,530				7,731	-	Note 2
						<u>\$ 114,478,739</u>	<u>\$ -</u>	

(Continued)

- Note 1: The face value of financial assets at fair value through profit or loss under repurchase agreements was \$78,572,100 thousand.
- Note 2: Total carrying value is the contract of notional amount.
- Note 3: Benchmark interest rate commercial paper will be priced before issued, the valuation amount is the same as the fair value.
- Note 4: The amount of each item in others does not exceed 5% of the account balance.
- Note 5: The information on pledged assets is in Note 34.

(Concluded)

CHINA BILLS FINANCE CORPORATION**STATEMENT OF FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS
DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

Items	Description	Face Value/ Notional Amount	Fair Value
Purchase commitment contracts	Between 6 months (not included) and 1 year	\$ 300,000	\$ 1,267
	Between 1 year (not included) and 3 years	12,600,000	39,137
Fixed-rate commercial paper (Note)	Between 1 year (not included) and 3 years	300,000	46
	Between 3 years (not included) and 5 years	2,000,000	1,645
When-issued trading	Within 6 months	50,000	<u>49,531</u>
			<u>\$ 91,626</u>

Note: Benchmark interest rate commercial papers will be repriced before issued, the valuation amount is the same as the fair value.

CHINA BILLS FINANCE CORPORATION

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Items	Description	Total Face Value/Share	Rate (%)	Acquisition Cost	Accumulated Impairment Loss	Fair Value		Remark
						Unit Price	Amount	
Government bonds								
1 year and below	Principal and interest payment date from January 23, 2022 to December 13, 2022	\$ 3,681,000	0.625-4.25	\$ 3,690,793	\$ -	100.03-102.12	\$ 3,698,923	
Between 1 year (not included) and 5 years	Interest payment annually, principal and interest payment date from January 12, 2023 to October 16, 2026	9,499,800	0.625-3.00	9,575,289	-	100.25-107.16	9,639,435	
Between 5 years (not included) and 10 years	Interest payment annually, principal and interest payment date from June 14, 2029 to October 16, 2029	1,200,000	0.808-0.839	1,200,000	-	101.59-101.81	1,220,415	
More than 20 years	Interest payment annually, principal and interest payment day on December 23, 2051	200,000	1.125	<u>198,701</u>	<u>-</u>	99.37	<u>198,738</u>	
Government bonds total				<u>14,664,783</u>	<u>-</u>		<u>14,757,511</u>	Notes 1 and 3
Bank debentures								
1 year and below	Principal and interest payment date from May 25, 2022 to December 27, 2022	3,900,000	1.55-1.68	3,917,334	910	100.49-101.04	3,937,183	
Between 1 year (not included) and 5 years	Interest payment annually, principal and interest payment date from July 6, 2023 to March 15, 2025	4,800,000	0.76-2.10	4,856,541	1,604	100.56-104.17	4,906,850	
Between 5 years (not included) and 10 years	Interest payment annually, principal and interest payment date from May 10, 2029 to October 30, 2029	900,000	0.88-0.95	<u>901,411</u>	<u>-</u>	101.47-101.96	<u>915,183</u>	
				<u>9,675,286</u>	<u>2,514</u>		<u>9,759,216</u>	Note 1
Corporate bonds								
1 year and below	Principal and interest payment date from January 5, 2022 to December 15, 2022	10,175,000	0.83-1.67	10,177,396	4,394	100.01-100.68	10,203,430	
Between 1 year (not included) and 5 years	Interest payment semi to annually, principal and interest payment date from January 9, 2023 to December 9, 2026	37,400,000	0.47-1.98	37,426,188	8,920	99.18-102.1	37,543,903	
Between 5 years (not included) and 10 years	Interest payment annually, principal and interest payment date from May 6, 2027 to August 8, 2029	9,970,000	0.58-1.05	<u>9,971,751</u>	<u>539</u>	99.36-102.47	<u>9,982,436</u>	
Corporate bonds total				<u>57,575,335</u>	<u>13,853</u>		<u>57,729,769</u>	Note 1
Overseas government bonds								
Between 1 year (not included) and 5 years	Interest payment semi-annually, principal and interest payment day on January 21, 2026	27,690	4.125	28,316	36	110.03	30,468	
Between 5 years (not included) and 10 years	Interest payment semi-annually, payment date from March 4, 2028 to April 16, 2030	1,689,090	3.25-4.50	<u>1,809,060</u>	<u>1,392</u>	102.98-114.92	<u>1,834,796</u>	
Overseas government bonds total				<u>1,837,376</u>	<u>1,428</u>		<u>1,865,264</u>	Note 1 (Continued)

Items	Description	Total Face Value/Share	Rate (%)	Acquisition Cost	Accumulated Impairment Loss	Fair Value		Remark
						Unit Price	Amount	
Overseas bank debentures								
1 year and below	Principal and interest payment date from January 5, 2022 to December 14, 2022	\$ 1,232,205	1.036-3.15	\$ 1,230,825	\$ 507	100.01-101.78	\$ 1,238,767	
Between 1 year (not included) and 5 years	Interest payment semi-annually and quarterly, principal and interest payment date from April 16, 2023 to July 21, 2026	6,700,980	0.9722-5.00	6,852,182	4,770	98.37-110.28	6,963,003	
Between 5 years (not included) and 10 years	Interest payment semi-annually, principal and interest payment date from February 12, 2027 to July 10, 2031	3,655,080	1.792-4.50	<u>3,822,894</u>	<u>3,480</u>	95.60-112.74	<u>3,790,659</u>	
Overseas bank debentures total				<u>11,905,901</u>	<u>8,757</u>		<u>11,992,429</u>	Note 1
Overseas corporate bonds								
1 year and below	Principal and interest payment date from May 17, 2022 to November 24, 2022	775,320	2.50-3.90	775,752	259	100.55-101.40	781,771	
Between 1 year (not included) and 5 years	Interest payment semi-annually and quarterly, principal and interest payment date from July 16, 2023 to September 26, 2026	3,607,702	0.9972-4.25	3,655,805	1,330	98.44-106.26	3,700,186	
Between 5 years (not included) and 10 years	Interest payment semi-annually, principal and interest payment date from January 19, 2027 to January 8, 2031	4,347,330	1.625-5.125	<u>4,428,004</u>	<u>1,774</u>	95.08-112.98	<u>4,492,591</u>	
				<u>8,859,561</u>	<u>3,363</u>		<u>8,974,548</u>	Note 1
Listed shares								
Others		-		<u>988,325</u>			<u>1,043,747</u>	Note 2
Beneficiary securities on real estate investment trust								
Others		15,000		<u>150,000</u>			<u>136,650</u>	Note 2
Unlisted shares								
Taiwan Asset Management Corporation		6,000		60,000			70,730	
Core Pacific City Corporation		49		71,287			59,223	
Taiwan Depository and Clearing Corporation		2,186		27,230			136,530	
Taiwan Futures Exchange Corporation		1,889		<u>9,000</u>			<u>101,413</u>	
				<u>167,517</u>			<u>367,896</u>	
				<u>\$ 105,824,084</u>	<u>\$ 29,915</u>		<u>\$ 106,627,030</u>	

Note 1: The face value of financial assets at FVTOCI under repurchase agreements was \$98,274,083 thousand.

Note 2: The amount of each item in others does not exceed 5% of the account balance.

Note 3: The information on pledged assets is in Note 34.

(Concluded)

CHINA BILLS FINANCE CORPORATION**STATEMENT OF SECURITIES PURCHASED UNDER RESELL AGREEMENTS****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

Items	Face Value	Amounts
30 days and below	\$ 3,060,000	\$ 3,061,573
31 days to 60 days	1,500,000	1,501,488
61 days to 90 days	<u>800,000</u>	<u>801,047</u>
	<u>\$ 5,360,000</u>	<u>\$ 5,364,108</u>

Note: Securities purchased under resell agreements were sold under repurchase agreements in the face values of \$5,330,000 thousand.

CHINA BILLS FINANCE CORPORATION**STATEMENT OF RECEIVABLE, NET****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

Items	Description	Amounts
Interest receivables, net		\$ 600,874
Receivables on bond sales		49,531
Receivables on settlement of asset swap		34,644
Other service fee income receivables		22,295
Others (Note)		<u>23,456</u>
		<u>\$ 730,800</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

CHINA BILLS FINANCE CORPORATION

STATEMENT OF CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Name	Balance, End of Year	Contract Period	Call Loans Period	Range of Interest Rate	Loan Commitments	Guarantee or Collateral
Call loans from banks						
First Commercial Bank	\$ 3,020,000	May 3, 2021 to April 30, 2022	December 9, 2021 to January 7, 2022	0.33%	\$ 7,000,000	No
Jih Sun International Bank	635,365	January 1, 2021 to December 31, 2021	February 8, 2021 to January 12, 2022	0.21%-0.35%	3,000,000	No
Chang Hwa Commercial Bank	1,500,000	January 1, 2021 to December 31, 2021	December 16, 2021 to January 11, 2022	0.33%	4,276,900	No
Taishin International Bank	2,280,000	May 3, 2021 to April 30, 2022	December 13, 2021 to January 19, 2022	0.33%	5,000,000	No
Mega International Commercial Bank	1,500,000	October 30, 2021 to October 29, 2022	December 7, 2021 to January 6, 2022	0.33%	7,038,000	No
King's Town Bank	50,000	January 1, 2021 to December 31, 2021	December 30, 2021 to January 6, 2022	0.32%	1,915,350	No
Bank of Kaohsiung	<u>110,760</u>	May 3, 2021 to May 3, 2022	December 27, 2021 to January 3, 2022	0.34%	500,000	No
	<u>\$ 9,096,125</u>					

STATEMENT 8**CHINA BILLS FINANCE CORPORATION****STATEMENT OF SECURITIES SOLD UNDER REPURCHASE AGREEMENTS****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

Items	Carrying Value	Turnover
30 days and below	\$ 141,649,275	\$ 145,213,797
31 days to 60 days	26,835,827	27,661,537
61 days to 90 days	10,935,357	11,347,961
91 days to 180 days	2,650,040	2,718,557
Over 181 days	105,684	<u>114,798</u>
		<u>\$ 187,056,650</u>

CHINA BILLS FINANCE CORPORATION**STATEMENT OF INTEREST REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Items	Amounts
Bonds	\$ 1,211,028
Short-term bills	366,416
Convertible bonds asset swap	129,057
Bonds purchased under resell agreements	11,003
Others (Note)	<u>1,999</u>
	<u>\$ 1,719,503</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

CHINA BILLS FINANCE CORPORATION**STATEMENT OF INTEREST EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Items	Amounts
Bonds sold under repurchase agreements	\$ 263,856
Bills sold under repurchase agreements	161,339
Call loans from banks	22,038
Convertible bonds asset swap	101
Lease liabilities	75
Others (Note)	<u>13,271</u>
	<u>\$ 460,680</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

CHINA BILLS FINANCE CORPORATION**STATEMENT OF SERVICE FEE INCOME, NET
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Items	Amounts
Service fee income from guarantee business	\$ 778,083
Service fee income from underwriting business	515,301
Others, net (Note)	<u>7,675</u>
	<u>\$ 1,301,059</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

CHINA BILLS FINANCE CORPORATION**STATEMENT OF GAINS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE
THROUGH PROFIT OR LOSS****FOR THE YEAR ENDED DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

Items	Amounts
Dividends revenue	<u>\$ 2,922</u>
Gain (loss) on disposal of financial assets and liabilities at fair value through profit or loss	
Short-term bills	130,350
Bonds	80,188
Stocks and mutual funds	3,784
Derivative financial instruments	<u>(1,655)</u>
	<u>212,667</u>
Gain (loss) on valuation of financial assets and liabilities at fair value through profit or loss	
Short-term bills	(38,502)
Bonds	31,208
Stocks and mutual funds	18,995
Derivative financial instruments	<u>(41,827)</u>
	<u>(30,126)</u>
	<u>\$ 185,463</u>

CHINA BILLS FINANCE CORPORATION**STATEMENT OF REALIZED GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE
THROUGH OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Items	Amounts
Government bonds	\$ 20,856
Corporate bonds	18,169
Bank debentures	30,859
Dividend revenue	<u>45,553</u>
	<u>\$ 115,437</u>

CHINA BILLS FINANCE CORPORATION**STATEMENT OF PROVISION (REVERSAL)
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Items	Amounts
Amounts collected from prior years' write-off	\$ 13,936
Amounts reserved for loss on guarantees	<u>(7,000)</u>
	<u>\$ 6,936</u>

CHINA BILLS FINANCE CORPORATION

STATEMENT OF EMPLOYEE BENEFIT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Items	Employee Benefits Expenses	Other Non-interest Gains	Other Operating Expenses	Total	Remark
Salaries and wages	\$ 291,865	\$ -	\$ -	\$ 291,865	
Labor insurance and national health insurance	15,173	-	-	15,173	
Pension	10,564	-	-	10,564	
Remuneration to directors	38,456	-	-	38,456	
Others	<u>27,356</u>	<u>-</u>	<u>-</u>	<u>27,356</u>	Note 1
	<u>\$ 383,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 383,414</u>	

Note 1: The amount of each items in others does not exceed 5% of the account balance.

Note 2: For the years ended December 31, 2021 and 2020, the Company had 164 and 159 average employees of which there were 9 and 9 non-employee directors, respectively.

Note 3: The average employee benefits expense for the current year was \$2,226 thousand [(Total personnel expenses - Remuneration to directors) ÷ (Total employees - Non-employee directors)]

The average employee benefits expense for the prior year was \$2,094 thousand [(Total personnel expenses for the prior year - Remuneration to directors) ÷ (Total employees for the prior year - Non-employee directors)]

Note 4: The average salaries and wages for the current year was \$1,883 thousand [Total salaries and wages ÷ (Total employees - Non-employee director)]

The average salaries and wages for the prior year was \$1,754 thousand [Total salaries and wages for the prior year ÷ (Total employees for the prior year - Non-employee directors)]

Note 5: The change in the average salaries and wages is 7.35% increase. [(Total average salaries and wages - The average salaries and wages for the prior year) ÷ The average salaries and wages for the prior year]

Note 6: As of December 31, 2021 and 2020, the Company had \$0 and \$0 of remuneration to supervisor.

Note 7: The Company's policy on compensation and remuneration (including directors, supervisors, managers and employees) are as follow:

In addition to the monthly remuneration and transportation allowance (to be paid subject to the actual attendance of meeting), the remuneration of directors would be allocated pursuant to the articles of incorporation, subject to the profit status for the year, and the allocation, if any, shall be reported to the remuneration committee, and approved upon resolution made by the directors' meeting and reported to the shareholders' meeting. Notwithstanding, independent directors should be excluded from the allocation of remuneration.

The remuneration to the Company's chairman, president, vice presidents and managers should be subject to the review and approval by the remuneration committee on a yearly basis.

Compensation of employees is decided according to the Company's personnel administration regulation. The determination of the compensation is based on the average level of the domestic financial industry. The Company responds to the transformation in the industrial environment (future risks) and implements the spirit of bonus and performance linkage by assessing the differential contribution and individual performance of employees. The trading and non-trading business performance bonus is allocated depending on the profitability of the year to encourage employees to develop work potential and pursue outstanding performance.

CHINA BILLS FINANCE CORPORATION**STATEMENT OF OTHER OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

Items	Amounts
Taxation	\$ 46,911
Rental	14,410
Annual fee and allocated	5,321
Stock service fee	5,685
Donation	503
Others (Note)	<u>53,217</u>
	<u>\$ 126,047</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

China Bills Finance Corporation

**Securities Department Disclosure
Years Ended December 31, 2021 and 2020**

CHINA BILLS FINANCE CORPORATION
SECURITIES DEPARTMENT

BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(In Thousands of New Taiwan Dollars)

ASSETS	2021		2020	
	Amount	%	Amount	%
CURRENT ASSETS				
Financial assets at fair value through profit or loss - current (Notes 4 and 6)	\$ 10,924,591	9	\$ 9,793,572	8
Bonds purchased under resell agreements (Notes 4 and 9)	5,364,108	4	4,732,882	4
Receivable, net (Note 4)	651,088	1	735,993	1
Current tax assets (Note 4)	<u>85,423</u>	-	<u>105,160</u>	-
Total current assets	<u>17,025,210</u>	<u>14</u>	<u>15,367,607</u>	<u>13</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 7, 8 and 14)	105,078,737	86	103,551,701	87
Other financial assets, net (Note 4)	1,656	-	36,320	-
Refundable deposits	<u>39,424</u>	-	<u>1,779</u>	-
Total non-current assets	<u>105,119,817</u>	<u>86</u>	<u>103,589,800</u>	<u>87</u>
TOTAL	<u>\$ 122,145,027</u>	<u>100</u>	<u>\$ 118,957,407</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 4 and 6)	\$ 49,531	-	\$ 270	-
Bonds sold under repurchase agreements (Notes 4 and 10)	109,038,758	89	106,634,281	90
Accounts payable, net	110,243	-	202,455	-
Current tax liabilities (Note 4)	<u>275,974</u>	-	<u>337,978</u>	-
Total current liabilities	<u>109,474,506</u>	<u>89</u>	<u>107,174,984</u>	<u>90</u>
NON-CURRENT LIABILITIES				
Internal office accounts (Note 13)	<u>10,607,638</u>	<u>9</u>	<u>9,043,663</u>	<u>8</u>
Total liabilities	<u>120,082,144</u>	<u>98</u>	<u>116,218,647</u>	<u>98</u>
EQUITY				
Appropriated working capital (Note 1)	<u>550,000</u>	<u>1</u>	<u>550,000</u>	-
Retained earnings				
Special reserve	71,306	-	71,306	-
Unappropriated earnings	<u>894,189</u>	<u>1</u>	<u>773,145</u>	<u>1</u>
Total retained earnings	<u>965,495</u>	<u>1</u>	<u>844,451</u>	<u>1</u>
Other equity	<u>547,388</u>	-	<u>1,344,309</u>	<u>1</u>
Total equity	<u>2,062,883</u>	<u>2</u>	<u>2,738,760</u>	<u>2</u>
TOTAL	<u>\$ 122,145,027</u>	<u>100</u>	<u>\$ 118,957,407</u>	<u>100</u>

CHINA BILLS FINANCE CORPORATION
SECURITIES DEPARTMENT

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands of New Taiwan Dollars)

	2021		2020	
	Amount	%	Amount	%
REVENUES AND GAINS				
Gains on sale of securities held for operations - dealing	\$ 148,418	10	\$ 78,059	5
Interest revenue (Notes 4 and 11)	1,351,088	91	1,472,124	96
Reversal of impairment loss (impairment losses) (Notes 4 and 8)	8,337	1	(1,499)	-
Gains on securities held for operations - dealing (Note 4)	(7,237)	-	36,559	2
Foreign exchange gains or losses, net (Note 4)	<u>(22,139)</u>	<u>(2)</u>	<u>(52,321)</u>	<u>(3)</u>
Total revenues and gains	<u>1,478,467</u>	<u>100</u>	<u>1,532,922</u>	<u>100</u>
EXPENSES AND LOSSES				
Service charge (Note 4)	(10,284)	(1)	(9,877)	(1)
Interest expense (Notes 4 and 12)	(263,957)	(18)	(498,634)	(32)
Employee benefit expenses (Note 4)	(49,322)	(3)	(47,779)	(3)
Other operating expenses	<u>(27,769)</u>	<u>(2)</u>	<u>(27,998)</u>	<u>(2)</u>
Total expenses and losses	<u>(351,332)</u>	<u>(24)</u>	<u>(584,288)</u>	<u>(38)</u>
INCOME BEFORE INCOME TAX	1,127,135	76	948,634	62
INCOME TAX EXPENSE (Note 4)	<u>(232,946)</u>	<u>(15)</u>	<u>(175,489)</u>	<u>(12)</u>
NET INCOME FOR THE YEAR	<u>894,189</u>	<u>61</u>	<u>773,145</u>	<u>50</u>
OTHER COMPREHENSIVE INCOME				
Components of other comprehensive income that will be reclassified to profit or loss:				
(Losses) gains from investments in debt instruments at fair value through other comprehensive income (Note 4)	(916,384)	(62)	979,538	64
Income tax related components of other comprehensive income reclassified to profit or loss (Note 4)	<u>119,463</u>	<u>8</u>	<u>(121,793)</u>	<u>(8)</u>
Other comprehensive (loss) income for the year, net of income tax	<u>(796,921)</u>	<u>(54)</u>	<u>857,745</u>	<u>56</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 97,268</u>	<u>7</u>	<u>\$ 1,630,890</u>	<u>106</u>

CHINA BILLS FINANCE CORPORATION

SECURITIES DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

The Department obtained from the competent authority the approval for its proprietary trading of government bonds on July 12, 1997. The Department obtained from the competent authority the corporate bonds of proprietary business license to deal corporate bonds on July 28, 2003. The Department obtained from the competent authority the proprietary business license to deal bonds and securitization commodity (limited to fixed-income security) on May 7, 2007.

As of December 31, 2021 and 2020, the Department had working capital of \$550,000 thousand.

As of December 31, 2021 and 2020, the Department had 21 and 22 employees included adjunct employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company's board of directors on February 24, 2022.

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

The Department application of new, amended and revised standards and interpretations is the same as disclosed in the Company's financial statements for the year ended December 31, 2021.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and the IFRSs endorsed and issued into effect by the FSC.

Basis of Preparation

The Company's is dual status of securities firm's segment assets, liabilities, revenues and expenses, which be identified and be reasonable attribution of items is the calculation basis.

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value.

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

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within 12 months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

Bonds Purchased/Sold Under Resell/Repurchase Agreements

Bonds purchased under resell agreements and bonds 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.

Financial Instruments

Financial assets and financial liabilities are recognized when the Department 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 (include any dividends or interest earned) are recognized in profit or loss.

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) Financial assets at amortized cost

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

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

2) Impairment of financial assets

The Department 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 Department always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Department 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 Department 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 Department determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Department):

- 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 Department 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 Department 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 Department’s provision procedures, and recognize the higher of allowance of and debts between the above regulations expect.

The Department 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 Department 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 the full derecognition of a financial asset, 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.

b. Financial liabilities

1) Subsequent measurement

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

Financial liabilities held for trading are stated at fair value, and remeasurement gains or losses on such financial liabilities are recognized in profit or loss.

2) Derecognition of financial liabilities

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

c. Derivative financial instruments

The Department 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.

d. Modification of financial instruments

When a financial instrument is modified, the Department assesses whether the modification will result in derecognition. If modification of a financial instrument results in derecognition, it is accounted for as derecognition of financial assets or liabilities. If the modification does not result in derecognition, the Department recalculates the gross carrying amount of the financial asset or the amortized cost of the financial liability based on the modified cash flows discounted at the original effective interest rate with any modification gain or loss recognized in profit or loss. The cost incurred is adjusted to the carrying amount of the modified financial asset or financial liability and amortized over the modified remaining period.

For the changes in the basis for determining contractual cash flows of financial assets or financial liabilities resulting from the interest rate benchmark reform, the Department elects to apply the practical expedient in which the changes are accounted for by updating the effective interest rate at the time the basis is changed, provided the changes are necessary as a direct consequence of the reform and the new basis is economically equivalent to the previous basis. When multiple changes are made to a financial asset or a financial liability, the Department first applies the practical expedient to those changes required by interest rate benchmark reform, and then applies the requirements of modification of financial instruments to the other changes that cannot apply the practical expedient.

Revenue Recognition

Interest revenues are estimated on an accrual basis.

Interest revenue from a financial asset is recognized when it is probable that the economic benefits will flow to the Department 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.

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.

Taxation

Income tax expense for the period is shared pro rata on gain of reportable segments.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Department'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 Department considers the recent development of the COVID-19 in Taiwan and its economic environment implications when making its critical accounting estimates in cash flow projections, growth rate, discount rate, profitability, etc. 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.

6. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	December 31	
	2021	2020
Financial assets mandatorily classified as at fair value through profit or loss		
Derivative financial instruments		
Currency swap contracts	\$ 7,731	\$ 17,574
Non-derivative financial instruments		
Bond investments	435,348	176,050
Beneficiary securities	502,165	503,298
Hybrid financial assets		
Convertible bond asset swap contracts	<u>9,979,347</u>	<u>9,096,650</u>
Financial assets at fair value through profit or loss	<u>\$ 10,924,591</u>	<u>\$ 9,793,572</u>

(Continued)

	December 31	
	2021	2020
<u>Financial liabilities held for trading</u>		
Derivative financial instruments		
Currency swap contracts	\$ -	\$ 270
When-issued trading	<u>49,531</u>	<u>-</u>
Financial liabilities at fair value through profit or loss	<u>\$ 49,531</u>	<u>\$ 270</u>
		(Concluded)

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

	December 31	
	2021	2020
Convertible bond assets swap contracts	\$ 9,990,100	\$ 9,078,500
Currency swap contracts	1,024,530	1,910,036

As of December 31, 2021 and 2020, the face value of financial instruments at fair value through profit or loss under repurchase agreements was \$500,000 thousand and \$245,000 thousand, respectively.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT

	December 31	
	2021	2020
<u>Domestic investments</u>		
Government bonds	\$ 14,757,511	\$ 17,928,945
Corporate bonds	57,729,769	52,729,932
Bank debentures	9,759,216	10,887,818
<u>Overseas investments</u>		
Overseas government bonds	1,865,264	1,486,924
Overseas corporate bonds	8,974,548	9,853,054
Overseas bank debentures	<u>11,992,429</u>	<u>10,665,028</u>
	<u>\$ 105,078,737</u>	<u>\$ 103,551,701</u>

Refer to Note 8 for information relating to the credit risk and impairment assessment about these investments in debt instruments at FVTOCI.

Note 14 shows the investment in debt instruments at FVTOCI that were classified as pledged assets.

As of December 31, 2021 and 2020, the face value of financial instruments at FVTOCI under repurchase agreements was \$98,274,083 thousand and \$96,764,689 thousand, respectively.

8. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at FVTOCI.

	December 31	
	2021	2020
Gross carrying amount	\$ 104,518,242	\$ 102,083,159
Adjustment to fair value	<u>560,495</u>	<u>1,468,542</u>
	<u>\$ 105,078,737</u>	<u>\$ 103,551,701</u>
Allowance for impairment loss	\$ <u>(29,915)</u>	\$ <u>(38,252)</u>

The Department 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 Department's exposure and the external credit ratings are continuously monitored. The Department reviews changes in bond yield 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 Department 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 Department 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 Department'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	12m 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 and the corresponding expected loss rates were as follows:

	December 31	
Category	2021	2020
Performing	\$ 103,518,232	\$ 101,083,134
Doubtful	1,000,010	1,000,025
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	4,319	-	-
Derecognition	(7,015)	-	-
Change in model or risk parameters	(1,693)	(3,603)	-
Change in exchange rates or others	<u>(345)</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2021	<u>\$ 24,697</u>	<u>\$ 5,218</u>	<u>\$ -</u>
Balance at January 1, 2020	\$ 28,617	\$ 8,136	\$ -
Transfers			
From doubtful to performing	914	(914)	-
New financial assets purchased	5,266	-	-
Derecognition	(5,470)	-	-
Change in model or risk parameters	548	1,599	-
Change in exchange rates or others	<u>(444)</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 29,431</u>	<u>\$ 8,821</u>	<u>\$ -</u>

9. BONDS PURCHASED UNDER RESELL AGREEMENTS

As of December 31, 2021 and 2020, bonds purchased were under resell agreements in the amounts of \$5,364,108 thousand and \$4,732,882 thousand before February 2022 and March 2021, respectively.

As of December 31, 2021 and 2020, bonds purchased under resell agreements were sold under repurchase agreements in the face values of \$5,330,000 thousand and \$4,726,100 thousand, respectively.

10. BONDS SOLD UNDER REPURCHASE AGREEMENTS

As of December 31, 2021 and 2020, bonds in the amounts of \$109,038,758 thousand and \$106,634,281 thousand had been sold under repurchase agreements for \$109,086,188 thousand and \$106,689,496 thousand before their maturities in August 2022 and December 2021, respectively.

11. INTEREST REVENUE

	For the Year Ended December 31	
	2021	2020
Bonds	\$ 1,211,028	\$ 1,319,362
Convertible bonds asset swap	129,057	143,063
Bonds purchased under resell agreements	<u>11,003</u>	<u>9,699</u>
	<u>\$ 1,351,088</u>	<u>\$ 1,472,124</u>

12. INTEREST EXPENSE

	For the Year Ended December 31	
	2021	2020
Bonds sold under repurchase agreements	\$ 263,856	\$ 495,890
Convertible bonds asset swap	<u>101</u>	<u>2,744</u>
	<u>\$ 263,957</u>	<u>\$ 498,634</u>

13. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship with the Department
China Bills Financial Corporation (China Bills)	Headquarters of the Department

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

Related Party	Item	December 31	
		2021	2020
China Bills	Internal office accounts	<u>\$ 10,607,638</u>	<u>\$ 9,043,663</u>

14. PLEDGED ASSETS

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

	December 31		Purposes
	2021	2020	
Financial assets at fair value through other comprehensive income			
Government bonds	\$ 90,118	\$ 90,714	OTC online deposits refund
Government bonds	35,046	35,278	Deposits placed with authorities to operate as a security dealer

15. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

Bonds sold under repurchase agreements (at repurchase price)	\$ 109,086,188
Bonds purchased under resell agreements (at resell price)	5,365,201

16. SIGNIFICANT LOSSES FROM DISASTERS: NONE

17. SIGNIFICANT EVENTS AFTER REPORTING PERIOD: NONE

18. FINANCIAL INSTRUMENTS

The objectives of and policies of financial instruments follows the rules of the Company. Refer to the Company's financial statements for the year ended December 31, 2021.

19. FINANCIAL RISK MANAGEMENT

The objectives of and policies of financial risk management follows the rules of the Company. Refer to the Company's financial statements for the year ended December 31, 2021.

20. INFORMATION ON SIGNIFICANT TRANSACTIONS WITH INVESTEEES AND PROPORTIONATE SHARE IN INVESTEEES

a. Related information on significant transactions for the year ended December 31, 2021:

- 1) Financing provided to others: None
- 2) Endorsements/guarantees provided: None
- 3) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None
- 4) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 5) Service fees to related parties amounting to at least NT\$5 million: None
- 6) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None
- 7) Intercompany relationships and significant intercompany transactions: None

b. Information on investees: None

c. Information on establishment of foreign branches and representatives abroad: None

d. Investment in Mainland China: None

e. 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.

21. OPERATING SEGMENTS: NONE

22. OTHERS

The impact assessments of COVID-19 pandemic refer to the Company's financial statements for the year ended December 31, 2021.

TABLE 1**CHINA BILLS FINANCE CORPORATION****INFORMATION ON MAJOR SHAREHOLDERS
DECEMBER 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.

CHINA BILLS FINANCE CORPORATION
SECURITIES DEPARTMENT

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Items	Description	Face Value	Rate (%)	Acquisition Cost	Fair Value		Change in Fair Value Belong to Credit Risk	Remark
					Unit Price	Total Amount		
Bonds								
Corporate bonds								
58711	Expiration date: December 16, 2024	\$ 187,800	-	\$ 188,739	112.19	\$ 210,693	\$ -	
27481	Expiration date: December 24, 2023	50,000		50,100	102.90	51,450	-	
30103	Expiration date: August 24, 2024	20,000	-	20,050	121.45	24,290	-	
Others (Note 2)	Expiration date from: June 8, 2023 to November 16, 2026	129,100	-	<u>130,760</u>	115.35	<u>148,915</u>	-	Note 2
				<u>\$ 389,649</u>		<u>435,348</u>	-	
Beneficial certificates								
01111S	Expiration date: December 11, 2026	500,000	1.30	<u>\$ 500,000</u>	100.43	<u>502,165</u>	-	
Hybrid financial assets								
EVA Air 5 Asset Swap	Expiration date: September 1, 2024	798,000	1.95-2.10	\$ 798,000		774,632	-	
Shin Kong Financial Holdings 5 Asset Swap	Expiration date: December 17, 2023	549,900	0.80-0.90	549,900		548,017	-	
Highwealth Construction 5 Asset Swap	Expiration date: June 8, 2022	468,000	0.80-0.90	468,000		467,931	-	
Others (Note 2)		8,174,200		<u>8,174,200</u>		<u>8,188,767</u>	-	
				<u>\$ 9,990,100</u>		<u>9,979,347</u>	-	Note 1
Currency swap contracts	Within 6 months	1,024,530				<u>7,731</u>	-	Note 3
						<u>\$ 10,924,591</u>	<u>\$ -</u>	

Note 1: The face value of financial instruments at fair value through profit or loss under repurchase agreements was \$500,000 thousand.

Note 2: The amount of each item in others does not exceed 5% of the account balance.

Note 3: The face value is national amount.

CHINA BILLS FINANCE CORPORATION
SECURITIES DEPARTMENT

STATEMENT OF BONDS PURCHASED UNDER RESELL AGREEMENTS
DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)

Client Name	Transaction Condition			Bonds		Turnover
	Start Date	Expiration Date	Rate (%)	Item	Face Value	
King's Town Bank	November 18, 2021	January 12, 2022	0.21-0.22	A06104	\$ 900,000	\$ 901,189
The Shanghai Commercial Bank	December 16, 2021	January 18, 2022	0.21-0.23	A07111	800,000	800,085
King's Town Bank	December 07, 2021	February 10, 2022	0.21-0.25	A05111	730,000	730,120
The Shanghai Commercial Bank	December 07, 2021	February 10, 2022	0.23-0.26	A03113	500,000	500,008
Sunny Bank	December 01, 2021	January 20, 2022	0.25-0.26	A98102	400,000	400,300
The Shanghai Commercial Bank	December 06, 2021	January 20, 2022	0.21-0.25	A10108	400,000	400,135
The Shanghai Commercial Bank	November 04, 2021	January 11, 2022	0.23	A10102	300,000	301,047
The Shanghai Commercial Bank	December 15, 2021	January 05, 2022	0.23	A03106	300,000	300,350
Sunny Bank	December 28, 2021	January 25, 2022	0.23	A05111	300,000	300,000
The Shanghai Commercial Bank	December 29, 2021	January 03, 2022	0.21	A07101	270,000	270,757
Others (Note 2)					<u>460,000</u>	<u>460,117</u>
Total (Note 1)					<u>\$ 5,360,000</u>	<u>\$ 5,364,108</u>

Note 1: Bonds purchased under resell agreements were sold under repurchase agreements in the face values of \$5,330,000 thousand.

Note 2: The amount of each item in others does not exceed 5% of the account balance.

CHINA BILLS FINANCE CORPORATION
SECURITIES DEPARTMENT

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Items	Balance at January 1, 2021		Additions		Disposals		Balance at December 31, 2021		Allowance Loss	Guarantee and Collateral	Remark
	Face Value	Fair Value	Face Value	Amounts	Face Value	Amounts	Face Value	Fair Value			
Government bonds	\$ 17,530,800	\$ 17,928,945	\$ -	\$ -	\$ 2,950,000	\$ 3,171,434	\$ 14,580,800	\$ 14,757,511	\$ -	Note 1	
Overseas government bonds	1,311,368	1,486,924	405,412	378,340	-	-	1,716,780	1,865,264	1,428	-	
Bank debentures	10,650,000	10,887,818	-	-	1,050,000	1,128,602	9,600,000	9,759,216	2,514	-	
Overseas bank debentures	10,071,876	10,665,028	1,516,389	1,327,401	-	-	11,588,265	11,992,429	8,757	-	
Corporate bonds	52,345,000	52,729,932	5,200,000	4,999,837	-	-	57,545,000	57,729,769	13,853	-	
Overseas corporate bonds	<u>9,387,371</u>	<u>9,853,054</u>	<u>-</u>	<u>-</u>	<u>657,019</u>	<u>878,506</u>	<u>8,730,352</u>	<u>8,974,548</u>	<u>3,363</u>	-	
	<u>\$ 101,296,415</u>	<u>\$ 103,551,701</u>	<u>\$ 7,121,801</u>	<u>\$ 6,705,578</u>	<u>\$ 4,657,019</u>	<u>\$ 5,178,542</u>	<u>\$ 103,761,197</u>	<u>\$ 105,078,737</u>	<u>\$ 29,915</u>		Note 2

Note 1 Refer to Note 14 for the information that the bonds with fair value of \$125,164 thousand are pledged as OTC online deposits for refund and deposits placed with authorities to operate as a security dealer.

Note 2: The face value of financial assets at FVOCI under repurchase agreements was \$98,274,083 thousand.

CHINA BILLS FINANCE CORPORATION
SECURITIES DEPARTMENT
STATEMENT OF BONDS SOLD UNDER REPURCHASE AGREEMENTS
DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)

Items	Start Date	Expiration Date	Rate (%)	Face Value	Turnover
Government bonds					
HB0802	October 18, 2021	March 18, 2022	0.14-0.26	\$ 2,053,300	\$ 2,111,767
HB0805	October 18, 2021	March 14, 2022	0.14-0.24	1,097,000	1,147,523
A07101	October 26, 2021	April 7, 2022	0.14-0.22	1,068,800	1,140,517
A07107	October 27, 2021	March 22, 2022	0.14-0.24	1,000,000	1,067,049
A05111	December 13, 2021	January 27, 2022	0.14-0.18	1,000,000	1,064,850
Others (Note)				<u>13,864,874</u>	<u>14,649,114</u>
				<u>20,083,974</u>	<u>21,180,820</u>
Bank debentures					
Others (Note)				<u>20,215,567</u>	<u>21,211,150</u>
Corporate bonds					
Others (Note)				<u>63,304,542</u>	<u>66,112,200</u>
Beneficial certificates					
01111S	December 9, 2021	January 17, 2022	0.25	<u>500,000</u>	<u>534,588</u>
				<u>\$ 104,104,083</u>	<u>\$ 109,038,758</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

STATEMENT 5

**CHINA BILLS FINANCE CORPORATION
SECURITIES DEPARTMENT**

**STATEMENT OF INTEREST REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Items	Amounts
Bonds	\$ 1,211,028
Convertible bonds asset swap	129,057
Bonds purchased under resell agreements	<u>11,003</u>
	<u>\$ 1,351,088</u>

**CHINA BILLS FINANCE CORPORATION
SECURITIES DEPARTMENT****STATEMENT OF INTEREST EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Items	Amounts
Bonds sold under repurchase agreements	\$ 263,856
Convertible bonds asset swap	<u>101</u>
	<u>\$ 263,957</u>